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WHARF

Established 1886

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1997

2022 Final Results Announcement

Pandemic Woes Coupled Financial Cost Escalation

HIGHLIGHTS

- Borrowing cost increased by HK\$500 million; annual rate hiked from 1.5% in first half to 3.5% in second half
- Investment Properties' portfolio value decreased by 6% (close to HK\$15 billion)
- Retail rentals at recent low
- Office leasing top line declined

GROUP RESULTS

Underlying net profit decreased by 5% to HK\$6,175 million (2021: HK\$6,518 million), equivalent to HK\$2.03 (2021: HK\$2.15) per share.

Inclusive of net Investment Properties ("IP") revaluation deficit of HK\$14,875 million (2021: HK\$2,200 million), Group loss attributable to equity shareholders was HK\$8,856 million (2021: profit of HK\$4,391 million). Basic loss per share was HK\$2.92 (2021: earnings per share of HK\$1.45).

DIVIDENDS

A first interim dividend of HK\$0.70 per share was paid on 8 September 2022. In lieu of a final dividend, a second interim dividend of HK\$0.61 per share will be paid on 25 April 2023 to Shareholders on record as at 6:00 p.m. on 6 April 2023. Total distribution for the year of 2022 will amount to HK\$1.31 (2021: HK\$1.31) per share, representing 65% of underlying net profit from IP and Hotels in Hong Kong.

BUSINESS REVIEW

Easing of social distancing restrictions in Hong Kong had an immediate negative impact on the retail and hospitality sectors, as locals quickly shifted consumption overseas and the remaining measures continued to deter visitors. For the year as a whole, retail sales saw a modest decline of 0.8%.

Retail leasing activities regained momentum as brands anticipated reopening and seized opportunities of softer market rental. Harbour City welcomed over a hundred new shops during the year, further strengthening the portfolio and trade mix in Canton Road. Proactive marketing initiatives were successful in driving footfall and spending. To capture a larger share of the market as tourism returns, more marketing campaigns are planned. The hospitality sector is preparing for the return of tourists after relying heavily on local market for three years. However, a shortage of manpower is a challenge.

On the office front, leasing demand has not yet recovered due to the volatile global economy. Additionally, rising vacancies in the market and an abundance of new supply are putting further pressure on rental level.

Group revenue declined by 22%, mainly due to phased exit from non-core segment development properties (“DP”). Operating profit and underlying net profit decreased by the more modest 2% and 5% respectively.

Harbour City

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

Retail

Retail revenue stayed flat and operating profit increased by 6%.

Harbour City maintained its position as a premier shopping destination through proactive re-tenanting and innovative marketing. Despite the challenging operating environment, the mall’s unique critical mass and retail management led to a steady stream of leasing demand. Occupancy improved slightly to 94% at the end of the year, as tenant selection remained strict to ensure quality.

The pandemic-led market adjustment resulted in a portfolio of the fittest-to-survive brands with the best-in-class tenants. Additionally, the unique retail offerings were optimised with value-accretive zoning to enhance one-stop-shopping experience for shoppers of all kinds.

Apart from the new flagships of *Dior*, *Miu Miu*, *Piaget*, *Van Cleef & Arpels* and *De Beers* unveiled at the Canton Road frontage, a host of Hong Kong or Kowloon debuts further enrich the extensive retail selection. These include the Hong Kong debut of *Casa Loewe*, *deLaCour*, *Sound United*, *Sam Edelman*, *Kajal Naina*, *Moleskine* and *A Bathing Ape (with Bape Café)*, as well as the Kowloon debut of *Woke Up Like This*, *AMANTE*, *Bath & Body Works*, *Monster Lab*, *Mikihouse*, *Laurel* and *self-portrait*. Other new commitments include *Patek Philippe*, *Lanvin*, *Breitling*, *Chow Sang Sang*, *Tea WG* and a series of enticing pop-up stores, while some top-tier brands committed to expansion or strategic relocation, including *Fendi*, *Gucci*, *Tory Burch*, *Puyi Optical*, *Issey Miyake*, *Rolex*, *Tudor*, *Emperor Jewellery*, *Montblanc*, *Kenzo*, *alexanderwang*, *Buccellati*, *Sergio Rossi* and *Onitsuka Tiger*.

