



**WING ON COMPANY INTERNATIONAL LIMITED**

**永安國際有限公司**

(Incorporated in Bermuda with limited liability)

(Stock code: 289)

**INTERIM REPORT**

**2016**

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

The Board of Directors as now constituted is listed below:

### Executive Directors

Mr. Karl C. Kwok, MH (Chairman)  
Mr. Lester Kwok, J.P. (Deputy Chairman and Chief Executive Officer)  
Mr. Mark Kwok

### Non-executive Director

Dr. Bill Kwok, J.P.

### Independent Non-executive Directors

Miss Maria Tam Wai Chu, GBM, GBS, J.P.  
Mr. Ignatius Wan Chiu Wong, LL. B.  
Mr. Iain Ferguson Bruce, CA, FCPA, FHKIoD, FHKSI  
Mr. Leung Wing Ning

## AUDIT COMMITTEE

Mr. Iain Ferguson Bruce (Chairman)  
Miss Maria Tam Wai Chu  
Mr. Leung Wing Ning

## REMUNERATION COMMITTEE

Mr. Leung Wing Ning (Chairman)  
Mr. Karl C. Kwok  
Mr. Ignatius Wan Chiu Wong

## NOMINATION COMMITTEE

Mr. Leung Wing Ning (Chairman)  
Mr. Karl C. Kwok  
Mr. Ignatius Wan Chiu Wong

# CORPORATE INFORMATION

(Continued)

## AUDITOR

KPMG  
Certified Public Accountants  
8th Floor, Prince's Building,  
10 Chater Road, Central,  
Hong Kong.

## SECRETARY

Mr. Sin Kar Tim  
7th Floor, Wing On Centre,  
211 Des Voeux Road Central,  
Hong Kong.

## REGISTERED OFFICE

Canon's Court,  
22 Victoria Street,  
Hamilton HM12,  
Bermuda.

## PRINCIPAL OFFICE

7th Floor, Wing On Centre,  
211 Des Voeux Road Central,  
Hong Kong.  
Website: [www.wingonet.com](http://www.wingonet.com)

## SHARE REGISTRARS

Tricor Progressive Limited  
Level 22, Hopewell Centre,  
183 Queen's Road East,  
Hong Kong.

MUFG Fund Services (Bermuda) Limited  
The Belvedere Building,  
69 Pitts Bay Road,  
Pembroke HM08,  
Bermuda.

# CHAIRMAN'S STATEMENT

## INTERIM RESULTS AND DIVIDEND

For the six months ended 30 June 2016, the Group's revenue was HK\$883.4 million (2015: HK\$952.9 million), a decrease of 7.3% due mainly to the decrease in department stores revenue.

Profit attributable to shareholders for the first half of 2016 was HK\$430.3 million (2015: HK\$499.1 million), a decrease of 13.8% due primarily to the share of loss of an associate in the period under review as opposed to the share of profit of the associate in the same period last year. Excluding the non-cash net valuation gain on investment properties and related deferred tax thereon, the Group's underlying profit attributable to shareholders decreased by 30.2% to HK\$202.4 million (2015: HK\$289.9 million).

Earnings per share decreased by 13.7% to 145.9 HK cents (2015: 169.0 HK cents) per share. Excluding the net valuation gain on investment properties net of related deferred tax thereon, underlying earnings per share for the period decreased by 30.1% to 68.6 HK cents (2015: 98.2 HK cents) per share.

The directors have decided to pay an interim dividend of 25 HK cents (2015: 34 HK cents) per share, absorbing a total amount of HK\$73,691,000 (2015: HK\$100,400,000). The interim dividend will be paid on 18 October 2016 (Hong Kong time) to shareholders whose names appear on the Register of Members of the Company on 12 October 2016 (Hong Kong time). The Register of Members will be closed from 6 October 2016 to 12 October 2016 (Hong Kong time), both dates inclusive, during which period no share transfer will be accepted.

To qualify for the interim dividend, share transfers to be dealt with must be lodged with the Company's Share Registrars, Tricor Progressive Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:00 p.m. on Wednesday, 5 October 2016 (Hong Kong time).

