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CK ASSET HOLDINGS LIMITED

長江實業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1113)

THE CHAIRMAN'S STATEMENT FOR 2020

HIGHLIGHTS

Year ended 31 December	2020	2019	2020	2019	Change
	HK\$ million	HK\$ million	HK\$ per share	HK\$ per share	
Underlying profit^{Note 1}	19,339	28,644	5.24	7.76	-32.5%
Change in fair values^{Note 2}					
Real estate investment trusts	(1,067)	85			
Investment properties	(945)	405			
Pub property asset impairment	(995)	-			
Reported earnings^{Note 3}	16,332	29,134	4.42	7.89	-44.0%
Final dividend			1.46	1.58	-7.6%
Full year dividend			1.80	2.10	-14.3%

Note 1 : Underlying profit, a non-IFRS measure, represents profit before taking into account (i) change in fair values of Fortune REIT, Prosperity REIT and investment properties; and (ii) pub property asset impairment. 2019 underlying profit has been restated to conform with current year measurement.

Note 2 : Change in fair values are after tax and non-controlling interests.

Note 3 : Reported earnings represent profit attributable to shareholders.

PROFIT FOR THE YEAR

The Group's underlying profit^{Note 1} per share for the year ended 31 December 2020 was HK\$5.24 (2019 – HK\$7.76), a decrease of 32.5% as compared to 2019. Fair values of the Group's investments in REITs and investment properties decreased by HK\$1,067 million and HK\$945 million respectively, and impairment of HK\$995 million was recognised for pub property assets. Reported earnings per share were HK\$4.42 (2019 – HK\$7.89), a decrease of 44.0% as compared to 2019, mainly due to the ongoing adverse impact of the COVID-19 pandemic on the Group's businesses.

DIVIDEND

The Directors recommend the payment of a final dividend of HK\$1.46 per share in respect of 2020 to shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 20 May 2021. This together with the interim dividend of HK\$0.34 per share paid on 17 September 2020 gives a total of HK\$1.80 per share for the year (2019 – HK\$2.10 per share). The proposed final dividend will be paid on Thursday, 3 June 2021 following approval at the 2021 Annual General Meeting.

PROSPECTS

Strong Resilience in Challenging Times

Business Review

The COVID-19 health crisis has impacted the world on an unprecedented scale. Daily lives and business activities across sectors have changed in myriads of ways. The global economy plunged into deep recession due to lockdowns and social restrictions. The hotel operation, aircraft leasing and pub operation of the Group were severely impacted. A reduction in profit attributable to shareholders was recorded in 2020 as compared to 2019. The Group will continue to meet the tides of disruptions with caution and future challenges with determination to innovate. We will pursue suitable opportunities to create sustainable value for our shareholders through gradual enhancement of recurrent income base and quality of earnings.

Property Sales

While the property market in Hong Kong was subdued by several waves of COVID-19 infections, the low interest rate environment and the underlying purchasing power of homebuyers continued to support the market. Despite the Group recorded a lower contribution from property sales in Hong Kong in 2020 as compared to 2019, launches of pre-sale of El Futuro, Sea to Sky and Seaside Sonata during the year were well received, and an increase in contracted sales as compared to 2019 was recorded. The Group acquired a lot at Anderson Road in Kwun Tong for residential project during the year under review and another site in Kai Tak waterfront area in February 2021 earmarked for development of private domestic units. The Group will continue to identify suitable land for development purpose.

Although the Mainland property market was under pressure in early 2020, it had steadily improved since March 2020 following the effective control of the pandemic and the resumption of work and production. Contribution from property sales on the Mainland was in line with expectations and partly offset the lower contribution from property sales in Hong Kong.

Property Rental

The overall contribution from property rental in 2020 decreased by 14% as compared to 2019, attributable mainly to the negative impact of the pandemic and the economic downturn on retail and office leasing. The retail sector in Hong Kong suffered from weak consumer sentiment. Tailor-made solutions were devised to assist retail tenants battered by the crisis to ease their financial pressure. The new OP Mall in Tsuen Wan generated a satisfactory leasing response, while the redevelopment of Hutchison House in Central was on track. The Group will continue to strengthen its investment property portfolio for stable recurrent income and long-term asset appreciation.

Hotel and Serviced Suite Operation

The hotel industry was severely hit by a sharp decline in visitor arrivals due to the continuing COVID-related travel restrictions. While the occupancy rate for hotel rooms targeted at the tourist market plummeted, performance of the Group's hotel rooms operated as serviced suites with occupancies on a longer term basis remained relatively stable. A small contribution was recorded for the overall hotel and serviced suite operation in 2020. Hotel Alexandra in North Point will commence operation in 2021. The Group's hotel and serviced suite operation comprises approximately 15,000 rooms.

Aircraft Leasing

The impact of the pandemic on the aviation industry has been unrelenting. Various airlines sought government support or restructured in the attempt to survive this crisis. In order to protect cash flow and mitigate the risk of repossession and remarketing of aircraft, AMCK Aviation negotiated restructuring or deferral arrangements with certain lessees on a case by case basis. Contribution from aircraft leasing decreased as provisions for aircraft impairment and lease receivables were required and a net contribution of HK\$1,119 million was recorded in 2020. It is expected that recovery in travel demand and relaxation of restrictions will take time. AMCK Aviation will continue to focus on protecting its revenue base and asset values while working with its airline partners to navigate through this unprecedented challenge.

Pub Operation

The hospitality and pub industry in the United Kingdom was significantly curtailed by lockdowns and trading restrictions since March 2020. Greene King recognised an impairment of HK\$995 million for certain pub property assets due to underutilisation resulting from such lockdowns and restrictions, and incurred other operating losses of HK\$2,467 million for the year. Greene King will closely monitor the situation and strategically position itself to exit the crisis stronger. With the backing of the Group and a significant freehold asset base, Greene King is poised to bring the business back to a path of recovery and generate normal returns in the near future when the situation eases.