A delicious selection of restaurants, including *Terrace in Seaside*, *Check-In Taipei*, *LIFETASTIC Patisserie*, *Omoteshando Koffee*, *Prince Restaurant*, *Art of Canton*, *Between Coffee*, *Voynich*, *CaN LaH* and *PUTIEN*, has further enriched the dining options available.

Harbour City was the first to launch the “Rewarding Every Day” gamification voucher campaigns when pandemic hit. The coupon redemption programme and other surprise offers proved popular with shoppers.

As pandemic gradually receded, Harbour City staged more large-scale mall installations and art exhibitions. Hong Kong’s first large-scale outdoor exhibitions after the “5th Wave”, “Flash Pop-up: Robotic Dinos” was presented together with Times Square. At Christmas, the “UniChristmas @ Harbour City” at the Ocean Terminal Forecourt featured exclusive premiums and a charity photography zone, helping to boost footfall and publicity.

Office

The market was already competitive, but soaring market availability and a robust pipeline of new supply intensified it further. Leasing momentum remained soft, but Harbour City was cushioned by several sizeable take-ups of insurance companies to take advantage of potential reopening benefits. To safeguard occupancy, more competitive packages were offered, resulting in a slight improvement in occupancy to 88% by the end of the year. Revenue increased by 3% and operating profit by 2%.

Hotels

Under the extended absence of tourists, Marco Polo Hongkong Hotel and Gateway Hotel focused primarily on the local market to maintain business flow. Various promotions catering to different customers, such as “Work from Hotel” day use package, exclusive long-stay offers and kids-friendly staycation packages, helped to increase occupancy. Gross operating profit returned during the year, although it remained much lower than pre-pandemic level.

In recognition of the service and accommodation excellence despite the tough operating conditions, the two Canton Road hotels were awarded the title of Best Luxury Sea View Hotel and Best Luxury City Hotel respectively from the Luxury Lifestyle Awards during the year.

Times Square

Overall revenue decreased by 12%, as the competitive landscape became more challenging under the ongoing difficult market conditions. Operating profit increased by 1%, mainly due to effective cost management.

Retail

To remain competitive and maintain market share in a weak market, Times Square has been refining its luxury tenant mix whilst enriching Gen-Z targeted aspirational brand mix to broaden customer base. It has also enhanced dining offerings to provide fresh experiences. As a result, occupancy increased to 94% at the end of the year. However, following the adjustment of market rent, revenue declined by 19% and operating profit by 3%.

In addition to ongoing sales-driven programmes and promotions, Times Square has launched appealing marketing campaigns to cater the diverse interests of shoppers and drive foot traffic. These include the “Disney Stitch VS Pixar Aliens Exhibition”, which marked the first crossover exhibition of the two characters in a mall. “BE@RBRICK - FIFA WORLD CUP QATAR 2022™ OFFICIAL LICENSED PRODUCT” series were introduced as part of the World Cup celebration. Events, collaborated with celebrities, such as “Good Food Good Times! Eat . Play . Earn!” with campaign ambassador Jeffrey Ngai, and “Xmas Spa with Serrini & Botanic Union – It’s Relaxing Time” have also been well received.

Office

Global economies slowdown caused corporations to postpone leasing decisions and growth plans. Tenants were cautious and cost-conscious, favouring smaller units. Occupancy rose to 90% at the end of the year. Revenue increased by 4% and operating profit by 7%.

Central Portfolio

Wheelock House and Crawford House are both premium commercial properties in Hong Kong's prime Central district. Office occupancies at Crawford House remained high at 95% at the end of the year, while Wheelock House declined to 75% due to the partial relocation of an anchor tenant in the second half of the year. Both retail premises were fully let. Revenue and operating profit both decreased by 8% due to lower occupancy and adjusted rentals amid the prevailing cautious sentiment.

