



HARBOUR CENTRE DEVELOPMENT LIMITED
INTERIM REPORT 2020 Stock Code: 0051

Cover photo*: The Murray, Hong Kong, a Niccolo Hotel guards the intersection of traffic arteries in Central that run east-west and north-south. It 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 computerised imaging techniques.



Pandemic Makes Manner of Recovery Uncertain

HIGHLIGHTS

- Pandemic coupled with prolonged unrest hit Hong Kong hard and fast
- Cross border travels have virtually stopped; domestic consumption is decimated by social distancing
- Hotel segment bears the brunt with room revenue tumbling by up to 97% from last year
- Investment Properties (“IP”) segment is also struggling with tenants’ retail sales caving
- Development Properties (“DP”) sales fell by 89% to RMB120 million
- Paradigm shift may also mean a longer road to recovery and that things will never be the same again
- Substantial unrealised asset impairment and revaluation losses have become necessary
- Against that backdrop, no regular interim dividend will be paid in respect of the period
- However, a one-off tax write-back from DP has enabled the payment of a special interim dividend of 7 HK cents per share to equal the first interim dividend paid last year

GROUP RESULTS

Group loss attributable to equity shareholders amounted to HK\$1,281 million (2019: profit of HK\$268 million). In spite of a HK\$494 million one-off tax write-back, underlying net profit still decreased by 28% to HK\$171 million (2019: HK\$238 million). In addition, impairment losses on hotels and deficit on revaluation of IP were reported.

Basic loss per share was HK\$1.81 (2019: earnings per share HK\$0.38).

INTERIM/SPECIAL INTERIM DIVIDENDS

The Board has resolved not to pay any regular interim dividend for the half-year period ended 30 June 2020 (2019: HK\$0.07 per share). However, as a non-recurrent distribution, a special interim dividend of HK\$0.07 per share (2019: Nil) will be paid on 1 September 2020 to Shareholders on record as at 6:00 p.m., 17 August 2020. Total dividend distributions for the half-year period ended 30 June 2020 will amount to HK\$0.07 per share (2019: HK\$0.07 per share), absorbing a total amount of HK\$50 million (2019: HK\$50 million).

BUSINESS REVIEW

The economy was hard hit by COVID-19 in unprecedented dimensions. Cross border travels have virtually stopped and domestic consumption is decimated by social distancing. The extreme market conditions of global pandemic and prolonged unrest in Hong Kong imposed intense pressure on the Group's hotel and IP businesses.

Hotel segment bears the brunt with room revenue tumbling by up to 97% from last year, while IP segment is struggling with tenants' retail sales caving. DP in Mainland China was also affected with construction and sales substantially halted in the first quarter; sales fell by 89% to RMB120 million.

COVID-19 will continue to affect the Group's businesses, as its duration and extent of impact are not easy to determine under this volatile situation. The local political issues and escalating Sino-US tension also cast great uncertainties over the outlook.

The recovery of business in the second half of the year would be hugely challenging and serious recovery may take a long time when it starts. A paradigm shift may also mean things will never be the same again.

Hong Kong

Hotel

With cross-border travels effectively shut down, Hong Kong high tariff A hotels only achieved low double-digit occupancies. Despite a healthier month in January before the pandemic impact, both Marco Polo Hongkong Hotel ("MP Hong Kong") in Tsimshatsui and The Murray, Hong Kong ("The Murray") only registered average occupancies of 15% for the period. The Group's hotel revenue in Hong Kong decreased by 72%, resulting in an operating margin of negative126% and a serious operating loss in spite of proactive cost management. The Murray has been in losses over the two and a half years since opening in December 2017, with cumulative losses having exceeded HK\$1.3 billion (including HK\$676 million of impairment loss provided in the first half of 2020).

Investment Properties

Hong Kong retail sales tumbled 35% in the first five months of 2020. As luxury and tourist spending shrank to a trickle, the Group offered rental concession to help tenants to ride through the distress. That eroded the performance of the Group's IP portfolio, which reported 42% decrease in revenue and 45% decrease in operating profit.

