



WHARF

Established 1886

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1997

Annual Report 2020



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr Stephen T H Ng, *Chairman and Managing Director*
Ms Doreen Y F Lee, *Vice Chairman and Executive Director*
Mr Paul Y C Tsui, *Vice Chairman and Executive Director*
Ms Y T Leng, *Executive Director*
Mr Kevin C Y Hui

Independent Non-executive Directors

Mr Alexander S K Au, *OBE*
Mr Tak Hay Chau, *GBS*
Hon Andrew K Y Leung, *GBM, GBS, JP*
Mr R Gareth Williams
Dr Glenn S Yee
Professor E K Yeoh, *GBS, OBE, JP*

COMPANY SECRETARY

Mr Kevin C Y Hui, *FCCA, CPA, FCG, FCS*

AUDITORS

KPMG, Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

PRINCIPAL SHARE REGISTRAR

Conyers Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

REGISTERED OFFICE

Cricket Square, Hutchins Drive, PO Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16th Floor, Ocean Centre
Harbour City, Canton Road
Kowloon, Hong Kong
Telephone: (852) 2118 3118
Fax: (852) 2118 3208
Website: www.wharfreic.com

SHAREHOLDER INFORMATION

LISTING

Ordinary Shares
The Stock Exchange of Hong Kong Limited
Stock Code: 1997

As at 31 December 2020
Number of issued shares 3,036,227,327

FINANCIAL CALENDAR

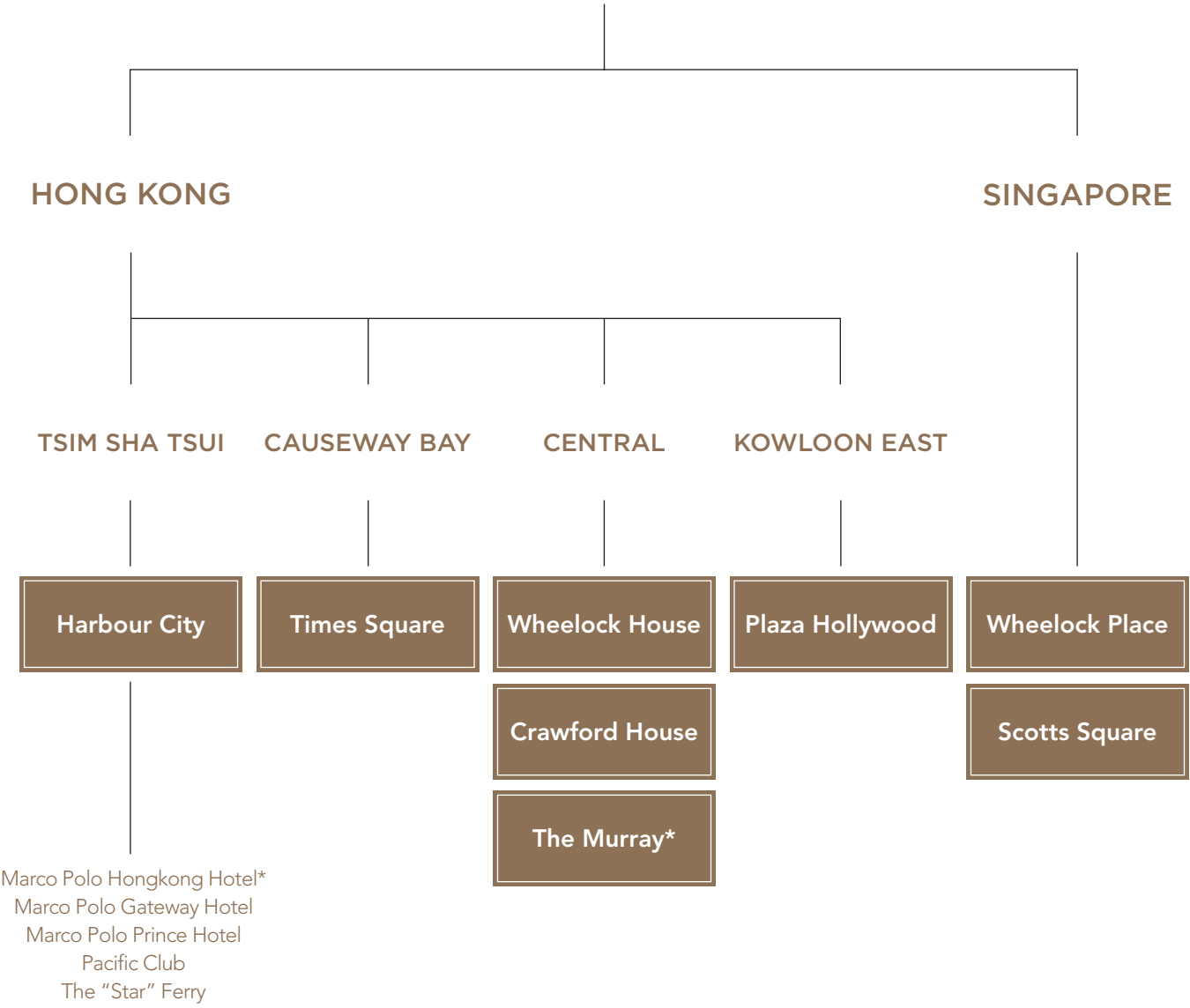
Payment Date of 2020 1st Interim Dividend	2 September 2020
Record Date and Time for 2020 2nd Interim Dividend	6:00 pm, 25 March 2021
Payment Date of 2020 2nd Interim Dividend	22 April 2021
Closure of Register of Members (Shareholders' right to attend and vote at Annual General Meeting)	3-6 May 2021 (both days inclusive)
Annual General Meeting (at Centenary Room, Ground Floor, The Marco Polo Hongkong Hotel, 3 Canton Road, Kowloon, Hong Kong)	11:15 am, 6 May 2021

CONTACTS

Shareholder enquiries: sh@wharfreic.com
Investor enquiries: ir@wharfreic.com
Media enquiries: pr@wharfreic.com

GROUP BUSINESS STRUCTURE

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED



* Held under listed subsidiary Harbour Centre Development Limited

CORPORATE OVERVIEW

Wharf Real Estate Investment Company Limited (“Wharf REIC”) (Stock Code: 1997) is a Hang Seng Index constituent stock on the Hong Kong Stock Exchange.

Wharf REIC is one of the largest real estate companies in Hong Kong with a proven track record in operating and investing in landmark properties. The Group holds a portfolio of six premier quality assets in Hong Kong including Harbour City, Times Square, Wheelock House, Crawford House, The Murray, Hong Kong (“The Murray”) and Plaza Hollywood, and two prime commercial properties Wheelock Place and Scotts Square mall in Singapore.

Harbour City in Tsim Sha Tsui and Times Square in Causeway Bay are the Group’s flagship properties. Sitting on rare 999-year leaseholds, these iconic properties with substantial scale in two of Hong Kong’s most popular shopping destinations and busiest business districts attract constant flows of local shoppers and tourists. The Group’s shopping malls have long time partnership with the world’s most coveted brands and have long been destinations for high end consumption.

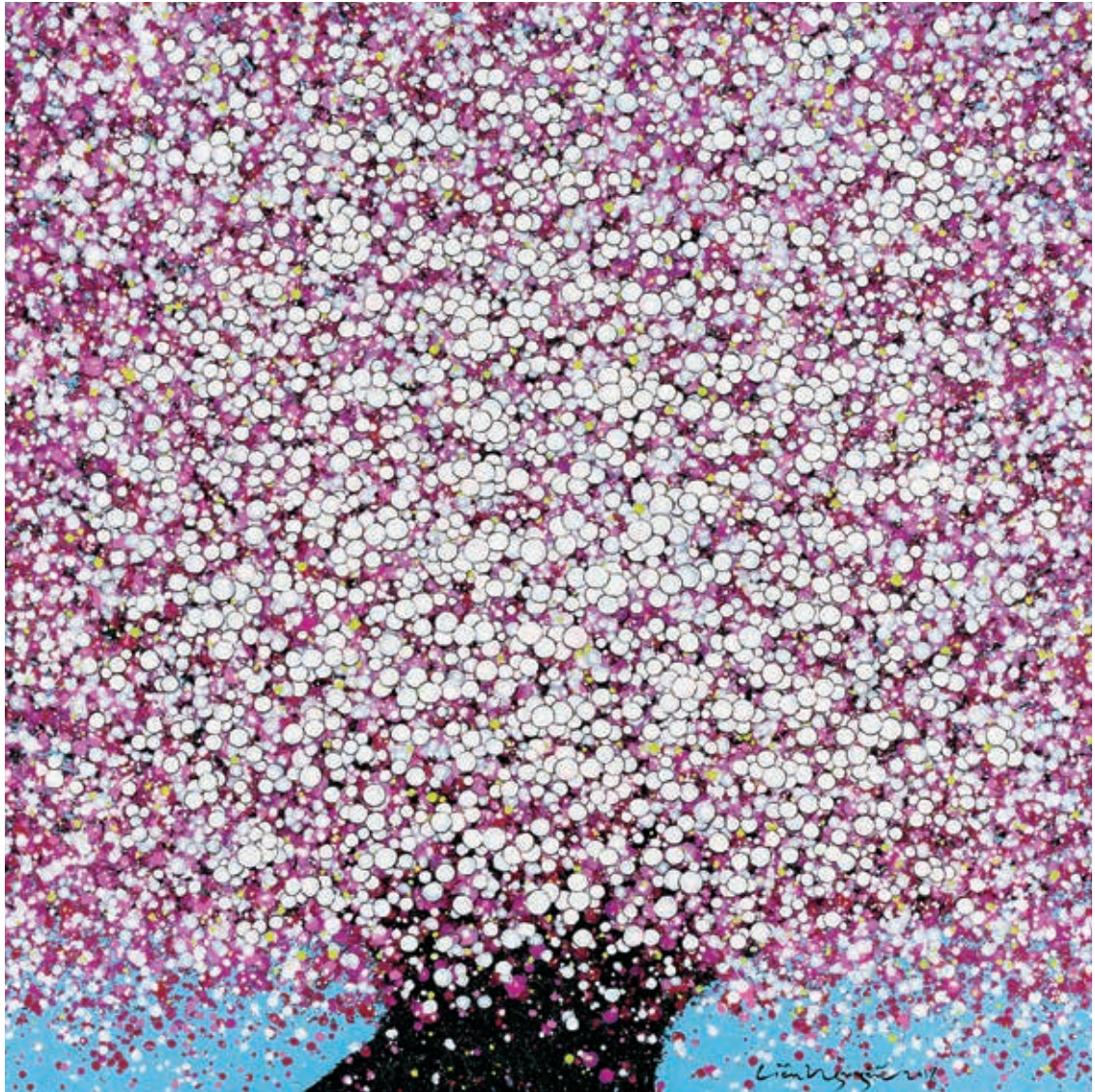
Wheelock House and Crawford House are two premier quality assets with rare 999-year leaseholds in the prime Central district in Hong Kong, with the latter enjoying the longest frontage on bustling Queen’s Road Central.

The Murray, a 336-room luxury hotel converted from Murray Building with towering arches, is an iconic building on probably the last remaining prime site in Central for a luxury hotel.

Plaza Hollywood is a leading shopping mall in Kowloon East. Home to 258 retail outlets, it appeals to the wider catchment area from the emerging Kowloon East.

In Singapore, Wheelock Place and Scotts Square mall are in the heart of the popular Orchard Road belt for retail, hotels and offices. Scotts Square is a freehold property.

Wharf REIC strives to be a good corporate citizen through actively supporting a series of “Business-in-Community” initiatives benefitting different segments of society. The flagship youth development programme Project *WeCan*, The Wharf Hong Kong Secondary School Art Competition, The Wharf Art Scholarship and The Wharf Architectural Design Internship have gained public recognitions over the past 10 years.



CHAIRMAN'S STATEMENT

The perfect storm in 2019 extended into 2020 with the year dominated by COVID-19. The pandemic sent many parts of the world and the global economy to a virtual standstill and spurred massive societal change.

The travel and hotel sectors, in particular, are on their knees under stringent cross border travel and quarantine control. Hong Kong retail sales declined for the second consecutive year. It is hoped that the long-awaited COVID-19 vaccine programmes would help form a base for recovery.

On the other hand, the economic hangover from global downturn still persists, while the lingering concern around Sino-US relations and other geopolitical uncertainties also warrant close attention. Under the cautious business sentiment, office leasing activity remained relatively muted, resulting in vacancy and rental correction. Upcoming leasing activity will depend on renewed demand as local economic activities revive and the Mainland economy gains further momentum.

BUSINESS PERFORMANCE

Under the prevailing economic and market conditions, the Group continued to leverage on our prime assets and proactive marketing dynamics to work through the tough times.

On the retail front, the Group has responded proactively by extending over HK\$2 billion of rent support to retail tenants, the majority in the form of base rent. In addition, marketing expenses were tripled to invest in extensive campaigns to subsidise shoppers' consumption, which received overwhelming response from both tenants and consumers.

In particular, the "Always Rewarding" programme at Harbour City has drawn impressive visitor traffic and led to promising results of repeat purchases by shoppers. On top of hosting the most-admired top-tier brands, Harbour City has also been actively seeking for young, aspirational brands to provide more comprehensive offerings. The retail brands and restaurants opened at Harbour City during the year are poised to entice shoppers and capture the spending potential once COVID-19 is largely contained.

As the hotel sector awaits the resumption of cross-border travel, various themed-staycation programmes and dining packages have been rolled out across the Group's hotels to boost local demand. Thanks to the prompt response to market trend, The Murray is gratified to have achieved the highest revenue per available room and an outperforming occupancy among its competitive set during the year. However, an operating deficit was still inevitable during the year despite the implementation of stringent cost containment measures.

Meanwhile, "de-centralisation" in the office sector slowed down as rents fell. On-going wave of mega IPOs and secondary listings in Hong Kong will help create demand from corporations and financial services institutions but over-supply may continue for some time. Potential return of Mainland and multinational institutions will become important demand drivers in the next couple of years.

CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

Led by the heavy drop of mall profit, Group underlying net profit declined by 24% to HK\$7.5 billion (2019: HK\$9.8 billion). Taking into account the investment properties ("IP") revaluation deficit of HK\$13.8 billion (2019: HK\$5.7 billion), Group loss attributable to equity shareholders amounted to HK\$7.9 billion (2019: profit of HK\$3.9 billion).

As at 31 December 2020, total assets amounted to HK\$277.9 billion and book net asset value was HK\$204.6 billion attributable to equity shareholders (or HK\$67.38 per share). Net debt was HK\$52 billion at year-end, and gearing ratio 24.8%. The Group maintained an A2 issuer rating from Moody's.

Under prudent financial management practices, the Group has committed to a consistent dividend policy by distributing 65% of underlying net profit from IP and hotels in Hong Kong. In lieu of a final dividend, a second interim dividend of HK\$0.69 (2019: HK\$0.93) per share has been declared, bringing the total dividend for the year to HK\$1.47 per share (2019: HK\$2.03).

BUSINESS-IN-COMMUNITY

Sustainability plays a pivotal part in our long-standing mission of "Building for Tomorrow". With an aim of creating lasting value to the community, the Group has been accelerating efforts in mitigating environmental impact, as well as supporting youth and the vulnerable through a series of "Business-in-Community" initiatives.

To integrate global goals in our businesses for a better future, the Group has made strong commitment to majority of the United Nations Sustainable Development Goals. The completion of a preliminary climate risk assessment with reference to the Task Force on Climate-related Financial Disclosures ("TCFD") recommendations by all of our business units further demonstrated the Group's dedication to environmental management.

Various ongoing "Business-in-Community" initiatives include flagship programme "Project WeCan", The Wharf Hong Kong Secondary School Art Competition, The Wharf Art Scholarship and The Architectural Design Internship to groom future generations.

In view of the pandemic situation, the Group has activated the Wharf Emergency Relief Fund to provide instant cash support to pandemic fighters and the needy. This included the fund donated to the Aaron Kwok Love and Concern International Charity Fund, as well as the Community Chest's AntiNCP Rainbow Fund.

The Group has been recognised for its commitment to sustainability with the inclusion as a constituent member of Hang Seng Corporate Sustainability Index, and the CSR Index Plus Mark awarded by Hong Kong Quality Assurance Agency among others.

OUTLOOK

COVID-19 vaccination campaigns across the globe reveal some light at the end of the tunnel in 2021. However, the post-pandemic global economic revival will be long and uneven. Different sectors will restart on different timetables and face different challenges to restore to pre-pandemic activity levels under the new normal. The direction of the unrelenting Sino-US conflict under the new US President and geopolitical tensions will take focus again and add to the many challenges surrounding post-pandemic economic outlook.

The pandemic has accelerated the paradigm shift in retail and hotel landscape in terms of digital transformation and customer loyalty, while the office market may also be affected by the adoption of hybrid workplace model and flexible working schedules. Proactive business strategies to embrace the fundamental shifts and structural change will become the key to stay ahead in the new normal.

After two years of GDP contraction emerging from local social unrests and global pandemic, the Hong Kong economy might reach a turning point once COVID-19 is largely contained. Riding through the unprecedented challenges, our proven expertise and premier quality property portfolio will give the Group an edge to compete in the market. The Group is well placed to capture the opportunities and gain market share in the era of new normal.

VOTE OF THANKS

On behalf of all Shareholders and the Board, I wish to extend my sincere appreciation to all customers and business partners for their continued support under such difficult conditions, and all staff for their hard work and dedication throughout the year.

A special tribute to Ms Doreen Y F Lee, our Vice Chairman and Executive Director who will retire from the Board at the upcoming annual general meeting and will not stand for re-election, for her commendable contribution to the Group's premier IPs over the past three decades.

Last but not least, I wish to welcome Mr Tak Hay Chau and Dr Glenn S Yee to the Board as additional Independent Non-executive Directors since the beginning of 2021 and look forward to their valuable contribution.

Stephen T H Ng

Chairman and Managing Director

Hong Kong, 4 March 2021

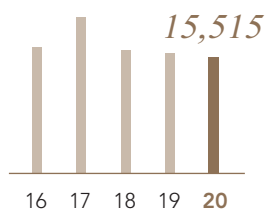
FINANCIAL HIGHLIGHTS

	2020 HK\$ Million	2019 HK\$ Million	Change
Results			
Revenue	15,515	16,043	-3%
Operating profit	9,973	12,711	-22%
Underlying net profit (note a)	7,477	9,791	-24%
(Loss)/profit attributable to equity shareholders	(7,854)	3,928	-300%
Core revenue (note b)	12,141	15,711	-23%
Core operating profit (note b)	9,179	12,576	-27%
Core underlying net profit (note b)	6,877	9,493	-28%
Total dividend for the year (note c)	4,463	6,164	-28%
(Loss)/earnings per share			
Underlying net profit	HK\$2.46	HK\$3.23	-24%
Attributable to equity shareholders	(HK\$2.59)	HK\$1.29	-301%
Dividend per share			
First interim	HK\$0.78	HK\$1.10	-29%
Second interim	HK\$0.69	HK\$0.93	-26%
Total for the year	HK\$1.47	HK\$2.03	-28%
Financial Position			
Total assets	277,914	284,341	-2%
Total business assets (note d)	274,087	280,683	-2%
Total core assets (note b)	247,377	260,999	-5%
Investment properties	245,473	259,873	-6%
Net debt	52,018	42,629	+22%
Shareholders' equity	204,551	216,164	-5%
Total equity	209,409	221,414	-5%
Number of issued shares (in millions)	3,036	3,036	+0%
Net asset value per share	HK\$67.38	HK\$71.20	-5%
Net debt to total equity	24.8%	19.3%	+6%

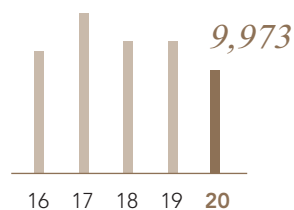
Notes:

- (a) Underlying net profit primarily excludes investment property revaluation (deficit)/surplus, impairment provision on hotel properties and mark-to-market and exchange gain/loss on certain financial instruments
- (b) Core items comprise investment properties and hotels in Hong Kong.
- (c) Equivalent to about 65% of underlying net profit from investment properties and hotels in Hong Kong.
- (d) Business assets exclude unallocated corporate assets mainly comprising deferred tax assets, derivative financial assets and bank deposits and cash.

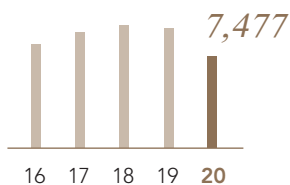
REVENUE
(HK\$ Million)



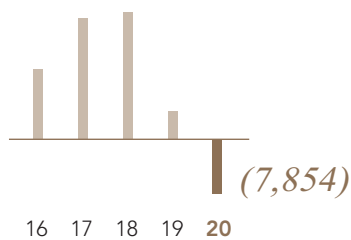
OPERATING PROFIT
(HK\$ Million)



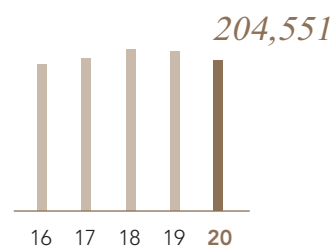
UNDERLYING NET PROFIT
(HK\$ Million)



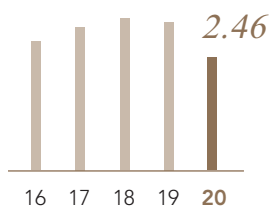
PROFIT/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS
(HK\$ Million)



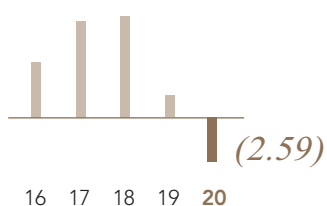
SHAREHOLDERS' EQUITY
(HK\$ Million)



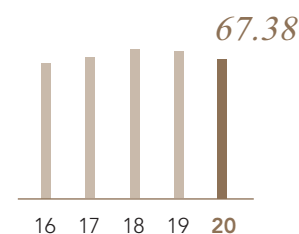
UNDERLYING NET PROFIT PER SHARE
(HK\$)



EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO EQUITY SHAREHOLDERS
(HK\$)



NET ASSET VALUE PER SHARE
(HK\$)





BUSINESS REVIEW

The COVID-19 pandemic has caused devastating disruption to the Group's businesses. Visitor arrivals into Hong Kong sharply plunged to a trickle since February 2020, while various stringent social distancing measures made a serious dent in domestic consumption.

Retail tenants have shortened operating hours and stepped up anti-pandemic measures. F&B businesses were hard hit by the roller coaster imposition of restrictions on seating plans and capacity as well as opening hours for dine-in. During this abnormal period, over HK\$2 billion of rent support extended to retail tenants, with the majority in the form of base rent, was timely. In addition, extensive campaigns to subsidise shoppers' spending received overwhelming support.

On the other hand, the office sector was hit by macro factors including a broad and sharp downturn in the global economy, slowdown in economic activities, and new supply in the market. Vacancy rose and rents softened. "Work from home" poses a new threat to fundamental underlying demand for office space and may have a lasting impact.

Hotel business has also been shaken badly in the absence of inbound tourists. Occupancy tumbled, restaurants and bars suffered, and events were cancelled or indefinitely postponed. Proactive shift of focus to the local market provided some mitigation. However, in spite of ongoing tight cost containment measures and partial compensation from government subsidies, an unprecedented operating loss was reported.

All this has led to an unrealised revaluation deficit on the Group's IP and impairment provisions on the Group's hotels.

Looking ahead, the effectiveness of the mass vaccine campaign around the world and the lifting of quarantine control measures at borders remain uncertain. The pandemic may continue to drag on business performances in the near term.



Harbour City



HARBOUR CITY

Total GFA

8.41 MILLION
SQUARE FEET

Valuation

HK\$ **171.2** BILLION

Leasehold

999 YEARS

High fashion retail frontage on Canton Road

1/3 MILE

equivalent to the most prime section of Ginza, Tokyo;
Avenue Montaigne, Paris; and Fifth Avenue, New York





BUSINESS REVIEW

HARBOUR CITY

PORTFOLIO INFORMATION

	Gross Floor Area (sq ft)	Revenue (HK\$ Million)	Average Occupancy (%)	Year-end Valuation (HK\$ Million)
Retail	2,068,000	5,366	90	90,074
Office	4,615,000	2,705	87	68,546
Others	1,726,000	603	N/A	12,629

BUSINESS ASSETS

As at 31 December

	2020 HK\$ Million	2019 HK\$ Million	Change
Properties (at valuation)	163,958	172,556	-5%
Hotels and club* (at valuation)	7,291	7,730	-6%
Other assets	1,096	628	+75%
Total business assets	172,345	180,914	-5%

* Hotels and club are stated at cost less depreciation in the financial statements.

GROSS REVENUE

	2020 HK\$ Million	2019 HK\$ Million	Change
Retail	5,366	7,452	-28%
Office	2,705	2,748	-2%
Serviced apartments	193	221	-13%
Others	410	1,156	-65%
Total gross revenue	8,674	11,577	-25%

OPERATING PROFIT

	2020 HK\$ Million	2019 HK\$ Million	Change
Retail	4,377	6,615	-34%
Office	2,373	2,421	-2%
Serviced apartments	136	161	-16%
Others	(156)	250	-162%
Total operating profit	6,730	9,447	-29%

Overall revenue (including hotels) declined by 25% and operating profit by 29%.

RETAIL

Retail leasing activity slowed amid dampened consumption market. An occupancy rate of 90% was reported at year-end. Taking the brunt of market rent adjustment, revenue decreased by 28% and operating profit by 34%.

During this unprecedented challenging period, Harbour City strives to retain a dominant market position through enhancing its location advantage and unique critical mass. Adhering to the spirit of win-win collaboration with its best-in-class tenants, prominent investments have been made, not only in cash rent relief for tenants, but also proactive sales-driven programmes which have proven to be an effective stimulus for consumption.

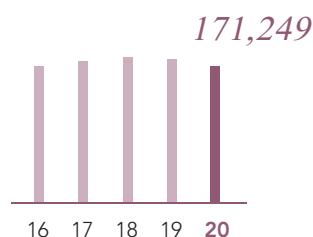
The first-of-its-kind city-wide “Rewarding Everyone” spending campaign in May 2020 became the talk of the town. The several phases of coupon redemption programme and attractive flash offers have successfully driven patronage and spurred spending and repeat purchases. Foot traffic was particularly impressive during weekends. The kid-friendly activities and the “Christmas Every Day” events featuring lighting and music shows, virtual Christmas tour and online Santa Meet & Greet were also warmly welcomed by shoppers.

With an established position of “must-have” address for renowned brands, Harbour City has attracted a myriad of forward-looking local and international brands to open doors or expand. *Lululemon* set up the largest flagship store in Hong Kong, while *Alexander McQueen*, *Canada Goose*, *Christian Louboutin*, *Hermès* and *Jimmy Choo* unveiled their new flagships after expansion. New Hong Kong or Kowloon debuts included *Aroma Truffle*, *Beracamy*, *Brunello Cucinelli Kids*, *By Kilian*, *Cole Haan Grandshop*, *Gianvito Rossi*, *Messika*, *POLA*, *RabeancoRabeanco*, *Senreve*, *Senses* and *Thom Browne*. The addition of *Brunello Cucinelli*, *Pomellato* and *Qeelin* further enhanced the luxury cluster.

The wide array of delectable dining experiences was further elevated with the Hong Kong debuts of *Dang Wen Li* by *Dominique Ansel*, *Kinabaji*, *Nara Thai Cuisine x Lady Nara* and *SAKImoto Bakery*, as well as the Hong Kong flagship of *Da Filippo Trattoria*. Other new commitments included *Cupping Room*, *Espresso Alchemy*, *Harbourside Grill*, *J.S. Foodies Tokyo*, *Palco Ristorante*, *Seolhamyeok* and *Shiawase*.

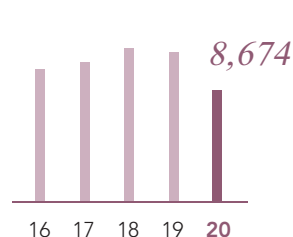
PROPERTY VALUE

(HK\$ Million)



GROSS REVENUE

(HK\$ Million)



HARBOUR CITY

OFFICE

As leasing activity remained subdued, the increasing vacancy level and availability of cost-saving and flexible options in the market have created a more competitive landscape. Occupancy was 85% at the end of December 2020.

