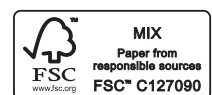




HARBOUR CENTRE DEVELOPMENT LIMITED

Stock Code: 0051

ANNUAL REPORT 2021



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## BUSINESS MODEL

Harbour Centre Development Limited is a listed subsidiary of Wharf Real Estate Investment Company Limited (“Wharf REIC”), with hotel and property investments as its core businesses.

Flagship assets comprise Marco Polo Hongkong Hotel (“MP Hong Kong”), The Murray, Hong Kong, a Niccolo Hotel (“The Murray”) and Niccolo Suzhou. Strategically located in Harbour City in Tsimshatsui, MP Hong Kong has long been a core operating asset for over 50 years. The Murray, a luxury hotel at a prominent location in Central and part of the “Conserving Central” Initiative, opened in 2018. Niccolo Suzhou, which comprises 233 contemporary and chic guest rooms including 20 suites, opened in Suzhou, China in April 2021.

Exit from Development Properties in mainland China is at an advanced stage. With only slow-moving, unsold stock left, revenue and profit contribution will be erratic and not significant in coming years.

## BUSINESS STRATEGY

The Group endeavours to generate return to shareholders through:

- (a) Owning and operating prime hotels and investment properties in prime locations through continuous product and service enhancement to maximise income and value; and
- (b) Exercising prudent and disciplined financial management at all times.

# CORPORATE INFORMATION

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## BOARD OF DIRECTORS

### Chairman

Mr Stephen T H Ng

### Non-executive Directors

Hon Frankie C M Yick, *SBS, JP*  
Mr Peter Z K Pao

### Independent Non-executive Directors

Mr David T C Lie-A-Cheong, *SBS, OM, JP*  
Mr Roger K H Luk, *BBS, JP*  
Mr Michael T P Sze  
Mr Brian S K Tang  
Mr Ivan T L Ting

## COMPANY SECRETARY

Ms Grace L C Ho, *FCG, HKFCG*

## AUDITORS

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

## PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

## SHARE REGISTRARS

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

## REGISTERED OFFICE

16th Floor, Ocean Centre, Harbour City  
Canton Road, Kowloon, Hong Kong  
Tel: (852) 2118 8118  
Fax: (852) 2118 8018  
Website: [www.harbourcentre.com.hk](http://www.harbourcentre.com.hk)

# SHAREHOLDER INFORMATION

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## LISTING

Ordinary Shares  
The Stock Exchange of Hong Kong Limited  
Stock Code: 51

As at 31 December 2021  
Number of issued shares 708,750,000

## ANNUAL GENERAL MEETING

Closure of Register of Members 28 April 2022 to 4 May 2022  
(Shareholders' right to attend and (both days inclusive)  
vote at 2022 Annual General Meeting)

2022 Annual General Meeting 11:15 a.m., 4 May 2022  
(Hybrid Meeting via e-Meeting System  
(<https://spot-emeeting.tricor.hk/>) with  
16th Floor, Ocean Centre, Harbour City,  
Canton Road, Kowloon, Hong Kong as  
Principal Meeting Place)

## CONTACTS

Shareholder enquiries: sh@harbourcentre.com.hk  
Investor enquiries: ir@harbourcentre.com.hk  
Media enquiries: pr@harbourcentre.com.hk

# CHAIRMAN'S STATEMENT

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## THE YEAR IN REVIEW

The beleaguered travel and hospitality sectors endured another year of great frustration, fatigue, and even torture from stringent travel restrictions and social distancing. Wave after wave, this pandemic has not yet failed to dash hope just as a flicker of dim light starts to appear at the end of the long tunnel.

In Hong Kong, hotels continued to bleed except for those in the quarantine business. While the door remained closed for external demand, the oversupply fought hard for a bigger share of the much smaller local demand. Losses narrowed compared to a year ago but new threats in the new year are debilitating. The so-called "5th Wave" is geometrically more serious than any of the previous waves. It will probably also set back the re-opening of borders by months.

Recovery in Mainland China was also erratic. Relatively mild relapses in the summer and then towards the end of the year touched off frantic market withdrawals, which have made reliable resource planning almost impossible. Luxury hotels performed relatively better than others but no hotel is spared at the end of the day.

In the retail sector, Hong Kong retail sales recovered by a moderate 8% on a low 2020 base, before the severe set back caused by the fifth wave. Further recovery depends largely on the return of inbound tourism. Despite stabilising spot rents and vacancies, the lagging impact of negative rental reversion continued to weigh on the Group's Investment Properties ("IP") rental income.

Driven by unwavering efforts to sustain hotels operation and improve business margins, The Murray, successfully turned a gross operating profit while MP Hong Kong reported a narrower loss. Thanks to an appealing line-up of themed promotion and enticing experiences to capture local spending in Hong Kong, The Murray continued to perform well against its competitive set in terms of occupancy and revenue per available room ("RevPAR").

In Mainland China, the 233-key Niccolo Suzhou opened in April 2021 into an uncertain market in the shadow of the pandemic but has been reporting positive gross operating profit every month since launch. An agreement was signed in February 2022 to dispose of the loss-making Marco Polo Changzhou ("MP Changzhou"), which has closed thereafter pending completion of the sale.

Contribution from Development Properties ("DP") is expected to continue to diminish, with only unsold and slow-moving stock of the 80%-owned Suzhou International Finance Square ("SZIFS") and 27%-owned Shanghai South Station project remaining in the portfolio.

## BUSINESS PERFORMANCE

The Group's consolidated revenue increased by 35% to HK\$4,484 million (2020: HK\$3,313 million) and operating profit by 15% to HK\$588 million (2020: HK\$510 million). Underlying net profit was HK\$40 million (2020: HK\$413 million). After net revaluation deficit for IP and impairment provision on hotel properties, Group reported a net loss of HK\$24 million (2020: HK\$1,119 million).

In view of the poor operating results, the Board of Directors cancelled all dividends for 2021.

Hotel revenue increased to HK\$580 million (2020: HK\$381 million) while operating loss narrowed to HK\$274 million (2020: HK\$295 million).

# CHAIRMAN'S STATEMENT

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IP revenue decreased to HK\$193 million (2020: HK\$238 million) and operating profit to HK\$161 million (2020: HK\$207 million). Amortisation of rent relief offered to tenants in 2020 and 2021 was completed by the end of 2021.

DP revenue increased to HK\$3,553 million (2020: HK\$2,534 million) and operating profit to HK\$555 million (2020: HK\$448 million) due to sales recognition of SZIFS. Handover to buyers started in June 2020 with full completion in 2021.

Net cash inflow amounted to HK\$1,615 million, mainly from SZIFS.

Net debt of HK\$361 million was reported as at the end of the year (31 December 2020: HK\$1,516 million).

Liquidity position remains healthy with adequate financial resources to meet foreseeable commitments and working capital requirements. The Group continued to exercise strict cost control and defer all non-essential capital expenditures to conserve cash.

As at the end of the year, the Group's total assets aggregated to HK\$20.5 billion and net asset value per share was HK\$22.03.

## OUTLOOK

Strict travel restrictions and harsh quarantine measures are still taking a heavy toll on the travel and hospitality sectors, while increasingly stringent social distancing measures are expected to hamper local economic growth and consumption.

Recovery remains unclear and is dependent on many factors, including local and international economic conditions, the opening of borders, consumer confidence in cross-border travel and their ability and willingness to spend. Hesitation about health protection, insurance and potential unforeseen disruption will continue to be key challenges.

Prudent cash management and constant refinement in business strategies have placed the Group in a healthy position in this storm but there is still no light at the end of the tunnel. We will continue to exercise similar cautions until fewer uncertainties dominate the business skyline.

## APPRECIATION

On behalf of all shareholders and directors, I wish to express my sincere gratitude to all customers and business partners for their continued trust and support, as well as to all employees for their total dedication during these extraordinary times.

**Stephen T H Ng**

*Chairman*

Hong Kong, 1 March 2022



# FINANCIAL HIGHLIGHTS

	2021 HK\$ Million	2020 HK\$ Million	Change
<b>Results</b>			
Revenue	4,484	3,313	+35%
Operating profit	588	510	+15%
Underlying net profit (Note a)	40	413	-90%
Loss attributable to equity shareholders	(24)	(1,119)	+98%
Total dividend for the year	–	100	
Earnings/(loss) per share			
Underlying net profit (Note a)	HK\$0.06	HK\$0.58	-90%
Reported loss	(HK\$0.03)	(HK\$1.58)	+98%
Dividends per share			
First special interim	–	HK\$0.07	
Second special interim	–	HK\$0.07	
Total for the year	–	HK\$0.14	
<b>Financial Position</b>			
Total assets	20,526	23,967	-14%
Total business assets (Note b)	19,188	22,370	-14%
Net debt	(361)	(1,516)	-76%
Shareholders' equity	15,617	15,482	+1%
Total equity	15,937	15,929	+0%
Number of issued shares (in million)	709	709	–
Net asset value per share	HK\$22.03	HK\$21.84	+1%
Net debt to total equity	2.3%	9.5%	-7.2% pt

Financial year	Profit/(loss) to shareholders		Shareholders' equity			Earnings/(loss) per share		Dividends per share HK\$
	Underlying net profit HK\$ Million	Reported profit/(loss) HK\$ Million	Total equity HK\$ Million	Total HK\$ Million	Per share HK\$	Underlying net profit HK\$	Reported profit/(loss) HK\$	
2012	1,937	3,058	15,563	14,591	20.59	2.73	4.31	0.96
2013	1,464	1,276	16,447	15,381	21.70	2.07	1.80	0.78
2014	851	1,082	17,246	16,205	22.86	1.20	1.53	0.60
2015	1,194	1,231	17,330	16,185	22.84	1.68	1.74	0.70
2016	762	692	16,546	15,829	22.33	1.08	0.98	0.50
2017	1,290	1,320	18,203	17,554	24.77	1.82	1.86	0.70
2018	512	831	17,889	17,276	24.38	0.72	1.17	0.30
2019	435	117	17,467	17,084	24.10	0.61	0.17	0.22
2020	413	(1,119)	15,929	15,482	21.84	0.58	(1.58)	0.14
<b>2021</b>	<b>40</b>	<b>(24)</b>	<b>15,937</b>	<b>15,617</b>	<b>22.03</b>	<b>0.06</b>	<b>(0.03)</b>	<b>–</b>

Notes:

- (a) Underlying net profit mainly excludes changes in investment property revaluation and impairment for hotel properties.
- (b) Business assets exclude unallocated corporate assets mainly comprising deferred tax assets and bank deposits and cash.
- (c) Ten-Year Financial Summary is detailed on page 124.

# BUSINESS AND FINANCIAL REVIEW

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## BUSINESS REVIEW

### Hong Kong

#### Hotel

Behind closed borders, punishing and loss-making market conditions continued. In the absence of external demand, competition for local demand heightened. Some turned to the quarantine business to seek shelter.

Throughout 2021, relaxation of social distancing measures spurred recovery of local consumption, particularly in the second half. However, new tightening measures since early January 2022 have set back the Group's bars, restaurants and events business again. Both revenues and margins across the entire hotel sector continued to be depressed by reliance on local demand only and the resulting intense market competition.

The Murray performed well against this market backdrop, relying on outstanding asset and service quality and appealing themed promotion programmes. Driven by proactive marketing strategies and effective cost control, The Murray successfully turned around to achieve a gross operating profit while MP Hong Kong narrowed its loss. Revenue of this business segment increased by 52% and operating loss narrowed slightly.

#### Investment Properties

Hong Kong retail sales registered only modest year-on-year growth as local demand picked up but tourist spending was still sorely missed. Spot rent showed stabilisation but negative rental reversion continued to weigh on the Group's rental income, partially offset by higher turnover rent. Investment in marketing and promotional initiatives increased. Declines in revenue and operating profit narrowed to 19% and 22%, respectively.

### Mainland China

#### Hotel

Niccolo Suzhou has achieved an impressive performance since its opening in April 2021 and started to contribute gross operating profit from the first month, despite the negative impact of sporadic resurgence of COVID-19 cases throughout the second half of the year. Located in the prestigious Jinji lakeside precinct, the sky-high hotel features 233 spacious, chic and elegant guestrooms including 20 suites atop SZIFS, Suzhou's tallest building and new landmark.

MP Changzhou suffered more serious operating losses due to poor market conditions. An agreement to dispose of this hotel was signed on 18 February 2022 with target completion in July 2022. The hotel served its last customer on 28 February 2022.

#### Properties

DP revenue increased to HK\$3,553 million and operating profit to HK\$555 million, mainly driven by the handover of SZIFS which was fully completed in 2021. In view of the slow-moving remaining stock in 27%-owned Shanghai South Station project, an impairment provision of HK\$125 million has been made for the full year of 2021.

# BUSINESS AND FINANCIAL REVIEW

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## FINANCIAL REVIEW

### (I) Review of 2021 Results

The Group's underlying net profit decreased to HK\$40 million (2020: HK\$413 million which included a one-off net tax write-back of HK\$361 million for DP). Hotel's loss was reduced by 14% to HK\$287 million (2020: HK\$332 million). IP profit decreased by 22% to HK\$139 million (2020: HK\$178 million). DP profit decreased by 89% to HK\$45 million (2020: HK\$421 million).

Including the net IP revaluation deficit of HK\$10 million (2020: HK\$555 million) and impairment provision on hotel properties of HK\$54 million (2020: HK\$977 million), the Group recorded a net loss of HK\$24 million attributable to equity shareholders (2020: HK\$1,119 million).

#### Revenue and Operating Profit

Group revenue increased by 35% to HK\$4,484 million (2020: HK\$3,313 million) and operating profit by 15% to HK\$588 million (2020: HK\$510 million) mainly due to higher DP sales recognition.

Hotels revenue increased to HK\$580 million (2020: HK\$381 million) while operating loss narrowed to HK\$274 million (2020: HK\$295 million). Hong Kong hotels recorded revenue growth to HK\$457 million (2020: HK\$344 million) and reduced operating losses to HK\$218 million (2020: HK\$273 million). Mainland hotels also recorded revenue growth but increased operating losses to HK\$56 million (2020: HK\$22 million), partly due to Niccolo Suzhou opening in April 2021.

IP revenue and operating profit decreased by 19% to HK\$193 million (2020: HK\$238 million) and 22% to HK\$161 million (2020: HK\$207 million), respectively, mainly resulting from lower rental reversions on lease renewals. Amortisation of rent relief offered to tenants in 2020 and 2021 was completed by the end of 2021.

DP revenue increased to HK\$3,553 million (2020: HK\$2,534 million) and operating profit to HK\$555 million (2020: HK\$448 million), mainly due to sales recognition for SZIFS units.

Investments operating profit, mainly from dividend income, maintained at HK\$141 million (2020: HK\$143 million).

#### IP Revaluation Change

IP were stated at fair value, principally based on an independent valuation as at 31 December 2021, giving rise to a revaluation deficit of HK\$10 million (2020: HK\$598 million) which was debited to the consolidated income statement.

#### Hotel Impairment

Included in the results was an impairment provision of HK\$67 million (2020: HK\$1,051 million) for Niccolo Suzhou. The attributable net provision of HK\$54 million (2020: HK\$977 million) was charged to the consolidated income statement.

# BUSINESS AND FINANCIAL REVIEW

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## Finance Cost

Net finance cost amounted to HK\$34 million (2020: HK\$51 million) after interest capitalisation of HK\$4 million (2020: HK\$16 million).

## Share of Results (after Tax) of Associates

Attributable loss of associates amounted to HK\$125 million (2020: HK\$75 million), mainly attributable to provision made on the Shanghai South Station joint-venture DP project.

## Income Tax

Taxation charge for the year amounted to HK\$323 million (2020: credit of HK\$175 million, which included a one-off land appreciation tax write-back of HK\$504 million), principally attributable to DP profit.

## Loss Attributable to Equity Shareholders

Group loss attributable to equity shareholders for the year was HK\$24 million (2020: HK\$1,119 million). Loss per share was HK\$0.03 (2020: HK\$1.58) based on 708.8 million issued shares.

Group underlying net profit (a performance indicator of the Group's major business segments), after excluding attributable net IP revaluation deficit of HK\$10 million (2020: HK\$555 million) and impairment provision for hotel properties of HK\$54 million (2020: HK\$977 million), was HK\$40 million (2020: HK\$413 million). Earnings per share before IP revaluation deficit and hotel property impairment provision were HK\$0.06 (2020: HK\$0.58).

## (II) Review of Financial Position, Liquidity, Resources and Commitments

### Shareholders' and Total Equity

As at 31 December 2021, shareholders' equity slightly increased to HK\$15,617 million (2020: HK\$15,482 million), equivalent to HK\$22.03 per share (2020: HK\$21.84). The increase was mainly attributable to investment revaluation and exchange reserves. Including non-controlling interests, the Group's total equity amounted to HK\$15,937 million (2020: HK\$15,929 million).

Hotel properties are stated at cost less accumulated depreciation and impairment provision in accordance with prevailing Hong Kong Financial Reporting Standards ("HKFRSs"). Restating hotel properties based on independent valuation as at 31 December 2021 would give rise to a revaluation surplus of HK\$3,929 million and increase the Group's shareholders' equity as at 31 December 2021 to HK\$19,546 million, equivalent to HK\$27.58 per share.

# BUSINESS AND FINANCIAL REVIEW

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## Assets and Liabilities

Total assets were reported at HK\$20,526 million (2020: HK\$23,967 million). Total business assets, excluding bank deposits and cash as well as deferred tax assets, amounted to HK\$19,188 million (2020: HK\$22,370 million).

Geographically, business assets in Hong Kong decreased to HK\$13,579 million (2020: HK\$14,194 million), representing 71% (2020: 63%) of the Group's total business assets. Mainland business assets decreased to HK\$4,433 million (2020: HK\$7,242 million), representing 23% (2020: 32%) of total business assets.

## Hotels

Hotel properties amounted to HK\$7,170 million (2020: HK\$7,144 million), which comprised The Murray (HK\$6,001 million), MP Hong Kong (HK\$22 million), MP Changzhou (HK\$354 million) and Niccolo Suzhou (HK\$793 million).

## Investment Properties

IP amounted to HK\$5,138 million (2020: HK\$5,148 million), which comprised MP Hong Kong's podium (HK\$4,566 million) and Star House units (HK\$572 million).

## Properties for Sale/Interests in Associates and Joint Ventures

DP amounted to HK\$2,227 million (2020: HK\$4,947 million), mainly representing SZIFS. DP undertaken through associates and joint ventures amounted to HK\$983 million (2020: HK\$1,082 million).

## Equity Investments

Equity investments were marked to market at HK\$3,386 million (2020: HK\$3,546 million), including mainly blue-chip equity investment held for long term capital growth and dividend return. The value of the whole portfolio represents 16% (2020: 15%) of the Group's total assets and each investment within which is individually not material at less than 5% of the Group's total assets for risk diversification. Marking these investments to market produced a net surplus of HK\$114 million (2020: deficit of HK\$540 million) as reflected in the Other Comprehensive Income Statement within which a total of HK\$46 million was transferred to retained profits upon de-recognition.

## BUSINESS AND FINANCIAL REVIEW

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

	2021 HK\$ Million	2020 HK\$ Million
Analysed by industry sector:		
– Properties	2,920	2,982
– Others	466	564
Total	3,386	3,546
Analysed by geographical location:		
– Hong Kong	2,210	2,611
– Overseas	1,176	935
Total	3,386	3,546

### Pre-sale Deposits and Proceeds

Pre-sale deposits and proceeds decreased to HK\$244 million (2020: HK\$2,044 million) upon recognition of revenue.

