NOTES ON THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which includes all applicable Statements of Standard Accounting Practice ("SSAP") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is historical cost modified by the revaluation of investment properties and the marking to market of certain investment in securities as explained in the accounting policies set out below.

(c) Interest in subsidiaries

A subsidiary is an enterprise controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements, unless a subsidiary is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Group, in which case, it is stated in the consolidated balance sheet at fair value with changes in fair value recognised in the same manner as for investment in non-trading securities (see note 1(j)(ii)).

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses (see note 1(i)), unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions which significantly impair its ability to transfer funds to the Company, in which case, it is stated at fair value with changes in fair value recognised in the same manner as for investment in non-trading securities (see note 1(j)(ii)).

1. Significant accounting policies (Continued)

(d) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the associate's net assets, unless it is acquired and held exclusively with a view to subsequent disposal in the near future or operates under severe long-term restrictions that significantly impair its ability to transfer funds to the Group, in which case it is stated at fair value with changes in fair value recognised in the same manner as for investment in non-trading securities (see note 1(j)(ii)). The consolidated income statement reflects the Group's share of the post-acquisition results of the associates for the year, including any amortisation of positive or negative goodwill charged or credited during the year in accordance with note 1(e).

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

(e) Goodwill

Positive goodwill arising on consolidation represents the excess of the cost of the acquisition over the Group's share of the fair value of the identifiable assets and liabilities acquired. In respect of controlled subsidiaries, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than 20 years. Positive goodwill is stated in the consolidated balance sheet at cost less any accumulated amortisation and impairment losses (see note 1(i)).

In respect of acquisitions of associates, positive goodwill is amortised to the consolidated income statement on a straight-line basis over its estimated useful life of not more than 20 years. The cost of positive goodwill less any accumulated amortisation and impairment losses (see note 1(i)) is included in the carrying amount of the interest in associates.

Negative goodwill arising on acquisitions of controlled subsidiaries and associates represents the excess of the Group's share of the fair value of the identifiable assets and liabilities acquired over the cost of acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the consolidated income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated income statement over the weighted average useful life of those non-monetary assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the consolidated income statement.

1. Significant accounting policies (Continued)

(e) Goodwill (Continued)

In respect of any negative goodwill not yet recognised in the consolidated income statement:

– for controlled subsidiaries, such negative goodwill is shown in the consolidated balance sheet as a deduction from assets in the same balance sheet classification as positive goodwill; and

– for associates, such negative goodwill is included in the carrying amount of the interest in associates.

On disposal of a controlled subsidiary or an associate during the year, any attributable amount of purchased goodwill not previously amortised through the consolidated income statement is included in the calculation of the profit or loss on disposal.

(f) Fixed assets

(i) Investment properties

Investment properties are stated in the balance sheet at their open market value which is assessed annually by external qualified valuers. Surpluses arising on revaluation are credited on a portfolio basis to the consolidated income statement to the extent of any deficit arising on revaluation previously charged to the consolidated income statement and are thereafter taken to the investment property revaluation reserve; deficits arising on revaluation are firstly set off against any previous revaluation surpluses and thereafter are charged to the consolidated income statement.

No depreciation is provided for investment properties as all investment properties are either freehold or held under leases with unexpired terms of more than 20 years and the valuation takes into account the state of each property at the date of valuation.

(ii) Land and buildings

Land and buildings held for own use are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)).

Leasehold land is amortised by equal instalments over the remaining periods of the relevant leases.

Buildings are depreciated on a straight-line basis over the shorter of 50 years and the unexpired terms of the leases.

(iii) Land use rights

Land use rights are included under land and buildings and are stated at cost less accumulated amortisation and impairment losses (see note 1(i)). Amortisation is calculated to write off the cost over the period of entitlement.

1. Significant accounting policies (Continued)

(f) Fixed assets (Continued)

(iv) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses (see note 1(i)). Depreciation is calculated to write off the cost of other fixed assets on a straight-line basis at the following rates:

Furniture and fixtures	10% – 20% per annum
Computer hardware and software	20% per annum
Motor vehicles	25% per annum

(v) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal. On disposal of an investment property, the related portion of surpluses or deficits previously taken to the investment property revaluation reserve is also transferred to the consolidated income statement for the year. For all other fixed assets upon disposal, any related revaluation surplus is transferred from the revaluation reserve to retained profits.

(g) Leased assets

Leases of assets under which the lessee assumes substantially all the risks and benefits of ownership are classified as finance leases. Leases of assets under which the lessor has not transferred all the risks and benefits of ownership are classified as operating leases.

(i) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets in equal annual amounts as set out in note 1(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(i).

(ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

1. Significant accounting policies (Continued)

(h) Provisions and contingent liabilities

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

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

(i) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment (other than investment properties carried at revalued amounts);

– investments in subsidiaries and associates (except those accounted for at fair value under notes 1(c) and (d)); and

– positive goodwill.

If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised in the consolidated income statement whenever the carrying amount of such an asset exceeds its recoverable amount.

(i) Calculation of recoverable amount

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

1. Significant accounting policies (Continued)

(i) Impairment of assets (Continued)

(ii) Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is reversed only if the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

(j) Investment in securities

The Group's accounting policies for investment in securities other than investments in subsidiaries and associates are as follows:

(i) Trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the consolidated income statement as they arise.