## LIQUIDITY AND FINANCIAL RESOURCES

### Overall Financial Position

Shareholders' equity at 30 June 2016 was HK\$15,183.0 million, an increase of 2.2% as compared to that at 31 December 2015. With cash and listed marketable securities at 30 June 2016 of about HK\$3,523.2 million as well as available banking facilities, the Group has sufficient liquidity to meet its current commitments and working capital requirements.

# CHAIRMAN'S STATEMENT

(Continued)

## LIQUIDITY AND FINANCIAL RESOURCES (Continued)

### Borrowings and Charges on Group Assets

At 30 June 2016, the Group's total borrowings amounted to HK\$238.5 million, a decrease of about HK\$11.8 million as compared to that at 31 December 2015 due to partial mortgage loan repayments, net of exchange differences. The Group's total borrowings of HK\$238.5 million relate to a mortgage loan for Australian investment properties. The bulk of the borrowings will be repayable by the end of 2017. Certain assets, comprising principally property interests with a book value of HK\$2,496.2 million, have been pledged to banks as collateral security for banking facilities granted to the extent of HK\$239.1 million. In view of the existing strong cash position, the Group does not anticipate any liquidity problems.

### Gearing Ratio

The gearing ratio, which is computed from the total borrowings of the Group divided by shareholders' equity of the Group at 30 June 2016, was 1.6% as compared with 1.7% at 31 December 2015.

### Funding and Treasury Policies

The Group adopts a prudent funding and treasury policy. To minimise exposure to foreign exchange fluctuations, the Group's borrowings in Australia for its Melbourne investment properties are denominated in Australian dollars. Hence, the foreign exchange exposure is limited to the net investments in overseas subsidiaries of approximately HK\$2,207.4 million at 30 June 2016 (at 31 December 2015: HK\$2,111.3 million).

The Group's borrowings are on a floating rate basis. For overseas borrowings, when appropriate and at times of interest rate uncertainty or volatility, hedging instruments including swaps and forwards may be used to assist in the Group's management of interest rate exposure. The Group's cash and bank balances are mainly denominated in Hong Kong dollar, United States dollar and Australian dollar.

### Capital Commitments and Contingent Liabilities

At 30 June 2016, the total amount of the Group's capital expenditure commitments was HK\$21.5 million (at 31 December 2015: HK\$22.0 million). As at 30 June 2016, the Group had no contingent liability (at 31 December 2015: HK\$ nil).

# CHAIRMAN'S STATEMENT

(Continued)

## HALF YEAR BUSINESS REVIEW

### Department Store Operations

During the period under review, the Hong Kong retail environment deteriorated further due to weak consumer spending. For the six months ended 30 June 2016, the Group's department stores business revenue decreased by 11.7% to HK\$660.2 million (2015: HK\$748.0 million), affected mainly by the poor retail market and the closure of the Group's Taikoo Shing Store in August 2015. Notwithstanding the decrease in business revenue brought by the closure of the Taikoo Shing Store, the Group managed to achieve an increase in revenue by 1.7% on a same-store basis during the period under review with its marketing efforts and promotions to boost customer traffic in its stores. This compared favorably against the Hong Kong Government's figures for the department store retail sector, which recorded a drop of 9.0% for the first six months of 2016. However, the department stores operating profit for the first half of 2016 decreased by 16.1% to HK\$82.0 million (2015: HK\$97.7 million), due mainly to the reduced gross profit on sales and increase in operating expenses.

### Property Investments

For the six months ended 30 June 2016, the Group's property investment income increased by 11.5% to HK\$228.5 million (2015: HK\$204.9 million). The Group achieved an increase by 14.8% in rental income from its commercial investment properties in Hong Kong to HK\$163.4 million (2015: HK\$142.3 million) with an overall occupancy of about 95% during the period under review. Income from the Group's commercial office properties in Melbourne increased by 5.1% to HK\$59.6 million (2015: HK\$56.7 million) while the overall occupancy rate remained stable at around 95% throughout the period under review.