### Net Debt and Gearing

At 31 December 2021, the Group had net debt of HK\$361 million (2020: HK\$1,516 million), consisting of HK\$1,089 million in cash (mainly held in Mainland China) and HK\$1,450 million in bank borrowings (mainly drawn in Hong Kong). Gearing remained low at 2% of total equity (2020: 10%).

### Finance and Availability of Facilities and Funds

As at 31 December 2021, the Group's available loan facilities amounted to HK\$4,462 million, of which HK\$1,450 million were utilised. Certain banking facilities were secured by hotel and DP in the Mainland of HK\$1,648 million (equivalent to RMB1,347 million) (2020: bank deposits in the Mainland of HK\$356 million (equivalent to RMB300 million)).

The Group's debts were principally denominated in Hong Kong dollars ("HK\$") and Renminbi ("RMB") at floating rates.

The use of derivative financial instruments is strictly controlled. Instruments entered into by the Group are mainly used for managing and hedging interest rate and currency exposures.

The Group continued to maintain a reasonable level of surplus cash denominated principally in HK\$ and RMB to facilitate business and investment activities. As at 31 December 2021, the Group also held a portfolio of liquid listed equity investments with an aggregate market value of HK\$3,386 million (2020: HK\$3,546 million), which is available for use if necessary.

# BUSINESS AND FINANCIAL REVIEW

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## **Net Cash Flows for Operating and Investing Activities**

For the year under review, the Group recorded a net cash inflow in operating activities of HK\$1,130 million (2020: HK\$170 million) primarily attributable to DP sales proceeds from SZIFS. For investing activities, the Group generated a net cash inflow of HK\$243 million (2020: HK\$152 million) mainly from sale of investments net of SZIFS construction payments.

## **Commitments to Capital and Development Expenditure**

As at 31 December 2021, major capital and development expenditure planned for the coming years totalled HK\$0.9 billion which was committed for DP.

The above expenditures will be funded by internal financial resources, including cash currently on hand, as well as bank loans. Other available resources include equity investments that can be liquidated when in need.

## **(III) Dividend Policy**

Apart from compliance with the applicable legal requirements, the Company adopts a policy which targets to provide shareholders with reasonably stable and consistent dividends if possible and appropriate. Dividend payout from year to year will be subject to upward or downward adjustments as decided by the Board after taking into account of the Group's immediate as well as expected financial performance, cash flow, financial position, capital commitments and future requirements as well as the general business and economic environments.

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

## **(IV) Human Resources**

The Group had approximately 1,400 employees as at 31 December 2021. Employees are remunerated according to their job responsibilities and the 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 SUSTAINABILITY

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## OUR SUSTAINABILITY APPROACH

The Group devotes itself to creating value for the society in which we operate with minimal impact on the environment and society. The Board of Directors (the “Board”) strives to integrate sustainability considerations into our business decision-making process. Our sustainability approach and governance structure are in line with our parent company, Wharf Real Estate Investment Company Limited (“Wharf REIC”). The Group upholds the vision and mission of Wharf REIC and incorporates our long-standing mission of “Building for Tomorrow” into our sustainability strategies.

## OUR GOVERNANCE

The Group reports our sustainability performance to Wharf REIC’s Sustainability Steering Committee and comes together with cross-business units sustainability teams on a regular basis to facilitate exchange of best practice knowledge. Dedicated executives are responsible for coordinating and managing the sustainability practices in our daily operations. In addition to compliance, the Group is also committed to continuous improvement and societal value creation through collaborating with internal and external stakeholders, including employees, customers and suppliers.

In our business operations, the Board has the overall responsibility for monitoring issues related to environmental, social and governance (“ESG”). We align our sustainability mission and vision and minimise our impacts to the environment and society. The Board prioritises the ESG risks and opportunities that are material to the Group’s operations by risk assessments exercises, including stakeholder engagement and materiality assessment.

The Group adheres to the highest standard of business ethics in our operations and has zero-tolerance to bribery, extortion, fraud or money laundering and corruption. We have established a rigorous risk management and internal control system and align with Wharf REIC’s Compliance Policy Statement to ensure compliance with the Prevention of Bribery Ordinance (Cap 201 of the laws of Hong Kong) as well as other applicable laws and regulations. The Group has also formulated the Business Code of Conduct to ensure that all employees understand our expectations of professional conducts in business activities. The Whistleblowing Policy and Procedures provides employees with a confidential channel to raise concerns about any suspected malpractices or misconduct. The Group reviews our business practices to ensure compliance obligations on a regular basis.

## OUR ENVIRONMENT

The Group devotes itself to preserving the environment while reducing adverse impacts on the environment. We comply with all environmental laws and regulations in Hong Kong and the Environmental Protection Law of the People’s Republic of China. We have implemented various strategies, ranging from energy and water management to waste recycling and reduction measures to minimise our carbon footprint. For instance, Marco Polo Hongkong Hotel (“MP Hong Kong”) strives to provide diners with environmentally friendly seafood options and has designed a variety of in-room dining delicacies. The hotel’s Italian restaurant *Cucina* has also added a series of green options to the à la carte menu, allowing diners to enjoy delicious seafood while conserving marine resources. The hotel has been awarded the Silver certification by EarthCheck, a leading ecological benchmarking, certification and advisory group for the tourism industry.

The Group has adopted a series of energy initiatives in order to achieve Wharf REIC’s environmental target of reducing 30% greenhouse gas emission by 2030 (with 2014 as baseline year). For such, The Murray, Hong Kong, a Niccolo Hotel (“The Murray”), MP Hong Kong and Marco Polo Changzhou participated in the “Earth Hour” to support energy-saving. Our hotel operations have also launched the “Green Room Programme”, encouraging guests to skip daily bed sheets replacement service so as to reduce the burden on the environment.



# CORPORATE SUSTAINABILITY

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In view of the emerging climate change risks, Wharf REIC has identified climate-related risks in our business and issued the Climate Change Policy Statement in 2020. The Group has aligned with Wharf REIC and will continue to enhance the climate resilience of our portfolio.

The Group reviews our business practices to ensure compliance on a regular basis. There were no non-compliance cases regarding environmental issues during the reporting year.

## OUR PEOPLE

The Group values our employees to achieve long-term success. We strive to advocate equal opportunities, diversity and non-discrimination in our workplace. To ensure that employees comprehend the latest anti-discrimination legislation, we invite the Equal Opportunities Committee to organise seminars on a regular basis. We also strictly adhere to all relevant laws and regulations regarding recruitment and remuneration. We provide a range of training programmes for our employees to strengthen their knowledge and skills on service quality, health and safety, and business ethics.

We are in compliance with the Occupational Safety and Health Ordinance (Cap 509 of the laws of Hong Kong) and Wharf REIC's Safety and Health Policy to pursue zero injury in our operations. We review the Group's Safety Manual and Policy on Work Accidents and Injuries regularly. In 2021, no work-related fatalities were recorded.

The Group reviews our business practices to ensure compliance obligations on a regular basis. There were no non-compliance cases regarding employment and occupational health and safety issues during the reporting year.

## OUR VALUE CHAIN

Customer experience and satisfaction are vital in attaining excellence in our products and service. The Group prioritises food safety and conducts audits for our catering operations. We identify potential food safety and hygiene problems and formulate corresponding corrective measures in accordance with our Operations Manual — Food Safety Hygiene. Apart from the government's food safety requirements, we also regularly conduct factory audits and unannounced audits on suppliers and utilise our traceability system on the country-of-origin labelling of all purchased foods to strengthen food safety control and management.

The Group adheres to all legal requirements and voluntary codes related to significant aspects of our business operations. We offer guidelines and training for our employees to enhance their understanding of the Competition Ordinance (Cap 619 of the laws of Hong Kong) in order to act in compliance. We also adopt standardised procedures to review our contracts, agreements and marketing collaterals and ensure that accurate and sufficient information is presented to our customers.

# CORPORATE SUSTAINABILITY

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When processing customers' personal data, we observe the Group's Data Privacy Policy Statement and relevant procedures in compliance with the Personal Data (Privacy) Ordinance (Cap 486 of the laws of Hong Kong) and EU General Data Protection Regulation. Customer information is processed by authorised personnel appropriately in accordance with stringent guidelines. We refer to industry best practices and review our data privacy policies and procedures regularly. There were no non-compliance cases regarding customer privacy issues during the reporting year.

In addition to maintaining the Group's pool of stable suppliers, we incorporate our ESG commitment in supplier selection process and engagement. We comply with the Group's Green Procurement Policy and take environmental impacts into account during our procurement decisions. We also prioritise local procurement whenever viable. Our suppliers must acknowledge they understand and abide by our Acknowledgment of Business Ethics and Integrity.

## OUR COMMUNITY

The Group is committed to participating in local community activities through education, environmental protection, social welfare and youth development. For example, The Murray has introduced "The Historic Murray Tour", allowing participants to learn about the hotel's rich heritage and our endeavours in green conservation. The Group also continues to participate in Project *WeCan* and holds hotel visits and career talks to support youth development.

## SUSTAINABILITY REPORTING

For more information about the Group's environmental, social and governance performance, policies and initiatives, please refer to the Group's standalone Sustainability Report for 2021, which will soon be posted on the Company's corporate website [www.harbourcentre.com.hk](http://www.harbourcentre.com.hk).

# CORPORATE GOVERNANCE REPORT

## (A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2021, all the code provisions in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) were met by the Company, with one exception as regards Code Provision C.2.1 as explained under section “(D) CHAIRMAN AND CHIEF EXECUTIVE” below.

## (B) DIRECTORS’ SECURITIES TRANSACTIONS

During the financial year ended 31 December 2021, the Company adopted 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. The Company has made specific enquiry of all Directors of the Company and all Directors have confirmed that they have complied with the required standard set out in the Model Code and/or the Company’s Code during the financial year.

## (C) BOARD OF DIRECTORS

### (i) Composition of the Board and Directors’ attendance records at Board meetings and annual general meeting

The Board of Directors (the “Board”) has a balance of skills and experience. The Board composition and attendance records of our Directors at Board meetings and annual general meeting during the financial year ended 31 December 2021 are set out below:

Directors	Number of Meeting(s) (Attended/Held)	
	Board Meetings	Annual General Meeting
<i>Chairman</i>		
Stephen T H Ng	5/5	1/1
<i>Non-executive Directors</i>		
Frankie C M Yick	5/5	1/1
Peter Z K Pao	5/5	1/1
<i>Independent Non-executive Directors</i>		
David T C Lie-A-Cheong	5/5	1/1
Roger K H Luk	5/5	1/1
Michael T P Sze	5/5	1/1
Brian S K Tang	5/5	0/1
Ivan T L Ting	5/5	1/1

# CORPORATE GOVERNANCE REPORT

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Each Director of the Company has been appointed on the strength of his calibre, experience and stature, and his potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions.

During the financial year ended 31 December 2021, the Chairman held a meeting with Independent Non-executive Directors (“INED(s)”) without the presence of other Directors.

## (II) Appointment and Election of Directors

In accordance with the Articles of Association of the Company, all Directors are subject to retirement by rotation at an annual general meeting (“AGM”) 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(s)”) at the next general meeting of the Company. At each AGM, 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.

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 under sub-section “(V) Nomination Policy” of section “(C) BOARD OF DIRECTORS”) which sets out the approach in identifying, assessing and nominating suitable candidates to the Boards.

Mr David T C Lie-A-Cheong, Mr Michael T P Sze and Mr Ivan T L Ting will retire at the AGM to be held on 4 May 2022. The retiring Directors, being eligible, offer themselves for re-election. The proposed re-election of the retiring 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 retiring Directors could continue to fulfill his role as required. The election of each candidate will be done through a separate resolution. Details with respect to the candidates standing for election as Directors are set out in the AGM circular to Shareholders.

## (III) Non-executive Directors

Five out of eight 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, and considers that all INEDs are independent and meet the independence guidelines set out thereunder.

All those existing Directors of the Company who do not hold any executive office of the Company (including INEDs) have their respective terms of appointment coming to an end normally three years after their last re-election as Directors or, in the case of newly appointed Directors, at the next following general meeting. The re-election of any INED 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 sent out in the circular to Shareholders the reasons why the Board believes the relevant INED is still independent and should be re-elected.

# CORPORATE GOVERNANCE REPORT

## (IV) Board Diversity

Under the Board Diversity Policy adopted by the Board, the Company recognises and embraces the benefits of having a diverse Board towards enhancement of 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 in achieving a diversity of perspectives and supporting the attainment of its strategic goals. Directors are appointed on merits while having due regard for the benefits of diversity of the Board.

At present, more than half of the directors on the Board are INEDs. They represent diverse career experience in both international and local enterprises. They bring with them diverse professional backgrounds and they also hold or have held important public service positions in Hong Kong and mainland China.

The board composition reflects various cultural and educational backgrounds, professional development, length of service, knowledge of the Company and a broad range of individual attributes, interests and values. The Board considers the current Board composition provides the Company with a good balance and diversity of skills and experience for the requirements of its business. The Board will continue to review its composition from time to time taking into consideration board diversity for the requirements and benefits of the Company's business.

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

<b>Gender</b>	Male:	100%
<b>Age Group</b>	40–50:	12.5%
	51–60:	0%
	61–70:	50%
	≥71:	37.5%
<b>Length of Service (No. of year)</b>	< 4 years:	50%
	4–10 years:	12.5%
	>10 years:	37.5%
<b>Ethnicity</b>	Chinese:	100%
<b>Directorship with other publicly listed companies (Beyond the Group) (No. of company)</b>	0:	50%
	1–2:	37.5%
	≥3:	12.5%
<b>Career Experience</b>	Diverse professional backgrounds: Engineering, banking, accounting, financial and securities, toy manufacturing, trading, investment, consulting and entrepreneurship.	
	Important public service positions in Hong Kong and mainland China: Business, industry and commerce, educations, regulatory legislation and politics.	

# CORPORATE GOVERNANCE REPORT

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## (V) Nomination Policy

The Company has adopted a formal Nomination Policy 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.

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.

# CORPORATE GOVERNANCE REPORT

## (VI) Operation of the Board

The Company is headed by an effective Board which makes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group.

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 investments and funding decisions and major commitments relating to the Group's operations. Besides, the Board has the overall responsibility for monitoring matters related to ESG, sustainability and climate change, providing oversight and prioritising ESG risks, climate-related risks and opportunities that are material to the Group's operations by risk assessments exercisers, including stakeholder engagement and materiality assessment.

## (VII) Directors' Training

Newly appointed Directors receive briefings and orientation on legal 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 forum which place emphasis on the roles, functions and duties of a listed company director. All the current Directors have, during the financial year under review, pursued continuous professional development and relevant details are set out below:

Directors	Type of trainings (See Remarks)
Stephen T H Ng	A, B
David T C Lie-A-Cheong	A, B
Roger K H Luk	A, B
Peter Z K Pao	A, B
Michael T P Sze	A, B
Brian S K Tang	A, B
Ivan T L Ting	A, B
Frankie C M Yick	A, B

*Remarks:*

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

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

# CORPORATE GOVERNANCE REPORT

## (D) CHAIRMAN AND CHIEF EXECUTIVE

Mr Stephen T H Ng serves as the Chairman and also as the *de facto* chief executive of the Company. This is a deviation from Code Provision C.2.1 of the CG Code with respect to the roles of chairman and chief executive to be performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of 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 INEDs.

The Chairman is responsible for the Board, focuses on Group strategies and Board issues, ensures a cohesive working relationship between members of the Board and management, and also in his capacity as *de facto* chief executive, he directly has responsibilities in certain major business units of the Group.

## (E) BOARD COMMITTEES

### (I) Audit Committee

The Company has set up an Audit Committee comprising 3 INEDs, namely Mr Michael T P Sze (chairman of the Committee), Mr Roger K H Luk and Mr Brian S K Tang.

All Audit Committee members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Mr Michael T P Sze has the appropriate professional qualifications and/or experience in financial matters.

Three Audit Committee meetings were held during the financial year ended 31 December 2021. Attendance of the Audit Committee members is set out below:

Members	Attendance/Number of Meetings
Michael T P Sze ( <i>Chairman</i> )	3/3
Roger K H Luk	3/3
Brian S K Tang	3/3

- (i) The Audit Committee terms of reference are aligned with the provisions set out in the CG Code and the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:

#### (A) Relationship with the Company's external auditors

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;



# CORPORATE GOVERNANCE REPORT

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- (b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; and
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

## **(B) Review of financial information of the Company**

- (a) to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
  - (i) any changes in accounting policies and practices;
  - (ii) major judgemental areas;
  - (iii) significant adjustments resulting from audit;
  - (iv) the going concern assumptions and any qualifications;
  - (v) compliance with accounting standards; and
  - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;
- (b) regarding (B)(a) above:
  - (i) members of the Committee should liaise with the Board and Senior Management and the Committee must meet, at least twice a year, with the Company's external auditors; and
  - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, or for compliance function, or auditors (internal or external).

## **(C) Oversight of the Company's financial reporting system, risk management and internal control systems**

- (a) to review the Company's risk management and internal control systems covering all controls; including financial, operational and compliance controls, with the support of the Risk Management and Internal Control Committee;

## CORPORATE GOVERNANCE REPORT

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- (b) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Company's accounting, internal audit and financial reporting functions;
- (c) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings and review the statements concerning risk management and internal control to be included in the annual report;
- (d) to ensure co-ordination between the internal and external auditors, to review and approve the annual internal audit plan, to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company for it to carry out an analysis and independent appraisal of the adequacy and effectiveness of the Company's financial reporting system and risk management and internal control systems, and to review and monitor the effectiveness of the internal audit function;
- (e) to review the Group's financial and accounting policies and practices;
- (f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (h) to report to the Board on the matters in the code provisions in the Listing Rules;
- (i) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (j) to act as the key representative body for overseeing the Company's relations with the external auditors; and
- (k) to consider other topics, as defined by the Board.

### **(D) Oversight of the Company's Corporate Governance Matters**

- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (b) to review and monitor the training and continuous professional development of Directors and Senior Management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

# CORPORATE GOVERNANCE REPORT

- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
  - (e) to consider other topics, as defined by the Board.
- (ii) The other work performed by the Audit Committee for the financial year ended 31 December 2021 is summarised below:
- (a) approval of the remuneration and the appointment and terms of engagement of the external auditors;
  - (b) review of the external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards;
  - (c) review of the quarterly and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(B) above regarding the duties of the Audit Committee;
  - (d) discussion with the external auditors before the audit commences, the nature and scope of the audit;
  - (e) review of the audit programme of the internal audit function;
  - (f) review of the Group's financial controls, internal control and risk management systems; and
  - (g) meeting with the external auditors without executive Board members present.

## (II) Remuneration Committee

The Company has set up a Remuneration Committee comprising 3 members, including Chairman of the Company, namely Mr Stephen T H Ng and two INEDs, namely Mr Michael T P Sze (chairman of the Committee) and Mr Brian S K Tang.

One Remuneration Committee meeting was held during the financial year ended 31 December 2021. Attendance of the Remuneration Committee members is set out below:

Members	Attendance/Number of Meeting
Michael T P Sze ( <i>Chairman</i> )	1/1
Stephen T H Ng	1/1
Brian S K Tang	1/1

- (i) The Remuneration Committee's terms of reference are aligned with the provisions set out in the CG Code. Given below are the main duties of Remuneration Committee:
- (a) to make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

## CORPORATE GOVERNANCE REPORT

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- (b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;
  - (c) either:
    - (i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or
    - (ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
  - (d) to make recommendations to the Board on the remuneration of non-executive Directors;
  - (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
  - (f) to review and approve compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
  - (g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
  - (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
  - (i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules.
- (ii) The work performed by the Remuneration Committee, which has the delegated authority and responsibility, for the financial year ended 31 December 2021 is summarised below:
- (a) review of the Company's policy and structure for all remuneration of Directors and Senior Management;
  - (b) consideration and approval of the emoluments for the Chairman, all Directors and Senior Management; and
  - (c) review of the level of fees for Directors and Audit Committee members.