Mainland China

Hotel

Marco Polo Changzhou ("MP Changzhou") was closed for a month due to city lockdown. The hotel has been in losses over the six years since opening in 2014, with cumulative losses approaching HK\$1 billion (including HK\$705 million of impairment losses provided at various times). Increase in competition from new hotels has compounded the problem.

Properties

During the period, presale of 80%-owned Suzhou International Finance Square ("IFS") and 27%-owned Shanghai South Station project was severely impeded. Sales offices were temporarily closed and construction delayed by the lockdown. Suzhou IFS will be completed in 2021 by phases and handover of completed presold units started in June. As at 30 June 2020, attributable land bank (net of recognised sales) was approximately 0.4 million square metres, whereas net order book stood at RMB3 billion for 0.1 million square metres.

FINANCIAL REVIEW

(I) Review of 2020 Interim Results

The Group recorded a net loss attributable to shareholders of HK\$1,281 million (2019: profit of HK\$268 million) in the first half of 2020 due mainly to the extreme market conditions. The COVID-19 pandemic seriously impacted the Group's operating performance across all segments and triggered unrealised valuation deficits of the Group's hotels and IP. Notwithstanding a HK\$494 million one-off tax write-back, underlying net profit before the unrealised deficits decreased by 28% to HK\$171 million (2019: HK\$238 million).

Revenue and Operating Profit

Group revenue decreased by 18% to HK\$654 million (2019: HK\$799 million) and operating profit by 96% to HK\$11 million (2019: HK\$275 million).

Hotel revenue nosedived by 72% to HK\$139 million (2019: HK\$499 million), resulting in an operating loss of HK\$179 million (2019: profit of HK\$19 million) with the continuing devastation on hotel businesses caused by worldwide travel restrictions. Operating margin turned into an alarming negative 129% (2019: +4%).

IP revenue decreased by 42% to HK\$127 million (2019: HK\$220 million) and operating profit by 45% to HK\$112 million (2019: HK\$203 million) due to collapse of turnover rent and base rent concessions offered to retail tenants amid the extreme market conditions for retailers.

DP revenue increased to HK\$303 million (2019: HK\$10 million) primarily from completion of the first phase of Suzhou IFS project, with operating loss of HK\$3 million (2019: loss HK\$14 million). A HK\$494 million tax write-back redeemed the segment from underlying loss, mainly contributed by a subsidiary, to an underlying net profit of HK\$200 million (2019: HK\$28 million).

Operating profit from Investment and Others, comprising of interest and dividend income from surplus cash and investments, increased by 21% to HK\$85 million (2019: HK\$70 million).

Hotel Impairment

Impairment provision for hotels of HK\$1,043 million (2019: HK\$ Nil) was made mainly for the hotel in Suzhou (under development) and The Murray in Hong Kong after an internal revaluation and an independent revaluation respectively, reflecting a downbeat market outlook. The attributable net impairment provision of HK\$970 million (2019: HK\$ Nil) was debited to the consolidated income statement.

IP Revaluation

The Group's IP were stated at fair value based on an independent valuation or internally as at 30 June 2020, resulting in a revaluation deficit of HK\$524 million for the period (2019: surplus HK\$30 million). The attributable net revaluation deficit of HK\$482 million (2019: surplus HK\$30 million) was debited to the consolidated income statement.

Finance Costs

Net finance costs amounted to HK\$32 million (2019: HK\$29 million) after interest capitalisation of HK\$8 million (2019: HK\$16 million) for the DP projects.

Share of Results (after Tax) of Associates

Attributable loss from associate amounted to HK\$76 million (2019: profit HK\$25 million).

Income Tax

Tax credit for the period amounted to HK\$350 million (2019: expense of HK\$26 million) mainly due to a one-off land appreciation tax write-back of HK\$494 million for DP upon clearance with relevant tax authorities in Mainland China.