Infrastructure and Utility Asset Operation

Infrastructure and utility asset operation is a key contributor of steady recurrent income to the Group. The pandemic also disrupted the performance of this sector, although to a lesser extent due to the stable nature of infrastructure and utility assets. CK William Group contributed HK\$1,369 million during the year from its businesses comprising electricity distribution, gas transmission and distribution, as well as the provision of electricity generation solutions for remote customers in Australia and other countries. Reliance Home Comfort contributed HK\$1,159 million from its building equipment and services business in Canada. ista contributed HK\$1,322 million from its fully integrated energy management services business in Europe. The economic benefits of infrastructure businesses received by the Group under an economic benefits agreement contributed HK\$638 million. The Group will continue to source global diversified infrastructure and utility assets and related investment opportunities.

Sustainability Initiatives and Response to COVID-19

A board-level Sustainability Committee was set up in 2020 to reinforce the work of the Sustainability Working Group that has been established since 2016, and to build a closer connection with our stakeholders and address material sustainability risks and key opportunities systematically. The Group will issue its first standalone Sustainability Report in April 2021 to provide more comprehensive disclosure on the Group's sustainability practices.

In view of the dire challenge posed by the COVID-19 pandemic, the Group promptly implemented various anti-pandemic initiatives to safeguard its employees, tenants, customers and the community. Apart from providing personal protective equipment to frontline staff and enhancing the disinfection procedure of its managed properties and hotels, the Group also provided hand sanitisers and performed body temperature checks for occupants, visitors and guests. Special guidance on work arrangements for social distancing were issued to contractors working at the Group's construction sites. Pub Safe was launched by Greene King in the UK, implementing a safe socialising layout and introducing hygiene and pub safe monitors. The Group has adopted a split team and, where appropriate, work-from-home arrangement and contingency offices were established. Board and board committee meetings were conducted through digital communication facilities, and shareholders were encouraged to participate in the Group's 2020 annual general meeting via webcast.

Outlook

COVID-19 vaccines spark a glimmer of hope in the new dawn. Economic restart predominantly depends on the pandemic situation. The Sino-US trade relationship and policies remain unsettled as the administration changes in the United States. Brexit and quantitative easing policy further add to the enormous uncertainties. Multitudes of challenges and pressure are expected for the global economy and the business environment in 2021.

The Mainland recorded a positive real GDP growth in 2020. Following the regional stabilisation of the pandemic in the second quarter, economic recovery on the Mainland continues with gradual improvement in its economic indicators. Expansion in domestic demand coupled with positive interactions between the mainstay domestic market and foreign markets pursuant to the new development paradigm of dual circulation under the 14th Five-Year Plan is expected to sustain a healthy economic development.

Recurrent waves of COVID-19 pandemic in Hong Kong is expected to continue to exert pressure on the local economy and unemployment rate during the first half of the year. Positive growth in 2021 will be driven by the vaccination program and easing of the pandemic situation. The local property market is expected to remain stable and resilient over the medium and long term on account of low interest rate alongside an unfaltering demand. Housing policies will continue to be determining factors. Hong Kong as an international financial centre and an innovation and technology hub will continue to benefit from the ample opportunities created by the Greater Bay Area development. Deeper integration of Hong Kong into the overall national development would provide additional impetus for future growth.

The Group has demonstrated its resilience amid recessions and setbacks over the decades. The Group's financial position remains strong against the economic headwinds due to its solid foundation, worldwide quality assets and recurrent income base. Although 2021 will be full of uncertainties, the Group is determined to maintain stable operation and financial stability through cautious risk management. The Group will critically assess every challenge and opportunity in accordance with its prudent investment policy and remain steadfast in the face of adversity. The Group will moderate growth against stability, and sustain shareholders' value by enhancing the quality of earnings and the recurrent income base. The Group is optimistic that it will regain momentum of growth once the pandemic situation resolves and the global business environment improves.

As at the end of year, the Group had a net debt to net total capital ratio of approximately 4.8%. The Group has maintained "A/Stable" and "A2 Stable" credit ratings from Standard & Poor's and Moody's respectively, demonstrating its stable financial profile.

Acknowledgement

Intelligent, creative, dedicated, experienced and loyal employees are the Group's most valuable asset in this extremely competitive and challenging global environment. My colleagues on the Board join me in thanking our team of diligent employees for their hard work, adaptability, loyal service and contributions during the year.

Victor T K Li
Chairman

Hong Kong, 18 March 2021

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Major Business Activities

1. Developments Completed during 2020:

Name	Location	Gross Floor Area (sq.ft.)	Group's Interest
Yuhu Mingdi Phase 3 (2)	Huangpu District, Guangzhou	120,187	80%
Upper West Shanghai Phase 2 Tender 3 and Phase 4 Tender 2 (Residential)	Putuo District, Shanghai	1,136,766	60%
Regency Hills Land No. 14 (Block 14)	Yangjiashan, Nanan District, Chongqing	299,538	95%
Laguna Verona Phases D2c1 and G2b Zone 1	Hwang Gang Lake, Dongguan	1,883,984	99.8%
Noble Hills Phase 3A	Zengcheng, Guangzhou	799,080	100%
Emerald Cove	Wuguishan, Zhongshan	676,005	100%

2. Developments in Progress and Scheduled for Completion in 2021:

Name	Location	Gross Floor Area (sq.ft.)	Group's Interest
Seaside Sonata	New Kowloon Inland Lot No. 6506	595,702	Joint Venture
SEA to SKY	Site H of The Remaining Portion of Tseung Kwan O Town Lot No. 70	1,044,104	Joint Venture
Yuhu Mingdi Phase 3 (3)	Huangpu District, Guangzhou	333,493	80%
La Grande Ville Phase 5	Shun Yi District, Beijing	487,766	100%
Upper West Shanghai Phase 4 Tender 2 (T14)	Putuo District, Shanghai	403,216	60%
Laguna Verona Phases D2c2 and G1b /G2a Zone 3	Hwang Gang Lake, Dongguan	1,788,960	99.8%
Noble Hills Phases 3B and 3C	Zengcheng, Guangzhou	619,107	100%
Emerald Cove Phases 1 and 2	Daya Bay, Huizhou	2,511,842	100%
Regency Garden Phase 5B-1	Pudong New District, Shanghai	334,198	85%
Regency Cove Phase 2B	Caidian District, Wuhan	657,620	100%

