



# WHARF

*Established 1886*

## WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

*(Incorporated in the Cayman Islands with limited liability)*

Stock Code: 1997



Interim Report 2022

[www.wharfreic.com](http://www.wharfreic.com)



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# COVID END GAME UNKNOWN

President Xi Jinping 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.

## HIGHLIGHTS

- Revenue and operating profit hovering around the Covid low
- Early signs of slow down in the sharp decline is due to cost management more than to revenue recovery
- Capital values continued to decline
- Unrealised deficit of over HK\$5 billion on semi-annual revaluation of Investment Properties (“IP”) reduced 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 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

A first 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.

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## 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 by 2.6% and the economy contracted.

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

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Dining offerings are continuously refined with recent additions of *Art of Canton*, *Check-In Taipei* (Kowloon debut), *LIFETASTIC Patisserie*, *Omotesando Koffee*, *Prince Restaurant*, *Terrace in seaside* 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 business of Marco Polo Hongkong Hotel and Gateway Hotel. With key focus remaining in the local market, various appealing promotions including “Work from Hotel” day use package, exclusive long-stay offers and staycation packages have been designed to cater to the diverse needs of guests.

Prince Hotel soft-reopened after renovation. A new contemporary lifestyle dining destination, SAVVY, debuted in late 2021 combining a bar, lounge and restaurant, 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 was steady at 93% at the end of June 2022. Revenue declined by 22% and operating profit by 5%, given the lower market rental.

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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. The ongoing “Happy Rewards” coupon redemption programme continues to be favoured by local shoppers and is effective in driving sales and repeated purchase.

## Office

Leasing momentum slowed as the continued 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 compared to the first half of 2021.

## CENTRAL PORTFOLIO

Wheelock House and Crawford House received relatively stable demand from diversified tenants despite the soft office market. Office occupancies remained high at 92% and 98% 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.

The Murray, Hong Kong, a Niccolo Hotel has garnered much international acclaim in recognition of its 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. As the border remained virtually closed, a spate of themed staycation packages, in-house activities and long-stay promotions were launched to attract local guests. This resulted in a consistent outperforming occupancy and revenue yield among its competitive set.

## 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. 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’, where players who have completed the missions were rewarded with shopping offers 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.

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## 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 mall 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%.

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## 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.

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## 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%).

## Taxation

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 (2021: earnings of HK\$0.98), both 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<br>2022<br>HK\$ Million | 31 December<br>2021<br>HK\$ Million |
|------------------------------------|---------------------------------|-------------------------------------|
| Analysed by industry sector:       |                                 |                                     |
| – Properties                       | 9,575                           | 13,404                              |
| – Others                           | 3,100                           | 466                                 |
| Total                              | 12,675                          | 13,870                              |
| Analysed by geographical location: |                                 |                                     |
| – Hong Kong                        | 3,963                           | 4,462                               |
| – Outside of Hong Kong             | 8,712                           | 9,408                               |
| Total                              | 12,675                          | 13,870                              |

## 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:

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

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

Listed HCDL is an independent credit entity and the Group (excluding HCDL) is not exposed to HCDL's debts legally.

### 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:

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

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<br>HK\$ Million | Uncommitted<br>HK\$ Million | Total<br>HK\$ Million |
| <b>Properties</b>       |                           |                             |                       |
| <b>IP</b>               |                           |                             |                       |
| Hong Kong               | 68                        | 273                         | 341                   |
| Singapore               | 1                         | –                           | 1                     |
|                         | 69                        | 273                         | 342                   |
| <b>DP</b>               |                           |                             |                       |
| Mainland China          | 417                       | 545                         | 962                   |
| <b>Total properties</b> | <b>486</b>                | <b>818</b>                  | <b>1,304</b>          |
| <b>Hotels</b>           |                           |                             |                       |
| Hong Kong               | 30                        | 1                           | 31                    |
| <b>Group total</b>      | <b>516</b>                | <b>819</b>                  | <b>1,335</b>          |

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.

