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# WHARF

*Established 1886*

**WHARF REAL ESTATE INVESTMENT COMPANY LIMITED**

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

Stock Code: 1997

## **2020 Final Results Announcement**

**UNPRECEDENTED PANDEMIC SPARED NO ONE**

### **HIGHLIGHTS**

- Hong Kong retail sales drop 24%
- Mall net operating cash flow drop 36% after rental drop, rent relief & tripling in marketing expenses
- Mall sales drop slowed during fourth quarter
- Hotel revenue landslide by 58%
- Group underlying net profit down 24%
- IP revaluation drop 5.5%
- Dividend policy maintained

### **GROUP RESULTS**

Underlying net profit decreased by 24% to HK\$7,477 million (2019: HK\$9,791 million), equivalent to HK\$2.46 (2019: HK\$3.23) per share.

Inclusive of net Investment Properties (“IP”) revaluation deficit of HK\$13,765 million (2019: HK\$5,742 million), Group loss attributable to equity shareholders was HK\$7,854 million (2019: profit of HK\$3,928 million). Basic loss per share was HK\$2.59 (2019: earnings per share of HK\$1.29).

## **DIVIDENDS**

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

## **BUSINESS REVIEW**

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

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

On the other hand, the office sector was hit by macro factors including a broad and sharp downturn in the global economy, slowdown in economic activities under local "work from home" rules, and new supply in the market. Vacancy rose and rents softened.

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

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

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

### **Harbour City**

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

#### ***Retail***

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

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

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

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

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

### **Office**

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

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

### **Gateway Apartments**

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

### **Hotels and Club**

The three Canton Road Marco Polo hotels suffered as inbound tourism almost completely stopped. Restrictions on bars and restaurants under the tightening social distancing measures created another major hurdle. During the year, Marco Polo Hongkong Hotel and Gateway Hotel proactively unveiled various appealing staycation and dining packages to draw in the local market, while Prince Hotel was closed since February 2020 for a major renovation, scheduling for reopening in 2021 with refreshing, new contemporary elements.

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

In early 2020, Marco Polo Hongkong Hotel was proudly ranked among the Top 10 ‘Best Hotels & Resorts in Hong Kong’ in the 2020 DestinAsian Readers’ Choice Awards, receiving the notable accolade for the third consecutive year. *Cucina* Restaurant also achieved the much-coveted global Forbes 4-Star rating of only six venues in Hong Kong.

## **Times Square**

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

### ***Retail***

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

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

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

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

### ***Office***

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

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

## **Central Portfolio**

Crawford House and Wheelock House maintained steady demand from diversified tenants despite the soft market. At the end of December 2020, office occupancies at Wheelock House and Crawford House were 94% and 95% respectively, while the retail premises at both properties were fully let. Revenue increased by 2% and operating profit by 3%.

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

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

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

**Plaza Hollywood**

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

As an established retail destination serving the burgeoning middle class in Kowloon East CBD2, Plaza Hollywood is well-positioned to capture the potential post-COVID revival in local spending. Situated atop the Diamond Hill MTR station, an integrated public transport hub, its geographical advantage was further strengthened with the partial opening of the MTR's Tuen Ma Line in early 2020. In a bid to drive footfall and encourage repeat purchase in the challenging market, a spate of compelling sales-driven coupon redemption programmes, cross-trade promotions and special reward programmes for VIC members was launched during the year.

**Singapore Portfolio**

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

Wheelock Place office tower and retail portion were 97% and 93% occupied at year-end respectively whilst Scotts Square mall retail achieved occupancy of 91%.

## FINANCIAL REVIEW

### (I) Review of 2020 full year results

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

#### Revenue and Operating Profit

Group revenue and operating profit decreased by 3% to HK\$15,515 million (2019: HK\$16,043 million) and 22% to HK\$9,973 million (2019: HK\$12,711 million), respectively, as IP and Hotel were dramatically affected by COVID-19 pandemic with the consequential disruptions like worldwide travel restrictions, quarantines, lockdowns and social distancing measures.