Escalating pressure on rentals further weighed on segment revenue. Revenue and operating profit both declined by 2% during the year.



GATEWAY APARTMENTS

Thanks to the high proportion of long-term leases, Gateway Apartments secured an occupancy rate of 81% at year-end with relatively stable average rental, despite slowing leasing demand.

HOTELS AND CLUB

The three Marco Polo hotels on Canton Road suffered as inbound tourism almost completely stopped. Restrictions on bars and restaurants under the tightening social distancing measures created another major hurdle. During the year, Marco Polo Hongkong Hotel and Gateway Hotel proactively unveiled various appealing staycation and dining packages to draw in the local market, while Prince Hotel was closed for a major renovation, scheduled for reopening in 2021 with refreshing, new contemporary elements.

Safeguarding the health and well-being of our guests remained the top priority. Proactive measures have been employed to ensure stringent levels of hygiene and offer guests a safe and comfortable stay.

In early 2020, Marco Polo Hongkong Hotel was proudly ranked among the Top 10 'Best Hotels & Resorts in Hong Kong' in the 2020 DestinAsian Readers' Choice Awards, receiving the notable accolade for the third consecutive year. *Cucina* was among a handful restaurants that achieved the much-coveted global Forbes 4-Star rating in Hong Kong.



Times Square





Access →

ae Crawford ↓

BOTTEGA VENETA



TIMES SQUARE



Total GFA

1.98 MILLION
SQUARE FEET

Valuation

HK\$ **52.7** BILLION

Leasehold

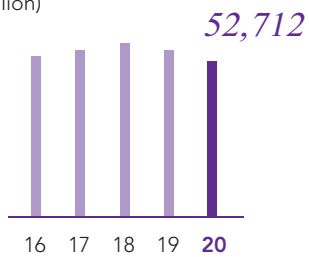
999 YEARS

Tallest vertical mall

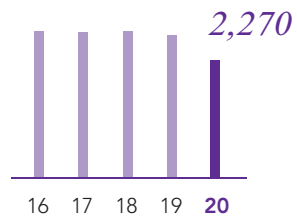
17 FLOORS



PROPERTY VALUE
(HK\$ Million)



GROSS REVENUE
(HK\$ Million)



TIMES SQUARE

PORTFOLIO INFORMATION

	Gross Floor Area (sq ft)	Revenue (HK\$ Million)	Average Occupancy (%)	Year-end Valuation (HK\$ Million)
Retail	943,000	1,574	93	34,275
Office	1,033,000	696	88	18,437

BUSINESS ASSETS

As at 31 December

	2020 HK\$ Million	2019 HK\$ Million	Change
Properties (at valuation)	52,712	56,500	-7%
Other assets	220	101	+118%
Total business assets	52,932	56,601	-6%

GROSS REVENUE

	2020 HK\$ Million	2019 HK\$ Million	Change
Retail	1,574	2,020	-22%
Office	696	741	-6%
Total gross revenue	2,270	2,761	-18%

OPERATING PROFIT

	2020 HK\$ Million	2019 HK\$ Million	Change
Retail	1,242	1,774	-30%
Office	605	649	-7%
Total operating profit	1,847	2,423	-24%

Overall revenue decreased by 18% and operating profit by 24%, due to the adverse business environment and increased competition.

RETAIL

The evening dine-in ban had significant impact on the F&B sector and overall evening spending. With retailers turning more conservative towards new investments amid cautious local consumption sentiment, revenue declined by 22% and operating profit by 30%. Occupancy was 93% at the end of December 2020.

In line with Harbour City, on top of the cash rent relief provided to tenants, Times Square has made considerable investments in sales-driven marketing initiatives. Following the favourable response of the city-wide “Rewarding Everyone” spending campaign, subsequent phases of “Happy Rewards” and theme-based promotions were introduced to attract footfall and encourage repeat purchases.

Live-stream shopping was launched to retain shoppers’ appetite at times with strict outbreak control measures. The “Instagrammable” exhibitions and extended free parking hours programme were also well received by shoppers.

Constant re-tenanting exercises were in place to enhance the competitiveness of the mall. The diversified retail and lifestyle offerings have been further enriched with the recruitment of *Area 0264*, *AHKAH* (HK debut), *Bakebe*, *Cigar Kingdom*, *GeneHarbor* (Island debut), *Lionesse* and *MaskOn Gallery* (HK debut). Dining experiences were beefed up by the Hong Kong debuts of *Atelier Gute* and *饗11 Gathering*, the Island debut of *Aburi-En*, *CAFFÉ MILANI* and *FU RONG*, as well as the commitment of *Greyhound Café*, *La Famille* and *Mrs. Fields Cookies*.

OFFICE

Amid weak business sentiment and soaring vacancies in the market, occupancy rate declined to 86% at year-end.

Office rents witnessed visible correction in the fiercely competitive market. Revenue decreased by 6% and operating profit by 7%.

Central Portfolio



Wheelock House and Crawford House maintained steady demand from diversified tenants in a soft market. At the end of December 2020, revenue increased by 2% and operating profit by 3%.

WHEELOCK HOUSE

Office Occupancy

94%

Retail Occupancy

100%



CRAWFORD HOUSE

Office Occupancy

95%

Retail Occupancy

100%

CENTRAL PORTFOLIO

THE MURRAY





In response to the cross-border travel halt, The Murray promptly rolled out a range of tempting staycation packages and dining offers to welcome more local guests. Such business strategy successfully encouraged business flows. The Murray achieved the highest revenue per available room and an outperforming occupancy among its competitive set during the year.

On top of the numerous prestigious accolades garnered, the award-winning hotel became the only Hong Kong hotel in The Leading Hotels of the World's portfolio since 2020, manifesting its commitment to strive for internationally acclaimed hospitality standards of excellence, and will be ready when inbound travel activities revive to be ahead of the curve.

Despite favourable local demand and proactive cost management, an operating loss was reported in the absence of international travellers. Depreciation of land and building costs over the 50-year lease term further magnified the loss.

336 ROOMS

5 CELEBRATED
RESTAURANTS AND BARS



Plaza Hollywood



Plaza Hollywood was relatively resilient backed by local consumption. Occupancy was 95% at year-end. Revenue decreased by 13% to HK\$479 million and operating profit by 19% to HK\$336 million.

As an established retail destination serving the burgeoning middle class in Kowloon East, Plaza Hollywood is well-positioned to capture the potential post-COVID revival in local spending. Situated atop the Diamond Hill MTR station, an integrated public transport hub, its geographical advantage was further strengthened with the partial opening of the MTR's Tuen Ma Line in early 2020. In a bid to drive footfall and encourage repeat purchase in the challenging market, a spate of compelling sales-driven programmes, cross-trade promotions and special reward programmes for VIC members was launched during the year.

BUSINESS ASSETS

As at 31 December

	2020 HK\$ Million	2019 HK\$ Million	Change %
Properties (at valuation)	9,303	9,630	-3%
Other assets	39	7	+457%
Total business assets	9,342	9,637	-3%

Total GFA

562 THOUSAND
SQUARE FEET

CINEMA

1,600+ SEATS

Singapore Assets



WHEELLOCK PLACE

Wheelock Place and Scotts Square enjoy prime location in Singapore's renowned Orchard Road shopping belt. Business activity gradually resumed in the latter half of the year following the government-enforced "circuit-breaker" lockdown period.



SCOTTS SQUARE

A freehold property.

AWARDS & RECOGNITIONS

WHARF REAL ESTATE INVESTMENT COMPANY LIMITED

Among the top 10 donors of Dress Casual Day 2019-20 and the "Highest Donation Increment Award"

HARBOUR CITY

"Top 10 My Favorite Shopping Malls in Hong Kong" and "Top 25 My Favorite Shopping Malls Events" in Shopping Mall Awards 2019-20 by Hong Kong Economic Times ("HKET")

"Outstanding RCx (Proposal) Award" for Gateway II, "RCx Merit Award" for Ocean Centre and Ocean Terminal Extension in Energy Saving Championship Scheme 2019 by Electrical and Mechanical Services Department ("EMSD")

"Role Model", "Best Design", "Best Installation" and "Best Maintenance", in Solar PV System Installation Role Model Election 2019 by EMSD

TIMES SQUARE

"Top 10 My Favorite Shopping Malls in Hong Kong" and "Top 25 My Favorite Shopping Malls Events" in Shopping Mall Awards 2019-20 by HKET

"Best Exhibition Event — Bronze" in Marketing Events Awards 2020

PLAZA HOLLYWOOD

"Top 25 My Favorite Shopping Malls Events" in Shopping Mall Awards 2019-20 by HKET

"Best Online Event" and "Best Use of Social Media" in Digital EX Awards 2020 by Metro Finance

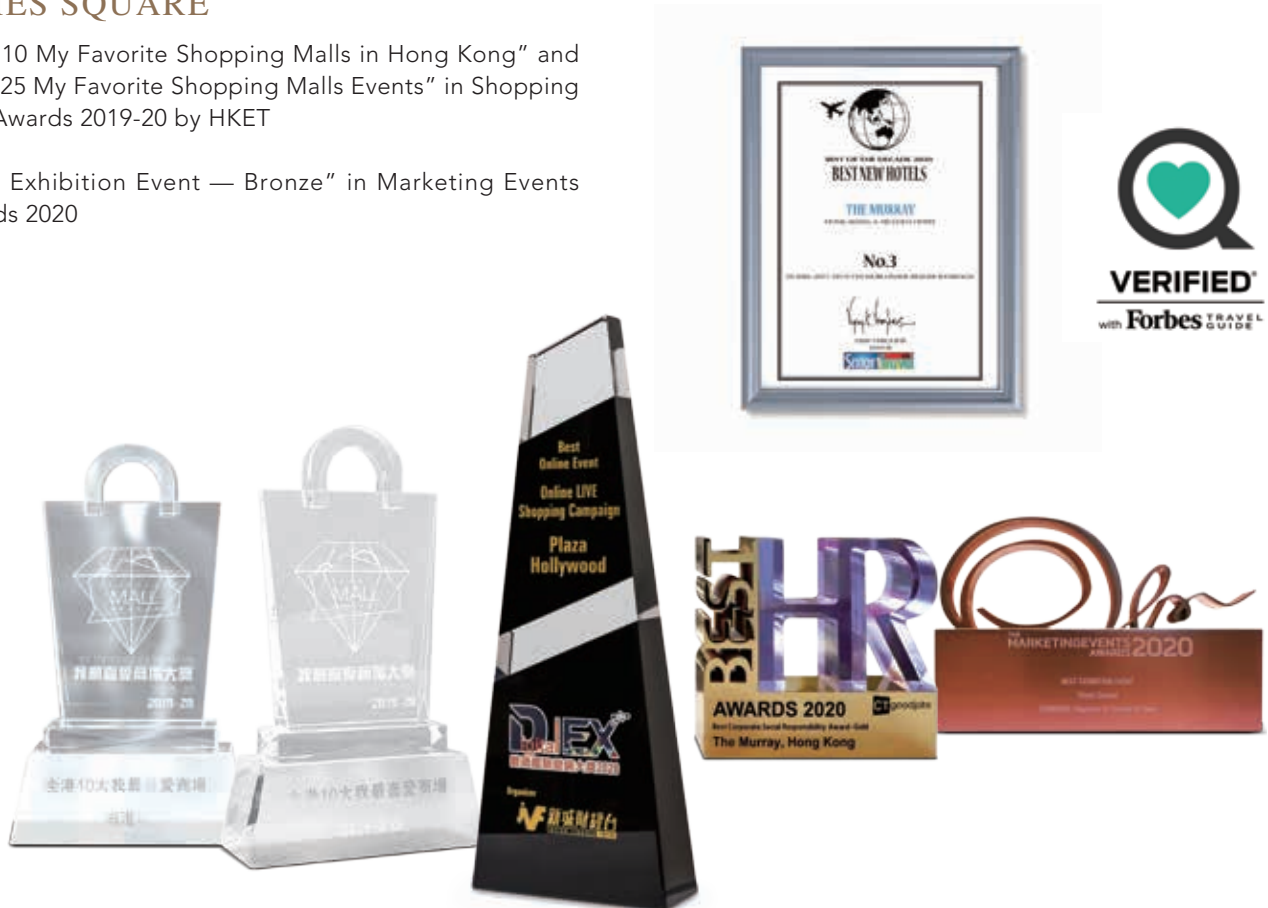
THE MURRAY

"Best of the Decade 2020 — Best New Hotels" by Smart Travel Asia

"Best Change Leadership Strategy Award (Gold)" and "Best Corporate Social Responsibility Award (Gold)" by CTgoodjobs

"Manpower Developer Award" by ERB Manpower Developer Award Scheme 2019-20

"Sharecare Health Security VERIFIED®" by Sharecare and Forbes Travel Guide



MARCO POLO HOTELS — HONG KONG

“8th place of Best Hotels & Resorts in Hong Kong” by DestinAsian Readers’ Choice Awards 2020

“Recommended Hotel — Marco Polo Hongkong Hotel” by Forbes Travel Guide 2020

“Best Hotel Wedding Banquet — Kowloon (Preferred Choice) — Marco Polo Hongkong Hotel” by ESDlife Bridal Award 2020

“Silver Certification — Marco Polo Hongkong Hotel” by EarthCheck

“Four-Star Restaurant — Cucina” by Forbes Travel Guide 2020

“Silver Award — Cucina” in Wine By the Glass Restaurant Award 2020

“Hong Kong Top 10 Wine Pairing Restaurant 2020 — Cucina” by WINE.Luxe Magazine

“Champion of the Most Popular Buffet Restaurant 2020 — Three on Canton” by Weekend Weekly

GATEWAY APARTMENTS

“Best Serviced Apartment” in Hong Kong Living Awards 2020

“Certificate of Merit” in Hong Kong Awards for Environmental Excellence 2019 under Hotels and Recreation Clubs sector

“Service Awards” in Serviced Apartments Category by Capital Weekly Magazine



PACIFIC CLUB

“Top 100 City Club” — Platinum Club of the World in 2020-21

“Certificate of Merit” in Hong Kong Awards for Environmental Excellence 2019 under Hotels and Recreation Clubs sector

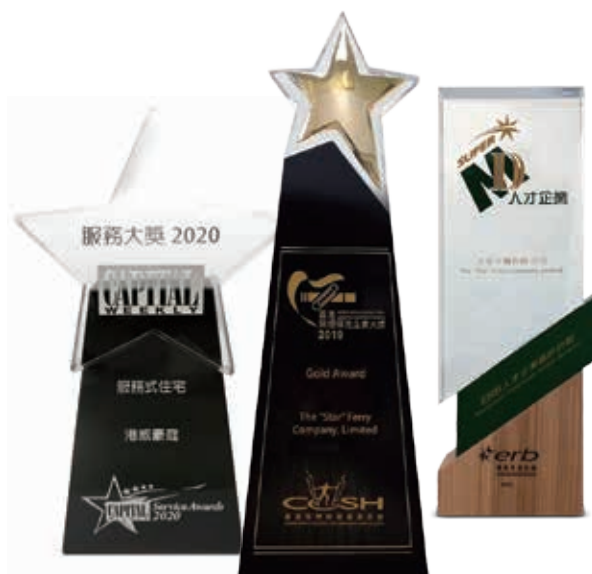
THE “STAR” FERRY

“Gold Award” in The Hong Kong Smoke-free Leading Company Awards

“Engerywi\$e Certificate (Good Level)” and “Wastewi\$e (Excellence Level)” by Hong Kong Green Organisation Certification

“Hong Kong Green Organisation” Certification

Jockey Club Age-friendly City Partnership Scheme 2020





CORPORATE SUSTAINABILITY

CORPORATE SUSTAINABILITY

Amid this difficult year with COVID-19 outbreak, the concept of corporate sustainability and resilience has gained more traction. The Group continues to uphold our long-standing mission of “Building for Tomorrow” which has been integrated into our sustainability approach, guiding us to focus beyond economic values, towards the wellbeing of communities where we have operations. The Group supports the United Nations Sustainable Development Goals (“SDGs”) and aligns 11 SDGs with our business strategies. As a recognition of our sustainability effort, the Group is included as one of the 30 constituents in Hang Seng Corporate Sustainability Index.

This section highlights the Group’s major sustainability achievements in the reporting year. For detailed information, please refer to the Group’s standalone Sustainability Report which will be available on the Group’s website (www.wharfreal.com).

SUSTAINABILITY GOVERNANCE

The Group maintains a robust sustainability governance structure to oversee and manage environmental, social and governance issues in our operations. Delegated by the Board and chaired by the Group’s Chairman, the group-level Sustainability Steering Committee, which meets twice a year, is responsible for developing and reviewing sustainability strategies, and holds accountability for decisions with economic, environmental and social impacts. The Divisional Sustainability Committee, which comprises Heads of Business Units (“BUs”) and Corporate Units (“CUs”), and assisted by the Cross-BU Sustainability Group, monitors the Group’s sustainability performance and guides BUs towards best sustainability practices. Each BU dedicates a sustainability governance body to identify and evaluate sustainability risks and opportunities within their operations and develop appropriate management measures. BUs regularly report their sustainability performance and progress to the Sustainability Steering Committee for group monitoring.

RESPONDING TO COVID-19 PANDEMIC

COVID-19 pandemic presented enormous challenges to the society in 2020. The Group spares no effort in helping our employees, customers and local community to overcome the difficult times.

To protect employees’ health, employees are required to take temperature daily and wear face masks in the workplace. Circulars which detail information on personal hygiene, workplace sanitary regimes and the latest update of Governmental anti-pandemic measures are issued regularly to our staff. Depending on business nature, BUs offer work-from-home, split-office and flexible working hours to maintain social distancing while ensuring business continuity. Virtual conferencing technology is also utilised to support seamless team collaborations.

Besides, various measures were adopted to protect our customers’ and guests’ health. These include temperature check and health declaration upon entry to our office buildings and hotels, more frequent disinfection of our premises, and floor restriction of office lift access to reduce the risk of cross-infection. Star Ferry also applied anti-bacterial and virus coating to all the vessels in the fleet and Star Ferry Piers in Tsim Sha Tsui, Central and Wanchai. The coating would remain effective for a year to create a hygienic environment for our passengers.

In the early stage of the outbreak, The Wharf Group has swiftly injected HK\$10 million to “Wharf Emergency Relief Fund” to support Hong Kong’s grass-root families who are suffering from financial hardship. The Group also collaborated with various non-governmental organisations. Marco Polo Hotels – Hong Kong delivered pandemic prevention supplies such as surgical masks for adults and kids, handmade fabric masks and hand sanitisers to the Children’s Cancer Foundation and Heep Hong Society. Hundreds of colouring books were also sent to encourage positive attitude among children. In partnership with the Neighbourhood Advice-Action Council Cha Kwo Ling Centre, Wharf Estates Limited also invited our employees to donate hand sanitisers for low-income families living in Cha Kwo Ling squatter village in March 2020.

BUSINESS DEVELOPMENT AND CORPORATE GOVERNANCE

The Group commits to the highest standard of business ethics, and observes the laws and regulations relating to bribery, extortion, fraud or money laundering and anti-competition in our business operations. The Group implements a Compliance Policy Statement to delineate our commitment in legal compliance in our business operations. The Group's Statement of Business Integrity and Code of Conduct are in place to communicate our expectations. Our Whistleblowing Policy and Procedures provide confidential grievance channels for any misconduct or malpractice. To ensure meeting the highest ethical standards, the Group regularly reviews our operation procedures. During the reporting year, the Group did not observe any non-compliance cases related to bribery, extortion, fraud or money laundering and fair market competition.

Detailed discussion on governance structure, and risk management and internal control systems can be found on pages 52 to 70.

CLIMATE RESILIENCE

Climate change is posing significant challenges to the world and has become a vital element in the Group's strategy. BUs have carried out a preliminary climate risk mapping exercise with reference to the Recommendations of the Task Force on Climate-related Financial Disclosures ("TCFD") to identify potential risks and corresponding mitigation measures across our portfolio. During the reporting year, the Group published the Climate Change Policy Statement to further demonstrate our commitment to climate change management. The Group will continue to step up our effort in containing climate-related risks and enhancing climate resilience of our assets and business operations.



CORPORATE SUSTAINABILITY

PROTECTING OUR ENVIRONMENT

Abiding by the environmental laws and regulations in Hong Kong and the Environmental Protection Law of the People's Republic of China, the Group has developed environmental guidelines in 2016 to set out our principles and standards in managing environmental issues. The Group regularly reviews our business operations to ensure effectiveness of the control measures. During the reporting year, the Group did not observe any cases of non-compliance relating to environmental regulations.

Besides, the Group continues to enhance the environmental performance of our portfolio. In 2020, Harbour City launched a trial run to optimise chiller performance by utilising building management system with cloud computing, data analysis and AI technologies. Subsequently, over 15,000 kWh of electricity savings have been achieved monthly.

Star Ferry also completed the retrofit of "Morning Star" in 2020. "Morning Star" became the first low emission green ferry in the fleet, powered by diesel-electric propulsion system ("DEPS"), that runs daily service in Hong Kong. The next green ferry "Silver Star" will be launched in 2021. Star Ferry will carry out retrofit or re-engineering work to other ferries subject to the company's financial position and taking into account the latest proven green technologies available.

The Group has attained a 20% electricity consumption reduction, exceeding our target of 12% by 2020 (same scope with 2014 as the baseline year). Riding on the achievement, the Group has established a new set of group-wide environmental targets. These will continue to guide us towards a more environmentally friendly business model.



NURTURING OUR PEOPLE

Adhering to relevant employment and labour laws and regulations, the Group strives to create a rewarding, safe and inclusive work environment by adopting and regularly reviewing relevant policies and practices. During the reporting year, we observe no non-compliance cases concerning employment practices and occupational safety and health. The Group also records zero work-related fatality in 2020.

To attract and retain employees, the Group provides competitive remunerations based on employees' qualification and experience. The Group follows "pay-for-performance" compensation principle and recognises outstanding employees through Staff Recognition Programme. The Group also listens to our employees through channels such as staff survey, town hall meetings and intranet platform, and addresses concerns raised. To promote work-life balance and boost bonding among our employees, the Group regularly organises staff recreational activities and held "Healthy Joyful Living" wellbeing activity series.

The Group promotes a learning culture to keep the team abreast of industry development as well as uplifting our employees' competence through an array of training programmes. In 2020, the Group provided more than 50,000 training hours to our employees, covering topics on professional development, anti-corruption, corporate culture, environmental protection, human rights, occupational safety and health and legal compliances. This year, the Group also arranged workshops to equip our employees with hygienic knowledge for combating COVID-19 and protecting health, and training programmes to enhance team collaboration under the new normal.



CORPORATE SUSTAINABILITY

BUSINESS-IN-COMMUNITY

Project *WeCan* (“*WeCan*”), a flagship youth development programme launched in 2011, is one of the Group’s business-in-community initiatives to empower students who are disadvantaged in learning with programmes that will engage them, nurture their confidence and inspire them to pursue higher studies and fulfilling careers. Although COVID-19 pandemic has posed challenges to schools and students in their teaching and learning, with physical activities virtually impossible in 2020, *WeCan* has continued to provide different activities for students via online or a mixed mode with a view to broaden their horizon. *WeCan* received steadfast support from 68 partner organisations benefitting 76 schools and over 75,000 students.

Besides, the Group has launched a range of initiatives to promote art and culture in Hong Kong. The Wharf Young Art Ambassadors scheme organises arts and culture activities regularly to provide the youth with learning opportunities and exposure in the art field. Supported by The Hong Kong Museum of Art, The Wharf Hong Kong Secondary School Art Competition 2019/20 accepted entries of Sculpture as well as Paintings for the first time to encourage youths to create with different mediums. Winning entries were exhibited at our malls. To further support their development, the top 18 entrants were entitled to enrol a professional online programme designed by Christie’s Education that covers extensive art-related topics. The Group also offers financial support through The Wharf Art Scholarship and Architectural Design Internship as young talents pursue their aspiration in arts and design.

RESPONSIBLE PRODUCTS AND SERVICES

The Group regularly reviews and enhances the standard operating procedures to uphold our product and service excellence and ensure compliance with applicable product liability and safety and consumer laws and regulations. With established complaint handling procedures and regular customer satisfaction surveys, BUs listen to customers’ feedback and carry out improvement works. The Group also endeavours to safeguard the health of our customers, especially in the times of COVID-19 pandemic. The Group will continue to seek for improvement area to deliver healthy and safe products and services.

The Group respects customer data privacy and complies with the Personal Data (Privacy) Ordinance (Cap 486 of the laws of Hong Kong) and EU General Data Protection Regulation. The Group’s Data Privacy Policy Statement follows a “need-to-know” basis, where only authorised personnel are granted the rights to read, retrieve and dispose of customers’ personal information. All staff is prohibited from disclosing any customers’ information to third parties without customers’ consent. No complaint regarding the leakage of personal data or violation of customer privacy was received in the reporting year.

Our commitment towards corporate responsibility is also incorporated in our supply chain management practices. The Group implements the Green Procurement Policy and prioritises suppliers with both high technical capabilities and outstanding environmental and social practices. Suppliers are also required to acknowledge their understanding and compliance to our Acknowledgment of Business Ethics and Integrity. In 2020, almost all of the Group’s suppliers are local suppliers.



FINANCIAL REVIEW

(I) REVIEW OF 2020 FULL YEAR RESULTS

Unavoidably suffering from the prolonged COVID-19 pandemic, which severely impacted the performance of Investment Properties (“IP”) and Hotel segments of the Group, underlying net profit decreased by 24% to HK\$7,477 million (2019: HK\$9,791 million) with IP decreasing by 23% to HK\$7,267 million and Hotel turning to loss. The gloomy performance was slightly mitigated by increase in Development Properties (“DP”) sales recognised by listed subsidiary Harbour Centre Development Limited (“HCDL”). Including the revaluation and impairment losses of IP and hotels, the Group recorded a loss of HK\$7,854 million attributable to equity shareholders (2019: profit of HK\$3,928 million).

Revenue and Operating Profit

Group revenue and operating profit decreased by 3% to HK\$15,515 million (2019: HK\$16,043 million) and 22% to HK\$9,973 million (2019: HK\$12,711 million), respectively, as IP and Hotel were dramatically affected by COVID-19.

Total revenue and operating profit of Harbour City (including hotels) dropped by 25% to HK\$8,674 million (2019: HK\$11,577 million) and 29% to HK\$6,730 million (2019: HK\$9,447 million) respectively, representing 56% (2019: 72%) of Group revenue and 67% (2019: 74%) of Group operating profit.

IP segment was hit hard under the shrinking retail market. IP revenue and operating profit decreased by 17% to HK\$11,828 million (2019: HK\$14,279 million) and 22% to HK\$9,733 million (2019: HK\$12,501 million) respectively, mainly resulting from rent support of over HK\$2 billion extended to retail tenants and considerable increase in marketing and programming cost to stimulate footfall and retail tenants’ sales amid the stagnant market conditions.

Hotel segment was the most victimised with revenue nosediving by 58% to HK\$630 million (2019: HK\$1,507 million), resulting in an operating loss of HK\$379 million (2019: profit of HK\$61 million) with the devastation on tourist-dependent hotel businesses. The adversity was partially mitigated by revenue from interim focus on the domestic market, proactive cost saving measures and Government subsidies of HK\$70 million, representing 11% of Hotel revenue. Excluding the Government subsidies, Hotel revenue decreased by 63% to HK\$560 million and operating loss HK\$449 million.

DP revenue and operating profit increased to HK\$2,621 million (2019: HK\$38 million) and HK\$444 million (2019: HK\$131 million) respectively, primarily from completion of the first phase of Suzhou IFS owned by HCDL although presales and constructions were affected by lockdowns in Mainland China in the first half of the year.

Investment operating profit primarily from dividend income grew by 205% to HK\$357 million (2019: HK\$117 million).

Fair Value Loss of IP

IP portfolio was stated at HK\$245.5 billion based on independent valuation as at 31 December 2020, making a revaluation deficit of HK\$13,965 million. Netting out relevant non-controlling interests, an attributable unrealised loss of HK\$13,765 million was charged to the consolidated statement of profit or loss.

Other Net Charge

Other net charge was HK\$1,459 million (2019: HK\$40 million), mainly included impairment provision of HK\$1,051 million made for hotel properties.

