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WHARF

Established 1886

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1997

Interim Results Announcement for the half-year period ended 30 June 2022

Covid End Game Unknown

HIGHLIGHTS

- President Xi officially reaffirmed on 1 July 2022 the National directive of ensuring solidarity of “One Country, Two Systems” and that the unique position and advantage of Hong Kong must be preserved (必須保持香港的獨特地位和優勢) to expand open, convenient and expedient international connectivity (拓展暢通便捷的國際聯繫), failing which the National mandate to uphold Hong Kong’s leading role as an international financial, shipping and trade centre would be seriously detrimented
- Revenue and operating profit hovering around the Covid low
- Early signs of slowing down the sharp decline is due more to cost management than to revenue recovery
- However, capital values continued to decline
- Unrealised deficit of over HK\$5 billion on semi-annual revaluation of Investment Properties pushed Group profit to a loss
- Group Net Asset Value dropped to less than HK\$200 billion, first time since IPO in 2017

GROUP RESULTS

Unaudited Group underlying net profit for the period increased by 3% to HK\$3,373 million (2021: HK\$3,272 million), equivalent to HK\$1.11 (2021: HK\$1.08) per share.

However, a net Investment Properties (“IP”) revaluation deficit in the amount of HK\$5,039 million (2021: HK\$278 million) resulted in a Group loss attributable to equity shareholders of HK\$1,468 million (2021: profit of HK\$2,970 million). Basic loss per share was HK\$0.48 (2021: earnings of HK\$0.98).

INTERIM DIVIDEND

An interim dividend of HK\$0.70 (2021: HK\$0.67) per share will be paid on 8 September 2022 to Shareholders on record as at 6:00 p.m. on 24 August 2022. The distribution will amount to HK\$2,125 million (2021: HK\$2,034 million), representing 65% of underlying net profit from IP and hotels in Hong Kong.

BUSINESS REVIEW

Much of the first half of 2022 was shrouded by the 5th wave of COVID-19 before the easing of social distancing measures and distribution of Government’s consumption vouchers in the second quarter. As a result, Hong Kong retail sales dropped slightly by 2.6%.

Prompt investment by the Group’s malls in sales-driven marketing campaigns post 5th wave was rewarded by a rapid revival in foot traffic and spending sentiment. Office market remained soft as most corporates delayed expansion and leasing decisions amid vulnerable economic conditions. Meanwhile, the hospitality sector is still largely dependent on the local market.

Group revenue declined by 17%, mainly due to lower development properties (“DP”) recognition by listed subsidiary Harbour Centre Development Limited (“HCDL”). Operating profit was flat while underlying net profit increased by 3%.

Looking ahead, economic uncertainties arising from quantitative tightening, rate hikes and inflation risks, as well as geopolitical tensions, may darken the outlook for global growth.

Harbour City

Overall revenue (including hotels) increased by 2% and operating profit by 7%.

Retail

Retail revenue increased by 1% and operating profit by 6%.

Extended pandemic has deepened competition in the retail market, with the continued absence of tourists and social distancing measures largely disrupting local consumption. To retain the dominant position as the shopping destination of choice, Harbour City strives to deliver captivating shoppertainment experiences through win-win collaboration with its best-in-class tenants and compelling voucher-gamification marketing campaigns.

The wide range of retail selection of over 500 diverse tenants forms a unique critical mass at Harbour City, attracting continuous leasing demand despite the weak market. With a stringent tenant selection process, occupancy remained at 93% at the end of June 2022.

The prominent Canton Road frontage was further fortified by the expansion and strategic relocation of *Dior*, *Miu Miu* and *Piaget*. Meanwhile, Harbour City introduced the Hong Kong debut of *Casa Loewe*, *AMANTE*, *deLaCour* and *Sound United*. Other newly recruited retail brands include *Patek Philippe*, *Lanvin*, *Breitling*, *Les Néréides*, *PortsPURE*, *Ray-ban & Sunglass Hut* and *Natures Purest*. Brands with expansion and strategic relocation include *Fendi*, *Van Cleef & Arpels*, *Gucci*, *Tory Burch*, *Puyi Optical*, *Issey Miyake*, *Rolex*, *Tudor*, *Emperor Jewellery*, *Montblanc*, *Chow Sang Sang*, *Kenzo*, *Fila Fusion*, *Marina Rinaldi*, *Claudie Pierlot*, *alexanderwang*, *Buccellati*, *Sergio Rossi* and *Pitanium*.