IP segment was hit hard under the shrinking retail market amid COVID-19 pandemic. IP revenue and operating profit decreased by 17% to HK\$11,828 million (2019: HK\$14,279 million) and 22% to HK\$9,733 million (2019: HK\$12,501 million) respectively, mainly resulting from rent support of over HK\$2 billion extending to retail tenants and considerable increase in marketing and programming cost to stimulate footfall and retail tenants’ sales amid the stagnant market conditions.

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

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

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

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

### Fair Value Loss of IP

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

### Other Net Charge

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

### Finance Costs

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

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

### Income Tax

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

### Loss Attributable to Equity Shareholders

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

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

## (II) Liquidity, Financial Resources and Capital Commitments

### Shareholders' and Total Equity

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

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

### Assets

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

### IP

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

### Hotels

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

### DP

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

### Other long term investments

Other long term investments amounted to HK\$13.0 billion (2019: HK\$4.1 billion), including a portfolio of blue chips held for long term growth and reasonable dividend return. The portfolio performed overall in line with the market and each investment within which is individually not material to the Group's total assets. Revaluation on these investments during the year produced a net surplus of HK\$1.2 billion as reflected in the other comprehensive income. The attributable accumulated surplus balance at the year-end was HK\$1.5 billion (2019: HK\$0.3 billion).

## Debts and Gearing

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

An analysis of net debt is depicted below:

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

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

## Finance and Availability of Facilities

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

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

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

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

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

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

## Cash Flows for the Group's Operating and Investing Activities

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

## Capital Commitments

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

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

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

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

### **(III) Human Resources**

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**  
**For the year ended 31 December 2020**

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

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended 31 December 2020**

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2020**

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

## NOTES TO THE FINANCIAL INFORMATION

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

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

The accounting policies and methods of computation used in the preparation of the financial information are consistent with those used in the annual financial statements for the year ended 31 December 2019 except for the changes mentioned below.

The HKICPA has issued a number of amendments to HKFRSs that are first effective starting from 1 January 2020. Of these, the following developments are relevant to the Group’s consolidated financial statements:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of material

The Group has assessed the impact of the above amendments and considered that there was no significant impact on the Group’s results and financial position.

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

## 2. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined four reportable operating segments for measuring performance and allocating resources. The segments are investment property, development property, hotel and investment. No operating segment have been aggregated to form the reportable segments.

Investment property segment primarily entails property leasing and management operations. Currently, the Group's investment properties portfolio, which mainly consists of retail, office and serviced apartments, is primarily located in Hong Kong and Singapore.

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

Hotel segment includes hotel operations in Hong Kong and Mainland China.

Investment segment represents equity investments in global capital markets.

Management evaluates performance primarily based on operating profit as well as the equity share of results of an associate and joint ventures of each segment. Inter-segment pricing is generally determined on an arm's length basis.

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

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

## 2. SEGMENT INFORMATION

### a. Analysis of segment revenue and results

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

## 2. SEGMENT INFORMATION

### b. Disaggregation of revenue

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

## 2. SEGMENT INFORMATION

### c. Analysis of inter-segment revenue

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

### d. Analysis of segment business assets

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

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

## 2. SEGMENT INFORMATION

### e. Geographical information

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

  

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

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

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

### 3. OPERATING PROFIT

Operating profit is arrived at:

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

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

Notes:

- (i) Staff costs included defined contribution pension schemes costs for the year ended 31 December 2020 of HK\$49 million (2019: HK\$48 million).
- (ii) Government grants mainly included subsidy from the Employment Support Scheme under the Anti-epidemic Fund by The Government of the Hong Kong Special Administrative Region.
- (iii) Interest income for the year ended 31 December 2020 of HK\$26 million (2019: HK\$37 million) are generated in respect of financial assets (mainly comprising bank deposits) stated at amortised cost.