(ii) Non-trading securities are stated in the balance sheet at fair value. Changes in fair value are recognised in the investment revaluation reserve until the security is sold, collected, or otherwise disposed of, or until there is objective evidence that the security is impaired, at which time the relevant cumulative gain or loss is transferred from the investment revaluation reserve to the consolidated income statement.

(iii) Transfers from the investment revaluation reserve to the consolidated income statement as a result of impairments are reversed when the circumstances and events that led to the impairment cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(iv) Profits or losses on disposal of investment in securities are accounted for in the consolidated income statement as they arise. In the case of non-trading securities, the profit or loss includes any amount previously held in the investment revaluation reserve in respect of that security.

(k) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sale of goods

Revenue arising from the sale of goods is recognised when the customer has accepted the goods and the related risks and rewards of ownership.

1. Significant accounting policies (Continued)

(k) Revenue recognition (Continued)

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in the consolidated income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the consolidated income statement as an integral part of the aggregate net lease payments receivable.

(iii) Dividends

Dividend income from listed securities is recognised when the share price of the securities goes ex-dividend. Dividend income from unlisted investments is recognised in the accounting period in which it is declared or proposed and approved by shareholders of the investee company.

(iv) Profit on sale of listed securities

Profit on sale of listed securities is recognised on the trade date basis.

(v) Interest income

Interest income from bank deposits is accrued on a time-apportioned basis by reference to the principal outstanding and at the rate applicable.

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is determined on a weighted average basis and includes the direct costs of purchase. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the balance sheet date or to management estimates based on prevailing market conditions.

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

NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

1. Significant accounting policies (Continued)

(m) Income tax

(i) Income tax for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the tax bases respectively. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. The limited exceptions are temporary differences arising from goodwill not deductible for tax purposes, negative goodwill treated as deferred income, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and temporary differences relating to investment in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future or, in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current and deferred tax assets and liabilities are offset if, and only if, the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

1. Significant accounting policies (Continued)

(m) Income tax (Continued)

(iii) (Continued)

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(n) Translation of foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses are dealt with in the consolidated income statement.

The results of foreign enterprises are translated into Hong Kong dollars at the average exchange rates for the year; balance sheet items are translated into Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting exchange differences are dealt with as a movement in reserves.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences which relate to that foreign enterprise is included in the calculation of the profit or loss on disposal.

(o) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans, including contributions payable under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in the consolidated income statement as incurred.

(iii) Termination benefits are recognised when and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

1. Significant accounting policies (Continued)

(p) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

NOTES ON THE FINANCIAL STATEMENTS

(Continued)
(Expressed in Hong Kong dollars)

2. Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not applied these new HKFRSs in the preparation of its financial statements for the year ended 31 December 2004. However, the Group has carried out an assessment of the impact of these new HKFRSs and has so far concluded that the adoption of the new HKFRSs may have significant impact on its consolidated financial statements as described below:

(i) Hong Kong Accounting Standard 40 ("HKAS 40") on investment property

The adoption of HKAS 40 will require all revaluation gains or losses arising from investment properties to be taken directly to the consolidated income statement, whereas under the old standard such changes are generally taken to the investment property revaluation reserve on a portfolio basis. The volatility of property prices, therefore, could have significant impact on the level and consistency of the Group's future operating profit.

(ii) Hong Kong Financial Reporting Standard 3 ("HKFRS 3") on goodwill

The adoption of HKFRS 3 will not permit the Group to amortise goodwill. Instead goodwill will be subject to an annual impairment review.

It should be noted, however, that both of these accounting changes result in adjustments to accounting for non-cash items and hence will not affect cash flows.

The Group will continue to assess the impact of other new HKFRSs and other changes may be identified as a result. However, it is not expected that these will have a significant impact on the Group's consolidated financial statements.

3. Turnover and segment reporting

The principal activities of the Group during the year were the operation of department stores and property investment.

Group turnover for the year comprises the invoiced value of goods sold to customers less returns and income from property investment.

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting system.

Business segments

The Group comprises the following main business segments:

Department stores:	The operating of department stores to offer a wide range of consumer products.
Property investment:	The leasing of commercial premises to generate rental income and to gain from the appreciation in the properties' values in the long term.

NOTES ON THE FINANCIAL STATEMENTS

(Continued)
(Expressed in Hong Kong dollars)

3. Turnover and segment reporting (Continued)

Business segments (Continued)

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	$'000	$'000	$'000 (note (a))	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	1,215,251	1,364,843	245,729	258,229	–	–	–	–	1,460,980	1,623,072
Inter-segment revenue	–	–	66,892	67,119	(66,892)	(67,119)	–	–	–	–
Other revenue from external customers	–	–	–	–	–	–	3,243	2,054	3,243	2,054
Total	1,215,251	1,364,843	312,621	325,348	(66,892)	(67,119)	3,243	2,054	1,464,223	1,625,126
Segment result	60,304	(25,659)	214,379	221,382	–	–	–	–	274,683	195,723
(Loss)/gain on disposal of investment properties (note (b))	–	–	(4,498)	14,624	–	–	–	–	(4,498)	14,624
	60,304	(25,659)	209,881	236,006	–	–	–	–	270,185	210,347
Interest income									41,159	30,920
Unallocated operating income net of expenses									35,665	78,845
Profit from operations									347,009	320,112
Finance costs									(56,670)	(55,817)
									290,339	264,295
Share of profits less losses of associates									99,423	119,940
Profit from ordinary activities before taxation									389,762	384,235
Taxation									(78,589)	(87,328)
Profit from ordinary activities after taxation									311,173	296,907
Minority interests									(587)	(530)
Profit attributable to shareholders									310,586	296,377