Profit/Loss Attributable to Equity Shareholders

The Group loss attributable to equity shareholders for the period was HK\$1,281 million (2019: profit HK\$268 million). Loss per share was HK\$1.81 (2019: earnings per share ("EPS") HK\$0.38) based on 708.8 million issued shares.

Excluding the net impairment provision for hotel properties of HK\$970 million (2019: HK\$ Nil) and net IP revaluation deficits of HK\$482 million (2019: surplus HK\$30 million) but including the HK\$494 million tax write-back, the Group's underlying net profit attributable to equity shareholders for the period was HK\$171 million (2019: HK\$238 million), representing a decrease of 28%. On that basis and 708.8 million issued shares EPS were HK\$0.24 (2019: HK\$0.34).

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

Shareholders' and Total Equity

As at 30 June 2020, shareholders' equity decreased to HK\$14,793 million (2019: HK\$17,084 million), equivalent to HK\$20.87 per share (2019: HK\$24.10 per share). The decrease was mainly due to the reported attributable loss of HK\$1,281 million and investment revaluation deficit of HK\$858 million directly dealt with in reserves. Including non-controlling interests, the Group's total equity amounted to HK\$15,135 million (2019: HK\$17,467 million).

Hotel properties are stated at cost less accumulated depreciation and impairment provision in accordance with prevailing Hong Kong Financial Reporting Standards ("HKFRSs"). Restating MP Hong Kong (excluding the IP portion) to HK\$3,830 million based on independent valuation as at 30 June 2020 would give rise to a revaluation surplus of HK\$3,817 million and increase the Group's shareholders' equity as at 30 June 2020 to HK\$18,610 million, equivalent to HK\$26.26 per share.

Assets and Liabilities

Total assets were reported at HK\$25,937 million (2019: HK\$28,385 million). Total business assets, excluding bank deposits and cash, equity investments and deferred tax assets, amounted to HK\$21,744 million (2019: HK\$22,036 million).

Geographically, the Group's business assets in Hong Kong decreased by 8% to HK\$11,762 million (2019: HK\$12,824 million), representing 54% (2019: 58%) of the Group's total business assets.

Hotels

Hotel properties comprise of The Murray (HK\$6,217 million), MP Hong Kong (HK\$22 million), MP Changzhou (HK\$394 million) and the hotel in Suzhou (HK\$348 million in its current state under development) together with total net book value at HK\$6,981 million (2019: HK\$7,408 million).

Investment Properties

IP amounted to HK\$5,217 million (2019: HK\$6,480 million), all of which in Hong Kong (2019: HK\$5,532 million) after reclassification of the IP portion of Suzhou IFS to Hotel on completion by end of the period.

Properties for Sale/Interests in Associates and Joint Ventures

DP amounted to HK\$6,272 million (2019: HK\$4,777 million), mainly representing the DP portion of Suzhou IFS with its remaining outstanding construction cost accrued upon completion by end of the period. DP undertaken through associates and joint ventures amounted to HK\$2,727 million (2019: HK\$2,853 million).

Pre-sale Deposits and Proceeds

Pre-sale deposits and proceeds increased by HK\$111 million to HK\$3,283 million (2019: HK\$3,172 million).

Net Debt and Gearing

At 30 June 2020, the Group had net debt of HK\$2,228 million (2019: HK\$1,725 million), consisting of HK\$702 million in cash (mainly held in Mainland China) and HK\$2,930 million in bank borrowings (mainly drawn in Hong Kong). Gearing at 15% on total equity (2019: 10%).

Finance and Availability of Facilities and Funds

As at 30 June 2020, the Group's available loan facilities amounted to HK\$5,318 million, of which HK\$2,930 million were utilised. Certain banking facilities were secured by mortgage over the Group's properties held for sales with total carrying value of HK\$6,619 million (31 December 2019: HK\$5,701 million).

The Group's debts were principally denominated in Hong Kong dollars ("HKD") and Renminbi ("RMB") at floating rates.