#### 4. OTHER NET CHARGE

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

- a. Impairment provision of HK\$1,051 million (2019: HK\$157 million) made for hotel properties, with reference to an independent valuation performed by Knight Frank Petty Limited, an independent firm of professional surveyors, on a market value basis and has taken into account the net income of the respective properties.
- b. Net foreign exchange loss of HK\$284 million (2019: gain of HK\$15 million) which included the impact arising from forward foreign exchange contracts.

#### 5. FINANCE COSTS

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

## 6. INCOME TAX

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

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

Notes:

- a. The provision for Hong Kong Profits Tax is based on the profit for the year as adjusted for tax purposes at a rate of 16.5% (2019: 16.5%).
- b. Income tax on assessable profits outside Hong Kong is mainly China corporate income tax calculated at a rate of 25%, China withholding tax on dividend at a rate of up to 10% and Singapore income tax at a rate of 17% for the years ended 31 December 2020 and 2019.
- c. Under the Provisional Regulations on LAT, all gains arising from the transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds on sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditure. An one-off LAT write-back of HK\$504 million was recorded upon clearance with relevant tax authorities in Mainland China.
- d. Tax attributable to an associate for the year ended 31 December 2020 of HK\$21 million (2019: HK\$21 million) is included in the share of results of an associate.

## 7. (LOSS)/EARNINGS PER SHARE

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

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

## 8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

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

- (a) The second interim dividend based on 3,036 million (2019: 3,036 million) ordinary shares in issue declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.
- (b) The second interim dividend of HK\$2,824 million for 2019 was approved and paid in 2020.

## 9. TRADE AND OTHER RECEIVABLES

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

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

The Group has established credit policies for each of its core business. The general credit terms allowed range from 0 to 60 days, except for sale of properties from which the proceeds are receivable pursuant to the terms of the agreements. All the trade and other receivables are expected to be recoverable within one year, except for an amount of HK\$204 million in relation to the rental concessions offered to the tenants, which is expected to be utilised after more than one year.

## 10. TRADE AND OTHER PAYABLES

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

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

## 11. COMPARATIVE FIGURES

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

## 12. REVIEW OF FINANCIAL RESULTS

The financial results for the year ended 31 December 2020 have been reviewed with no disagreement by the Audit Committee of the Company. The figures in respect of the Group's financial results in this announcement for the year ended 31 December 2020 have been agreed by the Company's Auditors to the amounts set out in the Group's consolidated financial statements for the year.

## **CORPORATE GOVERNANCE CODE**

During the financial year ended 31 December 2020, all the code provisions set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 providing for the roles of the chairman and chief executive to be performed by different individuals.

Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be Chairman of the Company as well as to discharge the executive functions of a chief executive thereby enabling more effective planning and better execution of long-term strategies. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with more than half of them being Independent Non-executive Directors.

## **PURCHASE, SALE OR REDEMPTION OF SECURITIES**

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

## **RELEVANT DATES FOR SECOND INTERIM DIVIDEND AND ANNUAL GENERAL MEETING**

### Second Interim Dividend

Ex-entitlement date	24 March 2021 (Wed)
Latest time to lodge share transfer	4:30 p.m., 25 March 2021 (Thu)
Record date/ time	6:00 p.m., 25 March 2021 (Thu)
Payment date	22 April 2021 (Thu)

In order to qualify for the above-mentioned second interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 25 March 2021.

### Annual General Meeting ("AGM")

Ex-entitlement date	29 April 2021 (Thu)
Latest time to lodge share transfer	4:30 p.m., 30 April 2021 (Fri)
Book closure period	3 May 2021 (Mon) to 6 May 2021 (Thu), both days inclusive
Record date	3 May 2021 (Mon)
AGM date/ time	11:15 a.m., 6 May 2021 (Thu)

In order to be eligible for attending and voting at the AGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 30 April 2021.

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

Hong Kong, 4 March 2021

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