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WHARF

Established 1886

THE WHARF (HOLDINGS) LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 4)

Interim Results Announcement for the half-year period ended 30 June 2023

Feeble Recovery from COVID

HIGHLIGHTS

- Mainland property market still a big challenge
- Contracted sales dwindled with average selling price in decline
- Interest in office stock and en bloc sales is particularly soft
- Further provision was made for slow-moving stock
- Recovery momentum for retail rent was also below strength

GROUP RESULTS

Group underlying net profit recovered to HK\$1,811 million (2022: HK\$428 million) mainly due to lower provision of HK\$1,033 million (2022: HK\$2,542 million) on Development Properties (“DP”).

After the inclusion of Investment Properties (“IP”) revaluation deficit and other unrealised accounting losses, Group profit attributable to equity shareholders increased to HK\$696 million (2022: HK\$57 million).

INTERIM DIVIDEND

A first interim dividend of HK\$0.20 (2022: HK\$0.20) per share will be paid on 14 September 2023 to Shareholders on record as at 6:00 p.m. on 30 August 2023. This will absorb a total amount of HK\$611 million (2022: HK\$611 million).

BUSINESS REVIEW

Following the long-awaited removal of COVID restrictions, Mainland China's economy snapped back in the first quarter of this year. However, new signs of weakness emerged as pent-up demand faded and the mixed economic indicators underscored the ongoing challenges faced by the economy. Domestic demand was still frail. Furthermore, foreign trade recovered slowly amid faltering global demand and lagging manufacturing growth. Currency translation also tends to understate year-on-year revenue and profit comparison for Mainland businesses when expressed in Hong Kong dollars.

Challenges faced by the Mainland property market are still immense. Market sentiment remains soft, with all eyes on further policy incentives. Contracted sales dwindled and average selling price stumbled. The office market is even more sluggish than residential and en bloc sales more sluggish than strata. These resulted in further impairment provisions for slow-moving stocks. Meanwhile, recovery momentum for the retail rental market was generally also below strength.

Emerging from the prolonged pandemic situation, geopolitical tensions, stubbornly high inflation and currency instability are recurring themes hindering global economic recovery and may cause spillover effects to the Group's businesses in both Mainland China and Hong Kong. 2023 marks another year full of challenges.

HONG KONG PROPERTIES

Impact to the Group from a generally quiet market was limited.

The Group has no project on the market in the mass segment. In the ultra-luxury segment, where selling cycles are in any case very long, a house in the 50%-owned Mount Nicholson was sold for HK\$577 million (attributable HK\$289 million), equivalent to HK\$82,000 per square foot. All projects under development are proceeding according to plan.

On an attributable basis, DP revenue recognised during the period decreased by 48% to HK\$311 million and operating profit by 77% to HK\$94 million. Net order book at period end amounted to HK\$787 million.

MAINLAND CHINA DEVELOPMENT PROPERTIES

The Mainland housing market remained sluggish as it held out for policy incentives. In parallel, the already oversupplied office market deteriorated. Demand recovery remains fragile and the oversupply situation is exacerbated by the rush of new supply. Attributable impairment provisions totalling HK\$1,033 million were made during the period to factor in the current market conditions.

Attributable contracted sales amounted to RMB1.4 billion (2022: RMB2.3 billion) for 64,200 square metres. Net order book at the end of June was RMB6.6 billion for 0.22 million square metres (31 December 2022: RMB8.5 billion for 0.28 million square metres). No land replenishment was made during the period and the Group's land bank depleted to 1.6 million square metres.

On an attributable basis, revenue recognised decreased by 33% to HK\$3,328 million and operating profit by 88% to HK\$76 million. Recognised GFA was 0.11 million square metres (2022: 0.16 million square metres) and completed GFA was 0.06 million square metres (2022: 0.24 million square metres).

MAINLAND CHINA INVESTMENT PROPERTIES

Operating environment for the Group's portfolio improved slightly but remained soft. The end of COVID restrictions and growing government support to boost consumer spending sparked hope of a revival of the retail market, but the still weak employment market and uncertainties capped growth. National retail sales picked up slowly after the initial release of pent-up demand and consumers remained cautious towards discretionary spending. Retail rental recovery was only modest.

Meanwhile, office leasing lacked growth momentum as sluggish economic recovery continued to weigh on business confidence. Absence of sizable demand and new supply coming on stream worsened the ongoing oversupply situation. Rental and occupancy remained under pressure.