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### (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<br>HK\$ Million     | 2021<br>HK\$ Million |
| <b>Revenue</b>  | 2     | <b>6,210</b>             | 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,<br>amortisation, interest and tax |       | <b>4,587</b>             | 4,589                |
| Depreciation and amortisation   |       | (141)                    | (161)                |
| <b>Operating profit</b>   | 2 & 3 | <b>4,446</b>             | 4,428                |
| Decrease in fair value of investment properties                         |       | (5,053)                  | (284)                |
| Other net income/(charge)   | 4     | 365                      | (62)                 |
| Finance costs   | 5     | (242)                    | 4,082                |
| Share of results after tax of an associate                              |       | (609)                    | (359)                |
|   |       | –                        | (60)                 |
| (Loss)/profit before taxation   |       | (851)                    | 3,663                |
| Taxation  | 6     | (679)                    | (709)                |
| <b>(Loss)/profit for the period</b>                                     |       | <b>(1,530)</b>           | 2,954                |
| <b>(Loss)/profit attributable to:</b>                                   |       |                          |                      |
| Equity shareholders   |       | (1,468)                  | 2,970                |
| Non-controlling interests   |       | (62)                     | (16)                 |
|   |       | (1,530)                  | 2,954                |
| <b>(Loss)/earnings per share</b>  | 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<br>HK\$ Million     | 2021<br>HK\$ Million |
| <b>(Loss)/profit for the period</b>   | <b>(1,530)</b>           | 2,954                |
| <b>Other comprehensive income</b>   |                          |                      |
| <b>Item that will not be reclassified to profit or loss:</b>                              |                          |                      |
| Fair value changes on equity investments at fair value through other comprehensive income | <b>(3,181)</b>           | 1,976                |
| <b>Items that may be reclassified subsequently to profit or loss:</b>                     |                          |                      |
| Exchange difference on translation of the operations outside Hong Kong                    |                          |                      |
| – Subsidiaries  | <b>(216)</b>             | (75)                 |
| Share of reserves of an associate   | <b>(40)</b>              | 13                   |
| Others  | –                        | 1                    |
| <b>Other comprehensive income for the period</b>  | <b>(3,437)</b>           | 1,915                |
| <b>Total comprehensive income for the period</b>  | <b>(4,967)</b>           | 4,869                |
| <b>Total comprehensive income attributable to:</b>  |                          |                      |
| Equity shareholders   | <b>(4,834)</b>           | 4,741                |
| Non-controlling interests   | <b>(133)</b>             | 128                  |
|   | <b>(4,967)</b>           | 4,869                |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022 — Unaudited

|  | Note | 30 June<br>2022<br>HK\$ Million | 31 December<br>2021<br>HK\$ Million |
|--|------|---------------------------------|-------------------------------------|
| <b>Non-current assets</b>                      |      |                                 |                                     |
| 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                                  |
|  |      | <b>259,862</b>                  | 266,879                             |
| <b>Current assets</b>                          |      |                                 |                                     |
| 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                               |
|  |      | <b>5,894</b>                    | 5,389                               |
| Non-current assets classified as held for sale |      | 347                             | —                                   |
|  |      | <b>6,241</b>                    | 5,389                               |
| <b>Total assets</b>                            |      | <b>266,103</b>                  | 272,268                             |

|   | Note | 30 June<br>2022<br>HK\$ Million | 31 December<br>2021<br>HK\$ Million |
|---|------|---------------------------------|-------------------------------------|
| <b>Non-current liabilities</b>  |      |                                 |                                     |
| Derivative financial liabilities  |      | (2,061)                         | (646)                               |
| Deferred tax liabilities  |      | (2,623)                         | (2,599)                             |
| Other deferred liabilities  |      | (339)                           | (334)                               |
| Bank loans and other borrowings   | 11   | (43,796)                        | (44,834)                            |
|   |      | <b>(48,819)</b>                 | (48,413)                            |
| <b>Current liabilities</b>  |      |                                 |                                     |
| 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   | 11   | (5,250)                         | (4,500)                             |
|   |      | <b>(13,377)</b>                 | (12,979)                            |
| <b>Total liabilities</b>  |      | <b>(62,196)</b>                 | (61,392)                            |
| <b>NET ASSETS</b>   |      | <b>203,907</b>                  | 210,876                             |
| <b>Capital and reserves</b>   |      |                                 |                                     |
| Share capital   | 12   | 304                             | 304                                 |
| Reserves  |      | 199,025                         | 205,802                             |
| <b>Shareholders' equity</b>   |      | <b>199,329</b>                  | 206,106                             |
| <b>Non-controlling interests</b>  |      | <b>4,578</b>                    | 4,770                               |
| <b>TOTAL EQUITY</b>   |      | <b>203,907</b>                  | 210,876                             |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022 — Unaudited