Dining offerings are continuously refined with recent additions of *Terrace in Seaside*, *Check-In Taipei* (Kowloon debut), *LIFETASTIC Patisserie*, *Omotesando Koffee*, *Prince Restaurant*, *Art of Canton* and *Victorian Era*.

A series of proactive marketing initiatives were rolled out to capture a bigger share of local spending. Harbour City and Times Square worked together to present “Flash Pop-up: Robotic Dinos” in June 2022, Hong Kong’s first large-scale outdoor exhibitions after the 5th wave. The “Rewarding Every Day” coupon redemption programme and other surprise offers are successful in attracting long queues and driving sales as social distancing rules gradually relaxed. More marketing campaigns will be launched to appeal to tourists upon the easing of border measures.

Office

Competition remained keen with mounting availability in the market, putting pressure on rent. Against that backdrop, Harbour City strives to safeguard occupancy while maintaining rent at a reasonable level. Office occupancy improved to 87% at the end of June 2022. Revenue and operating profit both increased by 3%.

Hotels

The stringent border control and social distancing measures took a heavy toll on the businesses of Marco Polo Hongkong Hotel and Marco Polo Gateway Hotel. With key focus remaining in the local market, various appealing promotions including “Work from Hotel” day use package, exclusive long-staying offers and staycation packages have been designed to cater to the diverse needs of guests.

Marco Polo Prince Hotel soft-reopened after renovation. A new contemporary lifestyle dining destination, *SAVVY*, debuted in late 2021 combining a bar, lounge and restaurant and serving authentic Asian dishes alongside western and regional specialities. The guestrooms started to cater to special business in June.

Times Square

Facing intensifying competition in a weak market, overall revenue at Times Square declined by 15% and operating profit by 3%.

Retail

Retailers have been experiencing a consolidation process since the pandemic started. The soft market spells opportunities for aspirational brands appealing to millennials to establish presence at Times Square upon current prevailing dynamics. Proactive re-tenanting exercises enhance the quality and diversity of the retail and dining offerings and thus the competitiveness of the mall. Occupancy stayed firm at 93% at the end of June 2022. Revenue declined by 22% and operating profit by 5%, given the lower market rental.

Similar to Harbour City, Times Square has been scaling up marketing efforts to attract footfall as social distancing measures began to ease. Apart from the Robotic Dinos exhibition, exciting events included various art exhibitions with pop-up stores and limited edition gift redemption upon designated spending. Also, the ongoing “Happy Rewards” coupon redemption programme continued to be favoured by local shoppers and was effective in driving sales and repeated purchase.

Office

Leasing momentum slowed as the continuing pandemic resulted in delays in inspection activities and leasing decisions. Corporates became increasingly cost conscious, with new leasing demand mainly driven from pocket-sized units. Occupancy was 90% at the end of June 2022. Revenue and operating profit were flat comparing to the first half of 2021.

Central Portfolio

Crawford House and Wheelock House received relatively stable demand from diversified tenants despite the soft office market. Office occupancies remained high at 98% and 92% respectively at the end of June 2022, while both retail premises are fully let. However, revenue and operating profit both decreased by 6%, due to the rental adjustment referencing the market level.

As the border remained virtually closed, The Murray, Hong Kong, a Niccolo Hotel (“The Murray”) launched a spate of themed staycation packages, in-house activities and long-staying promotions to attract local guests. This results in a consistent outperformance in occupancy and revenue yield among its competitive set. The delectable dining options have also been enriched with the introduction of *Cotton Tree Pizzeria*, the first-in-town al fresco hotel pizzeria.

The Murray has garnered much international acclaim in recognition of the consistent commitment to service excellence. The latest addition is the Forbes Travel Guide Five-star Award, the highest honour awarded by the global authority on luxury travel. The hotel is also named a finalist for the “Work Here, Work Happy” accolade by the same organisation.