3. New Acquisitions and Joint Developments and Other Major Events:

- (1) May 2020: A wholly owned subsidiary of the Group was awarded a Government tender for a site, Lot No. 1069 in Survey District No. 3, off Anderson Road, Kwun Tong, Kowloon. With an area of approximately 217,076 sq.ft. (approximately 20,167 sq.m.), the site is designated for a residential development estimated to have a developable gross floor area of approximately 1,089,145 sq.ft. (approximately 101,185 sq.m.). Not less than 1,000 units out of the total number of residential units to be erected within the lot shall be starter homes units under the Starter Homes Pilot Project.
- (2) July 2020: On 23 July 2020, two indirect wholly owned subsidiaries of the Group (the “Sellers”) entered into the reinstatement and fifth amendment agreement with RZ3262019 Limited (the “Purchaser”) to reinstate and amend the share purchase agreement dated 9 May 2019 (as amended) made between the two parties for the sale of the entire issued share capital of Carton International Limited and Happy Magic Enterprises Inc. (the “Target Companies”, both were indirect wholly owned subsidiaries of the Group) and the assignment of the related shareholder loans, to the Purchaser at a total consideration of approximately US\$1,012,481,987 (subject to adjustment) (“Consideration”), which was completed on 23 July 2020. The Target Companies, directly or indirectly, together hold the entire equity interest in a company established in the PRC, which is the owner and developer of the property development known as “Chengdu Le Parc” (also known as “南城都匯商住項目”) in Chengdu, PRC, comprising residential and commercial units and car parks. The Consideration was partly paid for by a loan in the US\$ equivalent sum of RMB2,400,000,000 advanced by the Sellers to the Purchaser.
- (3) July 2020: A wholly owned subsidiary of the Group updated the existing US\$5,000 million Euro Medium Term Note Programme (the “Programme”) guaranteed by the Company for the purpose of issuing notes (the “Notes”) which may be denominated in any currency as agreed with the dealer(s) from time to time. The Programme was listed on 23 July 2020 on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) and Notes may be listed on the Stock Exchange or such other stock exchange(s) as may be agreed with the relevant dealer(s).
- (4) September 2020: A wholly owned subsidiary of the Group issued Guaranteed Senior Perpetual Capital Securities (“3.80% Securities”) in an aggregate principal amount of US\$300 million with an annual distribution rate of 3.80% which are guaranteed by the Company. The 3.80% Securities were listed on the Stock Exchange on 18 September 2020.
- (5) October 2020: The Group reached a land exchange agreement with the Government in respect of a site at 38 Coombe Road, The Peak, Hong Kong (Rural Building Lot No. 1207) for an area of approximately 11,840 sq.ft. (approximately 1,100 sq.m.). The site is designated for residential development and estimated to have a gross floor area of approximately 5,920 sq.ft. (approximately 550 sq.m.).

- (6) October 2020: On 16 October 2020, a wholly-owned subsidiary of the Group issued a notice of redemption to redeem all of the US\$1,500,000,000 4.60% Guaranteed Senior Perpetual Capital Securities (“4.60% Securities”) and the distribution accrued on 18 November 2020. Upon completion of the redemption of the 4.60% Securities, there was no further 4.60% Securities in issue. Accordingly, an application was made to the Stock Exchange for the withdrawal of the listing of the 4.60% Securities, and the listing of the 4.60% Securities was withdrawn with effect upon the close of business on 26 November 2020.
- (7) December 2020: A wholly owned subsidiary of the Group issued Guaranteed Senior Perpetual Capital Securities (“3.50% Securities”) in an aggregate principal amount of US\$500 million with an annual distribution rate of 3.50% which are guaranteed by the Company. The 3.50% Securities were listed on the Stock Exchange on 23 December 2020.
- (8) February 2021: A wholly owned subsidiary of the Group was awarded a Government tender for a site, New Kowloon Inland Lot No. 6604, Kai Tak Area 4E Site 2, Kai Tak, Kowloon. With an area of approximately 117,843 sq.ft. (approximately 10,948 sq.m.), the site is designated for a residential/retail development estimated to have a developable gross floor area of approximately 648,137 sq.ft. (approximately 60,214 sq.m.).

Property Sales

Revenue of property sales (including share of joint ventures) recognised for the year was HK\$38,670 million (2019 – HK\$64,108 million), comprising mainly (i) sales of the remaining units and carpark of projects completed previously in Hong Kong; (ii) sales of various development projects on the Mainland – Upper West Shanghai and Hupan Mingdi in Shanghai, Regency Hills in Chongqing, Le Parc in Chengdu and Noble Hills in Guangzhou; (iii) sales of Chelsea Waterfront in the United Kingdom; and (iv) sales of Stars of Kovan in Singapore, and is summarised by location as follows:

Location	2020 HK\$ Million	2019 HK\$ Million
Hong Kong	8,941	50,020
The Mainland	27,114	13,059
Overseas	2,615	1,029
	38,670	64,108

Contribution for the year amounted to HK\$19,112 million (2019 – HK\$21,372 million) and is summarised by location as follows:

Location	2020 HK\$ Million	2019 HK\$ Million
Hong Kong	3,880	18,982
The Mainland	14,626	2,074
Overseas	606	316
	19,112	21,372

During the year, significant contributions were derived from property sales on the Mainland including the sales of residential units of Upper West Shanghai, a composite development which is 60% owned by the Group, and the sale of all remaining units and carpark of Le Parc in Chengdu.

The presales of residential units of Sea to Sky, Seaside Sonata and El Futuro in Hong Kong and various projects on the Mainland including Laguna Verona in Dongguan, Noble Hills in Guangzhou and Regency Garden in Shanghai are progressing steadily. Contribution to profit is expected upon sales recognition when the projects are completed.

Property sales contracted but not yet recognised at 31 December 2020 are as follows:

Location	Scheduled for Sales Recognition		
	In 2021 HK\$ Million	After 2021 HK\$ Million	Total HK\$ Million
Hong Kong	16,208	4,271	20,479
The Mainland	15,870	4,224	20,094
Overseas	50	631	681
	32,128	9,126	41,254

At the year end date, the Group had a development land bank (including developers' interests in joint development projects but excluding agricultural land and completed properties) of approximately 80 million sq.ft., of which 5 million sq.ft., 71 million sq.ft. and 4 million sq.ft. were located in Hong Kong, on the Mainland and overseas respectively.