As a result, segment revenue declined by 5% to HK\$2,434 million and operating profit by 7% to HK\$1,653 million.

WHARF HOTELS

The Group's 16 managed/owned Niccolo Hotels and Marco Polo Hotels in Hong Kong, Mainland China and the Philippines benefitted from China's relaxation of pandemic control early this year. However, initial rebound in Hong Kong was hindered by flight capacity and manpower challenges. A third brand will be launched when a new 286-room vibrant, lifestyle hotel opens in Changsha in the fourth quarter of this year.

Segment revenue increased by 77% from a low base to HK\$296 million and operating profit enjoyed a turnaround to HK\$44 million.

LOGISTICS INFRASTRUCTURE

Volatile political, military and economic environment continued to weigh on global trade confidence, while business demand has been further affected by the elevated inventory levels spurred by inflation and the significant contraction of consumption in the US and Europe.

Segment revenue decreased by 21% to HK\$1,221 million and operating profit by 49% to HK\$203 million, due to lower throughput and lower container yard operations income.

Modern Terminals' throughput in Hong Kong decreased by 18% to 1.9 million TEUs. In Shenzhen, its subsidiary DaChan Bay Terminals reported a 7% decline in throughput to 0.9 million TEUs while throughput at its associated company Shekou Container Terminals declined by 7% to 2.7 million TEUs.

Associated company Hong Kong Air Cargo Terminals reported a 14% decrease in cargo volume to 0.7 million tonnes.

FINANCIAL REVIEW

(I) Review of 2023 Interim Results

Due to weakening of Renminbi (“RMB”), currency translation tends to understate year-on-year revenue and profit comparison for Mainland businesses when expressed in Hong Kong dollars.

Amid the weak market across most segments, the Group’s underlying net profit recovered to HK\$1,811 million (2022: HK\$428 million) mainly due to lower DP provision of HK\$1,033 million (2022: HK\$2,542 million). DP loss narrowed by 61%. Investment profit increased by 38%, while IP profit decreased by 4% and Logistics decreased by 46%. Group profit attributable to shareholders amounted to HK\$696 million (2022: HK\$57 million).

Revenue and Operating Profit (“OP”)

Group revenue decreased by 1% to HK\$8,130 million (2022: HK\$8,209 million) and OP by 10% to HK\$3,139 million (2022: HK\$3,479 million).

IP revenue decreased by 4% to HK\$2,480 million (2022: HK\$2,595 million) and OP by 6% to HK\$1,680 million (2022: HK\$1,788 million).

DP revenue increased by 1% to HK\$2,688 million (2022: HK\$2,674 million) yet OP decreased by 87% to HK\$64 million (2022: HK\$482 million) representing a much lower OP margin of 4% (2022: 18%) attained on recognition of Mainland properties.

Hotels revenue rebounded by 77% to HK\$296 million (2022: HK\$167 million) and returned an OP of HK\$44 million (2022: loss of HK\$47 million) on relaxation of travel restrictions.

Logistics revenue decreased by 21% to HK\$1,221 million (2022: HK\$1,542 million) and OP by 49% to HK\$203 million (2022: HK\$396 million) mainly due to lower throughput volume and container yard income.

Investments OP increased by 29% to HK\$1,160 million (2022: HK\$901 million) from increase in dividend income.

IP revaluation deficit

Including IP held by a joint venture, independent valuation as at 30 June 2023 gave rise to an attributable but unrealised net revaluation deficit (after related deferred tax and non-controlling interests) of HK\$356 million (2022: HK\$421 million), which was charged to the Consolidated Income Statement.

Other Net Charge

Other net charge of HK\$997 million (2022: HK\$1,358 million) mainly comprised of a fair value loss of HK\$769 million (2022: gain of HK\$256 million) on long term fund investment assets, and impairment provisions for DP subsidiaries totaling HK\$293 million (2022: HK\$1,439 million).

Finance Costs

Finance costs increased by 45% to HK\$333 million (2022: HK\$229 million) after unrealised mark-to-market gain of HK\$66 million (2022: loss of HK\$73 million) on cross currency and interest rate swaps.

Effective borrowing rate increased to 4.9% (2022: 2.1%) mainly due to a higher HIBOR. Excluding the mark-to-market gain/loss, finance costs before capitalisation of HK\$184 million (2022: HK\$178 million) increased by 75% to HK\$583 million (2022: HK\$334 million).

