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WHARF

Established 1886

THE WHARF (HOLDINGS) LIMITED

*(Incorporated in Hong Kong
with limited liability)*

Stock Code: 4



WHARF

Established 1886

**WHARF REAL ESTATE INVESTMENT
COMPANY LIMITED**

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

Stock Code: 1997

JOINT ANNOUNCEMENT

CONTINUING CONNECTED TRANSACTIONS – HOTEL SERVICES

WREIC Group owns various hotel properties and/or projects in Hong Kong and Mainland China. Wharf Group provides hotel-related services and acts as manager for a portfolio of hotels, comprising, *inter alia*, certain hotel properties and/or projects owned by WREIC Group.

On 16 December 2022, the New Master Hotel Services Agreement was entered into between Wharf and WREIC for the purpose of, *inter alia*, regulating various continuing connected transactions relating to the provision of Hotel-related Services by Wharf Group Members to WREIC Group Members for a fixed term of three years commencing on 1 January 2023 and expiring on 31 December 2025.

As Wharf is a subsidiary of WAC and WREIC is owned as to over 30% by WAC, Wharf and WREIC are regarded as connected persons to each other under the Listing Rules. Consequently, the New Master Hotel Services Agreement and the relevant transactions contemplated and/or governed thereunder constitute continuing connected transactions for each of Wharf and WREIC under the Listing Rules. The entering into of the New Master Hotel Services Agreement, with the respective Annual Cap Amounts adopted accordingly, is subject to the announcement, reporting and annual review requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules for each of Wharf and WREIC.

INTRODUCTION

WREIC Group owns various hotel properties and/or projects in Hong Kong and Mainland China. Wharf Group provides hotel-related services and acts as manager for a portfolio of hotels, comprising, *inter alia*, certain hotel properties and/or projects owned by WREIC Group.

On 13 December 2019, the Existing Master Hotel Services Agreement was entered into by and amongst, *inter alia*, Wharf and WREIC for a fixed term of three years commencing from 1 January 2020 and expiring on 31 December 2022. Details of the Existing Master Hotel Services Agreement

and the relevant cap amounts were disclosed in the joint announcement issued by Wharf and WREIC on 13 December 2019.

NEW MASTER HOTEL SERVICES AGREEMENT

In anticipation of the expiration of the Existing Master Hotel Services Agreement, the New Master Hotel Services Agreement was entered into between Wharf and WREIC for the purpose of, *inter alia*, regulating various continuing connected transactions relating to the provision of Hotel-related Services by Wharf Group Members to WREIC Group Members.

Major terms and conditions of the New Master Hotel Services Agreement are summarised as follows:

Signing Date	:	16 December 2022
Parties	:	(1) Wharf (2) WREIC
Term	:	A fixed term of three years commencing on 1 January 2023 and expiring on 31 December 2025, unless terminated earlier in accordance with the New Master Hotel Services Agreement.
Scope of Hotel-related Services	:	All forms of hotel-related services including general management, marketing, technical services, procurement, training, financial services, reservation and/or any other services relating to the development and/or operations of hotels and/or serviced apartments property(ies) owned by WREIC Group.
Annual Cap Amounts	:	Each of Wharf and WREIC may in accordance with the requirements of the Listing Rules determine for itself such maximum annual aggregate amount of Service Fees receivable or payable by its respective group members in respect of all Transactions which constitute its continuing connected transactions for the financial years ending 31 December 2023, 2024 and 2025 respectively.

In the event that for any year during the Term, any Annual Cap Amount(s) as adopted is/are being exceeded, the relevant parties (viz. Wharf and/or WREIC) must take appropriate action to comply with the relevant requirements under the Listing Rules regarding the receipt and/or payment of any and all amounts in excess of the relevant Annual Cap Amount(s) as adopted by Wharf and/or WREIC.

