



WHARF

Established 1886

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1997

INTERIM REPORT 2023





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RECOVERY WELL BELOW PRE-COVID

HIGHLIGHTS

- Hong Kong visitor arrivals and retail sales still well below pre-pandemic levels
- Rental billings improved but obscured by year-on-year amortisation accounting
- Hotels' turnaround is more visible but has lost momentum
- Borrowing cost tripling will be mitigated by the lowest net debt in four years
- Valuation for Investment Properties ("IP") had not yet bottomed

GROUP RESULTS

Unaudited Group underlying net profit for the period ended 30 June 2023 decreased by 9% to HK\$3,059 million (2022: HK\$3,373 million), equivalent to HK\$1.01 (2022: HK\$1.11) per share.

Including a net IP revaluation deficit of HK\$1,133 million (2022: HK\$5,039 million), Group profit attributable to equity shareholders amounted to HK\$1,805 million (2022: loss of HK\$1,468 million). Basic earnings per share were HK\$0.59 (2022: loss per share of HK\$0.48).

INTERIM DIVIDEND

A first interim dividend of HK\$0.67 (2022: HK\$0.70) per share will be paid on 12 September 2023 to Shareholders on record as at 6:00 p.m. on 28 August 2023. The distribution will amount to HK\$2,034 million (2022: HK\$2,125 million), representing 65% of underlying net profit from IP and hotels in Hong Kong.

BUSINESS REVIEW

Business environment has improved since the borders reopened in January, but post-pandemic recovery is impeded by global geopolitical and economic uncertainties, in addition to a strong local currency and the very slow resumption of travelling logistics including flight capacity and valid travel documents. Hong Kong retail sales growth slowed to 18% in the second quarter compared to 24% in the first quarter. Overall speaking, visitor arrivals and retail sales for the first half of 2023 merely recovered to 37% and 85% of pre-COVID levels in 2019 respectively.

Despite a modest market recovery so far, the Group's premier investment properties continue to attract discerning tenants and shoppers. Retail rent has stabilised but year-on-year rental improvement is obscured by the amortisation of rental concessions granted during the COVID years in accordance with accounting standards in respective periods. Office market over-supply continues to weigh on rent and occupancy, and is expected to persist until a significant shift in business climate. In view of the challenging macro environment, IP valuation continued to slip.

By comparison, Hotels' turnaround is more visible but has similarly lost momentum and stagnated in the second quarter.

The post-pandemic recovery is further complicated by mounting cost pressures. Rising costs, particularly in manpower and energy, are squeezing margins.

HARBOUR CITY

Overall revenue (including Hotels) increased by 8% and operating profit by 12%.

Retail

Retail revenue increased by 9% and operating profit by 16%. Location, critical mass, the carefully curated tenant mix and effective marketing enabled Harbour City to stand out.

During the pandemic, Harbour City took the opportunity to strategically refine the overall tenant mix by injecting new-to-market and exclusive concepts, while balancing offerings to cater to the needs of both locals and tourists. Having established as a more competitive mall, Harbour City captured market rebound opportunities and improved occupancy to 96% at the end of June 2023.

To capture the post-pandemic recovery more effectively, Harbour City has swiftly redirected marketing efforts towards buzz-generating and crowd-drawing events to fully capture local and overseas visitors. Tenants' sales recovery is uneven at a chequered pace. Some of the key tenants are already reporting better sales than before the pandemic.

Office

After borders reopened, Harbour City received more interest from investment and insurance companies. However, as global economic uncertainties and over-supply persist, office rent continued to be soft. Both revenue and operating profit decreased by 8%. Occupancy was 88% at the end of June 2023. Safeguarding occupancy by maximising new commitments and tenant retention is priority.

Hotels

Canton Road hotels saw uptick in room rate and partial recovery in occupancy in the first half. Prince Hotel has re-opened but is not yet operating at full capacity due to manpower constraints. However, overall market demand lost steam and exhibited deceleration in momentum heading into the second quarter.

Attesting the commitment in upholding exceptional hospitality, Marco Polo Hongkong Hotel is honoured to be named as “Recommended Hotel” by Forbes Travel Guide for the fourth consecutive year.

TIMES SQUARE

Overall revenue decreased by 2% while operating profit increased by 1%.

Retail

Retail revenue increased by 6% and operating profit by 12%.

As a major vertical mall in Causeway Bay with a thriving platform for staging cultural, artistic and pop-up activities, occupancy was 94% at the end of June 2023.

Times Square is continuously refining its luxury and aspirational brand mix to broaden customer base and solidify competitiveness. In addition, Times Square boasts a wide variety of dining options and experiential spaces including co-baking space, integrated Virtual Reality (VR) experience zone and Causeway Bay’s most popular multiplex cinema, providing diverse experiences to customers.

Office

Despite the resumption of business activities and increased leasing interest, tenants generally remain cost cautious amid a volatile business outlook. As the overall market is facing structural headwinds due to change in corporate office requirements to accommodate flexible working arrangements, leasing demand has been mainly driven by smaller units. Occupancy was 87% at the end of June 2023. Revenue decreased by 14% and operating profit by 16%.