Finance Costs

Finance costs amounted to HK\$1,407 million (2019: HK\$1,007 million) after interest capitalisation of HK\$16 million (2019: HK\$41 million) for DP and an unrealised mark-to-market loss of HK\$426 million (2019: HK\$9 million) on cross currency and interest rate swaps in accordance with prevailing accounting standards.

The effective borrowing rate was 1.9% (2019: 2.6%). Excluding the unrealised mark-to-market loss, finance costs before capitalisation was HK\$997 million (2019: HK\$1,039 million), representing a 4% decrease. Finance costs after capitalisation was HK\$981 million (2019: HK\$998 million).

Income Tax

Taxation charge for the year decreased by 39% to HK\$1,205 million (2019: HK\$1,961 million) principally on a reduction in taxable profit of IP and hotels. In addition, one-off land appreciation tax write-back of HK\$504 million for a Mainland DP project was recorded by HCDL upon clearance with relevant tax authorities.

Loss Attributable to Equity Shareholders

Group loss attributable to equity shareholders for the year amounted to HK\$7,854 million (2019: profit of HK\$3,928 million). Basic loss per share was HK\$2.59, based on 3,036 million ordinary shares in issue (2019: earnings per share of HK\$1.29 based on 3,036 million ordinary shares in issue).

Underlying net profit (a performance indicator of the Group's major business segments and arrived at after excluding the attributable net IP revaluation deficit of HK\$13,765 million, the attributable impairment provision on hotel properties of HK\$699 million and other mark-to-market differences on certain financial instruments) decreased by 24% to HK\$7,477 million (2019: HK\$9,791 million). Underlying earnings per share was HK\$2.46 (2019: HK\$3.23).

FINANCIAL REVIEW

(II) LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL COMMITMENTS

Shareholders' and Total Equity

As at 31 December 2020, shareholders' equity decreased by HK\$11.6 billion to HK\$204.6 billion (2019: HK\$216.2 billion), equivalent to HK\$67.38 per share based on 3,036 million ordinary shares in issue (2019: HK\$71.20 per share based on 3,036 million ordinary shares in issue).

Total equity including non-controlling interests decreased by HK\$12.0 billion to HK\$209.4 billion (2019: HK\$221.4 billion).

Assets

Total assets as at 31 December 2020 was HK\$277.9 billion (2019: HK\$284.3 billion), 92% (2019: 94%) of which was in Hong Kong. Total business assets, excluding bank deposits and cash, derivative financial assets and deferred tax assets was HK\$274.1 billion (2019: HK\$280.7 billion).

IP

IP decreased by 6% to HK\$245.5 billion (2019: HK\$259.9 billion), representing 90% (2019: 93%) of total business assets. Harbour City (excluding the three hotels which were stated at cost) was valued at HK\$164.0 billion (2019: HK\$172.6 billion). Including the valuation of these hotels, Harbour City had a total valuation of HK\$171.2 billion or HK\$56 per share. Times Square was valued at HK\$52.7 billion, or about HK\$17 per share.

Hotels

Hotel properties are stated at cost less accumulated depreciation and impairment losses at HK\$7.5 billion (2019: HK\$7.7 billion). Valuation of these hotels amounted to HK\$14.3 billion (2019: HK\$15.2 billion).

DP

DP, including those interests in an associate and joint ventures, amounted to HK\$6.3 billion (2019: HK\$8.0 billion), mainly representing the DP portion of Suzhou IFS owned by HCDL.

Other long term investments

Other long term investments amounted to HK\$13.0 billion (2019: HK\$4.1 billion), including a portfolio of blue chips held for long term growth 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 year produced a net surplus of HK\$1.2 billion as reflected in the other comprehensive income. The attributable accumulated surplus balance at the year-end was HK\$1.5 billion (2019: HK\$0.3 billion).

Debts and Gearing

Net debt as at 31 December 2020 rose to HK\$52.0 billion (2019: HK\$42.6 billion). It comprised debts of HK\$54.3 billion and bank deposits and cash of HK\$2.3 billion.

An analysis of net debt is depicted below:

Net debt/(cash)	31 December	31 December
	2020	2019
	HK\$ Billion	HK\$ Billion
The Group (excluding HCDL)	50.5	40.9
HCDL	1.5	1.7
Total net debt	52.0	42.6

As at 31 December 2020, the ratio of net debt to total equity rose to 24.8% (2019: 19.3%).

Finance and Availability of Facilities

Total available loan facilities as at 31 December 2020 amounted to HK\$69.6 billion, of which HK\$54.3 billion was utilised. The breakdown is depicted below:

	31 December 2020		
	Available Facility	Total Debt	Undrawn Facility
	HK\$ Billion	HK\$ Billion	HK\$ Billion
Committed and uncommitted bank facilities			
The Group (excluding HCDL)	64.6	51.5	13.1
HCDL	5.0	2.8	2.2
	69.6	54.3	15.3

Certain banking facilities were secured by bank deposits of HK\$356 million (2019: HK\$5.7 billion mortgage over the Group's DP).

The debt portfolio was primarily denominated in United States dollars, Hong Kong dollars and Singapore dollars. The respective funds available were mainly utilised to finance the Group's IP and remaining DP investments.

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

The Group continued to adhere to a high level of financial discipline with a strong financial position. Ample surplus cash and undrawn committed facilities were available to facilitate business and investment activities. In addition, the Group also maintained a portfolio of liquid listed investments with an aggregate market value of HK\$13.0 billion (2019: HK\$4.1 billion), which is available for use if necessary.

FINANCIAL REVIEW

Cash Flows for the Group's Operating and Investing Activities

For the year under review, the Group recorded net cash inflows (before changes in working capital and tax payment) of HK\$9.9 billion (2019: HK\$12.8 billion) principally comprising rental income. Changes in working capital and profits tax payment reduced the net cash inflow from operating activities to HK\$4.8 billion (2019: HK\$12.0 billion). For investing activities, the Group recorded a net cash outflow of HK\$8.1 billion (2019: HK\$8.1 billion) mainly attributable to listed investments.

Capital Commitments

As at 31 December 2020, major expenditures to be incurred in the coming years were estimated at HK\$2.0 billion, of which HK\$0.6 billion was committed. A breakdown (by segment) is as follows:

	As at 31 December 2020		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
Properties			
IP			
Hong Kong	93	411	504
DP			
Mainland China	289	759	1,048
Properties total	382	1,170	1,552
Hotels			
Hong Kong	105	3	108
Mainland China	78	260	338
	183	263	446
Group total	565	1,433	1,998

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

Included in the above are HCDL's expenditures totalling HK\$1.4 billion, which will be funded by its own financial resources.

(III) DIVIDEND POLICY

The Company may declare or recommend interim, final or special dividends from time to time. In deciding whether to declare or recommend a dividend and in determining the dividend amount, the Board shall consider the Group's operations and earnings, capital requirements and surplus, general financial condition, legal and contractual restrictions, capital expenditure and future development requirements, shareholders' interests and other factors which they may deem relevant.

Subject to its final determination at the relevant time, it is the current intention of the Board to pay dividends corresponding to approximately 65% of underlying net profit attributable to shareholders derived from IP and hotels in Hong Kong from year to year. Underlying net profit from IP and hotels excludes profit from unrealised revaluation gains, the recognition of deferred tax assets and any other material non-cash gains, and profit which the Board considers to be non-recurring in nature including but not limited to disposal gains or gains on the issuance of securities.

The Board will review this policy for change from time to time with reference to its future prospect, capital requirements and other changing circumstances both internally and externally.

(IV) BUSINESS MODEL AND STRATEGY

The principal strategy is to invest in premium quality properties with long-term growth potential.

The implementation of this strategy can be broadly categorised into (i) asset management strategy, and (ii) capital management strategy. Asset management strategy includes firstly proactive lease management and tenant mix optimisation, secondly continual asset enhancement and value creation, and thirdly implementation of effective and forward-looking marketing initiatives. As regards capital management strategy, it is the Group's intention that the capital structure should optimise the cost of capital while maintaining prudent and disciplined financial management and financing flexibility.

(V) HUMAN RESOURCES

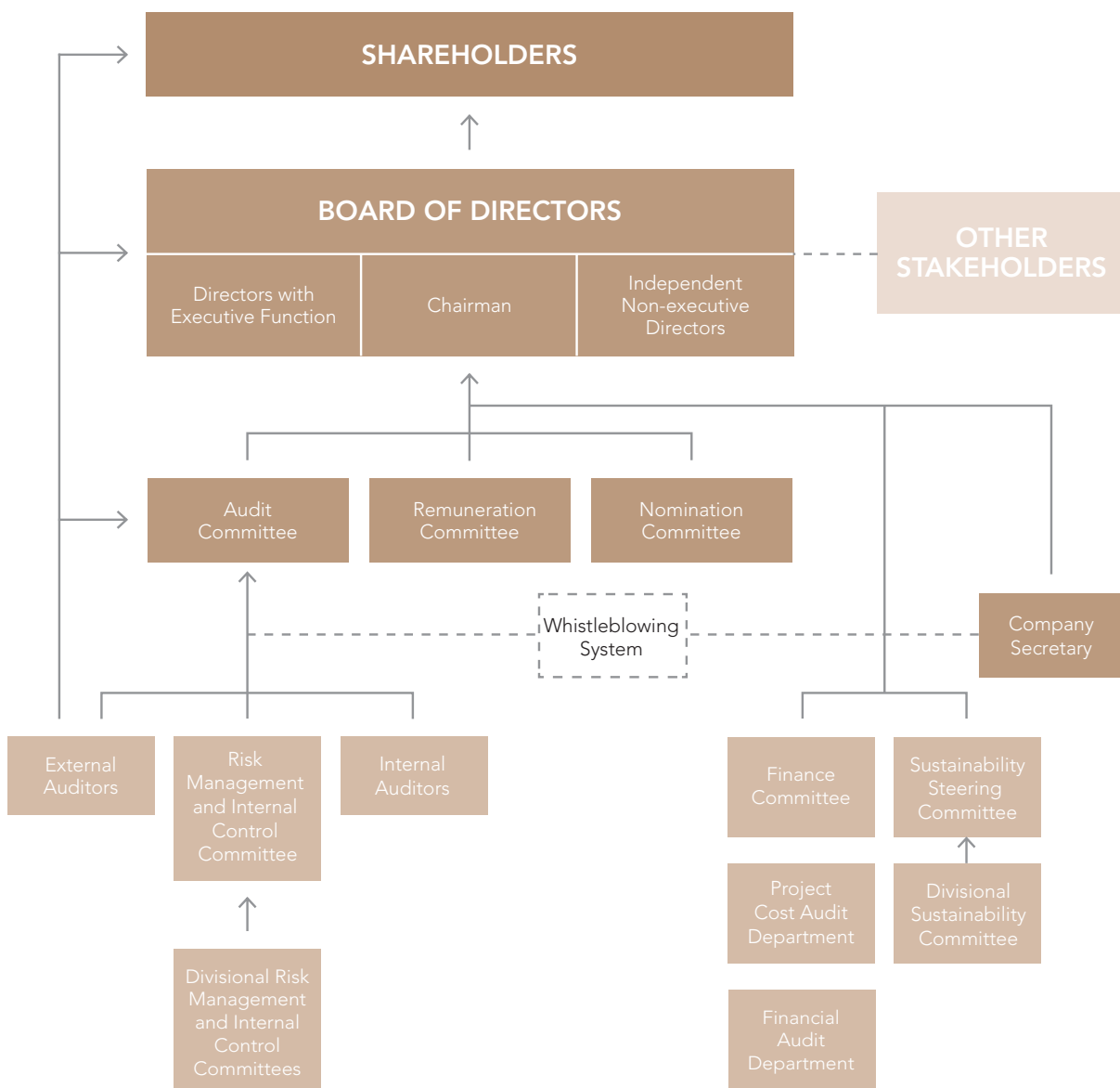
The Group had approximately 2,700 employees as at 31 December 2020. Employees are remunerated according to their job responsibilities and market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRINCIPLES AND STRUCTURE

The Group endeavours to maintain high standards of corporate governance as we believe good corporate governance is essential for sustainable development of the Group.

The Board of Directors (the "Board") is the core of our corporate governance structure embracing supports across the Group-wide spectrum on foundation of an efficient and accountable framework with commitments to promote the Group's sustainability in discharge of its duties of safeguarding the interests of the Group, its shareholders as well as all other stakeholders, including investing public, regulators, banks, bondholders, creditors, customers and employees. The Group's corporate governance structure can be visualised as below:



COMPLIANCE WITH CORPORATE GOVERNANCE CODE

Throughout the financial year ended 31 December 2020, the Company has complied with all the code provisions of the Corporate Governance Code contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), with one exception as follows:

Code Provision A.2.1 (Separation of the roles of Chairman and Chief Executive)

Mr Stephen T H Ng serves as Chairman as well as Managing Director of the Company. 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 believes that the balance of power and authority is adequately ensured by the operations and governance of the Board which comprises experienced and high calibre individuals, with more than half of them being Independent Non-executive Directors ("INEDs").

The Company is committed to maintain high standards of corporate governance to exceed the Listing Rules requirements and code provisions and adopts, where appropriate, the recommended best practices, which are to be elaborated further in this corporate governance report.

BOARD OF DIRECTORS

Roles and Responsibilities

The overall management of the Company's business is vested in the Board and the Directors of the Company (the "Directors") are collectively responsible for promoting the success of the Company. The Board directly, and indirectly through the Board Committee, provides effective oversight and strategic guidance on the Group's strategies and affairs, leading the achievement of strategic plans to enhance shareholders' value.

Governance and Social Sustainability

- Setting goals and commitments for Corporate Social Sustainability
- Developing the corporate governance policies and oversight on relevant compliance

Strategic Planning

- Review of Business Strategy
- Trending on latest developments on macro operating environment
- Review of major expenditure plans

Risk Management

- Review of principal risks and uncertainties
- Overall responsibility on the Risk Management and Internal Control System

Performance Review

- Annual, interim and quarterly results
- Monthly management reports
- Quarterly business review

CORPORATE GOVERNANCE REPORT

Board Composition and Diversity Policy

As of the date of this report, the Board consists of a total of eleven members, including five Directors with executive functions and six INEDs.

Directors' biographical details are set out in "(A) Biographical Details of Directors and Senior Management" on pages 74 to 78. All Directors, including INEDs, are also identified as such in all corporate communications that disclose the names of Directors.

According to the Board Diversity Policy adopted by the Board, the Company recognises and embraces the benefits of having a diverse Board towards enhancement of its overall performance. With a vision to achieving a sustainable and balanced development, the Company regards increasing diversity at the Board level as an essential element of its strategic goals. Appointments of Directors are made on merits having due regard for a range of diversity objectives, including but not limited to gender, age, cultural and educational backgrounds, length of service, knowledge of the Group's business and a broad range of individual attributes, interests and values. The Board considers the current Board composition has provided the Company with a good balance and diversity of skills and experience appropriate to the requirements of its business.

The following chart shows the diversity profile of the Board as at the date of this report:



Appointment and Election of Directors

The Board, with support of the Nomination Committee, is responsible for developing and formulating the relevant procedures for nomination and appointment of Directors, monitoring the appointment of Directors and assessing the independence of INEDs. A Nomination Policy was formally adopted (details provided below) which sets out the approach in identifying, assessing and nominating suitable candidates to the Company's board of directors.

In accordance with the Company's Articles of Association, all Directors are subject to retirement by rotation at an annual general meeting at least once every three years. Any new Directors appointed by the Board either to fill a casual vacancy or as an addition to the Board are subject to re-election by shareholders of the Company (the "Shareholder") at the next general meeting of the Company. At each annual general meeting, at least one-third of the Directors for the time being shall retire from office and the retiring Directors shall be eligible for re-election.

Ms Doreen Y F Lee, Mr Paul Y C Tsui, Mr Tak Hay Chau (appointed as INED after 2020 annual general meeting ("AGM")), Hon Andrew K Y Leung and Dr Glenn S Yee (appointed as INED after 2020 AGM) will retire at the AGM to be held on 6 May 2021. Ms Doreen Y F Lee has decided not to stand for re-election. The other four retiring Directors (the "Re-election Directors"), being eligible, offer themselves for re-election. The proposed re-election of the Re-election Directors was reviewed by the Nomination Committee and the Board with reference to the criteria set out in the Nomination Policy adopted by the Company. Both the Nomination Committee and the Board are of the view that each of the Re-election Directors could continue to fulfil his role as required. The election of each candidate will be done through a separate resolution and there is no cumulative voting in Director elections. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to Shareholders.

Independent Directors

Six out of eleven Directors are INEDs, a sufficient number to ensure their views to carry weight and implanting a strong independence element into the Board.

The Company has received written annual confirmation from each of the INEDs concerning their independence pursuant to Rule 3.13 of the Listing Rules (except Mr Tak Hay Chau and Dr Glenn S Yee who have individually confirmed their independence pursuant to Rule 3.13 of the Listing Rules prior to their appointment as INEDs with effect from 1 January 2021), and considers that all INEDs are independent and meet the independence guidelines set out thereunder.

All INEDs have their respective terms of appointment coming to an end normally three years after their appointment to the Board or their last re-election as Directors. The re-election of any INEDs who has served on the Board for more than nine years is subject to (1) a separate resolution to be approved by Shareholders; and (2) further information to be set out in the circular to Shareholders on the reasons why the Board believes the relevant INED is still independent and should be re-elected.

Nomination Policy

The Company has adopted formal Nomination Policy with effect from January 2019 which sets out the approach in identifying, assessing and nominating suitable candidates to the Board. For an optimal composition of the Board with sustainability, the nomination will be in pursuit of a balance of skills, experience and diversity of perspectives in the Board appropriate to the requirements of the Company's business as well as succession continuity.

CORPORATE GOVERNANCE REPORT

The criteria listed below will be used as reference in assessing the suitability of a proposed candidate:

- Character and integrity
- Skills, knowledge and experience relevant to the Company's business and corporate strategy
- Willingness and availability to dedicate sufficient time and attention to ensure the diligent performance of duties in concurrence with his/her other major appointments and significant commitments
- Attributes enhancing the Board diversity in line with the Company's Board Diversity Policy
- Such other perspectives appropriate to the Company's business
- Requirements in respect of INEDs under the Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines as set out in the Listing Rules

For appointment of new director, the Nomination Committee as delegated by the Board shall identify and evaluate candidate based on the criteria set out above to determine whether the candidate is qualified for directorship. If the candidate is considered qualified, the Nomination Committee shall recommend to the Board for consideration and the Board, if considered appropriate, shall approve the appointment of the proposed candidate as a new Director.

For re-election of director at general meeting, the Nomination Committee as delegated by the Board shall review the contribution made by the retiring Director and whether he/she can continue to fulfill his/her role as required with reference to the criteria set out above. The Board shall then, under advice of the Nomination Committee, make recommendation to Shareholders for the proposed re-election of Director(s) at the general meeting.

For any candidate (other than a retiring Director) nominated by the Board or Shareholder(s) to stand for election as a Director in a general meeting of the Company, the Nomination Committee shall, upon receipt of the proposal of nomination and the biographical information of the candidate, evaluate his/her suitability based on the same criteria as set out above. The Board, under advice of the Nomination Committee, may or may not make recommendation to Shareholders on their voting to the proposed election in the relevant announcement and/or circular to Shareholders.

Remuneration of Directors and Senior Management

The remuneration payable to Directors and Senior Management of the Company is determined with reference to calibres, experiences, job responsibilities, performance and profitability of the Group, and the remuneration benchmarks normally paid by listed companies in Hong Kong and overseas for ensuring a fair and competitive remuneration package in the market. The annual fees payable to the Board during the financial year ended 31 December 2020 is as follows:

Fee payable to:	At the rate of HK\$'000 per annum
Chairman of the Board	300
Director (<i>other than Chairman</i>)	250
Member of Audit Committee	150
Member of Remuneration Committee	50

In respect of the remuneration payable to Directors and Senior Management of the Company, the details have been set out in Notes 2(b) and 2(c) to the Financial Statements on pages 100 and 101 respectively.

Directors' Trainings

Newly appointed Directors receive briefings and orientation on legal and responsibilities as a Director and the role of the Board. The Company Secretary also provides latest information of the business development, market changes and updates in the Listing Rules and relevant legal and regulatory requirements to the Directors in a timely manner in order to make an informed decision and discharge their duties and responsibilities.

The Company has also arranged for Directors to attend training sessions and forums which place emphasis on the roles, functions and duties of a listed company director, as well as the development of regulatory updates and issues. All Directors have been required to provide training records undertaken which are maintained by the Company Secretary.

All the Directors (except Mr Tak Hay Chau and Dr Glenn S Yee who were appointed as INEDs with effect from 1 January 2021) have, during the financial year under review, pursued continuous professional development and the details are set out below:

Directors	Types of Trainings (See Remarks)
Mr Stephen T H Ng, <i>Chairman and Managing Director</i>	A, B
Ms Doreen Y F Lee, <i>Vice Chairman and Executive Director</i>	A, B
Mr Paul Y C Tsui, <i>Vice Chairman and Executive Director</i>	A, B
Ms Y T Leng, <i>Executive Director</i>	A, B
Mr Kevin C Y Hui	A, B
Independent Non-executive Directors	
Mr Alexander S K Au	A, B
Hon Andrew K Y Leung	A, B
Mr R Gareth Williams	A, B
Professor E K Yeoh	A, B

Remarks:

A: attending seminars and/or conferences and/or forums

B: reading journals, updates, articles and/or materials, etc

Directors' Securities Transactions

The Company adopts its own set of code of conduct regarding Directors' securities transactions (the "Company's Code") 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. Indeed, the Company's Code has a higher standard than the Model Code to the extent that the absolute prohibitions under paragraphs A.1 and A.3 of the Model Code, viz. forbidding Directors from securities dealings at any time in possession of price-sensitive information and during the relevant blackout periods preceding publication of financial results, shall apply not only to the listed securities of the Company itself but also of its subsidiaries and associates.

The Company has made specific enquiry of all Directors and all Directors (except Mr Tak Hay Chau and Dr Glenn S Yee who were appointed as INEDs with effect from 1 January 2021) have complied with the required standard set out in the Model Code and/or the Company's Code during the financial year.

CORPORATE GOVERNANCE REPORT

BOARD EFFECTIVENESS

Division of Responsibilities

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

CHAIRMAN AND MANAGING DIRECTOR

Mr Stephen T H Ng

- perform a leadership role in monitoring and evaluating the Group's business
- responsible for the overall strategic planning and major decision making for the Group
- lead the Board and manage the affairs of the Board to ensure its effective functioning
- facilitate and encourage active engagement of Directors, fully drawing on their skills, experience and knowledge
- ensure cohesive working relationship among members of the Board and the Management
- assume overall responsibility on corporate governance practices and procedures
- in his capacity as Managing Director, directly has executive responsibilities in certain major business and corporate units of the Group

DIRECTORS WITH EXECUTIVE FUNCTIONS

Investment Properties

Ms Doreen Y F Lee (*Vice Chairman and Executive Director*)
Mr Paul Y C Tsui (*Vice Chairman and Executive Director*)
Ms Y T Leng (*Executive Director*)

Finance

Mr Kevin C Y Hui

- perform full executive responsibilities over business directions, assurance of operational efficiency, risk management, financial and reporting control

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr Alexander S K Au
Mr Tak Hay Chau
Hon Andrew K Y Leung
Mr R Gareth Williams
Dr Glenn S Yee
Professor E K Yeoh

- contribute diversified views and exercise independent judgment in Board decision making process
- act as check-and-balance, particularly in situations where potential conflicts of interests may arise

Company Secretary

Company Secretary, Mr Kevin C Y Hui, is a seasoned employee of the Company and is very familiar with the Company's state of affairs. He reports to Chairman and the Board directly. The main responsibility of Company Secretary is supervision of the Company's compliances with laws and regulations, for instances, the Listing Rules, the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong), the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands, the Companies Ordinance (Cap 622 of the laws of Hong Kong) and the Codes on Takeovers and Mergers and Share Buy-backs.

All Directors have access to the advices and services of Company Secretary to ensure that Board procedures, and all applicable laws, rules and regulations, are complied with. Company Secretary has also played the role of coordinator for arranging Directors' participation in the training sessions organised by external auditors.

Company Secretary confirmed that he had taken no less than 15 hours of relevant professional training during the financial year.

Directors' Meeting Attendance in 2020

Individual attendance records of our Directors (except Mr Tak Hay Chau and Dr Glenn S Yee who were appointed as INEDs with effect from 1 January 2021) at the Board meetings, Board Committee meetings and annual general meeting during the financial year ended 31 December 2020 are set out below:

	2020 Meetings Attended/Held			
	Board	Audit Committee	Remuneration Committee	Annual General Meeting
Mr Stephen T H Ng, <i>Chairman and Managing Director</i>	5/5	N/A	1/1	1/1
Ms Doreen Y F Lee, <i>Vice Chairman and Executive Director</i>	5/5	N/A	N/A	1/1
Mr Paul Y C Tsui, <i>Vice Chairman and Executive Director</i>	5/5	N/A	N/A	1/1
Ms Y T Leng, <i>Executive Director</i>	5/5	N/A	N/A	1/1
Mr Kevin C Y Hui	5/5	N/A	N/A	1/1
Independent Non-executive Directors				
Mr Alexander S K Au	5/5	4/4	1/1	1/1
Hon Andrew K Y Leung	4/5	N/A	N/A	0/1
Mr Andrew J Seaton <i>(retired at the conclusion of AGM held on 7 May 2020)</i>	3/3	N/A	1/1	1/1
Mr R Gareth Williams	5/5	4/4	N/A	1/1
Professor E K Yeoh	5/5	4/4	N/A	1/1
Total Number of Meetings	5	4	1	1

CORPORATE GOVERNANCE REPORT

Board Process

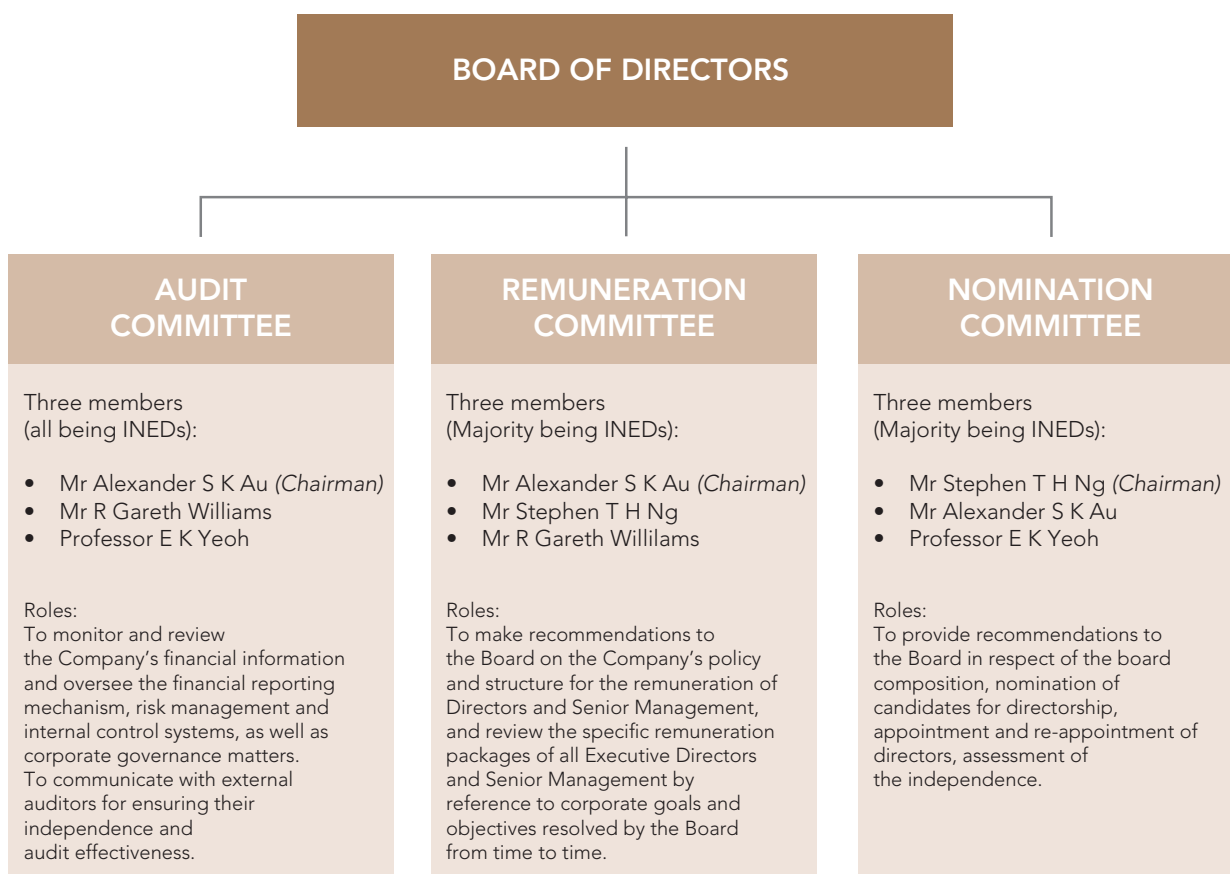
Key Features of Board Process in 2020

Regular Meetings	<ul style="list-style-type: none"> The Board held five regular meetings in 2020. Directors' attendance records are disclosed on page 59 of this report. Directors may attend meetings in person, by phone or through other means of electronic communication in accordance with the Company's Articles of Association.
Meeting Notice	<ul style="list-style-type: none"> One-month formal notice would be given before each regular meeting and reasonable notices are given for all other ad hoc meetings.
Meeting Agenda	<ul style="list-style-type: none"> All Directors are consulted as to whether they may want to include any matter in the agenda for each Board meeting. Board papers are circulated not less than three days before Board meetings to enable the Directors to make informed decisions on matters to be raised at Board meetings.
Important Decisions	<ul style="list-style-type: none"> Important matters are decided by Directors at Board meetings, or on some exceptional occasions, dealt with by way of written resolutions so that all Directors (including INEDs) can note and comment, as appropriate, the matters before approval is granted.
Board and Board Committee Minutes/Written Resolutions	<ul style="list-style-type: none"> Company Secretary prepares minutes and/or written resolutions and records matters discussed and decisions resolved by the Board and Board Committees. Board and Board Committee meeting minutes are sent to all Directors and Board Committee members respectively for comments and record, and final version thereof are put on record within a reasonable time after each Board and Board Committee meeting. Board and Board Committee minutes and resolutions are available for inspection by all Directors/Board Committee members. Minutes record in sufficient detail of the matters considered by the Board/Board Committees and decisions reached.
Supply of and Access to Information	<ul style="list-style-type: none"> Company Secretary and Financial Controller attend all regular Board meetings to advise on corporate governance, statutory compliance, and accounting and financial matters, as appropriate. Communications between Directors on the one hand, and Company Secretary, who acts as co-ordinator for the business units of the Group on the other, is a dynamic and interactive process to ensure that queries raised and clarification sought by the Directors are dealt with and that further supporting information is provided if appropriate.
Independent Professional Advice	<ul style="list-style-type: none"> Company Secretary can arrange independent professional advice at the expense of the Company should such advice be considered necessary by any Director.
Conflicts of Interests	<ul style="list-style-type: none"> Directors are required to declare their direct/indirect interests, if any, in any proposed transaction, arrangement or contract to be considered by the Board pursuant to the applicable laws and rules, including the Companies Act, Cap 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands and the Company's Articles of Associations and, where appropriate, Directors who are interested are required to abstain from voting on the proposed transaction, arrangement or contract.
Indemnification and Insurance	<ul style="list-style-type: none"> The Company has arranged appropriate insurance cover of Directors' and Officers' liability.