3. Turnover and segment reporting (Continued)

Business segments (Continued)

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Depreciation and amortisation for the year	(19,536)	(30,563)	(29,061)	(28,644)	–	–	(332)	(390)	(48,929)	(59,597)
Impairment of fixed assets (note 12(h))	–	(3,484)	–	–	–	–	(13)	(3)	(13)	(3,487)
Segment assets	111,104	149,935	4,667,882	3,988,218	(6,238)	(9,998)	–	–	4,772,748	4,128,155
Interest in associates									571,069	584,140
Unallocated assets									1,410,594	1,228,533
Total assets									6,754,411	5,940,828
Segment liabilities	169,358	213,301	24,110	24,616	(6,238)	(9,998)	–	–	187,230	227,919
Unallocated liabilities									1,067,036	1,116,158
Total liabilities									1,254,266	1,344,077
Capital expenditure incurred during the year (note 12(a))	4,738	10,709	10,538	16,401	–	–	302	15	15,578	27,125

Notes:

(a) Operating profit contributed by property investment includes net rental income receivable of $65,879,000 (2003: $66,064,000) from the department store operation.

(b) Loss on disposal of an investment property amounting to $4,498,000 represents the disposal of an investment property in New Zealand. The amount includes deficits transferred from the investment property revaluation reserve and the exchange reserve totalling $7,601,000 (note 27(a)). The gain on disposal of investment properties in 2003 amounting to $14,624,000 represented the disposal of investment properties in Australia. The amount included surpluses transferred from the investment property revaluation reserve and the exchange reserve totalling $14,789,000 (note 27(a)).

3. Turnover and segment reporting (Continued)

Geographical segments

The Group's business is managed on a worldwide basis, but participates in three principal economic environments. Hong Kong is a major market for the Group's businesses. Australia and United States are the major markets for property investment.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers. Segment assets and capital expenditure are based on the geographical location of the assets.

	Hong Kong		Australia		United States		Others		Total	
	2004	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	1,320,502	1,480,854	113,033	115,568	23,590	22,878	3,855	3,772	1,460,980	1,623,072
Segment result	149,758	70,556	112,740	112,673	9,237	9,559	2,948	2,935	274,683	195,723
(Loss)/gain on disposal of investment properties	–	–	–	14,624	–	–	(4,498)	–	(4,498)	14,624
	149,758	70,556	112,740	127,297	9,237	9,559	(1,550)	2,935	270,185	210,347
Interest income									41,159	30,920
Unallocated operating income net of expenses									35,665	78,845
Profit from operations									347,009	320,112
Finance costs									(56,670)	(55,817)
									290,339	264,295
Share of profits less losses of associates									99,423	119,940
Profit from ordinary activities before taxation									389,762	384,235
Taxation									(78,589)	(87,328)
Profit from ordinary activities after taxation									311,173	296,907
Minority interests									(587)	(530)
Profit attributable to shareholders									310,586	296,377
Segment assets	3,055,047	2,435,054	1,560,170	1,501,551	162,835	156,654	934	44,894	4,778,986	4,138,153
Inter-segment elimination	(6,238)	(9,998)	–	–	–	–	–	–	(6,238)	(9,998)
	3,048,809	2,425,056	1,560,170	1,501,551	162,835	156,654	934	44,894	4,772,748	4,128,155
Capital expenditure incurred during the year (note 12(a))	9,373	15,864	1,712	7,859	3,993	3,402	500	–	15,578	27,125

4. Other revenue and other net gain

	2004	2003
	$'000	$'000
Other revenue		
Dividend and interest income from securities		
– listed	3,287	2,627
– unlisted	5,457	1,434
Other interest income	41,159	30,920
Others	3,243	2,054
	53,146	37,035
Other net gain		
Net (loss)/gain on disposal of fixed assets	(71)	1,386
Net exchange gain	9,817	54,643
Net realised gain on trading securities	9,025	1,475
Net unrealised gain on trading securities	32,489	32,426
Impairment of non-trading securities (charged)/written back	(8,018)	3,097
Net gain on dissolution of a subsidiary	1,620	–
	44,862	93,027

NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

5. Profit from ordinary activities before taxation

Profit from ordinary activities before taxation is arrived at after charging/(crediting):

		2004	2003
		$'000	$'000
(a)	Finance costs:		
	Interest on bank advances and other borrowings repayable within five years	56,670	55,817
(b)	Staff costs:		
	Contributions to defined contribution retirement plans	8,362	10,074
	Salaries, wages and other benefits	144,000	163,820
		152,362	173,894
(c)	Rentals received and receivable from investment properties:		
	Gross rentals	(245,729)	(258,229)
	Direct outgoings	62,133	68,526
		(183,596)	(189,703)
(d)	Other items:		
	Cost of inventories sold	843,481	953,199
	Operating lease charges		
	– rentals of land and buildings	33,428	98,574
	– contingent rentals	965	655
	Depreciation and amortisation		
	– owned assets	48,559	59,258
	– assets held for use under finance leases	370	339
	Amortisation of goodwill (note 14)	235	235
	Recognition of negative goodwill	(352)	(352)
	Impairment of fixed assets (note 12(a))	13	3,487
	Auditors' remuneration		
	– current year	2,255	2,172
	– prior year	29	–

6. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2004	2003
	$'000	$'000
Current taxation – Provision for Hong Kong Profits tax		
Provision for Hong Kong Profits Tax for the year	18,637	18,977
(Over)/under-provision in respect of prior years	(168)	1,195
	18,469	20,172
Current taxation – Overseas		
Tax for the year	13,455	20,129
(Over)/under-provision in respect of prior years	(59)	4,770
	13,396	24,899
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	6,280	(3,992)
Effect of increase in tax rate on deferred tax balances at 1 January	–	185
	6,280	(3,807)
Share of associates' taxation		
Tax for the year	40,444	48,957
Over-provision in respect of prior years	–	(2,893)
	40,444	46,064
Total income tax expense	78,589	87,328

The provision for Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

6. Income tax in the consolidated income statement (Continued)

(b) Reconciliation between tax expense and accounting profit at the applicable tax rate:

	2004	**2003**
	$'000	$'000
Profit from ordinary activities before taxation	389,762	384,235
Notional Hong Kong Profits Tax calculated at 17.5%	68,208	67,241
Tax effect of non-deductible expenses	5,822	6,799
Tax effect of non-taxable revenue	(10,547)	(19,182)
Tax effect of prior years' tax losses utilised this year	(6,709)	(1,183)
Tax effect of temporary differences not recognised	(3,135)	4,122
Tax effect of unused tax losses not recognised	645	1,236
Effect on opening deferred tax balances resulting from an increase in tax rate during the year	–	185
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	23,842	25,041
Effect of overseas withholding tax	690	(3)
(Over)/under-provision in prior years	(227)	3,072
Actual tax expense	78,589	87,328

7. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of $362,690,000 (2003: $21,067,000) which has been dealt with in the financial statements of the Company.

8. Dividends

(a) Dividends attributable to the year

	2004	**2003**
	$'000	$'000
Interim dividend declared and paid of 14 cents (2003: 13 cents) per share	41,346	38,392
Final dividend proposed after the balance sheet date of 41 cents (2003: 39 cents) per share	121,084	115,177
	162,430	153,569

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

8. Dividends (Continued)

(b) Dividends attributable to the previous financial year, proposed, approved and paid during the year

	2004 $'000	2003 $'000
Final dividend in respect of the previous financial year, proposed, approved and paid during the year, of 39 cents (2003: 26 cents) per share	115,177	76,785

9. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the year of $310,586,000 (2003: $296,377,000) divided by 295,326,000 shares (2003: 295,326,000 shares) in issue during the year.

There were no outstanding potential ordinary shares throughout the years presented.

10. Emoluments of directors, five highest paid individuals and employees

(a) Emoluments of directors

(i) The aggregate emoluments of the directors are as follows:

	2004 $'000	2003 $'000
Fees	455	490
Salaries, allowances and benefits in kind	5,112	4,973
Contributions to defined contribution retirement plans	127	127
Discretionary bonuses	149	–
	5,843	5,590

(ii) The emoluments of the directors are within the following bands:

$	Number of directors 2004	2003
0 – 500,000	7	7
500,001 – 1,000,000	2	2
1,000,001 – 1,500,000	–	–
1,500,001 – 2,000,000	1	1
2,000,001 – 2,500,000	–	1
2,500,001 – 3,000,000	1	–
	11	11

(iii) Included in the emoluments of directors are emoluments of $395,000 (2003: $490,000) received by the independent non-executive directors.

10. Emoluments of directors, five highest paid individuals and employees (Continued)

(b) Emoluments of five highest paid individuals

(i) The five highest paid individuals in the Group include two (2003: two) directors whose emoluments are shown in (a)(i) above. The emoluments of the other three (2003: three) individuals who comprise the five highest paid individuals are:

	2004	**2003**
	$'000	$'000
Salaries, allowances and benefits in kind	6,363	6,614
Contributions to defined contribution retirement plans	372	369
Discretionary bonuses	305	–
	7,040	6,983

(ii) The above emoluments are analysed as follows:

	Number of individuals	
	2004	**2003**
$		
1,000,001 – 1,500,000	1	1
1,500,001 – 2,000,000	–	–
2,000,001 – 2,500,000	–	–
2,500,001 – 3,000,000	1	2
3,000,001 – 3,500,000	1	–
	3	3

(c) Employees' emoluments

The aggregate emoluments of all employees of the Group are as follows:

	2004	**2003**
	$'000	$'000
Salaries, allowances and benefits in kind	142,366	160,530
Contributions to defined contribution retirement plans	8,362	10,074
Severance payments	1,012	3,290
Discretionary bonuses	622	–
	152,362	173,894

11. Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") and a number of MPF exempted defined contribution schemes ("MPF exempted schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Both the MPF scheme and the MPF exempted schemes are defined contribution retirement schemes administered by independent trustees. The Group is required to make contributions to the MPF exempted schemes based on a percentage of the employees' basic monthly salaries which is dependent on their length of service within the Group. The Group's contributions to the MPF scheme vest immediately while the Group's contributions to the MPF exempted schemes vest according to the length of service within the Group. Forfeited contributions in the MPF exempted schemes are allocated to existing employees. The Group's total contribution for the year was $8,489,000 (2003: $10,201,000).