The Murray, Hong Kong, a Niccolo Hotel ("The Murray") was proud to achieve a 5-star rating, the highest honour awarded by Forbes Travel Guide during the year. The contemporary chic hotel also won the "Best City Hotel – Hong Kong" for the second time at the 31st Annual TTG Travel Awards 2022 and was named the "Best Historic Hotels Worldwide Hotel in Asia/ Pacific" in Historic Hotels Worldwide Annual Awards of Excellence 2022.

Plaza Hollywood

Plaza Hollywood is one of the largest malls in the rapidly-emerging Kowloon East CBD2. It has a strategic geographical advantage, with direct access from Diamond Hill MTR station, the interchange station for Kwun Tong Line and Tuen Ma Line, as well as an integrated public transport hub. Thanks to sustained local demand, occupancy improved to 97% at the end of the year. Revenue and operating profit decreased by 4% .

Plaza Hollywood has further optimised its comprehensive trade mix by recruiting a variety of retail and lifestyle brands, as well as introducing new F&B and confectionary concepts.

Various innovative marketing campaigns were rolled out to increase foot traffic as social distancing measures eased. One of these was "MetaGreen Village Adventure" O2O Campaign, which was the first Metaverse linked with mall membership program in town. Additionally, during Christmas, thematic decoration riding on kids' popular cartoon "Butt Detective" was installed. Furthermore, ongoing sales-driven programmes including VIC bonus points reward, shopping promotions and cross trade promotions, boosted repeat visits and purchases.

Singapore Assets

Since the easing of COVID-19 rules and border entry requirements in the second quarter, Singapore's retail market has seen consecutive months of sales recovery.

Strategically located within the renowned Orchard Road belt, Wheelock Place and the freehold Scotts Square mall are benefitting from the improved consumer sentiment and increased tourist spending. Occupancies remained consistently high. Retail occupancies were 100% and 96% respectively at the end of December 2022, while office occupancy at Wheelock Place was 100%.

FINANCIAL REVIEW

(I) Review of 2022 Full Year Results

Underlying net profit decreased by 5% to HK\$6,175 million (2021: HK\$6,518 million) with IP profit decreasing by 2% to HK\$6,346 million and Hotel's loss narrowing to HK\$168 million. Including the revaluation deficits of IP, the Group recorded a loss of HK\$8,856 million attributable to equity shareholders (2021: profit of HK\$4,391 million).

Revenue and Operating Profit

Group revenue and operating profit decreased by 22% to HK\$12,459 million (2021: HK\$16,043 million) and 2% to HK\$8,841 million (2021: HK\$9,064 million) respectively, mainly attributable to decrease in recognition of DP sales for listed subsidiary Harbour Centre Development Limited ("HCDL"), partially compensated by cost savings in IP segment.

IP revenue decreased by 2% to HK\$10,662 million (2021: HK\$10,889 million) but operating profit increased by 3% to HK\$8,699 million (2021: HK\$8,441 million) to account for 86% (2021: 68%) and 98% (2021: 93%) of Group total, respectively.

Within the IP segment, total revenue and operating profit of Harbour City (including hotels) rose by 2% to HK\$8,175 million (2021: HK\$7,993 million) and 7% to HK\$6,345 million (2021: HK\$5,946 million) respectively, representing 66% (2021: 50%) and 72% (2021: 66%) of Group total.

Hotel revenue increased by 11% to HK\$932 million (2021: HK\$838 million) and operating loss narrowed to HK\$230 million (2021: HK\$356 million). Hong Kong revenue increased but Mainland revenue declined.

DP revenue substantially reduced to HK\$282 million (2021: HK\$3,722 million) due to lower sales recognition and an operating loss of HK\$48 million (2021: profit of HK\$543 million) was reported.

Investment operating profit primarily from dividend income decreased by 4% to HK\$515 million (2021: HK\$536 million).

Fair Value Change of IP

IP assets were stated at HK\$228.6 billion based on independent valuation, representing a revaluation deficit of HK\$14,913 million or about 6%. Attributable unrealised loss was HK\$14,875 million.

Other Net Income

Other net income was HK\$426 million (2021: HK\$62 million), which mainly comprised net fair value gains on certain financial instruments and an impairment provision of HK\$77 million for a Mainland DP project.