CENTRAL PORTFOLIO

Underpinned by prime location and easy accessibility, office occupancy at Crawford House stayed firm at 96% at the end of June 2023, while Wheelock House improved to 81%. Both retail premises were fully let. Revenue and operating profit decreased by 12% and 14% respectively, as the vacant space of a previous anchor tenant at Wheelock House has only been partially leased.

The Murray, Hong Kong, a Niccolo Hotel has seen more events and corporate demand as travel resumed. Its service excellence continues to be well recognised by global travellers which earns her the "Five-Star" award for the second consecutive year in the 2023 Forbes Travel Guide Star Awards, one of the most prestigious global awards for luxury hospitality.

PLAZA HOLLYWOOD

Completion of MTR's Tuen Ma Line has made Diamond Hill station a major interchange station with the Kwun Tong Line to provide convenient access covering both eastern and western parts of both Kowloon and the New Territories. That is in addition to the densely populated residential and increasingly commercial neighbourhoods around Plaza Hollywood.

Plaza Hollywood continues to introduce new tenants and implement marketing activities to entice shoppers. Occupancy was 96% at the end of June 2023. Revenue and operating profit increased by 5% and 8% respectively.

SINGAPORE ASSETS

Singapore has been booming since 2022. Wheelock Place and the freehold Scotts Square mall, both strategically located in the renowned Orchard Road shopping belt, enjoyed the area's bustling foot traffic and saw strong occupancy. Retail occupancies for both properties were 99% and 98% respectively at the end of June 2023. Office occupancy at Wheelock Place was consistently high at 100%.

FINANCIAL REVIEW

(II) REVIEW OF 2023 INTERIM RESULTS

Underlying net profit decreased by 9% to HK\$3,059 million (2022: HK\$3,373 million) according to IP revenue amortisation accounting standards and amid higher interest rates. IP profit decreased by 10% to HK\$3,079 million, while Hotel returned to profit of HK\$55 million. The Group recorded a profit attributable to equity shareholders of HK\$1,805 million (2022: loss of HK\$1,468 million), after including the revaluation deficits of IP.

Revenue and Operating Profit

Group revenue and operating profit increased by 4% to HK\$6,473 million (2022: HK\$6,210 million) and 11% to HK\$4,940 million (2022: HK\$4,446 million) respectively, mainly attributable to the improvement of IP and Hotel performance after the borders reopened.

IP revenue increased by 2% to HK\$5,455 million (2022: HK\$5,360 million) and operating profit increased by 6% to HK\$4,677 million (2022: HK\$4,425 million).

Hotel revenue increased by 90% to HK\$697 million (2022: HK\$366 million) and operating profit of HK\$67 million was recorded (2022: loss of HK\$172 million).

Development Properties (“DP”) revenue reduced by 88% to HK\$22 million (2022: HK\$185 million) and operating loss of HK\$13 million (2022: HK\$27 million) was reported.

Investment operating profit primarily from dividend income decreased by 10% to HK\$244 million (2022: HK\$271 million).

Fair Value Change of IP

IP assets were stated at HK\$227.4 billion based on independent valuation, giving rise to a revaluation deficit of 0.5% at HK\$1,115 million. Unrealised valuation loss attributable to equity shareholders, net of non-controlling interests, was HK\$1,133 million (2022: HK\$5,039 million).

Other Net (Loss)/Income

Other net loss was HK\$282 million (2022: income of HK\$365 million), which mainly comprised net fair value loss of certain financial instruments and the write-downs of HK\$88 million of the DP projects held by the Group’s listed subsidiary, Harbour Centre Development Limited (“HCDL”).

Finance Costs

Finance costs jumped to HK\$990 million (2022: HK\$609 million) after including a mark-to-market gain of HK\$71 million (2022: loss of HK\$243 million) of cross currency and interest rate swaps in accordance with the applicable accounting standards.

Effective borrowing rate rose to 4.7% (2022: 1.4%) primarily due to higher HIBOR.

Income Tax

Taxation charge reduced by 8% to HK\$627 million (2022: HK\$679 million).

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders amounted to HK\$1,805 million (2022: loss of HK\$1,468 million). Basic earnings per share were HK\$0.59 (2022: loss per share of HK\$0.48), based on 3,036 million (2022: 3,036 million) ordinary shares in issue.

Underlying net profit (excluding the impact of IP revaluation and the net mark-to-market loss of certain financial instruments) decreased by 9% to HK\$3,059 million (2022: HK\$3,373 million). Underlying earnings per share were HK\$1.01 (2022: HK\$1.11).

(III) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

As at 30 June 2023, shareholders' equity increased by HK\$0.2 billion to HK\$190.6 billion (2022: HK\$190.4 billion), equivalent to HK\$62.77 (2022: HK\$62.70) per share. Total equity including non-controlling interests was maintained at HK\$194.9 billion.

Assets

Total assets amounted to HK\$248.6 billion (2022: HK\$255.3 billion), 94% (2022: 92%) of which were in Hong Kong. Total business assets, excluding bank deposits and cash, derivative financial assets and deferred tax assets, were HK\$246.8 billion (2022: HK\$253.0 billion).

IP

IP assets totalled HK\$227.4 billion (2022: HK\$228.6 billion), representing 92% (2022: 90%) of business assets. Harbour City (excluding the three hotels) was valued at HK\$154.5 billion and Times Square at HK\$47.3 billion.