Share of Results (after taxes) of Associates and Joint Ventures

Associates' attributable profit amounted to HK\$66 million (2022: loss of HK\$204 million) while joint ventures' attributable loss amounted to HK\$507 million (2022: HK\$296 million), mainly due to impairment provisions for DP projects totaling HK\$740 million (2022: HK\$1,103 million), coupled with lower DP recognition in Hong Kong.

Taxation

Taxation charge fell by 34% to HK\$676 million (2022: HK\$1,019 million) mainly due to decrease in tax provisions for lower trading profits of Mainland IP and DP.

Profit to Shareholders

Group underlying net profit (a performance indicator of the Group's major business segments) attained HK\$1,811 million (2022: HK\$428 million). By segment, DP loss narrowed by 61% to HK\$718 million (2022: HK\$1,820 million) and Investments profit increased by 38% to HK\$1,153 million (2022: HK\$834 million), while IP profit decreased by 4% to HK\$1,276 million (2022: HK\$1,331 million) and Logistics decreased by 46% to HK\$174 million (2022: HK\$325 million).

Including the investment revaluation loss of HK\$769 million (2022: gain of HK\$256 million) and net attributable IP valuation deficits of HK\$356 million (2022: HK\$421 million), Group profit attributable to equity shareholders recorded at HK\$696 million (2022: HK\$57 million). Basic earnings per share were HK\$0.23 (2022: HK\$0.02).

(II) DP Sales and Net Order Book (Inclusive of Joint Venture Projects on an Attributable Basis)

Total contracted sales fell by 39% to HK\$1,808 million (2022: HK\$2,950 million).

Hong Kong contracted sales increased by 17% to HK\$343 million (2022: HK\$292 million). Net order book amounted to HK\$787 million pending recognition as at 30 June 2023 (December 2022: HK\$733 million).

Mainland contracted sales dropped by 41% to RMB1,351 million (2022: RMB2,273 million). Net order book decreased by 22% to RMB6,622 million (December 2022: RMB8,488 million) following recognition during the period.

(III) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 30 June 2023, shareholders' equity decreased by 4% to HK\$145.6 billion (December 2022: HK\$151.6 billion), equivalent to HK\$47.65 (December 2022: HK\$49.60) per share, following the exchange reserve deficit on RMB net assets of HK\$1.8 billion and the investment revaluation deficit on listed equities of HK\$4.2 billion.

Total equity including non-controlling interests decreased by 4% to HK\$149.7 billion (December 2022: HK\$155.7 billion).

Assets

Total business assets, excluding bank deposits and cash, certain financial and deferred tax assets, stayed flat at HK\$205.5 billion (December 2022: HK\$205.9 billion). Properties, Logistics and Investments assets accounted for 67%, 7%, 26% (December 2022: 69%/7%/24%) of the Group total, respectively.

Geographically, Hong Kong business assets increased by 1% to HK\$96.8 billion (December 2022: HK\$95.6 billion), Mainland decreased by 5% to HK\$94.5 billion (December 2022: HK\$99.8 billion); and Overseas (mainly Investments) increased by 35% to HK\$14.2 billion (December 2022: HK\$10.5 billion), representing 47%, 46% and 7% (December 2022: 46%/49%/5%) of the Group total, respectively.

Investment properties

IP portfolio was stated at HK\$67.4 billion (December 2022: HK\$69.2 billion), representing 33% (December 2022: 34%) of total business assets. This portfolio comprised Hong Kong IP of HK\$14.6 billion (December 2022: HK\$14.6 billion) and Mainland IP of HK\$52.8 billion (December 2022: HK\$54.6 billion).

Net of deferred taxes and non-controlling interests, IP value attributable to the Group was HK\$56.5 billion (December 2022: HK\$58.4 billion), comprising Hong Kong IP of HK\$14.6 billion (December 2022: HK\$14.6 billion) and Mainland IP of HK\$41.9 billion (December 2022: HK\$43.8 billion).

Properties for sale

DP assets fell by 4% to HK\$41.1 billion (December 2022: HK\$43.0 billion), comprising Hong Kong DP of HK\$29.0 billion (December 2022: HK\$28.5 billion) and Mainland DP of HK\$12.1 billion (December 2022: HK\$14.5 billion).

Interests in associates and joint ventures

Interests in associates and joint ventures decreased by 3% to HK\$30.0 billion (December 2022: HK\$30.8 billion).