Finance Costs

Finance costs amounted to HK\$1,861 million (2021: HK\$760 million) after an unrealised mark-to-market loss of HK\$633 million (2021: HK\$24 million) on cross currency and interest rate swaps in accordance with prevailing accounting standards.

Effective borrowing rate rose to 2.5% (2021: 1.4%) primarily due to a higher HIBOR. The much higher rate of 3.5% for the second half, compared to 1.5% for the first half, explained the half-on-half increase in borrowing cost by nearly HK\$500 million.

Income Tax

Taxation charge for the year reduced 14% to HK\$1,368 million (2021: HK\$1,599 million).

Loss Attributable to Equity Shareholders

Group loss attributable to equity shareholders for the year amounted to HK\$8,856 million (2021: profit of HK\$4,391 million). Basic loss per share was HK\$2.92 (2021: earnings of HK\$1.45), 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) decreased by 5% to HK\$6,175 million (2021: HK\$6,518 million). Underlying earnings per share were HK\$2.03 (2021: HK\$2.15).

(II) Liquidity, Financial Resources and Capital Commitments

Shareholders' and Total Equity

As at 31 December 2022, shareholders' equity decreased by HK\$15.7 billion to HK\$190.4 billion (2021: HK\$206.1 billion), equivalent to HK\$62.70 per share (2021: HK\$67.89). Total equity including non-controlling interests decreased by HK\$16.0 billion to HK\$194.9 billion (2021: HK\$210.9 billion).

Assets

Total assets amounted to HK\$255.3 billion (2021: HK\$272.3 billion), 92% (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\$253.0 billion (2021: HK\$269.2 billion).

IP

IP assets totalled HK\$228.6 billion (2021: HK\$243.3 billion), representing 90% (2021: 90%) of business assets. Harbour City (excluding the three hotels) was valued at HK\$154.9 billion and Times Square at HK\$47.7 billion.

Hotels

Hotel properties were stated at cost less accumulated depreciation & impairment losses at HK\$7.1 billion (2021: HK\$7.6 billion). Valuation of these hotels amounted to HK\$14.0 billion at 31 December 2022.

DP

DP assets, including interests in an associate and joint ventures, amounted to HK\$2.6 billion (2021: HK\$3.3 billion).

Other Long Term Investments

Other long term investments after certain disposals in the year were marked to market at HK\$13.1 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. Marking these investments to market during the year produced an attributable net deficit of HK\$2.7 billion (2021: surplus of HK\$1.3 billion) as reflected in the other comprehensive income statement, of which a total surplus of HK\$0.1 billion (2021: HK\$0.1 billion) was transferred to revenue reserve upon de-recognition.

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

	31 December 2022	31 December 2021
	HK\$ Million	HK\$ Million
Analysed by industry sector:		
- Properties	9,462	13,404
- Others	3,668	466
Total	<u>13,130</u>	<u>13,870</u>
Analysed by geographical location:		
- Hong Kong	4,215	4,462
- Outside of Hong Kong	8,915	9,408
Total	<u>13,130</u>	<u>13,870</u>

Debts and Gearing

Net debt as at 31 December 2022 decreased by HK\$2.3 billion to HK\$45.2 billion (2021: HK\$47.5 billion). It comprised debts of HK\$46.5 billion and bank deposits and cash of HK\$1.3 billion.

An analysis of net debt is depicted below:

	31 December 2022	31 December 2021
<u>Net debt</u>	HK\$ Billion	HK\$ Billion
Group (excluding HCDL)	44.7	47.1
HCDL	0.5	0.4
Total	<u>45.2</u>	<u>47.5</u>

The ratio of net debt to total equity rose to 23.2% (2021: 22.5%).

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

Finance and Availability of Facilities

Total available loan facilities and issued debt securities as at 31 December 2022 amounted to HK\$58.3 billion, of which HK\$46.5 billion was utilised. The breakdown is depicted below:

	31 December 2022		
	Available Facility	Total Debt	Undrawn Facility
	HK\$ Billion	HK\$ Billion	HK\$ Billion
Committed and uncommitted bank facilities			
Group (excluding HCDL)	55.7	45.4	10.3
HCDL	2.6	1.1	1.5
Total	<u>58.3</u>	<u>46.5</u>	<u>11.8</u>

Certain banking facilities were secured by hotel and DP in the Mainland of RMB1.3 billion (equivalent to HK\$1.5 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\$13.1 billion (2021: HK\$13.9 billion).