|  | Attributable to equity shareholders of the Company |               |                                 |                   |                  |              |       | Non-controlling interest | Total equity |
|--|--|---------------|---------------------------------|-------------------|------------------|--------------|-------|--------------------------|--------------|
|  | Share capital                                      | Share Premium | Investment revaluation reserves | Exchange reserves | Revenue reserves | Total        |       |                          |              |
|  | HK\$ Million                                       | HK\$ Million  | HK\$ Million                    | HK\$ Million      | HK\$ Million     | HK\$ Million |       |                          |              |
| <b>At 1 January 2022</b>   | 304  | 696           | 2,672                           | 305               | 202,129          | 206,106      | 4,770 | 210,876                  |              |
| <b>Changes in equity for the period:</b>                               |  |               |                                 |                   |                  |              |       |                          |              |
| Loss   | -  | -             | -                               | -                 | (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)                  |              |
| Second interim dividend paid for 2021 (Note 8(b))                      | -  | -             | -                               | -                 | (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              | -            | -     | -                        |              |
| <b>At 30 June 2022</b>   | 304  | 696           | (643)                           | 91                | 198,881          | 199,329      | 4,578 | 203,907                  |              |
| <b>At 1 January 2021</b>   | 304  | 696           | 1,461                           | 361               | 201,729          | 204,551      | 4,858 | 209,409                  |              |
| <b>Changes in equity for the period:</b>                               |  |               |                                 |                   |                  |              |       |                          |              |
| Profit/(loss)  | -  | -             | -                               | -                 | 2,970            | 2,970        | (16)  | 2,954                    |              |
| Other comprehensive income   | -  | -             | 1,846                           | (76)              | 1                | 1,771        | 144   | 1,915                    |              |
| Total comprehensive income   | -  | -             | 1,846                           | (76)              | 2,971            | 4,741        | 128   | 4,869                    |              |
| Second interim dividend paid for 2020                                  | -  | -             | -                               | -                 | (2,095)          | (2,095)      | -     | (2,095)                  |              |
| Dividends paid to non-controlling interests                            | -  | -             | -                               | -                 | -                | -            | (14)  | (14)                     |              |
| Transfer to revenue reserves upon de-recognition of equity investments | -  | -             | (33)                            | -                 | 33               | -            | -     | -                        |              |
| <b>At 30 June 2021</b>   | 304  | 696           | 3,274                           | 285               | 202,638          | 207,197      | 4,972 | 212,169                  |              |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022 — Unaudited

|   | Six months ended 30 June |                      |
|---|--------------------------|----------------------|
|   | 2022<br>HK\$ Million     | 2021<br>HK\$ Million |
| Operating cash inflow   | 4,309                    | 4,350                |
| Changes in working capital and others   | (375)                    | (264)                |
| Tax paid  | (372)                    | (379)                |
| <b>Net cash generated from operating activities</b>                               | <b>3,562</b>             | <b>3,707</b>         |
| <b>Investing activities</b>   |                          |                      |
| Payment for investment properties, hotel and club properties, plant and equipment | (398)                    | (434)                |
| Other net cash (used in)/generated from investing activities                      | (1,932)                  | 104                  |
| Net cash used in investing activities   | (2,330)                  | (330)                |
| <b>Financial activities</b>   |                          |                      |
| Dividends paid to equity shareholders   | (1,943)                  | (2,095)              |
| Other net cash generated from/(used in) financing activities                      | 1,158                    | (601)                |
| Net cash used in financing activities   | (785)                    | (2,696)              |
| <b>Increase in cash and cash equivalents</b>                                      | <b>447</b>               | <b>681</b>           |
| Cash and cash equivalents at 1 January  | 1,800                    | 2,260                |
| Effect of exchange rate changes   | (49)                     | 7                    |
| <b>Cash and cash equivalents at 30 June</b>                                       | <b>2,198</b>             | <b>2,948</b>         |
| <b>Cash and cash equivalents</b>  |                          |                      |
| Bank deposits and cash in the consolidated statement of financial position        | 2,198                    | 2,948                |

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## NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

### 1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

This unaudited interim financial information has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The preparation of the unaudited interim financial information in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The 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 2018–2020 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.