Long term investments

Long term investments amounted to HK\$53.1 billion (December 2022: HK\$48.9 billion), among which HK\$45.1 billion (December 2022: HK\$40.3 billion) were listed equity shares, primarily blue chips held for long term capital growth and/or reasonable dividend yield. None of the investments is individually material to the Group's total assets.

During the period, fair value changes on listed investments produced a deficit of HK\$4.2 billion (2022: HK\$0.6 billion) as reflected in the Consolidated Statement of Comprehensive Income. The portfolio performed overall in line with the relevant markets.

The Group's investment portfolio, analysed by industry sectors and by geographical locations is as below:

	30 June 2023	31 December 2022
	HK\$ Billion	HK\$ Billion
<u>Analysed by industry sectors</u>		
Properties	22.5	26.2
New economy	16.6	12.7
Others	14.0	10.0
Group Total	53.1	48.9
<u>Analysed by geographical locations</u>		
Hong Kong	38.9	38.4
Overseas	14.2	10.5
Group Total	53.1	48.9

Deposits from sale of properties

Deposits from sale of properties decreased by 22% to HK\$6.4 billion (December 2022: HK\$8.2 billion) pending recognition in the coming periods.

Net Debt and Gearing

Net debt as at 30 June 2023 increased by HK\$9.7 billion to HK\$15.0 billion (December 2022: HK\$5.3 billion) mainly from net acquisition of long term investments during the period. The ratio of net debt to total equity was 10.1% (December 2022: 3.4%).

The Group's net debt comprised of HK\$8.9 billion in bank deposits and cash and HK\$23.9 billion in debts. It included Modern Terminals Limited's ("Modern Terminals") net debt of HK\$3.1 billion (December 2022: HK\$3.1 billion), which is non-recourse to the Company and its other subsidiaries. The Group will continue to maintain a reasonable level of surplus cash to facilitate business and investment activities.

Finance and Availability of Facilities

Total available loan facilities and issued debt securities as at 30 June 2023 totalled HK\$42.6 billion, of which HK\$23.9 billion utilised, are analysed as below:

	Available Facilities HK\$ Billion	Utilised Facilities HK\$ Billion	Un-utilised Facilities HK\$ Billion
<u>Company/wholly-owned subsidiaries</u>			
Committed and uncommitted facilities	30.4	14.8	15.6
Debt securities	6.0	6.0	-
	<u>36.4</u>	<u>20.8</u>	<u>15.6</u>
<u>Non-wholly-owned subsidiaries</u>			
Committed and uncommitted facilities			
- Modern Terminals	6.2	3.1	3.1
Group total	<u>42.6</u>	<u>23.9</u>	<u>18.7</u>

Of the above debts, HK\$11.0 billion (December 2022: HK\$6.4 billion) was secured by mortgages over certain IP, DP and other property, plant and equipment together with carrying value of HK\$36.4 billion (December 2022: HK\$21.7 billion).

The Group's debt portfolio comprised primarily United States dollar, Hong Kong dollar and RMB. Funds sourced from such debt portfolio were mainly used to finance IP, DP and port investments.

The use of derivative financial instruments is strictly monitored and controlled. Most of the derivative financial instruments entered are primarily used for management of interest rate and currency exposures.

The Group continued to maintain a strong financial position with ample surplus cash and undrawn committed facilities to facilitate business and investment activities. In addition, the Group also maintained a portfolio of liquid listed investments with an aggregate market value of HK\$45.1 billion (December 2022: HK\$40.3 billion).

Cash Flows for the Group's Operating and Investing Activities

For the period under review, the Group recorded net operating cash inflow of HK\$2.1 billion (2022: HK\$2.7 billion) before changes in working capital. After payment of Mainland land appreciation tax, the Group generated a total net inflow from operating activities of HK\$0.5 billion (2022: HK\$5.4 billion).

For investing activities, the Group recorded a net outflow of HK\$9.4 billion (2022: HK\$2.0 billion), mainly for net acquisitions of long term investments.

Major Capital and Development Expenditures

Major expenditures incurred in 2023 are analysed as follows:

	Hong Kong HK\$ Million	Mainland China HK\$ Million	Total HK\$ Million
Properties			
IP	2	27	29
DP	856	1,430	2,286
	<u>858</u>	<u>1,457</u>	<u>2,315</u>
Others	<u>75</u>	<u>95</u>	<u>170</u>
Group total	<u>933</u>	<u>1,552</u>	<u>2,485</u>

- i. DP and IP expenditures included HK\$0.4 billion for property projects undertaken by associates and joint ventures.
- ii. Other expenditure was mainly related to Modern Terminals' terminal equipment.