Board Committees

The Company has established three Board Committees, namely Audit Committee, Remuneration Committee and Nomination Committee. The terms of reference of our Board Committees are reviewed and updated regularly to ensure that they are aligned with prevailing governance practices. The terms of reference and membership of all our Board Committees are disclosed in full on the websites of the Company and the Stock Exchange.

Board Committees report to the Board of their decisions and recommendations on specific area under their respective delegated responsibilities.



The roles, authorities and procedures of the Board Committees are set out in their respective terms of reference which are available at the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

Summary of Works Performed by the Board Committees in 2020

Audit Committee

- Four Audit Committee meetings were held in 2020 with attendance records as disclosed on page 59 of this report
- Review of the annual audit plan of external auditors
- Approval of the remuneration and terms of engagement of external auditors
- Review of external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards
- Review of the quarterly, interim and annual financial statements before submission to the Board, with particular consideration of the duties of Audit Committee
- Review of the audit programme of and work done by internal auditors
- Review on the effectiveness of the Group's financial controls, risk management and internal control systems with the support of Risk Management and Internal Control Committee and internal auditors
- Meeting with external auditors without presence of executive Board members or the management
- Review of whistleblowing cases and relevant investigation results
- Review of corporate governance matters and the relevant reports of the Group
- Review of and monitoring the Group's compliance with legal and regulatory requirements
- Recommendation to the Board for the re-appointment of external auditors

Remuneration Committee

- One Remuneration Committee meeting was held in 2020 with attendance records as disclosed on page 59 of this report
- Review of the Company's policy and structure for all remuneration of Directors and Senior Management
- Consideration and approval of the emoluments for all Directors and Senior Management
- Review of the level of fees for Directors and Board Committee members
- Review of the list of emoluments for Directors to be disclosed in annual report

Nomination Committee

- No Nomination Committee meeting in 2020
- Recommendation to the Board for the appointment of Mr Tak Hay Chau and Dr Glenn S Yee as INEDs effective from 1 January 2021 by way of resolution in writing
- Recommendation to the Board for re-election of retiring directors at the 2020 AGM by way of resolution in writing

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Board acknowledges its responsibilities for overseeing the preparation of financial statements for the financial year, which shall give a true and fair view of the financial position of the Group and of the Group's financial performance and cash flows for the relevant periods, and in compliance with all the relevant statutory requirements, Listing Rules requirements and applicable accounting standards. The Board is committed to present a clear, balanced and understandable assessment of the Group's performance and financial positions in all its financial reporting and to ensure relevant publications in a timely manner.

Below principles are strictly observed in preparation of the financial statements of the Group:

- appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- appropriate and reasonable judgments and estimates are made; and
- reason for any significant departure from applicable accounting standards, if any, is clearly stated.

Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern as referred to in C.1.3 of the Corporate Governance Code.

Directors are satisfied with the Group's performance on the basis that the Company generates or preserves value over the longer term and delivers the Company's objectives through its business model and strategy as discussed under Financial Review on page 51.

External Auditors

The Company has engaged KPMG as its Auditors for the financial year. The Audit Committee reviews and monitors the Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards. KPMG has confirmed its independence as the Company's Auditors having regard to its policies, professional rules and relevant statutory requirements.

Under the engagement letter of the financial year, KPMG provided the following services:

1. Audit services of the Company and its subsidiaries (both incorporated in Hong Kong and other jurisdictions);
2. Checking the accuracy of extraction of the financial information in the preliminary announcement of annual results;
3. Attendance of 2021 AGM; and
4. Reporting on continuing connected transactions.

CORPORATE GOVERNANCE REPORT

The remuneration paid/payable to the Auditors of the Company in respect of audit services and non-audit services for the financial year ended 31 December 2020 are set out below:

Type of Services:	Fee paid/payable (HK\$ Million)	
	2020	2019
Audit services	9	8
Non-audit services	1	—*
Total	10	8

* Total represents amount less than HK\$1 million.

The Audit Committee was satisfied with KPMG's work and recommended to the Board that, subject to Shareholders' approval at the forthcoming AGM, KPMG be re-appointed as the Company's Auditors for 2021.

The statement by the Auditors regarding its reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 86 to 88.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Risk Governance Structure

The Board has overall responsibilities for the Group's risk management and internal control systems to safeguard the interests of the Company and its Shareholders as a whole. To this end, the Board oversees and approves the Group's risk management and internal control strategies and policies, which are aimed at evaluating and determining the nature and extent of the risks that are compatible with the Group's strategic objectives and risk appetite, with the main purpose of providing reasonable assurance against material misstatement or loss rather than absolute elimination of the risk of failure to achieve business objectives.

Reporting to the Board, Audit Committee is delegated with the authority and responsibility of ongoing monitoring and evaluation of the effectiveness of the relevant systems, with assistance of the Risk Management and Internal Control Committee.

Risk Management and Internal Control Committee (“RMICC”)

RMICC plays a central role in the on-going management of the Group’s risk management and internal control systems, with the following features:

Objective	<ul style="list-style-type: none"> • Assist Audit Committee in discharge of its oversight responsibility over risk management and internal control system of the Group
Composition	<ul style="list-style-type: none"> • Chaired by Mr Paul Y C Tsui • Three other members comprising Vice Chairman, Executive Director and Company Secretary
Structure	<ul style="list-style-type: none"> • Accountable to Audit Committee on all matters relating to risk management and internal control • Supervision on Divisional Risk Management and Internal Control Committees (“DRMICCs”) which in turn are responsible for the identification and reporting of functional risks, and the ongoing supervision and monitoring of the risk management and internal control systems of all the respective business and corporate units of the Group
Scope and Duties	<ul style="list-style-type: none"> • Assist Audit Committee to conduct periodical reviews of the effectiveness of the risk management and internal control systems of the Group based on the certification procedure as further explained below • Report to Audit Committee on identified risks, relevant evaluations and risk management strategy • Direct and monitor the proper functioning of DRMICCs and report to Audit Committee on any major internal control issues from time to time • Assume an advisory role on objective settings, formulation of internal control framework, policies and procedures

CORPORATE GOVERNANCE REPORT

Internal Control functions

Internal control functions are inbuilt at every level of the Group's organisation to entrench safeguards against material errors and deficiencies. Below sets the major constituents with control functions monitoring key operations across the Group:

DRMICCs	<ul style="list-style-type: none"> • set up at the level of business and corporate units as divisional advisory bodies with composition of the respective key management staff together with those charged with the internal control functions • responsible for the identification and reporting of functional risk, and the ongoing supervision and monitoring of the risk management and internal control systems • entrusted with implementation of the Group's control policies and on-going assessment of control activities in the relevant business units
Finance Committee	<ul style="list-style-type: none"> • establish financing strategy and policies with reference to risk assessment formulate externally and internally and cash flow placing as well as the centralised treasury functions
Internal Audit Department	<ul style="list-style-type: none"> • monitoring compliance with group policies and standards, and review of the effectiveness of internal control measures of business and corporate units
Financial Audit Department	<ul style="list-style-type: none"> • scrutiny on leasing activities and expenditure proposals
Project Cost Audit Department	<ul style="list-style-type: none"> • auditing on tendering and contract relating to construction works
Sustainability Steering Committee	<ul style="list-style-type: none"> • alignment of business development with Corporate Sustainability goals and commitments

Practices and Processes

With diversified range of business activities, the Group is operating in dynamic environments with varying risk exposures. Risk management and internal controls within the Group are not just serial processes but dynamic and integrated operations embedded in the day-to-day routines with the primary ownership vested on the respective business and corporate units under stewardship residing with the Board.

Areas of responsibility of each operational unit are clearly defined with specific limits of authority in place to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Risk management system, internal control measures and procedures are continuously under review and being improved where necessary in response to changes in business, operating and regulatory environments.

Whistleblowing System

The Group has adopted the recommended best practice of establishing a whistleblowing system as an open channel which enables employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence without fear of retribution, about any suspect misconduct or malpractice within the Group. The Whistleblowing Policy and Procedures are available for download under the Corporate Governance section of the Company's website. Well-defined procedures are put in place for independent investigations and follow-up actions. With delegated authority and responsibility, Audit Committee conducts periodical review on reports of whistleblowing cases submitted from the Internal Audit Department.

Periodical Reviews

Under the leadership of RMICC, system reviews in a comprehensive approach on the basis of COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework are conducted throughout the Group at least annually. Each business unit, through the co-ordination of DRMICCs, makes a self-assessment by a process as illustrated in the following flow diagram.



DRMICCs report on their reviews and findings, with the conclusions as to the effectiveness of the risk management and control activities of each individual business unit, while RMICC will draw an overall review and conclusion for reporting to Audit Committee and the Board. Such reviewing exercise is carried out on a regular basis and affords good opportunities for the Group to identify and prioritise risks, and to develop and manage appropriate measures to control risks within acceptable levels and with a greater focus on anti-fraud measures.

Annual Confirmation

During the financial year ended 31 December 2020, Audit Committee, with assistance of RMICC and DRMICCs, has conducted a review of the effectiveness of the Group's risk management and internal control systems and procedures covering all controls, including financial, operational and compliance and risk management, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Company's accounting, internal audit and financial reporting function. Confirmations from management in the form of certification that risk management and internal control procedures are functioning effectively to meet the respective financial reporting, operational and compliance needs, are submitted by business and corporate unit heads to RMICC for consolidation and reporting to Audit Committee.

Based on the result of the review as reported by Audit Committee, in respect of the financial year ended 31 December 2020, Directors considered that the risk management and internal control systems and procedures of the Group were effective and adequate, and the Group has duly complied with the requirements under the Corporate Governance Code relating to the risk management and internal control.

A discussion on the principal risks and uncertainties encountered by the Group are set out on pages 84 to 85 in the Directors' Report.

CORPORATE GOVERNANCE REPORT

Inside Information Policy

The Company recognises the significance of consistent practices of fair disclosure with the aim of disclosing inside information in a timely and accurate manner.

The Company has a policy with regard to the principles and procedures for handling and disseminating the Company's inside information in compliance with the requirements under Part XIVA of the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong) and the Listing Rules, and such policy has been communicated to the relevant senior executives of the Group. Company Secretary works closely with the senior executives in identifying potential inside information and assess the materiality thereof, and where appropriate, to escalate such information for the attention of the Board to resolve on further action(s) complying with the applicable laws and regulations.

In prevention of premature leakage of inside information, the Company has taken all reasonable measures from time to time to ensure proper preservation of confidentiality of inside information until disclosure to the general public, including *inter alia*:

- restrictive access to inside information to a limited number of employees on a need-to-know basis
- appropriate confidentiality agreements are put in place when entering into any significant negotiations
- inclusion of a strict prohibition on the unauthorised use or disclosure of inside information in Employee Code of Conduct
- An Insider Dealing Circular is issued to all employees annually reminding their duties and obligations in respect of any dealings in the listed securities of the Company as well as its subsidiaries and associated corporations

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of constructive and transparent communication with Shareholders and investors and believes that Shareholders' value can be enhanced by continuous and effective dialogue with its stakeholders. The Company is committed to a fair and timely disclosure of key information of the Group to facilitate Shareholders and investment community to make investment decisions.

Corporate information including but not limited to annual and interim reports, announcements, presentation materials and press releases are available on the websites of the Company and/or the Stock Exchange.

A Shareholders Communication Policy has been adopted by the Company to ensure balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile) are readily available to Shareholders.



2020 Annual General Meeting

The 2020 AGM was held on 7 May 2020 in the Centenary Room, Ground Floor, The Marco Polo Hongkong Hotel, 3 Canton Road, Kowloon, Hong Kong, with attendance by a large majority of the Directors, details of which are set out on the table of Directors' meeting attendance on page 59. The Auditors of the Company, Messrs KPMG, attended 2020 AGM, during which its representatives were available to answer questions raised by Shareholders. Details of voting results were disclosed in the announcement of the Company dated 7 May 2020 posted on the websites of the Company and the Stock Exchange.

2021 Annual General Meeting

The forthcoming AGM will be held on 6 May 2021. In light of the continuing risks posed by COVID-19, the Company strongly recommends the Shareholders to exercise their voting rights by appointing the Chairman of the AGM as their proxy instead of attending the AGM in person. All Shareholders are encouraged to vote on all resolutions to be proposed at the AGM. Details of resolutions to be proposed at the 2021 AGM are set out in the circular which will be despatched together with this annual report. Relevant notice of AGM and proxy form will be available on the websites of the Company and the Stock Exchange.

CORPORATE GOVERNANCE REPORT

Voting

The Company has the following procedures to Shareholders to vote by poll:

- (a) All resolutions (other than procedural or administrative matter) put to Shareholders in general meetings are voted by way of a poll. The circulars and notices of general meetings set out voting to be carried out by way of a poll.
- (b) Chairman or Company Secretary explains the procedures for voting by poll to Shareholders and answer any questions from Shareholders before a poll is required to be conducted at the meetings.
- (c) The Company ensures that votes cast are properly counted and recorded. Independent scrutineer, the Company's Hong Kong Branch Share Registrar, is appointed to count the number of votes cast at general meetings.
- (d) Poll results are announced and published on the websites of the Company and the Stock Exchange on the same day of the general meetings.

Shareholders' Rights

(a) *Convene an Extraordinary General Meeting and Make Proposals at General Meetings*

- (i) Pursuant to Article 58 of the Company's Articles of Association, any one or more Shareholders representing not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition. The Board should within 21 days from the date of deposit of requisition convene such meeting to be held within 2 months from the date of deposit of requisition.
- (ii) The procedures for proposing candidate(s) for election as Director(s) at a general meeting are set out in the Corporate Governance section of the Company's corporate website.

(b) *Send Enquiries to the Board*

Shareholders may at any time address their enquiries to the Board through the Company's email address (for enquiry purpose only), postal address, fax number and telephone number, which are set out on page 2 of this annual report and the Company's website (www.wharfreic.com).

Constitutional Documents

Shareholders' rights are set out in the Articles of Association of the Company which is available on the Company's website. There is no significant change in the Company's Articles of Association during the financial year ended 31 December 2020.

In order to provide flexibility to give Shareholders the option of attending general meetings remotely through electronic means if necessary or appropriate, a special resolution for the adoption of a revised set of Articles of Association of the Company (the "New Articles") is proposed for consideration and, if thought fit, approval by the Shareholders at the forthcoming AGM to be held on 6 May 2021. Details of the major changes brought about by the proposed adoption of the New Articles are set out in the circular which will be despatched together with this annual report.

Dividend Policy

A Dividend Policy, as set out in Financial Review on page 51, was adopted by the Company pursuant to Code Provision E.1.5 of the CG Code.

DIRECTORS' REPORT

The Board of Directors has pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2020.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 150 to 151.

The principal activities of the Group are development, ownership and operation of properties and hotels in Hong Kong for investment purposes.

BUSINESS REVIEW

Discussion and analysis of the Group's business in accordance with Schedule 5 of the Companies Ordinance (Cap 622 of the laws of Hong Kong) as required under the Listing Rules are covered in different sections of this Annual Report as set out below, which shall form an integral part of this Directors' Report:

- Corporate Overview (page 5)
- Chairman's Statement (pages 6 to 9)
- Business Review (pages 12 to 35)
- Business Model and Strategy (page 51)
- Financial Highlights (pages 10 to 11) and Financial Review (pages 46 to 51)
- Principal Risks and Uncertainties (pages 84 to 85)
- Financial Risk Management and Fair Values — Note 21 to the Financial Statements (pages 120 to 124)
- Contingent Liabilities — Note 25 to the Financial Statements (page 128)
- Events after the reporting period — Note 29 to the Financial Statements (page 131)

In addition, the Group's policies and performance in the area of environmental, social and governance, and compliance with relevant laws and regulations are discussed in "Corporate Sustainability" on pages 38 to 45.

RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2020 are set out in the Consolidated Statement of Profit or Loss on page 89 and Consolidated Statement of Comprehensive Income on page 90.

Appropriations of profits during the financial year are set out in the Consolidated Statement of Changes in Equity on page 92.

DIVIDENDS

A first interim dividend of HK\$0.78 per share was paid on 2 September 2020. In lieu of a final dividend, a second interim dividend of HK\$0.69 per share will be paid on 22 April 2021 to Shareholders on record as at 6:00 p.m. on 25 March 2021. Total distribution for the year 2020 will amount to HK\$1.47 (2019: HK\$2.03) per share, representing 65% of underlying net profit from investment properties and hotels in Hong Kong.

SHARE CAPITAL

Details of movements in share capital of the Company during the financial year are set out in Note 22(a) to the Financial Statements on page 125.

DONATIONS

The Group made donations during the financial year totalling HK\$58 million.

DIRECTORS' REPORT

EQUITY-LINKED AGREEMENT

No equity-linked agreement which may result in the Company issuing shares was entered into or existed during the financial year.

DIRECTORS

Directors of the Company during the financial year and up to the date of this Report are Mr Stephen T H Ng, Ms Doreen Y F Lee, Mr Paul Y C Tsui, Ms Y T Leng, Mr Kevin C Y Hui, Mr Alexander S K Au, Mr Tak Hay Chau, Hon Andrew K Y Leung, Mr Andrew J Seaton (retired at the conclusion of annual general meeting ("AGM") held on 7 May 2020), Mr R Gareth Williams, Dr Glenn S Yee and Professor E K Yeoh.

Mr Tak Hay Chau and Dr Glenn S Yee, both were newly appointed as Independent Non-executive Directors ("INED(s)") on 1 January 2021 and are due to retire from the Board in accordance with Article 83(3) of the Company's Articles of Association at the forthcoming AGM and Ms Doreen Y F Lee, Mr Paul Y C Tsui and Hon Andrew K Y Leung are due to retire by rotation from the Board in accordance with Article 84(1) of the Company's Articles of Association at the forthcoming AGM. Ms Doreen Y F Lee has decided not to stand for re-election. The other four retiring Directors (the "Re-election Directors"), being eligible, offer themselves for re-election. None of the Re-election Directors proposed for re-election at the forthcoming AGM has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance in relation to the Company's business to which any subsidiaries of the Company, the ultimate holding company of the Company or any subsidiary of such ultimate holding company was a party and in which a Director or any connected entities of a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during that financial year.

MANAGEMENT CONTRACTS

No contract for the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the financial year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of such ultimate holding company a party to any arrangement to enable Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate, with the exception that during the year, there existed certain outstanding options to subscribe for ordinary shares of The Wharf (Holdings) Limited ("Wharf") (the Company's fellow subsidiary until 22 July 2020) and of Wheelock and Company Limited ("Wheelock") (the Company's ultimate holding company until 22 July 2020), granted under Wharf's share option scheme and Wheelock's share option scheme respectively to certain employees/directors of companies in Wharf group and in Wheelock group respectively, some of whom were Directors of the Company during the financial year.

Under the respective rules of the two share option schemes (such rules being subject to the relevant laws and provisions applicable from time to time), shares of Wharf and/or Wheelock would be issued at such respective prices as being not less than the highest of (a) the indicative price as specified in the written offer; (b) the closing price on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the options; and (c) the average closing price on the Stock Exchange for the five trading days immediately preceding the date of grant; and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant of relevant options, as determined by the boards of directors of Wharf and/or Wheelock respectively.

During the period from 1 January 2020 to 22 July 2020, no shares of Wharf or Wheelock were allotted and issued to the Directors of the Company under the respective share option schemes of Wharf or Wheelock.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director is entitled to be indemnified out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses, which he/she may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of his/her duty, or supposed duty, in his/her respective offices or trusts, to the extent as permitted by laws.

The Company has, together with its controlling shareholder (Wheelock), its listed subsidiary (Harbour Centre Development Limited) and its listed affiliated company (Wharf), maintained directors' liability insurance which has been in force throughout the financial year and up to the date of this Report to provide appropriate insurance cover for directors of their respective group companies, including *inter alia* the Directors.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, or the laws of Cayman Islands, which in the event of new shares being issued by the Company, would oblige the Company to offer new shares to existing shareholders, or, in the event of any shareholders intending to dispose of any of their shareholdings in the Company, would require such shareholders to offer to sell the relevant shares to other shareholders of the Company.

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.

PROFESSIONAL TAX ADVICE RECOMMENDED

If shareholders of the Company are unsure about the taxation implications of purchasing, holding, disposing of, dealing in, or the exercise of any rights in relation to the shares of the Company, they are advised to consult an expert.

AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for reappointment.

OTHER CORPORATE INFORMATION

Other corporate information supplementary to this Directors' Report are set out on pages 74 to 85.

By Order of the Board

Kevin C Y Hui

Director and Company Secretary

Hong Kong, 4 March 2021

DIRECTORS' REPORT

OTHER CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Management

(i) Directors

Mr Stephen Tin Hoi Ng, *Chairman and Managing Director* (Age: 68)

Mr Ng has been Chairman and Managing Director of the Company since 2017. He also serves as chairman of Nomination Committee and a member of Remuneration Committee. Mr Ng is primarily responsible for the overall strategic planning and major decision making for the Group and performs a leadership role in monitoring and evaluating the Group's business.

In addition, Mr Ng serves on the boards of the following affiliated companies listed in Hong Kong: chairman of subsidiary company Harbour Centre Development Limited ("HCDL"), chairman and managing director of The Wharf (Holdings) Limited ("Wharf") and a non-executive director of Greentown China Holdings Limited.

Mr Ng also serves on the boards of the following formerly listed affiliated companies: deputy chairman of Wheelock and Company Limited ("Wheelock") (controlling shareholder of the Company and listed in Hong Kong until July 2020) and chairman of Wheelock Properties (Singapore) Limited (listed in Singapore until October 2018 and renamed Wharf Estates Singapore Pte. Ltd. ("WESPL") as a subsidiary of the Company currently).

Furthermore, Mr Ng was previously a non-executive director of Hotel Properties Limited (listed in Singapore) until his resignation in December 2018 and non-executive chairman of Joyce Boutique Group Limited ("JBGL") (until it was delisted in Hong Kong in April 2020).

Mr Ng was born in Hong Kong in 1952 and grew up in Hong Kong. He attended Ripon College in Ripon, Wisconsin, USA and the University of Bonn, Germany, and graduated in 1975 with a major in mathematics. He is chairman of Project WeCan Committee (a Business-in-Community school project), a council member, vice chairman of General Committee and a member of Executive Committee of the Employers' Federation of Hong Kong ("EFHK") and a council member of the Hong Kong General Chamber of Commerce (on retirement from the Chamber Chair in 2018).

Under the existing service contract between the Group and Mr Ng, his basic salary and various allowances for the year 2021, calculated on an annualised basis, would be approximately HK\$3.56 million (2020: HK\$3.46 million) per annum.

Ms Doreen Yuk Fong Lee, *Vice Chairman and Executive Director* (Age: 64)

Ms Lee has been Vice Chairman and an Executive Director of the Company since 2017 with primary responsibility for overseeing the Group's portfolio of investment properties.

Ms Lee is also vice chairman and an executive director of Wharf. She was formerly vice chairman of WESPL until February 2021, a non-executive director of HCDL from 2010 to 2012, and of JBGL until November 2019.

Ms Lee is a graduate of The University of Hong Kong where she obtained a bachelor's degree in Arts (Hon).

Mr Paul Yiu Cheung Tsui, *Vice Chairman and Executive Director* (Age: 74)

Mr Tsui, *FCCA, FCPA, FCMA, CGMA, CPA, CGA*, has been Vice Chairman and an Executive Director of the Company since 2018.

Mr Tsui is vice chairman, an executive director and group chief financial officer of Wharf and is also an executive director and group chief financial officer of Wheelock. He joined Wheelock/Wharf group in 1996 and became a director of Wheelock in 1998. Furthermore, Mr Tsui is a director of certain subsidiaries of the Company, including WESPL, a director of JBGL and vice chairman of Wheelock Properties Limited, a wholly-owned subsidiary of Wheelock. He formerly served as a director of HCDL until his resignation in August 2015. Mr Tsui is currently a general committee member of EFHK and chairman of EFHK's "Property & Construction" functional group.

Under the existing service contract between the Group and Mr Tsui, his basic salary and various allowances for the year 2021, calculated on an annualised basis, would be approximately HK\$2.33 million (2020: HK\$2.33 million) per annum.

Ms Yen Thean Leng, *Executive Director* (Age: 49)

Ms Leng, *BSc(Hons), MRICS, MHKIS, RPS*, joined the Company in 2017 and was appointed as an Executive Director. Amongst other subsidiaries of the Company of which she serves as a director, she is an executive director of Wharf Estates Limited with primary responsibility for managing the Group's core investment properties in Hong Kong, namely Harbour City, Times Square and Plaza Hollywood.

Ms Leng is also a non-executive director of Wharf. She was formerly a director of HCDL from 2012 to 2013.

Ms. Leng has extensive experience in the real estate industry, in particular, leasing and management of large scale commercial properties, and the planning, design and development of property and hotel projects. Ms Leng obtained a bachelor's degree in Land Management from the University of Portsmouth, the United Kingdom with first class honours. She is chartered surveyor of Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyor as well as a registered professional surveyor.

Under the existing service contract between the Group and Ms Leng, her basic salary and various allowances for the year 2021, calculated on an annualised basis, would be approximately HK\$4.93 million (2020: HK\$4.93 million) per annum.