The remuneration payable to Directors and Senior Management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The annual fees payable to each of the Directors of the Company, currently at the rate of HK\$70,000 per annum, and the fee payable to each of those Directors who are also members of the Audit Committee of the Company, currently at the rate of HK\$30,000 per annum, is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

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 65 and 66 respectively.

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## (III) Nomination Committee

The Company has set up a Nomination Committee comprising 3 members, including Chairman of the Company, namely Mr Stephen T H Ng (chairman of the Committee) and two INEDs, namely Mr Michael T P Sze and Mr Brian S K Tang.

The Nomination Committee's terms of reference are aligned with the provisions set out in the CG Code. Given below are the main duties of Nomination Committee:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to assess the independence of INEDs; and
- (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular Chairman of the Board and chief executive.

During the financial year ended 31 December 2021, no Nomination Committee meeting was held and the work performed by the Nomination Committee by way of resolutions in writing included the recommendation on the re-election of Hon Frankie C M Yick and Mr Peter Z K Pao as Directors and Mr Roger K H Luk as INED.

## (IV) Corporate Governance Functions

While the Board is and remains to be principally responsible for the corporate governance functions of the Company, it has delegated the relevant duties to Audit Committee to ensure the proper performance of corporate governance functions of the Company. In this connection, the Audit Committee terms of reference include various duties relating to corporate governance matters which are set out in paragraph "(D) Oversight of the Company's Corporate Governance Matters" on pages 24 to 25 under sub-section "(I) Audit Committee" of section "(E) BOARD COMMITTEES" above.

## (F) AUDITORS' REMUNERATION

For the financial year ended 31 December 2021, remuneration receivable by external auditors is approximately HK\$2 million, including less than HK\$1 million for other services.

# CORPORATE GOVERNANCE REPORT

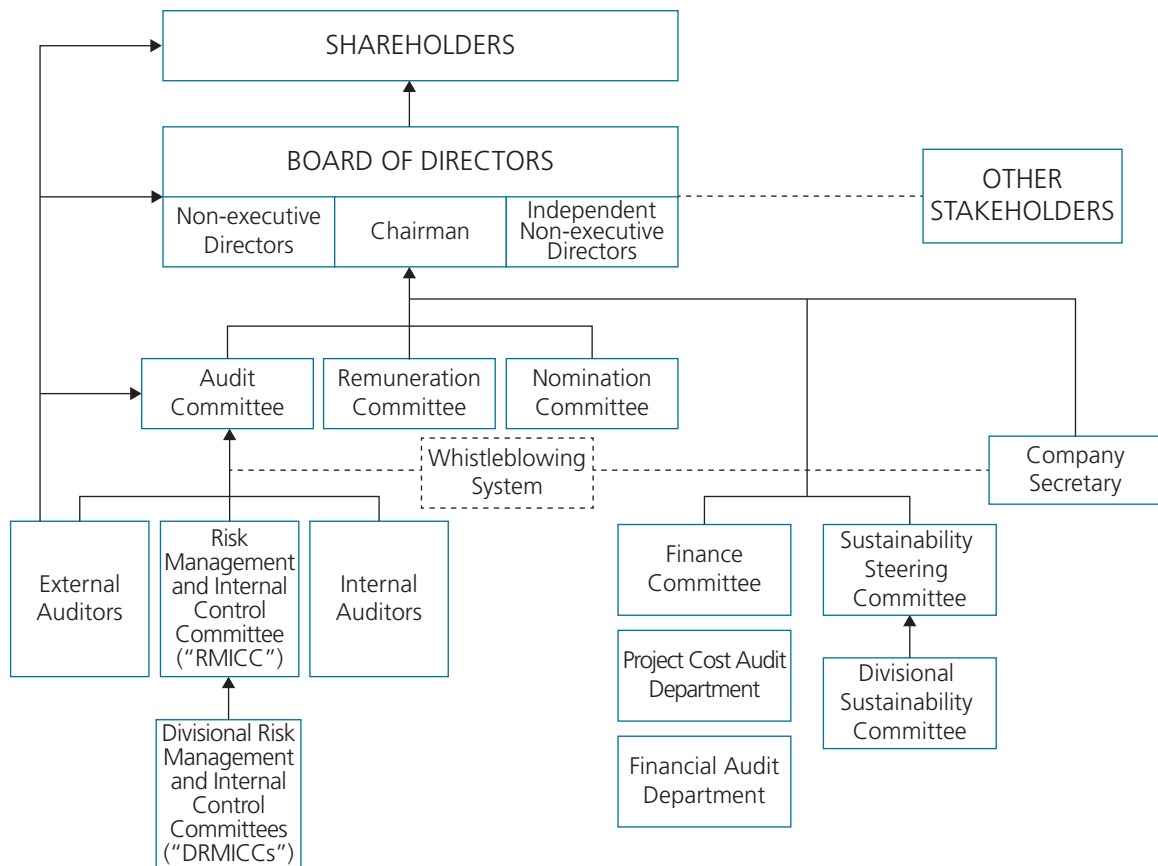
## (G) RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

### (I) 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 main purpose for provision of reasonable assurance against material misstatement or loss rather than absolute elimination of the risk of failure to achieve business objectives.

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

In adherence to its long standing principle for prudent management, the Group has put in place a robust and inclusive framework, on leverage of the resources of the Wharf REIC Group in internal audit and other corporate control functions, to manage risks at different business operations in diversified segments within the organisation, diagrammatically illustrated as below:



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RMICC plays a central role in the ongoing management of risk management and internal control system of the Group with the objective of assisting the Audit Committee in discharging of its oversight responsibility over risk management and internal control system of the Group. One of its major functions is to assist the Audit Committee to conduct periodical reviews of the effectiveness of the risk management and internal control systems of the Group based on the procedure as further explained below.

DRMICCs are set up at the level of business units with composition of the respective key management staff together with those charged with the internal control functions. Acting as divisional advisory bodies, DRMICCs are entrusted with implementation of the Group's control policies and on-going assessment of control activities in the relevant business units.

## (II) Practices and Processes

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

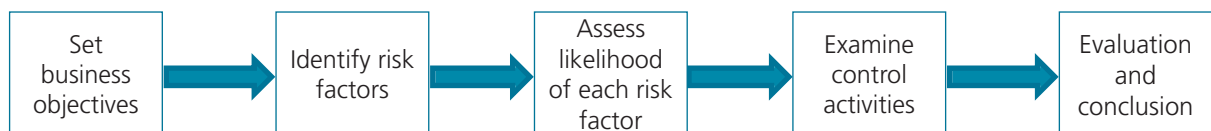
Areas of responsibility of each operational unit are clearly defined with specific limits of authority in place to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of 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.

Furthermore, Whistleblowing Policy & Procedures has been adopted by the Group, with the authority and responsibility being delegated to the Audit Committee. Such Whistleblowing Policy is for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Company Secretary, and any and all relevant complaints received may then be referred to the Audit Committee and/or Chairman of the Company about possible improprieties in any matter related to the Group.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. Findings regarding internal control matters are reported to the Audit Committee. The external auditors have access to a full set of internal audit reports.

## (III) Periodical Reviews

Under the leadership of RMICC, system reviews in a comprehensive approach on basis of COSO (Committee of Sponsoring Organisations 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.



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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 the Audit Committee and the Board. Such reviewing exercise is carried out on 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.

## (IV) Annual Confirmation

During the financial year ended 31 December 2021, the Audit Committee, with the assistance of RMICC and DRMICCs, has conducted a review of the effectiveness of the Group's internal control system 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 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 the Audit Committee.

Based on the result of the review as reported by the Audit Committee, in respect of the financial year ended 31 December 2021, the 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 CG 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 47 to 49 in the Directors' Report.

## (H) 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



# CORPORATE GOVERNANCE REPORT

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- 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

## (I) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2021, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Companies Ordinance (Cap 622 of the laws of Hong Kong) (the "Companies Ordinance") and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2021:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- (ii) prudent and reasonable judgments and estimates are made; and
- (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

## (J) 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 fair and timely disclosure of key information of the Group to facilitate Shareholders and investment community to make investment decisions.

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.

The Shareholders Communication Policy sets out the framework the Company has put in place for ongoing open dialogue with Shareholders and investment community.

Shareholders may raise questions or make a request through designated channels for the Company's information to the extent such information is publicly available. Please refer to pages 3 to 4 of this Annual Report for the contact details of the Company's Share Registrars, Tricor Tengis Limited. Shareholders can contact the Company's Share Registrars for questions about their shareholdings.

# CORPORATE GOVERNANCE REPORT

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Information of the Company is also communicated to Shareholders through the Company's Corporate Communications, including but not limited to financial reports (interim and annual reports), announcements and circulars. Such publications are available on the websites of the Company and the Stock Exchange as soon as practicable. The Corporate Communications shall be in plain language, and Shareholders have the right to choose English and/or Chinese version or means of receipt of such Corporate Communications to facilitate understandable, timely and environmental friendly communication.

Information on the Company's website ([www.harbourcentre.com.hk](http://www.harbourcentre.com.hk)) is updated on a regular basis. Press releases and other Corporate Communications of the Group are also available on the Company's website.

General meetings are held at least annually whereby there are opportunities for the Company to have direct interactions with Shareholders. Board members, in particular, the chairmen of Board committees or their delegates, appropriate management executives and external auditors will attend the annual general meetings to answer questions from Shareholders and their appointed proxies. The process of the Company's general meetings is monitored and reviewed on a regular basis, and if necessary, changes will be made to ensure that Shareholders' needs are best served.

The Company recognises the importance of Shareholders' privacy. Shareholders' privacy is protected under the Shareholders Communication Policy and Shareholders' information will not be disclosed without their consent, unless required by law to do so.

## 2021 Annual General Meeting

The 2021 AGM was held on 4 May 2021 in the Jade Room, 6th Floor, The Marco Polo Hongkong Hotel, 3 Canton Road, Kowloon, Hong Kong, with attendance by all the Directors except Mr Brian S. K. Tang, details of which are set out in the table of Directors' meeting attendance on page 17. The Auditors of the Company, Messrs KPMG, attended the 2021 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 4 May 2021 posted on the websites of the Company and the Stock Exchange.

## 2022 Annual General Meeting

The forthcoming AGM will be held on 4 May 2022. In view of the ongoing COVID-19 pandemic, the 2022 AGM of the Company will be held as a hybrid meeting whereby **Shareholders can participate electronically through the e-Meeting System (<https://spot-emeeting.tricor.hk/>)** in a convenient and efficient way from anywhere with an internet connection notwithstanding their location. The live video broadcast option can broaden the reach of the AGM to Shareholders and facilitate their participation without increasing the infection risk even under a severe pandemic situation.

Pursuant to the regulatory social distancing measures which are in force in Hong Kong, the Company is required to minimise the number of persons in physical attendance at the AGM. The Company does not in any way wish to diminish the opportunity available to Shareholders to exercise their rights in the AGM, but is conscious of the pressing need to protect Shareholders, our employees and the wider communities which remain our primary concern. Therefore, as it stands, **Shareholders shall not physically attend the AGM at the Principal Meeting Place.**

**The Company encourages Shareholders to attend and vote at the AGM electronically through the e-Meeting System in person or by proxy or to exercise their voting rights by appointing the Chairman of the AGM as proxy to cast the votes on their behalf.** Details of resolutions to be proposed at the 2022 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

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## (K) VOTING

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

- (a) All resolutions (other than procedural or administrative matters) put to Shareholders in general meetings are voted by a poll demanded by the Chairman at the beginning of the meetings. The circulars and notices of general meetings express the Chairman's intention to call for voting by poll.
- (b) The Chairman or the 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 Share Registrars, 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.

## (L) SHAREHOLDERS' RIGHTS

### (I) Convene an Extraordinary General Meeting

Pursuant to Section 566 of the Companies Ordinance, on written requisition by Shareholders representing at least 5% of the total voting rights of all Shareholders having a right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

### (II) Send Enquiries to the Board

The Company's corporate website [www.harbourcentre.com.hk](http://www.harbourcentre.com.hk) provides email address (for enquiry purpose only), postal address, fax number and telephone number by which Shareholders may at any time address their enquiries to the Board.

### (III) Make Proposals at General Meetings

- (i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Governance section of the Company's corporate website.
- (ii) The procedures for proposing resolution(s) to be moved at the Company's annual general meeting(s) are as follows:

Pursuant to Section 615 of the Companies Ordinance, Shareholder(s) can submit a written requisition to move a resolution at the Company's annual general meeting(s) if they represent:

- at least 2.5% of the total voting rights of all Shareholders who have a right to vote at the annual general meeting to which the requests relate; or
- at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

# CORPORATE GOVERNANCE REPORT

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The relevant written requisition must:

- (a) identify the resolution of which notice is to be given;
- (b) be authenticated by the person or persons making it; and
- (c) be received by the Company not later than 6 weeks before the relevant annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

Any written requisitions from Shareholders pursuant to Sections 566 and 615 of the Companies Ordinance as set out in sections (L)(I) and (L)(III) above must be sent to the Company to be deposited at the Company's registered office (16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong).

## (M) CONSTITUTIONAL DOCUMENTS

Shareholders' rights are set out in the Articles of Association of the Company which is available on both the websites of the Company and the Stock Exchange.

In order to provide flexibility to give Shareholders the option of attending general meetings remotely through electronic means if necessary or appropriate, the Company adopted a revised set of Articles of Association ("New Articles") during the financial year ended 31 December 2021. The adoption of the New Articles was approved as a special resolution by Shareholders at the annual general meeting held on 4 May 2021. The New Articles is available on both the websites of the Company and the Stock Exchange. Details of the major changes brought about by the adoption of New Articles are set out in the circular of the Company dated 29 March 2021.

## (N) DIVIDEND POLICY

A Dividend Policy, as set out in Financial Review on page 13, was adopted by the Company pursuant to Code Provision F.1.1 of the CG Code.

# DIRECTORS' REPORT

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The Board of Directors (the “Board”) has pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2021.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 120 to 122.

The principal activities of the Group are ownership of hotels, investment properties (“IP”), investments, as well as development properties (“DP”) for which an orderly exit is in progress.

## 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) (the “Companies Ordinance”) are covered in different sections of this Annual Report as set out below, which shall form an integral part of this Directors’ Report:

- Chairman’s Statement (pages 5 to 6)
- Business and Financial Review (pages 8 to 13)
- Financial Highlights (page 7)
- Business Model and Business Strategy (page 2)
- Principal Risks and Uncertainties (pages 47 to 49)
- Risk Management and Internal Control Systems (pages 28 to 30)
- Financial Risk Management and Fair Values (Note 20 to the Financial Statements on pages 85 to 91)
- Contingent Liabilities (Note 24 to the Financial Statements on page 95)
- Events after the Reporting Period (Note 28 to the Financial Statements on page 97)

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 14 to 16 with more details in the Group’s standalone Sustainability Report for 2021, which will soon be posted on the Company’s corporate website [www.harbourcentre.com.hk](http://www.harbourcentre.com.hk).

## RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2021 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 56 to 57.

Appropriations of profits during the financial year are set out in the Consolidated Statement of Changes in Equity on page 59.

# DIRECTORS' REPORT

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## DIVIDENDS

No dividend will be paid in respect of the year ended 31 December 2021 (2020: special dividend of 14 HK cents per share).

## DONATIONS

The Group made donations during the financial year totalling HK\$1 million.

## SHARE CAPITAL

Details of movement in share capital of the Company during the financial year are set out in Note 21 to the Financial Statements on pages 91 to 92.

## 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

The Directors of the Company during the financial year and up to the date of this report are Mr Stephen T H Ng, Mr David T C Lie-A-Cheong, Mr Roger K H Luk, Mr Peter Z K Pao, Mr Michael T P Sze, Mr Brian S K Tang, Mr Ivan T L Ting and Hon Frankie C M Yick.

Mr David T C Lie-A-Cheong, Mr Michael T P Sze and Mr Ivan T L Ting will retire from the Board at the forthcoming annual general meeting ("AGM") in accordance with Article 106(A) of the Company's Articles of Association. The retiring Directors, being eligible, offer themselves for re-election. None of the retiring 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).

A list of persons who serve/served as directors of the Company's subsidiaries during the financial year and up to the date of this report is set out in the sub-section headed "(K) Directors of Subsidiaries" on page 49.

## INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

# DIRECTORS' REPORT

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## MANAGEMENT CONTRACTS

Save as disclosed herein, no contract for the management and administration of the whole or any substantial part of any business of the Company was 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 holding companies or any subsidiary of such holding companies a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, every Director is entitled to be indemnified out of the assets of the Company against all costs, expenses, losses or liabilities, which he may sustain or incur in or about the execution and discharge of the duties of his office, to the extent as permitted by laws.

The Company has, together with its listed holding company (Wharf Real Estate Investment Company Limited ("Wharf REIC")) and its listed affiliated company (The Wharf (Holdings) Limited ("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 of the Company.

## PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities during the financial year.

## AUDITORS

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

## OTHER CORPORATE INFORMATION

Other corporate information supplementary to this Directors' Report are set out on pages 38 to 49.

By Order of the Board  
**Grace L C Ho**  
*Company Secretary*

Hong Kong, 1 March 2022

# DIRECTORS' REPORT

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## OTHER CORPORATE INFORMATION

### (A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

#### (i) Directors

**Stephen Tin Hoi NG**, *Chairman* (Age: 69)

Mr Ng has been Chairman and Director of the Company since 2009. He also serves as chairman of the Nomination Committee and a member of the Remuneration Committee.

In addition, Mr Ng serves on the boards of the following affiliated companies listed in Hong Kong: chairman and managing director of holding company Wharf REIC, chairman and managing director of Wharf and a non-executive director of Greentown China Holdings Limited ("Greentown"). Mr Ng also serves as the deputy chairman of Wheelock and Company Limited ("Wheelock"), which is a controlling shareholder of the Company and listed in Hong Kong until July 2020.

Furthermore, Mr Ng was previously non-executive chairman of Joyce Boutique Group Limited (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.

**David Tai Chong LIE-A-CHEONG**, *SBS, OM, JP, Director* (Age: 62)

Mr Lie-A-Cheong has been appointed as an Independent Non-executive Director ("INED(s)") of the Company since 2018. He is the executive chairman of Newpower International (Holdings) Co., Ltd. and China Concept Consulting Ltd. He has been selected as a member of the National Committee of the 8th, 9th, 10th, 11th and 13th Chinese People's Political Consultative Conference since 1993. He acted as a panel convenor cum member of the Financial Reporting Review Panel of Hong Kong Special Administrative Region ("HKSAR") from 2007 to 2013. Mr Lie-A-Cheong is currently the honorary consul of the Hashemite Kingdom of Jordan in the HKSAR, the chairperson of the Hong Kong-Taiwan Economic and Cultural Cooperation and Promotion Council, a standing committee member of the China Overseas Friendship Association and a general committee member of the Hong Kong General Chamber of Commerce. Mr Lie-A-Cheong is also an INED of Herald Holdings Limited and formerly an INED of Aluminum Corporation of China Limited until June 2021, both publicly listed companies in Hong Kong.