12. Fixed assets

(a) The Group

	Land and buildings $'000	Other assets $'000	Sub-total $'000	Investment Properties $'000	Total $'000
Cost or valuation:					
At 1 January 2004	607,438	502,398	1,109,836	3,423,487	4,533,323
Exchange adjustments	68	132	200	74,258	74,458
Additions (note 3)	–	9,693	9,693	5,885	15,578
Disposals	–	(77,702)	(77,702)	(49,219)	(126,921)
Transfer	–	(976)	(976)	122	(854)
Surplus on revaluation	–	–	–	680,662	680,662
At 31 December 2004	607,506	433,545	1,041,051	4,135,195	5,176,246
Accumulated depreciation, amortisation and impairment:					
At 1 January 2004	127,755	389,505	517,260	–	517,260
Exchange adjustments	68	126	194	–	194
Charge for the year	15,265	33,664	48,929	–	48,929
Written back on disposals	–	(77,551)	(77,551)	–	(77,551)
Transfer	–	(854)	(854)	–	(854)
Impairment loss (note 5(d))	–	13	13	–	13
At 31 December 2004	143,088	344,903	487,991	–	487,991
Net book value:					
At 31 December 2004	464,418	88,642	553,060	4,135,195	4,688,255
At 31 December 2003	479,683	112,893	592,576	3,423,487	4,016,063

NOTES ON THE FINANCIAL STATEMENTS

(Continued)
(Expressed in Hong Kong dollars)

12. Fixed assets (Continued)

(a) The Group (Continued)

The analysis of cost or valuation of the fixed assets of the Group is as follows:

	At cost, less provision	At Professional valuation in 2004	At directors' valuation in 1981	Total
	$'000	$'000	$'000	$'000
Land and buildings				
Leasehold land and buildings				
– held under long lease in Hong Kong	120	–	150,263	150,383
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	13,723	–	–	13,723
Investment properties				
Long lease				
– in Hong Kong	–	1,989,700	–	1,989,700
– outside Hong Kong	–	91,236	–	91,236
Medium term lease in Hong Kong	–	427,417	–	427,417
Freehold outside Hong Kong	–	1,626,842	–	1,626,842
Other fixed assets	433,545	–	–	433,545
	890,788	4,135,195	150,263	5,176,246

(b) In preparing these financial statements, advantage has been taken of the provisions set out in paragraph 80 of SSAP 17 "Property, plant and equipment" issued by the HKICPA, with the effect that certain land and buildings which were revalued by the Directors in 1981 have not been revalued to fair value at the balance sheet date.

(c) The carrying amount of land and buildings that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation is as follows:

	Group	
	2004	**2003**
	$'000	$'000
Cost	542,087	542,019
Accumulated depreciation	(115,056)	(99,942)
Net book value	427,031	442,077

12. Fixed assets (Continued)

(d) Investment properties of the Group situated in Hong Kong were revalued by DTZ Debenham Tie Leung Limited, Chartered Surveyors, on an open market value basis at 31 December 2004. Investment properties of the Group situated outside Hong Kong were revalued either by Jones Lang LaSalle Advisory Services Pty Limited, Certified Practising Valuers, Bolton & Baer, Licensed Real Estate Appraisers or HT Appraisal, Inc., Certified General Real Estate Appraiser on an open market value basis at 31 December 2004. The revaluation surplus of $680,354,000 (2003: a deficit of $191,400,000), after minority interests, has been transferred to the investment property revaluation reserve (note 27(a)).

(e) The Group leases computer equipment under finance lease arrangements. At the end of the lease term, the title of the computer equipment will be transferred to the Group. The lease does not include contingent rentals.

The net book value of computer equipment held under finance leases at 31 December 2004 was $1,141,000 (2003: $1,511,000).

(f) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to ten years, with an option to renew the lease upon expiry at which time all terms will be renegotiated. None of the leases includes contingent rentals.

The gross carrying amount of investment properties of the Group held for use in operating leases was $4,135,195,000 (2003: $3,423,487,000).

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2004	**2003**
	$'000	$'000
Within one year	188,991	190,630
After one year but within five years	285,238	350,000
After five years	63,263	62,938
	537,492	603,568

(g) Other assets comprise plant, equipment, fixtures and fittings and motor vehicles.

(h) In view of the closure of two branches of the department store operation in Hong Kong in early 2004, the Group assessed the recoverable amount of furniture and fixtures attributable to the Hong Kong department store operation at 31 December 2003. Based on this assessment, the carrying amount of the assets of the two branches was written down by $3,484,000 at 31 December 2003. The estimates of recoverable amount were based on the assets' value in use.

(i) An investment property located in New Zealand was disposed of in September 2004 which gave rise to a loss before tax of $4,498,000. A bank loan in the amount of $37,597,000 secured by pledged bank deposits was repaid upon its disposal.

13. Interest in subsidiaries

	Company 2004 $'000	Company 2003 $'000
Unlisted shares, at cost	2,801,990	2,801,990
Amounts due from subsidiaries	1,231,961	1,389,442
	4,033,951	4,191,432
Amount due to a subsidiary	(114)	–
	4,033,837	4,191,432
Impairment loss	(233,956)	(597,615)
	3,799,881	3,593,817

Details of the principal subsidiaries are set out on pages 63 to 66.

14. Goodwill

	Positive goodwill $'000	Negative goodwill $'000	Total $'000
Cost:			
At 1 January 2004	178,553	(2,558)	175,995
Disposals	(621)	–	(621)
At 31 December 2004	177,932	(2,558)	175,374
Accumulated amortisation:			
At 1 January 2004	177,140	(2,558)	174,582
Amortisation for the year (note 5(d))	235	–	235
Written back on disposals	(621)	–	(621)
At 31 December 2004	176,754	(2,558)	174,196
Carrying amount:			
At 31 December 2004	1,178	–	1,178
At 31 December 2003	1,413	–	1,413

The amortisation of positive goodwill for the year is included in "other operating expenses" in the consolidated income statement.