Mr Kevin Chung Ying Hui, *Director* (Age: 64)

Mr Hui, *FCCA, CPA, FCG, FCS*, has been a Director of the Company since 2020. An accountant by profession since 1986, Mr. Hui is presently a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and the vice president and a council member of The Taxation Institute of Hong Kong. He is also a fellow member of both The Chartered Governance Institute and The Hong Kong Institute of Chartered Secretaries. In addition, he is a member of the Project *WeCan* Committee.

He joined Wheelock in 1986 and has worked for Wheelock group and subsequently for Wharf group, gaining extensive experience in financial management and reporting control, auditing, taxation and corporate governance. He is also the group financial controller of Wharf group and a director of WESPL, Wharf Limited and Modern Terminals Limited. Mr. Hui has been the Company Secretary of the Company since August 2017 and he is also the company secretary of Wharf. He was formerly a director of HCDL from 2015 to 2020.

Under the existing service contract between the Group and Mr Hui, his basic salary and various allowances for the year 2021, calculated on an annualised basis, would be approximately HK\$1.64 million (2020: HK\$1.64 million) per annum.

DIRECTORS' REPORT

Mr Alexander Siu Kee Au, OBE, Director (Age: 74)

Mr Au, *FCA, FCCA, FCPA, AAIA, FCIB, FHKIB*, has been an Independent Non-executive Director ("INED") of the Company since 2017. He also serves as chairman of each of Audit Committee and Remuneration Committee as well as a member of Nomination Committee.

A banker by profession, Mr Au was the chief executive officer of Hang Seng Bank Limited from 1993 to 1998 and of Oversea-Chinese Banking Corporation Limited in Singapore from 1998 to 2002. Currently, Mr Au is the chairman and non-executive director of Henderson Sunlight Asset Management Limited, manager of the publicly-listed Sunlight Real Estate Investment Trust. He is an INED of Henderson Land Development Company Limited, Henderson Investment Limited and Miramar Hotel Investment Company, Limited, as well as a non-executive director of Hong Kong Ferry (Holdings) Company Limited, all publicly listed in Hong Kong. Mr Au was formerly an INED of Wheelock from 2002 to 2012, and of Wharf from 2012 to 2017.

An accountant by training, Mr Au is a Chartered Accountant as well as a fellow of The Institute of Chartered Accountants in England and Wales, The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr Tak Hay Chau, GBS, Director (Age: 78)

Mr Chau has been an INED of the Company since 2021.

Mr Chau graduated from The University of Hong Kong with a Bachelor of Arts Degree in Economics in 1967. He served in a number of principal official positions in the Hong Kong Government between 1988 and 2002, including Secretary for Commerce and Industry, Secretary for Broadcasting, Culture and Sport, and Secretary for Health and Welfare. Mr Chau was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in 2002. He is an INED of two companies publicly listed in Hong Kong, namely SJM Holdings Limited and Tradelink Electronic Commerce Limited. Mr Chau was formerly an INED of Wheelock from October 2012 until its delisting in July 2020.

Hon Andrew Kwan Yuen Leung, GBM, GBS, JP, Director (Age: 70)

Mr Leung has been an INED of the Company since 2018.

Mr Leung is the President of the Sixth Legislative Council of Hong Kong and a member of the Industrial (First) Functional Constituency thereof. He is also a member of The National Committee of the Chinese People's Political Consultative Conference, the honorary president of Federation of Hong Kong Industries and the honorary chairman of Textile Council of Hong Kong Limited. He formerly served as a member of Competition Commission and the chairperson of the Staff Committee thereof, a director of The Hong Kong Mortgage Corporation Limited, a council member of Hong Kong Trade Development Council and a non-executive director of Mandatory Provident Fund Schemes Authority. Mr Leung was awarded the Grand Bauhinia Medal by the Hong Kong SAR Government in 2020.

Mr Leung is an Honorary Doctor of Business Administration, Coventry University, UK. He also holds a BSc (Hon) degree awarded by Leeds University, UK. He is also a Fellow of Textiles Institute and of Clothing & Footwear Institute. He has more than 33 years of management experience in the textile, manufacturing, wholesale and distribution businesses.

Mr Leung is currently an INED of Dah Sing Financial Holdings Limited and China South City Holdings Limited, both being public companies listed in Hong Kong. He was formerly chairman of Sun Hing Knitting Factory Limited and an INED of publicly listed Dah Sing Banking Group Limited. Mr Leung was also formerly an INED of HCDL from July 2012 until May 2018.

Mr Richard Gareth Williams, Director (Age: 73)

Mr Williams has been an INED of the Company since 2017. He also serves as a member of each of Audit Committee and Remuneration Committee.

Mr Williams has over 46 years of experience in the areas of property valuation and estate agency in Hong Kong. He is the principal of Gareth Williams & Associates, which was established in January 2006 and is principally engaged in property valuation and estate agency, where he is primarily responsible for specialist property valuation and acquisitions and disposal of investment properties. He is currently an INED of IBI Group Holdings Limited, a publicly listed company in Hong Kong.

Mr Williams was a property investment director of Wheelock Properties (Hong Kong) Limited, a subsidiary of Wheelock, from 2004 to 2006 where he was responsible for overseeing the property services business, and was formerly its INED until November 2017. From 2002 to 2004, he worked as the chief executive of the Hong Kong office of Knight Frank Asia Pacific Pte. Ltd., where he was responsible for its overall management. From 1979 to 2002, Mr Williams worked for Vigers Hong Kong Limited, with his last position as the chairman and chief executive officer, where he was primarily responsible for provision of property valuation and estate agency services. From 1974 to 1979, Mr Williams served as rating and valuation surveyor at the Rating and Valuation Department of the Hong Kong Government.

Mr Williams has been certified as a fellow of the Royal Institution of Chartered Surveyors in the United Kingdom and as a fellow of the Hong Kong Institute of Surveyors since June 1984 and December 1984 respectively. He was admitted as a member of the Chartered Institute of Arbitrators and a practising member of The Academy of Experts, both based in the United Kingdom, in December 1999 and April 2009 respectively. Mr Williams has also been registered as a Registered Professional Surveyor (General Practice) with the Surveyors Registration Board in Hong Kong since 1 January 1993.

Dr Glenn Sekkemn Yee, Director (Age: 70)

Dr Yee has been an INED of the Company since 2021.

Dr Yee is the chairman of Oakhaven Limited, a private investment company involved in green industry and other projects. Previously he was the founder, managing director and chairman of Pacific Can China Holdings Limited ("Pacific Can"), which was one of the largest aluminum beverage can manufacturers in China; this business was divested in 2018. Dr Yee obtained a B.S. in Mechanical Engineering from Worcester Polytechnic Institute ("WPI") in Massachusetts, an MBA Degree from Columbia University in New York, and received an Honorary Doctor of Engineering Degree from WPI. Starting his career in General Electric Company in New York, and later joining Continental Can Company in Stamford, Connecticut, he has held senior positions in Marketing and Finance areas and became managing director of Continental Can Hong Kong Ltd in 1988. He resigned in 1991 and subsequently started Pacific Can. Dr Yee is a member of the Board of Trustees at WPI. He was formerly an INED of Wheelock from September 2010 until its delisting in July 2020.

DIRECTORS' REPORT

Professor Eng Kiong Yeoh, GBS, OBE, JP, Director (Age: 74)

Professor Yeoh, MBBS(HK), FHKAM, FHKCCM, FHKCP, FPHM(UK), FRCP(Edin), FRCP(Lond), FRCP(Glasg), FRACMA, FRACP, has been an INED of the Company since 2017. He also serves as a member of each of Audit Committee and Nomination Committee.

Professor Yeoh obtained bachelor's degrees in medicine and surgery from The University of Hong Kong in October 1971. He is Professor of Public Health and Director of the Centre for Health Systems and Policy Research at the Jockey Club School of Public Health and Primary Care of The Chinese University of Hong Kong. His research is in health systems, services and policy with an interest in applying systems thinking in studying how the complex components of health systems interact and interrelate to improve health.

Professor Yeoh served as Secretary for Health, Welfare and Food of the Hong Kong Government between 1999 and 2004. He was a director of operations from 1990 to 1993 and a chief executive from 1994 to 1999 of the Hong Kong Hospital Authority with responsibility for the management and transformation of the public hospital system. Professor Yeoh was formerly an INED of Wharf from 2012 to 2017.

Professor Yeoh is a member of the Research Council of the Food and Health Bureau and a co-chairperson of Grant Review Board Executive of the Health and Medical Research Fund, Food and Health Bureau of the Hong Kong Government. Professor Yeoh was appointed a Justice of the Peace (non-official) in 1995. In 2005, he was awarded the Gold Bauhinia Star by the Hong Kong SAR Government in recognition of his public service.

Notes:

- (1) *Wheelock (of which Mr Stephen T H Ng and Mr Paul Y C Tsui are directors) has interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Cap 571 of the laws of Hong Kong) (the "SFO").*
- (2) *All of Mr Stephen T H Ng, Mr Paul Y C Tsui, Ms Y T Leng and Mr Kevin C Y Hui are currently directors of certain subsidiaries of the Company.*

(ii) Senior Management

For the purpose of this Report, only those individuals with responsibilities under the immediate authority of the Board for the conduct of business of the Group are regarded as members of the Group's senior management, comprising the first five Directors named under (A)(i) above.

(B) Directors' Interests in Shares

At 31 December 2020, Directors of the Company had the following beneficial interests, all being long positions, in the shares of the Company. The percentages (where applicable) which the relevant shares represented to the number of shares in issue of the Company are also set out below:

	Quantity held (percentage, where applicable)	Nature of Interest
The Company		
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

Note: Wheelock and Wharf ceased to be the Company's associated corporation(s) (within the meaning of Part XV of the SFO) since 23 July 2020 according to the respective disclosure of interests forms filed by Wheelock and HSBC Trustee (C.I.) Limited under the SFO.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of 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 for Securities Transactions by Directors of Listed Issuers (or any other applicable code), there were no interests, whether long or short positions, held or deemed to be interested as at 31 December 2020 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 31 December 2020.

DIRECTORS' REPORT

(C) 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 31 December 2020, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register"):

Names	No. of Ordinary Shares (percentage based on number of shares in issue)
(i) Wheelock and Company Limited	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 31 December 2020 stated above included interests held through Wheelock's wholly-owned subsidiaries as below:

Names	No. of ordinary shares (percentage based on number of shares in issue)
(i) Manuka Investments Pte. Ltd.	43,668,000 (1.44%)
(ii) Big Heritage Limited	1,316,421,651 (43.36%)
(iii) Kowloon Wharf Pte Limited ("KWPL")	*1,487,051,651 (48.98%)

- * KWPL's interests included 126,962,000 shares (4.18%) deemed shareholding interests held through Vision Expert (0004) Limited, an indirect wholly-owned subsidiary of Wharf which in turn is a publicly listed subsidiary of Wheelock.

All the interests stated above represented long positions. As at 31 December 2020, there were no short position interests recorded in the Register.

(D) Retirement Benefits Schemes

The Group's principal retirement benefits schemes available to its Hong Kong employees are defined contribution schemes (including the Mandatory Provident Fund) which are administered by independent trustees. Both the Group and the employees contribute respectively to the schemes sums which represent a certain percentage of the employees' salaries. The contributions by the Group are expensed as incurred and may be reduced by contribution forfeited for those employees who have left the schemes prior to full vesting of the relevant employee's contribution.

The employees of the Group's subsidiaries in the PRC are members of the state-managed social insurance and housing funds operated by the Government of PRC. The PRC subsidiaries are required to contribute a certain percentage of payroll costs to the funds to fund the benefits. The only obligation of the Group with respect to the retirement benefits of PRC employees is to make the specified contributions.

(E) Directors' Interests in Competing Business

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules.

Five Directors of the Company, namely Mr Stephen T H Ng, Ms Doreen Y F Lee, Mr Paul Y C Tsui, Ms Y T Leng and Mr Kevin C Y Hui, being directors of Wheelock and/or certain subsidiary(ies) and/or associate(s) of Wheelock ("Wheelock Group"), are considered as having an interest in Wheelock Group under Rule 8.10(2) of the Listing Rules.

The investment in property assets and hotel businesses by Wheelock Group are considered as competing businesses for the Group. However, given the Group itself has adequate experience in investing in property and hotel businesses, it is capable of carrying on independently of Wheelock Group.

For safeguarding the interests of the Group, the INEDs and Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's (i) property leasing businesses; and (ii) hotel businesses are and continue to be run at arm's length from those of Wheelock Group.

(F) Major Customers and Suppliers

For the financial year ended 31 December 2020:

- (i) the aggregate amount of purchases (not including the purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and
- (ii) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(G) Debentures, Bank Loans, Overdrafts and Other Borrowings

Particulars of any and all debentures, bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2020 which are repayable on demand or within a period not exceeding one year are set out in Note 18 to the Financial Statements on pages 116 and 117. Those which would fall due for repayment after a period of one year are particularised in Note 18 to the Financial Statements on pages 116 and 117.

DIRECTORS' REPORT

(H) Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 December 2020.

(I) Disclosure of Connected Transactions

Set out below is information in relation to certain connected transactions involving the Company and/or its subsidiaries, particulars of which were previously disclosed in the announcements of the Company dated 13 December 2019 and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company.

(i) Master Property Services Agreement

On 13 December 2019, a master property services agreement (the "Master Property Services Agreement") was entered into by and amongst Wheelock, Wharf, the Company and HCDL, for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022, for the purpose of, *inter alia*, regulating the provision of or engagement in property services comprising property project management services, property sales and marketing services, property management services, leasing agency services and/or any other property related services by and amongst themselves. The Master Property Services Agreement has provided for, *inter alia*, (i) the annual cap amounts of service fees receivable by the Group (including HCDL group) from Wheelock group (including Wharf group) in relation thereto, which are fixed at HK\$28 million per annum for each of the financial years of 2020, 2021 and 2022; and (ii) the annual cap amounts of service fees payable by the Group (including HCDL group) to Wheelock group (including Wharf group) in relation thereto, which are fixed at HK\$126 million, HK\$75 million and HK\$75 million for the financial years of 2020, 2021 and 2022, respectively.

The aggregate annual amounts of remuneration under the Master Property Services Agreement, which is subject to the relevant annual cap amounts as stated above, for the financial year ended 31 December 2020 are (i) HK\$0.3 million as service fees receivable by the Group and (ii) HK\$76 million as service fees payable by the Group, respectively.

(ii) Master Hotel Services Agreement

On 13 December 2019, a master hotel services agreement (the "Master Hotel Services Agreement") was entered into by and amongst Wharf, the Company and HCDL, for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022, for the purpose of, *inter alia*, regulating the provision of hotel management services comprising management, marketing and technical services and/or any other services relating to the development and/or operation of hotels and/or serviced apartment property(ies) in respect of the Group's hotels by Wharf group to the Group and HCDL group respectively. The Master Hotel Services Agreement has provided for, *inter alia*, the annual cap amounts of service fees payable by the Group (including HCDL group) to Wharf group in relation thereto, which are fixed at HK\$95 million, HK\$140 million and HK\$147 million for the financial years of 2020, 2021 and 2022, respectively.

The aggregate annual amounts of remuneration under the Master Hotel Services Agreement, which is subject to the relevant annual cap amount as stated above, for the financial year ended 31 December 2020 amounted to HK\$12 million.

(iii) Leasing Framework Agreement

On 13 December 2019, a leasing framework agreement (the “Leasing Framework Agreement”) was entered into by and amongst Wheelock, Wharf, the Company and HCDL, for a term of three years commencing on 1 January 2020 and expiring on 31 December 2022, for the purpose of, *inter alia*, regulating the leasing and/or licensing of certain premises (including office premises, car parking spaces and building areas but excluding hotel premises) by and amongst themselves. The Leasing Framework Agreement has provided for, *inter alia*, the annual cap amounts of rental receivable by the Group from Wheelock group (including Wharf group) in relation thereto, which are fixed at HK\$195 million per annum for each of the financial years of 2020, 2021 and 2022.

The aggregate annual amounts of rental rates and licence fee rates under the Leasing Framework Agreement, which is subject to the relevant annual cap amount as stated above, for the financial year ended 31 December 2020 amounted to HK\$135 million.

Wheelock, being a substantial shareholder of the Company, and Wharf, being a subsidiary of Wheelock, are both regarded as connected persons of the Company within the meaning under the Listing Rules, the transactions mentioned under Sections (I)(i) to (iii) above constitute continuing connected transactions for the Company.

(iv) Confirmation from Directors and Auditors

(a) Directors, including INEDs, of the Company have reviewed the continuing connected transactions mentioned under Section (I)(i) to (iii) above (the “Transactions”) and confirmed that the Transactions were entered into:

- (1) by the Group in the ordinary and usual course of its business;
- (2) on normal commercial terms or better; and
- (3) according to the agreements governing the Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

(b) In accordance with paragraph 14A.56 of the Listing Rules, the Board engaged the Company’s auditors to perform procedures on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants.

The auditors of the Company have advised nothing has come to their attention that causes them to believe that the transactions:

- (1) had not been approved by the Company’s Board of Directors;
- (2) were not, in all material respects, in accordance with the pricing policies of the Group for transactions involving the provision of goods or services by the Group;
- (3) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and
- (4) have exceeded the relevant cap amounts, where applicable, during the financial year ended 31 December 2020.

DIRECTORS' REPORT

- (v) With regard to the Material Related Parties transactions as disclosed under Note 24 to the Financial Statements on page 128, the transactions stated under paragraphs (a)(ii), (b) and (c) therein constitute connected transactions (as defined under the Listing Rules) of the Company, the transactions under paragraphs (d) and (e) constitute a fully exempt connected transaction of the Company, and the transactions under paragraphs (a)(i) do not constitute connected transactions under the Listing Rules, for all of which the applicable requirements under the Listing Rules have been duly complied with.

(J) Principal Risks and Uncertainties

The global and local economies are always facing a barrage of challenges. Slower and less balanced growth is observed, with moderation experienced in advanced economies. The local political tensions, ongoing Sino-US conflicts, post Brexit impacts and heightened financial volatility continued to cause uncertainties. Furthermore, COVID-19 outbreak since early 2020 has sharply put every economic sector at stake.

The following is a description of how our business segments interacting with the principal risks and uncertainties that are considered to be of significance and have potential to affect the Group's businesses, results of operations and financial conditions. However, this is non-exhaustive as there may be other risks and uncertainties resulting from changes in economic and other conditions over time. The Group employs a risk management and internal control framework to identify current and foreseeable risks at different levels of the organisation so as to take preventive actions to avoid or mitigate their adverse impacts.

Risks pertaining to Investment Properties ("IP")

IP segment is the Group's core business with IP business assets accounting for 89% of the Group's total assets. With the majority of the properties located in Hong Kong, the general economic climate, regulatory changes, government policies and the political conditions in both Hong Kong and Mainland China may have a significant impact on the Group's overall financial results and condition. The Group's rental income may experience more frequent adjustments resulting from competition arising from an oversupply in retail and office areas. Furthermore, rental levels may also be impacted by external economic and market conditions including but not limited to the fluctuations in general supply and demand, performance in stock markets and financial volatility, which may indirectly affect the Group's IP performance.

The spread of COVID-19 and the resultant governmental measures put economic pressure on the tenants of the Group. The weakening of retail markets affects the Group's financial results leading to decreases in revenue and adverse effects on profits and cash flows.

IP are stated at their fair values in accordance with the Hong Kong Financial Reporting Standards in the consolidated statement of financial position at each reporting period. The fair values are provided by independent professional surveyors, using the income capitalisation approach which capitalised the net income of properties and takes into account the significant adjustments on term yield to account for the risk upon reversion and the changes in fair value are recognised in the consolidated statement of profit or loss. Given the size of the Group's IP portfolio, any significant change in the IP values may overwhelmingly affect the Group's results that may not be able to reflect the Group's operating performance.

In this respect, the Group regularly assesses changes in the economic environment and keeps alerting to market needs and competitors' offensives in order to maintain competitiveness. Continuously maintaining the quality of the assets and building up a diversified and high-quality tenant-mix also help the Group to grow revenue and to resist a sluggish economy. In addition, long-range planned and tactical promotions are seamlessly executed for maintaining the IP's leading brands and value.

Risks pertaining to Hotel Segment

The Group owns and operates four hotels in Hong Kong and one in Mainland China. Hotel performance is usually subject to a high degree of fluctuations caused by both predictable and unpredictable factors including seasonality, social stability, epidemic diseases and changes in economic conditions. Each factor has varied the development pattern of the tourism and hospitality industry with also heavily reliance on the fluctuation of Mainland tourist arrival.

The spread of COVID-19, in particular, posted the risk to a new height to the Hotel segment. The spread is rapid making the global economic outlook uncertain. The risks of adverse health and safety, operational and financial impacts arising from the pandemic and the associated governmental responses are significant. The counter measures like restriction on cross border travels and social distancing adopted by governments around the world unavoidably cause disruptions, economic effects and impacts on our operations and financial results leading to decreases in revenue, increases in costs and adverse effects on profits and cash flows.

In this respect, Hotel Segment closely assesses the impact of COVID-19 particularly on revenue and cash flow as well as cost control and operational efficiency to mitigate the adverse financial impacts. Furthermore, it will also continue to assess the geopolitical outlook and economic development of different countries for building its portfolios and exposures to match with the Group's risk appetite. It also takes continual reviews of competition, legal and political changes as well as market trends for setting its business strategies including marketing and pricing to protect and drive profitability.

Risks pertaining to investment

The Group holds a portfolio of long-term investments, which accounted for about 5% of the Group's total assets (excluding cash). The portfolio is held for long term growth potential with reasonable return, consisting of mainly blue chips listed investments with each investment individually immaterial to the Group's total asset. Given that the volatility of the stock market, the portfolio is subject to market fluctuation and may affect the net asset value of the Group. The composition and performance of the portfolio is constantly assessed and monitored by top management.

Legal and Regulatory Compliance risks

Whilst the Group has a diversified portfolio of business operations across Hong Kong and various cities in Mainland China, any failure to anticipate the trend of regulatory changes or cope with relevant requirements may result in non-compliance of local laws or regulations, leading to not only financial loss but also reputational damage to the Group. In mitigation of relevant risks, the Group has actively assessed the effect of relevant developments and engages closely with regulatory authorities and external advisors on new laws and regulations and also trending legislations to ensure relevant requirements are properly compiled with in an effective manner.

Financial risks

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit in the normal course of its business. For further details of such risks and relevant management policies, please refer to Note 21 to the Financial Statements from pages 120 to 124.

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of Wharf Real Estate Investment Company Limited

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Wharf Real Estate Investment Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 89 to 151, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of completed investment properties ("IP")

Refer to accounting policy (d) and note 8 to the consolidated financial statements

The Key Audit Matter

The Group holds a portfolio of IP located in Hong Kong and Singapore which accounted for 88% of the Group's total assets as at 31 December 2020.

The fair values of the IP as at 31 December 2020 were assessed by the Group based on independent valuations prepared by qualified external property valuers.

We identified the valuation of IP as a key audit matter because these properties represent the majority of the Group's total assets and a small adjustment to or variances in the assumptions and data used to compute the valuation of individual properties, when aggregated, could have a significant impact on the Group's financial results and because the valuation of IP involves significant judgement and estimation, particularly in selecting appropriate valuation methodology, market rents and capitalisation rates, which increases the risk of error or potential management bias.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of IP included the following:

- obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group;
- meeting the external property valuers to discuss and challenge the key estimates and assumptions adopted in the valuations, including prevailing market rents and capitalisation rates, and to assess the independence, objectivity, qualifications and expertise of the external property valuers in the properties being valued;
- with the assistance of our internal property valuation specialists, assessing the valuation methodologies adopted by the external property valuers and comparing the key estimates and assumptions adopted in the valuation of IP, on a sample basis, including market rents and capitalisation rates, with available market data and/or government statistics; and
- conducting site visits to IP and comparing tenancy information used in the valuation models, including committed rents and occupancy rates adopted by the external property valuers with underlying contracts and related documentation, on a sample basis.

Revenue recognition for IP

Refer to accounting policy (p) and note 1 to the consolidated financial statements

The Key Audit Matter

Revenue from the IP segment accounted for 76% of the Group's revenue for the year ended 31 December 2020.

Revenue from IP is recognised in equal instalments over the accounting periods covered by the lease term and includes contingent rental which is determined based on the turnover of certain retail outlets.

We identified the revenue recognition for IP as a key audit matter because of its significance to the Group and because small errors in the recognition of revenue, either individually or in aggregate, could have a material impact on the Group's financial result for the year.

How the matter was addressed in our audit

Our audit procedures to assess the revenue recognition for IP included the following:

- comparing fixed rental revenue received and receivable with underlying tenancy information, including monthly rents and rental periods as set out in the signed rental agreements, and rental concessions offered to the tenants by the Group, on a sample basis, and assessing whether fixed rental revenue (taking into account the rental concessions) had been recorded in the appropriate accounting period; and
- re-performing the calculation of contingent rental received and receivable with reference to turnover reports submitted by the relevant retail outlets, on a sample basis, and assessing whether the contingent rental had been recorded and accounted for in the appropriate accounting period.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable actions to be taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheung Wing Han, Ivy.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

4 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2020

	Note	2020 HK\$ Million	2019 HK\$ Million
Revenue	1	15,515	16,043
Direct costs and operating expenses		(4,378)	(2,431)
Selling and marketing expenses		(565)	(326)
Administrative and corporate expenses		(305)	(285)
Operating profit before depreciation, amortisation, interest and tax		10,267	13,001
Depreciation and amortisation	2	(294)	(290)
Operating profit	2	9,973	12,711
Decrease in fair value of investment properties		(13,965)	(5,788)
Other net charge	3	(1,459)	(40)
		(5,451)	6,883
Finance costs	4	(1,407)	(1,007)
Share of results after tax of an associate	10(b)	(75)	76
(Loss)/profit before taxation		(6,933)	5,952
Income tax	5	(1,205)	(1,961)
(Loss)/profit for the year		(8,138)	3,991
(Loss)/profit attributable to:			
Shareholders of the Company		(7,854)	3,928
Non-controlling interests		(284)	63
		(8,138)	3,991
(Loss)/earnings per share:			
Basic and diluted	7	(HK\$2.59)	HK\$1.29

The notes and principal accounting policies on pages 95 to 151 form part of these financial statements. Details of dividend payable to equity shareholders of the Company are set out in note 6.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 HK\$ Million	2019 HK\$ Million
(Loss)/profit for the year	(8,138)	3,991
Other comprehensive income (nil tax effect)		
Item that will not be reclassified to profit or loss:		
Fair value changes on equity investments at fair value through other comprehensive income ("FVOCI") (non-recycling)	1,028	10
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations outside Hong Kong:		
– Subsidiaries	261	(75)
Share of reserves of an associate and joint ventures	72	(24)
Others	8	9
Other comprehensive income for the year	1,369	(80)
Total comprehensive income for the year	(6,769)	3,911
Total comprehensive income attributable to:		
Shareholders of the Company	(6,421)	3,895
Non-controlling interests	(348)	16
	(6,769)	3,911

The notes and principal accounting policies on pages 95 to 151 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	31 December 2020 HK\$ Million	31 December 2019 HK\$ Million
Non-current assets			
Investment properties	8	245,473	259,873
Hotel and club properties, plant and equipment	9	7,700	7,928
Interest in an associate	10	1,059	1,249
Interest in joint ventures	11	23	1,604
Other long term investments	12	13,041	4,065
Deferred tax assets	19	303	374
Derivative financial assets	17	965	238
Other non-current assets		66	57
		268,630	275,388
Current assets			
Properties for sale	13	5,207	5,123
Inventories		19	16
Trade and other receivables	14	1,675	885
Prepaid tax	5(d)	122	22
Derivative financial assets	17	1	–
Bank deposits and cash	15	2,260	2,907
		9,284	8,953
Total assets		277,914	284,341
Non-current liabilities			
Derivative financial liabilities	17	(365)	(20)
Deferred tax liabilities	19	(2,534)	(2,403)
Other deferred liabilities		(333)	(333)
Bank loans and other borrowings	18	(48,171)	(33,236)
		(51,403)	(35,992)
Current liabilities			
Trade and other payables	16	(8,185)	(8,384)
Pre-sale deposits and proceeds	20	(2,044)	(3,172)
Derivative financial liabilities	17	(226)	–
Taxation payable	5(d)	(540)	(3,079)
Bank loans and other borrowings	18	(6,107)	(12,300)
		(17,102)	(26,935)
Total liabilities		(68,505)	(62,927)
NET ASSETS		209,409	221,414
Capital and reserves			
Share capital	22	304	304
Reserves		204,247	215,860
Shareholders' equity		204,551	216,164
Non-controlling interests		4,858	5,250
TOTAL EQUITY		209,409	221,414

The notes and principal accounting policies on pages 95 to 151 form part of these financial statements.