Commitment

As at 30 June 2023, major expenditures to be incurred in the coming periods was estimated at HK\$17.5 billion, of which HK\$7.6 billion was committed, analysed by segment as below:

	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
IP			
Mainland China	73	133	206
DP			
Hong Kong	3,105	8,049	11,154
Mainland China	1,539	1,741	3,280
	<u>4,644</u>	<u>9,790</u>	<u>14,434</u>
Others	<u>2,839</u>	<u>46</u>	<u>2,885</u>
Group total	<u>7,556</u>	<u>9,969</u>	<u>17,525</u>

Properties commitments are mainly for construction cost, inclusive of attributable commitments to associates and joint ventures, to be incurred by stages. These expenditures will be funded by internal financial resources including surplus cash, cash flows from operations including pre-sale proceeds, as well as bank and other borrowings. Other available resources include listed equity investments available for sale.

(IV) Human Resources

The Group had approximately 6,200 employees as at 30 June 2023, including about 1,100 employed by managed operations. 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 respective group's achievement and results.

CONSOLIDATED INCOME STATEMENT
For The Six Months Ended 30 June 2023 - Unaudited

		Six months ended 30 June	
	Note	2023	2022
		HK\$ Million	HK\$ Million
Revenue	2	8,130	8,209
Direct costs and operating expenses		(3,918)	(3,605)
Selling and marketing expenses		(206)	(184)
Administrative and corporate expenses		(511)	(583)
Operating profit before depreciation, amortisation, interest and tax		3,495	3,837
Depreciation and amortisation		(356)	(358)
Operating profit	2 & 3	3,139	3,479
Increase/(decrease) in fair value of investment properties		43	(198)
Other net charge	4	(997)	(1,358)
Finance costs	5	2,185	1,923
Share of results after tax of:		(333)	(229)
Associates		66	(204)
Joint ventures		(507)	(296)
Profit before taxation		1,411	1,194
Income tax	6	(676)	(1,019)
Profit for the period		735	175
Profit attributable to:			
Equity shareholders		696	57
Non-controlling interests		39	118
		735	175
Earnings per share	7		
Basic and diluted		HK\$0.23	HK\$0.02

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For The Six Months Ended 30 June 2023 - Unaudited

	Six months ended 30 June	
	2023	2022
	HK\$ Million	HK\$ Million
Profit for the period	<u>735</u>	<u>175</u>
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Fair value changes on equity investments	(4,224)	(602)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of Mainland operations	(1,540)	(2,683)
Share of other comprehensive income of associates/joint ventures	(387)	(701)
Others	<u>(4)</u>	<u>1</u>
Other comprehensive income for the period	<u>(6,155)</u>	<u>(3,985)</u>
Total comprehensive income for the period	<u>(5,420)</u>	<u>(3,810)</u>
Total comprehensive income attributable to:		
Equity shareholders	(5,368)	(3,774)
Non-controlling interests	<u>(52)</u>	<u>(36)</u>
	<u>(5,420)</u>	<u>(3,810)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 30 June 2023 - Unaudited

		30 June 2023	31 December 2022
	Note	HK\$ Million	HK\$ Million
Non-current assets			
Investment properties		67,425	69,222
Property, plant and equipment		12,133	12,088
Interests in associates		13,653	13,918
Interests in joint ventures		16,304	16,927
Other long term investments		53,129	48,924
Goodwill and other intangible assets		298	298
Deferred tax assets		459	837
Derivative financial assets		44	48
Other non-current assets		21	25
		163,466	162,287
Current assets			
Properties for sale		41,075	42,986
Trade and other receivables	9	1,980	1,755
Derivative financial assets		130	69
Bank deposits and cash		8,858	14,648
		52,043	59,458
Total assets		215,509	221,745
Non-current liabilities			
Derivative financial liabilities		(420)	(464)
Deferred tax liabilities		(14,529)	(14,561)
Other non-current liabilities		(29)	(30)
Bank loans and other borrowings		(19,508)	(17,565)
		(34,486)	(32,620)
Current liabilities			
Trade and other payables	10	(19,957)	(20,083)
Deposits from sale of properties		(6,402)	(8,202)
Derivative financial liabilities		(532)	(389)
Taxation payable		(79)	(2,345)
Bank loans and other borrowings		(4,396)	(2,399)
		(31,366)	(33,418)
Total liabilities		(65,852)	(66,038)
NET ASSETS		149,657	155,707
Capital and reserves			
Share capital		30,381	30,381
Reserves		115,225	121,204
Shareholders' equity		145,606	151,585
Non-controlling interests		4,051	4,122
TOTAL EQUITY		149,657	155,707

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

The financial information included in this interim results announcement is extracted from the unaudited interim financial information which 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 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 2022. The unaudited interim financial information and notes thereon do not include all 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 2022 except for the changes mentioned below.