Property Rental

Revenue of property rental (including share of joint ventures) for the year was HK\$6,751 million (2019 – HK\$7,450 million) and comprised rental income derived from leasing of retail, office, industrial and other properties as follows:

	2020	2019
Use of Property	HK\$ Million	HK\$ Million
Retail	2,733	3,357
Office	2,840	2,926
Industrial	725	736
Others	453	431
	6,751	7,450

The Group's investment properties are primarily located in Hong Kong including Cheung Kong Center, China Building and Hutchison House (currently under redevelopment) in Central, 1881 Heritage in Tsimshatsui, Whampoa Garden in Hunghom, Hutchison Logistics Centre in Kwai Chung and others. During the year, the Group completed the acquisition of OP Mall in Tsuen Wan and further expanded its retail property investment portfolio in Hong Kong.

Contribution for the year amounted to HK\$5,935 million (2019 – HK\$6,897 million) and is summarised by location as follows:

	2020	2019
Location	HK\$ Million	HK\$ Million
Hong Kong	4,880	5,466
The Mainland	510	649
Overseas	545	782
	5,935	6,897

Rental contribution for the year decreased, when compared with last year, as the COVID-19 pandemic affected the global economy. Besides, certain retail properties in the United Kingdom, previously leased to Greene King for rental income, have become part of the pub operation since October 2019.

At the year end date, the Group had an investment property portfolio of approximately 17.2 million sq.ft. (including share of joint ventures but excluding car parking spaces) as follows:

Location	Retail Million sq.ft.	Office Million sq.ft.	Industrial Million sq.ft.	Others Million sq.ft.	Total Million sq.ft.
Hong Kong	3.2	3.9	5.9	-	13.0
The Mainland	1.5	0.4	-	-	1.9
Overseas	0.1	1.4	-	0.8	2.3
	4.8	5.7	5.9	0.8	17.2

A decrease of HK\$1,106 million (2019 – increase of HK\$228 million) in fair value of investment properties was recorded at 31 December 2020 based on a professional valuation using capitalisation rates ranging from approximately 4% to 8%.

Hotel and Serviced Suite Operation

Revenue of hotel and serviced suite operation (including share of joint ventures) for the year was HK\$2,055 million (2019 – HK\$4,185 million), a decrease of HK\$2,130 million when compared with last year, as hotel businesses in Hong Kong were severely hit by the COVID-19 pandemic.

During the year, the operation of Harbour Grand Hotels, Harbour Plaza Hotels & Resorts and other hotels of the Group reported on average a low occupancy rate of 20.1% under the pandemic situation whereas Horizon Hotels & Suites and other serviced suite operations managed to maintain an average occupancy rate of 86.7% with long stay guests.

Contribution of hotel and serviced suite operation for the year declined to HK\$260 million (2019 – HK\$1,345 million), a decrease of HK\$1,085 million when compared with last year due to operating losses incurred by the hotels, and is summarised by location as follows:

Location	2020 HK\$ Million	2019 HK\$ Million
Hong Kong	361	1,371
The Mainland	(101)	(26)
	260	1,345

The Group's hotel and serviced suite properties are mostly located in Hong Kong and provide approximately 15,000 rooms for guest accommodation.

Property and Project Management

Revenue of property and project management (including share of joint ventures) for the year was HK\$836 million (2019 – HK\$868 million) and mainly comprised management fees received for provision of property management and related services to properties developed by the Group.

Contribution for the year amounted to HK\$355 million (2019 – HK\$362 million) and is summarised by location as follows:

Location	2020 HK\$ Million	2019 HK\$ Million
Hong Kong	275	277
The Mainland	58	61
Overseas	22	24
	355	362

At the year end date, approximately 272 million sq.ft. of completed properties were managed by the Group and this is expected to grow steadily following gradual completion of property development projects in the years ahead. The Group is committed to providing high quality services to the properties under its management.

Aircraft Leasing

Revenue of aircraft leasing (including share of joint ventures) for the year was HK\$2,820 million (2019 – HK\$3,192 million), a decrease of HK\$372 million when compared with last year mainly due to the disposal of a few aircraft during the year, and comprised income derived from leasing of narrow body aircraft and wide body aircraft to airlines.

The airline industry has been hard hit by the worldwide travel restrictions due to the COVID-19 pandemic. The Group has worked closely with lessees which have liquidity problems, and lease restructuring and payment deferral have been arranged after careful considerations under the circumstances. Overdue lease payments were experienced during the year and the carrying values of some aircraft were required to be written down at the year end date.

Contribution for the year (including share of joint ventures) amounted to HK\$1,119 million (2019 – HK\$1,515 million), including a gain of HK\$201 million on disposal of aircraft and after provisions of HK\$136 million and HK\$70 million made for aircraft impairment and lease receivables respectively. Contribution with reference to lessee's location of operation is summarised as follows:

Location	2020 HK\$ Million	2019 HK\$ Million
Asia	388	481
Europe	266	438
North America	471	388
Latin America	(6)	208
	1,119	1,515

At the year end date, the Group (including interest in joint ventures) owned 120 narrow body aircraft and 5 wide body aircraft with an average age of 6.8 years and an average remaining lease term of 4.5 years, and had a total commitment of HK\$9.6 billion for acquisition of 20 aircraft.

Pub Operation

In October 2019, the Group completed the acquisition of Greene King, a leading integrated brewer and pub retailer operating about 2,700 pubs, restaurants and hotels across England, Wales and Scotland. Unfortunately, pub businesses in the United Kingdom have been badly hammered by lockdown measures imposed by the government to counteract the COVID-19 pandemic since March 2020.

The Greene King operation has been severely impacted by the mandated closure requirements of pubs and restaurants in the United Kingdom. Significant operating losses, mainly on payroll, were incurred during the year and impairment was recognised for certain pub property assets which had been underutilised in the pandemic situation.