Cash Flows for the Group’s Operating and Investing Activities

For the year under review, the Group recorded operating cash inflow of HK\$8.6 billion (2021: HK\$8.8 billion) primarily generated from rental income. Together with the change in working capital and others of HK\$1.9 billion (2021: HK\$0.8 billion), the net cash inflow from operating activities amounted to HK\$6.7 billion (2021: HK\$8.0 billion). For investing activities, the Group recorded a net cash outflow of HK\$2.2 billion (2021: inflow of HK\$0.2 billion).

Capital Commitments

As at 31 December 2022, major planned expenditures for the coming years were estimated at HK\$1.1 billion, of which HK\$0.4 billion was committed. A breakdown (by segment) is as follows:

	As at 31 December 2022		
	Committed	Uncommitted	Total
	HK\$ Million	HK\$ Million	HK\$ Million
Properties			
IP			
Hong Kong	38	252	290
Singapore	2	-	2
	<u>40</u>	<u>252</u>	<u>292</u>
DP			
Mainland China	377	426	803
Total properties	<u>417</u>	<u>678</u>	<u>1,095</u>
Hotels			
Hong Kong	22	1	23
Group total	<u>439</u>	<u>679</u>	<u>1,118</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 totaling HK\$0.8 billion, which will be funded by its own financial resources.

(III) Human Resources

The Group had approximately 2,800 employees as at 31 December 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 year ended 31 December 2022

	Note	2022 HK\$ Million	2021 HK\$ Million
Revenue	2	12,459	16,043
Direct costs and operating expenses		(2,481)	(5,338)
Selling and marketing expenses		(562)	(1,089)
Administrative and corporate expenses		(295)	(222)
Operating profit before depreciation, amortisation, interest and tax		9,121	9,394
Depreciation and amortisation		(280)	(330)
Operating profit	2 & 3	8,841	9,064
Decrease in fair value of investment properties		(14,913)	(2,203)
Other net income	4	426	62
		(5,646)	6,923
Finance costs	5	(1,861)	(760)
Share of results after tax of an associate		(68)	(125)
(Loss)/profit before taxation		(7,575)	6,038
Income tax	6	(1,368)	(1,599)
(Loss)/profit for the year		(8,943)	4,439
(Loss)/profit attributable to:			
Equity shareholders		(8,856)	4,391
Non-controlling interests		(87)	48
		(8,943)	4,439
(Loss)/earnings per share	7		
Basic		(HK\$2.92)	HK\$1.45
Diluted		(HK\$2.92)	HK\$1.45

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2022

	2022	2021
	HK\$ Million	HK\$ Million
(Loss)/profit for the year	(8,943)	4,439
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	(2,746)	1,380
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations outside Hong Kong		
- Subsidiaries	(92)	(42)
Share of reserves of an associate and joint ventures	(79)	27
Others	(8)	2
Other comprehensive income for the year	(2,925)	1,367
Total comprehensive income for the year	(11,868)	5,806
Total comprehensive income attributable to:		
Equity shareholders	(11,674)	5,684
Non-controlling interests	(194)	122
	(11,868)	5,806