Individual Services Agreement(s) : During the Term, Wharf Group Member(s) and WREIC Group Member(s) may from time to time separately enter into such Individual Services Agreement(s), upon and subject to such terms and conditions as may be agreed, provided that:

- (1) each Individual Services Agreement is entered into in the ordinary and usual course of business;

- (2) the term of each Individual Services Agreement must be fixed and not exceed three years;
- (3) the remuneration under each Individual Services Agreement will on each occasion be negotiated and determined on an arm's length basis to ensure that the relevant pricing term is fair and reasonable in accordance with prevailing market conditions and on normal commercial terms; and
- (4) the terms and conditions of each Individual Services Agreement must be, from Wharf's perspective, no less favourable to the relevant Wharf Group Member(s) when compared with similar services provided to independent third parties, and from WREIC's perspective, no less favourable to the relevant WREIC Group Member(s) when compared with similar services available from independent third parties.

Pricing Policy : Wharf Group generally adopts a standard package of Service Fees applicable to the hotel portfolio under its management, including:

- (1) a hotel management fee which comprises a basic fee charged according to hotel gross revenue and an incentive fee on a sliding scale of hotel gross operating profit, payable once every month in arrear;
- (2) a marketing fee charged according to gross rooms revenue payable once every month in arrear;
- (3) a technical service fee at a fixed fee set with reference to the number of hotel rooms; and
- (4) other services fees relating to the development and/or operations of the hotel at a fixed percentage of the costs and expenses actually incurred.

The exact rates of Service Fees shall be determined case by case according to the specific quality and pricing conditions of the hotel under concern.

In accordance with the procurement policy and procedures of WREIC Group, the terms and conditions of each Individual Services Agreement including, *inter alia*, Service Fees and payment terms will be determined on the basis of commercial negotiations and, where applicable or appropriate, through a tendering/quotation procedure on an arm's length basis by reference to terms available to or from other third parties for similar services in the market.

Termination : The New Master Hotel Services Agreement is terminable, among others, by either party:

- (1) giving not less than two months' prior written notice to the other party;
- (2) if the other party fails to rectify any breach of provisions of the New Master Hotel Services Agreement within 28 days from receipt of written notice from the other party;
- (3) if the other party commits a material breach of any provision of the New Master Hotel Services Agreement which is not capable of rectification; or
- (4) with immediate effect and without notice if the other party goes into liquidation, or has a receiver appointed over all or any material part of its assets, or becomes subject to any insolvency proceedings.

HISTORICAL AMOUNTS

Hotel markets were decimated by the COVID-19 pandemic. Revenues collapsed and heavy losses started since 2020, following the more normal performance in 2018 and 2019.

Against that backdrop, historical amounts of Services Fees in respect of the Transactions during the financial years ended 31 December 2020, 31 December 2021 and the period of ten months ended 31 October 2022 respectively were abnormally low and as follows:

	Financial year ended 31 December 2020 (HK\$ million)	Financial year ended 31 December 2021 (HK\$ million)	Ten months ended 31 October 2022 (HK\$ million)
Service Fees received by Wharf Group	12	18	18
Service Fees paid by WREIC Group	12	18	18

ANNUAL CAP AMOUNTS

Assuming progressive market normalisation after the pandemic, each of Wharf and WREIC has adopted the respective Annual Cap Amounts of Service Fees receivable or payable by itself in respect of the Transactions as follows:

	Financial year ending 31 December 2023 (HK\$ million)	Financial year ending 31 December 2024 (HK\$ million)	Financial year ending 31 December 2025 (HK\$ million)
Wharf Annual Cap Amount (receivable by Wharf Group Members)	44	126	140
WREIC Annual Cap Amount (payable by WREIC Group Members)	44	126	140

Such Annual Cap Amounts are arrived at on the basis of and by reference to, *inter alia*:

- (1) the historic trading records (both before and during the pandemic) and anticipated performance (on progressive market normalisation after the pandemic) of the hotels owned by WREIC Group, operating under the otherwise normal business circumstance and economic conditions;
- (2) the possible change of hotel market conditions during the Term other than due to the pandemic;
- (3) the possible entering into of further Individual Services Agreement(s) during the Term; and
- (4) taking into account a suitable and adequate buffer on the estimated Service Fees as prudent contingency in case of events such as adjustments to business plans, cost overruns and inflation.