15. Interest in associates

	Group 2004 $'000	Group 2003 $'000
Unlisted shares		
Share of net assets other than goodwill	424,158	539,851
Share of unamortised goodwill	163,816	45,887
Negative goodwill on acquisition	(2,460)	(2,812)
Amounts due from associates	93	1,272
Amounts due to associates	(14,538)	(58)
	571,069	584,140

(a) Details of the principal associates are set out on page 67.

(b) Additional information in respect of the Group's material associate, WL Investments Limited ("WL"), extracted from its audited financial statements, is given as follows:

	2004 $'000	2003 $'000
Operating results		
Turnover	11,871,203	10,383,814
Profit before taxation	211,381	255,209
Profit after taxation	125,329	157,201
Group's share of profit after taxation attributable to the material associate	58,905	73,884
Non-current assets	1,706,955	1,115,376
Current assets *	2,144,972	1,783,182
Total assets	3,851,927	2,898,558
Current liabilities	574,852	1,032,974
Non-current liabilities	2,026,111	619,219
Total liabilities	2,600,963	1,652,193
Net assets	1,250,964	1,246,365
Group's share of net assets attributable to the material associate	587,953	585,791

* Current assets comprise mainly inventories of motor vehicles.

At the balance sheet date, the Group had an equity interest of 50% in WL. Due to the existence of a phantom stock plan for the benefit of WL's key employees, the Group's effective share of the results and net assets of WL is 47%.

16. Non-trading securities

	Group 2004 $'000	Group 2003 $'000
Equity securities		
– Listed outside Hong Kong, at market value	15,141	23,159
– Unlisted	61,813	53,141
	76,954	76,300

17. Trading securities

	Group 2004 $'000	Group 2003 $'000
Debt securities		
– Listed outside Hong Kong, at market value	12,557	9,422
– Unlisted	1,478	–
	14,035	9,422
Equity securities		
Listed		
– in Hong Kong, at market value	86,411	53,809
– outside Hong Kong, at market value	49,997	30,640
	136,408	84,449
Unlisted	19,142	–
	155,550	84,449
	169,585	93,871

18. Inventories

Of the total inventories of $53,284,000 (2003: $60,649,000), the amount of inventories carried at net realisable value is $30,864,000 (2003: $33,232,000). A general provision of $1,764,000 (2003: $2,009,000) has also been made against inventories at the balance sheet date.

19. Debtors, deposits and prepayments

	Group 2004 $'000	Group 2003 $'000	Company 2004 $'000	Company 2003 $'000
Trade and other debtors, net of provision for doubtful debts	13,886	14,974	–	–
Deposits and prepayments	39,281	44,689	207	209
	53,167	59,663	207	209

(a) The ageing analysis of trade and other debtors, net of provision for doubtful debts, is as follows:

	Group 2004 $'000	Group 2003 $'000
Current	11,749	14,490
One to three months overdue	1,476	368
More than three months overdue	661	116
	13,886	14,974

Debts are normally due within 30 days from the date of billing.

(b) All deposits and prepayments, apart from certain rental deposits totalling $8,186,000 (2003: $8,945,000), are expected to be recovered within one year.

20. Cash and cash equivalents

	Group 2004 $'000	Group 2003 $'000	Company 2004 $'000	Company 2003 $'000
Cash at bank and in hand	118,418	80,979	3,162	1,942
Bank deposits	1,006,041	960,270	–	–
Cash and cash equivalents in the consolidated balance sheet	1,124,459	1,041,249	3,162	1,942
Bank deposits pledged	–	(37,109)	–	–
Cash and cash equivalents in the consolidated cash flow statement	1,124,459	1,004,140	3,162	1,942

21. Creditors and accrued charges

	Group		Company	
	2004	**2003**	**2004**	**2003**
	$'000	$'000	$'000	$'000
Trade and other creditors	185,201	217,920	9,198	–
Accrued charges	29,951	38,160	909	8,992
	215,152	256,080	10,107	8,992

The ageing analysis of trade and other creditors is as follows:

	Group	
	2004	**2003**
	$'000	$'000
Amounts not yet due	145,336	175,098
On demand or overdue for less than one month	35,212	37,675
One to three months overdue	915	1,976
Three to twelve months overdue	3,738	3,171
	185,201	217,920

22. Non-current interest-bearing bank loans

	Group	
	2004	**2003**
	$'000	$'000
Bank loans (note 23)		
– secured	825,316	872,237
Amounts due within one year included under current liabilities	(48,548)	(83,505)
	776,768	788,732

23. Bank loans

At 31 December 2004, the bank loans of the Group were repayable as follows:

	Group	
	2004	2003
	$'000	$'000
Within one year or on demand	48,548	83,505
After one year but within two years	776,768	46,396
After two years but within five years	–	742,336
	776,768	788,732
	825,316	872,237

At 31 December 2004, certain assets of the Group with the following net book values have been pledged to banks to secure banking facilities to the extent of $1,137,960,000 (2003: $1,133,030,000) granted to the Group:

	Group	
	2004	2003
	$'000	$'000
Land and buildings	107,882	109,716
Investment properties	3,354,570	2,776,591
Bank deposits	–	37,109
	3,462,452	2,923,416