Hotels

Hotel properties were stated at cost less accumulated depreciation and impairment (if any) at HK\$7.0 billion (2022: HK\$7.1 billion). Valuation of these hotels amounted to HK\$14.0 billion.

DP

DP assets, including interests in an associate and joint ventures all of which held by listed subsidiary HCDL, amounted to HK\$2.3 billion (2022: HK\$2.6 billion).

Other Long-term Investments

Other long-term investments were stated at market value at HK\$8.6 billion (2022: HK\$13.1 billion), following disposals totalling HK\$4.7 billion to reduce borrowings. This portfolio of blue chips, held for long-term capital appreciation and reasonable dividend return, performed overall in line with the market and each portfolio holding is individually not material to the Group's total assets. Marking these investments at 30 June 2023 to market produced an attributable net surplus of HK\$0.3 billion (2022: deficit of HK\$3.2 billion) as reflected in the other comprehensive income. Together with the gain realised on disposal during the period, cumulative surplus of HK\$1,285 million (2022: HK\$163 million) was transferred to revenue reserves upon derecognition.

The Group's investment portfolio analysed by industry sector and by geographical location as below:

	30 June 2023 HK\$ Million	31 December 2022 HK\$ Million
Analysed by industry sector:		
– Properties	8,139	9,462
– Others	470	3,668
Total	8,609	13,130
Analysed by geographical location:		
– Hong Kong	3,856	4,215
– Outside of Hong Kong	4,753	8,915
Total	8,609	13,130

Debts and Gearing

Net debt as at 30 June 2023 decreased by HK\$6.1 billion to HK\$39.1 billion (2022: HK\$45.2 billion), to nearly its lowest level since the Company was listed, to mitigate the increase in borrowing cost. It comprised debts of HK\$40.1 billion and bank deposits and cash of HK\$1.0 billion.

An analysis of net debt is depicted below:

Net debt	30 June 2023 HK\$ Billion	31 December 2022 HK\$ Billion
Group (excluding HCDL)	38.8	44.7
HCDL	0.3	0.5
Total	39.1	45.2

The ratio of net debt to total equity dropped to 20.1% (2022: 23.2%).

Listed HCDL is an independent credit entity and the Group (excluding HCDL) is not contractually exposed to HCDL's debts. HCDL's ratio of net debt to total equity as at 30 June 2023 was 2.0%.

Finance and Availability of Facilities

Total available loan facilities and issued debt securities as at 30 June 2023 amounted to HK\$53.1 billion, of which HK\$40.1 billion was utilised. The breakdown is depicted below:

	Available Facility HK\$ Billion	30 June 2023 Total Debt HK\$ Billion	Undrawn Facility HK\$ Billion
Committed and uncommitted:			
Group (excluding HCDL)	50.8	39.4	11.4
HCDL	2.3	0.7	1.6
Total	53.1	40.1	13.0

Certain banking facilities extended to HCDL were secured by hotel and DP in the Mainland of RMB1.3 billion (equivalent to HK\$1.4 billion) (31 December 2022: RMB1.3 billion (equivalent to HK\$1.5 billion)).

The debt portfolio was principally denominated in United States dollar, Hong Kong dollar, Singapore dollar and Renminbi ("RMB"). The respective funds were mainly used to finance the Group's IP.

The use of derivative financial instruments is strictly monitored and controlled. The majority of the derivative financial instruments entered into are used for mitigating interest rate and currency exposures.

The Group continued to adhere to a high level of financial discipline with a strong financial position. Financial resources are well prepared to support business and investment activities. In addition, the Group also maintained a portfolio of liquid listed investments with an aggregate market value of HK\$8.6 billion (2022: HK\$13.1 billion).

Cash Flows for the Group's Operating and Investing Activities

For the period under review, the Group recorded operating cash inflow of HK\$4.8 billion (2022: HK\$4.3 billion) primarily generated from rental income. Together with the changes in working capital and others of HK\$1.6 billion (2022: HK\$0.7 billion), the net cash inflow from operating activities amounted to HK\$3.2 billion (2022: HK\$3.6 billion). For investing activities, the Group recorded a net cash inflow of HK\$4.7 billion (2022: outflow of HK\$2.3 billion).

Capital Commitments

As at 30 June 2023, major planned expenditures for the coming years were estimated at HK\$1.1 billion, of which HK\$0.4 billion was committed. A breakdown (by segment) is as follows:

	30 June 2023		Total
	Committed	Uncommitted	Total
	HK\$ Million	HK\$ Million	HK\$ Million
IP			
Hong Kong	57	337	394
DP			
Mainland China	351	368	719
	408	705	1,113
Hotels			
Hong Kong	18	1	19
Group total	426	706	1,132

These expenditures will be funded by internal financial resources, including existing cash and surplus from operations, as well as bank loans and other borrowings. Other available resources include monetisation of the Group's equity investments.

Included in the above are HCDL's expenditures totaling HK\$0.7 billion, which will be funded by its own financial resources.