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## 2. SEGMENT INFORMATION

The Group manages its 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.

a. Analysis of segment revenue and results

| Six months ended       | Revenue<br>HK\$ Million | Operating<br>profit/<br>(loss)<br>HK\$ Million | Decrease in<br>fair value of<br>investment<br>properties<br>HK\$ Million | Other net<br>income/<br>(charge)<br>HK\$ Million | Finance<br>costs<br>HK\$ Million | Share of<br>results after<br>tax of an<br>associate<br>HK\$ Million | (Loss)/profit<br>before<br>taxation<br>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<br>HK\$ Million     | 2021<br>HK\$ Million |
| <b>Revenue recognised under HKFRS 15</b>                   |                          |                      |
| 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                |
|  | <b>1,351</b>             | 2,502                |
| <b>Revenue recognised under other accounting standards</b> |                          |                      |
| Rental income  |                          |                      |
| – Fixed  | 4,213                    | 4,382                |
| – Variable   | 335                      | 329                  |
|  | <b>4,548</b>             | 4,711                |
| Investment income  | 271                      | 232                  |
| Others   | 40                       | 40                   |
|  | <b>4,859</b>             | 4,983                |
| Total revenue  | <b>6,210</b>             | 7,485                |

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

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

c. Analysis of inter-segment revenue

|                        | Six months ended 30 June      |                                       |                               |                               |                                       |                               |
|------------------------|-------------------------------|---------------------------------------|-------------------------------|-------------------------------|---------------------------------------|-------------------------------|
|                        | 2022                          |                                       |                               | 2021                          |                                       |                               |
|                        | Total Revenue<br>HK\$ Million | Inter-segment revenue<br>HK\$ Million | Group Revenue<br>HK\$ Million | Total Revenue<br>HK\$ Million | Inter-segment revenue<br>HK\$ Million | Group Revenue<br>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<br>HK\$ Million     | 2021<br>HK\$ Million | 2022<br>HK\$ Million | 2021<br>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<br>HK\$ Million     | 2021<br>HK\$ Million |
| <b>After charging:</b>                             |                          |                      |
| Depreciation and amortisation on                   |                          |                      |
| – hotel and club properties, plant and equipment   | 140                      | 157                  |
| – leasehold land                                   | 1                        | 4                    |
| Total depreciation and amortisation                | 141                      | 161                  |
| Staff cost (Note (i))                              | 446                      | 417                  |
| Cost of trading properties for recognised sales    | 177                      | 1,199                |
| Direct operating expenses of investment properties | 887                      | 1,148                |
| <b>After crediting:</b>                            |                          |                      |
| Gross rental 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))                      | 34                       | –                    |

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 comprising:

- a. Impairment provision of HK\$80 million made for a 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<br>HK\$ Million     | 2021<br>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                  |

- a. The Group's average effective borrowing rate for the period was 1.4% p.a. (2021: 1.4% p.a.).
- b. The above interest charge has taken into account the interest paid/receipts in respect of interest rate swaps and cross currency interest rate swaps.

## 6. Taxation

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

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

Notes:

- 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 were 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<br>HK\$ Per share   | 2022<br>HK\$ Million | 2021<br>HK\$ Per share | 2021<br>HK\$ Million |
| First interim dividend declared after the end of the reporting period | 0.70                     | 2,125                | 0.67                   | 2,034                |

- 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.
- 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:

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

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:

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

## 11. BANK LOANS AND OTHER BORROWINGS

|  | <b>30 June<br/>2022<br/>HK\$ Million</b> | 31 December<br>2021<br>HK\$ Million |
|--|--|-------------------------------------|
| Notes (unsecured)                                      | <b>27,490</b>                            | 27,024                              |
| Bank loans (secured)                                   | <b>369</b>                               | 200                                 |
| Bank loans (unsecured)                                 | <b>21,187</b>                            | 22,110                              |
| <b>Total bank loans and other borrowings</b>           | <b>49,046</b>                            | 49,334                              |
| <b>Analysis of maturities of the above borrowings:</b> |  |                                     |
| <b>Current borrowings</b>                              |  |                                     |
| Due within 1 year                                      | <b>5,250</b>                             | 4,500                               |
| <b>Non-current borrowings</b>                          |  |                                     |
| Due after more than 1 year but not exceeding 2 years   | <b>9,009</b>                             | 5,960                               |
| Due after more than 2 year but not exceeding 5 years   | <b>24,475</b>                            | 25,943                              |
| Due after more than 5 years                            | <b>10,312</b>                            | 12,931                              |
|  | <b>43,796</b>                            | 44,834                              |
| <b>Total bank loans and other borrowings</b>           | <b>49,046</b>                            | 49,334                              |