24. Obligations under finance leases

At 31 December 2004, the Group had minimum lease payments obligations under finance leases repayable as follows:

	2004	2003
	$'000	$'000
Within one year	614	614
After one year but within two years	51	614
After two years but within five years	–	51
	51	665
	665	1,279

25. Income tax in the balance sheet

(a) Taxation in the balance sheet represents:

	Group 2004 $'000	Group 2003 $'000
Provision for Hong Kong Profits Tax for the year	18,637	18,977
Provisional Profits Tax paid	(14,304)	(13,854)
	4,333	5,123
Overseas taxation payable	5,864	16,262
	10,197	21,385
Represented by:		
Tax recoverable	(277)	(1,750)
Tax payable	10,474	23,135
	10,197	21,385

25. Income tax in the balance sheet (Continued)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation $'000	Revaluation of properties $'000	Provisions $'000	Future benefit of tax losses $'000	Withholding tax on undistributed profits of a subsidiary $'000	Total $'000
Deferred tax arising from:						
At 1 January 2004	6,556	180,154	(618)	(2)	–	186,090
Charged/(credited) to the consolidated income statement (note 6(a))	5,896	(140)	(177)	(1)	702	6,280
Charged/(credited) to reserves and minority interests	335	6,370	(39)	–	56	6,722
At 31 December 2004	12,787	186,384	(834)	(3)	758	199,092
At 1 January 2003	5,361	188,588	496	(2)	–	194,443
Charged/(credited) to the consolidated income statement (note 6(a))	1,194	(3,881)	(1,120)	–	–	(3,807)
Charged/(credited) to reserves and minority interests	1	(4,553)	6	–	–	(4,546)
At 31 December 2003	6,556	180,154	(618)	(2)	–	186,090

	2004 $'000	2003 $'000
Net deferred tax assets recognised in the consolidated balance sheet	(989)	(849)
Net deferred tax liabilities recognised in the consolidated balance sheet	200,081	186,939
	199,092	186,090

25. Income tax in the balance sheet (Continued)

(c) Deferred tax assets not recognised

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

	2004	**2003**
	$'000	$'000
Deductible temporary differences	12,746	19,018
Future benefit of tax losses	163,284	169,348
	176,030	188,366

The Group has not recognised deferred tax assets in respect of tax losses of certain subsidiaries as the management of the Group considers that it is not possible at 31 December 2004 to estimate with, any degree of certainty, the future taxable profits which may be earned by these subsidiaries and against which the accumulated tax losses may be offset in the foreseeable future. The tax losses do not expire under current tax legislation.

(d) Deferred tax liabilities not recognised

At 31 December 2004, temporary differences relating to the undistributed profits of subsidiaries amounted to $1,140,355,000 (2003: $999,504,000). Deferred tax liabilities of $308,196,000 (2003: $193,762,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

26. Share capital

	2004	**2003**
	$'000	$'000
Authorised:		
400,000,000 shares of $0.1 each	40,000	40,000
Issued and fully paid:		
295,326,000 shares of $0.1 each	29,533	29,533

27. Reserves

(a) Group

	Investment property revaluation reserve $'000	Land and building revaluation reserve $'000	Investment revaluation reserve $'000	Exchange reserve $'000	Other capital reserves $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 January 2004	849,098	174,939	41,413	150,816	294,230	754,347	2,289,506	4,554,349
Dividends approved in respect of the previous year (note 8(b))	–	–	–	–	–	–	(115,177)	(115,177)
Revaluation deficit transferred to the consolidated income statement on disposal of investment properties (note 3(b))	4,510	–	–	–	–	–	–	4,510
Exchange loss transferred to the consolidated income statement on disposal of investment properties (note 3(b))	–	–	–	3,091	–	–	–	3,091
	4,510	–	–	3,091	–	–	–	7,601
Deferred tax after minority interests	(898)	–	–	(5,687)	–	–	–	(6,585)
Surplus on revaluation after minority interests (note 12(d))	680,354	–	–	–	–	–	–	680,354
Surplus on revaluation of non-trading securities	–	–	8,672	–	–	–	–	8,672
Share of increase in capital reserves of associates	–	–	–	–	781	–	–	781
Exchange differences arising on consolidation	–	–	–	58,228	–	–	–	58,228
Profit for the year	–	–	–	–	–	–	310,586	310,586
Dividends declared and paid in respect of the current year (note 8(a))	–	–	–	–	–	–	(41,346)	(41,346)
	679,456	–	8,672	52,541	781	–	269,240	1,010,690
At 31 December 2004	1,533,064	174,939	50,085	206,448	295,011	754,347	2,443,569	5,457,463

27. Reserves (Continued)

(a) Group (Continued)