Stephen T H Ng
Chairman and Managing Director

Paul Y C Tsui
Vice Chairman and Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to equity shareholders of the Company							Non-controlling interests	Total equity
	Note	Share capital	Share premium	Investment revaluation reserves	Exchange reserves	Revenue reserves	Total		
		HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
At 1 January 2019		304	696	355	163	217,279	218,797	5,535	224,332
Changes in equity for 2019:									
Profit for the year		-	-	-	-	3,928	3,928	63	3,991
Other comprehensive income		-	-	7	(47)	7	(33)	(47)	(80)
Total comprehensive income		-	-	7	(47)	3,935	3,895	16	3,911
Transfer to revenue reserves upon									
de-recognition of equity investments		-	-	(65)	-	65	-	-	-
2018 second interim dividend paid		-	-	-	-	(3,188)	(3,188)	-	(3,188)
2019 first interim dividend paid	6	-	-	-	-	(3,340)	(3,340)	-	(3,340)
Dividends payable to non-controlling interests		-	-	-	-	-	-	(301)	(301)
At 31 December 2019 and 1 January 2020		304	696	297	116	214,751	216,164	5,250	221,414
Changes in equity for 2020:									
Loss for the year		-	-	-	-	(7,854)	(7,854)	(284)	(8,138)
Other comprehensive income		-	-	1,182	245	6	1,433	(64)	1,369
Total comprehensive income		-	-	1,182	245	(7,848)	(6,421)	(348)	(6,769)
Transfer to revenue reserves upon									
de-recognition of equity investments		-	-	(18)	-	18	-	-	-
2019 second interim dividend paid	6	-	-	-	-	(2,824)	(2,824)	-	(2,824)
2020 first interim dividend paid	6	-	-	-	-	(2,368)	(2,368)	-	(2,368)
Dividends payable to non-controlling interests		-	-	-	-	-	-	(44)	(44)
At 31 December 2020		304	696	1,461	361	201,729	204,551	4,858	209,409

The notes and principal accounting policies on pages 95 to 151 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	2020 HK\$ Million	2019 HK\$ Million
Operating cash inflow	(a)	9,884	12,847
Changes in working capital	(a)	(844)	1,072
Cash generated from operations	(a)	9,040	13,919
Net interest paid		(928)	(1,011)
Interest paid		(954)	(1,048)
Interest received		26	37
Dividend received from a joint venture		109	–
Dividend received from other long term investments		295	117
Hong Kong Profits Tax paid		(3,051)	(446)
Overseas tax paid		(641)	(556)
Net cash generated from operating activities		4,824	12,023
Investing activities			
Payment for investment properties		(189)	(6,440)
Payment for hotel and club properties, plant and equipment		(173)	(65)
Net decrease in interest in an associate		178	99
Purchase of other long term investments		(9,462)	(2,030)
Proceeds from disposal of other long term investments		1,514	371
Net cash used in investing activities		(8,132)	(8,065)
Financing activities			
Drawdown of bank loans and other borrowings	(b)	20,649	15,610
Repayment of bank loans	(b)	(12,825)	(12,458)
Dividends paid		(5,192)	(6,528)
Dividends paid to non-controlling interests		(44)	(301)
Net cash generated from/(used in) financing activities		2,588	(3,677)
(Decrease)/increase in cash and cash equivalents		(720)	281
Cash and cash equivalents at 1 January		2,907	2,675
Effect of exchange rate changes		73	(49)
Cash and cash equivalents at 31 December		2,260	2,907

The notes and principal accounting policies on pages 95 to 151 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to cash generated from operations

	2020 HK\$ Million	2019 HK\$ Million
Operating profit for the year	9,973	12,711
Adjustments for:		
Interest income	(26)	(37)
Dividend income from other long term investments	(357)	(117)
Depreciation and amortisation	294	290
Operating cash inflow	9,884	12,847
Decrease/(increase) in properties for sale	1,468	(1,840)
Increase in inventories	(3)	(3)
(Increase)/decrease in trade and other receivables	(710)	60
(Decrease)/increase in trade and other payables	(187)	288
(Decrease)/increase in pre-sale deposits and proceeds	(1,333)	2,527
(Increase)/decrease in derivative financial instruments	(79)	43
Other non-cash items	-	(3)
Changes in working capital	(844)	1,072
Cash generated from operations	9,040	13,919

(b) Reconciliation of liabilities arising from financing activities

	2020 HK\$ Million	2019 HK\$ Million
At 1 January	45,536	42,097
Changes from financing cash flows:		
Drawdown of bank loans and other borrowings	20,649	15,610
Repayment of bank loans	(12,825)	(12,458)
Total changes from financing cash flows	7,824	3,152
Exchange adjustment	109	(26)
Fair value loss	809	313
	8,742	3,439
At 31 December	54,278	45,536

NOTES TO THE FINANCIAL STATEMENTS

1 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 property, development property, hotel and investment. No operating segment have been aggregated to form the reportable segments.

Investment property 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 and Singapore.

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

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 of assets attributable to those segments.

NOTES TO THE FINANCIAL STATEMENTS

(a) Analysis of segment revenue and results

	Revenue HK\$ Million	Operating profit HK\$ Million	Decrease in fair value of investment properties HK\$ Million	Other net (charge)/ income HK\$ Million	Finance costs HK\$ Million	Share of results after tax of an associate HK\$ Million	(Loss)/ profit before taxation HK\$ Million
For the year ended 2020							
Investment property	11,828	9,733	(13,965)	-	(901)	-	(5,133)
Development property	2,621	444	-	5	-	(75)	374
Hotel	630	(379)	-	(1,051)	(37)	-	(1,467)
Investment	357	357	-	-	-	-	357
Inter-segment revenue	(33)	-	-	-	-	-	-
Segment total	15,403	10,155	(13,965)	(1,046)	(938)	(75)	(5,869)
Others	112	(15)	-	(413)	(469)	-	(897)
Corporate expenses	-	(167)	-	-	-	-	(167)
Group total	15,515	9,973	(13,965)	(1,459)	(1,407)	(75)	(6,933)
For the year ended 2019							
Investment property	14,279	12,501	(5,788)	-	(952)	-	5,761
Development property	38	131	-	-	-	76	207
Hotel	1,507	61	-	(157)	(46)	-	(142)
Investment	117	117	-	-	-	-	117
Inter-segment revenue	(49)	-	-	-	-	-	-
Segment total	15,892	12,810	(5,788)	(157)	(998)	76	5,943
Others	151	27	-	117	(9)	-	135
Corporate expenses	-	(126)	-	-	-	-	(126)
Group total	16,043	12,711	(5,788)	(40)	(1,007)	76	5,952

(b) Disaggregation of revenue

	2020 HK\$ Million	2019 HK\$ Million
Revenue recognised under HKFRS 15		
Management and services income	1,092	1,161
Other rental related income	479	306
Revenue under investment property segment	1,571	1,467
Hotel and club operations	630	1,507
Sale of development properties	2,621	38
	4,822	3,012
Revenue recognised under other accounting standards		
Rental income		
- Fixed	9,920	11,750
- Variable	304	1,013
	10,224	12,763
Investment income	357	117
Others	112	151
	10,693	13,031
Total revenue	15,515	16,043

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 customers 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

	Total Revenue HK\$ Million	2020 Inter-segment revenue HK\$ Million	Group Revenue HK\$ Million	Total Revenue HK\$ Million	2019 Inter-segment revenue HK\$ Million	Group Revenue HK\$ Million
Investment property	11,828	(33)	11,795	14,279	(49)	14,230
Development property	2,621	-	2,621	38	-	38
Hotel	630	-	630	1,507	-	1,507
Investment	357	-	357	117	-	117
Others	123	(11)	112	172	(21)	151
	15,559	(44)	15,515	16,113	(70)	16,043

(d) Analysis of segment business assets

	2020 HK\$ Million	2019 HK\$ Million
Investment property	246,690	260,415
Development property	6,517	8,192
Hotel	7,778	8,011
Investment	13,102	4,065
Total segment business assets	274,087	280,683
Unallocated corporate assets	3,827	3,658
Total assets	277,914	284,341

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

Segment assets held through an associate and joint ventures included in the above are:

	2020 HK\$ Million	2019 HK\$ Million
Development property	1,082	2,853

NOTES TO THE FINANCIAL STATEMENTS

(e) Other segment information

	Capital expenditure	
	2020 HK\$ Million	2019 HK\$ Million
Investment property	229	6,684
Hotel	312	84
Others	9	–
Group total	550	6,768

	Depreciation and amortisation	
	2020 HK\$ Million	2019 HK\$ Million
Investment property	17	18
Hotel	273	269
Segment total	290	287
Others	4	3
Group total	294	290

The Group had no significant non-cash expenses other than (i) impairment provision for hotel properties of HK\$1,051 million (2019: HK\$157 million) and (ii) depreciation and amortisation.

(f) Geographical information

	Revenue		Operating profit	
	2020 HK\$ Million	2019 HK\$ Million	2020 HK\$ Million	2019 HK\$ Million
Hong Kong	12,392	15,836	9,190	12,509
Outside Hong Kong	3,123	207	783	202
Group total	15,515	16,043	9,973	12,711

	Specified non-current assets		Total business assets	
	2020 HK\$ Million	2019 HK\$ Million	2020 HK\$ Million	2019 HK\$ Million
Hong Kong	246,138	260,326	252,368	263,720
Outside Hong Kong	8,117	10,328	21,719	16,963
Group total	254,255	270,654	274,087	280,683

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.

2 OPERATING PROFIT

(a) Operating profit is arrived at:

	2020 HK\$ Million	2019 HK\$ Million
After charging:		
Depreciation and amortisation on		
– hotel and club properties, plant and equipment	286	283
– leasehold land	8	7
Total depreciation and amortisation	294	290
Impairment loss on trade receivables	47	–
Staff costs (Note (i))	894	1,006
Auditors' remuneration		
– audit services	9	8
– non-audit services	1	–*
Cost of trading properties for recognised sales	2,080	(134)
Direct operating expenses of investment properties	1,990	1,696
After crediting:		
Gross rental revenue from investment properties	11,795	14,230
Government grants (Note (ii))	140	–
Interest income (Note (iii))	26	37
Dividend income from other long term investments	357	117

* Total represents amount less than HK\$1 million.

Note:

- (i) Staff costs included defined contribution pension schemes costs for the year ended 31 December 2020 of HK\$49 million (2019: HK\$48 million).
- (ii) Government grants mainly included subsidy from the 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 2020 of HK\$26 million (2019: HK\$37 million) are generated in respect of financial assets (mainly comprising bank deposits) stated at amortised cost.

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(b) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefit of Directors) Regulation for the years ended 31 December 2020 and 2019 are as follows:

	Fees HK\$'000	Salaries, allowance and benefits in kind HK\$'000	Discretionary bonus HK\$'000	Contribution to pension schemes HK\$'000	2020 Total emoluments HK\$'000	2019 Total emoluments HK\$'000
Executive Directors						
Mr Stephen T H Ng (Note ii)	350	3,455	7,738	–	11,543	13,109
Ms Doreen Y F Lee	250	5,125	6,400	14	11,789	19,665
Mr Paul Y C Tsui	250	2,325	3,683	–	6,258	7,577
Ms Y T Leng	250	4,932	6,000	485	11,667	12,229
Mr Kevin C Y Hui	250	1,640	699	9	2,598	–
Mr K H Leung (Note iv)	–	–	–	–	–	2,642
Independent Non-executive Directors						
Mr Alexander S K Au (Notes i & ii)	450	–	–	–	450	450
Hon Andrew K Y Leung	250	–	–	–	250	250
Mr Andrew J Seaton (Notes ii & iii)	105	–	–	–	105	300
Mr R Gareth Williams (Notes i, ii & iii)	433	–	–	–	433	400
Professor E K Yeoh (Note i)	400	–	–	–	400	400
Total	2,988	17,477	24,520	508	45,493	57,022
Total for 2019	3,108	16,358	37,076	480	–	57,022

Notes:

- (i) Includes Audit Committee Member's fee for the year ended 31 December 2020 of HK\$150,000 (2019: HK\$150,000) received/receivable by each of relevant Directors.
- (ii) Includes Remuneration Committee Member's fee for the year ended 31 December 2020 of HK\$50,000 (2019: HK\$50,000) received/receivable by each of relevant Directors.
- (iii) Mr Andrew J Seaton retired from the Board of Director of the Company at the conclusion of the Annual General Meeting held on 7 May 2020. To succeed Mr Andrew J Seaton, Mr R Gareth Williams was appointed as a member of the Remuneration Committee of the Company on 7 May 2020.
- (iv) Mr K H Leung resigned as a Director of the Company with effect from 1 November 2019.
- (v) The emoluments of Mr Stephen T H Ng, Ms Doreen Y F Lee and Mr Paul Y C Tsui included amounts reimbursed to The Wharf (Holdings) Limited ("Wharf") calculated at a pre-determined percentage of the basic remuneration for being Executive Directors and employees of the Company and Wharf pursuant to framework agreements entered into between the Group and Wharf.
- (vi) The Directors' emoluments for the year ended 31 December 2020 included discretionary bonuses of special payments of HK\$2.1 million and HK\$1.1 million to Mr Stephen T H Ng and Mr Paul Y C Tsui, respectively, in consideration of the impairment in value of the share options exercised by them during the prior year under Wharf's Share Option Scheme (granted before the Company was demerged from Wharf as a separately listed entity in November 2017 but exercised after the Company's demerger).
- (vii) There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Directors of the Company in respect of the years ended 31 December 2020 and 2019.

(c) Individuals with highest emoluments

Of the five individuals with the highest emoluments, four for the year ended 31 December 2020 (2019: four) are Directors, whose emoluments are disclosed in Note 2(b). The aggregate of the emoluments in respect of the other one (2019: one) individuals are as follows:

	2020 HK\$'000	2019 HK\$'000
Salaries, allowance and benefits in kind	3,202	2,267
Discretionary bonuses	5,600	4,500
Total	8,802	6,767

The emoluments of the one (2019: one) individual with highest emoluments are within the following bands:

Bands (in HK\$)	2020 No. of individual	2019 No. of individual
HK\$6,500,001 – HK\$7,000,000	–	1
HK\$8,500,001 – HK\$9,000,000	1	–

3 OTHER NET CHARGE

Other net charge for the year amounted to HK\$1,459 million (2019: HK\$40 million) mainly comprises:

- Impairment provision of HK\$1,051 million (2019: HK\$157 million) made for hotel properties.
- Net foreign exchange loss of HK\$284 million (2019: gain of HK\$15 million) which included the impact arising from forward foreign exchange contracts.

4 FINANCE COSTS

	2020 HK\$ Million	2019 HK\$ Million
Interest charged on:		
– Bank loans and overdrafts	525	750
– Other borrowings	387	228
Total interest charge	912	978
Other finance costs	85	61
Less: Amount capitalised	(16)	(41)
	981	998
Fair value loss:		
Cross currency interest rate swaps	249	–
Interest rate swaps	177	9
	426	9
Total	1,407	1,007

Interest charge was capitalised at an average annual rate of approximately 4.9% (2019: 3.7%) for the year ended 31 December 2020.

NOTES TO THE FINANCIAL STATEMENTS

5 INCOME TAX

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

	2020 HK\$ Million	2019 HK\$ Million
Current income tax		
Hong Kong		
– Provision for the year	1,293	1,851
– Over-provision in respect of prior years	(10)	(9)
Outside Hong Kong		
– Provision for the year	179	102
	1,462	1,944
Land appreciation tax (“LAT”) (Note (c))	(473)	1
Deferred tax		
Origination and reversal of temporary differences	216	16
Total	1,205	1,961

Notes:

- (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% (2019: 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 2020 and 2019.
- (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 the land value, being the proceeds on sales of properties less deductible expenditure including cost of land use rights, borrowing costs and all property development expenditure. An one-off LAT write-back of HK\$504 million was recorded upon clearance with relevant tax authorities in Mainland China.
- (d) Prepaid tax/taxation payable in the consolidated statement of financial position is expected to be utilised/settled within one year.
- (e) Tax attributable to an associate for the year ended 31 December 2020 are an aggregate of HK\$21 million (2019: HK\$21 million), which are included in the share of results of an associate.
- (f) The China tax law imposes a withholding tax at 10%, unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China. For the year ended 31 December 2020, the Group has provided HK\$43 million (2019: HK\$5 million), for withholding taxes on accumulated earnings generated by its Mainland China subsidiaries which is in relation to dividend distribution to their immediate holding companies outside Mainland China in the foreseeable future.

(g) Reconciliation between the actual total tax charge and (loss)/profit before taxation at applicable tax rates:

	2020 HK\$ Million	2019 HK\$ Million
(Loss)/profit before taxation	(6,933)	5,952
Notional tax on profit before taxation calculated at applicable tax rates	(1,158)	986
Tax effect of non-deductible expenses	208	30
Tax effect of non-taxable income	(81)	(53)
Tax effect of non-deductible fair value loss on investment properties	2,268	956
Over-provision in respect of prior years	(10)	(9)
Tax effect of tax losses not recognised	58	168
Tax effect of temporary differences not recognised	350	(123)
LAT on properties for sales	(473)	1
Withholding tax on distributed/distributable earnings	43	5
Actual total tax charge	1,205	1,961

6 DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2020 HK\$ per share	2020 HK\$ Million	2019 HK\$ per share	2019 HK\$ Million
First interim dividend declared and paid	0.78	2,368	1.10	3,340
Second interim dividend declared after the end of the reporting period (Note b)	0.69	2,095	0.93	2,824
	1.47	4,463	2.03	6,164

(a) The second interim dividend based on 3,036 million (2019: 3,036 million) issued ordinary shares declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) The second interim dividend of HK\$2,824 million for 2019 was approved and paid in 2020.

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the loss attributable to ordinary equity shareholders for the year of HK\$7,854 million (2019: profit of HK\$3,928 million) and 3,036 million ordinary shares in issue during the year (2019: 3,036 million ordinary shares in issue).

There are no potential dilutive ordinary shares in issue during the years ended 31 December 2020 and 2019.

NOTES TO THE FINANCIAL STATEMENTS

8 INVESTMENT PROPERTIES

(a) Cost or valuation

	Completed HK\$ Million	Under development HK\$ Million	Total HK\$ Million
At 1 January 2019	258,281	703	258,984
Exchange adjustment	21	(15)	6
Additions	6,412	259	6,671
Revaluation deficits	(5,788)	–	(5,788)
At 31 December 2019 and 1 January 2020	258,926	947	259,873
Exchange adjustment	67	–	67
Additions	220	–	220
Transfer	225	(947)	(722)
Revaluation deficits	(13,965)	–	(13,965)
At 31 December 2020	245,473	–	245,473

(b) The analysis of cost or valuation of the above assets is as follows:

	Completed HK\$ Million	Under development HK\$ Million	Total HK\$ Million
2020 valuation	245,473	–	245,473
At cost	–	–	–
	245,473	–	245,473
2019 valuation	258,926	–	258,926
At cost	–	947	947
	258,926	947	259,873

(c) **Tenure of title to properties:**

	Completed HK\$ Million	Under development HK\$ Million	Total HK\$ Million
At 31 December 2020			
Held in Hong Kong			
Long term leases	219,394	–	219,394
Medium term leases	20,037	–	20,037
	239,431	–	239,431
Held outside Hong Kong			
Freehold	1,108	–	1,108
Long term leases	4,934	–	4,934
	245,473	–	245,473
At 31 December 2019			
Held in Hong Kong			
Long term leases	231,695	–	231,695
Medium term leases	21,130	–	21,130
	252,825	–	252,825
Held outside Hong Kong			
Freehold	1,133	–	1,133
Long term leases	4,968	–	4,968
Medium term leases	–	947	947
	258,926	947	259,873

The Group holds investment properties to lease out under operating leases (see note 8(e)). The Group is the registered owner of the property interests of these investment properties. There are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(d) **Investment properties revaluation**

The Group's investment properties under development are stated at fair value when the fair value first becomes reliably measurable or upon completion of the property, whichever is earlier.

The investment properties stated at fair value were revalued by Knight Frank Petty Limited and Knight Frank Pte Ltd. at 31 December 2020 (collectively "Knight Frank"), independent firms of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors and the Singapore Institute of Surveyors and Valuers respectively with extensive experience in valuing properties in Hong Kong, Mainland China and Singapore. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

The revaluation deficit arising on revaluation of investment properties is recognised in the line item "Decrease in fair value of investment properties" on the consolidated statement of profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

The following table presents the investment properties which are measured at fair value at the end of the reporting period across the three levels of the inputs to the revaluation methodologies in accordance with HKFRS 13, Fair value measurement (“HKFRS 13”). 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 is not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

None of the Group’s investment properties measured at fair value are categorised as Level 1 and Level 2 input. The Group’s investment properties which are at Level 3 valuation are analysed as below:

	Level 3			Total HK\$ Million
	Retail HK\$ Million	Office HK\$ Million	Residential HK\$ Million	
Recurring fair value measurements				
At 31 December 2020				
Hong Kong	138,823	95,270	5,338	239,431
Singapore	3,669	2,373	–	6,042
	142,492	97,643	5,338	245,473
At 31 December 2019				
Hong Kong	148,349	99,116	5,360	252,825
Singapore	3,917	2,184	–	6,101
	152,266	101,300	5,360	258,926

During the years ended 31 December 2020 and 2019, there was no transfer between Level 1 and Level 2 or transfers into or out of Level 3.

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

Valuation processes

The Group reviews the valuations performed by the independent valuers for financial reporting purposes by verifying all major inputs and assessing the reasonableness of the property valuations. Valuation reports with an analysis of changes in fair value measurement are reviewed and approved by the senior management.

Valuation methodologies

The valuations of completed retail, office and residential properties in Hong Kong and Singapore were based on the income capitalisation approach which capitalised the net income of the properties and takes into account the significant adjustments on term yield to account for the risk upon reversion.

Level 3 valuation methodologies

Completed investment properties

Set out below is a table which presents the significant unobservable inputs:

	Weighted average			
	Capitalisation rate		Market rent	
	2020	2019	2020	2019
Hong Kong			HK\$ psf	HK\$ psf
– Retail	5.2%	5.2%	273	281
– Office	4.2%	4.2%	56	59
– Residential	4.5%	4.5%	61	61
Singapore			S\$ psf	S\$ psf
– Retail	4.5%	4.9%	12.8	14.8
– Office	3.9%	4.0%	10.8	11.1

The fair value measurement of completed investment properties is negatively correlated to the capitalisation rate and positively correlated to the market rent.

- (e) The Group leases out properties under operating leases, which generally run for a period of two to ten years. Lease payments may be varied periodically to reflect market rentals and may contain variable lease payment which is based on various percentages of tenants' sales receipts.
- (f) The Group's total future undiscounted lease income under non-cancellable operating leases is receivable as follows:

	2020	2019
	HK\$ Million	HK\$ Million
Within 1 year	8,383	10,612
After 1 year but within 2 years	5,202	6,827
After 2 years but within 3 years	2,830	3,863
After 3 years but within 4 years	1,090	1,998
After 4 years but within 5 years	461	772
After 5 years	415	1,003
	18,381	25,075

NOTES TO THE FINANCIAL STATEMENTS

9 HOTEL AND CLUB PROPERTIES, PLANT AND EQUIPMENT

(a) Cost

	Leasehold land HK\$ Million	Hotel and club properties HK\$ Million	Plant and equipment HK\$ Million	Total HK\$ Million
At 1 January 2019	234	9,453	1,439	11,126
Exchange adjustment	–	(24)	(1)	(25)
Additions	–	48	49	97
Disposals	–	–	(6)	(6)
Reclassification	–	(50)	50	–
Acquisition of subsidiaries	–	–	27	27
At 31 December 2019 and 1 January 2020	234	9,427	1,558	11,219
Exchange adjustment	3	107	2	112
Additions	1	290	39	330
Disposals	–	–	(17)	(17)
Transfer from investment properties under development	–	722	–	722
At 31 December 2020	238	10,546	1,582	12,366
Accumulated depreciation and impairment losses				
At 1 January 2019	90	1,542	1,217	2,849
Exchange adjustment	–	(15)	(1)	(16)
Charge for the year	7	216	67	290
Written back on disposals	–	–	(5)	(5)
Acquisition of subsidiaries	–	–	16	16
Impairment losses	20	137	–	157
At 31 December 2019 and 1 January 2020	117	1,880	1,294	3,291
Exchange adjustment	2	44	1	47
Charge for the year	8	222	64	294
Written back on disposals	–	–	(17)	(17)
Impairment losses	–	1,051	–	1,051
At 31 December 2020	127	3,197	1,342	4,666
Net book value				
At 31 December 2020	111	7,349	240	7,700
At 31 December 2019	117	7,547	264	7,928

(b) **Tenure of title to properties:**

	Leasehold land HK\$ Million	Hotel and club properties HK\$ Million	Total HK\$ Million
At 31 December 2020			
Held in Hong Kong			
Long term leases	82	218	300
Medium term leases	6	6,177	6,183
	88	6,395	6,483
Held outside Hong Kong			
Medium term leases	23	954	977
	111	7,349	7,460
At 31 December 2019			
Held in Hong Kong			
Long term leases	82	154	236
Medium term leases	13	7,002	7,015
	95	7,156	7,251
Held outside Hong Kong			
Medium term leases	22	391	413
	117	7,547	7,664

(c) **Right-of-use assets:**

The depreciated carrying amount of the ownership interests in leasehold land is identified as right-of-use assets. The analysis of expense items in relation to these leases are as follows:

	2020 HK\$ Million	2019 HK\$ Million
Depreciation charge of leasehold land	8	7
Impairment losses on leasehold land	–	20

The Group holds hotel properties to lease out under operating leases for the operating of hotel business. The Group is the registered owner of the property interests of these hotel properties. There are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(d) **Impairment of hotel properties, plant and equipment**

The carrying amounts of hotel properties, plant and equipment is assessed at the end of the reporting period where there is any indication of impairment by estimating the recoverable amount, which is the greater of its fair value less costs of disposal and value in use. In assessing the impairments, an independent valuation is obtained from Knight Frank using the market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential where appropriate.

Based on the Group's assessment with reference to the independent valuation, an impairment of HK\$1,051 million (2019: HK\$157 million) comprising HK\$676 million (2019: HK\$Nil) for the Murray in Hong Kong, HK\$369 million (2019: HK\$Nil) for Niccolo Suzhou and HK\$6 million (2019: HK\$157 million) for MP Changzhou in Mainland China, is recognised in "Other net charge" in the consolidated statement of profit or loss.

Key assumptions used in the independent valuation included long-term growth rate of room rate ranging from 3% to 4%, long-term occupancy rate ranging from 71% to 75%, discount rates ranging from 5.5% to 6.5% and the projected net cash flows for the remaining lease term. The above methodology and key assumptions adopted for determining the impairment of hotel properties for the year were consistent with those adopted by the Group in prior year.

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10 INTEREST IN AN ASSOCIATE

	2020 HK\$ Million	2019 HK\$ Million
Share of net assets	1,010	935
Amount due from an associate	49	314
	1,059	1,249

Details of the associate are set out below:

Name of entity	Place of establishment and operation	Class of shares	Percentage of equity interest	Principal activities
上海萬九綠合置業有限公司	Mainland China	Registered capital	19	Property development

(a) The amount due from an associate is unsecured, interest free, has no fixed terms of repayment and not expected to be recoverable within twelve months from the end of the reporting period. The amount is not past due.