(III) HUMAN RESOURCES

The Group had approximately 2,800 employees as at 30 June 2023. Employees are remunerated according to their job responsibilities and 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 STATEMENT OF PROFIT OR LOSS

For The Six Months Ended 30 June 2023 – Unaudited

	Note	Six months ended 30 June	
		2023 HK\$ Million	2022 HK\$ Million
Revenue	2	6,473	6,210
Direct costs and operating expenses		(1,161)	(1,227)
Selling and marketing expenses		(125)	(250)
Administrative and corporate expenses		(122)	(146)
Operating profit before depreciation, amortisation, interest and tax		5,065	4,587
Depreciation and amortisation		(125)	(141)
Operating profit	2 & 3	4,940	4,446
Decrease in fair value of investment properties		(1,115)	(5,053)
Other net (loss)/income	4	(282)	365
Finance costs	5	(990)	(609)
Share of results after tax of an associate		(146)	–
Profit/(loss) before taxation		2,407	(851)
Income tax	6	(627)	(679)
Profit/(loss) for the period		1,780	(1,530)
Profit/(loss) attributable to:			
Shareholders of the Company		1,805	(1,468)
Non-controlling interests		(25)	(62)
		1,780	(1,530)
Earnings/(loss) per share	7		
Basic		HK\$0.59	(HK\$0.48)
Diluted		HK\$0.59	(HK\$0.48)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For The Six Months Ended 30 June 2023 – Unaudited

	Six months ended 30 June	
	2023 HK\$ Million	2022 HK\$ Million
Profit/(loss) for the period	1,780	(1,530)
Other comprehensive income		
Item that will not be reclassified to profit or loss:		
Fair value changes on equity investments at fair value through other comprehensive income	209	(3,181)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of subsidiaries outside Hong Kong	(62)	(216)
Share of other comprehensive income of an associate and joint ventures	(20)	(40)
Others	(5)	–
Other comprehensive income for the period	122	(3,437)
Total comprehensive income for the period	1,902	(4,967)
Total comprehensive income attributable to:		
Shareholders of the Company	2,047	(4,834)
Non-controlling interests	(145)	(133)
	1,902	(4,967)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As At 30 June 2023 – Unaudited

	Note	30 June 2023 HK\$ Million	31 December 2022 HK\$ Million
Non-current assets			
Investment properties		227,439	228,559
Hotel and club properties, plant and equipment		7,190	7,315
Interest in an associate		604	815
Interest in joint ventures		10	20
Other long-term investments		8,609	13,130
Deferred tax assets		219	226
Derivative financial assets		298	304
Other non-current assets		59	64
		244,428	250,433
Current assets			
Properties for sale		1,637	1,793
Inventories		16	16
Trade and other receivables	9	1,241	1,338
Prepaid tax		7	6
Derivative financial assets		–	1
Bank deposits and cash		977	1,340
		3,878	4,494
Non-current assets classified as held for sale		311	322
		4,189	4,816
Total assets		248,617	255,249

	Note	30 June 2023 HK\$ Million	31 December 2022 HK\$ Million
Non-current liabilities			
Derivative financial liabilities		(2,617)	(3,074)
Deferred tax liabilities		(2,678)	(2,715)
Other deferred liabilities		(344)	(342)
Bank loans and other borrowings	11	(34,412)	(42,909)
		(40,051)	(49,040)
Current liabilities			
Liabilities directly associated with the non-current assets classified as held for sale		(9)	(9)
Trade and other payables	10	(6,299)	(6,812)
Pre-sale deposits and proceeds		(239)	(222)
Derivative financial liabilities		(498)	(156)
Taxation payable		(888)	(549)
Bank loans and other borrowings	11	(5,702)	(3,580)
		(13,635)	(11,328)
Total liabilities		(53,686)	(60,368)
NET ASSETS		194,931	194,881
Capital and reserves			
Share capital	12	304	304
Reserves		190,255	190,060
Shareholders' equity		190,559	190,364
Non-controlling interests		4,372	4,517
TOTAL EQUITY		194,931	194,881

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 June 2023 – Unaudited

	Attributable to equity shareholders of the Company							Non-controlling interests HK\$ Million	Total equity HK\$ Million
	Share capital HK\$ Million	Share premium HK\$ Million	Investment revaluation reserves HK\$ Million	Exchange reserves HK\$ Million	Revenue reserves HK\$ Million	Total HK\$ Million			
At 1 January 2023	304	696	(212)	214	189,362	190,364	4,517	194,881	
Changes in equity for the period:									
Profit/(loss) for the period	-	-	-	-	1,805	1,805	(25)	1,780	
Other comprehensive income	-	-	308	(61)	(5)	242	(120)	122	
Total comprehensive income	-	-	308	(61)	1,800	2,047	(145)	1,902	
2022 second interim dividend paid (Note 8 (b))	-	-	-	-	(1,852)	(1,852)	-	(1,852)	
Transfer to revenue reserves upon de-recognition of equity investments	-	-	(1,285)	-	1,285	-	-	-	
At 30 June 2023	304	696	(1,189)	153	190,595	190,559	4,372	194,931	
At 1 January 2022	304	696	2,672	305	202,129	206,106	4,770	210,876	
Changes in equity for the period:									
Loss for the period	-	-	-	-	(1,468)	(1,468)	(62)	(1,530)	
Other comprehensive income	-	-	(3,152)	(214)	-	(3,366)	(71)	(3,437)	
Total comprehensive income	-	-	(3,152)	(214)	(1,468)	(4,834)	(133)	(4,967)	
2021 second interim dividend paid	-	-	-	-	(1,943)	(1,943)	-	(1,943)	
Dividends paid to non-controlling interests	-	-	-	-	-	-	(59)	(59)	
Transfer to revenue reserves upon de-recognition of equity investments	-	-	(163)	-	163	-	-	-	
At 30 June 2022	304	696	(643)	91	198,881	199,329	4,578	203,907	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For The Six Months Ended 30 June 2023 – Unaudited