	Investment property revaluation reserve $'000	Land and building revaluation reserve $'000	Investment revaluation reserve $'000	Exchange reserve $'000	Other capital reserves $'000	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 January 2003	1,022,119	177,451	43,222	(140,376)	307,132	754,347	2,108,306	4,272,201
Dividends approved in respect of the previous year (note 8(b))	–	–	–	–	–	–	(76,785)	(76,785)
Revaluation surplus transferred to the consolidated income statement on disposal of investment properties (note 3(b))	(12,727)	–	–	–	–	–	–	(12,727)
Exchange gain transferred to the consolidated income statement on disposal of investment properties (note 3(b))	–	–	–	(2,062)	–	–	–	(2,062)
	(12,727)	–	–	(2,062)	–	–	–	(14,789)
Deferred tax after minority interests	31,106	(2,512)	–	(24,224)	–	–	–	4,370
Deficit on revaluation after minority interests (note 12(d))	(191,400)	–	–	–	–	–	–	(191,400)
Deficit on revaluation of non-trading securities	–	–	(1,809)	–	–	–	–	(1,809)
Share of decrease in capital reserves of associates	–	–	–	–	(12,902)	–	–	(12,902)
Exchange differences arising on consolidation	–	–	–	317,478	–	–	–	317,478
Profit for the year	–	–	–	–	–	–	296,377	296,377
Dividends declared and paid in respect of the current year (note 8(a))	–	–	–	–	–	–	(38,392)	(38,392)
	(160,294)	(2,512)	(1,809)	293,254	(12,902)	–	257,985	373,722
At 31 December 2003	849,098	174,939	41,413	150,816	294,230	754,347	2,289,506	4,554,349

27. Reserves (Continued)

(b) Company

	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 January 2004	2,997,350	560,093	3,557,443
Dividends approved in respect of the previous year (note 8(b))	–	(115,177)	(115,177)
Profit for the year	–	362,690	362,690
Dividends declared and paid in respect of the current year (note 8(a))	–	(41,346)	(41,346)
At 31 December 2004	2,997,350	766,260	3,763,610

	Contributed surplus $'000	Retained profits $'000	Total $'000
At 1 January 2003	2,997,350	654,203	3,651,553
Dividends approved in respect of the previous year (note 8(b))	–	(76,785)	(76,785)
Profit for the year	–	21,067	21,067
Dividends declared and paid in respect of the current year (note 8(a))	–	(38,392)	(38,392)
At 31 December 2003	2,997,350	560,093	3,557,443

(c) The capital reserves, exchange reserve and revaluation reserves have been set up and will be dealt with in accordance with the accounting policies adopted for foreign currency translation and the revaluation of investment properties and investment in securities (note 1).

(d) Pursuant to the Scheme of Arrangement in 1991, the former holding company of the Group became a subsidiary of the Company. The excess value of the consolidated net assets of the subsidiaries acquired over the nominal value of the new shares of the Company issued under the Scheme of Arrangement was credited to the contributed surplus of the Company. The Group's contributed surplus represents the excess of the aggregate of the nominal value of the share capital and share premium of the former holding company over the nominal value of the new shares of the Company issued under the Scheme of Arrangement.

In addition to the retained profits, under the Companies Act of Bermuda, the Company's contributed surplus is available for distribution to shareholders. However, the directors have no current intention to distribute this surplus.

27. Reserves (Continued)

(e) The Group's share of the post-acquisition accumulated reserves of associates is as follows:

	2004	**2003**
	$'000	$'000
Other capital reserves	36,307	35,526
Retained profits	381,072	380,483
	417,379	416,009

28. Contingent liabilities

The Company has undertaken to guarantee certain loans and other facilities granted to certain subsidiaries to the extent of $970,960,000 (2003: $927,920,000), of which $825,316,000 (2003: $835,128,000) was utilised at 31 December 2004.

29. Commitments

(a) Capital commitments

Capital commitments of the Group at 31 December 2004 not provided for in the financial statements were as follows:

	2004	**2003**
	$'000	$'000
Authorised and contracted for	14,969	1,601
Authorised but not contracted for	110	–
	15,079	1,601

(b) Commitments under operating leases

At 31 December 2004, the total future minimum lease payments under non-cancellable operating leases of the Group are payable as follows:

	2004	**2003**
	$'000	$'000
Within one year	24,914	32,611
After one year but within five years	29,851	11,740
	54,765	44,351

The Group leases a number of properties under operating leases. The leases typically run for an initial period of one to eight years, with an option to renew the lease upon expiry when all terms are renegotiated. Certain leases contain a contingent rental element. The amount of contingent rent incurred in 2004 is stated in note 5(d).

NOTES ON THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars)

30. Related party transactions

Fellow subsidiaries represent subsidiaries of Wing On International Holdings Limited, the Company's immediate holding company. Material related party transactions are as follows:

(a) A fellow subsidiary rents retail premises to a subsidiary. Rental and management fees payable to this fellow subsidiary amounted to $14,578,000 (2003: $14,611,000) during the year. The net amount due to the fellow subsidiary at 31 December 2004 amounted to $709,000 (2003: $2,586,000).

(b) A subsidiary rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to $2,026,000 (2003: $2,024,000) during the year. The net amount due to the fellow subsidiary at 31 December 2004 amounted to $92,000 (2003: a net amount of $92,000 due from the fellow subsidiary).

(c) The Company reimbursed a fellow subsidiary for the sharing of office space and facilities. Reimbursements payable to this fellow subsidiary amounted to $30,000 (2003: $120,000) during the year. The amount had been fully settled by the balance sheet date.

(d) A fellow subsidiary, engaging in securities trading, deals in securities for certain subsidiaries of the Group. Commission of $428,000 (2003: $37,000) was payable to the fellow subsidiary during the year. The amounts due from the fellow subsidiary at 31 December 2004 amounted to $13,742,000 (2003: $2,364,000).

31. Ultimate holding company

The directors consider the ultimate holding company at 31 December 2004 to be Kee Wai Investment Company (BVI) Limited, which is incorporated in the British Virgin Islands.