## 12. SHARE CAPITAL

|  | 30 June<br>2022<br>No. of shares<br>Million | 31 December<br>2021<br>No. of shares<br>Million | 30 June<br>2022<br>HK\$ Million | 31 December<br>2021<br>HK\$ Million |
|--|---|---|---------------------------------|-------------------------------------|
| <b>Authorised ordinary shares<br/>of HK\$0.1 each</b>                      | 5,000                                       | 5,000   | 500                             | 500                                 |
| <b>Issued and fully paid<br/>ordinary shares</b><br>At 30 June/31 December | 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 ("HKFRS13"). 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 2022         |                         |                       | At 31 December 2021     |                         |                       |
|---|-------------------------|-------------------------|-----------------------|-------------------------|-------------------------|-----------------------|
|   | Level 1<br>HK\$ Million | Level 2<br>HK\$ Million | Total<br>HK\$ Million | Level 1<br>HK\$ Million | Level 2<br>HK\$ Million | Total<br>HK\$ Million |
| <b>Assets</b>                           |                         |                         |                       |                         |                         |                       |
| Other long term investments:            |                         |                         |                       |                         |                         |                       |
| – Listed investments                    | 12,675                  | –                       | 12,675                | 13,870                  | –                       | 13,870                |
| Derivative financial instruments:       |                         |                         |                       |                         |                         |                       |
| – Interest rate swaps                   | –                       | 223                     | 223                   | –                       | 90                      | 90                    |
| – Cross currency interest<br>rate swaps | –                       | 61                      | 61                    | –                       | 510                     | 510                   |
| – Forward foreign<br>exchange contracts | –                       | 173                     | 173                   | –                       | 67                      | 67                    |
|   | 12,675                  | 457                     | 13,132                | 13,870                  | 667                     | 14,537                |
| <b>Liabilities</b>                      |                         |                         |                       |                         |                         |                       |
| Derivative financial instruments:       |                         |                         |                       |                         |                         |                       |
| – Interest rate swaps                   | –                       | 1,123                   | 1,123                 | –                       | 272                     | 272                   |
| – Cross currency interest<br>rate swaps | –                       | 938                     | 938                   | –                       | 374                     | 374                   |
| – Forward foreign<br>exchange contracts | –                       | 24                      | 24                    | –                       | –                       | –                     |
| Bank loans and other<br>borrowings:     |                         |                         |                       |                         |                         |                       |
| – Notes                                 | –                       | 21,641                  | 21,641                | –                       | 21,174                  | 21,174                |
| – Bank loans                            | –                       | 825                     | 825                   | –                       | 879                     | 879                   |
|   | –                       | 24,551                  | 24,551                | –                       | 22,699                  | 22,699                |

During the six months ended 30 June 2022, 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.

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### *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 values 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 are not materially different from their fair values as at 30 June 2022 and 31 December 2021.

## **14. MATERIAL RELATED PARTY TRANSACTION**

Transactions between the Company and its subsidiaries have been eliminated on consolidation. The Group has entered into the following material related party transactions during the six months ended 30 June 2022:

- (a) There was an amount of HK\$63 million (2021: HK\$68 million) earned from various tenants which are subsidiaries of Wheelock and Company Limited ("Wheelock") and The Wharf (Holdings) Limited ("Wharf"). Such transaction also constitutes a connected transaction as defined under 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 2022, total fees payable under this arrangement amounted to HK\$8 million (2021: HK\$7 million). Such transaction also constituted a connected transaction as defined under Listing Rules.
- (c) There were in existence agreements with subsidiaries of Wheelock and Wharf for the property services in respect of the Group's property projects. For the six months ended 30 June 2022, total fees payable under this arrangement amounted to HK\$17 million (2021: HK\$18 million). Such transaction also constituted a connected transaction as defined under Listing Rules.

## 15. CONTINGENT LIABILITIES

As at 30 June 2022, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to overdrafts, short term loans, credit facilities and notes of up to HK\$58,343 million (31 December 2021: HK\$61,492 million).

As at 30 June 2022, there were guarantees of HK\$41 million (31 December 2021: HK\$38 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.

The Group and the Company have not recognised any deferred income of the above guarantees for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK\$Nil (31 December 2021: HK\$Nil).

As at the end of the reporting period, the Directors do not consider it is probable that a claim will be made against the Group and the Company under any of the guarantees.