The Group has applied the following amendments to HKFRSs issued by the HKICPA to this unaudited interim financial information for the current accounting period:

Amendments to HKAS 1	Classification of liabilities as current or non-current
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of accounting policies
Amendments to HKAS 8	Definition of accounting estimates
Amendments to HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction

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 2022 that is included in this interim results announcement 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) (“Companies Ordinance”) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 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 five reportable operating segments for measuring performance and allocating resources. The segments are investment properties, development properties, hotels, logistics and investments. No operating segments have been aggregated to form the reportable segments.

Investment properties segment primarily includes property leasing and management operations. The Group's properties portfolio, which mainly consists of retail, office and serviced apartments is primarily located in Mainland China.

Development properties segment encompasses activities relating to the acquisition, development, sales and marketing of the Group's trading properties primarily in Hong Kong and Mainland China.

Hotels segment includes hotel management in Asia. The Group operates 16 hotels in Asia, four of which wholly or partly owned by the Group.

Logistics segment mainly includes the container terminal operations in Hong Kong and Mainland China undertaken by Modern Terminals Limited, and Hong Kong Air Cargo Terminals Limited.

Investments segment includes a diversified portfolio of listed equity investments in Hong Kong and overseas and unlisted investments, mainly property and new economy companies. The performance of the portfolio is assessed and monitored by top management regularly.

Management evaluates performance primarily based on operating profit as well as the equity share of results of associates and joint ventures of each segment. Inter-segment pricing is generally determined on an arm's length basis.

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, deferred tax assets and derivative financial assets.

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

2. SEGMENT INFORMATION (continued)

a. Analysis of segment revenue and results

For the six months ended	Operating		Increase/ (decrease) in	Other net charge	Finance costs	Share of results after tax of associates	Share of results after tax of joint ventures	Profit/ (loss) before taxation
	Revenue	profit/ (loss)	fair value of investment properties					
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
30 June 2023								
Investment properties	2,480	1,680	43	3	(140)	-	32	1,618
Hong Kong	46	27	(1)	-	(4)	-	-	22
Mainland China	2,434	1,653	44	3	(136)	-	32	1,596
Development properties	2,688	64	-	(173)	5	(53)	(546)	(703)
Hong Kong	-	(46)	-	-	5	(1)	119	77
Mainland China	2,688	110	-	(173)	-	(52)	(665)	(780)
Hotels	296	44	-	-	-	-	5	49
Logistics	1,221	203	-	(26)	(65)	119	2	233
Terminals	1,209	191	-	(5)	(65)	80	2	203
Others	12	12	-	(21)	-	39	-	30
Investments	1,160	1,160	-	(769)	(6)	-	-	385
Segment total	7,845	3,151	43	(965)	(206)	66	(507)	1,582
Others	285	152	-	(32)	(127)	-	-	(7)
Corporate expenses	-	(164)	-	-	-	-	-	(164)
Group total	8,130	3,139	43	(997)	(333)	66	(507)	1,411
30 June 2022								
Investment properties	2,595	1,788	(198)	(2)	(108)	-	8	1,488
Hong Kong	34	13	46	-	(24)	-	-	35
Mainland China	2,561	1,775	(244)	(2)	(84)	-	8	1,453
Development properties	2,674	482	-	(1,503)	-	(356)	(304)	(1,681)
Hong Kong	-	(3)	-	(547)	-	-	339	(211)
Mainland China	2,674	485	-	(956)	-	(356)	(643)	(1,470)
Hotels	167	(47)	-	-	-	(2)	(5)	(54)
Logistics	1,542	396	-	(12)	(44)	154	5	499
Terminals	1,540	394	-	(8)	(44)	99	5	446
Others	2	2	-	(4)	-	55	-	53
Investments	901	901	-	256	-	-	-	1,157
Segment total	7,879	3,520	(198)	(1,261)	(152)	(204)	(296)	1,409
Others	330	183	-	(97)	(77)	-	-	9
Corporate expenses	-	(224)	-	-	-	-	-	(224)
Group total	8,209	3,479	(198)	(1,358)	(229)	(204)	(296)	1,194