### Interest in an Associate

The associate notified the Group in late June 2016 that it had received certain indemnity claims from the purchaser in relation to its disposal of an automobile dealership subsidiary in the United States in October 2014. These claims, which had not been resolved amongst the concerned parties as of 30 June 2016, were made by the purchaser pursuant to the terms of the Stock Purchase Agreement and the Indemnity Escrow Agreement whereby the purchaser has rights to submit certain indemnity claims within a period of eighteen months from the completion date till 30 June 2016. Having carefully reviewed the merits of these indemnity claims and in line with legal advice, the Group considered it prudent to make a provision for indemnity claims of HK\$35.1 million in the Group's accounts for the six months ended 30 June 2016. In addition to this provision, the associate recorded an unrealised loss in its holding of certain market securities during the period under review, of which the Group's share was HK\$24.7 million (2015: gain of HK\$27.5 million).

For the six months ended 30 June 2016, the Group recorded a share of profit after tax from the associate's automobile dealership interest in the People's Republic of China of HK\$2.8 million (2015: loss of HK\$1.4 million). As explained above, the Group overall recorded a share of loss from the associate of HK\$50.2 million (2015: profit of HK\$32.9 million) for the six months ended 30 June 2016.

# CHAIRMAN'S STATEMENT

(Continued)

## HALF YEAR BUSINESS REVIEW (Continued)

### Others

The Group's investments in securities recorded a gain of HK\$4.3 million (2015: HK\$17.9 million) during the period under review. The Group recorded a net foreign exchange gain of HK\$4.4 million (2015: loss of HK\$6.3 million) from its holdings of foreign currencies.

### STAFF

As at 30 June 2016, the Group had a total staff of 755 (at 30 June 2015: 816). The Group's remuneration policies, bonus schemes, Mandatory Provident Fund Schemes, etc., have not changed materially from the information disclosed in the 2015 Annual Report.

### OUTLOOK FOR THE REMAINDER OF 2016

The Hong Kong retail market will remain difficult and challenging in the second half of 2016. Nevertheless, our department stores management will continue to strengthen merchandise contents and marketing campaigns to improve sales. The Group's investment properties in Hong Kong and Australia will continue to provide stable rental income for the Group.

**Karl C. Kwok**  
Chairman

Hong Kong, 26 August 2016



# **INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF WING ON COMPANY INTERNATIONAL LIMITED**

(Incorporated in Bermuda with limited liability)

## **INTRODUCTION**

We have reviewed the interim financial report set out on pages 8 to 34 which comprises the consolidated statement of financial position of Wing On Company International Limited (the “Company”) as of 30 June 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The directors are responsible for the preparation and presentation of the interim financial report in accordance with HKAS 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## **SCOPE OF REVIEW**

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the HKICPA. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **CONCLUSION**

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2016 is not prepared, in all material respects, in accordance with HKAS 34, Interim financial reporting.

### **KPMG**

Certified Public Accountants  
8th Floor, Prince’s Building  
10 Chater Road  
Central, Hong Kong

26 August 2016

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

|   | Note | Six months ended 30 June   |                           |
|---|------|----------------------------|---------------------------|
|   |      | 2016<br>\$'000             | 2015<br>\$'000            |
| <b>Revenue</b>                              | 3(a) | 883,433                    | 952,875                   |
| Other revenue                               | 4    | 21,249                     | 26,835                    |
| Other net gain                              | 4    | 2,224                      | 11,928                    |
| Cost of department store sales              | 5(d) | (364,719)                  | (412,129)                 |
| Cost of property leasing activities         | 5(c) | (38,569)                   | (41,941)                  |
| Other operating expenses                    |      | <u>(191,692)</u>           | <u>(223,601)</u>          |
| <b>Profit from operations</b>               |      | 311,926                    | 313,967                   |
| Finance costs                               | 5(a) | <u>(4,355)</u>             | <u>(5,479)</u>            |
| Net valuation gain on investment properties | 8(a) | 307,571<br><u>228,016</u>  | 308,488<br><u>207,014</u> |
| Share of (loss)/profit of an associate      |      | 535,587<br><u>(50,207)</u> | 515,502<br><u>32,921</u>  |
| <b>Profit before taxation</b>               | 5    | 485,380                    | 548,423                   |
| Income tax                                  | 6    | <u>(54,183)</u>            | <u>(48,840)</u>           |
| <b>Profit for the period</b>                |      | <u>431,197</u>             | <u>499,583</u>            |
| <b>Attributable to:</b>                     |      |                            |                           |
| Shareholders of the Company                 |      | 430,280                    | 499,092                   |
| Non-controlling interests                   |      | <u>917</u>                 | <u>491</u>                |
| <b>Profit for the period</b>                |      | <u>431,197</u>             | <u>499,583</u>            |
| <b>Basic and diluted earnings per share</b> | 7(a) | <u>145.9 cents</u>         | <u>169.0 cents</u>        |

The notes on pages 16 to 34 form part of this interim financial report. Details of dividends payable to shareholders of the Company are set out in note 13(a).