Revenue and contribution for the year, after provision of HK\$995 million for asset impairment, were reported by division of the pub operation as follows:

Division	2020		2019	
	Revenue HK\$ Million	Contribution HK\$ Million	Revenue HK\$ Million	Contribution HK\$ Million
Pub Company	7,636	(3,105)	2,933	418
- operates food-led and drink-led destination pubs and restaurants and community-focused local pubs				
Pub Partners	734	5	297	119
- owns a portfolio of mainly drink-led pubs which are run as franchised or leased pubs				
Brewing & Brands	1,160	(362)	381	18
- sells and distributes a wide range of beers including ale brands brewed in own breweries				
	9,530	(3,462)	3,611	555

Infrastructure and Utility Asset Operation

The Group's infrastructure and utility asset businesses are operated through the following joint ventures:

	Principal Activity	Interest in Joint Venture
CK William JV	An owner and operator of energy utility assets in Australia, the United States, Canada and the United Kingdom	40%
CKP (Canada) JV	A building equipment and service provider under the consumer brand identity of "Reliance Home Comfort" in Canada	75%
Sarvana JV	A fully integrated energy management service provider operated by ista Group in Europe	65%

and the revenue shared by the Group for the year is as follows:

	2020 HK\$ Million	2019 HK\$ Million
CK William JV	4,332	4,158
CKP (Canada) JV	3,749	3,542
Sarvana JV	5,409	5,205
	13,490	12,905

The Group also invests in the economic benefits of the following infrastructure and utility asset businesses:

	Principal Activity	Interest in Economic Benefit
Park'N Fly	An off-airport car park provider in Canada	20%
UK Rails	A rolling stock operating company in the United Kingdom	20%
Northumbrian Water	A regulated water and sewerage company in England and Wales	16%
Dutch Enviro Energy	An energy-from-waste company in the Netherlands	14%
Wales & West Gas Networks	A gas distributor that serves Wales and the South West of England	12%
Australian Gas Networks	A distributor of natural gas in Australia	11%

Profit contribution for the year amounted to HK\$4,488 million (2019 – HK\$4,524 million), and is summarised by location as follows:

	Australia HK\$ Million	Europe HK\$ Million	North America HK\$ Million	2020 Total HK\$ Million	2019 Total HK\$ Million
CK William JV	1,279	27	63	1,369	1,548
CKP (Canada) JV	-	-	1,159	1,159	1,086
Sarvana JV	-	1,322	-	1,322	1,260
Other investments	147	491	-	638	630
	1,426	1,840	1,222	4,488	4,524

Interests in Real Estate Investment Trusts

The Group's interests in listed real estate investment trusts at the year end date were as follows:

	Principal Activity	Interest
Hui Xian REIT	Investment in hotels and serviced suites, office and retail properties on the Mainland	32.5%
Fortune REIT	Investment in retail properties in Hong Kong	26.9%
Prosperity REIT	Investment in office, retail and industrial properties in Hong Kong	18.1%

Hui Xian REIT is an associate and made a contribution of HK\$189 million (2019 – HK\$175 million) to group profit for the year, whereas distributions received during the year amounted to HK\$235 million (2019 – HK\$517 million).

Distributions received from Fortune REIT and Prosperity REIT during the year amounted to HK\$300 million (2019 – HK\$319 million) and were recognised as investment income. A decrease of HK\$1,067 million (2019 – increase of HK\$85 million) in fair value of the Group's investments in Fortune REIT and Prosperity REIT was recorded based on the market closing price at 31 December 2020.

FINANCIAL REVIEW

Liquidity and Financing

The Group monitors its liquidity requirements on a short to medium term basis and arranges bank and other borrowings accordingly.

At the year end date, the Group's bank and other loans amounted to HK\$77.9 billion, a decrease of HK\$2.2 billion when compared with bank and other loans at 31 December 2019. The maturity profile was spread over a period of 16 years, with HK\$22.9 billion repayable within 1 year, HK\$37.8 billion within 2 to 5 years and HK\$17.2 billion beyond 5 years.

In September 2020, the Group issued US\$300 million perpetual capital securities with an annual distribution rate of 3.8% which are redeemable at the Group's option on or after 17 September 2023. In November 2020, the US\$1,500 million perpetual capital securities issued in 2017 with an annual distribution rate of 4.6% were redeemed. Subsequently in December 2020, US\$500 million perpetual capital securities were issued with an annual distribution rate of 3.5% and are redeemable at the Group's option on or after 22 December 2023. The perpetual capital securities issued in September and December 2020 have no maturity and are taken as long term equity.

The Group's net debt to net total capital ratio at 31 December 2020 was approximately 4.8%. Net debt is arrived at by deducting bank balances and deposits of HK\$59.5 billion from bank and other loans, and net total capital is the aggregate of total equity and net debt.

With plenty of cash on hand as well as available banking facilities, the Group's liquidity position remains strong and the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Treasury Policies

The Group maintains a conservative approach on foreign exchange exposure management and borrows principally on a floating rate basis. The Group manages and reviews its exposure to foreign exchange rates and interest rates regularly. For investment overseas and at times of financial uncertainty or volatility, hedging instruments including swaps and forwards are used in the management of exposure to foreign exchange rate and interest rate fluctuations.

At the year end date, the Group's borrowings were 55% in HK\$ and US\$ and 45% in other currencies, including AUD, GBP and RMB, which had been arranged for investments and operations in Australia, the United Kingdom and on the Mainland. The Group derives its revenue from property businesses mainly in HK\$ and RMB and maintains bank balances and deposits substantially in HK\$ and RMB. Income in foreign currencies is generated by overseas investments and operations, and cash in local currencies is maintained for operational requirements.

Charges on Assets

At the year end date, properties amounting to HK\$15,924 million (2019 – HK\$16,021 million) were charged to secure bank loans arranged for property projects on the Mainland, and properties amounting to HK\$33,078 million (2019 – HK\$37,058 million) were charged to secure other loans arranged for pub operation in the United Kingdom.

Contingent Liabilities

At the year end date, the Group provided guarantees for (i) revenue shared by land owner of a hotel project amounting to HK\$505 million (2019 – HK\$521 million); (ii) mortgage loans provided by banks to purchasers of properties developed by the Group on the Mainland amounting to HK\$4,662 million (2019 – HK\$1,975 million); and (iii) loans provided by banks to a joint venture amounting to HK\$3,781 million (2019 – HK\$3,502 million).