Plaza Hollywood

Its convenient location atop Diamond Hill MTR station, the interchange station for Kwun Tong Line and Tuen Ma Line and an integrated public transport hub for the Kowloon East CBD2, secured constant local footfall to the regional mall despite the challenging operating environment. Occupancy was 93% at the end of June 2022. Revenue was flat and operating profit increased by 1%.

Various attractive sales-driven programmes, ranging from VIC bonus points reward to shopping promotions and cross trade promotions, were launched to generate footfall and encourage repeat visits. Plaza Hollywood also made its debut into the Metaverse with ‘Plaza Hollywood MetaGreen Village Adventure’, rewarding players who have completed the missions with shopping rewards at the mall. Furthermore, an array of retail brands and new F&B and confectionary concepts have been added to the already comprehensive trade mix to elevate shoppers’ experiences.

Singapore Assets

Singapore’s retail market has shown a decent recovery since the second quarter of 2022, fueled by the relaxation of social distancing curbs, as well as higher tourist spending as border restrictions were eased.

Wheelock Place and the freehold Scotts Square enjoy prime locations within the bustling Orchard Road belt. Retail occupancies were 96% and 89% respectively at the end of June 2022, while office occupancy of Wheelock Place was 95%.

FINANCIAL REVIEW

(I) Review of 2022 Interim Results

Underlying net profit increased by 3% to HK\$3,373 million (2021: HK\$3,272 million) with IP profit increasing by 3% to HK\$3,429 million and Hotel's loss narrowing to HK\$126 million. Including the revaluation deficits of IP, the Group recorded a loss of HK\$1,468 million attributable to equity shareholders (2021: profit of HK\$2,970 million).

Revenue and Operating Profit

Group revenue decreased by 17% to HK\$6,210 million (2021: HK\$7,485 million) mainly attributable to decrease in recognition of DP sales for listed subsidiary HCDL while operating profit slightly increased to HK\$4,446 million (2021: HK\$4,428 million) mainly due to cost management.

IP revenue decreased by 2% to HK\$5,360 million (2021: HK\$5,483 million) while operating profit increased by 3% to HK\$4,425 million (2021: HK\$4,310 million).

Hotel revenue increased by 7% to HK\$366 million (2021: HK\$343 million) and operating loss narrowed to HK\$172 million (2021: HK\$208 million). Hong Kong revenue increased but Mainland revenue declined and operating loss increased.

DP revenue substantially reduced to HK\$185 million (2021: HK\$1,402 million) due to lower sales recognition and an operating loss of HK\$27 million (2021: profit of HK\$146 million) was reported.

Investment operating profit primarily from dividend income increased by 17% to HK\$271 million (2021: HK\$232 million).

Fair value change of IP

IP assets were stated at HK\$238.2 billion based on independent valuation, representing a revaluation deficit of HK\$5,053 million. Attributable unrealised loss was HK\$5,039 million (2021: HK\$278 million).

Other net income/(charge)

Other net income was HK\$365 million (2021: charge of HK\$62 million), which mainly comprised net fair value gains on certain financial instruments and an impairment provision of HK\$80 million for a DP project held by HCDL.

Finance Costs

Finance costs amounted to HK\$609 million (2021: HK\$359 million) after an unrealised mark-to-market loss of HK\$243 million (2021: gain of HK\$10 million) on cross currency and interest rate swaps in accordance with prevailing accounting standards. No interest expenses were capitalised (2021: HK\$4 million).

Effective borrowing rate maintained at 1.4% (2021: 1.4%).

Income Tax

Taxation charge reduced 4% to HK\$679 million (2021: HK\$709 million) with write-back of an over-provision for DP made in prior years.

(Loss)/Profit Attributable to Equity Shareholders

Group loss attributable to equity shareholders for the period amounted to HK\$1,468 million (2021: profit of HK\$2,970 million). Basic loss per share was HK\$0.48, based on 3,036 million ordinary shares in issue (2021: profit of HK\$0.98 based on 3,036 million ordinary shares in issue).