## DIRECTORS' REPORT

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**Roger Koon Hoo LUK**, *BBS, JP, Director (Age: 70)*

Mr Luk, *FHKIB*, has been appointed as an INED of the Company since 2018. He also serves as a member of the Audit Committee. He has over 30 years of comprehensive experience in accounting and financial management. He joined Hang Seng Bank in 1975, became the bank's director and deputy chief executive in 1994 and then became managing director and deputy chief executive of the bank in 1996 until his retirement in May 2005. Mr Luk is an INED of four companies publicly listed in Hong Kong, namely, China Properties Group Limited, Computime Group Limited, Hung Hing Printing Group Limited and i-CABLE Communications Limited. Mr Luk was formerly an INED of Wheelock Properties Limited (formerly a listed public company until it became a wholly-owned subsidiary of Wheelock in July 2010) from February 2008 to July 2010. He also serves as a council member of The Chinese University of Hong Kong, and a non-executive director (non-official) of Urban Renewal Authority. Mr Luk also served in the past on the Court and Council of Hong Kong Baptist University, the Advisory Committee on New Broad-based Taxes, the Personal Data (Privacy) Advisory Committee, the Central Policy Unit of the Hong Kong Government, the Statistics Advisory Board, the Broadcasting Authority, the Advisory Committee and the Investor Education Advisory Committee of the Securities and Futures Commission, the Barristers Disciplinary Tribunal Panel, the Operations Review Committee of ICAC and the Town Planning Board. He was an appointed member of the Hong Kong Legislative Council from 1992 to 1995, and also a member of the first Election Committee of the Legislative Council.

Mr Luk graduated with a Bachelor of Social Sciences Degree in Statistics from The University of Hong Kong and also holds a Master of Business Administration Degree granted by The Chinese University of Hong Kong. He is a fellow of The Hong Kong Institute of Bankers. He is also a Non-official Justice of the Peace and was awarded the honour of Bronze Bauhinia Star in 2004 in recognition of his contributions to public services.

**Peter Zen Kwok PAO**, *Director (Age: 72)*

Mr Pao has been appointed as a Director of the Company since 2018. He joined the Wheelock/Wharf group in 1993 and has been serving as a director of the non-listed subsidiaries of Wheelock, Wharf as well as Wharf REIC. He is currently the Director of External Relations for Wheelock, a director of the Wharf/Wharf REIC group overseeing its Investor Relations Department as well as a director of Modern Terminals Limited. He is also a member of the Project *WeCan* Committee and a standing committee member of The Chinese General Chamber of Commerce.

Mr Pao was born in Shanghai and graduated with a Bachelor of Science in Industrial Management from Purdue University in the United States of America in 1974. Prior to joining the Wheelock/Wharf group, he worked extensively in the finance and shipping industries in Hong Kong and Tokyo.

**Michael Tsai Ping SZE**, *Director (Age: 76)*

Mr Sze, *FCA (Eng. & Wales), FCCA, FCPA*, has been an INED of the Company since 2007. He also serves as a chairman of the Audit Committee and Remuneration Committee as well as a member of the Nomination Committee. Mr Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) Degree from The University of Hong Kong. He was a former member of The Securities and Futures Appeals Tribunal. He was also a former council member and member of the Main Board Listing Committee of The Stock Exchange of Hong Kong Limited. Mr Sze was formerly an INED of Greentown until his resignation in April 2020.

# DIRECTORS' REPORT

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**Brian See King TANG**, Director (Age: 72)

Mr Tang has been an INED of the Company since 2008. He also serves as a member of the Audit Committee, Nomination Committee and Remuneration Committee. He has over 30 years of comprehensive experience in accounting and financial management. He graduated with a Bachelor Degree in Science from the California State University of Long Beach, USA. He was the senior vice president of CITIC Ka Wah Bank Limited ("CKWB") for four years from 1997 with responsibilities covering treasury operations, remittance, bills operations, general services, property management, information technology and loan administration. He also served as a director of CKWB from 1998 to 2001. Before joining CKWB, he worked with various large organisations including 17-year service at Morgan Guaranty Trust Co as vice president and financial controller, and one-year service at Cheung Kong (Holdings) Limited as chief accountant.

**Ivan Tien Li TING**, Director (Age: 46)

Mr Ting has been appointed as an INED of the Company since 2018. He holds a Bachelor's Degree in International Politics and Economics from Middlebury College, Vermont. He is an executive director of a company publicly listed in Hong Kong, namely Kader Holdings Company Limited. Mr Ting was chairman of the Hong Kong Chapter of Entrepreneurs' Organization from 2006 to 2007 and its Global Board from 2016 to 2017. He was on the Hong Kong Toys Advisory Committee of the Hong Kong Trade Development Council from 2003 to 2007 and from 2010 to 2014. He is currently serving as an honorary chairman and a general committee member of the Hong Kong Exporters' Association, the chairman of the Hong Kong Toys Council and a governing board member of the ICTI Ethical Toy Program. He is also a member of Jiangsu Provincial Committee of the Chinese People's Political Consultative Conference and permanent chairman of Federation of Hong Kong Jiangsu Youth.

**Hon Frankie Chi Ming YICK**, SBS, JP, Director (Age: 68)

Mr Yick, *MSc, BSc, CEng, FCILT, MIET*, has been a Director of the Company since July 2012. He has extensive industrial and management experience in the public transportation and logistics industry. He is a member of the Legislative Council of Hong Kong representing the Transport Functional Constituency and a member of Hong Kong Logistics Development Council. Mr Yick is a director of Modern Terminals Limited and a non-executive director of The "Star" Ferry Company, Limited, a fellow subsidiary of the Company. He is also a director of Hong Kong Air Cargo Terminals Limited which is an associate of Wharf. Other than the private sector, Mr Yick has also been appointed as a board member of the Airport Authority Hong Kong since 1 June 2014, a member of The Hong Kong Maritime and Port Board since 1 April 2016, a member of the Property Management Services Authority since 1 December 2016 and as a Vice Chairman of the Independent Police Complaints Council since 1 January 2019. He is a member of the National Committee of the 13th Chinese People's Political Consultative Conference. Mr Yick is a chartered engineer. He holds a Bachelor's Degree in Industrial Engineering awarded by The University of Hong Kong and a Master's Degree in Industrial Management awarded by The University of Birmingham, UK.

Notes:

- (1) *Wheelock and Wharf REIC (of which (i) Mr Stephen T H Ng is director and/or has directorship with their respective subsidiaries and (ii) Mr Peter Z K Pao and Hon Frankie C M Yick have directorship with their respective subsidiaries) have 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) *Mr Stephen T H Ng and Mr Peter Z K Pao hold directorships in certain subsidiaries of the Company.*

## (ii) Senior Management

During the financial year, senior management responsibilities of the Group were vested with Chairman in conjunction with the Group's Hotel Manager and the Group's Project Manager and Property Management Manager, all being wholly-owned subsidiaries of Wharf or Wharf REIC.

# DIRECTORS' REPORT

## (B) DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

At 31 December 2021, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debentures of the Company, Wharf REIC (parent company of the Company) and Wharf REIC Finance (BVI) Limited (fellow subsidiary of the Company). The percentages (where applicable) which the relevant securities represented to the respective numbers of shares in issue of the three companies are also set out below:

	Quantity/ Amount held (percentage, where applicable)	Nature of Interest
<b>The Company — Ordinary Shares</b>		
Michael T P Sze	9,000 (0.0013%)	Family Interest
<b>Wharf REIC — Ordinary Shares</b>		
Stephen T H Ng	1,435,445 (0.0473%)	Personal Interest
Peter Z K Pao	201,216 (0.0066%)	Family Interest
Michael T P Sze	53,949 (0.0018%)	Family Interest
<b>Wharf REIC Finance (BVI) Limited</b> <b>— USD Fixed Rate Notes due 2030</b>		
Brian S K Tang	US\$1,000,000	Personal Interest

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 2021 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 2021.

# DIRECTORS' REPORT

## (C) SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of voting shares of the Company as at 31 December 2021, 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 no. of shares in issue)
(i) Wharf Real Estate Investment Company Limited	506,946,196 (71.53%)
(ii) Wheelock and Company Limited ("Wheelock")	506,946,196 (71.53%)
(iii) HSBC Trustee (C.I.) Limited ("HSBC Trustee")	506,946,196 (71.53%)
(iv) Harson Investment Limited	57,054,375 (8.05%)

Notes:

- (1) For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) to (iii) above represented the same block of shares.
- (2) Wharf REIC's deemed shareholding interests stated above were held through its three wholly-owned subsidiaries, namely Wharf REIC Holdings Limited, Wharf Estates Limited and Upfront International Limited.
- (3) Wheelock's deemed shareholding interests stated above were held through Wharf REIC, of which it controls more than one-third of the voting power at general meetings.
- (4) HSBC Trustee's deemed shareholding interests stated above were held through Wheelock, of which it controls more than one-third of the voting power at general meetings.

All the interests stated above represent long positions. As at 31 December 2021, 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 contributions.

The employees of the Group's subsidiaries in mainland China are members of the state-managed social insurance and housing funds operated by the Government of People's Republic of China. The mainland China 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 mainland China employees is to make the specified contributions.

# DIRECTORS' REPORT

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## (E) DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 8.10 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules").

Three Directors of the Company, namely Mr Stephen T H Ng, Hon Frankie C M Yick and Mr Peter Z K Pao, being also directors of Wharf, Wharf REIC and/or certain subsidiaries of Wharf and Wharf REIC, are considered as having an interest in Wharf and Wharf REIC under Rule 8.10(2) of the Listing Rules.

Ownership of hotels, and ownership of property for letting and for development in Hong Kong and mainland China carried on by subsidiaries of Wharf and Wharf REIC constitute competing businesses to the Group. In view of Wharf group's expertise and very good track record in the management and operation of hotels throughout the Asia Pacific region, the Group has engaged Wharf Hotels Management Limited ("WHML", being a wholly-owned subsidiary of Wharf) to act as manager to operate, direct, manage and supervise The Murray, Hong Kong, a Niccolo Hotel, Marco Polo Hongkong Hotel, Niccolo Suzhou and Marco Polo Changzhou. WHML is also responsible for the operation of the hotels of Wharf group and Wharf REIC group in the Asia Pacific region.

The business of property development in mainland China owned by Wharf group is considered as competing with the Group's property development projects in mainland China. In view of Wharf group's expertise in project management and sales and marketing of properties, the Group has engaged Wharf China Development Limited, a wholly-owned subsidiary of Wharf, as the project manager and sales and marketing agent for the construction, development, sales and marketing of the Group's property development projects.

The investment in property assets by Wharf REIC group are considered as competing businesses for the Group. In view of Wharf REIC group's expertise in property management, the Group has engaged Harbour City Estates Limited, a wholly-owned subsidiary of Wharf REIC, as the manager of certain investment properties of the Group.

For safeguarding the interests of the Group, the INEDs and the 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 hotel, investment properties and property development businesses are and continue to be run on the basis that they are independent of, and at arm's length from, those of Wharf and Wharf REIC group.

## (F) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2021:

- (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.

# DIRECTORS' REPORT

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## (G) DEBENTURES, BANK LOANS AND OTHER BORROWINGS

Particulars of any and all debentures, bank loans and/or other borrowings of the Company and of the Group as at 31 December 2021 which are repayable on demand or within a period not exceeding one year and after a period of one year are set out in Note 18 to the Financial Statements on pages 83 to 84.

## (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 2021.

## (I) DISCLOSURE OF CONNECTED TRANSACTION

Set out below is information in relation to certain continuing 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 Hotel Services Agreement

On 13 December 2019, a master hotel services agreement (the "MHSA") was entered into by and amongst Wharf REIC, Wharf and the Company, 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 operations of hotels and/or serviced apartment property(ies) in respect of the Group's hotels by Wharf Group to the Wharf REIC group and the Group respectively, which constitute continuing connected transactions under the Listing Rules. The MHSA has provided for, *inter alia*, the annual cap amounts of remuneration payable by the Group to Wharf group member(s) in relation thereto, which are fixed at HK\$55 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 MHSA, which is subject to the relevant annual cap amount as abovementioned for the financial year ended 31 December 2021 was HK\$Nil.

### (ii) Master Property Services Agreement

On 13 December 2019, a master property services agreement (the "MPSA") was entered into by and amongst Wheelock, Wharf, Wharf REIC and the Company, 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 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, which constitute continuing connected transactions under the Listing Rules. The MPSA has provided for, *inter alia*, the annual cap amounts of remuneration payable by the Group to Wharf REIC group/Wheelock group/Wharf group in relation thereto, which are fixed at HK\$75 million, HK\$25 million and HK\$26 million for the financial years of 2020, 2021 and 2022 respectively.

The aggregate annual amounts of remuneration under the MPSA which is subject to the relevant annual cap amount as abovementioned for the financial year ended 31 December 2021 amounted to HK\$5 million.

# DIRECTORS' REPORT

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## **(iii) Leasing Framework Agreement**

On 13 December 2019, a leasing framework agreement (the "LFA") was entered into by and amongst Wharf REIC, Wheelock, Wharf and the Company 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 which constitute continuing connected transaction under the Listing Rules. The LFA has provided for, *inter alia*, the annual cap amounts of rental receivable by the Group from Wharf REIC group/Wheelock group/Wharf group in relation thereto, which are fixed at HK\$10 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 LFA, which is subject to the relevant annual cap amount as abovementioned for the financial year ended 31 December 2021 was HK\$Nil.

With Wharf REIC being the Company's substantial shareholder, Wharf REIC and its associates are regarded as connected persons of the Company within the meaning under the Listing Rules and the transactions between the Company and Wharf REIC (and its associates) as mentioned under Section (I)(i) to (iii) above constitute continuing connected transactions of the Company.

## **(iv) Confirmation from the Directors and the Auditors**

- (a) The Directors, including INEDs of the Company, have reviewed the continuing connected transactions mentioned under Section (I)(i) to (iii) above (the "Transactions") and have 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 relevant agreements governing the Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

## DIRECTORS' REPORT

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- (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 that nothing has come to their attention that causes them to believe that:

- (1) the Transactions had not been approved by the Company's Board;
  - (2) in the event that there would be any transactions involving the provision of goods and services by the Group, the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
  - (3) the Transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the Transactions; and
  - (4) the relevant cap amounts, where applicable, have been exceeded during the financial year ended 31 December 2021.
- (v) With regard to the Material Related Party Transactions as disclosed under Note 23 to the Financial Statements on page 94, the transactions stated under paragraph (b) therein constitute connected transactions (as defined under the Listing Rules) of the Company, the one under paragraphs (a) and (c) does not constitute a connected transaction under the Listing Rules, and those under paragraph (d) constitute a fully exempt connected transaction of the Company, for all of which the applicable requirements under the Listing Rules have been duly complied with.



# DIRECTORS' REPORT

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## (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 geopolitical tensions and the prolonged COVID-19 pandemic continued to cause uncertainties and sharply put every economic sector at stake. Fallout from the war in Europe will also have significant global implications.

The following is a description of how our business segments interacting with the principal risks and uncertainties that are considered to be significant as it currently stands and with potential affecting the Group's businesses results of operations and financial conditions. However, this is non-exhaustive as there may be other risks and uncertainties arise 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 impact.

### **Risks pertaining to Hotel**

The Group owns 3 hotels in Hong Kong and mainland China, excluding one contracted for sale and is now closed. 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 heavy reliance on the growth of cross-border visitor arrivals.

The spread of COVID-19, in particular, posted the risk to a new height to the Hotel segment. The spread is rapidly 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 to mitigate the impact of the pandemic unavoidably cause disruptions and economic effects and impact 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 IP**

IP segment is the Group's core business with IP asset accounting for 27% of the Group's total business assets. With the majority of the properties located in Hong Kong and mainland China, 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 positions. The Group's rental income may experience more frequent adjustments resulting from competition arising from 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.

## DIRECTORS' REPORT

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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.

IPs are stated at 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 changes in fair value are recognised to the consolidated income statement. 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 and cash flow performance.

In this respect, the Group regularly assesses changes in economic environment and keeps alert 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 in a sluggish economy. In addition, long-range planned and tactical promotions are seamlessly executed for maintaining the IPs' leading brands and value.

### **Risks pertaining to DP**

DP segment in the mainland China dominated the Group's financial performance between 2012 and 2017. Exit from this segment continues and the Group DP land bank has not been replenished. Revenue and profit from the depleted land bank and future contribution from China DP will become volatile in next few years. The segment will also continue to be subject to economic, political and legal developments in mainland China as well as in the economies in the surrounding region.

### **Risks pertaining to investment**

The Group holds a portfolio of long-term investments, which accounted for about 17% of the Group's total assets (excluding cash). The portfolio is held for long term capital growth potential with reasonable return, consisting of mainly blue chips listed investments with each investment individually immaterial to the Group's total asset. Given 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.

### **Legal and Regulatory Compliance risk**

Whilst the Group's portfolio of business operations span across Hong Kong and mainland cities, any failure to anticipate the trend of regulatory changes or cope with relevant requirements may result in non-compliance of local laws or regulation, leading to not only financial loss but also reputational damage to the Group. In mitigation of relevant risks, the Group actively assesses 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 complied with in an effective manner.

# DIRECTORS' REPORT

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## Financial risk

The Group is exposed to financial risks related to interest rate risks, foreign currency risks, equity price and credit in the normal course of the business. For further details of such risks and relevant management policies, please refer to Note 20 to the Financial Statements from pages 85 to 91.

## Environmental and climate-related risks

Given climate change a globally recognised environmental challenge faced by any businesses, and failure to build climate resilience to guard against climate-related risks can negatively impact our real estate portfolio, the Group carried out a climate risk mapping exercise with reference to Task Force on Climate-related Financial Disclosures ("TCFD")'s recommendations, and conducted climate scenario analysis to identify significant physical and transition risks and opportunities. Various mitigation measures including optimisation and conservation of energy, as well as green construction practices are developed and gradually implemented. For more details on how we address environmental and climate-related risks, please refer to the Group's standalone Sustainability Report for 2021, which will soon be posted on the Company's corporate website [www.harbourcentre.com.hk](http://www.harbourcentre.com.hk).

## (K) DIRECTORS OF SUBSIDIARIES

The names of all persons who, during the financial year and up to 1 March 2022 (the date of this report), served as directors of all those companies included as subsidiaries in the consolidated financial statements of the Company for the financial year ended 31 December 2021 are set out below:

CHAN Kwok Pong  
CHAN Sik Wah  
CHOW On Kiu  
GUO Guang Hui  
HUI Chung Ying Kevin  
LI Lei  
NG Tin Hoi Stephen  
PAO Zen Kwok Peter  
TSUI Yiu Cheung  
WU Guan  
ZHANG Yi\*  
李英軍  
沈玉林  
徐斯偉

\* *ceased to be a director of the Group's subsidiaries on or before 1 March 2022.*

# INDEPENDENT AUDITOR'S REPORT

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## To the members of Harbour Centre Development Limited

*(incorporated in Hong Kong with limited liability)*

### OPINION

We have audited the consolidated financial statements of Harbour Centre Development Limited and its subsidiaries ("the Group") set out on pages 56 to 122, which comprise the consolidated statement of financial position as at 31 December 2021, the consolidated income statement, 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 2021 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 Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") 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") 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.

# INDEPENDENT AUDITOR'S REPORT

## Valuation of completed investment properties ("IP")

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

### The Key Audit Matter

### How the matter was addressed in our audit

The Group holds a portfolio of completed IP (primarily retail properties) located in Hong Kong which accounted for 25% of the Group's total assets as at 31 December 2021.

The fair values of the completed IP as at 31 December 2021 were assessed by the Group based on independent valuations prepared by a qualified external property valuer which took into account the net income of each property, allowing for reversionary potential and redevelopment potential, where appropriate.

The changes in fair value of completed IP recorded in the consolidated income statement amounting to HK\$10 million for the year ended 31 December 2021.

We identified valuation of completed IP as a key audit matter because these properties are significant to 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 profit and because the valuation of completed IP is inherently subjective and requires significant judgement and estimation, particularly in determining market rents and capitalisation rates, which increases the risk of error or potential management bias.