Employees

At the year end date, the Group employed approximately 58,000 employees. The related employees' costs for the year (excluding directors' emoluments), before employment support subsidies from governments and other reimbursements, amounted to approximately HK\$10,875 million. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis, together with reference to the profitability of the Group, remuneration benchmarks in the industry, and prevailing market conditions within the general framework of the Group's salary and bonus system. The Group does not have any share option scheme for employees.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

On 16 March 2020, Greene King Finance plc (“GKF”), an indirect subsidiary of the Company, (i) redeemed in full the principal amount outstanding of the Class A1 secured floating rate notes due 2031 issued by GKF (with an original principal amount of GBP150,000,000 and listed on the Irish Stock Exchange) for a redemption amount of GBP75,324,000 (excluding accrued interest) and (ii) redeemed in full the principal amount outstanding of the Class A3 secured floating rate notes due 2021 issued by GKF (with an original principal amount of GBP170,000,000 and listed on the Irish Stock Exchange) for a redemption amount of GBP21,363,900 (excluding accrued interest). As at 31 December 2020, GKF had outstanding (i) GBP950 million principal amount of notes which are listed on the Irish Stock Exchange, with fixed rates ranging from 3.59% to 5.32% and final repayment from 2031 – 2035 and (ii) GBP422 million principal amount of notes which are listed on the Irish Stock Exchange, with interest rate of LIBOR plus margin ranging from 1.80% to 2.50% and final repayment from 2033 – 2036. These notes are secured by charges over the future income stream of the pledged properties.

On 30 March 2020, Spirit Issuer plc (“SIP”), an indirect subsidiary of the Company, redeemed in full the GBP186,569,000 principal amount outstanding of the GBP200,000,000 floating rate Class A2 secured debenture bonds due 2031 issued by SIP and listed on the Luxembourg Stock Exchange at par, together with accrued but unpaid interest on the principal amount outstanding on 30 March 2020. As at 31 December 2020, SIP had outstanding GBP97 million principal amount of bonds which are listed on the Luxembourg Stock Exchange, with a fixed rate of 5.47% and final repayment in 2032.

On 16 October 2020, Radiant Access Limited, a wholly-owned subsidiary of the Company, issued a notice of redemption to redeem all of the 4.60% Securities and the distribution accrued on 18 November 2020. Upon completion of the redemption of the 4.60% Securities, there was no further 4.60% Securities in issue. Accordingly, an application was made to the Stock Exchange for the withdrawal of the listing of the 4.60% Securities, and the listing of the 4.60% Securities was withdrawn with effect upon the close of business on 26 November 2020.

Save as disclosed above, during the year ended 31 December 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE CODE

The Board of Directors (“Board”) and the management of the Company are committed to the maintenance of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality Board, sound internal controls, and transparency and accountability to all shareholders.

The Company had applied the principles and complied with all code provisions (except as stated below) and, where applicable, the recommended best practices of the Corporate Governance Code (“CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the year ended 31 December 2020. In respect of code provision A.2.1 of the CG Code, the positions of the Chairman of the Board and the Managing Director are held by the same individual, namely, Mr. Victor T K Li. Although the positions of the Chairman and the Managing Director are not separately held, the Board is of the view that this is the most appropriate arrangement in the interest of the shareholders as a whole at present. All major decisions will, in accordance with current practice, be continued to be made in consultation with members of the Board and relevant board committees and key personnel of the Group after thorough discussions. The Board comprises six Independent Non-executive Directors who will continue to provide their views and comments to Mr. Victor T K Li as Chairman and Managing Director as they have done so previously. Furthermore, Mr. Li Ka-shing has been the Senior Advisor of the Company following his retirement as Chairman, and has in that capacity continued to contribute to the Group on significant matters.

In accordance with code provision A.5.1 of the CG Code, the Company established its nomination committee (“Nomination Committee”) on 1 January 2019. The Nomination Committee currently comprises a majority of Independent Non-executive Directors and is chaired by an Independent Non-executive Director. During the period from 1 January 2020 to 30 November 2020, the Nomination Committee was chaired by the Chairman of the Board and comprised all the Directors of the Company, and when the need to select, nominate or re-elect Directors arose, the Nomination Committee established a sub-committee comprising a majority of Independent Non-executive Directors that was chaired by the Chairman of the Board in compliance with the requirements under the Listing Rules in relation to the composition of the nomination committee to consider and if appropriate, recommend the nomination of Director to be appointed or re-elected.

The Group is committed to achieving and maintaining standards of openness, probity and accountability. In line with this commitment and in compliance with the CG Code, the Company has established the Procedures for Reporting Possible Improprieties in Matters of Financial Reporting, Internal Control or Other Matters. In addition, the Company has also established the Policy on Handling of Confidential Information, Information Disclosure, and Securities Dealing for compliance by the Company’s employees.

AUDIT COMMITTEE

The Listing Rules require every listed issuer to establish an audit committee comprising at least three members who must be non-executive directors only, and the majority thereof must be independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. The Company established an audit committee (“Audit Committee”) on 26 February 2015 and has formulated its written terms of reference, which have from time to time been modified, in accordance with the prevailing provisions of the CG Code.

The Audit Committee comprises six Independent Non-executive Directors, namely, Mr. Cheong Ying Chew, Henry (Chairman of the Audit Committee), Mr. Chow Nin Mow, Albert, Ms. Hung Siu-lin, Katherine, Mr. Colin Stevens Russel, Mr. Donald Jeffrey Roberts and Mr. Stephen Edward Bradley. The principal duties of the Audit Committee include: the review and supervision of the Group's financial reporting system, risk management and internal control systems; review of the Group's financial information; review of the relationship with the external auditor of the Company; and performance of the corporate governance functions delegated by the Board.

The Group's annual results for the year ended 31 December 2020 have been reviewed by the Audit Committee and audited by the independent auditor of the Company, Deloitte Touche Tohmatsu.