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2022

	Note	31 December 2022 HK\$ Million	31 December 2021 HK\$ Million
Non-current assets			
Investment properties		228,559	243,348
Hotel and club properties, plant and equipment		7,315	7,794
Interest in an associate		815	962
Interest in joint ventures		20	21
Other long term investments		13,130	13,870
Deferred tax assets		226	249
Derivative financial assets		304	564
Other non-current assets		64	71
		<u>250,433</u>	<u>266,879</u>
Current assets			
Properties for sale		1,793	2,308
Inventories		16	17
Trade and other receivables	9	1,338	1,161
Prepaid tax		6	-
Derivative financial assets		1	103
Bank deposits and cash		1,340	1,800
		<u>4,494</u>	<u>5,389</u>
Non-current assets classified as held for sale		322	-
		<u>4,816</u>	<u>5,389</u>
Total assets		<u>255,249</u>	<u>272,268</u>
Non-current liabilities			
Derivative financial liabilities		(3,074)	(646)
Deferred tax liabilities		(2,715)	(2,599)
Other deferred liabilities		(342)	(334)
Bank loans and other borrowings		(42,909)	(44,834)
		<u>(49,040)</u>	<u>(48,413)</u>
Current liabilities			
Liabilities directly associated with the non-current assets classified as held for sale		(9)	-
Trade and other payables	10	(6,812)	(7,717)
Pre-sale deposits and proceeds		(222)	(244)
Derivative financial liabilities		(156)	-
Taxation payable		(549)	(518)
Bank loans and other borrowings		(3,580)	(4,500)
		<u>(11,328)</u>	<u>(12,979)</u>
Total liabilities		<u>(60,368)</u>	<u>(61,392)</u>
NET ASSETS		<u>194,881</u>	<u>210,876</u>
Capital and reserves			
Share capital		304	304
Reserves		190,060	205,802
Shareholders' equity		<u>190,364</u>	<u>206,106</u>
Non-controlling interests		4,517	4,770
TOTAL EQUITY		<u>194,881</u>	<u>210,876</u>

NOTES TO THE FINANCIAL INFORMATION

1. PRINCIPAL ACCOUNTING POLICIES AND BASIS OF PREPARATION

This financial information is extracted from the consolidated financial statements which have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of the 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 HKAS 16	Property, plant and equipment: proceeds before intended use
Amendments to HKAS 37	Provisions, contingent liabilities and contingent assets: Onerous contracts – Cost of fulfilling a contract

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

	Revenue	Operating Profit/ (loss)	Decrease in fair value of investment properties	Other net Income/ (charge)	Finance costs	Share of results after tax of an associate	(Loss)/ profit before taxation
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
2022							
Investment properties	10,662	8,699	(14,913)	-	(1,023)	-	(7,237)
Development properties	282	(48)	-	(86)	(17)	(68)	(219)
Hotel	932	(230)	-	-	(13)	-	(243)
Investment	515	515	-	-	(174)	-	341
Inter-segment revenue	(33)	-	-	-	-	-	-
Segment total	12,358	8,936	(14,913)	(86)	(1,227)	(68)	(7,358)
Others	101	(34)	-	512	(634)	-	(156)
Corporate expenses	-	(61)	-	-	-	-	(61)
Group total	12,459	8,841	(14,913)	426	(1,861)	(68)	(7,575)
2021							
Investment properties	10,889	8,441	(2,203)	-	(612)	-	5,626
Development properties	3,722	543	-	2	(8)	(125)	412
Hotel	838	(356)	-	(67)	(19)	-	(442)
Investment	536	536	-	-	(97)	-	439
Inter-segment revenue	(30)	-	-	-	-	-	-
Segment total	15,955	9,164	(2,203)	(65)	(736)	(125)	6,035
Others	88	(34)	-	127	(24)	-	69
Corporate expenses	-	(66)	-	-	-	-	(66)
Group total	16,043	9,064	(2,203)	62	(760)	(125)	6,038

2. SEGMENT INFORMATION

b. Disaggregation of revenue

	2022 HK\$ Million	2021 HK\$ Million
Revenue recognised under HKFRS 15		
Management and services income	1,129	1,056
Other rental related income	231	474
Revenue under investment property segment	<u>1,360</u>	<u>1,530</u>
Hotel and club operations	932	838
Sale of development properties	282	3,722
	<u>2,574</u>	<u>6,090</u>
Revenue recognised under other accounting standards		
Rental income		
– Fixed	8,603	8,620
– Variable	666	709
	<u>9,269</u>	<u>9,329</u>
Investment income	515	536
Others	101	88
	<u>9,885</u>	<u>9,953</u>
Total revenue	<u>12,459</u>	<u>16,043</u>