	Six months ended 30 June	
	2023 HK\$ Million	2022 HK\$ Million
Operating cash inflow	4,802	4,309
Changes in working capital and others	(1,309)	(375)
Tax paid	(319)	(372)
Net cash generated from operating activities	3,174	3,562
Investing activities		
Payment for investment properties, hotel and club properties, plant and equipment	(78)	(398)
Other net cash generated from/(used in) investing activities	4,786	(1,932)
Net cash generated from/(used in) investing activities	4,708	(2,330)
Financial activities		
Dividends paid to equity shareholders	(1,852)	(1,943)
Other net cash (used in)/generated from financing activities	(6,374)	1,158
Net cash used in financing activities	(8,226)	(785)
(Decrease)/increase in cash and cash equivalents	(344)	447
Cash and cash equivalents at 1 January	1,340	1,800
Effect of exchange rate changes	(19)	(49)
Cash and cash equivalents at 30 June	977	2,198
Cash and cash equivalents		
Bank deposits and cash in the consolidated statement of financial position	977	2,198

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 judgements, 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 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 2022 except for the changes mentioned below.

The HKICPA has issued a number of new or amended HKFRSs that are first effective starting from 1 January 2023. Of these, the following developments are relevant to the Group’s consolidated financial statements:

HKFRS 17	Insurance contracts
Amendments to HKAS 1	Presentation of financial statements and HKFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies
Amendments to HKAS 8	Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates
Amendments to HKAS 12	Income taxes: Deferred tax related to assets and liabilities arising from a single transaction
Amendments to HKAS 12	Income taxes: International tax reform – Pillar Two model rules

The Group has assessed the impact of the adoption of the above standard and amendments and considered that there was no significant impact on the Group’s results and financial position.

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

2. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined four reportable operating segments for measuring performance and allocating resources. The segments are investment properties, development properties, hotel and investment. No operating segment has been aggregated to form the reportable segments.

Investment properties segment primarily entails property leasing and management operations. Currently, the Group's investment properties portfolio, which mainly consists of retail, office and serviced apartments, is primarily located in Hong Kong.

Development properties segment encompasses activities relating to the acquisition of land, development, construction and sales of trading properties, mainly in Mainland China.

Hotel segment includes hotel operations in Hong Kong and Mainland China.

Investment segment represents equity investments in global capital markets.

Management evaluates performance primarily based on operating profit as well as the equity share of results of an associate 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 and current assets directly attributable to each segment with the exception of bank deposits and cash, derivative financial assets and deferred tax 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 and amortisation of assets attributable to those segments.

a. *Analysis of segment revenue and results*

Six months ended	Revenue HK\$ Million	Operating profit/ (loss) HK\$ Million	Decrease in fair value of investment properties HK\$ Million	Other net (loss)/ income HK\$ Million	Finance costs HK\$ Million	Share of results after tax of an associate HK\$ Million	Profit/(loss) before taxation HK\$ Million
30 June 2023							
Investment properties	5,455	4,677	(1,115)	-	(932)	-	2,630
Development properties	22	(13)	-	(88)	(7)	(146)	(254)
Hotel	697	67	-	-	(5)	-	62
Investment	244	244	-	-	(115)	-	129
Inter-segment revenue	(16)	-	-	-	-	-	-
Segment total	6,402	4,975	(1,115)	(88)	(1,059)	(146)	2,567
Others	71	(2)	-	(194)	69	-	(127)
Corporate expenses	-	(33)	-	-	-	-	(33)
Group total	6,473	4,940	(1,115)	(282)	(990)	(146)	2,407
30 June 2022							
Investment properties	5,360	4,425	(5,053)	-	(296)	-	(924)
Development properties	185	(27)	-	(83)	(9)	-	(119)
Hotel	366	(172)	-	-	(7)	-	(179)
Investment	271	271	-	-	(55)	-	216
Inter-segment revenue	(12)	-	-	-	-	-	-
Segment total	6,170	4,497	(5,053)	(83)	(367)	-	(1,006)
Others	40	(21)	-	448	(242)	-	185
Corporate expenses	-	(30)	-	-	-	-	(30)
Group total	6,210	4,446	(5,053)	365	(609)	-	(851)

b. *Disaggregation of revenue*

	Six months ended 30 June	
	2023 HK\$ Million	2022 HK\$ Million
Revenue recognised under HKFRS 15		
Management and services income	586	540
Other rental related income	93	260
Hotel and club operations	697	366
Sale of development properties	22	185
	1,398	1,351
Revenue recognised under other accounting standards		
Rental income		
– Fixed	4,218	4,213
– Variable	542	335
	4,760	4,548
Investment income	244	271
Others	71	40
	5,075	4,859
Total revenue	6,473	6,210

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 in relation 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; and
- revenue from sales of completed properties as the contract has an original expected duration of one year or less.