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

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

# INDEPENDENT AUDITOR'S REPORT

## Assessing potential impairment of hotel properties

Refer to accounting policies D(ii), G(ii) and note 9 to the consolidated financial statements

### The Key Audit Matter

### How the matter was addressed in our audit

As at 31 December 2021, the Group held a number of hotel properties located in Hong Kong and Mainland China which were stated at cost less accumulated depreciation and impairment losses at a total amount of HK\$7,170 million.

At the financial reporting date, the Group reviewed the hotel properties to determine whether there were any indicators of impairment. When indicators of impairment are identified management assesses the recoverable amount of the hotel property. An impairment loss is recognised as an expense in the consolidated income statement if the carrying amount of the hotel property exceeds its recoverable amount.

The calculation of the recoverable amount of a hotel property is performed by the Group's external property valuer based on the discounted cash flows associated with the hotel property. The preparation of discounted cash flow forecasts can be highly subjective and requires the exercise of significant management judgement and estimation, in particular in determining forecast occupancy rates, forecast revenue per available room, the growth rates and the discount rates applied.

As at 31 December 2021, the carrying amount of the Group's hotels in Mainland China exceeded their recoverable amounts and impairment loss of HK\$67 million was recognised during the year accordingly.

We identified assessing the potential impairment of hotel properties as a key audit matter because of the significant management judgement and estimation required in making assumptions and estimations which are inherently uncertain and could be subject to management bias.

Our audit procedures to assess the potential impairment of hotel properties included the following:

- discussing with management whether there were any indicators of impairment of individual hotel properties as at 31 December 2021;
- where there were indicators of impairment, assessing whether the impairment assessment models were prepared in accordance with the requirements of the prevailing accounting standards;
- obtaining and inspecting the recoverable amount calculations prepared by the external property valuer engaged by the Group;
- assessing the qualifications, experience and expertise of the external property valuer in the properties being valued;
- with the assistance of our internal property valuation specialists, assessing the valuation methodology adopted by the property valuers and comparing the key estimates and assumptions adopted in the impairment assessment models for hotel properties, including forecast hotel room rates, forecast occupancy rates, growth rates and the discount rates, with available market data and government statistics;
- evaluating the historical accuracy of management's calculations of the recoverable amounts of hotel properties by comparing the forecasts at the end of the previous financial year for occupancy rates and revenue per available room with the actual outcomes in the current year; and
- performing sensitivity analyses to determine the extent of change in those estimates that, either individually or collectively, would be required for the hotel properties to be materially misstated and considering the likelihood of such a movement in those key estimates arising and whether there was any evidence of management bias.

# INDEPENDENT AUDITOR'S REPORT

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## 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 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.

## 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, in accordance with section 405 of the Hong Kong Companies Ordinance, 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 HKSAAs 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.

## INDEPENDENT AUDITOR'S REPORT

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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 taken to eliminate threats or safeguards applied.



# INDEPENDENT AUDITOR'S REPORT

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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 Chan Tsz Kei.

## **KPMG**

*Certified Public Accountants*

8th Floor, Prince's Building

10 Chater Road

Central, Hong Kong

1 March 2022

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Note	2021 HK\$ Million	2020 HK\$ Million
<b>Revenue</b>	1	<b>4,484</b>	3,313
Direct costs and operating expenses		<b>(3,383)</b>	(2,398)
Selling and marketing expenses		<b>(181)</b>	(125)
Administrative and corporate expenses		<b>(109)</b>	(78)
Operating profit before depreciation, interest and tax		<b>811</b>	712
Depreciation		<b>(223)</b>	(202)
<b>Operating profit</b>	1&2	<b>588</b>	510
Changes in fair value of investment properties	8	<b>(10)</b>	(598)
Impairment loss on hotel properties	3	<b>(67)</b>	(1,051)
Other net income		<b>3</b>	5
Finance costs	4	<b>514</b>	(1,134)
Share of results after tax of associates	10	<b>(34)</b>	(51)
		<b>(125)</b>	(75)
Profit/(loss) before taxation		<b>355</b>	(1,260)
Income tax	5(a)	<b>(323)</b>	175
<b>Profit/(loss) for the year</b>		<b>32</b>	(1,085)
<b>Profit/(loss) attributable to:</b>			
Equity shareholders		<b>(24)</b>	(1,119)
Non-controlling interests		<b>56</b>	34
		<b>32</b>	(1,085)
<b>Loss per share</b>	6		
Basic		<b>(HK\$0.03)</b>	(HK\$1.58)
Diluted		<b>(HK\$0.03)</b>	(HK\$1.58)

The notes and principal accounting policies on pages 62 to 122 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit/(loss) for the year are set out in Note 7.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 HK\$ Million	2020 HK\$ Million
<b>Profit/(loss) for the year</b>	<b>32</b>	(1,085)
<b>Other comprehensive income</b>		
<b>Items that will not be reclassified to profit or loss:</b>		
Fair value changes on equity investments	<b>114</b>	(540)
<b>Items that may be reclassified subsequently to profit or loss:</b>		
Exchange difference on translation of the operations – subsidiaries	<b>105</b>	227
Share of reserves of joint ventures	<b>1</b>	5
<b>Others</b>	<b>2</b>	11
<b>Other comprehensive income for the year</b>	<b>222</b>	(297)
<b>Total comprehensive income for the year</b>	<b>254</b>	(1,382)
<b>Total comprehensive income attributable to:</b>		
Equity shareholders	<b>185</b>	(1,446)
Non-controlling interests	<b>69</b>	64
	<b>254</b>	(1,382)

The notes and principal accounting policies on pages 62 to 122 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2021

	Note	2021 HK\$ Million	2020 HK\$ Million
<b>Non-current assets</b>			
Investment properties	8	5,138	5,148
Hotel properties, plant and equipment	9	7,285	7,267
Interest in associates	10	962	1,059
Interest in joint ventures	11	21	23
Equity investments	12	3,386	3,546
Deferred tax assets	19	249	303
Other non-current assets		41	34
		<b>17,082</b>	17,380
<b>Current assets</b>			
Properties for sale	13	2,227	4,947
Inventories		10	10
Trade and other receivables	14	118	214
Prepaid tax	5(f) & (g)	–	122
Bank deposits and cash	15	1,089	1,294
		<b>3,444</b>	6,587
<b>Total assets</b>		<b>20,526</b>	23,967
<b>Non-current liabilities</b>			
Deferred tax liabilities	19	(353)	(378)
Bank loans	18	(1,450)	(2,310)
		<b>(1,803)</b>	(2,688)
<b>Current liabilities</b>			
Trade and other payables	16	(2,304)	(2,600)
Pre-sale deposits and proceeds	17	(244)	(2,044)
Taxation payable	5(f)	(238)	(206)
Bank loans	18	–	(500)
		<b>(2,786)</b>	(5,350)
<b>Total liabilities</b>		<b>(4,589)</b>	(8,038)
<b>NET ASSETS</b>		<b>15,937</b>	15,929
<b>Capital and reserves</b>			
Share capital	21(a)	3,641	3,641
Reserves		11,976	11,841
<b>Shareholders' equity</b>		<b>15,617</b>	15,482
<b>Non-controlling interests</b>		<b>320</b>	447
<b>TOTAL EQUITY</b>		<b>15,937</b>	15,929

The notes and principal accounting policies on pages 62 to 122 form part of these financial statements.

**Stephen T H Ng**  
Chairman

**Peter Z K Pao**  
Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Shareholders' equity						
	Share capital HK\$ Million	Investments revaluation reserve HK\$ Million	Exchange reserve HK\$ Million	Revenue reserve HK\$ Million	Total shareholders' equity HK\$ Million	Non- controlling interests HK\$ Million	Total equity HK\$ Million
<b>At 1 January 2020</b>	3,641	460	131	12,852	17,084	383	17,467
Changes in equity for 2020:							
(Loss)/profit for the year	-	-	-	(1,119)	(1,119)	34	(1,085)
Other comprehensive income	-	(540)	202	11	(327)	30	(297)
Total comprehensive income	-	(540)	202	(1,108)	(1,446)	64	(1,382)
2019 second interim dividend paid	-	-	-	(106)	(106)	-	(106)
2020 first special interim dividend paid	-	-	-	(50)	(50)	-	(50)
<b>At 31 December 2020 and 1 January 2021</b>	<b>3,641</b>	<b>(80)</b>	<b>333</b>	<b>11,588</b>	<b>15,482</b>	<b>447</b>	<b>15,929</b>
Changes in equity for 2021:							
(Loss)/profit for the year	-	-	-	(24)	(24)	56	32
Other comprehensive income	-	114	93	2	209	13	222
Total comprehensive income	-	114	93	(22)	185	69	254
Transfer to revenue reserves upon de-recognition of equity investments	-	(46)	-	46	-	-	-
2020 second special interim dividend paid	-	-	-	(50)	(50)	-	(50)
Dividends paid to non-controlling interests	-	-	-	-	-	(196)	(196)
<b>At 31 December 2021</b>	<b>3,641</b>	<b>(12)</b>	<b>426</b>	<b>11,562</b>	<b>15,617</b>	<b>320</b>	<b>15,937</b>

The notes and principal accounting policies on pages 62 to 122 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Note	2021 HK\$ Million	2020 HK\$ Million
Operating cash inflow	(a)	653	552
Changes in working capital	(a)	497	127
<b>Cash generated from operations</b>	(a)	<b>1,150</b>	679
Net interest paid		(18)	(54)
Interest received		17	17
Interest paid on bank loans		(35)	(71)
Dividend income from equity investments		141	143
Dividend income from joint venture		–	109
Hong Kong profits tax paid		(14)	(98)
PRC taxation paid		(129)	(609)
Net cash generated from operating activities		<b>1,130</b>	170
<b>Investing activities</b>			
Additions of investment properties and hotel properties, plant and equipment		(30)	(7)
Net (increase)/decrease in interest in associates		(1)	179
Purchase of equity investments		–	(20)
Proceeds from disposal of equity investments		274	–
Net cash generated from investing activities		<b>243</b>	152
<b>Financing activities</b>			
Drawdown of bank loans	(b)	450	1,050
Repayment of bank loans	(b)	(1,819)	(1,897)
Dividends paid to equity shareholders		(50)	(156)
Dividends paid to non-controlling interests		(196)	–
Net cash used in financing activities		<b>(1,615)</b>	(1,003)
<b>Decrease in cash and cash equivalents</b>		<b>(242)</b>	(681)
Cash and cash equivalents at 1 January		1,294	1,910
Effect on exchange rate changes		37	65
<b>Cash and cash equivalents at 31 December</b>		<b>1,089</b>	1,294

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 62 to 122 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

## NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2021 HK\$ Million	2020 HK\$ Million
Operating profit	588	510
Depreciation	223	202
Dividend income from equity investments	(141)	(143)
Interest income	(17)	(17)
Operating cash inflow	653	552
Decrease in properties for sale	2,827	1,361
Increase in inventories	–	(3)
Decrease in trade and other receivables	77	15
Decrease in trade and other payables	(565)	(6)
Decrease in pre-sale deposits and proceeds	(1,859)	(1,333)
Increase in amounts due to fellow subsidiaries (net)	18	93
Others	(1)	–
Changes in working capital	497	127
<b>Cash generated from operations</b>	<b>1,150</b>	<b>679</b>

### (b) Reconciliation of liabilities arising from financing activities

	Bank loans 2021 HK\$ Million	2020 HK\$ Million
<b>At 1 January</b>	<b>2,810</b>	3,635
Changes from financing cash flows:		
Drawdown of bank loans	450	1,050
Repayment of bank loans	(1,819)	(1,897)
Total changes from financing cash flows	(1,369)	(847)
Exchange adjustments	9	22
<b>At 31 December</b>	<b>1,450</b>	2,810

# 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 hotels, investment properties, development properties and investments. No operating segment has been aggregated to form reportable segments.

Hotels segment represents the operations of The Murray, Hong Kong, a Niccolo Hotel ("The Murray"), Marco Polo Hongkong Hotel ("MP Hong Kong"), Marco Polo Changzhou ("MP Changzhou") and Niccolo Suzhou.

Investment properties segment primarily represents the property leasing of the Group's investment properties in Hong Kong.

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

Investments segment represents equity investment in global capital markets. The performance of the portfolio is assessed and monitored by top management regularly.

Management evaluates performance based on operating profit as well as the equity share of results of associates and joint ventures of each segment.

Segment business assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash and deferred tax assets.

Revenue and expenses are allocated with reference to income generated by those segments and expenses incurred by those segments or which arise from the depreciation of assets attributable to those segments.

### (a) Analysis of segment revenue and results

	Revenue HK\$ Million	Operating profit/(loss) HK\$ Million	Changes in fair value of investment properties HK\$ Million	Other net income and impairment loss HK\$ Million	Finance costs HK\$ Million	Associates HK\$ Million	Profit/(loss) before taxation HK\$ Million
<b>2021</b>							
Hotels	580	(274)	-	(67)	(19)	-	(360)
Investment properties	193	161	(10)	-	(7)	-	144
Development properties	3,553	555	-	2	(8)	(125)	424
Investments	141	141	-	-	-	-	141
<b>Segment total</b>	<b>4,467</b>	<b>583</b>	<b>(10)</b>	<b>(65)</b>	<b>(34)</b>	<b>(125)</b>	<b>349</b>
Others	17	5	-	1	-	-	6
<b>Group total</b>	<b>4,484</b>	<b>588</b>	<b>(10)</b>	<b>(64)</b>	<b>(34)</b>	<b>(125)</b>	<b>355</b>
<b>2020</b>							
Hotels	381	(295)	-	(1,051)	(37)	-	(1,383)
Investment properties	238	207	(598)	-	(14)	-	(405)
Development properties	2,534	448	-	5	-	(75)	378
Investments	143	143	-	-	-	-	143
<b>Segment total</b>	<b>3,296</b>	<b>503</b>	<b>(598)</b>	<b>(1,046)</b>	<b>(51)</b>	<b>(75)</b>	<b>(1,267)</b>
Others	17	7	-	-	-	-	7
<b>Group total</b>	<b>3,313</b>	<b>510</b>	<b>(598)</b>	<b>(1,046)</b>	<b>(51)</b>	<b>(75)</b>	<b>(1,260)</b>

(i) Substantially all depreciation was attributable to the hotels segment.

(ii) No inter-segment revenue has been recorded during the current and prior years.



# NOTES TO THE FINANCIAL STATEMENTS

## (b) Analysis of segment business assets

	2021 HK\$ Million	2020 HK\$ Million
Hotels	<b>7,404</b>	7,380
Investment properties	<b>5,145</b>	5,191
Development properties	<b>3,253</b>	6,253
Investments	<b>3,386</b>	3,546
Total segment business assets	<b>19,188</b>	22,370
Unallocated corporate assets	<b>1,338</b>	1,597
Total assets	<b>20,526</b>	23,967

(i) Hotels are stated at cost less accumulated depreciation and impairment losses. Should the completed hotel properties be stated based on the valuation as at 31 December 2021 of HK\$11,099 million (2020: HK\$10,414 million), the total segment business assets would be increased to HK\$23,117 million (2020: HK\$26,201 million).

(ii) Unallocated corporate assets mainly comprise deferred tax assets and bank deposits and cash.

## (c) Geographical information

	Revenue		Operating profit	
	2021 HK\$ Million	2020 HK\$ Million	2021 HK\$ Million	2020 HK\$ Million
Hong Kong	<b>739</b>	676	<b>26</b>	21
Mainland China	<b>3,695</b>	2,587	<b>512</b>	439
Others	<b>50</b>	50	<b>50</b>	50
Group total	<b>4,484</b>	3,313	<b>588</b>	510

	Specified non-current assets		Total business assets	
	2021 HK\$ Million	2020 HK\$ Million	2021 HK\$ Million	2020 HK\$ Million
Hong Kong	<b>11,254</b>	11,434	<b>13,579</b>	14,194
Mainland China	<b>2,152</b>	2,063	<b>4,433</b>	7,242
Others	<b>–</b>	–	<b>1,176</b>	934
Group total	<b>13,406</b>	13,497	<b>19,188</b>	22,370

Specified non-current assets exclude equity investments, deferred tax assets and other non-current assets.

## NOTES TO THE FINANCIAL STATEMENTS

Geographically, HK\$13,579 million (2020: HK\$14,194 million) or 71% (2020: 63%) of the Group's total business assets, based on book cost, were located in Hong Kong.

The geographical location of revenue and operating profit is analysed based on the location at which services are provided and in the case of equity 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.

### (d) Disaggregation of revenue

	2021 HK\$ Million	2020 HK\$ Million
<b>Revenue recognised under HKFRS 15</b>		
Hotels	580	381
Management and services income and other rental related income	36	37
Sale of development properties	3,553	2,534
	<b>4,169</b>	2,952
<b>Revenue recognised under other accounting standards</b>		
Rental income under investment properties segment		
– Fixed	157	201
Investments	141	143
Others	17	17
	<b>315</b>	361
<b>Total revenue</b>	<b>4,484</b>	3,313

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:

- hotel operation as the Group recognises revenue at the amount to which it has a right to invoice, which corresponds directly with the value to the customer of the Group's performance completed to date.
- property management fees and other rental related income as the Group recognises revenue at the amount to which it has a right to invoice, which corresponds directly with the value to the customer of the Group's performance completed to date.
- sales of completed properties as the performance obligation is part of a contract that had an original expected duration of one year or less.

# NOTES TO THE FINANCIAL STATEMENTS

## 2. OPERATING PROFIT

### (a) Operating profit is arrived at:

	2021 HK\$ Million	2020 HK\$ Million
<b>After charging:</b>		
Depreciation	223	202
Staff costs (Note i)	349	273
Auditors' remuneration (Note ii)	2	3
Cost of trading properties for recognised sales	2,862	1,994
Direct operating expenses of investment properties	24	21
<b>After crediting:</b>		
Gross rental revenue from investment properties	193	238
Interest income	17	17
Dividend income from equity investments	141	143
Government grants (Note iii)	–	53

Notes:

- (i) Staff costs included defined contribution pension schemes costs HK\$13 million (2020: HK\$12 million), which included MPF schemes after a forfeited contribution of HK\$1 million (2020: HK\$1 million).
- (ii) Auditors' remuneration included less than HK\$1 million for other services.
- (iii) Government grants mainly included subsidy under the Employment Support Scheme in 2020.

### (b) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Contributions to pension scheme HK\$'000	2021 Total HK\$'000	2020 Total HK\$'000
<b>Executive Director</b>						
Stephen T H Ng	70	1,080	–	–	1,150	1,150
<b>Non-executive Directors</b>						
Peter Z K Pao	70	–	–	–	70	70
Frankie C M Yick	70	–	–	–	70	70
<b>Independent Non-executive Directors</b>						
David T C Lie-A-Cheong	70	–	–	–	70	70
Ivan T L Ting	70	–	–	–	70	70
Roger K H Luk (ii)	100	–	–	–	100	100
Michael T P Sze (ii)	100	–	–	–	100	100
Brian S K Tang (ii)	100	–	–	–	100	100
	650	1,080	–	–	1,730	1,730
Total for 2020	650	1,080	–	–	–	1,730

## NOTES TO THE FINANCIAL STATEMENTS

Notes:

- (i) There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Company's Directors in respect of the years ended 31 December 2021 and 2020.
- (ii) Includes Audit Committee Member's fee received by each of relevant Directors of HK\$30,000 per annum for the year ended 31 December 2021 (2020: HK\$30,000 per annum).