Underlying net profit (excluding the attributable net IP revaluation deficit, impairment provision on hotel properties and other accounting mark-to-market differences on certain financial instruments) increased by 3% to HK\$3,373 million (2021: HK\$3,272 million). Underlying earnings per share were HK\$1.11 (2021: HK\$1.08).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 30 June 2022, shareholders' equity decreased by HK\$6.8 billion to HK\$199.3 billion (2021: HK\$206.1 billion), equivalent to HK\$65.66 per share (2021: HK\$67.89). Total equity including non-controlling interests decreased by HK\$7.0 billion to HK\$203.9 billion (2021: HK\$210.9 billion).

Assets

Total assets amounted to HK\$266.1 billion (2021: HK\$272.3 billion), 93% (2021: 92%) of which were in Hong Kong. Total business assets, excluding bank deposits and cash, derivative financial assets and deferred tax assets, were HK\$262.8 billion (2021: HK\$269.2 billion).

IP

IP assets totalled HK\$238.2 billion (2021: HK\$243.3 billion), representing 91% (2021: 90%) of business assets. Harbour City (excluding the three hotels which were stated at cost) was valued at HK\$160.0 billion and Times Square at HK\$50.2 billion.

Hotels

Hotel properties were stated at cost less accumulated depreciation & impairment losses at HK\$7.3 billion (2021: HK\$7.6 billion). Valuation of these hotels amounted to HK\$14.1 billion at 30 June 2022.

DP

DP assets, including interests in an associate and joint ventures, amounted to HK\$2.9 billion (2021: HK\$3.3 billion).

Other long term investments

Other long term investments were valued at HK\$12.7 billion (2021: HK\$13.9 billion), including a portfolio of blue chips held for long term capital appreciation and reasonable dividend return. The portfolio performed overall in line with the market and each investment within which is individually not material to the Group's total assets. Revaluation on these investments during the period produced an attributable net deficit of HK\$3.2 billion (2021: surplus of HK\$1.8 billion) as reflected in the other comprehensive income, of which a total surplus of HK\$163 million (2021: HK\$33 million) was transferred to revenue reserve upon de-recognition.

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

	30 June 2022 HK\$ Million	31 December 2021 HK\$ Million
Analysed by industry sector:		
- Properties	9,575	13,404
- Others	3,100	466
Total	<u>12,675</u>	<u>13,870</u>
Analysed by geographical location:		
- Hong Kong	3,963	4,462
- Outside of Hong Kong	8,712	9,408
Total	<u>12,675</u>	<u>13,870</u>

Debts and Gearing

Net debt as at 30 June 2022 decreased by HK\$0.7 billion to HK\$46.8 billion (2021: HK\$47.5 billion). It comprised debts of HK\$49.0 billion and bank deposits and cash of HK\$2.2 billion.

An analysis of net debt is depicted below:

	30 June 2022	31 December 2021
<u>Net debt</u>	HK\$ Billion	HK\$ Billion
The Group (excluding HCDL)	46.3	47.1
HCDL	0.5	0.4
Total	46.8	47.5

The ratio of net debt to total equity rose to 23.0% (2021: 22.5%).

Finance and Availability of Facilities

Total available loan facilities and issued debt securities as at 30 June 2022 amounted to HK\$60.6 billion, of which HK\$49.0 billion was utilised. The breakdown is depicted below:

	30 June 2022		
	Available Facility HK\$ Billion	Total Debt HK\$ Billion	Undrawn Facility HK\$ Billion
Committed and uncommitted bank facilities			
The Group (excluding HCDL)	57.4	47.7	9.7
HCDL	3.2	1.3	1.9
Total	60.6	49.0	11.6

Certain banking facilities were secured by hotel and DP in the Mainland of RMB1.3 billion (equivalent to HK\$1.6 billion) (31 December 2021: RMB1.3 billion (equivalent to HK\$1.6 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\$12.7 billion (2021: HK\$13.9 billion).

Cash Flows for the Group's Operating and Investing Activities

For the period under review, the Group recorded operating cash inflow of HK\$4.3 billion (2021: HK\$4.4 billion) primarily generated from rental income. Together with the change in working capital and others of HK\$0.7 billion (2021: HK\$0.7 billion), the net cash inflow from operating activities amounted to HK\$3.6 billion (2021: HK\$3.7 billion). For investing activities, the Group recorded a net cash outflow of HK\$2.3 billion (2021: HK\$0.3 billion).