c. *Analysis of inter-segment revenue*

	Six months ended 30 June					
	Total revenue HK\$ Million	2023 Inter-segment revenue HK\$ Million	Group revenue HK\$ Million	Total revenue HK\$ Million	2022 Inter-segment revenue HK\$ Million	Group revenue HK\$ Million
Investment properties	5,455	(16)	5,439	5,360	(12)	5,348
Development properties	22	-	22	185	-	185
Hotel	697	-	697	366	-	366
Investment	244	-	244	271	-	271
Others	75	(4)	71	46	(6)	40
Group total	6,493	(20)	6,473	6,228	(18)	6,210

d. *Geographical information*

	Six months ended 30 June			
	Revenue		Operating profit	
	2023 HK\$ Million	2022 HK\$ Million	2023 HK\$ Million	2022 HK\$ Million
Hong Kong	6,050	5,648	4,671	4,225
Outside Hong Kong	423	562	269	221
Group total	6,473	6,210	4,940	4,446

3. OPERATING PROFIT

Operating profit is arrived at:

	Six months ended 30 June	
	2023 HK\$ Million	2022 HK\$ Million
After charging:		
Depreciation and amortisation on		
– hotel and club properties, plant and equipment	117	140
– leasehold land	8	1
Total depreciation and amortisation	125	141
Staff cost (Note (a))	476	446
Cost of trading properties for recognised sales	17	177
Direct operating expenses of investment properties	751	887
After crediting:		
Gross rental revenue from investment properties	5,439	5,348
Interest income	19	7
Dividend income from other long-term investments	244	271
Government grants (Note (b))	–	34

(a) Staff costs included defined contribution pension schemes costs of HK\$25 million (2022: HK\$24 million, which included MPF schemes after a forfeiture of HK\$1 million).

(b) Government grants mainly included subsidy from the Employment Support Scheme in 2022.

4. OTHER NET (LOSS)/INCOME

Other net loss for the period amounted to HK\$282 million (2022: income of HK\$365 million) mainly comprising:

(a) Write-down of HK\$88 million (2022: HK\$80 million) in relation to development property projects in Mainland China.

(b) Net foreign exchange loss of HK\$194 million (2022: gain of HK\$389 million) which included the impact arising from forward foreign exchange contracts.

5. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	HK\$ Million	HK\$ Million
Interest charged on:		
Bank loans	328	113
Other borrowings	703	210
Total interest charge	1,031	323
Other finance costs	30	43
	1,061	366
Fair value (gain)/loss:		
Cross currency interest rate swaps	(65)	287
Interest rate swaps	(6)	(44)
Total	990	609

- (a) The Group's average effective borrowing rate for the period was 4.7% p.a. (2022: 1.4% p.a.).
- (b) The above interest charges have taken into account the interest paid/received in respect of interest rate swaps and cross currency interest rate swaps.

6. INCOME TAX

Taxation charged to the consolidated statement of profit or loss includes:

	Six months ended 30 June	
	2023 HK\$ Million	2022 HK\$ Million
Current income tax		
Hong Kong		
– Provision for the period	640	641
Outside Hong Kong		
– Provision for the period	19	15
	659	656
Land appreciation tax (“LAT”) (Note (c))	1	5
Deferred tax		
Origination and reversal of temporary differences	(33)	18
Total	627	679

- (a) The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at a rate of 16.5% (2022: 16.5%).
- (b) Income tax on assessable profits outside Hong Kong is mainly Mainland China corporate income tax calculated at a rate of 25% (2022: 25%), Mainland China withholding tax on dividend at a rate of up to 10% (2022: 10%) and Singapore income tax at a rate of 17% (2022: 17%).
- (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 on sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.
- (d) Tax attributable to an associate for the six months ended 30 June 2023 of HK\$126 million (2022: Nil) is included in the share of results of an associate.

7. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the profit attributable to ordinary equity shareholders for the period of HK\$1,805 million (2022: loss of HK\$1,468 million) and 3,036 million ordinary shares in issue during the period (2022: 3,036 million ordinary shares in issue).

There were no potential dilutive ordinary shares in issue during the six months ended 30 June 2023 and 2022.

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	Six months ended 30 June			
	2023 HK\$ per share	2023 HK\$ Million	2022 HK\$ per share	2022 HK\$ Million
First interim dividend declared after the end of the reporting period	0.67	2,034	0.70	2,125

- (a) The first interim dividend based on 3,036 million (2022: 3,036 million) ordinary shares in issue 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\$1,852 million for 2022 was approved and paid during the six months ended 30 June 2023.

9. TRADE AND OTHER RECEIVABLES

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

	30 June 2023 HK\$ Million	31 December 2022 HK\$ Million
Trade receivables		
0 – 30 days	177	170
31 – 60 days	12	20
61 – 90 days	9	8
Over 90 days	31	13
	229	211
Other receivables and prepayments	1,012	1,127
	1,241	1,338

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 from which the proceeds are receivable pursuant to the terms of the agreements. All the trade and other receivables were expected to be recoverable within one year, except for other receivables of HK\$272 million (2022: HK\$295 million), which were expected to be recoverable after more than one year.