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

|  | Note | Six months ended 30 June |         |           |           |
|--|------|--------------------------|---------|-----------|-----------|
|  |      | 2016                     |         | 2015      |           |
|  |      | \$'000                   | \$'000  | \$'000    | \$'000    |
| <b>Profit for the period</b>   |      |                          | 431,197 |           | 499,583   |
|  |      |                          | -----   |           | -----     |
| <b>Other comprehensive income<br/>for the period (after tax and<br/>reclassification adjustments):</b>   |      |                          |         |           |           |
| Items that may be reclassified<br>subsequently to profit or loss:  |      |                          |         |           |           |
| Foreign currency translation<br>adjustments:   |      |                          |         |           |           |
| – exchange differences on<br>translation of financial<br>statements of overseas<br>subsidiaries          |      | 51,902                   |         | (125,259) |           |
| – share of exchange differences<br>on translation of financial<br>statements of an overseas<br>associate |      | (606)                    |         | (175)     |           |
| – release of the exchange reserve<br>upon refund of investment in<br>an overseas subsidiary              | 4    | –                        |         | (7,554)   |           |
|  |      |                          | -----   |           | -----     |
|  |      |                          | 51,296  |           | (132,988) |
| Available-for-sale securities:   |      |                          |         |           |           |
| – changes in fair value recognised<br>during the period  |      |                          | (120)   |           | –         |
|  |      |                          | -----   |           | -----     |
| <b>Other comprehensive income<br/>for the period</b>   |      |                          | 51,176  |           | (132,988) |
|  |      |                          | -----   |           | -----     |
| <b>Total comprehensive income<br/>for the period</b>   |      |                          | 482,373 |           | 366,595   |
|  |      |                          | -----   |           | -----     |
| <b>Attributable to:</b>  |      |                          |         |           |           |
| Shareholders of the Company  |      |                          | 481,434 |           | 366,116   |
| Non-controlling interests  |      |                          | 939     |           | 479       |
|  |      |                          | -----   |           | -----     |
| <b>Total comprehensive income<br/>for the period</b>   |      |                          | 482,373 |           | 366,595   |
|  |      |                          | -----   |           | -----     |

The notes on pages 16 to 34 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited  
(Expressed in Hong Kong dollars)

|  |      | At<br>30 June<br>2016<br>\$'000 | At<br>31 December<br>2015<br>\$'000 |
|--|------|---------------------------------|-------------------------------------|
|  | Note |                                 |                                     |
| <b>Non-current assets</b>  |      |                                 |                                     |
| Investment properties  | 8    | 11,905,073                      | 11,602,601                          |
| Other property, plant and equipment                              | 8    | 432,520                         | 449,240                             |
|  |      | 12,337,593                      | 12,051,841                          |
| Interest in an associate   | 9    | 252,609                         | 303,422                             |
| Available-for-sale securities                                    |      | 24,418                          | 24,538                              |
| Deferred tax assets  |      | 3,696                           | 7,190                               |
|  |      | 12,618,316                      | 12,386,991                          |
| <b>Current assets</b>  |      |                                 |                                     |
| Trading securities   |      | 381,183                         | 378,665                             |
| Inventories  |      | 91,017                          | 104,762                             |
| Debtors, deposits and prepayments                                | 10   | 83,361                          | 68,081                              |
| Amounts due from fellow subsidiaries                             |      | 3,222                           | 2,622                               |
| Current tax recoverable  |      | 9,570                           | 999                                 |
| Cash and cash equivalents  | 11   | 3,185,184                       | 3,116,347                           |
|  |      | 3,753,537                       | 3,671,476                           |
| <b>Current liabilities</b>                                       |      |                                 |                                     |
| Creditors and accrued charges                                    | 12   | 359,323                         | 397,070                             |
| Secured bank loan  |      | 36,562                          | 35,638                              |
| Amounts due to fellow subsidiaries                               |      | 2,565                           | 2,811                               |
| Current tax payable  |      | 39,628                          | 18,678                              |
|  |      | 438,078                         | 454,197                             |
| <b>Net current assets</b>  |      | 3,315,459                       | 3,217,279                           |
| <b>Total assets less current liabilities<br/>carried forward</b> |      | 15,933,775                      | 15,604,270                          |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016 – unaudited  
(Continued)  
(Expressed in Hong Kong dollars)