Capital Commitments

As at 30 June 2022, major planned expenditures for the coming years were estimated at HK\$1.3 billion, of which HK\$0.5 billion was committed. A breakdown (by segment) is as follows:

	As at 30 June 2022		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
Properties			
IP			
Hong Kong	68	273	341
Singapore	1	-	1
	<u>69</u>	<u>273</u>	<u>342</u>
DP			
Mainland China	417	545	962
Total properties	<u>486</u>	<u>818</u>	<u>1,304</u>
Hotels			
Hong Kong	30	1	31
Group total	<u>516</u>	<u>819</u>	<u>1,335</u>

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 totalling HK\$1 billion, which will be funded by its own financial resources.

(III) Human Resources

The Group had approximately 2,700 employees as at 30 June 2022. 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 2022 - Unaudited

	Note	Six months ended 30 June	
		2022 HK\$ Million	2021 HK\$ Million
Revenue	2	6,210	7,485
Direct costs and operating expenses		(1,227)	(2,259)
Selling and marketing expenses		(250)	(516)
Administrative and corporate expenses		(146)	(121)
Operating profit before depreciation, amortisation, interest and tax		4,587	4,589
Depreciation and amortisation		(141)	(161)
Operating profit	2 & 3	4,446	4,428
Decrease in fair value of investment properties		(5,053)	(284)
Other net income/(charge)	4	365	(62)
		(242)	4,082
Finance costs	5	(609)	(359)
Share of results after tax of an associate		-	(60)
(Loss)/profit before taxation		(851)	3,663
Income tax	6	(679)	(709)
(Loss)/profit for the period		(1,530)	2,954
(Loss)/profit attributable to :			
Equity shareholders		(1,468)	2,970
Non-controlling interests		(62)	(16)
		(1,530)	2,954
(Loss)/earnings per share	7		
Basic		(HK\$0.48)	HK\$0.98
Diluted		(HK\$0.48)	HK\$0.98

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022 - Unaudited

	Six months ended 30 June	
	2022	2021
	HK\$ Million	HK\$ Million
(Loss)/profit for the period	<u>(1,530)</u>	<u>2,954</u>
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	(3,181)	1,976
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations outside Hong Kong		
- Subsidiaries	(216)	(75)
Share of reserves of an associate	(40)	13
Others	<u>-</u>	<u>1</u>
Other comprehensive income for the period	<u>(3,437)</u>	<u>1,915</u>
Total comprehensive income for the period	<u>(4,967)</u>	<u>4,869</u>
Total comprehensive income attributable to:		
Equity shareholders	(4,834)	4,741
Non-controlling interests	(133)	128
	<u>(4,967)</u>	<u>4,869</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2022 - Unaudited

	Note	30 June 2022 HK\$ Million	31 December 2021 HK\$ Million
Non-current assets			
Investment properties		238,189	243,348
Hotel and club properties, plant and equipment		7,468	7,794
Interest in an associate		920	962
Interest in joint ventures		21	21
Other long term investments		12,675	13,870
Deferred tax assets		248	249
Derivative financial assets		269	564
Other non-current assets		72	71
		<u>259,862</u>	<u>266,879</u>
Current assets			
Properties for sale		1,958	2,308
Inventories		16	17
Trade and other receivables	9	1,527	1,161
Prepaid tax		7	-
Derivative financial assets		188	103
Bank deposits and cash		2,198	1,800
		<u>5,894</u>	<u>5,389</u>
Non-current assets classified as held for sale		347	-
		<u>6,241</u>	<u>5,389</u>
Total assets		<u>266,103</u>	<u>272,268</u>
Non-current liabilities			
Derivative financial liabilities		(2,061)	(646)
Deferred tax liabilities		(2,623)	(2,599)
Other deferred liabilities		(339)	(334)
Bank loans and other borrowings		(43,796)	(44,834)
		<u>(48,819)</u>	<u>(48,413)</u>
Current liabilities			
Liabilities directly associated with the non-current assets classified as held for sale		(11)	-
Trade and other payables	10	(7,057)	(7,717)
Pre-sale deposits and proceeds		(228)	(244)
Derivative financial liabilities		(24)	-
Taxation payable		(807)	(518)
Bank loans and other borrowings		(5,250)	(4,500)
		<u>(13,377)</u>	<u>(12,979)</u>
Total liabilities		<u>(62,196)</u>	<u>(61,392)</u>
NET ASSETS		<u>203,907</u>	<u>210,876</u>
Capital and reserves			
Share capital		304	304
Reserves		199,025	205,802
Shareholders' equity		<u>199,329</u>	<u>206,106</u>
Non-controlling interests		<u>4,578</u>	<u>4,770</u>
TOTAL EQUITY		<u>203,907</u>	<u>210,876</u>