The use of derivative financial instruments is strictly controlled. Instruments entered into by the Group are mainly used for managing and hedging 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 2020, the Group had also accumulated a portfolio of long term equity investments with an aggregate market value of HK\$3,228 million (2019: HK\$4,065 million). 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 recorded a net cash outflow in operating activities of HK\$411 million (2019: inflow HK\$1,237 million) mainly for tax payments of Mainland projects. For investing activities, the Group generated a net cash inflow of HK\$25 million (2019: outflow HK\$84 million) mainly from Mainland DP projects.

Commitments to Capital and Development Expenditure

As at 30 June 2020, major capital and development expenditure planned for the forthcoming years totalled HK\$2.4 billion, of which HK\$0.4 billion was committed primarily for Mainland DP and hotel. Uncommitted expenditure of HK\$2 billion is mainly for the existing Mainland DP and hotel to be incurred by stage in the coming years.

The above expenditure 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 1,200 employees as at 30 June 2020. 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 2020 – Unaudited

		Six months ended 30 June	
		2020	2019
		HK\$ Million	HK\$ Million
	Note		
Revenue	2	654	799
Direct costs and operating expenses		(469)	(314)
Selling and marketing expenses		(37)	(52)
Administrative and corporate expenses		(32)	(49)
Operating profit before depreciation, interest and tax		116	384
Depreciation		(105)	(109)
Operating profit	2&3	11	275
Changes in fair value of investment properties		(524)	30
Impairment for hotel properties	4	(1,043)	–
Other net loss		(1)	–
Finance costs	5	(1,557)	305
Share of results after tax of associates		(32)	(29)
		(76)	25
(Loss)/profit before taxation		(1,665)	301
Income tax	6(a)	350	(26)
(Loss)/profit for the period		(1,315)	275
(Loss)/profit attributable to:			
Equity shareholders		(1,281)	268
Non-controlling interests		(34)	7
		(1,315)	275
(Loss)/earnings per share	7		
Basic		(HK\$1.81)	HK\$0.38
Diluted		(HK\$1.81)	HK\$0.38

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2020 – Unaudited

	Six months ended 30 June	
	2020 HK\$ Million	2019 HK\$ Million
(Loss)/profit for the period	(1,315)	275
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments	(858)	152
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations – subsidiaries	(52)	(12)
Share of reserves of joint ventures	(3)	(1)
Others	2	–
Other comprehensive income for the period	(911)	139
Total comprehensive income for the period	(2,226)	414
Total comprehensive income attributable to:		
Equity shareholders	(2,185)	409
Non-controlling interests	(41)	5
	(2,226)	414

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2020 – Unaudited

	Note	30 June 2020 HK\$ Million	31 December 2019 HK\$ Million
Non-current assets			
Investment properties		5,217	6,480
Hotel properties, plant and equipment		7,119	7,558
Interest in associates		1,124	1,249
Interest in joint ventures		1,603	1,604
Equity investments		3,228	4,065
Deferred tax assets		263	374
Other non-current assets		29	29
		18,583	21,359
Current assets			
Properties for sale		6,272	4,777
Inventories		7	7
Trade and other receivables	9	251	310
Prepaid tax		122	22
Bank deposits and cash		702	1,910
		7,354	7,026
Total assets		25,937	28,385
Non-current liabilities			
Deferred tax liabilities		(341)	(329)
Bank loans		(2,330)	(1,835)
		(2,671)	(2,164)
Current liabilities			
Trade and other payables	10	(4,171)	(2,722)
Pre-sale deposits and proceeds		(3,283)	(3,172)
Taxation payable		(77)	(1,060)
Bank loans		(600)	(1,800)
		(8,131)	(8,754)
Total liabilities		(10,802)	(10,918)
NET ASSETS		15,135	17,467
Capital and reserves			
Share capital		3,641	3,641
Reserves		11,152	13,443
Shareholders' equity		14,793	17,084
Non-controlling interests		342	383
TOTAL EQUITY		15,135	17,467