REMUNERATION COMMITTEE

In compliance with the CG Code, the Company established its remuneration committee ("Remuneration Committee") on 26 February 2015 with a majority of the members thereof being Independent Non-executive Directors. The Remuneration Committee comprises an Independent Non-executive Director, Ms. Hung Siu-lin, Katherine (Chairman of the Remuneration Committee), the Chairman and Managing Director, Mr. Victor T K Li and an Independent Non-executive Director, Mr. Cheong Ying Chew, Henry.

NOMINATION COMMITTEE

The Company established its Nomination Committee on 1 January 2019 which currently comprises a majority of Independent Non-executive Directors and is chaired by an Independent Non-executive Director. The Nomination Committee comprises an Independent Non-executive Director, Mr. Stephen Edward Bradley (Chairman of the Nomination Committee), the Chairman and Managing Director, Mr. Victor T K Li and an Independent Non-executive Director, Mr. Donald Jeffrey Roberts.

SUSTAINABILITY COMMITTEE

The Company established its sustainability committee ("Sustainability Committee") on 1 December 2020 with an Executive Director, an Independent Non-executive Director and the Company Secretary to oversee management and advise the Board on the development and implementation of the sustainability initiatives of the Group, including reviewing the related environment, social and governance ("ESG") policies and practices, and assessing and making recommendations on matters concerning the Group's sustainability development and ESG risks. The Sustainability Committee comprises an Executive Director, Mr. Ip Tak Chuen, Edmond (Chairman of the Sustainability Committee), an Independent Non-executive Director, Mr. Cheong Ying Chew, Henry, and the Company Secretary, Ms. Eirene Yeung.

ANNUAL GENERAL MEETING

The 2021 Annual General Meeting (“2021 AGM”) of the shareholders of the Company will be held at 1st Floor, Harbour Grand Kowloon, 20 Tak Fung Street, Hung Hom, Kowloon, Hong Kong on Thursday, 13 May 2021 at 2:45 p.m., and which will be a hybrid meeting. The shareholders of the Company have the option of attending, participating and voting in the 2021 AGM either through the physical attendance at the abovementioned venue or online access. Details of the arrangements for, among others, registration and voting at the hybrid meeting will be provided in the Company’s Circular in relation to the 2021 AGM which will be published and despatched to the shareholders in accordance with the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 10 May 2021 to Thursday, 13 May 2021, both days inclusive, during which period no transfer of shares will be effected. In order to determine the entitlement to attend and vote at the 2021 AGM, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Friday, 7 May 2021.

The final dividend is payable to shareholders whose names appear on the Register of Members of the Company at the close of business on Thursday, 20 May 2021, being the record date for determination of entitlement to the final dividend. In order to qualify for the proposed final dividend, all share certificates with completed transfer forms, either overleaf or separately, must be lodged with the Company’s Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 20 May 2021.

The Directors of the Company as at the date of this document are Mr. LI Tzar Kuoi, Victor (*Chairman and Managing Director*), Mr. KAM Hing Lam (*Deputy Managing Director*), Mr. IP Tak Chuen, Edmond (*Deputy Managing Director*), Mr. CHUNG Sun Keung, Davy, Mr. CHIU Kwok Hung, Justin, Mr. CHOW Wai Kam, Raymond, Ms. PAU Yee Wan, Ezra and Ms. WOO Chia Ching, Grace as Executive Directors; and Mr. CHEONG Ying Chew, Henry, Mr. CHOW Nin Mow, Albert, Ms. HUNG Siu-lin, Katherine, Mr. Colin Stevens RUSSEL, Mr. Donald Jeffrey ROBERTS and Mr. Stephen Edward BRADLEY as Independent Non-executive Directors.

Consolidated Income Statement
For the year ended 31 December 2020

	2020 HK\$ Million	2019 HK\$ Million
Group revenue	59,825	82,382
Share of revenue of joint ventures	14,327	13,937
Total	74,152	96,319
Group revenue	59,825	82,382
Interest from joint ventures	1,918	1,966
Investment and other income	3,072	3,122
Operating costs		
Property and related costs	(19,612)	(42,546)
Pub product and related costs	(5,853)	(1,763)
Salaries and related expenses	(6,973)	(4,452)
Interest and other finance costs	(1,689)	(1,291)
Depreciation	(3,445)	(2,192)
Other expenses	(804)	(896)
	(38,376)	(53,140)
Gain on financial instruments	190	2,190
Change in fair value of investment properties	(1,106)	228
Impairment loss on fixed assets	(1,024)	-
Share of profit of joint ventures	518	587
Share of profit of associates	189	175
Profit before taxation	25,206	37,510
Taxation	(7,417)	(7,464)
Profit after taxation	17,789	30,046
Profit attributable to		
Non-controlling interests	(957)	(371)
Perpetual capital securities	(500)	(541)
Profit attributable to shareholders	16,332	29,134
Earnings per share	HK\$4.42	HK\$7.89

	2020 HK\$ Million	2019 HK\$ Million
Dividends		
Interim dividend paid	1,256	1,921
Final dividend proposed	5,392	5,835
	6,648	7,756
Dividends per share		
Interim dividend	HK\$0.34	HK\$0.52
Final dividend	HK\$1.46	HK\$1.58

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2020

	2020 HK\$ Million	2019 HK\$ Million
Profit after taxation	17,789	30,046
Other comprehensive income to be reclassified to income statement		
Exchange gain (loss) on translation of financial statements of operations outside Hong Kong	8,227	(304)
Exchange gain (loss) on translation of bank loans for hedging	(855)	106
Gain (loss) on derivative financial instruments		
Net investment hedges	(5,495)	(1,197)
Cash flow hedges	(339)	84
Change in fair value of investments	7	1
Share of other comprehensive loss of joint ventures	(329)	(228)
Exchange loss on translation of financial statements of operations outside Hong Kong reclassified to income statement	456	460
Other comprehensive income not to be reclassified to income statement		
Loss on remeasurement of defined benefit obligations	(129)	(117)
Share of other comprehensive loss of joint ventures and associates	(49)	(114)
Other comprehensive income	1,494	(1,309)
Total comprehensive income	19,283	28,737
Total comprehensive income attributable to		
Non-controlling interests	(1,277)	(260)
Perpetual capital securities	(500)	(541)
Total comprehensive income attributable to shareholders	17,506	27,936