10. TRADE AND OTHER PAYABLES

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

	30 June 2023 HK\$ Million	31 December 2022 HK\$ Million
Trade payables		
0 – 30 days	58	65
31 – 60 days	14	13
61 – 90 days	4	13
Over 90 days	15	12
	91	103
Rental and customer deposits	3,038	3,093
Construction costs payable	1,244	1,502
Other payables	1,926	2,114
	6,299	6,812

11. BANK LOANS AND OTHER BORROWINGS

	30 June 2023 HK\$ Million	31 December 2022 HK\$ Million
Notes (unsecured)	28,016	27,174
Bank loans (secured)	329	347
Bank loans (unsecured)	11,769	18,968
Total bank loans and other borrowings	40,114	46,489
Analysis of maturities of the above borrowings:		
Current borrowings		
Due within 1 year	5,702	3,580
Non-current borrowings		
Due after more than 1 year but not exceeding 2 years	10,560	12,068
Due after more than 2 years but not exceeding 5 years	19,787	21,168
Due after more than 5 years	4,065	9,673
	34,412	42,909
Total bank loans and other borrowings	40,114	46,489

12. SHARE CAPITAL

	30 June 2023	31 December 2022	30 June 2023	31 December 2022
	No. of shares Million	No. of shares Million	HK\$ Million	HK\$ Million
Authorised ordinary shares of HK\$0.1 each	5,000	5,000	500	500
Issued and fully paid ordinary shares	3,036	3,036	304	304

13. FAIR VALUES MEASUREMENT OF FINANCIAL INSTRUMENTS

a. *Assets and liabilities carried at fair value*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair Value Measurement ("HKFRS 13"). The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique. The levels are defined as follows:

- Level 1 valuations: Fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

Financial instruments carried at fair value

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

	At 30 June 2023			At 31 December 2022		
	Level 1 HK\$ Million	Level 2 HK\$ Million	Total HK\$ Million	Level 1 HK\$ Million	Level 2 HK\$ Million	Total HK\$ Million
Assets						
Other long-term investments:						
– Listed investments	8,609	-	8,609	13,130	-	13,130
Derivative financial instruments:						
– Interest rate swaps	-	298	298	-	303	303
– Cross currency interest rate swaps	-	-	-	-	1	1
– Forward foreign exchange contracts	-	-	-	-	1	1
	8,609	298	8,907	13,130	305	13,435
Liabilities						
Derivative financial instruments:						
– Interest rate swaps	-	1,133	1,133	-	1,466	1,466
– Cross currency interest rate swaps	-	1,854	1,854	-	1,611	1,611
– Forward foreign exchange contracts	-	128	128	-	153	153
Bank loans and other borrowings:						
– Notes	-	22,166	22,166	-	21,324	21,324
– Bank loans	-	785	785	-	852	852
	-	26,066	26,066	-	25,406	25,406

During the six months ended 30 June 2023, there were no transfers of instruments between Level 1 and Level 2, or transfers into or out of Level 3.

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

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of interest rate swaps and cross currency interest rate swaps in Level 2 is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of the reporting period taking into account current interest rates and current creditworthiness of the swap counter-parties.

The fair value of bank loans and other borrowings in Level 2 is determined based on cash flows discounted using the Group's current incremental borrowing rates for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

The fair value of forward foreign exchange contracts in Level 2 is determined by using the forward exchange rates at the end of the reporting period and comparing them to the contractual rates.

b. Assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost were not materially different from their fair values as at 30 June 2023 and 31 December 2022.

14. MATERIAL RELATED PARTY TRANSACTION

The Group entered into the following material related party transactions during the six months ended 30 June 2023:

- (a) There was rental income of HK\$31 million (2022: HK\$63 million) earned from various tenants which are subsidiaries of Wheelock and Company Limited (“WAC”) and The Wharf (Holdings) Limited (“Wharf”). Such transaction also constituted a connected transaction as defined under the Listing Rules.
- (b) There were in existence agreements with a subsidiary of Wharf for the management, marketing, project management and technical services of the Group’s hotel operations. For the six months ended 30 June 2023, total fees payable under this arrangement amounted to HK\$25 million (2022: HK\$8 million). Such transaction also constituted a connected transaction as defined under the Listing Rules.
- (c) There were in existence agreements with subsidiaries of WAC and Wharf for the property services in respect of the Group’s property projects. For the six months ended 30 June 2023, total fees payable under this arrangement amounted to HK\$13 million (2022: HK\$17 million). Such transaction also constituted a connected transaction as defined under the Listing Rules.

15. CONTINGENT LIABILITIES

As at 30 June 2023, there were contingent liabilities in respect of guarantees given by the Company in favour of its subsidiaries relating to overdrafts, short term loans, credit facilities and notes of up to HK\$51,920 million (31 December 2022: HK\$56,971 million).

As at 30 June 2023, there were guarantees of HK\$13 million (31 December 2022: HK\$11 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.

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.

16. COMMITMENTS

The Group's outstanding commitments as at 30 June 2023 are detailed as below:

Planned expenditure

	30 June 2023			31 December 2022		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
Investment properties						
Hong Kong	57	337	394	38	252	290
Singapore	-	-	-	2	-	2
	57	337	394	40	252	292
Development properties						
Mainland China	351	368	719	377	426	803
	408	705	1,113	417	678	1,095
Hotels						
Hong Kong	18	1	19	22	1	23
Group total	426	706	1,132	439	679	1,118

- (a) Properties commitments are mainly for construction costs to be incurred in the forthcoming years.
- (b) The outstanding commitments for development properties included attributable amounts for developments undertaken by an associate of HK\$719 million (31 December 2022: HK\$803 million) in Mainland China.