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2020 – Unaudited

	Shareholders' equity						
	Share capital HK\$ Million	Investments	Exchange reserve HK\$ Million	Revenue reserve HK\$ Million	Total shareholders' equity HK\$ Million	Non- controlling interests HK\$ Million	Total equity HK\$ Million
		revaluation					
		reserve					
At 1 January 2020	3,641	460	131	12,852	17,084	383	17,467
Changes in equity for the period:							
Loss	-	-	-	(1,281)	(1,281)	(34)	(1,315)
Other comprehensive income	-	(858)	(48)	2	(904)	(7)	(911)
Total comprehensive income	-	(858)	(48)	(1,279)	(2,185)	(41)	(2,226)
2019 second interim dividend paid	-	-	-	(106)	(106)	-	(106)
At 30 June 2020	3,641	(398)	83	11,467	14,793	342	15,135
At 1 January 2019	3,641	541	245	12,849	17,276	613	17,889
Changes in equity for the period:							
Profit	-	-	-	270	270	-	270
Other comprehensive income	-	152	(13)	-	139	5	144
Total comprehensive income	-	152	(13)	270	409	5	414
2018 second interim dividend paid	-	-	-	(163)	(163)	-	(163)
At 30 June 2019	3,641	693	232	12,956	17,522	618	18,140

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended 30 June 2020 – Unaudited

	Six months ended 30 June	
	2020 HK\$ Million	2019 HK\$ Million
Operating cash inflow	32	314
Changes in working capital/others	155	1,016
Tax paid	(598)	(93)
Net cash (used in)/generated from operating activities	(411)	1,237
Investing activities		
Reduction/(additions) to investment properties and hotel properties, plant and equipment	11	(86)
Other cash generated from investing activities	14	2
Net cash generated from/(used in) investing activities	25	(84)
Financing activities		
Dividends paid to equity shareholders	(106)	(163)
Other cash used in financing activities	(700)	(230)
Net cash used in financing activities	(806)	(393)
(Decrease)/increase in cash and cash equivalents	(1,192)	760
Cash and cash equivalents at 1 January	1,910	2,428
Effect on exchange rate changes	(16)	(9)
Cash and cash equivalents at 30 June (Note)	702	3,179
Note: Cash and cash equivalents Bank deposits and cash in the consolidated statement of financial position	702	3,179

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 “Listing Rules”).

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 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 2019. 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 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 2019 except for the changes mentioned below.

With effect from 1 January 2020, the Group has adopted the below amendments which are relevant to the Group’s consolidated financial statements:

Amendments to HKFRS 3	Definition of a business
Amendments to HKAS 1 and HKAS 8	Definition of material

The Group has assessed the impact of the adoption of the above amendments and considered that there was no significant impact on the Group’s results and financial position or any substantial changes in the Group’s accounting policies.

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

The financial information relating to the financial year ended 31 December 2019 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) (the "Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2019 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 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 hotel, investment property and development property. No operating segment has been aggregated to form reportable segments.

Hotel segment represents the operations of The Murray, MP Hong Kong, MP Changzhou and the hotel in Suzhou (under development).

Investment property segment primarily represents the property leasing of the Group's investment properties in Hong Kong.

Development property segment encompasses activities relating to the acquisition, development and sales of trading properties primarily in Mainland China.

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.