2. SEGMENT INFORMATION

c. Analysis of inter-segment revenue

	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	10,662	(33)	10,629	10,889	(30)	10,859
Development properties	282	-	282	3,722	-	3,722
Hotel	932	-	932	838	-	838
Investment	515	-	515	536	-	536
Others	114	(13)	101	109	(21)	88
Group total	12,505	(46)	12,459	16,094	(51)	16,043

d. Analysis of segment business assets

	2022 HK\$ Million	2021 HK\$ Million
Investment properties	229,442	243,970
Development properties	2,995	3,334
Hotel	7,375	7,865
Investment	13,192	13,999
Total segment business assets	253,004	269,168
Unallocated corporate assets	2,245	3,100
Total assets	255,249	272,268

Unallocated corporate assets mainly comprise deferred tax assets, derivative financial assets and bank deposits and cash.

2. SEGMENT INFORMATION

e. Geographical information

	Revenue		Operating profit	
	2022	2021	2022	2021
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	11,457	11,560	8,418	8,048
Outside Hong Kong	1,002	4,483	423	1,016
Group total	<u>12,459</u>	<u>16,043</u>	<u>8,841</u>	<u>9,064</u>

	Specified non-current assets		Total business assets	
	2022	2021	2022	2021
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hong Kong	229,036	243,961	234,174	249,031
Outside Hong Kong	7,673	8,164	18,830	20,137
Group total	<u>236,709</u>	<u>252,125</u>	<u>253,004</u>	<u>269,168</u>

Specified non-current assets excludes deferred tax assets, other long term investments, derivative financial assets and other non-current assets.

The geographical location of revenue and operating profit is analysed based on the location at which services are provided and in the case of other long-term investments, where they are listed. The geographical location of specified non-current assets and total business assets is based on the physical location of operations.

3. OPERATING PROFIT

Operating profit is arrived at:

	2022 HK\$ Million	2021 HK\$ Million
After charging:		
Depreciation and amortisation on		
– hotel and club properties, plant and equipment	277	321
– leasehold land	3	9
Total depreciation and amortisation	<u>280</u>	<u>330</u>
Impairment loss on trade receivables	16	12
Staff cost (Note (i))	950	902
Auditors' remuneration		
– audit services	9	8
– non-audit services	1	1
Cost of trading properties for recognised sales	255	3,034
Direct operating expenses of investment properties	<u>1,875</u>	<u>2,380</u>
After crediting:		
Gross revenue from investment properties	10,629	10,859
Government grants (Note (ii))	48	-
Interest income (Note (iii))	17	19
Dividend income from other long term investments	<u>515</u>	<u>536</u>

Notes:

- (i) Staff costs included defined contribution pension schemes costs for the year ended December 2022 of HK\$53 million (2021: HK\$51 million), which included MPF schemes after a forfeiture of HK\$2 million (2021: HK\$2 million).
- (ii) Government grants mainly included subsidy from the 2022 Employment Support Scheme under the Anti-epidemic Fund by The Government of the Hong Kong Special Administrative Region.
- (iii) Interest income for the year ended 31 December 2022 of HK\$17 million (2021: HK\$19 million) are generated in respect of financial assets (mainly comprising bank deposits) stated at amortised cost.

4. OTHER NET INCOME

Other net income for the year amounted to HK\$426 million (2021: HK\$62 million) mainly comprises:

- a. Impairment provision of HK\$77 million made for a Mainland DP project (2021: HK\$67 million for hotel properties).
- b. Net foreign exchange gain of HK\$378 million (2021: HK\$40 million) which included the impact of foreign exchange contracts.

5. FINANCE COSTS

	2022 HK\$ Million	2021 HK\$ Million
Interest charged on:		
Bank loans and overdrafts	409	230
Other borrowings	733	412
Total interest charge	<u>1,142</u>	<u>642</u>
Other finance costs	86	98
Less : Amount capitalised	-	(4)
	<u>1,228</u>	<u>736</u>
Fair value loss/(gain):		
Cross currency interest rate swaps	601	76
Interest rate swaps	32	(52)
	<u>633</u>	<u>24</u>
Total	<u>1,861</u>	<u>760</u>

6. INCOME TAX

Taxation charged/(credited) to the consolidated statement of profit or loss includes:

	2022 HK\$ Million	2021 HK\$ Million
Current income tax		
Hong Kong		
- Provision for the year	1,190	1,165
- Over-provision in respect of prior years	(1)	(4)
Outside Hong Kong		
- Provision for the year	56	132
- Over-provision in respect of prior years	(11)	-
	<u>1,234</u>	<u>1,293</u>
Land appreciation tax (“LAT”) (Note c)	<u>8</u>	<u>186</u>
Deferred tax		
Origination and reversal of temporary differences	<u>126</u>	<u>120</u>
Total	<u>1,368</u>	<u>1,599</u>

- a. The provision for Hong Kong profits tax is based on the profit for the year 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 years ended 31 December 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. Tax attributable to an associate for the year ended 31 December 2022 of HK\$67 million (2021: tax credit of HK\$1 million) is 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 year of HK\$8,856 million (2021: profit of HK\$4,391 million) and 3,036 million ordinary shares in issue during the year (2021: 3,036 million ordinary shares in issue).

There are no potential dilutive ordinary shares in issue during the years ended 31 December 2022 and 2021.

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2022	2022	2021	2021
	HK\$	HK\$	HK\$	HK\$
	Per share	Million	Per share	Million
First interim dividend declared and paid	0.70	2,125	0.67	2,034
Second interim dividend declared after the end of the reporting period (Note (b))	0.61	1,852	0.64	1,943
	1.31	3,977	1.31	3,977

(a) The second 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 31 December 2022 as follows:

	2022	2021
	HK\$ Million	HK\$ Million
Trade receivables		
0 - 30 days	170	200
31 – 60 days	20	16
61 – 90 days	8	6
Over 90 days	13	38
	211	260
Other receivables and prepayments	1,127	901
	1,338	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, except for other receivable of HK\$295 million (2021: HK\$64 million), which is expected to be utilised after more than one year.

10. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on the invoice date as at 31 December 2022 as follows:

	2022 HK\$ Million	2021 HK\$ Million
Trade payables		
0 - 30 days	65	76
31 - 60 days	13	9
61 - 90 days	13	8
Over 90 days	12	15
	<u>103</u>	<u>108</u>
Rental and customer deposits	3,093	3,249
Construction costs payable	1,502	1,975
Other payables	2,114	2,385
	<u>6,812</u>	<u>7,717</u>

11. REVIEW OF FINANCIAL RESULTS

The financial results for the year ended 31 December 2022 have been reviewed with no disagreement by the Audit Committee of the Company. The figures in respect of the Group's financial results in this announcement for the year ended 31 December 2022 have been agreed by the Company's Auditors to the amounts set out in the Group's consolidated financial statements for the year.

CORPORATE GOVERNANCE CODE

During the financial year ended 31 December 2022, all the code provisions set out in Part 2 of 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 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 year under review.

RELEVANT DATES FOR SECOND INTERIM DIVIDEND AND ANNUAL GENERAL MEETING

Second Interim Dividend

Ex-entitlement date	4 April 2023 (Tue)
Latest time to lodge share transfer	4:30 p.m., 6 April 2023 (Thu)
Record date/ time	6:00 p.m., 6 April 2023 (Thu)
Payment date	25 April 2023 (Tue)

In order to qualify for the above-mentioned second 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Thursday, 6 April 2023.

Annual General Meeting ("AGM")

Ex-entitlement date	2 May 2023 (Tue)
Latest time to lodge share transfer	4:30 p.m., 3 May 2023 (Wed)
Book closure period	4 May 2023 (Thu) to 9 May 2023 (Tue), both days inclusive
Record date	4 May 2023 (Thu)
AGM date/ time	11:15 a.m., 9 May 2023 (Tue)

In order to be eligible for attending and voting at the AGM, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong, not later than 4:30 p.m. on Wednesday, 3 May 2023.

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

Hong Kong, 7 March 2023

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 eight Independent Non-executive Directors, namely Mr. Alexander S. K. Au, Mr. Tak Hay Chau, Ms. Lai Yuen Chiang, Hon. Andrew K. Y. Leung, Mr. Desmond L. P. Liu, Mr. R. Gareth Williams, Dr. Glenn S. Yee and Professor E. K. Yeoh.