(b) Summary financial information of the associate

Information of the associate is summarised below:

	2020 HK\$ Million	2019 HK\$ Million
Carrying amount of the associate in the consolidated financial statements	1,010	935
Amounts of the Group's share of the associate's		
– (Loss)/profit from continuing operations	(75)	76
– Other comprehensive income	62	(21)
Total comprehensive income	(13)	55

11 INTEREST IN JOINT VENTURES

	2020 HK\$ Million	2019 HK\$ Million
Share of net assets	23	1,604
Amounts due to joint ventures (Note 16)	–	(1,589)
	23	15

Details of joint ventures are set out below:

Name of entity	Place of establishment/ incorporation and operation	Class of shares	Percentage of equity interest	Principal activities
Speedy Champ Investments Limited	Hong Kong	Ordinary shares	39	Holding company
重慶豐盈房地產開發有限公司	Mainland China	Registered capital	39	Property development

- (a) As at 31 December 2020 and 2019, the amounts due to joint ventures are unsecured, interest free and repayable on demand.
- (b) No joint venture is individually material to the Group. Aggregate information of the joint ventures is summarised below:

	2020 HK\$ Million	2019 HK\$ Million
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	23	1,604
Aggregate amounts of the Group's share of the joint ventures		
– Profit from continuing operations	–	–
– Other comprehensive income	10	(3)
Total comprehensive income	10	(3)

12 OTHER LONG TERM INVESTMENTS

	2020 HK\$ Million	2019 HK\$ Million
Listed investments stated at market value		
– in Hong Kong	4,991	2,792
– outside Hong Kong	8,050	1,273
	13,041	4,065

- (a) All of the listed investments have been designated to be measured at fair value through other comprehensive income which mainly represent a portfolio of securities in scalable organisations held for long term growth potential with reasonable dividend return that in line with market.
- (b) Analysed by industry sectors as follows:

	2020 HK\$ Million	2019 HK\$ Million
Properties	12,477	3,579
Others	564	486
	13,041	4,065

NOTES TO THE FINANCIAL STATEMENTS

13 PROPERTIES FOR SALE

	2020 HK\$ Million	2019 HK\$ Million
Properties under development for sale	–	4,753
Completed properties for sale	5,207	370
	5,207	5,123

The carrying value of leasehold land included in properties under development for sale and completed properties for sale is summarised as follows:

	2020 HK\$ Million	2019 HK\$ Million
Held outside Hong Kong		
– Freehold	60	90
– Long term leases	70	141
– Medium term leases	211	214
	341	445

14 TRADE AND OTHER RECEIVABLES

(a) Ageing analysis

Included in this item are trade receivables (net of allowance) with an ageing analysis based on the invoice date as at 31 December 2020 as follows:

	2020 HK\$ Million	2019 HK\$ Million
Trade receivables		
0 – 30 days	152	271
31 – 60 days	82	32
61 – 90 days	36	14
Over 90 days	114	15
	384	332
Other receivables and prepayments	1,291	553
	1,675	885

The Group has established credit policies for each of its core business. 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 an amount of HK\$204 million (2019: HK\$Nil) in relation to the rental concessions offered to the tenants, which is expected to be utilised after more than one year.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account based on expected credit losses. Given the Group has not experienced any significant credit losses in the past and holds sufficient rental deposits from tenants to cover the potential exposure to credit risk, the allowance for expected credit losses is therefore insignificant that a provision matrix is not disclosed.

The movement in the allowance account for the bad and doubtful debts during the year is as follows:

	2020 HK\$ Million	2019 HK\$ Million
At 1 January	2	2
Impairment loss recognised	47	–
At 31 December	49	2

15 BANK DEPOSITS AND CASH

	2020 HK\$ Million	2019 HK\$ Million
Bank deposits and cash	2,260	2,907

At 31 December 2020, bank deposits and cash included:

	2020 HK\$ Million	2019 HK\$ Million
Balances placed with banks in Mainland China (Note (a))	1,253	1,011
Balances solely for certain designated property development projects in Mainland China (Note (a))	20	18

Note:

- (a) The remittance is subject to relevant rules and regulations of foreign exchange control promulgated by Mainland China government.
- (b) The effective annual interest rate on bank deposits was 1.0% at 31 December 2020 (2019: 1.5%).

Bank deposits and cash are denominated in the following currencies:

	2020 HK\$ Million	2019 HK\$ Million
RMB	1,250	1,007
HKD	294	1,255
USD	259	87
SGD	457	558
	2,260	2,907

NOTES TO THE FINANCIAL STATEMENTS

16 TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on the invoice date as at 31 December 2020 as follows:

	2020 HK\$ Million	2019 HK\$ Million
Trade payables		
0 – 30 days	284	133
31 – 60 days	7	7
61 – 90 days	10	1
Over 90 days	16	10
	317	151
Rental and customer deposits	3,482	3,761
Construction costs payable	2,245	615
Amounts due to joint ventures (Note 11)	–	1,589
Other payables	2,141	2,268
	8,185	8,384

The amount of trade and other payables that is expected to be settled after more than one year as at 31 December 2020 is HK\$1,762 million (2019: HK\$ 2,323 million) which is mainly for rental and customer deposits. The Group considers the effect of discounting these items would be immaterial. As at 31 December 2020 and 2019, all other trade and other payables are expected to be settled or recognised as income within one year or are payable on demand from the end of the reporting period.

17 DERIVATIVE FINANCIAL INSTRUMENTS

	2020		2019	
	Assets HK\$ Million	Liabilities HK\$ Million	Assets HK\$ Million	Liabilities HK\$ Million
At fair value through profit or loss				
Fixed-to-floating interest rate swaps	193	–	52	12
Floating-to-fixed interest rate swaps	–	114	–	–
Cross currency interest rate swaps	772	405	186	8
Forward foreign exchange contracts	1	72	–	–
Total	966	591	238	20
Analysis				
Current	1	226	–	–
Non-current	965	365	238	20
Total	966	591	238	20

An analysis of the remaining maturities at the end of the reporting period of the above derivative financial instruments is as follows:

	2020		2019	
	Assets HK\$ Million	Liabilities HK\$ Million	Assets HK\$ Million	Liabilities HK\$ Million
Fixed-to-floating interest rate swaps				
Expiring after more than 1 year but not exceeding 5 years	41	–	–	–
Expiring after 5 years	152	–	52	12
	193	–	52	12
Floating-to-fixed interest rate swaps				
Expiring after 5 years	–	114	–	–
Cross currency interest rate swaps				
Expiring within 1 year	–	154	–	–
Expiring after more than 1 year but not exceeding 5 years	197	40	–	8
Expiring after 5 years	575	211	186	–
	772	405	186	8
Forward foreign exchange contracts				
Expiring within 1 year	1	72	–	–
Total	966	591	238	20

- (a) The notional principal amounts of derivative financial instruments outstanding at the end of the reporting period were as follows:

	2020 HK\$ Million	2019 HK\$ Million
Fixed-to-floating interest rate swaps	5,076	2,204
Floating-to-fixed interest rate swaps	2,572	–
Cross currency interest rate swaps	14,646	7,042
Forward foreign exchange contracts	1,819	–

- (b) Derivative financial assets represent the amounts the Group would receive whilst derivative financial liabilities represent the amounts the Group would pay if the positions were closed at the end of the reporting period. Derivative financial instruments do not qualify for hedge accounting and their corresponding changes in fair values have been recognised in the consolidated statement of profit or loss.
- (c) The Group enters into derivative transactions under International Swaps and Derivatives Association (“ISDA”) master agreements providing offsetting mechanisms under certain circumstances. At 31 December 2020 and 2019, the Group has not offset any of the financial instruments as no parties have exercised their rights to offset the recognised amounts in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

18 BANK LOANS AND OTHER BORROWINGS

	2020 HK\$ Million	2019 HK\$ Million
Notes (unsecured)		
Due after more than 2 years but not exceeding 5 years	9,590	2,332
Due after more than 5 years	12,645	8,019
	22,235	10,351
Bank loans (secured)		
Due after more than 1 year but not exceeding 2 years	310	–
Due after more than 2 years but not exceeding 5 years	–	335
	310	335
Bank loans (unsecured)		
Due within 1 year	6,107	12,300
Due after more than 1 year but not exceeding 2 years	13,000	5,550
Due after more than 2 years but not exceeding 5 years	11,700	17,000
Due after more than 5 years	926	–
	31,733	34,850
Total bank loans and other borrowings	54,278	45,536
Analysis of maturities of the above borrowings:		
Current borrowings		
Due within 1 year	6,107	12,300
Non-current borrowings		
Due after more than 1 year but not exceeding 2 years	13,310	5,550
Due after more than 2 years but not exceeding 5 years	21,290	19,667
Due after more than 5 years	13,571	8,019
	48,171	33,236
Total bank loans and other borrowings	54,278	45,536

- (a) The Group's borrowings are denominated in the following currencies (after the effects of cross currency interest rate swaps arrangements as detailed in Note 21(b)):

	2020 HK\$ Million	2019 HK\$ Million
HKD	47,841	45,201
SGD	3,237	–
USD	1,833	–
GBP	1,057	–
RMB	310	335
	54,278	45,536

- (b) The effective interest rate per annum on bank loans and other borrowings ranged from 0.8% to 4.9% for the year ended 31 December 2020 (2019: 1.0% to 4.9%).
- (c) All the interest bearing borrowings are carried at amortised cost except for an amount of HK\$14,338 million (2019: HK\$10,351 million) which are carried at their fair values. None of the non-current interest bearing borrowings are expected to be settled within one year from the end of the reporting period.
- (d) As at 31 December 2020, banking facilities of the Group in the amount of HK\$1,541 million (2019: HK\$1,492 million) are secured by bank deposits of RMB300 million (equivalent to HK\$356 million) (2019: mortgage over the Group's properties under development with an aggregate carrying value of HK\$5,701 million).
- (e) At 31 December 2020, the Group's bank loans included HK\$2,810 million (2019: HK\$3,635 million), which are borrowed by Harbour Centre Development Limited and its subsidiaries. The loans are without recourse to the Company and its other subsidiaries.
- (f) Certain of the above borrowings are attached with financial covenants which require that at any time, the consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels of the relevant groups. During the year ended 31 December 2020, all these covenants have been complied with by the Group.

NOTES TO THE FINANCIAL STATEMENTS

19 DEFERRED TAXATION

(a) Deferred tax (assets)/liabilities recognised in the consolidated statement of financial position:

	2020 HK\$ Million	2019 HK\$ Million
Deferred tax liabilities	2,534	2,403
Deferred tax assets	(303)	(374)
Net deferred tax liabilities	2,231	2,029

The components of deferred tax (assets)/liabilities and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation HK\$ Million	Future benefit of tax losses HK\$ Million	Others HK\$ Million	Total HK\$ Million
At 1 January 2019	1,986	(58)	14	1,942
Charged/(credited) to profit or loss	109	(7)	(86)	16
Acquisition of subsidiaries	68	–	–	68
Exchange adjustment	–	–	3	3
At 31 December 2019 and 1 January 2020	2,163	(65)	(69)	2,029
Charged to profit or loss	81	–	135	216
Exchange adjustment	–	–	(14)	(14)
At 31 December 2020	2,244	(65)	52	2,231

(b) Deferred tax assets not recognised

	2020		2019	
	Deductible temporary differences/ tax losses HK\$ Million	Deferred tax assets HK\$ Million	Deductible temporary differences/ tax losses HK\$ Million	Deferred tax assets HK\$ Million
Deductible temporary differences	2,019	424	631	158
Future benefit of tax losses				
– Hong Kong	513	85	378	62
– Outside Hong Kong	131	33	146	37
	644	118	524	99
Total	2,663	542	1,155	257

The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations and deductible temporary differences of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at 31 December 2020 and 2019. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses of HK\$131 million arising from operations in Mainland China can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

20 PRE-SALE DEPOSITS AND PROCEEDS

The Group receives contract value as deposits from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability presented as “Pre-sale deposits and proceeds” until the properties are completed and legally assigned to or accepted by the customer. The rest of the consideration is typically paid when the legal assignment is completed or the property is accepted by the customer.

Movements in pre-sale deposits and proceeds:

	2020 HK\$ Million	2019 HK\$ Million
At 1 January	3,172	660
Exchange adjustment	135	(15)
Decrease in pre-sale deposits and proceeds as a result of recognising revenue during the year	(2,548)	(35)
Increase in pre-sale deposits and proceeds as a result of receiving pre-sale deposits	1,285	2,562
At 31 December	2,044	3,172

None of the pre-sale deposits and proceeds received (2019: HK\$176 million) in respect of Mainland China based properties is expected to be recognised as revenue after more than one year in the consolidated statement of profit or loss.

Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2020, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group’s existing contracts is HK\$1,981 million (2019: HK\$3,441 million). This amount represents revenue expected to be recognised in the future from pre-completion sales contracts for properties under development entered into by the customers with the Group. This amount includes the interest component of pre-completion properties sale contracts under which the Group obtains significant financing benefits from the customers. The Group will recognise the expected revenue in future when the properties are assigned to or accepted by the customers, which is expected to occur over the next 12 to 24 months.

NOTES TO THE FINANCIAL STATEMENTS

21 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit in the normal course of business. To manage some of these risks, the Group Finance Committee develops, maintains and monitors the Group's financial management policies designed to facilitate cost efficient funding to the Group and to mitigate the impact of fluctuations in interest rates and exchange rates. The financial management policies are implemented by the Group's Treasury department, which operates as a centralised service unit in close co-operation with the Group's operating units for managing the day-to-day treasury functions and financial risks and for providing cost efficient funding to the Group.

The Group uses derivatives, principally forward currency contracts, interest rate swaps ("IRS") and cross currency interest rate swaps ("CCS"), as deemed appropriate and hedging transactions and for managing risks associated with the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions and invest in financial products with significant underlying leverage which are commercially speculative.

(a) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's main exposure to interest rate risk relates principally to the Group's borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk whilst borrowings at fixed rate expose the Group to fair value interest rate risk. The Group manages its interest rate risk exposure in accordance with defined policies and reviews this exposure with a focus on reducing the Group's overall cost of funding as well as maintaining the floating/fixed rate mix appropriate to its current business portfolio.

In line with the Group's prevailing strategy, the Group has entered into a number of IRS and CCS which have the economic effect of converting certain fixed rate interest bearing notes with notional amounts totalling HK\$15,015 million (2019: HK\$9,246 million) into floating rate borrowings. For each of the IRS and CCS entered into by the Group, the tenor and timing of the IRS and CCS cash flows matches those of the notes.

Based on a sensitivity analysis performed as at 31 December 2020, it was estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would have increased/decreased the Group's post-tax loss and decreased/increased total equity by approximately HK\$355 million (2019: decreased/increased the Group's post tax profit and total equity by approximately HK\$353 million). This takes into account the effect of interest bearing bank deposits.

The sensitivity analysis above indicates the instantaneous change in the Group's post-tax (loss)/profit and total equity that would have arisen assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the end of the reporting period. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the end of the reporting period, the impact on the Group's post-tax profit and total equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis has been performed on the same basis as 2019.

(b) Foreign currency risk

The Group owns assets and conducts its businesses primarily in Hong Kong and secondarily in Mainland China and Singapore, with its cash flows denominated substantially in HKD, RMB and SGD which exposes the Group to foreign currency risk with respect to RMB and SGD related to its property development in Mainland China and investment property in Singapore, respectively.

Where appropriate or available in a cost-efficient manner, the Group may enter into forward foreign exchange contracts and swap contracts to manage its foreign currency risk arising from above anticipated transactions denominated in currencies other than its entities' functional currencies.

The Group's borrowings are predominantly denominated in the functional currency of the entity taking out the borrowings. In the case of group companies whose functional currencies are HKD, their borrowings are mostly denominated in HKD or USD. For managing the overall financing costs of existing and future capital requirements for the projects in Mainland China, the Group has adopted a diversified funding approach and has entered into certain CCS and forward foreign exchange contracts. Based on the prevailing accounting standards, the swap contracts and forward foreign exchange are marked to market with the valuation movement recognised in the consolidated statement of profit or loss.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets/(liabilities) denominated in a currency other than the functional currency of the Group's entities to which they relate. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency and exposure arising from inter-company balances which are considered to be in the nature of investment in a subsidiary are excluded.

	2020						2019	
	USD Million	RMB Million	JPY Million	SGD Million	GBP Million	EUR Million	USD Million	RMB Million
Other long term investments	443	-	-	-	296	154	163	-
Bank deposits and cash	33	-	-	2	-	-	11	-
Bank loans and other borrowings	(1,650)	(1,300)	(13,000)	-	(100)	-	(900)	-
Inter-company balances	-	66	-	-	-	-	-	66
Gross exposure arising from recognised assets and liabilities	(1,174)	(1,234)	(13,000)	2	196	154	(726)	66
Notional amount of forward foreign exchange contracts	-	-	-	-	(153)	-	-	-
Notional amount of CCS	1,415	1,300	13,000	(576)	-	(143)	900	-
Overall net exposure	241	66	-	(574)	43	11	174	66

In addition, at 31 December 2020, Mainland China subsidiaries of the Group with RMB as their functional currency are exposed to foreign currency risk with respect to HKD/USD by holding HKD/USD denominated bank deposits and cash in the amount of HK\$4 million (2019: HK\$4 million).

Based on the sensitivity analysis performed at 31 December 2020, it was estimated that the impact on the Group's post tax (loss)/profit and total equity would not be material in response to possible changes in the foreign exchange rates of foreign currencies to which the Group is exposed.

It is further analysed that the sensitivity of the translation of Mainland China operations from 1% increase/decrease of exchange rate of RMB against HKD, the Group's total equity would have increased/decreased by HK\$32 million at 31 December 2020 (2019: HK\$29 million).

(c) Equity price risk

The Group is exposed to equity price changes arising from listed investments.

Listed investments held in the equity investment portfolio have been chosen for their long term growth potential and returns and are monitored regularly for performance. Given that the volatility of the stock markets may not have a direct correlation with the Group's investment portfolio, it is impractical to determine the impact that the changes in stock market indices would have on the Group's portfolio of listed investments.

Based on a sensitivity analysis performed as at 31 December 2020, it is estimated that an increase/decrease of 5% (2019: 5%) in the market value of the Group's listed investments, with all other variables held constant, would not have affected the Group's post-tax (loss)/profit but would have increased/decreased the Group's total equity by HK\$652 million (2019: HK\$203 million). The analysis has been performed on the same basis as 2019.

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(d) Liquidity risk

The Group adopts a prudent liquidity risk management policy, maintaining sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding with staggered maturities to reduce refinancing risk in any year from major financial institutions and to maintain flexibility for meeting its liquidity requirements in the short and longer term. The Group's management regularly monitors the current and expected liquidity requirements and its compliance with lending covenants.

Certain non-wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence of the Company.

The following tables detail the remaining contractual maturities at the end of reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates at the end of reporting period and carried at the exchange rates prevailing at the end of reporting period) and the earliest date the Group can be required to pay:

	Contractual undiscounted cash flow					
	Carrying amount HK\$ Million	Total HK\$ Million	Within 1 year or on demand HK\$ Million	More than 1 year but less than 2 years HK\$ Million	More than 2 years but less than 5 years HK\$ Million	More than 5 years HK\$ Million
At 31 December 2020						
Bank loans and other borrowings	(54,278)	(57,682)	(6,457)	(14,614)	(22,838)	(13,773)
Trade and other payables	(8,185)	(8,185)	(6,423)	(751)	(976)	(35)
Forward foreign exchange contracts	(71)	(71)	(71)	–	–	–
Cross currency interest rate swaps	367	923	40	193	542	148
Interest rate swaps	79	186	28	28	76	54
	(62,088)	(64,829)	(12,883)	(15,144)	(23,196)	(13,606)
At 31 December 2019						
Bank loans and other borrowings	(45,536)	(49,792)	(13,667)	(6,473)	(21,150)	(8,502)
Trade and other payables	(8,384)	(8,384)	(6,061)	(1,026)	(1,172)	(125)
Cross currency interest rate swaps	178	(86)	(27)	(27)	(70)	38
Interest rate swaps	40	(46)	(12)	(12)	(36)	14
	(53,702)	(58,308)	(19,767)	(7,538)	(22,428)	(8,575)

(e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to rental, trade and other receivables, bank deposits and cash and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies and procedures in each of the Group's core businesses. In respect of rental receivables, sufficient rental deposits from tenants are held to cover potential exposure to credit risk. Further, evaluations are made for the customers with reference to their repayment history and financial strength, as well as the economic environment in which the customer operates.

The Group measures loss allowance for trade receivables from customers in accordance with accounting policies (j)(i). The allowance for expected credit losses is insignificant.

Cash at bank, deposits placed with financial institutions and investments and transactions involving derivative financial instruments are with counter parties with sound credit ratings to minimise credit exposure.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. The Group does not provide any other guarantee which would expose the Group to material credit risk.

(f) Fair values of assets and liabilities

(i) 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 reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as defined in Note 8(d).

Financial instruments carried at fair value

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

	Fair value measurements as at 31 December 2020 categorised into		
	Level 1 HK\$ Million	Level 2 HK\$ Million	Total HK\$ Million
Assets			
Other long term investments:			
– Listed securities	13,041	–	13,041
Derivative financial instruments:			
– Interest rate swaps	–	193	193
– Cross currency interest rate swaps	–	772	772
– Forward foreign exchange contracts	–	1	1
	13,041	966	14,007
Liabilities			
Derivative financial liabilities:			
– Interest rate swaps	–	114	114
– Cross currency interest rate swaps	–	405	405
– Forward foreign exchange contracts	–	72	72
Bank loans and other borrowings:			
– Notes	–	13,412	13,412
– Bank loans	–	926	926
	–	14,929	14,929

	Fair value measurements as at 31 December 2019 categorised into		
	Level 1 HK\$ Million	Level 2 HK\$ Million	Total HK\$ Million
Assets			
Other long term investments:			
– Listed securities	4,065	–	4,065
Derivative financial instruments:			
– Interest rate swaps	–	52	52
– Cross currency interest rate swaps	–	186	186
	4,065	238	4,303
Liabilities			
Derivative financial liabilities:			
– Interest rate swaps	–	12	12
– Cross currency interest rate swaps	–	8	8
Bank loans and other borrowings:			
– Notes	–	10,351	10,351
	–	10,371	10,371

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Valuation techniques and inputs used in Level 2 fair value measurements:

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.

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 debts being valued.

During the years ended 31 December 2020 and 2019, 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.

(ii) *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 31 December 2020 and 2019.

(g) **Capital management**

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, to meet its financial obligations and continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders' returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in the light of changes in the Group's business portfolio and economic conditions.

The Group monitors its capital structure by reviewing its net debt-to-equity ratios and cash flow requirements, taking into account of its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Shareholders' equity comprises issued share capital and reserves attributable to equity shareholders of the Company. Total equity comprises shareholders' equity and non-controlling interests.

The net debt-to-equity ratios as at 31 December 2020 and 2019 were as follows:

	2020 HK\$ Million	2019 HK\$ Million
Bank loans and other borrowings (Note 18)	54,278	45,536
Less: Bank deposits and cash (Note 15)	(2,260)	(2,907)
Net debt	52,018	42,629
Equity attributable to shareholders of the Company	204,551	216,164
Total equity	209,409	221,414
Net debt-to-shareholders' equity ratio	25.4%	19.7%
Net debt-to-total equity ratio	24.8%	19.3%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the requirement to comply with the financial covenants attached to the Group's borrowing as disclosed in Note 18(f).

22 SHARE CAPITAL AND RESERVES

(a) Share capital

The Company was incorporated in the Cayman Islands on 13 April 2017 as an exempted company with limited liability under the Companies Law (as revised) of the Cayman Islands. Details of share capital of the Company are set out below:

	Number of shares Million	HK\$ Million
Authorised ordinary shares of HK\$0.1 each		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	5,000	500

	Number of shares Million	HK\$ Million
Issued and fully paid ordinary shares		
At 1 January 2019, 31 December 2019, 1 January 2020 and 31 December 2020	3,036	304

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS

(c) Reserves

The Group's equity, apart from share capital, share premium and other statutory capital reserves, includes investment revaluation reserves for dealing with the movements on revaluation of equity investments and the exchange reserves mainly for dealing with the exchange differences arising from the translation of the financial statements of operations outside Hong Kong in accordance with the accounting policy note (o).

The revenue reserves of the Group at 31 December 2020 included HK\$210 million (2019: HK\$286 million) in respect of statutory reserves of the subsidiaries in Mainland China.

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Share capital HK\$ Million	Share premium HK\$ Million	Revenue reserves HK\$ Million	Total HK\$ Million
Balance at 1 January 2019	304	696	3,559	4,559
Changes in equity for 2019:				
Total comprehensive income for the year	–	–	6,191	6,191
2018 second interim dividend paid	–	–	(3,188)	(3,188)
2019 first interim dividend paid	–	–	(3,340)	(3,340)
Balance at 31 December 2019 and 1 January 2020	304	696	3,222	4,222
Changes in equity for 2020:				
Total comprehensive income for the year	–	–	4,994	4,994
2019 second interim dividend paid	–	–	(2,824)	(2,824)
2020 first interim dividend paid	–	–	(2,368)	(2,368)
Balance at 31 December 2020	304	696	3,024	4,024

(d) Reserves of the Company available for distribution to equity shareholders of the Company as at 31 December 2020 amounted to HK\$3,024 million (2019: HK\$3,222 million).

(e) At the end of the reporting period, the Directors declared the second interim dividend of HK\$0.69 per share amounting to HK\$2,095 million based on 3,036 million issued ordinary shares. The dividend has not been recognised as a liability at the end of the reporting period.

23 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2020 HK\$ Million	2019 HK\$ Million
Non-current asset			
Interest in subsidiaries		4,042	4,231
Current assets			
Prepayment		–	1
Bank deposits and cash		9	9
		9	10
Total assets		4,051	4,241
Current liability			
Payables		(27)	(19)
NET ASSETS		4,024	4,222
Capital and reserves			
Share capital	22(a)	304	304
Reserves		3,720	3,918
TOTAL EQUITY		4,024	4,222

Stephen T H Ng
Chairman and Managing Director

Paul Y C Tsui
Vice Chairman and Executive Director

NOTES TO THE FINANCIAL STATEMENTS

24 MATERIAL RELATED PARTIES TRANSACTIONS

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 year:

- (a) For the year ended 31 December 2020, the Group earned rental income totalling HK\$482 million (2019: HK\$1,037 million).
 - (i) During the year, the Group leased out area to the tenants which are wholly or partly owned by companies which in turn are wholly owned by the family interests of close family members of, or by a trust the settlor of which is a close family member of the chairman of Wheelock and Company Limited (“Wheelock”). Following the distribution of shares in Wheelock pursuant to its privatisation scheme completed on 22 July 2020, Wheelock ceased to be the holding company of the Group. Consequently, from the Group’s perspective, those tenants are no longer regarded as related parties of the Group from 23 July 2020 onwards. The total rental income earned by the Group from such tenants up to 22 July 2020 (date of Wheelock privatisation) was HK\$347 million (2019: HK\$904 million).
 - (ii) HK\$135 million (2019: HK\$133 million) earned from various tenants which are subsidiaries of Wheelock and The Wharf (Holdings) Limited (“Wharf”). Such transaction also constitutes a continuing 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 year ended 31 December 2020, total fees payable under this arrangement amounted to HK\$12 million (2019: HK\$62 million). Such transaction also constitutes a continuing 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 year ended 31 December 2020, total fees payable and receivable under this arrangement amounted to HK\$76 million (2019: HK\$35 million) and HK\$0.3 million (2019: HK\$Nil) respectively. Such transactions also constitute continuing connected transactions as defined under Listing Rules.
- (d) For the year ended 31 December 2020, corporate charges amounted to HK\$67 million (2019: HK\$42 million) were chargeable by Wharf Limited, a related company of the Group and a wholly owned subsidiary of Wharf.
- (e) Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company and the one highest paid employee are disclosed in Notes 2(b) and 2(c).

In addition to the above transactions, details of the Group’s amounts due from and to related parties are disclosed in Notes 10 and 11.

25 CONTINGENT LIABILITIES

As at 31 December 2020, 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\$63,733 million (2019: HK\$44,224 million).

As at 31 December 2020, there were guarantees of HK\$727 million (2019: HK\$546 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. There were no mortgage loan guarantees provided by an associate of the Group to the banks in favour of their customers (2019: HK\$58 million).

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 (2019: 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.