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 2021. 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 2021 except for the changes mentioned below.

The HKICPA has issued a number of amendments to HKFRSs that are first effective starting from 1 January 2022. Of these, the following developments are relevant to the Group’s consolidated financial statements:

Amendments to HKFRS 3	Reference to the conceptual framework
Amendments to HKAS 16	Property, plant and equipment: proceeds before intended use
Amendments to HKAS 37	Onerous contracts – Cost of fulfilling a contract
Annual Improvements to HKFRS 2018-2022 Cycle	

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.

The Group has not applied any new standards 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 segments have 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.

2. SEGMENT INFORMATION

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 Income/ (charge) HK\$ Million	Finance costs HK\$ Million	Share of results after tax of an associate HK\$ Million	(Loss)/ profit before taxation HK\$ Million
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)
30 June 2021							
Investment properties	5,483	4,310	(284)	-	(312)	-	3,714
Development properties	1,402	146	-	1	(3)	(60)	84
Hotel	343	(208)	-	(67)	(10)	-	(285)
Investment	232	232	-	-	(44)	-	188
Inter-segment revenue	(15)	-	-	-	-	-	-
Segment total	7,445	4,480	(284)	(66)	(369)	(60)	3,701
Others	40	(24)	-	4	10	-	(10)
Corporate expenses	-	(28)	-	-	-	-	(28)
Group total	7,485	4,428	(284)	(62)	(359)	(60)	3,663

b. Disaggregation of revenue

	Six months ended 30 June	
	2022 HK\$ Million	2021 HK\$ Million
Revenue recognised under HKFRS 15		
Management and services income	540	527
Other rental related income	260	230
Hotel and club operations	366	343
Sale of development properties	185	1,402
	1,351	2,502
Revenue recognised under other accounting standards		
Rental income		
– Fixed	4,213	4,382
– Variable	335	329
	4,548	4,711
Investment income	271	232
Others	40	40
	4,859	4,983
Total revenue	6,210	7,485

c. Analysis of inter-segment revenue

	Six months ended 30 June					
	2022			2021		
	Total Revenue HK\$ Million	Inter-segment revenue HK\$ Million	Group Revenue HK\$ Million	Total Revenue HK\$ Million	Inter-segment revenue HK\$ Million	Group Revenue HK\$ Million
Investment properties	5,360	(12)	5,348	5,483	(15)	5,468
Development properties	185	-	185	1,402	-	1,402
Hotel	366	-	366	343	-	343
Investment	271	-	271	232	-	232
Others	46	(6)	40	47	(7)	40
Group total	6,228	(18)	6,210	7,507	(22)	7,485

d. Geographical information

	Six months ended 30 June			
	Revenue		Operating profit	
	2022 HK\$ Million	2021 HK\$ Million	2022 HK\$ Million	2021 HK\$ Million
Hong Kong	5,648	5,729	4,225	4,058
Outside Hong Kong	562	1,756	221	370
Group total	6,210	7,485	4,446	4,428

3. OPERATING PROFIT

Operating profit is arrived at:

	Six months ended 30 June	
	2022	2021
	HK\$ Million	HK\$ Million
After charging:		
Depreciation and amortisation on		
– hotel and club properties, plant and equipment	140	157
– leasehold land	1	4
Total depreciation and amortisation	<u>141</u>	<u>161</u>
Staff cost (Note (i))	446	417
Cost of trading properties for recognised sales	177	1,199
Direct operating expenses of investment properties	<u>887</u>	<u>1,148</u>
After crediting:		
Gross revenue from investment properties	5,348	5,468
Interest income	7	7
Dividend income from other long term investments	271	232
Government grants (Note (ii))	<u>34</u>	<u>-</u>

Notes:

- (i) Staff costs included defined contribution pension schemes costs of HK\$24 million (2021: HK\$24 million), which included MPF schemes after a forfeiture of HK\$1 million (2021: HK\$1 million).
- (ii) Government grants mainly included subsidy from the Employment Support Scheme in 2022.