The projected increase in the Annual Cap Amounts for 2023, 2024 and 2025, as compared to the historical but exceptionally low amounts of Services Fees for 2020, 2021 and 2022, is mainly due to the expected progressive recovery of hotel market conditions from the pandemic and ultimately the full reopening of the border both in Hong Kong and Mainland China.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

For Wharf, the provision of Hotel-related Services by Wharf Group Member(s) to WREIC Group Member(s) will generate stable income and can further advance the business growth of Wharf Group, which is considered beneficial to Wharf Group.

For WREIC, the engagement of Wharf Group Member(s) to provide Hotel-related Services from time to time would enable their group members to benefit from the brand, experience and resources of Wharf Group in hotel businesses in the relevant markets.

The Transactions are expected to be of a recurrent nature and may occur on a regular and continuing basis in the ordinary and usual course of business of Wharf Group and WREIC Group. Individual Services Agreements may be negotiated or contemplated between Wharf Group Members and WREIC Group Members from time to time. It is in the interests of Wharf and WREIC to enter into the New Master Hotel Services Agreement with the respective Annual Cap Amounts adopted accordingly, which shall provide a common framework in compliance with the Listing Rules for the purpose of administrative convenience to regulate, *inter alia*, the Individual Services Agreements and the relevant transactions contemplated thereunder.

REGULATORY ASPECTS

As Wharf is a subsidiary of WAC and WREIC is owned as to over 30% by WAC, Wharf and WREIC are regarded as connected persons to each other under the Listing Rules. Consequently, the New Master Hotel Services Agreement and the relevant transactions contemplated and/or governed thereunder constitute continuing connected transactions for both Wharf and WREIC under the Listing Rules.

(1) In respect of Wharf

As WAC is a substantial shareholder of Wharf, WAC Group (excluding Wharf Group) and its associates including, *inter alia*, WREIC Group are regarded as connected persons of Wharf under the Listing Rules.

Since one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of Wharf Annual Cap Amount as adopted for the Transactions under the New Master Hotel Services Agreement are greater than 0.1% while all such ratios are below 5%, the New Master Hotel Services Agreement (with Wharf Annual Cap Amount as adopted) is subject to the announcement, reporting and annual review requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

(2) In respect of WREIC

As WAC is a substantial shareholder of WREIC, WAC Group and its associates including, *inter alia*, Wharf Group but excluding WREIC Group itself, are regarded as connected persons of WREIC under the Listing Rules.

Since one or more of the applicable percentage ratios set out in Rule 14.07 of the Listing Rules in respect of WREIC Annual Cap Amount as adopted for the Transactions under the New Master Hotel Services Agreement are greater than 0.1% while all such ratios are below 5%, the New Master Hotel Services Agreement (with WREIC Annual Cap Amount as adopted) is subject to the announcement, reporting and annual review requirements but exempt from the circular and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

For Wharf, its Board (including independent non-executive directors) is of the view that the terms of the New Master Hotel Services Agreement as well as Wharf Annual Cap Amount as adopted accordingly are fair and reasonable, on normal commercial terms with reference to the prevailing market conditions, entered into in the ordinary and usual course of business of Wharf Group, and in the interests of Wharf and its shareholders as a whole.

For WREIC, its Board (including independent non-executive directors) is of the view that the terms of the New Master Hotel Services Agreement as well as WREIC Annual Cap Amount as adopted accordingly are fair and reasonable, on normal commercial terms with reference to the prevailing market conditions, entered into in the ordinary and usual course of business of WREIC Group, and in the interests of WREIC and its shareholders as a whole.

None of the directors of Wharf and WREIC had a material interest in the New Master Hotel Services Agreement and the transactions contemplated thereunder which would require him/her to abstain from voting on the respective board resolutions.

The principal business activities of Wharf Group are investment properties and development properties in Hong Kong and Mainland China, hotels ownership and management, logistics and investment.