### (c) Emoluments of the highest paid employees

For the year ended 31 December 2021, information regarding emoluments of 5 (2020: 5) employees of the Group who, not being Directors of the Company, were among the top five highest paid individuals (including Directors of the Company and other employees of the Group) employed by the Group has been set out below:

Aggregate emoluments	2021 HK\$ Million	2020 HK\$ Million
Salaries, allowances and benefits in kind	9	10
Discretionary bonuses and/or performance related bonuses	1	2
Total	10	12

Bands (in HK\$)	2021 Number	2020 Number
\$1,500,001 – \$2,000,000	3	2
\$2,000,001 – \$2,500,000	1	2
\$2,500,001 – \$3,000,000	1	–
\$3,000,001 – \$3,500,000	–	1

# NOTES TO THE FINANCIAL STATEMENTS

## 3. IMPAIRMENT LOSS ON HOTEL PROPERTIES

The Group's hotel properties are stated at cost less accumulated depreciation and impairment losses. The carrying amounts of hotel properties 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.

The recoverable amount of hotel properties is the greater of its fair value less costs of disposal and 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 hotel properties.

In assessing the impairments, the Group engaged Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors with extensive experience in valuing properties in Hong Kong and Mainland China. Knight Frank has valued the Group's hotel properties on a 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 Knight Frank's independent valuation, an impairment of HK\$67 million (2020: HK\$369 million) for Niccolo Suzhou in Mainland China was recognised during the year, there were no impairment for MP Changzhou in Mainland China (2020: HK\$6 million) and The Murray in Hong Kong (2020: HK\$676 million), the carrying value after an impairment amounted to HK\$793 million (2020: HK\$560 million) for Niccolo Suzhou.

For the independent valuation, key assumptions used in the discounted cash flows included long-term growth rate of room rate at 3.5% (2020: ranging from 3% to 4%), long-term occupancy rate at 75% (2020: ranging from 71% to 75%), discount rate at 6.5% (2020: 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 for hotel properties for the year ended 31 December 2021 were not significantly changed from the methodology and key assumptions adopted by the Group for the year ended 31 December 2020.

## 4. FINANCE COSTS

	2021 HK\$ Million	2020 HK\$ Million
Interest on bank borrowings	33	60
Other finance costs	5	7
	38	67
Less: Amount capitalised	(4)	(16)
Total	34	51

(a) Interest was capitalised at an average annual rate of approximately 5.0% (2020: 4.9%).

(b) All interest costs are in respect of interest bearing borrowings that are stated at amortised cost.

# NOTES TO THE FINANCIAL STATEMENTS

## 5. INCOME TAX

(a) Taxation charged/(credited) to the consolidated income statement represents:

	2021 HK\$ Million	2020 HK\$ Million
<b>Current income tax</b>		
Hong Kong		
– provision for the year	16	15
– over-provision in respect of prior years	(1)	–
Mainland China		
– provision for the year	94	148
	<b>109</b>	163
<b>Land appreciation tax (“LAT”) (Note (d))</b>	<b>186</b>	(473)
<b>Deferred tax</b>		
Origination and reversal of temporary differences	28	135
<b>Total</b>	<b>323</b>	(175)

- (b) The provision for Hong Kong profits tax is at the rate of 16.5% (2020: 16.5%) of the estimated assessable profits for the year.
- (c) Income tax on profits assessable in Mainland China are corporate income tax calculated at a rate of 25% (2020: 25%) and withholding tax at a rate of up to 10%.
- (d) Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures. A one-off LAT write-back of HK\$504 million was recorded upon clearance with relevant tax authorities in 2020.
- (e) Under the tax law in Mainland China, withholding tax at 10% is imposed 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 2021, the Group has provided HK\$19 million (2020: HK\$43 million) for withholding tax on accumulated earnings generated by its Mainland China subsidiaries which is related to dividend distribution to their immediate holding companies outside Mainland China in the foreseeable future.
- (f) The prepaid tax/taxation payable in the consolidated statement of financial position is expected to be recovered/settled within one year.
- (g) Prepaid tax represents advance LAT and corporate income tax paid in respect of pre-sale proceeds received from sale of properties in Mainland China.

## NOTES TO THE FINANCIAL STATEMENTS

- (h) Tax credit attributable to associates for the year ended 31 December 2021 of HK\$1 million (2020: expense of HK\$21 million) is included in the share of results of associates.
- (i) Reconciliation between the actual total tax charge/(credit) and accounting profit/(loss) at applicable tax rates:

	2021 HK\$ Million	2020 HK\$ Million
Profit/(loss) before taxation	<b>355</b>	(1,260)
Notional tax on profit/(loss) before taxation calculated at applicable tax rates	<b>91</b>	(222)
Tax effect of non-deductible expenses	<b>62</b>	38
Tax effect of non-deductible changes in fair value of investment properties	<b>2</b>	63
Tax effect of non-taxable income	<b>(24)</b>	(33)
Tax effect of tax losses not recognised	<b>27</b>	33
Tax effect of temporary differences not recognised	<b>(39)</b>	376
Over-provision in respect of prior years	<b>(1)</b>	–
LAT on trading properties	<b>186</b>	(473)
Withholding tax on distributed/undistributed earnings	<b>19</b>	43
Actual total tax charge/(credit)	<b>323</b>	(175)

### 6. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the loss attributable to equity shareholders for the year of HK\$24 million (2020: HK\$1,119 million) and 708.8 million ordinary shares (2020: 708.8 million shares) in issue during the year.

The diluted loss per share is the same as the basic loss per share as there are no potential dilutive ordinary shares in existence during the years ended 31 December 2021 and 2020.

# NOTES TO THE FINANCIAL STATEMENTS

## 7. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2021 HK\$ Per share	2021 HK\$ Million	2020 HK\$ Per share	2020 HK\$ Million
First special interim dividend declared and paid	-	-	0.07	50
Second special interim dividend declared after the end of the reporting period	-	-	0.07	50
	-	-	0.14	100

(a) The second special interim dividend of HK\$50 million for 2020 was approved and paid in 2021.

## 8. INVESTMENT PROPERTIES

	Completed HK\$ Million	Under development HK\$ Million	Total HK\$ Million
<b>(a) Cost or valuation</b>			
At 1 January 2020	5,532	948	6,480
Exchange adjustment	(12)	-	(12)
Reclassification (Note)	226	(948)	(722)
Revaluation deficits	(598)	-	(598)
At 31 December 2020 and 1 January 2021	<b>5,148</b>	-	<b>5,148</b>
Revaluation deficits	<b>(10)</b>	-	<b>(10)</b>
At 31 December 2021	<b>5,138</b>	-	<b>5,138</b>
<b>(b) The analysis of cost or valuation of the above assets is as follows:</b>			
2021 valuation	<b>5,138</b>	-	<b>5,138</b>
2020 valuation	5,148	-	5,148
<b>(c) Tenure of title to properties:</b>			
At 31 December 2021			
Held in Hong Kong			
Long term leases	<b>5,138</b>	-	<b>5,138</b>
At 31 December 2020			
Held in Hong Kong			
Long term leases	5,148	-	5,148

Note: During the year ended 31 December 2020, balance of HK\$722 million was transferred to hotel property.



# NOTES TO THE FINANCIAL STATEMENTS

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The Group holds investment properties to lease out under operating leases. 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 investment properties stated at fair value as at 31 December 2021 were revalued by Knight Frank, an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and Mainland China. 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 differences arising on revaluation on investment properties is recognised in the line item “Changes in fair value of investment properties” on the face of the consolidated income statement.

Investment properties 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 are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group’s completed investment properties measured at HK\$5,138 million (2020: HK\$5,148 million) represent the retail properties located in Hong Kong, were classified as Level 3 under the fair value hierarchy in accordance with HKFRS 13.

None of the Group’s investment properties measured at fair value are categorised as Level 1 and Level 2 input.

During the years ended 31 December 2021 and 2020, there were no transfers among Level 1, 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.

# NOTES TO THE FINANCIAL STATEMENTS

## 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 property valuations. A valuation report with an analysis of changes in fair value measurement is prepared at each interim and annual reporting date, and is reviewed and approved by the senior management.

## Valuation methodologies

The valuation of completed retail properties in Hong Kong were based on income capitalisation approach which capitalised the net income of the properties and taking into account the significant adjustment on term yield to account for the risk upon reversion and the estimation in vacancy rate after expiry of current lease.

## Level 3 valuation methodologies

The significant unobservable inputs was capitalisation rate at 5.0% (2020: 5.0%). The fair value measurement of investment properties is negatively correlated to the capitalisation rate.

- (e) The Group leases out its investment properties under operating leases, which generally run for an initial 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 receivable under non-cancellable operating leases as follows:

	2021 HK\$ Million	2020 HK\$ Million
Within 1 year	212	88
After 1 year but within 2 years	226	38
After 2 years but within 3 years	231	30
After 3 years but within 4 years	213	30
After 4 years but within 5 years	200	13
After 5 years	16	–
	<b>1,098</b>	199

# NOTES TO THE FINANCIAL STATEMENTS

## 9. HOTEL PROPERTIES, PLANT AND EQUIPMENT

	Hotel properties HK\$ Million	Others HK\$ Million	Total HK\$ Million
<b>(a) Cost</b>			
At 1 January 2020	8,565	646	9,211
Exchange adjustment	109	2	111
Additions	169	7	176
Disposals	–	(1)	(1)
Reclassification	722	–	722
At 31 December 2020 and 1 January 2021	<b>9,565</b>	<b>654</b>	<b>10,219</b>
Exchange adjustment	<b>49</b>	<b>1</b>	<b>50</b>
Additions	<b>251</b>	<b>30</b>	<b>281</b>
Disposals	–	<b>(8)</b>	<b>(8)</b>
At 31 December 2021	<b>9,865</b>	<b>677</b>	<b>10,542</b>
<b>Accumulated depreciation and impairment</b>			
At 1 January 2020	1,157	496	1,653
Exchange adjustment	46	1	47
Charge for the year	167	35	202
Impairment	1,051	–	1,051
Written back on disposals	–	(1)	(1)
At 31 December 2020 and 1 January 2021	<b>2,421</b>	<b>531</b>	<b>2,952</b>
Exchange adjustment	<b>21</b>	<b>2</b>	<b>23</b>
Charge for the year	<b>186</b>	<b>37</b>	<b>223</b>
Impairment	<b>67</b>	–	<b>67</b>
Written back on disposals	–	<b>(8)</b>	<b>(8)</b>
At 31 December 2021	<b>2,695</b>	<b>562</b>	<b>3,257</b>
<b>Net book value</b>			
At 31 December 2021	<b>7,170</b>	<b>115</b>	<b>7,285</b>
At 31 December 2020	7,144	123	7,267

# NOTES TO THE FINANCIAL STATEMENTS

## (b) Tenure of title to properties:

	Hotel properties	
	2021 HK\$ Million	2020 HK\$ Million
Held in Hong Kong		
Long term leases	22	22
Medium term leases	6,001	6,145
Held outside Hong Kong		
Medium term leases	1,147	977
	<b>7,170</b>	<b>7,144</b>

## (c) Impairment of hotel properties, plant and equipment

The value of hotel properties, plant and equipment is assessed at the end of each reporting period for indications of impairment with reference to valuations undertaken by external valuer and internally. Such valuations assess the recoverable amount of each asset being the higher of its value in use or its fair value less costs of disposal. During the year, impairment loss on hotel properties of HK\$67 million was made for Niccolo Suzhou in Mainland China (2020: HK\$1,051 million provision for The Murray in Hong Kong, Niccolo Suzhou and MP Changzhou in Mainland China) (Note 3).

## (d) Hotel properties under development

As at 31 December 2021, there were no hotel properties under development subject to depreciation (2020: HK\$560 million was not subject to depreciation).

# NOTES TO THE FINANCIAL STATEMENTS

## 10. INTEREST IN ASSOCIATES

	2021 HK\$ Million	2020 HK\$ Million
Share of net assets	912	1,010
Amount due from an associate	50	49
	962	1,059

Details of the associate at 31 December 2021 are shown on page 122.

- (a) Interest in associates at 31 December 2021 and 2020 mainly represents the Group's 27%-interest in a limited liability company, 上海萬九綠合置業有限公司, established for development property in Shanghai in Mainland China.
- (b) 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 neither past due nor impaired.
- (c) The associates are unlisted corporate entities whose quoted market price is not available. All of the associates are accounted for using the equity method in the consolidated financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

- (d) Summarised financial information of 上海萬九綠合置業有限公司, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2021 HK\$ Million	2020 HK\$ Million
<b>Summarised statement of financial position</b>		
<b>Non-current assets</b>	<b>2</b>	–
Cash and cash equivalents	<b>18</b>	83
Other current assets	<b>7,034</b>	6,435
<b>Total current assets</b>	<b>7,052</b>	6,518
Trade and other payables	<b>(595)</b>	(790)
Other current liabilities	<b>(575)</b>	(557)
<b>Total current liabilities</b>	<b>(1,170)</b>	(1,347)
<b>Non-current liabilities</b>	<b>(2,506)</b>	(1,431)
<b>Net assets</b>	<b>3,378</b>	3,740
<b>Summarised statement of comprehensive income</b>		
Revenue	–	393
Interest income	–	1
Loss from continuing operations (Note)	<b>(468)</b>	(199)
Income tax credit/(expenses)	<b>3</b>	(77)
Post-tax loss from continuing operations	<b>(465)</b>	(276)
Other comprehensive income	<b>103</b>	231
Total comprehensive income	<b>(362)</b>	(45)

	2021 HK\$ Million	2020 HK\$ Million
<b>Reconciled to the Group's interest in the associate</b>		
Gross amounts of net assets of the associate	<b>3,378</b>	3,740
Group's effective interest	<b>27%</b>	27%
Group's share of net assets of the associate	<b>912</b>	1,010
Carrying amount in the consolidated financial statement	<b>912</b>	1,010

Note: During the year ended 31 December 2021, a provision of HK\$125 million (2020: HK\$107 million) attributable towards the Group was made on the properties under development for sale.

# NOTES TO THE FINANCIAL STATEMENTS

## 11. INTEREST IN JOINT VENTURES

	2021 HK\$ Million	2020 HK\$ Million
Share of net assets	21	23

Details of principal joint ventures at 31 December 2021 are shown on page 122.

- (a) The Group's interest in joint ventures at 31 December 2021 and 2020 mainly represents its 55%-interest in a limited liability company, Speedy Champ Investments Limited ("Speedy Champ"), which holds 100% interest in a limited liability company, 重慶豐盈房地產開發有限公司, established for development property in Chongqing in Mainland China. Notwithstanding the Group's contribution of 55% of the registered capital, as the Group and the joint venture partner contractually agree to share control of Speedy Champ and have rights to the net assets of Speedy Champ, the Group accounts for its investment as a joint venture.

During the year ended 31 December 2020, the share capital of Speedy Champ was reduced by HK\$2,899 million and offset against the loans to shareholders. The capital reduction and dividend paid during the year ended 31 December 2020 resulted to loans from shareholders of HK\$207 million.

- (b) The joint ventures are unlisted corporate entities whose quoted market price is not available. All of the joint ventures are accounted for using the equity method in the consolidated financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

- (c) Summarised financial information of Speedy Champ, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2021 HK\$ Million	2020 HK\$ Million
<b>Summarised statement of financial position</b>		
Cash and cash equivalents	54	56
Other current assets	17	24
<b>Total current assets</b>	<b>71</b>	<b>80</b>
Trade and other payables	(31)	(36)
Other current liabilities	(2)	(2)
<b>Total current liabilities</b>	<b>(33)</b>	<b>(38)</b>
<b>Net assets</b>	<b>38</b>	<b>42</b>
<b>Summarised statement of comprehensive income</b>		
Other comprehensive income	(4)	10
Total comprehensive income	(4)	10
Dividends received from joint venture	–	109
<b>Reconciled to the Group's interest in the joint venture</b>		
Gross amounts of net assets of the joint venture	38	42
Group's effective interest	55%	55%
Group's share of net assets of the joint venture	21	23
Carrying amount in the consolidated financial statement	21	23



# NOTES TO THE FINANCIAL STATEMENTS

## 12. EQUITY INVESTMENTS

	2021 HK\$ Million	2020 HK\$ Million
Listed investments stated at fair value		
– in Hong Kong	<b>2,210</b>	2,611
– overseas	<b>1,176</b>	935
	<b>3,386</b>	3,546

(a) Equity investments are designated as financial assets at fair value through other comprehensive income as they are not held for trading but for long term purposes, the Group has irrevocably elected them at initial recognition to recognise these investments in this category. It mainly represent a portfolio of blue chips including property counters with reasonable dividend return that in line with relevant market and each investment within the portfolio is individually immaterial to the Group's total assets. Other financial investments are classified as financial assets at fair value through profit or loss.

(b) Analysed by industry sectors as follows:

	2021 HK\$ Million	2020 HK\$ Million
Properties	<b>2,920</b>	2,982
Others	<b>466</b>	564
Total	<b>3,386</b>	3,546

## 13. PROPERTIES FOR SALE

	2021 HK\$ Million	2020 HK\$ Million
Completed properties for sale	<b>2,227</b>	4,947

As 31 December 2021, the carrying value of leasehold land included in completed properties for sale is summarised as follows:

	2021 HK\$ Million	2020 HK\$ Million
Held outside Hong Kong		
– Medium term leases	<b>90</b>	211
– Long term leases	<b>42</b>	70
	<b>132</b>	281

# NOTES TO THE FINANCIAL STATEMENTS

## 14. TRADE AND OTHER RECEIVABLES

### (a) Ageing analysis

Included in this item are trade receivables (net of loss allowance) with an ageing analysis based on invoice date as at 31 December 2021 as follows:

	2021 HK\$ Million	2020 HK\$ Million
Trade receivables		
0 – 30 days	25	10
31 – 60 days	2	4
Over 60 days	2	3
	29	17
Prepayments	49	113
Other receivables	5	31
Amount due from a non-controlling shareholder	11	10
Amounts due from fellow subsidiaries	24	43
	<b>118</b>	214

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for sale of properties from which the proceeds are receivable pursuant to the terms of the agreements. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. All the trade and other receivables are expected to be recoverable within one year.

The amount of the Group's prepayments expected to be recognised as expense after more than one year is HK\$11 million (2020: HK\$8 million).

### (b) Impairment of trade receivables

There were no (2020: HK\$7 million) 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.

The movement in the loss allowance account in respect of trade receivables during the year, including both specific and collective loss components, is as follows:

	2021 HK\$ Million	2020 HK\$ Million
<b>At 1 January</b>	7	–
(Write-off of)/impairment loss recognised	(7)	7
<b>At 31 December</b>	–	7

# NOTES TO THE FINANCIAL STATEMENTS

## 15. BANK DEPOSITS AND CASH

Bank deposits and cash as at 31 December 2021 include HK\$1,059 million equivalent (2020: HK\$1,253 million) placed with banks in Mainland China, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2021, there were no (2020: RMB17 million equivalent to HK\$20 million) bank deposits and cash included bank deposits which are solely for certain designated development property projects in Mainland China.

The effective interest rate on bank deposit was 1.5% (2020: 1.1%) per annum.

Bank deposits and cash are denominated in the following currencies:

	2021 HK\$ Million	2020 HK\$ Million
HKD	30	41
United States dollar ("USD")	3	3
RMB	1,056	1,250
	<b>1,089</b>	1,294

## 16. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis based on invoice date as at 31 December 2021 as follows:

	2021 HK\$ Million	2020 HK\$ Million
Trade payables		
0 – 30 days	18	17
31 – 60 days	3	1
Over 90 days	1	1
	<b>22</b>	19
Other payables and provisions	456	506
Construction costs payable	1,819	2,067
Amounts due to fellow subsidiaries	7	8
	<b>2,304</b>	2,600

The amounts due to fellow subsidiaries and joint ventures are unsecured, interest free and repayable on demand.

## NOTES TO THE FINANCIAL STATEMENTS

Included in the above other payables and provisions and construction costs payable, are amounts of HK\$68 million (2020: HK\$87 million) which are expected to be settled after one year. The Group considers the effect of discounting these would be immaterial. All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

In addition, included in the above other payables and provisions, amounts of HK\$27 million (2020: HK\$33 million) represents non-refundable guest deposits and recognised as contract liability. The balance is expected to be recognised within 1 year.