(a) Analysis of segment revenue and results

Six months ended	Revenue HK\$ Million	Operating profit/(loss) HK\$ Million	Changes in fair value of investment properties HK\$ Million	Other net loss and impairment HK\$ Million	Finance costs HK\$ Million	Associates HK\$ Million	Profit/ (loss) before taxation HK\$ Million
30 June 2020							
Hotel	139	(179)	-	(1,043)	(24)	-	(1,246)
Investment property	127	112	(524)	-	(8)	-	(420)
Development property	303	(3)	-	-	-	(76)	(79)
Segment total	569	(70)	(524)	(1,043)	(32)	(76)	(1,745)
Investment and others	85	85	-	(1)	-	-	84
Corporate expenses	-	(4)	-	-	-	-	(4)
Group total	654	11	(524)	(1,044)	(32)	(76)	(1,665)
30 June 2019							
Hotel	499	19	-	-	(20)	-	(1)
Investment property	220	203	30	-	(9)	-	224
Development property	10	(14)	-	-	-	25	11
Segment total	729	208	30	-	(29)	25	234
Investment and others	70	70	-	-	-	-	70
Corporate expenses	-	(3)	-	-	-	-	(3)
Group total	799	275	30	-	(29)	25	301

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

(b) Disaggregation of revenue

	Six months ended 30 June	
	2020 HK\$ Million	2019 HK\$ Million
Revenue recognised under HKFRS 15		
Hotel	139	499
Management and services income and other rental related income	19	21
Sale of development properties	303	10
	461	530
Revenue recognised under other accounting standards		
Rental income under investment properties segment – Fixed	108	199
Investment and others	85	70
	193	269
Total revenue	654	799

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date to its property management fees and other rental related income as the Group recognises revenue at the amount to which it has a right to invoice, which corresponds directly with the value to the customer of the Group's performance completed to date.

The Group has also applied practical expedient in paragraph 121 of HKFRS 15 to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date to its revenue from sales of completed properties as the performance obligation is part of a contract that has an original expected duration of one year or less.

3. Operating Profit

Operating profit is arrived at:

	Six months ended 30 June	
	2020	2019
	HK\$ Million	HK\$ Million
After charging:		
Depreciation	105	109
Staff costs (Note)	136	193
Cost of trading properties for recognised sales	281	9
Direct operating expenses of investment properties	12	9
After crediting:		
Gross rental revenue from investment properties	128	220
Interest income	11	18
Dividend income from equity investments	74	52

Note: Staff costs included defined contribution pension schemes costs HK\$5 million (2019: HK\$7 million).

4. Impairment for Hotel Properties

During the period, the Group conducted an impairment review of hotel properties and determined that The Murray in Hong Kong, MP Changzhou in Mainland China and the hotel in Suzhou (under development) were impaired.

5. Finance Costs

	Six months ended 30 June	
	2020	2019
	HK\$ Million	HK\$ Million
Interest on bank borrowings	37	39
Other finance costs	3	6
	40	45
Less: Amount capitalised	(8)	(16)
Total	32	29

6. Income Tax

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

	Six months ended 30 June	
	2020 HK\$ Million	2019 HK\$ Million
Current income tax		
Hong Kong		
– provision for the period	9	48
Mainland China		
– provision for the period	14	55
	23	103
Land appreciation tax (“LAT”) (Note (d))	(494)	1
Deferred tax		
Origination and reversal of temporary differences	121	(78)
Total	(350)	26

- (b) The provision for Hong Kong profits tax is at the rate of 16.5% (2019: 16.5%) of the estimated assessable profits for the period.
- (c) Income tax on profit assessable in Mainland China are corporate income tax calculated at a rate of 25% (2019: 25%) and 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. A one-off LAT write-back of HK\$494 million was recorded upon clearance with relevant tax authorities in Mainland China.
- (e) Under the tax law in Mainland China, withholding tax at 10% is imposed 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 associates for the six months ended 30 June 2020 of HK\$18 million (2019: HK\$8 million) is included in the share of results of associates.

7. Loss Per Share

The calculation of basic and diluted loss per share is based on the loss attributable to equity shareholders for the period of HK\$1,281 million (2019: profit of HK\$268 million) and 708.8 million ordinary shares (2019: 708.8 million shares) in issue during the period.