## 16. COMMITMENTS

The Group's outstanding commitments as at 30 June 2022 are detailed as below:

### Planned expenditure

|                               | 30 June 2022              |                             |                       | 31 December 2021          |                             |                       |
|-------------------------------|---------------------------|-----------------------------|-----------------------|---------------------------|-----------------------------|-----------------------|
|                               | Committed<br>HK\$ Million | Uncommitted<br>HK\$ Million | Total<br>HK\$ Million | Committed<br>HK\$ Million | Uncommitted<br>HK\$ Million | Total<br>HK\$ Million |
| <b>(I) Properties</b>         |                           |                             |                       |                           |                             |                       |
| <b>Investment properties</b>  |                           |                             |                       |                           |                             |                       |
| Hong Kong                     | 68                        | 273                         | 341                   | 62                        | 275                         | 337                   |
| Singapore                     | 1                         | -                           | 1                     | -                         | -                           | -                     |
|                               | 69                        | 273                         | 342                   | 62                        | 275                         | 337                   |
| <b>Development properties</b> |                           |                             |                       |                           |                             |                       |
| Mainland China                | 417                       | 545                         | 962                   | 440                       | 453                         | 893                   |
|                               | 486                       | 818                         | 1,304                 | 502                       | 728                         | 1,230                 |
| <b>(II) Hotels</b>            |                           |                             |                       |                           |                             |                       |
| Hong Kong                     | 30                        | 1                           | 31                    | 2                         | 1                           | 3                     |
| <b>Group total</b>            | <b>516</b>                | <b>819</b>                  | <b>1,335</b>          | <b>504</b>                | <b>729</b>                  | <b>1,233</b>          |

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- (i) Properties commitments are mainly for construction costs to be incurred in the forthcoming years.
  - (ii) The outstanding commitments for development properties included attributable amounts for developments undertaken by an associate of HK\$962 million (31 December 2021: HK\$893 million) in Mainland China.

## **17. 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.

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## CORPORATE GOVERNANCE CODE

During the financial period under review, all the code provisions set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) were met by the Company, with 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 (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 Directors’ securities transactions with terms thereof being no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all the Directors (except Mr Desmond L P Liu who was appointed as a new Director with effect from 18 July 2022) have complied with the required standard set out in the Model Code and/or the Company’s Code during the half-year financial period ended 30 June 2022.

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## DIRECTORS' INTERESTS IN SHARES

At 30 June 2022, Directors of the Company had the following beneficial interests, all being long positions, in the shares of the Company. The percentages which the relevant shares represented to the number of shares in issue of the Company are also set out below:

|                    | Quantity held       | Nature of Interest |
|--------------------|---------------------|--------------------|
| <b>The Company</b> |                     |                    |
| 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 2022 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 2022.

## 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 2022, 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"):

| <b>Names</b>                                      | <b>No. of Ordinary Shares</b><br>(percentage based on number of shares in issue) |
|---|--|
| (i) Wheelock and Company Limited ("Wheelock")     | 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) represented the same block of shares.
- (2) The deemed shareholding interests of Wheelock and HSBC Trustee of 1,487,051,651 shares (48.98%) as at 30 June 2022 stated above included interests (of 5% or more) held through Wheelock's wholly-owned subsidiaries as below:

| <b>Names</b>                            | <b>No. of Ordinary Shares</b><br>(percentage based on 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 interests included the shareholding interests of BHL.

All the interests stated above represented long positions. As at 30 June 2022, there were no short position interests recorded in the Register.

## 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 Wheelock, Wharf and/or their respective wholly-owned subsidiary(ies), of all those Directors for whom there have been changes since the publication of the last annual report of the Company:

| Director(s)                   | Salary and various allowances<br>HK\$'000 |               | <sup>(1)</sup> Discretionary annual bonus in cash<br>HK\$'000 |                |
|-------------------------------|---|---------------|---|----------------|
| Stephen T H Ng                | 3,631                                     | (2021: 3,558) | 4,100   | (2021: 16,392) |
| Paul Y C Tsui                 | 2,374                                     | (2021: 2,324) | 2,050   | (2021: 2,000)  |
| Y T Leng                      | 2,920                                     | (2021: 4,136) | 5,700   | (2021: 14,712) |
| Horace W C Lee <sup>(2)</sup> | 2,515                                     | (2021: 1,231) | 825   | (2021: Nil)    |

Notes:

- (1) The amounts of such discretionary annual bonuses fixed/decided unilaterally by the employers.
- (2) Mr Horace W C Lee was appointed as Director on 1 July 2021 and the amount of his 2021 emoluments was a prorated actual amount.

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

### Effective Date

#### Tak Hay Chau

- SJM Holdings Limited  
— retired as independent non-executive director 15 June 2022

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## 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, 4 August 2022

*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 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.*

*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 wharfreic-ecom@hk.tricorglobal.com.*