b. Disaggregation of revenue

	Six months ended 30 June	
	2023	2022
	HK\$ Million	HK\$ Million
Revenue recognised under HKFRS 15		
Sale of development properties	2,688	2,674
Management and services income	297	290
Hotels	296	167
Logistics	1,221	1,542
	<u>4,502</u>	<u>4,673</u>
Revenue recognised under other accounting standards		
Rental income under investment properties segment		
- Fixed	1,480	1,571
- Variable	703	734
Investments	1,160	901
Others	285	330
	<u>3,628</u>	<u>3,536</u>
Group total	<u>8,130</u>	<u>8,209</u>

The Group has applied the practical expedient in paragraph 121 of HKFRS 15, Revenue from Contract with Customers, to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date, i.e. revenue from hotels, logistics and management fees under investment properties segment 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.

c. Geographical information

	Six months ended 30 June			
	Revenue		Operating profit	
	2023	2022	2023	2022
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	2,149	2,117	1,301	1,203
Mainland China	5,876	6,031	1,736	2,222
Others	105	61	102	54
Group total	<u>8,130</u>	<u>8,209</u>	<u>3,139</u>	<u>3,479</u>

3. OPERATING PROFIT
Operating profit is arrived at:

	Six months ended 30 June	
	2023	2022
	HK\$ Million	HK\$ Million
After charging:		
Depreciation and amortisation on		
- Hotel and other property, plant and equipment	292	298
- leasehold land	40	42
- right-of-use assets	24	18
Total depreciation and amortisation	356	358
Staff cost (Note (i))	825	837
Cost of trading properties for recognised sales	2,496	2,107
Direct operating expenses of investment properties	800	802
Loss on disposal of property, plant and equipment	-	1
After crediting:		
Gross revenue from investment properties	2,480	2,595
Interest income	186	212
Dividend income from other long term investments	1,160	901
Government grants (Note (ii))	-	18
Gain on disposal of property, plant and equipment	6	-

Note :

- (i) Staff costs included contributions to defined contribution pension schemes of HK\$101 million (2022: HK\$97 million), which included MPF schemes after a forfeiture of HK\$1 million (2022: HK\$1 million).
- (ii) In 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by the Government of the Hong Kong Special Administrative Region of the People's Republic of China. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees of the concerned business units.

4. OTHER NET CHARGE

Other net charge for the period amounted to HK\$997 million (2022: HK\$1,358 million) mainly comprises:

- a. Provision for diminution in value of HK\$293 million was made for certain development properties held by subsidiaries in Mainland China (2022: HK\$1,439 million for certain development properties held by subsidiaries in Mainland China and Hong Kong).
- b. Net exchange loss of HK\$39 million (2022: HK\$167 million), including impacts of foreign exchange contracts.
- c. Net fair value loss of HK\$769 million (2022: gain of HK\$256 million) on other long term investments which were classified as financial assets at fair value through profit or loss.

5. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	HK\$ Million	HK\$ Million
Interest charged on:		
Bank loans and overdrafts	317	224
Other borrowings	249	57
Total interest charge	<u>566</u>	<u>281</u>
Other finance costs	17	53
Less: Amount capitalised	<u>(184)</u>	<u>(178)</u>
	<u>399</u>	<u>156</u>
Fair value (gain)/loss:		
Cross currency interest rate swaps	(51)	(12)
Interest rate swaps	<u>(15)</u>	<u>85</u>
	<u>(66)</u>	<u>73</u>
Group total	<u>333</u>	<u>229</u>

Note: The Group's average effective borrowing rate for the period was 4.9% p.a. (2022: 2.1% p.a.).