8. Dividends Attributable to Equity Shareholders

	Six months ended 30 June			
	2020	2020	2019	2019
	HK\$ Per share	HK\$ Million	HK\$ Per share	HK\$ Million
First interim dividend declared after the end of the reporting period	-	-	0.07	50
Special interim dividend declared after the end of the reporting period	0.07	50	-	-
	0.07	50	0.07	50

- (a) The special interim dividend based on 708.8 million issued ordinary shares (2019: the first interim dividend based on 708.8 million issued ordinary 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\$106 million for 2019 was approved and paid in 2020.

9. Trade and Other Receivables

Included in this item are trade receivables (net of loss allowance) with an ageing analysis based on invoice date as at 30 June 2020 as follows:

	30 June 2020	31 December 2019
	HK\$ Million	HK\$ Million
Trade receivables		
0 – 30 days	45	27
31 – 60 days	–	1
Over 60 days	13	9
	58	37
Prepayments	86	74
Other receivables	24	12
Amount due from a non-controlling shareholder	53	54
Amounts due from fellow subsidiaries	30	133
	251	310

The Group has established credit policies for each of its core businesses. 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 based on invoice date as at 30 June 2020 as follows:

	30 June 2020	31 December 2019
	HK\$ Million	HK\$ Million
Trade payables		
0 – 30 days	65	26
31 – 60 days	3	1
Over 90 days	2	1
	70	28
Other payables and provisions	436	552
Construction costs payable	2,011	548
Amounts due to fellow subsidiaries	67	5
Amounts due to joint ventures	1,587	1,589
	4,171	2,722

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 2020	
Assets	
Equity investments:	
– Listed investments	3,228
At 31 December 2019	
Assets	
Equity investments:	
– Listed investments	4,065

During the six months ended 30 June 2020, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3 (31/12/2019: 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

All financial instruments carried at cost or amortised costs are carried at amounts not materially different from their fair values as at 30 June 2020 and 31 December 2019. 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 2020 are set out below:

- (a)** There were in existence agreements with a subsidiary of The Wharf (Holdings) Limited (“Wharf”), being a fellow subsidiary of the Group, 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\$3 million (2019: HK\$26 million). Such transaction constitutes a connected transaction as defined under the Listing Rules.
- (b)** There were in existence agreements with a subsidiary of Wharf and a subsidiary 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\$63 million (2019: HK\$12 million). Such transaction constitutes a connected transaction as defined under the Listing Rules.
- (c)** There were in existence leasing agreements entered into between subsidiaries of Wharf and a subsidiary of the parent company for leases, tenancies or licences in respect of certain areas situated on 3/F and 5/F of Marco Polo Hongkong Hotel. Total rental income under this arrangement during the current period amounted to HK\$3 million (2019: HK\$3 million). Such transaction constitutes a connected transaction as defined under the Listing Rules.
- (d)** 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\$73 million (2019: HK\$178 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

13. Contingent Liabilities

As at 30 June 2020, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts, short term loans and credit facilities up to HK\$3,830 million (31/12/2019: HK\$3,480 million).

As at 30 June 2020, there were guarantees of HK\$601 million (31/12/2019: HK\$546 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 no (31/12/2019: HK\$58 million) mortgage loan guarantees provided by 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 (31/12/2019: 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 2020 are detailed as below:

	30 June 2020			31 December 2019		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
Investment Property						
Mainland China	-	-	-	82	153	235
	-	-	-	82	153	235
Hotel						
Hong Kong	-	1	1	11	6	17
Mainland China	86	394	480	-	104	104
	86	395	481	11	110	121
Development Property						
Mainland China	304	1,663	1,967	968	3,371	4,339
	304	1,663	1,967	968	3,371	4,339
Total						
Hong Kong	-	1	1	11	6	17
Mainland China	390	2,057	2,447	1,050	3,628	4,678
	390	2,058	2,448	1,061	3,634	4,695