**Consolidated Statement of Financial Position
As at 31 December 2020**

	2020 HK\$ Million	2019 HK\$ Million
Non-current assets		
Fixed assets	95,101	97,519
Investment properties	128,683	119,832
Joint ventures	62,467	59,371
Associates	7,077	7,000
Investments	16,787	16,924
Goodwill	6,655	6,492
Deferred tax assets	3,102	2,688
Other non-current assets	8,096	7,716
	<u>327,968</u>	<u>317,542</u>
Current assets		
Properties for sale	121,737	121,930
Debtors, prepayments and others	10,414	6,754
Loan receivables	1,065	1,527
Bank balances and deposits	59,519	60,304
	<u>192,735</u>	<u>190,515</u>
Current liabilities		
Creditors, accruals and others	21,336	21,970
Bank and other loans	22,887	6,841
Customers' deposits received	22,303	15,459
Provision for taxation	4,297	5,488
	<u>70,823</u>	<u>49,758</u>
Net current assets	<u>121,912</u>	<u>140,757</u>
Non-current liabilities		
Bank and other loans	55,006	73,241
Deferred tax liabilities	14,938	13,836
Lease liabilities	6,980	6,636
Derivative financial instruments	5,568	3,218
Pension liabilities	170	136
	<u>82,662</u>	<u>97,067</u>
Net assets	<u><u>367,218</u></u>	<u><u>361,232</u></u>
Representing:		
Share capital and share premium	245,639	245,639
Reserves	109,000	98,614
Shareholders' funds	354,639	344,253
Perpetual capital securities	6,200	11,670
Non-controlling interests	6,379	5,309
Total equity	<u><u>367,218</u></u>	<u><u>361,232</u></u>

Notes:

(1) Revenue by principal activities is as follows:

	Group		Joint ventures		Total	
	2020 HK\$ Million	2019 HK\$ Million	2020 HK\$ Million	2019 HK\$ Million	2020 HK\$ Million	2019 HK\$ Million
Property sales	38,653	64,099	17	9	38,670	64,108
Property rental	6,603	7,302	148	148	6,751	7,450
Hotel and serviced suite operation	2,039	4,168	16	17	2,055	4,185
Property and project management	798	827	38	41	836	868
Aircraft leasing	2,202	2,375	618	817	2,820	3,192
Pub operation	9,530	3,611	-	-	9,530	3,611
Infrastructure and utility asset operation	-	-	13,490	12,905	13,490	12,905
	59,825	82,382	14,327	13,937	74,152	96,319

and is summarised by location as follows:

	2020 HK\$ Million	2019 HK\$ Million
Hong Kong	16,792	60,337
The Mainland	28,425	14,713
The United Kingdom	10,790	5,074
Others	18,145	16,195
	74,152	96,319

Profit contribution by principal activities after allocation of operating costs and other income is as follows:

	Group		Joint ventures		Total	
	2020 HK\$ Million	2019 HK\$ Million	2020 HK\$ Million	2019 HK\$ Million	2020 HK\$ Million	2019 HK\$ Million
Property sales	19,112	21,377	-	(5)	19,112	21,372
Property rental	5,813	6,766	122	131	5,935	6,897
Hotel and serviced suite operation	286	1,367	(26)	(22)	260	1,345
Property and project management	333	337	22	25	355	362
Aircraft leasing	864	1,048	255	467	1,119	1,515
Pub operation - operating results	(2,467)	555	-	-	(2,467)	555
- asset impairment	(995)	-	-	-	(995)	-
Infrastructure and utility asset operation	638	630	3,850	3,894	4,488	4,524
	23,584	32,080	4,223	4,490	27,807	36,570
Bank and other loan finance costs	(1,451)	(1,291)	(1,206)	(1,313)	(2,657)	(2,604)
	22,133	30,789	3,017	3,177	25,150	33,966
Gain on financial instruments					1,257	2,105
Interests in real estate investment trusts					489	494
Change in fair values						
Real estate investment trusts					(1,067)	85
Investment properties					(1,106)	228
Others					1,089	1,240
Taxation						
Group					(7,417)	(7,464)
Joint ventures					(606)	(608)
Profit attributable to non-controlling interests and perpetual capital securities					(1,457)	(912)
Profit attributable to shareholders					16,332	29,134

(2) Profit before taxation is arrived at after charging (crediting):

	2020 HK\$ Million	2019 HK\$ Million
Interest and other finance costs		
Bank and other loans	1,956	1,984
Less: amount capitalised	(505)	(732)
	1,451	1,252
Lease liabilities	238	39
Costs of properties sold	17,681	36,591
Costs of pub products sold	3,493	1,171
Government subsidies – employment support	(2,214)	-

(3) Taxation

	2020 HK\$ Million	2019 HK\$ Million
Current tax		
Hong Kong	936	3,795
Outside Hong Kong	6,159	3,041
Deferred tax	322	628
	7,417	7,464

(4) The calculation of earnings per share is based on profit attributable to shareholders and on 3,693,400,500 shares (2019 – 3,693,400,500 shares) in issue during the year.

(5) Ageing analysis of debtors with reference to terms of agreements is as follows:

	2020 HK\$ Million	2019 HK\$ Million
Current to one month	2,280	1,177
Two to three months	132	92
Over three months	320	163
	2,732	1,432

Ageing analysis of creditors with reference to invoice dates and credit terms is as follows:

	2020 HK\$ Million	2019 HK\$ Million
Current to one month	4,490	5,428
Two to three months	55	34
Over three months	26	32
	4,571	5,494

(6) The International Accounting Standards Board has issued a number of new and revised International Financial Reporting Standards ("IFRSs"). The application of those IFRSs effective for annual accounting periods beginning on 1 January 2020 has no significant impact on the Group's results and financial position. For those which are not yet effective, the Group is in the process of assessing their impact on the Group's results and financial position. Based on preliminary assessment, no significant impact is anticipated for the application of IFRSs scheduled to be effective in 2021.

(7) The annual results have been reviewed by the Audit Committee.