26 COMMITMENTS

The Group's outstanding commitments as at 31 December 2020 are detailed as below:

Planned expenditure

	2020			2019		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
(I) Properties						
Investment properties						
Hong Kong	93	411	504	125	871	996
Mainland China	-	-	-	82	152	234
Singapore	-	-	-	2	-	2
	93	411	504	209	1,023	1,232
Development properties						
Mainland China	289	759	1,048	968	3,371	4,339
	289	759	1,048	968	3,371	4,339
Properties total						
Hong Kong	93	411	504	125	871	996
Mainland China	289	759	1,048	1,050	3,523	4,573
Singapore	-	-	-	2	-	2
	382	1,170	1,552	1,177	4,394	5,571
(II) Hotels						
Hong Kong	105	3	108	11	5	16
Mainland China	78	260	338	-	104	104
	183	263	446	11	109	120
Total	565	1,433	1,998	1,188	4,503	5,691

- (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 joint ventures and an associate of HK\$1,048 million at 31 December 2020 in Mainland China (2019: HK\$2,025 million).

29 EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the Directors declared a second interim dividend. Further details are disclosed in Note 6.

30 COMPARATIVE FIGURES

Certain comparative figures on segment reporting have been reclassified to conform to current year's presentation.

31 APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 4 March 2021.

PRINCIPAL ACCOUNTING POLICIES

a. Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, 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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 27 to the financial statements provide information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements

b. Basis of preparation of the financial statements

Wharf Real Estate Investment Company Limited (the “Company”) is an exempted company with limited liability incorporated in the Cayman Islands on 13 April 2017.

The consolidated financial statements for the year comprise the Company and its subsidiaries (together, “the Group”) and the Group’s interest in an associate and joint ventures.

The financial statements are presented in Hong Kong dollars (“HK\$”), rounded to the nearest million, except as otherwise stated herein. The measurement basis used in the preparation of the financial statements are the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note (w).

c. Basis of consolidation

(i) *Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into consolidated financial statement from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interest's proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note (f) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note (f)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint ventures (see note (c)(ii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note (j)(ii)).

PRINCIPAL ACCOUNTING POLICIES

(ii) *An associate and joint ventures*

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint ventures that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see note (j)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income. Adjustments are made on consolidation to the financial information of associates and joint ventures where necessary to ensure consistency with the accounting policies adopted by the Group.

When the Group's share of losses exceeds its interest in an associate or a joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest in the associate or joint venture is the carrying amount of the investment under the equity method together with the Group's long term interests that, in substance, form part of the Group's net investment in the associate or joint venture after applying the ECL model to such other long-term interests where applicable (see note (j)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associate and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated statement of profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note (f)).

In the Company's statement of financial position, investments in an associate and joint ventures are stated at cost less impairment losses (see note (j)(ii)).

d. Investment properties and hotel and club properties, plant and equipment

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note (i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated in the consolidated statement of financial position at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Investment properties under development are stated at cost less impairment losses (see note (j)(ii)) if the fair value cannot be measured reliably. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated statement of profit or loss. Rental income from investment properties is accounted for as described in note (p)(i).

(ii) Hotel and club properties, plant and equipment

Hotel and club properties, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note (j)(ii)). Hotel properties under development are stated at cost less impairment losses (see note (j)(ii)).

(iii) Gains or losses arising from the retirement or disposal of an item of hotel and club properties, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of profit or loss on the date of retirement or disposal.

e. Depreciation

Depreciation is calculated to write-off the cost of items of hotel and club properties, plant and equipment, less their estimated residual value, if any, using a straight line method over their estimated useful lives as follows:

(i) Investment properties

No depreciation is provided on investment properties.

(ii) Hotel and club properties, plant and equipment

Depreciation is provided on the cost of the leasehold land of hotel and club properties over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of not more than 50 years.

Depreciation of hotel properties under development commences when they are available for use.

Depreciation is provided on a straight line basis over their estimated useful lives of plant and equipment of 3 to 10 years.

Where parts of an item of hotel and club properties, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

PRINCIPAL ACCOUNTING POLICIES

f. Financial instruments

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss ("FVTPL"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(i) Classification and measurement of financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income ("FVOCI") – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified and measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets: Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets: Assessment whether contractual cash flows are solely payments of principal and interest
For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets: Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment losses are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The Group has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVOCI.

PRINCIPAL ACCOUNTING POLICIES

(ii) *Derecognition of financial assets*

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In such cases, the transferred assets are not derecognised.

(iii) *Classification and measurement of financial liabilities*

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

(iv) *Derecognition of financial liabilities*

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognised at fair value. The difference between the carrying amount of the financial liability extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) with modified terms is recognised in profit or loss.

(v) *Offsetting*

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under HKFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading.

g. Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged (see note (h)).

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge. The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and hedging instrument are expected to offset each other.

h. Hedging

(i) Fair value hedge

A fair value hedge is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the consolidated statement of profit or loss. The gain or loss from remeasuring the hedging instrument at fair value together with the gain or loss on the hedged item attributable to the hedged risk are recorded in the consolidated statement of profit or loss.

(ii) Cash flow hedge

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk of a committed future transaction, the effective portion of any gain or loss on remeasurement of the derivative financial instrument to fair value is recognised directly in other comprehensive income and accumulated separately in equity. The ineffective portion of any gain or loss is recognised immediately in the profit or loss.

If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated gain or loss is reclassified from equity to be included in the initial cost or other carrying amount of the non-financial asset or liability.

If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gain or loss is reclassified from equity to the consolidated statement of profit or loss in the same period or periods during which the asset acquired or liability assumed affects the consolidated statement of profit or loss (such as when interest income or expense is recognised).

For cash flow hedges, other than those covered by the preceding two policy statements, the associated gain or loss is reclassified from equity to the consolidated statement of profit or loss in the same period or periods during which the hedged forecast transaction affects profit or loss.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the consolidated statement of profit or loss immediately.

i. Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

PRINCIPAL ACCOUNTING POLICIES

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation (see note (e) for each type of underlying asset) and impairment losses (see note (j)(ii)), except for the following types of right-of-use asset:

- right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note (d)(i); and
- right-of-use assets related to interests in leasehold land where the interest in the land is held as inventory are carried at the lower of cost and net realisable value in accordance with note (k).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of modification.

The Group includes right-of-use assets that do not meet the definition of investment property and properties for sale in "Hotel and club properties, plant and equipment" in the consolidated statement of financial position.

(ii) *As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognised in accordance with (p)(i).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption for short-term leases that have a lease term of 12 months or less and leases of low-value assets, then the Group classifies the sub-lease as an operating lease.

j. Impairment of assets

(i) Impairment of financial assets

The Group recognises loss allowances for expected credit loss (“ECL”) on financial assets measured at amortised cost.

The Group measures loss allowances at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk of financial instruments since initial recognition, in which the ECLs are measured at an amount equal to lifetime ECLs. For trade receivables (including lease receivables), the Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, *Financial Instruments*, which requires the use of the lifetime expected losses provision for all trade receivables.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group’s historical experience and informed credit assessment and including forward-looking information.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

In all cases, the maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

Credit-impaired financial assets

At each reporting date, the Group assesses on a forward looking basis whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is ‘credit-impaired’ when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or the disappearance of an active market for a security because of financial difficulties.

PRINCIPAL ACCOUNTING POLICIES

Presentation of allowance for ECL in the consolidated statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due.

(ii) *Impairment of non-financial assets (including right-of-use assets)*

The carrying amounts of non-financial assets, other than properties carried at revalued amounts (including investments in subsidiaries in the Company's statement of financial position, investments in an associate and joint ventures accounted for under the equity method (see note (c)(ii)) and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal or value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds the recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

k. Properties for sale

(i) Completed properties for sale

Completed properties for sale are stated at the lower of cost or net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised (see note (q)), attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions which represents the estimated selling price less costs to be incurred in selling the property. Cost of completed properties for sale comprises all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

The amount of any write down of or provision for properties held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated statement of profit or loss in the period in which the reversal occurs.

(ii) Properties under development for sale

Properties under development for sale are classified as current assets and stated at the lower of cost or net realisable value. Cost includes identified costs including the acquisition cost of interest in freehold and leasehold land, aggregate cost of development, borrowing costs capitalised (see note (q)), material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by management, taking into account the expected price that can ultimately be achieved, based on prevailing market conditions and the anticipated costs of completion and costs to be incurred in selling the property.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated statement of profit or loss in the period in which the reversal occurs.

l. Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is estimated by the management, based on the expected selling price in the ordinary course of business less the anticipated costs of completion and the estimated costs necessary to make the sale.

m. Contract assets and liabilities

A contract asset is recognised when the Group recognises revenue (see note (p)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL and are reclassified to receivables when the right to the consideration has become unconditional.

A contract liability is recognised when the customer pays consideration before the Group recognises the related revenue (see note (p)). A contract liability would also be recognised if the Group has an unconditional right to receive consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised.

For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note (p)).

n. Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Cash and cash equivalents are assessed for ECL loss in accordance with the policy set out in note (j)(i).

PRINCIPAL ACCOUNTING POLICIES

o. Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the statement of financial position of foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured. The transaction date is the date on which the Group initially recognises such non-monetary assets or liabilities.

The results of foreign operations are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Consolidated statements of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. Differences arising from the translation of the financial statements of foreign operations are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated statement of profit or loss.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is reclassified from equity to the consolidated statement of profit or loss and is included in the calculation of the profit or loss on disposal.

p. Recognition of revenue

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue and other income recognition policies are as follows:

- (i) Rental income under operating leases is recognised in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognised in the accounting period in which they are earned.
- (ii) Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when the legal assignment is completed or the property is accepted by the customers, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position and regarded as contract liabilities (see note (m)).

When residential properties are marketed by the Group while the property is still under construction, the Group may offer a discount compared to the listed sales price, provided the customer agrees to pay the balance of the consideration early. In such cases, if the advance payments are regarded as providing a significant financing benefit to the Group, interest expense arising from the adjustment of time value of money will be accrued by the Group during the period between the payment date and the completion date of legal assignment or the date when the property is accepted by the customer. This accrual increases the balance of "Pre-sale deposits and proceeds" during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23, *Borrowing costs* (see note (q)).

- (iii) Income from hotels and club operations is recognised at the time when the services are provided.
- (iv) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.
- (v) Interest income is recognised as it accrues using the effective interest method.

q. **Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

r. **Income tax**

- (i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated statement of profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may be capable to support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences.

The limited exceptions to recognition of deferred tax assets and liabilities are those initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

PRINCIPAL ACCOUNTING POLICIES

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note (d) (i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that will probably arise from the distribution of dividends are recognised when the related dividends are likely to be payable in the foreseeable future.

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

s. Related parties

- (i) A person, or a close member of that person's family, is related to the Group if that person:
- (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
- (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is an associate or joint venture of the other entity (or an associate or a joint venture of a member of a group of which the other entity is a member).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

- (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (f) The entity is controlled or jointly controlled by a person identified in (i).
- (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (h) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

t. Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

u. Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

PRINCIPAL ACCOUNTING POLICIES

v. Employee benefits and contributions to defined contribution retirement plans

- (i) Short-term employee benefits, including salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.
- (ii) *Central Provident Fund in Singapore*
Contributions to the Central Provident Fund in Singapore as required under the Central Provident Fund Act are charged to the consolidated statement of profit or loss when incurred.

w. Significant accounting estimates and judgements

In the process of applying the Group's accounting policies, management has made the following accounting judgements:

Note 21 contains information about the assumptions and their risks relating to financial instruments. Other key sources of estimation uncertainty are as follows:

– *Valuation of investment properties*

Investment properties are included in the consolidated statement of financial position at their market value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential and redevelopment potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market sales prices and the appropriate capitalisation rate.

– *Assessment of the useful economic lives for depreciation of hotel and club properties, plant and equipment*

In assessing the estimated useful lives of hotel and club properties, plant and equipment, management takes into account factors such as the expected usage of the asset by the Group based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgement based on the experience of the Group.

Management reviews the useful lives of hotel and club properties, plant and equipment annually and if expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

– *Assessment of impairment of non-current assets*

Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

– *Assessment of provision for properties for sale*

Management determines the net realisable value of properties for sale by using (i) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (ii) internal estimates of costs based on quotes by suppliers.

Management's assessment of the net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions. The Group's estimates may be inaccurate and estimates may need to be adjusted in later periods.

– *Recognition of deferred tax assets*

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

PRINCIPAL SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

As 31 December 2020

(A) SUBSIDIARIES INCORPORATED IN HONG KONG:

Company name	Place of incorporation/operation	Issued ordinary share capital and paid up capital	Percentage of equity attributable to shareholders		Principal activities
			Direct	Indirect	
Bright Smart Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	–	100	Property investment
Excellent Base Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	–	100	Property investment
Harbour Centre Development Limited *	Hong Kong	HK\$3,641,350,047 divided into 708,750,000 shares	–	72	Holding company
Harbour City Estates Limited	Hong Kong	HK\$330,100,000 divided into 20,000 shares	–	100	Property investment
Harriman Leasing Limited	Hong Kong	HK\$2,000,990 divided into 10,100,049 shares	–	100	Leasing services
HCDL China Finance Limited	Hong Kong	HK\$1 divided into 1 share	–	72	Finance
HCDL Finance Limited	Hong Kong	HK\$5,000,000 divided into 5,000,000 shares	–	72	Finance
HCDL Investments Limited	Hong Kong	HK\$1 divided into 1 share	–	72	Holding company
HCDL Investments Finance Limited	Hong Kong	HK\$1 divided into 1 share	–	72	Finance
Manniworth Company Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	–	72	Property investment
Mullein Company Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	–	100	Property investment
Novel Desire Limited	Hong Kong	HK\$1 divided into 1 share	–	100	Investment
Oripuma Investments Limited	Hong Kong	HK\$2 divided into 2 shares	–	100	Property investment
Plaza Hollywood Limited	Hong Kong	HK\$10,000,000 divided into 10,000,000 shares	–	100	Property investment
Ridge Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	–	100	Property investment
The Murray Limited	Hong Kong	HK\$1 divided into 1 share	–	72	Hotel
The Hongkong Hotel Limited	Hong Kong	HK\$100,000 divided into 100,000 shares	–	72	Hotel and property investment
The Marco Polo Hotel (Hong Kong) Limited	Hong Kong	HK\$1,000 divided into 1,000 shares	–	100	Hotel
The Prince Hotel Limited	Hong Kong	HK\$2 divided into 2 shares	–	100	Hotel
The "Star" Ferry Company, Limited	Hong Kong	HK\$7,200,000 divided into 1,440,000 shares	–	100	Public transport
Times Square Limited	Hong Kong	HK\$20 divided into 2 shares	–	100	Property investment
Wavatah Company Limited	Hong Kong	HK\$1,000 divided into 1,000 shares	–	100	Property investment
Wealthy Flow Company Limited	Hong Kong	HK\$1 divided into 1 share	–	72	Treasury
Wettersley Company Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	–	100	Property investment
Wharf Estates Limited	Hong Kong	HK\$1,000,000 divided into 1,000,000 shares	–	100	Holding company
Wharf Realty Limited	Hong Kong	HK\$2 divided into 2 shares	–	100	Property investment
Wharf REIC Corporate Management Limited	Hong Kong	HK\$1 divided into 1 share	–	100	Property management
Wharf REIC Finance Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	–	100	Finance
Wharf REIC Treasury Limited	Hong Kong	HK\$1 divided into 1 share	–	100	Treasury
Wharf Transport Investments Limited	Hong Kong	HK\$2 divided into 2 shares	–	100	Holding company

* A company listed on the Main Board of The Stock Exchange of Hong Kong Limited.

(B) SUBSIDIARIES ESTABLISHED IN THE PEOPLE'S REPUBLIC OF CHINA:

Company name	Place of incorporation/operation	Registered and paid up capital	Percentage of equity attributable to shareholders		Principal activities
			Direct	Indirect	
常州馬哥孛羅酒店有限公司 (Note (iii))	The People's Republic of China	US\$7,000,000	–	72	Hotel
九龍倉(常州)置業有限公司 (Note (ii))	The People's Republic of China	US\$144,950,000	–	72	Property
蘇州高龍房產發展有限公司 (Note (i))	The People's Republic of China	RMB1,500,000,000	–	57	Property
蘇州尼依格羅酒店有限公司 (Note (iii))	The People's Republic of China	RMB20,000,000	–	57	Hotel

(i) The entity is registered as a sino-foreign joint venture company under PRC law.

(ii) This entity is registered as a wholly foreign owned enterprise under PRC law.

(iii) This entity is registered as a wholly domestic owned enterprise under PRC law.

(C) SUBSIDIARIES INCORPORATED IN THE BRITISH VIRGIN ISLANDS:

Company name	Place of incorporation/operation	Issued ordinary share capital and paid up capital	Percentage of equity attributable to shareholders		Principal activities
			Direct	Indirect	
Algebra Assets Limited [#]	British Virgin Islands/International/Hong Kong	500 US\$1 shares	–	72	Investment
Entire Achieve Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	–	100	Investment
Harbour Centre (Hong Kong) Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	–	72	Holding company
HCDL China Development Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	–	72	Holding company
Marvel Initial Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	–	100	Investment
Star Attraction Limited [#]	British Virgin Islands/Hong Kong	1,500 US\$1 shares	–	100	Holding company
Victor Horizon (0051) Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	–	72	Investment
Wharf REIC Finance (BVI) Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	–	100	Finance
Wharf REIC Holdings Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	100	–	Holding company
Wharf REIC Corporate Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	–	100	Holding company
Wisdom Height Limited [#]	British Virgin Islands/Hong Kong	500 US\$1 shares	–	100	Investment

[#] Registered in Hong Kong under Part 16 of the Companies Ordinance (Cap 622 of the laws of Hong Kong) as a registered non-Hong Kong company.

(D) SUBSIDIARIES INCORPORATED IN THE SINGAPORE:

Company name	Place of incorporation/operation	Issued ordinary share capital and paid up capital	Percentage of equity attributable to shareholders		Principal activities
			Direct	Indirect	
Wharf Estates Singapore Pte. Ltd.	Singapore	1,183,562,814 S\$0.87 shares	–	100	Holding company/Property
Everbilt Developers Pte Ltd	Singapore	160,000,000 S\$1 shares	–	100	Property

Note: The above lists give the principal subsidiaries, associates and joint ventures of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.

(E) DEBT SECURITIES ISSUED BY A WHOLLY-OWNED SUBSIDIARY OF THE COMPANY AND GUARANTEED BY THE COMPANY:

Name of subsidiary/borrower	Description of debt securities	Outstanding principal amount
Wharf REIC Finance (BVI) Limited	HK\$ Guaranteed Fixed Rate Notes due 2025	HK\$2,023 Million
	HK\$ Guaranteed Fixed Rate Notes due 2026	HK\$514 Million
	HK\$ Guaranteed Fixed Rate Notes due 2027	HK\$1,150 Million
	HK\$ Guaranteed Fixed Rate Notes due 2028	HK\$1,400 Million
	HK\$ Guaranteed Fixed Rate Notes due 2030	HK\$1,790 Million
	US\$ Guaranteed Fixed Rate Notes due 2024	US\$300 Million
	US\$ Guaranteed Fixed Rate Notes due 2025	US\$450 Million
	US\$ Guaranteed Fixed Rate Notes due 2028	US\$600 Million
	US\$ Guaranteed Fixed Rate Notes due 2030	US\$300 Million
	RMB Guaranteed Fixed Rate Notes due 2023	RMB500 Million
	RMB Guaranteed Fixed Rate Notes due 2025	RMB800 Million

SCHEDULE OF PRINCIPAL PROPERTIES

As at 31 December 2020

Address	APPROXIMATE GROSS FLOOR AREAS (sq.ft.)				Served Apartments/ Others
	Total	Office	Retail	Hotel	
HONG KONG					
Properties — Investment					
Harbour City, Tsimshatsui					
Ocean Terminal	725,000	–	580,000	–	145,000
Ocean Centre	987,000	631,000	356,000	–	–
Wharf T & T Centre	257,000	244,000	13,000	–	–
World Commerce Centre	254,000	240,000	14,000	–	–
World Finance Centre	513,000	476,000	37,000	–	–
Ocean Galleries	348,000	–	348,000	–	–
Gateway I	1,241,000	1,127,000	114,000	–	–
Gateway II	2,641,000	1,879,000	434,000	–	328,000
Marco Polo Hongkong Hotel	737,000	18,000	172,000	547,000	–
Gateway	289,000	–	–	289,000	–
Prince	279,000	–	–	279,000	–
Pacific Club Kowloon	138,000	–	–	–	138,000
	8,409,000	4,615,000	2,068,000	1,115,000	611,000
Times Square					
Sharp Street East, Causeway Bay	1,976,000	1,033,000	943,000	–	–
Plaza Hollywood					
3 Lung Poon Street, Diamond Hill	562,000	–	562,000	–	–
Crawford House					
64-70A Queen's Road Central, Central	189,000	104,000	85,000	–	–
Wheelock House					
3/F-24/F., & Shop C, Wheelock House, 20 Pedder Street, Central	215,000	211,000	4,000	–	–
Others					
	56,000	5,000	51,000	–	–
	2,998,000	1,353,000	1,645,000	–	–
The Murray					
Cotton Tree Drive, Central	336,000	–	–	336,000	–
Total Hong Kong Property — Investment	11,743,000	5,968,000	3,713,000	1,451,000	611,000
MAINLAND CHINA					
Property — Investment					
Suzhou International Finance Square					
Xing Hu Jie, Suzhou Industrial Park, Suzhou	237,000	–	–	–	237,000
Marco Polo Changzhou					
88 Hehai East Road, Xinbei District, Changzhou	474,000	–	–	343,000	131,000
Niccolo Suzhou					
Tower 1 Suzhou IFS, 409 Suzhou Avenue East, Suzhou Industrial	374,000	–	–	374,000	–
Total Mainland China Property — Investment	1,085,000	–	–	717,000	368,000
Property — Development					
Suzhou International Finance Square					
Xing Hu Jie, Suzhou Industrial Park, Suzhou	1,927,000	1,495,000	14,000	–	418,000
Total Mainland China	3,012,000	1,495,000	14,000	717,000	786,000
SINGAPORE					
Property — Investment					
Wheelock Place, 501 Orchard Road	465,700	221,800	243,900	–	–
Scotts Square (Retail Podium), 6 & 8 Scotts Road	130,900	–	130,900	–	–
Total Singapore Property — Investment	596,600	221,800	374,800	–	–
Group Total	15,351,600	7,684,800	4,101,800	2,168,000	1,397,000

Notes:

- These properties with total site area of 428,719 sq.ft. form part of Harbour City.
- This property forms part of Suzhou International Finance Square which has a total site area of 229,069 sq.ft..
- In addition to the above floor areas, the Group has total carpark areas of approximately 2 million sq. ft..

(Remarks)	Site Area (Sq. ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
	346,719	KIL 11178	2033	1966	N/A	100%
	126,488	KML 11 S.A.	2880	1977	N/A	100%
	Note (a)	KML 11 S.B.	2880	1981	N/A	100%
	Note (a)	KML 11 S.B.	2880	1981	N/A	100%
	Note (a)	KML 11 S.D.	2880	1983	N/A	100%
	Note (a)	KML 11 S.B. & D.	2880	1981/83	N/A	100%
	Note (a)	KML 11 R.P.	2880	1994	N/A	100%
	Note (a)	KML 11 S.B. & D.	2880	1998/99	N/A	100%
(A 655-room hotel)	58,814	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	72%
(A 400-room hotel)	Note (a)	KML 11 S.B.	2880	1981	N/A	100%
(A 394-room hotel)	Note (a)	KML 11 S.D.	2880	1983	N/A	100%
(Club House)	48,309	KIL 11179	2021	1990	N/A	100%
	112,441	IL 731, IL 728, IL 727, IL 725 S.A. & R.P., IL 724 S.A.	2850/60/80	1993	N/A	100%
	280,510	NKIL 6160	2047	1997	N/A	100%
	12,286	IL 7 R.P. & IL 45 S.A.R.P.	2842	1977	N/A	100%
	N/A	ML 99 S.A., S.C. & R.P. & ML 100 S.A., S.B. & R.P.	2854	1984	N/A	100%
	N/A	N/A	N/A	N/A	N/A	N/A
(A 336-room hotel)	68,136	IL 9036	2063	2017	N/A	72%
	Note (b)	N/A	2047	2020	N/A	57%
(A 271-room hotel and The Mansion)	842,531	N/A	2048	2014	N/A	72%
(A 233-room hotel on 100% ownership)	Note (b)	N/A	2047	2021	Renovation in progress	57%
	Note (b)	N/A	2047/77	2020	N/A	57%
	N/A	N/A	2089	1993	N/A	100%
	N/A	N/A	Freehold	2011	N/A	100%

FIVE-YEAR FINANCIAL SUMMARY

Year ended 31 December	2020 HK\$ Million	2019 HK\$ Million	2018 HK\$ Million	2017 HK\$ Million	2016 HK\$ Million
Consolidated Statement of Profit or Loss					
Revenue	15,515	16,043	16,481	20,904	16,851
Operating profit	9,973	12,711	12,724	15,442	11,824
Underlying net profit (Note a)	7,477	9,791	10,053	9,500	8,516
Profit before property revaluation (deficit)/surplus	5,911	9,670	10,053	9,236	8,706
(Loss)/profit attributable to equity shareholders	(7,854)	3,928	18,027	17,218	9,917
Dividends attributable to shareholders	4,463	6,164	6,376	2,884	N/A
Consolidated Statement of Financial Position					
Investment properties	245,473	259,873	258,984	253,827	244,375
Hotel and club property, plant and equipment	7,700	7,928	8,277	8,549	7,000
Interest in associates/joint ventures	1,082	2,853	2,895	3,293	3,225
Other long term investments	13,041	4,065	2,396	2,708	2,301
Properties for sale	5,207	5,123	3,726	144	1,957
Bank deposits and cash	2,260	2,907	2,675	3,076	5,212
Other assets	3,151	1,592	1,403	1,078	1,392
Total assets	277,914	284,341	280,356	272,675	265,462
Bank loans and other borrowings	(54,278)	(45,536)	(42,097)	(45,552)	(4,382)
Loan from fellow subsidiaries	–	–	–	–	(30,980)
Other liabilities	(14,227)	(17,391)	(13,927)	(14,155)	(25,963)
Net assets	209,409	221,414	224,332	212,968	204,137
Share capital	304	304	304	304	–
Reserves	204,247	215,860	218,493	207,014	198,910
Shareholders' equity	204,551	216,164	218,797	207,318	198,910
Non-controlling interests	4,858	5,250	5,535	5,650	5,227
Total equity	209,409	221,414	224,332	212,968	204,137
Net debt	52,018	42,629	39,422	42,476	30,150
Financial Data					
<i>Per share data</i>					
Earnings/(loss) per share (HK\$)					
– Underlying net profit	2.46	3.23	3.31	3.13	2.81
– Before property revaluation (deficit)/surplus	1.95	3.19	3.31	3.04	2.87
– Attributable to equity shareholders	(2.59)	1.29	5.94	5.67	3.27
Net asset value per share (HK\$)	67.38	71.20	72.06	68.29	65.52
Dividends per share (HK\$ Cents)	147.00	203.00	210.00	95.00	N/A
<i>Financial ratios</i>					
Net debt to shareholders' equity (%)	25.4%	19.7%	18.0%	20.5%	15.2%
Net debt to total equity (%)	24.8%	19.3%	17.6%	19.9%	14.8%
Interest cover (Times) (Note b)	10.3	12.5	15.6	15.1	8.8
Return on shareholders' equity (%) (Note c)	(3.7%)	1.8%	8.5%	8.5%	4.9%
Dividend payout (%)					
– Underlying net profit	59.7%	63.0%	63.4%	60.7%	N/A
– Attributable to equity shareholders	N/A	156.9%	35.4%	33.5%	N/A

(a) Underlying net profit primarily excludes investment property revaluation (deficit)/surplus, impairment provision on hotel properties and mark-to-market and exchange gain/loss on certain financial instruments.

(b) Interest cover is based on EBITDA over finance costs (before capitalisation and fair value loss/gain on other borrowings).

(c) Return on shareholders' equity is based on (loss)/profit attributable to shareholders over average shareholders' equity during the year.

Art Piece Credit:

Lieu Nguyen Huong Duong, *Cherry Blossom*, p.6

Lee E-Ri, *Ground Cherry*, p.12

Lee E-Ri, *Ground Cherry*, p.38

A Chinese version of this Annual Report is available from the Company upon request.

如有需要，可向本公司索取本年報之中文版本。





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