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

As at the date of this announcement, the Board of Wharf comprises Mr. Stephen T. H. Ng, Mr. Paul Y. C. Tsui, Ms. Y. T. Leng, Mr. Kevin K. P. Chan and Mr. Kevin C. Y. Hui, together with seven independent non-executive directors, namely, Professor Edward K. Y. Chen, Mr. Vincent K. Fang, Mr. Hans Michael Jebsen, Ms. Elizabeth Law, Mr. Richard Y. S. Tang, Ms. Nancy S. L. Tse and Mr. David Muir Turnbull.

As at the date of this announcement, the Board of WREIC comprises Mr. Stephen T. H. Ng, Mr. Paul Y. C. Tsui, Ms. Y. T. Leng and Mr. Horace W. C. Lee, together with eight independent non-executive directors, namely, Mr. Alexander S. K. Au, Mr. Tak Hay Chau, Ms. Lai Yuen Chiang, Hon. Andrew K. Y. Leung, Mr. Desmond L. P. Liu, Mr. R. Gareth Williams, Dr. Glenn S. Yee and Professor E. K. Yeoh.

DEFINITIONS

Unless the context otherwise requires, capitalised terms used in this announcement shall have the following meanings:

“Annual Cap Amount(s)”	such maximum annual aggregate amount of Service Fees receivable by Wharf Group or payable by WREIC Group during a financial year
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	board of directors
“Existing Master Hotel Services Agreement”	the master hotel services agreement dated 13 December 2019 entered into by and amongst, <i>inter alia</i> , Wharf and WREIC for the purpose of, <i>inter alia</i> , regulating various continuing connected transactions relating to the provision of Hotel-related Services by Wharf Group Members to WREIC Group Members for a fixed term of three years from 1 January 2020 to 31 December 2022
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hotel-related Services”	management, marketing and technical services and/or any other services relating to the development and/or operations of hotel and/or serviced apartments property(ies) owned by WREIC Group
“Individual Services Agreement(s)”	individual hotel services agreement(s) entered into between any Wharf Group Member(s) and any WREIC Group Member(s) from time to time in respect of the provision of Hotel-related Services
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Master Hotel Services Agreement”	the master hotel services agreement dated 16 December 2022 entered into between Wharf and WREIC for the purpose of, <i>inter alia</i> , regulating various continuing connected transactions relating to the provision of Hotel-related Services by Wharf Group Members to WREIC Group Members for a fixed term of three years from 1 January 2023 to 31 December 2025
“PRC” or “Mainland China”	the People’s Republic of China
“Service Fees”	remunerations receivable by Wharf Group Member(s) under Individual Services Agreement(s) for provision of Hotel-related Services
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

“Term”	has the meaning as mentioned in the section headed “New Master Hotel Services Agreement” in this announcement
“Transactions”	all subsisting Individual Services Agreements and the relevant transactions contemplated thereunder which constitute continuing connected transactions under the Listing Rules for Wharf and WREIC
“WAC”	Wheelock and Company Limited, a company incorporated in Hong Kong with limited liability
“WAC Group”	WAC together with its subsidiaries, unless excluded to the extent as indicated
“Wharf”	The Wharf (Holdings) Limited (stock code: 4), a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Wharf Annual Cap Amount”	Annual Cap Amount as adopted by Wharf for each financial year ending 31 December 2023, 2024 and 2025 respectively and tabulated under the section headed “Annual Cap Amounts”
“Wharf Group”	Wharf together with its subsidiaries
“Wharf Group Member(s)”	Wharf and its subsidiaries from time to time or any one of them
“WREIC”	Wharf Real Estate Investment Company Limited (stock code: 1997), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“WREIC Annual Cap Amount”	Annual Cap Amount as adopted by WREIC for each financial year ending 31 December 2023, 2024 and 2025 respectively and tabulated under the section headed “Annual Cap Amounts”
“WREIC Group”	WREIC together with its subsidiaries
“WREIC Group Member(s)”	WREIC and its subsidiaries from time to time or any one of them

By Order of the Board
The Wharf (Holdings) Limited
Kevin C. Y. Hui
Director and Company Secretary

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

Hong Kong, 16 December 2022