6. INCOME TAX

Taxation charged to the consolidated income statement represents:

	Six months ended 30 June	
	2023	2022
	HK\$ Million	HK\$ Million
Current tax		
Hong Kong		
- provision for Profits tax for the period	46	253
- (over)/under-provision in respect of prior years	(9)	2
Outside Hong Kong		
- provision for the period	279	455
- (over)/under-provision in respect of prior years	(552)	7
	<u>(236)</u>	<u>717</u>
Current tax		
Mainland China		
- Land appreciation tax ("LAT") (note c)	180	124
	<u>180</u>	<u>124</u>
Deferred tax		
Change in fair value of investment properties	242	74
Origination and reversal of temporary differences	490	104
	<u>732</u>	<u>178</u>
Group total	<u>676</u>	<u>1,019</u>

- a. The provision for Hong Kong Profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 16.5% (2022: 16.5%).
- b. Income tax on profits assessable outside Hong Kong is mainly corporate income tax and withholding tax in Mainland China, calculated at a rate of 25% (2022: 25%) and up to 10%, respectively.
- c. 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.
- d. Tax attributable to associates and joint ventures for the six months ended 30 June 2023 of HK\$78 million (2022: HK\$349 million) is included in the share of results of associates and joint ventures.

7. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the profit attributable to equity shareholders for the period of HK\$696 million (2022: HK\$57 million) and the weighted average of 3,056 million shares (2022: 3,056 million shares) in issue during the period.

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	Six months ended 30 June			
	2023	2023	2022	2022
	HK\$ per share	HK\$ Million	HK\$ per share	HK\$ Million
First interim dividend declared after the end of the reporting period	0.20	611	0.20	611

- a. The first interim dividend based on 3,056 million issued shares (2022: 3,056 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\$611 million for 2022 was approved and paid in 2023.

9. TRADE AND OTHER RECEIVABLES

Included in this item are trade receivables (net of loss allowance for bad and doubtful debts) with an ageing analysis based on the invoice date as at 30 June 2023 as follows:

	30 June 2023 HK\$ Million	31 December 2022 HK\$ Million
Trade receivables		
0 - 30 days	131	104
31 - 60 days	23	33
61 - 90 days	18	23
Over 90 days	69	84
	241	244
Other receivables and prepayments	1,739	1,511
Group total	1,980	1,755

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 receivables and prepayments are expected to be virtually recoverable or recognised as expenses within one year.

10. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on the invoice date as at 30 June 2023 as follows:

	30 June 2023 HK\$ Million	31 December 2022 HK\$ Million
Trade payables		
0 - 30 days	329	364
31 - 60 days	224	218
61 - 90 days	16	95
Over 90 days	<u>209</u>	<u>116</u>
	778	793
Rental and customer deposits	1,619	1,356
Construction costs payable	4,392	4,708
Amounts due to associates	8,019	7,675
Amounts due to joint ventures	2,453	2,298
Other payables	<u>2,696</u>	<u>3,253</u>
Group total	<u>19,957</u>	<u>20,083</u>

11. REVIEW OF UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited interim financial information for the six months ended 30 June 2023 has been reviewed with no disagreement by the Audit Committee of the Company.

CORPORATE GOVERNANCE CODE

During the financial period under review, the Company has applied all the principles and complied with all the code provisions of the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, with one exception as regards Code Provision C.2.1 providing for the roles of the chairman and chief executive to be performed by different individuals.

Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of a chief executive thereby enabling more effective planning and better execution of long-term strategies. The Board of Directors of the Company (the “Board”) believes that the balance of power and authority is adequately ensured by the operations and governance of the Board which comprises experienced and high calibre individuals, with more than half of them being Independent Non-executive Directors (“INEDs”).

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

RELEVANT DATES FOR INTERIM DIVIDEND

Ex-entitlement date	29 August 2023 (Tue)
Latest time to lodge share transfer	4:30 p.m., 30 August 2023 (Wed)
Record date and time	6:00 p.m., 30 August 2023 (Wed)
Payment date	14 September 2023 (Thu)

In order to qualify for the above-mentioned interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company’s Share Registrar, Tricor Tengis Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Wednesday, 30 August 2023.

By Order of the Board
The Wharf (Holdings) Limited
Kevin C. Y. Hui
Director and Company Secretary

Hong Kong, 9 August 2023

As at the date of this announcement, the Board comprises Mr. Stephen T. H. Ng, Mr. Paul Y. C. Tsui, Ms. Y. T. Leng, Mr. Kevin K. P. Chan and Mr. Kevin C. Y. Hui, together with seven INEDs, namely, Professor Edward K. Y. Chen, Mr. Vincent K. Fang, Mr. Hans Michael Jebesen, Ms. Elizabeth Law, Mr. Richard Y. S. Tang, Ms. Nancy S. L. Tse and Mr. David Muir Turnbull.