### 17. PRE-SALE DEPOSITS AND PROCEEDS

The Group receives contract value as a deposit from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability 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 legal assignment is completed.

#### Movements in pre-sale deposits and proceeds:

	2021 HK\$ Million	2020 HK\$ Million
<b>At 1 January</b>	<b>2,044</b>	3,172
Exchange adjustment	<b>34</b>	135
Decrease in pre-sale deposits and proceeds as a result of recognising revenue during the year	<b>(3,573)</b>	(2,548)
Increase in pre-sale deposits and proceeds as a result of receiving sales deposits	<b>1,739</b>	1,285
<b>At 31 December</b>	<b>244</b>	2,044

There were no (2020: HK\$ Nil) pre-sale deposits and proceeds received in respect of Mainland China based properties are expected to be recognised as revenue in the consolidated income statement after more than one year.

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

As at 31 December 2021, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group’s existing contracts is HK\$225 million (2020: HK\$1,981 million). This amount represents revenue expected to be recognised in the future from pre-completion sales contracts for properties entered into by the customers with the Group. This amount includes the interest component of pre-completion properties sales 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 the customers, which is expected to occur over the next 12 to 24 months.

# NOTES TO THE FINANCIAL STATEMENTS

## 18. BANK LOANS

	2021 HK\$ Million	2020 HK\$ Million
<b>Bank loans (secured)</b>		
Due after more than 1 year but not exceeding 2 years	–	310
Due after more than 5 years	200	–
	200	310
<b>Bank loans (unsecured)</b>		
Due within 1 year or on demand	–	500
Due after more than 1 year but not exceeding 2 years	750	–
Due after more than 2 years but not exceeding 5 years	500	2,000
	1,250	2,500
<b>Total</b>	<b>1,450</b>	<b>2,810</b>

### Analysis of maturities of the above borrowings:

	2021 HK\$ Million	2020 HK\$ Million
<b>Current borrowings</b>		
Due within 1 year or on demand	–	500
<b>Non-current borrowings</b>		
Due after more than 1 year but not exceeding 2 years	750	310
Due after more than 2 years but not exceeding 5 years	500	2,000
Due after more than 5 years	200	–
	1,450	2,310
<b>Total</b>	<b>1,450</b>	<b>2,810</b>

(a) The Group's borrowings are considered by the management to be denominated in the following currencies:

	2021 HK\$ Million	2020 HK\$ Million
HKD	1,250	2,500
RMB	200	310
	1,450	2,810

## NOTES TO THE FINANCIAL STATEMENTS

- (b) All the interest bearing borrowings are carried at amortised cost. None of the non-current interest bearing borrowings is expected to be settled within one year.
- (c) As at 31 December 2021, banking facilities of the Group in the amount of HK\$612 million (2020: HK\$1,541 million) are secured by hotel and development properties in the Mainland of RMB1,347 million (equivalent to HK\$1,648 million) (2020: bank deposits in the Mainland of RMB300 million (equivalent to HK\$356 million)).
- (d) Certain of the above borrowings are attached with financial covenants which require that at any time, the Group's 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. During the year under review, all these covenants have been complied with by the Group.

### 19. DEFERRED TAXATION

- (a) Net deferred tax liabilities recognised in the consolidated statement of financial position:

	2021 HK\$ Million	2020 HK\$ Million
Deferred tax liabilities	353	378
Deferred tax assets	(249)	(303)
Net deferred tax liabilities	104	75

The components of net deferred tax liabilities and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation HK\$ Million	Withholding tax in relation to dividend distribution HK\$ Million	Deferred tax on unpaid tax HK\$ Million	Future benefit of tax losses HK\$ Million	Others HK\$ Million	Total HK\$ Million
At 1 January 2020	86	305	(374)	(65)	3	(45)
Charged to the consolidated income statement	2	43	90	–	–	135
Exchange adjustment	–	4	(19)	–	–	(15)
At 31 December 2020 and 1 January 2021	88	352	(303)	(65)	3	75
Charged to the consolidated income statement	–	(34)	62	–	–	28
Exchange adjustment	–	9	(8)	–	–	1
At 31 December 2021	88	327	(249)	(65)	3	104

# NOTES TO THE FINANCIAL STATEMENTS

## (b) Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the following items:

	2021		2020	
	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	<b>1,842</b>	<b>403</b>	1,743	378
Future benefit of tax losses				
– Hong Kong	<b>494</b>	<b>81</b>	466	77
– Mainland China	<b>122</b>	<b>31</b>	131	33
	<b>616</b>	<b>112</b>	597	110
	<b>2,458</b>	<b>515</b>	2,340	488

- (c) The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at 31 December 2021. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from Mainland China operations 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. 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 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 foreign exchange contracts, as deemed appropriate, for financing 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.

# NOTES TO THE FINANCIAL STATEMENTS

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## (a) Interest rate risk

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. The Group manages its interest rate risk exposures 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.

As at 31 December 2021, all the Group's borrowings were at floating rate and the interest rate was approximately 1.5% (2020: 2.2%) per annum.

Based on a sensitivity analysis performed on 31 December 2021, it was estimated that a general increase/decrease of 1% (2020: 1%) in interest rates, with all other variables held constant, would have decreased/increased the Group's post-tax profit and decreased/increased total equity by approximately HK\$4 million (2020: the Group's post-tax loss increased/decreased and total equity decreased/increased by HK\$11 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 profit/(loss) and total equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2020.

## (b) Foreign currency risk

The Group owns assets and conducts its businesses both in Hong Kong and Mainland China, with its cash flows denominated substantially in HKD and RMB which exposes the Group to foreign currency risk with respect to RMB related to its property development in Mainland China. Anticipated foreign exchange payments relate primarily to RMB capital expenditure.

Where appropriate or available in a cost-efficient manner, the Group may enter into forward foreign exchange contracts to manage its foreign currency risk arising from the 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 in HKD, their borrowings will be either in HKD or RMB. For managing the overall financing costs of existing and future capital requirements for the projects in Mainland China and Hong Kong, the Group has adopted a diversified funding approach and has entered into certain forward foreign exchange contracts. Based on prevailing accounting standards, the forward foreign exchange contracts are marked to market with the valuation movement recognised in the consolidated income statement.



## NOTES TO THE FINANCIAL STATEMENTS

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.

	USD Million	RMB Million
<b>At 31 December 2021</b>		
Equity investments	151	–
Inter-company balances	–	66
Gross exposure arising from recognised assets and liabilities/ Overall net exposure	151	66
<b>At 31 December 2020</b>		
Equity investments	120	–
Inter-company balances	–	66
Gross exposure arising from recognised assets and liabilities/ Overall net exposure	120	66

In addition, at 31 December 2021, the PRC 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 (2020: HK\$4 million).

Based on the sensitivity analysis performed on 31 December 2021, it was estimated that the impact on the Group's post-tax profit/(loss) 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 on the translation of the Mainland operations from 1% increase/decrease of exchange rate of RMB against HKD, the Group's total equity would have increased/decreased by HK\$25 million (2020: HK\$32 million).

### (c) Equity price risk

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

Listed investments 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 equity investments.

Based on the sensitivity analysis performed on 31 December 2021, it is estimated that a 5% (2020: 5%) increase/decrease in the market value of the Group's equity investments, with all other variables held constant, would not have affected the Group's post-tax profit/(loss) but would have increased/decreased the Group's total equity by HK\$169 million (2020: HK\$177 million). The analysis is performed on the same basis as for 2020.

## NOTES TO THE FINANCIAL STATEMENTS

### (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 cash management is substantially centralised within the Group Treasury department, which regularly monitors the current and expected liquidity requirements and its compliance with lending covenants.

The following tables detail the remaining contractual maturities at the end of the 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 the reporting period and carried at exchange rate prevailing at the end of the reporting period) and the earliest date the Group can be required to pay:

	Carrying amount HK\$ Million	Total HK\$ Million	Contractual undiscounted cash flow			
			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
<b>At 31 December 2021</b>						
Bank loans	(1,450)	(1,631)	(22)	(769)	(533)	(307)
Trade and other payables	(2,304)	(2,304)	(2,236)	(2)	(9)	(57)
	<b>(3,754)</b>	<b>(3,935)</b>	<b>(2,258)</b>	<b>(771)</b>	<b>(542)</b>	<b>(364)</b>
<b>At 31 December 2020</b>						
Bank loans	(2,810)	(2,897)	(535)	(342)	(2,020)	–
Trade and other payables	(2,600)	(2,600)	(2,592)	–	(8)	–
	<b>(5,410)</b>	<b>(5,497)</b>	<b>(3,127)</b>	<b>(342)</b>	<b>(2,028)</b>	<b>–</b>

The Company is exposed to liquidity risk that arises from financial guarantees given by the Company on behalf of subsidiaries. The guarantees are callable if the respective subsidiary is unable to meet its obligation and the maximum amount callable as at 31 December 2021 was HK\$3,800 million (2020: HK\$3,400 million).

# NOTES TO THE FINANCIAL STATEMENTS

## (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, cash and cash equivalents 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 policy (G)(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 risk 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. Except for the financial guarantees given by the Company as set out in Note 24, the Group does not provide any other guarantee which would expose the Group or the Company 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 the 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 as at 31 December 2021 and 2020 in accordance with HKFRS 13 is given below:

	2021 HK\$ Million	2020 HK\$ Million
<b>Level 1 Assets</b>		
Equity investments:		
– Listed investments	3,386	3,546

## NOTES TO THE FINANCIAL STATEMENTS

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During the years ended 31 December 2021 and 2020, there were no transfers of instruments between Level 1 and Level 2, or transfer 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 reporting period in which they occur.

Equity investments in Level 1 are stated at quoted market prices.

The fair value of bank loans and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

### **(ii) Assets and liabilities carried at other than fair value**

The fair values of receivables, bank balances and other current assets, payables and accruals, current borrowings, and provisions are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

All financial instruments carried at cost or amortised cost is carried at amounts not materially different from their fair values as at 31 December 2021 and 2020. Amounts due from/(to) fellow subsidiaries and related parties are unsecured, interest free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

### **(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 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 ratio and cash flow requirements, taking into account 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.

## NOTES TO THE FINANCIAL STATEMENTS

The net debt-to-equity ratio as at 31 December 2021 and 2020 were as follows:

	2021 HK\$ Million	2020 HK\$ Million
Bank loans (Note 18)	<b>1,450</b>	2,810
Less: Bank deposits and cash (Note 15)	<b>(1,089)</b>	(1,294)
Net debt	<b>361</b>	1,516
Shareholders' equity	<b>15,617</b>	15,482
Total equity	<b>15,937</b>	15,929
Net debt-to-shareholders' equity ratio	<b>2.3%</b>	9.8%
Net debt-to-total equity ratio	<b>2.3%</b>	9.5%

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(d).

## 21. CAPITAL AND RESERVES

### (a) Share capital

	2021 No. of shares Million	2020 No. of shares Million	2021 HK\$ Million	2020 HK\$ Million
Issued and fully paid ordinary shares At 1 January	<b>709</b>	709	<b>3,641</b>	3,641
At 31 December	<b>709</b>	709	<b>3,641</b>	3,641

In accordance with section 135 of the Companies Ordinance, the ordinary shares of the Company do not have a par value. 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) The Group's equity, apart from share capital and other statutory capital reserves, includes investments revaluation reserves for dealing with movement on revaluation of equity investments and the exchange reserve mainly comprises exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy Note (M).

The revenue reserves for the Group at 31 December 2021 included HK\$37 million (2020: HK\$210 million) in respect of statutory reserves of the subsidiaries in Mainland China.

## NOTES TO THE FINANCIAL STATEMENTS

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.

The Company's equity and the details of the changes in the individual components between the beginning and the end of the year are set out below:

	Share capital HK\$ Million	Revenue reserve HK\$ Million	Total equity HK\$ Million
<b>The Company</b>			
At 1 January 2020	3,641	1,659	5,300
Profit and total comprehensive income	–	242	242
2019 second interim dividend paid	–	(106)	(106)
2020 first special interim dividend paid	–	(50)	(50)
At 31 December 2020 and 1 January 2021	<b>3,641</b>	<b>1,745</b>	<b>5,386</b>
Profit and total comprehensive income	–	<b>399</b>	<b>399</b>
2020 second special interim dividend paid	–	<b>(50)</b>	<b>(50)</b>
At 31 December 2021	<b>3,641</b>	<b>2,094</b>	<b>5,735</b>

- (c) Reserves of the Company available for distribution to equity shareholders at 31 December 2021 amounted to HK\$2,094 million (2020: HK\$1,745 million).
- (d) No dividend was declared after the end of the reporting period (2020: second special interim dividend of 7 HK cents per share amounted to HK\$50 million based on 708.8 million issued ordinary shares).

# NOTES TO THE FINANCIAL STATEMENTS

## 22. COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2021 HK\$ Million	2020 HK\$ Million
<b>Non-current assets</b>			
Interest in subsidiaries		10,054	9,551
Loan to a subsidiary		–	50
<b>Total assets</b>		<b>10,054</b>	9,601
<b>Current liabilities</b>			
Trade and other payables		(3)	(3)
Amounts due to subsidiaries		(4,316)	(4,162)
Bank loan		–	(50)
		<b>(4,319)</b>	(4,215)
<b>Total liabilities</b>		<b>(4,319)</b>	(4,215)
<b>NET ASSETS</b>		<b>5,735</b>	5,386
<b>Capital and reserves</b>			
Share capital	21(a)	3,641	3,641
Reserves		2,094	1,745
<b>TOTAL EQUITY</b>		<b>5,735</b>	5,386

**Stephen T H Ng**  
Chairman

**Peter Z K Pao**  
Director

# NOTES TO THE FINANCIAL STATEMENTS

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## 23. MATERIAL RELATED PARTY TRANSACTIONS

Material transactions between the Group and other related parties during the year ended 31 December 2021 are set out below:

- (a) There were in existence agreements with a subsidiary of The Wharf (Holdings) Limited (“Wharf”), being a related company of the Group, for the management, marketing, project management and technical services of the Group’s hotel operations. Total fees payable under this arrangement during the current year amounted to HK\$15 million (2020: HK\$9 million). Such transaction does not constitute a connected transaction under the Listing Rules (2020: HK\$4 million of such transaction constitutes a connected transaction as defined under the Listing Rules up to 22 July 2020). The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors’ Report.
- (b) There were in existence agreements with a subsidiary of Wharf and subsidiaries of Wharf Real Estate Investment Company Limited (“Wharf REIC”), being the parent company of the Group, for the property services in respect of the Group’s property projects. Total fees payable under this arrangement during the current year amounted to HK\$14 million (2020: HK\$67 million), of which HK\$5 million (2020: HK\$67 million) of such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors’ Report.
- (c) There were in existence leasing agreements entered into between subsidiaries of Wharf and a subsidiary of Wharf REIC for leases, tenancies or licences in respect of certain areas situated on 3/F and 5/F of MP Hong Kong and certain areas situated on 6/F of Suzhou International Finance Square. Total rental income under this arrangement during the current year amounted to HK\$7 million (2020: HK\$6 million). Such transaction does not constitute a connected transaction under the Listing Rules (2020: HK\$3 million of such transaction constitutes a connected transaction as defined under the Listing Rules up to 22 July 2020). The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors’ Report.
- (d) Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company is disclosed in Note 2(b).

In addition to the above transactions, details of the Group’s amounts due from and to related parties are disclosed in Notes 10, 14 and 16 respectively.



## NOTES TO THE FINANCIAL STATEMENTS

### 24. CONTINGENT LIABILITIES

As at 31 December 2021, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts, short term loans and credit facilities up to HK\$3,830 million (2020: HK\$3,430 million).

As at 31 December 2021, there were guarantees of HK\$38 million (2020: HK\$727 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 (2020: HK\$ Nil) mortgage loan guarantees provided by associates of the Group to the banks in favour of their customers.

The Group and the Company have not recognised any deferred income of the above guarantees for subsidiaries, joint ventures and associates as their fair value cannot be reliably measured and their transaction price was HK\$ Nil (2020: 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.

### 25. COMMITMENTS

The Group's outstanding commitments as at 31 December 2021 are detailed as below:

	31 December 2021			31 December 2020		
	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million	Committed HK\$ Million	Uncommitted HK\$ Million	Total HK\$ Million
<b>Hotel</b>						
Hong Kong	2	–	2	1	1	2
Mainland China	–	–	–	78	260	338
	<b>2</b>	<b>–</b>	<b>2</b>	<b>79</b>	<b>261</b>	<b>340</b>
<b>Development Property</b>						
Mainland China	440	453	893	289	760	1,049
<b>Total</b>						
Hong Kong	2	–	2	1	1	2
Mainland China	440	453	893	367	1,020	1,387
	<b>442</b>	<b>453</b>	<b>895</b>	<b>368</b>	<b>1,021</b>	<b>1,389</b>

The expenditure for development properties included attributable amounts for developments undertaken by joint ventures and associates of HK\$893 million (2020: HK\$1,049 million) in Mainland China.

# NOTES TO THE FINANCIAL STATEMENTS

## 26. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting year of the Group. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest rate benchmark reform — Phase 2
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The Group has assessed the impact of the adoption of these developments and considered that there was no significant impact on the Group's results and financial position for the current and prior periods have been prepared or presented.

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

## 27. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a new standard and a number of amendments which are not yet effective for the year ended 31 December 2021 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 37, Onerous contracts — cost of fulfilling a contract	1 January 2022
Annual Improvements to HKFRS 2018-2020 Cycle	1 January 2022
Amendments to HKAS 1, Classification of liabilities as current or non-current	1 January 2023
Amendments to HKAS 1 and HKFRS Practice Statement 2, Disclosure of accounting policies	1 January 2023
Amendments to HKAS 8, Definition of accounting estimates	1 January 2023
Amendments to HKAS 12, Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

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## 28. EVENTS AFTER THE REPORTING PERIOD

On 18 February 2022, the Group entered into an equity transfer agreement to dispose of the entire equity interest in 九龍倉(常州)置業有限公司 at a consideration of RMB402.9 million (equivalent to approximately HK\$492.8 million) (the "Disposal"). Further details of the Disposal are set out in the announcement dated 18 February 2022.

## 29. PARENT COMPANY

At 31 December 2021, the Directors consider the parent company to be Wharf Real Estate Investment Company Limited (incorporated in the Cayman Islands with limited liability), which is listed in Hong Kong and produces financial statements available for public use.

## 30. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 1 March 2022.

# PRINCIPAL ACCOUNTING POLICIES

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## (A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the 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 set out 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 and the Company. Note 26 to the financial statements provides 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

The consolidated financial statements for the year ended 31 December 2021 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is 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 (U).

# PRINCIPAL ACCOUNTING POLICIES

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## (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 the consolidated financial statements 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 equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement 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 equity 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 a joint venture (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 (G)(ii)).

## PRINCIPAL ACCOUNTING POLICIES

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### (ii) Associates 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). 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 Notes (C)(iii) and (G)(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 income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's 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 the associates or joint ventures, 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 associates or joint ventures 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 associates or joint ventures (after applying the ECL model to such other long-term interests where applicable (see Note (G)(i)).

Unrealised profits and losses resulting from transactions between the Group and its associates 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 income statement.

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 associates and joint ventures are stated at cost less impairment losses (see Note (G)(ii)).

# PRINCIPAL ACCOUNTING POLICIES

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## (iii) Goodwill

Goodwill represents the excess of:

- (a) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (b) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (b) is greater than (a), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note (G)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

## (D) INVESTMENT PROPERTIES AND HOTEL 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 (H)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and properties that are being constructed or developed for future use as investment properties.