17. 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 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), 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 under the Group's corporate structure thereby enabling more effective planning and better execution of long-term strategies. The Board of Directors (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.

CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

A set of the Company's own code of conduct (the "Company's Code") was adopted by the Company in 2017 to govern securities transactions of the Directors of the Company (the "Directors") 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") contained in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all Directors, and all Directors have complied with the required standard set out in the Model Code and the Company's Code during the half-year financial period ended 30 June 2023.

DIRECTORS' INTERESTS IN SHARES

At 30 June 2023, Directors had the following beneficial interests, all being long positions, in the shares of the Company. The percentages which the relevant shares represented to the total number of shares in issue of the Company are also set out below:

	Quantity held (percentage)	Nature of Interest
Stephen T H Ng	1,435,445 (0.0473%)	Personal Interest
Paul Y C Tsui	300,000 (0.0099%)	Personal Interest
Andrew K Y Leung	6,629 (0.0002%)	Family Interest
E K Yeoh	20,000 (0.0007%)	Personal Interest

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 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 2023 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 2023.

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 2023, and 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 number of shares in issue)
(i) Wheelock and Company Limited ("WAC")	1,487,051,651 (48.98%)
(ii) HSBC Trustee (C.I.) Limited ("HSBC Trustee")	1,487,051,651 (48.98%)

Notes:

- (1) For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) and (ii) above represented the same block of shares.
- (2) The deemed shareholding interests of WAC and HSBC Trustee of 1,487,051,651 shares (48.98%) as at 30 June 2023 stated above included interests (of 5% or more) held through WAC's wholly-owned subsidiaries as below:

Names	No. of Ordinary Shares (percentage based on total number of shares in issue)
(i) Big Heritage Limited ("BHL")	1,316,421,651 (43.36%)
(ii) Kowloon Wharf Pte Limited ("KWPL")	*1,487,051,651 (48.98%)

- * For the avoidance of doubt and double counting, it should be noted that KWPL's shareholding interests included the shareholding interests of BHL.

All the interests stated above represented long positions. As at 30 June 2023, there were no short position interests recorded in the Register.

SHARE OPTION SCHEME

The Company has a share option scheme (the “Share Option Scheme”) which was approved and adopted by the Shareholders of the Company at the annual general meeting held on 9 May 2023.

During the financial period ended 30 June 2023, no share option was granted under the Share Option Scheme. Accordingly, as at 30 June 2023, there was no share option outstanding under the Share Option Scheme and no shares of the Company that might be issued pursuant thereto.

The total number of share options available for grant under the scheme mandate of the Share Option Scheme upon its adoption on 9 May 2023 and as at 30 June 2023 were both 303,622,732.

The Company granted share options to certain eligible participants to subscribe for 3,500,000 shares of the Company under the Share Option Scheme in August 2023, particulars of which were disclosed in the announcement of the Company dated 14 August 2023.

CHANGES IN INFORMATION OF DIRECTORS

- (I) Given below is the latest information regarding annual emoluments calculated on an annualised basis, exclusive of any and all amounts which would be borne by WAC, The Wharf (Holdings) Limited and/or their respective wholly-owned subsidiary(ies), of all those Directors for whom there have been changes of amounts of emoluments since the publication of the last annual report of the Company:

Director(s)	Salary and various allowances		^{Note}Discretionary annual bonus in cash	
	HK\$'000		HK\$'000	
Stephen T H Ng	3,725	(2022: 3,631)	4,100	(2022: 4,100)
Paul Y C Tsui	2,429	(2022: 2,374)	1,700	(2022: 2,050)
Y T Leng	3,240	(2022: 2,920)	7,000	(2022: 5,700)
Horace W C Lee	2,610	(2022: 2,516)	2,050	(2022: 1,350)

Note: The amounts of such discretionary annual bonuses fixed/decided unilaterally by the employers.

- (II) Given below are changes in other information of the Directors required to be disclosed pursuant to paragraphs (a) to (e) of rule 13.51(2) under the Listing Rules since the publication of the last annual report of the Company:

	Effective Date
Stephen T H Ng	
<ul style="list-style-type: none"> • Employers' Federation of Hong Kong <ul style="list-style-type: none"> – ceased to be council member, vice chairman of General Committee and member of Executive Committee 	25 May 2023
Andrew K Y Leung	
<ul style="list-style-type: none"> • National Committee of the Chinese People's Political Consultative Conference <ul style="list-style-type: none"> – ceased to be a member 	March 2023

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.

By Order of the Board of
Wharf Real Estate Investment Company Limited
Kevin C Y Hui
Company Secretary

Hong Kong, 7 August 2023

As at the date of this interim report, the Board comprises Mr Stephen T H Ng, Mr Paul Y C Tsui, Ms Y T Leng and Mr Horace W C Lee, together with eight Independent Non-executive Directors, namely Mr Alexander S K Au, Mr Tak Hay Chau, Ms Lai Yuen Chiang, Hon Andrew K Y Leung, Mr Desmond L P Liu, Mr R Gareth Williams, Dr Glenn S Yee and Professor E K Yeoh.

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 Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, by post or by hand delivery, or via email to wharfrec-ecom@hk.tricorglobal.com.