15. Review of Unaudited Interim Financial Information

The unaudited interim financial information for the six months ended 30 June 2020 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 2020, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debentures of the Company, Wheelock and Company Limited ("Wheelock") (the ultimate holding company of the Company as at 30 June 2020), Wharf Real Estate Investment Company Limited ("Wharf REIC") (the Company's parent company), The Wharf (Holdings) Limited ("Wharf") (the Company's fellow subsidiary as at 30 June 2020) and Wharf REIC Finance (BVI) Limited (the Company's fellow subsidiary). The percentages (where applicable) which the relevant securities represented to the total numbers of shares in issue of the five companies respectively are also set out below respectively:

	Quantity/ Amount held (percentage, where applicable)	Nature of Interest
The Company – Ordinary Shares		
Michael T P Sze	40,300 (0.0057%)	Family Interest
Wheelock – Ordinary Shares		
Stephen T H Ng	176,000 (0.0086%)	Personal Interest
Peter Z K Pao	175,760 (0.0086%)	Family Interest
Wharf REIC – Ordinary Shares		
Stephen T H Ng	1,259,445 (0.0415%)	Personal Interest
Peter Z K Pao	25,456 (0.0008%)	Family Interest
Michael T P Sze	53,949 (0.0018%)	Family Interest
Wharf – Ordinary Shares		
Stephen T H Ng	2,009,445 (0.0659%)	Personal Interest
Peter Z K Pao	25,456 (0.0008%)	Family Interest
Michael T P Sze	53,949 (0.0018%)	Family Interest
Frankie C M Yick	40,000 (0.0013%)	Personal Interest
Wharf REIC Finance (BVI) Limited – USD Fixed Rate Notes due 2030		
Brian S K Tang	US\$1,000,000	Personal 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 2020. Details of such interests in share options are separately set out below under the sub-section headed "(iii) 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 2020 to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

Name of Director	Date of grant (Day/Month/ Year)	No. of Wharf's shares under option		As at 30 June 2020 (percentage based on total no. of shares in issue)	Subscription price per share (HK\$)	Vesting/Exercise Period (Day/Month/Year)
		As at 1 January 2020	Exercised during the period			
Stephen T H Ng	07/07/2016	1,000,000	-	1,000,000	15.92	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
Total		3,000,000	-	3,000,000		(0.10%)

Note:

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 (Cap. 571 of the Laws of Hong Kong) (the "SFO") in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code (or any other applicable code), there were no interests, whether long or short positions, held or deemed to be interested as at 30 June 2020 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 2020.

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 2020, 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) Wharf Real Estate Investment Company Limited	506,946,196	(71.53%)
(ii) Wheelock and Company Limited	506,946,196	(71.53%)
(iii) HSBC Trustee (C.I.) Limited	506,946,196	(71.53%)
(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 wholly-owned subsidiary, namely Wheelock Investments Limited, which in turn has interests in more than one-third of the number of shares in issue of Wharf REIC.
- (3) Wharf REIC's deemed shareholding interests stated above were held through its three wholly-owned subsidiaries, namely Wharf REIC Holdings Limited, Wharf Estates Limited and Upfront International Limited.

All the interests stated above represent long positions. As at 30 June 2020, 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 required to be disclosed pursuant to paragraphs (a) to (e) and (g) of the rule 13.51(2) under the Listing Rules since the publication of the last annual report of the Company:

	Effective Date
<p>Stephen T H Ng</p> <ul style="list-style-type: none">Joyce Boutique Group Limited <i>(listed on the Stock Exchange until 27 April 2020)</i> – resigned as non-executive chairman	27 April 2020
<p>Michael T P Sze</p> <ul style="list-style-type: none">Greentown China Holdings Limited – resigned as independent non-executive director	17 April 2020

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.

By Order of the Board
Harbour Centre Development Limited
Kevin C Y Hui
Company Secretary

Hong Kong, 23 July 2020

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 Peter Z K Pao, together with five Independent Non-executive Directors, namely, Mr David T C Lie-A-Cheong, Mr Roger K H Luk, Mr Michael T P Sze, Mr Brian S K Tang and Mr Ivan T L Ting.

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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, by post or by hand delivery, or via email to harbourcentre-ecom@hk.tricorglobal.com.