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. 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 income statement. Rental income from investment properties is accounted for as described in Note (N)(ii).

### (ii) Hotel properties

Hotel properties are stated at cost less accumulated depreciation and impairment losses (see Note (G)(ii)). Hotel properties under development is stated at cost less impairment losses (see Note (G)(ii)).

## PRINCIPAL ACCOUNTING POLICIES

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### **(iii) Other property, plant and equipment held for own use**

Other property, plant and equipment held for own use is stated at cost less accumulated depreciation and impairment losses (see Note (G)(ii)).

- (iv)** Gains or losses arising from the retirement or disposal of an item of property, 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 income statement on the date of retirement or disposal.

## **(E) DEPRECIATION OF HOTEL PROPERTIES, PLANT AND EQUIPMENT**

Depreciation is calculated to write-off the cost of items of hotel 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 properties**

Depreciation is provided on the cost of the leasehold land of hotel 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 on hotel properties under development commences when they are available for use.

### **(iii) Other property, plant and equipment held for own use**

Depreciation is provided on a straight line basis over their estimated useful lives of these assets which vary from 5 to 10 years.

Where parts of an item of property, 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

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## (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 or minus, 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 (FVTOCI) — debt investment; FVTOCI — equity investment; or fair value through profit or loss (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) 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.
- (b) 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.
- (c) All financial assets not classified as measured at amortised cost or FVTOCI 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 FVTOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

# PRINCIPAL ACCOUNTING POLICIES

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## **Investment in equity securities (other than investments in subsidiaries, associates and joint ventures)**

The 'equity investments' caption in the consolidated statement of financial position includes:

- Equity investment securities mandatorily measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in the consolidated income statement; and
- Equity investment securities designated as at FVTOCI.

Investments in equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets.

The Group has designated all investments in equity instruments (listed or unlisted) that are not held for trading as at FVTOCI since the application of HKFRS 9.

## **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.

## PRINCIPAL ACCOUNTING POLICIES

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### **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.

## PRINCIPAL ACCOUNTING POLICIES

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### 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 the consolidated income statement.
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 are recognised in the consolidated income statement. Any gain or loss on derecognition is recognised in the consolidated income statement.
Equity investments at FVTOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in the consolidated income statement unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses and impairment are recognised in OCI and are never reclassified to the consolidated income statement.

### (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.

In the case of equity investments, cumulative gains and losses recognised in OCI are never reclassified to the consolidated income statement but transferred to retained earnings on disposal of an investment.

# PRINCIPAL ACCOUNTING POLICIES

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## (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 the consolidated income statement. 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 the consolidated income statement. Any gain or loss on derecognition is also recognised in the consolidated income statement.

## (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 the consolidated income statement.

## (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 HKFRS, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

## (G) 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 lifetime ECL. For trade receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, *Financial Instruments*, which requires the use of the lifetime expected loss provision for all trade receivables.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, 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.

# PRINCIPAL ACCOUNTING POLICIES

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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 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.

## **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.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## PRINCIPAL ACCOUNTING POLICIES

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### (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 associates 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 and 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). A portion of the carrying amount of a corporate asset is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

#### – Recognition of impairment losses

An impairment loss is recognised as an expense in the consolidated income statement 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 first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, 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.

#### – Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed (including those provided during the interim financial reporting).

A reversal of impairment losses 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 the consolidated income statement in the year in which the reversals are recognised.

#### – Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes (G)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

# PRINCIPAL ACCOUNTING POLICIES

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## (H) 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.

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 (G)(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 (I).



## PRINCIPAL ACCOUNTING POLICIES

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The initial fair value of refundable rental deposits is accounted for separately from the right-of-use assets in accordance with the accounting policy applicable to investments in securities carried at amortised cost (see note (F)). Any difference between the initial fair value and the nominal value of the deposits is accounted for as additional lease payments made and is included in the cost of right-of-use assets.

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 the modification. The only exceptions are rent concessions that occurred as a direct consequence of the COVID-19 pandemic and met the conditions set out in paragraph 46B of HKFRS 16 Leases. In such cases, the Group has taken advantage of the practical expedient not to assess whether the rent concession are lease modifications, and recognised the change in consideration as negative variable lease payments in profit or loss in the period in which the event or condition that triggers the rent concession occurred.

The Group includes right-of-use assets that do not meet the definition of investment properties and properties for sale in "Hotel 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 Note (N)(ii).

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.

# PRINCIPAL ACCOUNTING POLICIES

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## (I) INVENTORIES

### (i) Completed properties for sale

Completed properties for sale are stated at lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised (see Note (O)), 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 held for sale comprise 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 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 income statement in the period in which the reversal occurs.

### (ii) Hotel consumables

Inventories comprise hotel consumables and are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less direct selling costs.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

## (J) 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 the consolidated income statement, 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.

## (K) 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. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in Note (G).

# PRINCIPAL ACCOUNTING POLICIES

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## (L) CONTRACT ASSETS AND CONTRACT LIABILITIES

A contract asset is recognised when the Group recognises revenue (see Note (N)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECLs in accordance with the policy set out in Note (G) 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 (N)). 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 (N)).

## (M) 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 statements 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. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, 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 income statement.

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

# PRINCIPAL ACCOUNTING POLICIES

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## (N) 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.

- (i) Income from hotel operations is recognised at the time when the services are rendered.
- (ii) 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 assets. 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 as income in the accounting period in which they are earned.
- (iii) Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed or the property is accepted by the customer, 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 under contract liabilities as "Pre-sale Deposits and Proceeds".

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 (O)).

- (iv) Interest income is recognised as it accrues using the effective interest method.

## PRINCIPAL ACCOUNTING POLICIES

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- (v) 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.

- (vi) Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the group will comply with the conditions attaching to them. Grants that compensate the group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

### (O) 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 are 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.

### (P) 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 income statement 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 respectively, being the difference between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. 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.

## PRINCIPAL ACCOUNTING POLICIES

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The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

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 end of 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 arise from the distribution of dividends are recognised when 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.

# PRINCIPAL ACCOUNTING POLICIES

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## (Q) EMPLOYEE BENEFITS

### Short term employee benefits and contributions to defined contribution retirement plans

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.

## (R) 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.

## (S) 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. 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 the consolidated income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with Note (S)(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 carrying amount in respect of that guarantee, i.e. the amount initially recognised, less accumulated amortisation.

# PRINCIPAL ACCOUNTING POLICIES

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## (ii) Other provisions and contingent liabilities

Provisions are recognised 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.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, a separate asset is recognised for any expected reimbursement that would be virtually certain. The amount recognised for the reimbursement is limited to the carrying amount of the provision.

## (T) 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) had 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.



# PRINCIPAL ACCOUNTING POLICIES

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## (U) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### Key sources of estimation uncertainty

Note 20 contain information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

- **Assessment of provision for properties held under development and for sale**

Management determines the net realisable value of properties held for sale by using (1) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (2) 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 and for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rates 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.

- **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 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 rental and the appropriate capitalisation rate.

- **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 fair value less cost disposal (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.

# PRINCIPAL SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

As 31 December 2021

Subsidiaries	Place of incorporation/ operation	Issued share capital/ registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
*# Harbour Centre (Hong Kong) Limited	British Virgin Islands/ Hong Kong	500 US\$1 shares	100%	Holding company
HCDL Finance Limited	Hong Kong	HK\$5,000,000 divided into 5,000,000 shares	100%	Finance
Manniworth Company Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	100%	Property
The Hongkong Hotel Limited	Hong Kong	HK\$100,000 divided into 100,000 shares	100%	Hotel and property
# HCDL Investments Limited	Hong Kong	HK\$1 divided into 1 share	100%	Holding company
* Silver Voyage (0051) Limited	British Virgin Islands/ Hong Kong	500 US\$1 shares	100%	Holding company
* Superior Skills Limited	British Virgin Islands/ Hong Kong	500 US\$1 shares	100%	Holding company
* Algebra Assets Limited	British Virgin Islands/ International/ Hong Kong	500 US\$1 shares	100%	Investment
* Ample Elect Limited	British Virgin Islands/ Hong Kong	500 US\$1 shares	100%	Investment
* Buzz Century Limited	British Virgin Islands/ Hong Kong	500 US\$1 shares	100%	Investment
* Victor Horizon (0051) Limited	British Virgin Islands/ Hong Kong	500 US\$1 shares	100%	Investment
HCDL Investments Finance Limited	Hong Kong	HK\$1 divided into 1 share	100%	Finance
The Murray Limited	Hong Kong	HK\$1 divided into 1 share	100%	Hotel
# Wealthy Flow Company Limited	Hong Kong	HK\$1 divided into 1 share	100%	Bank deposits

# PRINCIPAL SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

As 31 December 2021

Subsidiaries	Place of incorporation/operation	Issued share capital/registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
* HCDL China Development Limited	British Virgin Islands/ Hong Kong	500 US\$1 shares	100%	Holding Company
HCDL China Finance Limited	Hong Kong	HK\$1 divided into 1 share	100%	Finance
Cheer Sky Investment Limited	Hong Kong	HK\$1 divided into 1 share	100%	Holding company
Free Boost Investments Limited	Hong Kong	HK\$1 divided into 1 share	100%	Holding company
High Sea Investments Limited	Hong Kong	HK\$2 divided into 2 shares	100%	Holding company
Joinhill Investments Limited	Hong Kong	HK\$1 divided into 1 share	100%	Holding company
Market Favour Investments Limited	Hong Kong	HK\$1 divided into 1 share	100%	Holding company
九龍倉(常州)置業有限公司 (Note (ii))	The People's Republic of China	US\$144,950,000	100%	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	80%	Property
蘇州尼依格羅酒店有限公司 (Note (iii))	The People's Republic of China	RMB30,000,000	80%	Hotel
南京聚龍房地產開發有限公司 (Note (ii))	The People's Republic of China	US\$1,000,000	100%	Holding company
常州馬哥孛羅酒店有限公司 (Note (ii))	The People's Republic of China	US\$7,000,000	100%	Hotel
廣州秀達企業管理有限公司 (Note (ii))	The People's Republic of China	HK\$2,000,000	100%	Holding company
廣州譽港企業管理有限公司 (Note (iii))	The People's Republic of China	RMB5,000,000	100%	Holding company
廣州港捷企業管理有限公司 (Note (iii))	The People's Republic of China	RMB10,000,000	100%	Holding company

# PRINCIPAL SUBSIDIARIES, ASSOCIATE AND JOINT VENTURES

As 31 December 2021

Associate	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
上海萬九綠合置業有限公司	The People's Republic of China	Registered	27%	Property

Joint Ventures	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
Speedy Champ Investments Limited	Hong Kong	Ordinary	55%	Holding company
重慶豐盈房地產開發有限公司	The People's Republic of China	Registered	55%	Property

# Subsidiaries held directly.

\* 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.

(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.

Notes:

(a) All the subsidiaries listed above were, as at 31 December 2021, indirectly held by the Company except where marked #.

(b) The above list gives the principal subsidiaries, associate and joint ventures of the Group which, in the opinion of the Directors, principally affect the profit and assets of the Group.

# SCHEDULE OF PRINCIPAL PROPERTIES

As 31 December 2021

Address	Approximate Gross Floor Areas (sq.ft.)				Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/Expected Completion	Stage of Completion	Effective Equity Interest to the Company
	Total	Office	Retail	Residential						
<b>HONG KONG</b>										
<b>Investment Properties</b>										
Marco Polo Hongkong Hotel (Commercial Section), Harbour City, Tsimshatsui	190,000	18,000	172,000	-	-	Note (a)	2863	1969	N/A	100%
Units at Star House, 3 Salisbury Road, Kowloon	50,800	-	50,800	-	-	-	2863	1966	N/A	100%
	240,800	18,000	222,800	-	-	-				
<b>Hotel Properties</b>										
Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui	547,000	-	-	-	547,000	(A 655-room hotel)	2863	1969	N/A	100%
The Murray, Cotton Tree Drive, Central	336,000	-	-	-	336,000	(A 336-room hotel)	2063	2017	N/A	100%
	883,000	-	-	-	883,000	-				
<b>HONG KONG TOTAL</b>	<b>1,123,800</b>	<b>18,000</b>	<b>222,800</b>	<b>-</b>	<b>883,000</b>	<b>-</b>		<b>2020</b>	<b>N/A</b>	<b>80%</b>
<b>MAINLAND CHINA</b>										
<b>Investment Property</b>										
Suzhou International Finance Square Xing Hu Jie, Suzhou Industrial Park, Suzhou	237,000	-	-	-	237,000	-	2047	2020	N/A	80%
<b>Hotel Properties</b>										
Marco Polo Changzhou — Note (e) 88 Hehai East Road, Xinbei District, Changzhou	474,000	-	-	131,000	343,000	(A 271-room hotel and The Mansion)	2048	2014	N/A	100%
Niccolo Suzhou Tower 1 Suzhou IFS, 409 Suzhou Avenue East, Suzhou Industrial Park, Suzhou	374,000	-	-	-	374,000	(A 233-room hotel on 100% ownership)	2047	2021	N/A	80%
	848,000	-	-	131,000	717,000	-				
<b>Development Properties</b>										
Suzhou Times City Xiangdai Da Dao, Suzhou Industrial Park, Suzhou	6,000	-	-	6,000	-	-	2077	2017	N/A	80%
Suzhou International Finance Square Xing Hu Jie, Suzhou Industrial Park, Suzhou	845,000	627,000	-	218,000	-	-	2047/77	2020	N/A	80%
	851,000	627,000	-	224,000	-	-				
<b>Development Property (undertaken by associate) — Note (c)</b>										
Shanghai South Station (Vanke Center Xuhui) Caohejing Area Lot 278a-05278b-02278b-04, South Station Business Zone, Xuhui District, Shanghai	975,000	811,000	164,000	-	-	-	2052/62	2022	Superstructure in progress	27%
<b>MAINLAND CHINA TOTAL</b>	<b>2,911,000</b>	<b>1,438,000</b>	<b>164,000</b>	<b>355,000</b>	<b>954,000</b>	<b>-</b>				
<b>GROUP TOTAL</b>	<b>4,034,800</b>	<b>1,456,000</b>	<b>386,800</b>	<b>355,000</b>	<b>1,837,000</b>	<b>-</b>				

Notes:

- Part of Marco Polo Hongkong Hotel building.
- This property forms part of Suzhou International Finance Square which has a total site area of 229,069 sq. ft.
- The floor area of property held through associate is shown on an attributable basis.
- Total Mainland China development properties area included 110,000 sq. ft. pre-sold areas which have not yet been recognised in the financial statements.
- An equity transfer agreement was signed on 18 February 2022 to dispose of the entire equity interests in 九龍倉(常州)置業有限公司 which last remaining unsold properties comprise Marco Polo Changzhou, particulars of which were previously disclosed in the Company's announcement dated 18 February 2022.

# TEN-YEAR FINANCIAL SUMMARY

HK\$ Million	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
<b>Consolidated Income Statement</b>										
Revenue	<b>4,484</b>	3,313	1,395	1,583	6,997	3,558	5,048	5,646	5,758	6,261
Underlying net profit (Note a)	<b>40</b>	413	435	512	1,290	762	1,194	851	1,464	1,937
Profit/(loss) attributable to shareholders	<b>(24)</b>	(1,119)	117	831	1,320	692	1,231	1,082	1,276	3,058
Dividends attributable to shareholders	<b>–</b>	100	156	213	496	354	496	425	553	680
<b>Consolidated Statement of Financial Position</b>										
Investment properties	<b>5,138</b>	5,148	6,480	6,396	9,300	8,277	7,876	7,253	6,435	5,566
Hotel properties, plant and equipment	<b>7,285</b>	7,267	7,558	7,867	8,088	6,529	5,677	5,429	4,764	650
Interest in associates	<b>962</b>	1,059	1,249	1,294	1,599	1,417	1,608	2,059	1,925	–
Interest in joint ventures	<b>21</b>	23	1,604	1,601	1,694	1,808	2,039	2,127	2,162	2,082
Equity investments	<b>3,386</b>	3,546	4,065	2,396	2,708	2,301	2,450	1,550	1,340	1,541
Properties for sale	<b>2,227</b>	4,947	4,777	3,726	144	1,957	2,699	4,979	7,376	7,822
Bank deposits and cash	<b>1,089</b>	1,294	1,910	2,428	2,699	5,154	6,447	5,185	5,825	7,731
Other assets	<b>418</b>	683	742	700	664	671	855	960	1,249	1,390
Total assets	<b>20,526</b>	23,967	28,385	26,408	26,896	28,114	29,651	29,542	31,076	26,782
Bank loans	<b>(1,450)</b>	(2,810)	(3,635)	(2,813)	(2,302)	(3,250)	(4,800)	(4,418)	(6,238)	(3,150)
Other liabilities	<b>(3,139)</b>	(5,228)	(7,283)	(5,706)	(6,391)	(8,318)	(7,521)	(7,878)	(8,391)	(8,069)
Net assets	<b>15,937</b>	15,929	17,467	17,889	18,203	16,546	17,330	17,246	16,447	15,563
Share capital	<b>3,641</b>	3,641	3,641	3,641	3,641	3,641	3,641	3,641	3,641	3,641
Reserves	<b>11,976</b>	11,841	13,443	13,635	13,913	12,188	12,544	12,564	11,740	10,950
Shareholders' equity	<b>15,617</b>	15,482	17,084	17,276	17,554	15,829	16,185	16,205	15,381	14,591
Non-controlling interests	<b>320</b>	447	383	613	649	717	1,145	1,041	1,066	972
Total equity	<b>15,937</b>	15,929	17,467	17,889	18,203	16,546	17,330	17,246	16,447	15,563
Net debt/(cash)	<b>361</b>	1,516	1,725	385	(397)	(1,904)	(1,647)	(767)	413	(4,581)
<b>Financial Data</b>										
<i>Per share data</i>										
Earnings/(loss) per share (HK\$)										
– Underlying net profit (Note a)	<b>0.06</b>	0.58	0.61	0.72	1.82	1.08	1.68	1.20	2.07	2.73
– Reported profit/(loss)	<b>(0.03)</b>	(1.58)	0.17	1.17	1.86	0.98	1.74	1.53	1.80	4.31
Net assets value per share (HK\$)	<b>22.03</b>	21.84	24.10	24.38	24.77	22.33	22.84	22.86	21.70	20.59
Dividends per share (HK cents)	<b>–</b>	–	22.00	30.00	70.00	50.00	70.00	60.00	78.00	96.00
Special dividends per share (HK cents)	<b>–</b>	14.00	–	–	–	–	–	–	–	–
<i>Financial ratios</i>										
Net debt to total equity (%)	<b>2.3%</b>	9.5%	9.9%	2.2%	N/A	N/A	N/A	N/A	2.5%	N/A
Return on shareholders' equity (%) (Note b)	<b>–0.2%</b>	–7.0%	+0.7%	+4.8%	+7.9%	+4.3%	+7.6%	+6.9%	+8.5%	+23.5%
Dividend cover (Times)										
– Underlying net profit (Note a)	<b>N/A</b>	4.1	2.8	2.4	2.6	2.2	2.4	2.0	2.6	2.8
– Reported profit	<b>N/A</b>	N/A	0.8	3.9	2.7	2.0	2.5	2.6	2.3	4.5
Interest cover (Times) (Note c)	<b>21.5</b>	10.6	7.9	8.2	101.4	14.3	18.5	7.3	17.4	52.2

## Notes:

- Underlying net profit mainly excludes changes in investment property revaluation and impairment provision for hotel properties/hotel properties under development.
- Return on shareholders' equity is based on profit/(loss) attributable to shareholders over average shareholders' equity during the year.
- Interest cover is based on EBITDA over finance costs (before capitalisation, fair value gain/(loss) and impairment loss).
- Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.