4. OTHER NET INCOME/(CHARGE)

Other net income for the period amounted to HK\$365 million (2021: charge of HK\$62 million) mainly comprises:

- a. Impairment provision of HK\$80 million made for a Mainland DP project (2021: HK\$67 million for hotel properties).
- b. Net foreign exchange gain of HK\$389 million (2021: loss of HK\$41 million) which included the impact of foreign exchange contracts.

5. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK\$ Million	HK\$ Million
Interest charged on:		
Bank loans	113	126
Other borrowings	210	204
Total interest charge	323	330
Other finance costs	43	43
Less : Amount capitalised	-	(4)
	366	369
Fair value loss/(gain):		
Cross currency interest rate swaps	287	34
Interest rate swaps	(44)	(44)
Total	609	359

6. INCOME TAX

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

	Six months ended 30 June	
	2022	2021
	HK\$ Million	HK\$ Million
Current income tax		
Hong Kong		
- Provision for the period	641	591
Outside Hong Kong		
- Provision for the period	15	21
	656	612
Land appreciation tax (“LAT”) (Note c)	5	12
Deferred tax		
Origination and reversal of temporary differences	18	85
Total	679	709

- 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% (2021: 16.5%).
- b. Income tax on assessable profits outside Hong Kong is mainly China corporate income tax calculated at a rate of 25%, China withholding tax on dividend at a rate of up to 10% and Singapore income tax at a rate of 17% for the six months ended 30 June 2022 and 2021.

- 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. There was no tax attributable to an associate for the six months ended 30 June 2022 and 2021 included in the share of results of an associate.

7. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders for the period of HK\$1,468 million (2021: profit of HK\$2,970 million) and 3,036 million ordinary shares in issue during the period (2021: 3,036 million ordinary shares in issue).

There are no potential dilutive ordinary shares in issue during the six months ended 30 June 2022 and 2021.

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	Six months ended 30 June			
	2022	2022	2021	2021
	HK\$	HK\$	HK\$	HK\$
	Per share	Million	Per share	Million
First interim dividend declared after the end of the reporting period	0.70	2,125	0.67	2,034

- a. The first interim dividend based on 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\$1,943 million for 2021 was approved and paid in 2022.

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 at 30 June 2022 as follows:

	30 June 2022 HK\$ Million	31 December 2021 HK\$ Million
Trade receivables		
0 - 30 days	205	200
31 – 60 days	56	16
61 – 90 days	48	6
Over 90 days	34	38
	<u>343</u>	<u>260</u>
Other receivables and prepayments	1,184	901
	<u>1,527</u>	<u>1,161</u>

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 are expected to be recoverable within one year.

10. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on the invoice date as at 30 June 2022 as follows:

	30 June 2022 HK\$ Million	31 December 2021 HK\$ Million
Trade payables		
0 - 30 days	48	76
31 - 60 days	14	9
61 - 90 days	4	8
Over 90 days	15	15
	<u>81</u>	<u>108</u>
Rental and customer deposits	3,166	3,249
Construction costs payable	1,627	1,975
Other payables	2,183	2,385
	<u>7,057</u>	<u>7,717</u>

11. REVIEW OF UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited interim financial information for the six months ended 30 June 2022 has been reviewed with no disagreement by the Audit Committee of the Company.

CORPORATE GOVERNANCE CODE

During the financial period under review, all the code provisions set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, 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 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.

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	23 August 2022 (Tue)
Latest time to lodge share transfer	4:30 p.m., 24 August 2022 (Wed)
Record date/ time	6:00 p.m., 24 August 2022 (Wed)
Payment date	8 September 2022 (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 Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong (and with effect from 15 August 2022, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong), not later than 4:30 p.m. on Wednesday, 24 August 2022.

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

Hong Kong, 4 August 2022

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