|   | Note  | At<br>30 June<br>2016<br>\$'000 | At<br>31 December<br>2015<br>\$'000 |
|---|-------|---------------------------------|-------------------------------------|
| <b>Total assets less current liabilities brought forward</b>    |       | 15,933,775                      | 15,604,270                          |
| <b>Non-current liabilities</b>                                  |       |                                 |                                     |
| Secured bank loan   |       | 201,954                         | 214,668                             |
| Deferred tax liabilities  |       | 522,762                         | 508,262                             |
|   |       | <u>724,716</u>                  | <u>722,930</u>                      |
| <b>NET ASSETS</b>   |       | <u>15,209,059</u>               | <u>14,881,340</u>                   |
| <b>Capital and reserves</b>                                     |       |                                 |                                     |
| Share capital   | 13(b) | 29,476                          | 29,508                              |
| Reserves  |       | 15,153,507                      | 14,826,695                          |
| <b>Total equity attributable to shareholders of the Company</b> |       | 15,182,983                      | 14,856,203                          |
| <b>Non-controlling interests</b>                                |       | 26,076                          | 25,137                              |
| <b>TOTAL EQUITY</b>   |       | <u>15,209,059</u>               | <u>14,881,340</u>                   |

The notes on pages 16 to 34 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

|  | Attributable to shareholders of the Company |                                       |                                |                  |                     |                      |                          |                   |                           |                   |
|--|---|---------------------------------------|--------------------------------|------------------|---------------------|----------------------|--------------------------|-------------------|---------------------------|-------------------|
|  | Share capital                               | Land and building revaluation reserve | Investment revaluation reserve | Exchange reserve | Contributed surplus | General reserve fund | Retained earnings (Note) | Total             | Non-controlling interests | Total equity      |
| Note   | \$'000                                      | \$'000                                | \$'000                         | \$'000           | \$'000              | \$'000               | \$'000                   | \$'000            | \$'000                    | \$'000            |
| <b>Balance at 1 January 2016</b>   | 29,508                                      | 271,037                               | 12,760                         | (178,467)        | 754,347             | 1,673                | 13,965,345               | 14,856,203        | 25,137                    | 14,881,340        |
| <b>Changes in equity for the six months ended 30 June 2016:</b>                  |   |                                       |                                |                  |                     |                      |                          |                   |                           |                   |
| Profit for the period  | -   | -                                     | -                              | -                | -                   | -                    | 430,280                  | 430,280           | 917                       | 431,197           |
| Other comprehensive income for the period  | -   | -                                     | (120)                          | 51,274           | -                   | -                    | -                        | 51,154            | 22                        | 51,176            |
| Total comprehensive income for the period  | -   | -                                     | (120)                          | 51,274           | -                   | -                    | 430,280                  | 481,434           | 939                       | 482,373           |
| Share of the general reserve fund of an associate: transfer to retained earnings | -   | -                                     | -                              | -                | -                   | (633)                | 633                      | -                 | -                         | -                 |
| Purchase of own shares   | -   | -                                     | -                              | -                | -                   | -                    | -                        | -                 | -                         | -                 |
| – Par value paid   | (32)  | -                                     | -                              | -                | -                   | -                    | -                        | (32)              | -                         | (32)              |
| – Premium and transaction costs paid   | -   | -                                     | -                              | -                | -                   | -                    | (7,234)                  | (7,234)           | -                         | (7,234)           |
| Dividends approved in respect of the previous year                               | -   | -                                     | -                              | -                | -                   | -                    | (147,388)                | (147,388)         | -                         | (147,388)         |
|  | (32)  | -                                     | (120)                          | 51,274           | -                   | (633)                | 276,291                  | 326,780           | 939                       | 327,719           |
| <b>Balance at 30 June 2016</b>   | <u>29,476</u>                               | <u>271,037</u>                        | <u>12,640</u>                  | <u>(127,193)</u> | <u>754,347</u>      | <u>1,040</u>         | <u>14,241,636</u>        | <u>15,182,983</u> | <u>26,076</u>             | <u>15,209,059</u> |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited

(Continued)

(Expressed in Hong Kong dollars)

|      |   | Attributable to shareholders of the Company |                        |                        |                     |                        |                 |                                |                   |                          |                   |
|------|---|---|------------------------|------------------------|---------------------|------------------------|-----------------|--------------------------------|-------------------|--------------------------|-------------------|
|      |   | Land and<br>building                        | Investment             |                        |                     |                        | General         |                                |                   | Non-                     | Total             |
|      |   | Share<br>capital                            | revaluation<br>reserve | revaluation<br>reserve | Exchange<br>reserve | Contributed<br>surplus | reserve<br>fund | Retained<br>earnings<br>(Note) | Total             | controlling<br>interests | equity            |
| Note |   | \$'000                                      | \$'000                 | \$'000                 | \$'000              | \$'000                 | \$'000          | \$'000                         | \$'000            | \$'000                   | \$'000            |
|      | <b>Balance at 1 January 2015</b>  | 29,530                                      | 271,037                | 9,940                  | 57,506              | 754,347                | 1,018           | 13,410,780                     | 14,534,158        | 22,503                   | 14,556,661        |
|      | <b>Changes in equity for<br/>the six months ended<br/>30 June 2015:</b> |   |                        |                        |                     |                        |                 |                                |                   |                          |                   |
|      | Profit for the period   | -   | -                      | -                      | -                   | -                      | -               | 499,092                        | 499,092           | 491                      | 499,583           |
|      | Other comprehensive income<br>for the period                            | -   | -                      | -                      | (132,976)           | -                      | -               | -                              | (132,976)         | (12)                     | (132,988)         |
|      | Total comprehensive income<br>for the period                            | -   | -                      | -                      | (132,976)           | -                      | -               | 499,092                        | 366,116           | 479                      | 366,595           |
|      | Dividends approved in respect<br>of the previous year                   | -   | -                      | -                      | -                   | -                      | -               | (407,507)                      | (407,507)         | -                        | (407,507)         |
|      |   | -   | -                      | -                      | (132,976)           | -                      | -               | 91,585                         | (41,391)          | 479                      | (40,912)          |
|      | <b>Balance at 30 June 2015</b>  | <u>29,530</u>                               | <u>271,037</u>         | <u>9,940</u>           | <u>(75,470)</u>     | <u>754,347</u>         | <u>1,018</u>    | <u>13,502,365</u>              | <u>14,492,767</u> | <u>22,982</u>            | <u>14,515,749</u> |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016 – unaudited

(Continued)

(Expressed in Hong Kong dollars)

|   | Attributable to shareholders of the Company |                                       |                                |                  |                     |                      |                          |                   |                           |                   |
|---|---|---------------------------------------|--------------------------------|------------------|---------------------|----------------------|--------------------------|-------------------|---------------------------|-------------------|
|   | Share capital                               | Land and building revaluation reserve | Investment revaluation reserve | Exchange reserve | Contributed surplus | General reserve fund | Retained earnings (Note) | Total             | Non-controlling interests | Total equity      |
| Note  | \$'000                                      | \$'000                                | \$'000                         | \$'000           | \$'000              | \$'000               | \$'000                   | \$'000            | \$'000                    | \$'000            |
| <b>Balance at 1 July 2015</b>   | 29,530                                      | 271,037                               | 9,940                          | (75,470)         | 754,347             | 1,018                | 13,502,365               | 14,492,767        | 22,982                    | 14,515,749        |
| <b>Changes in equity for the six months ended 31 December 2015:</b>                     |   |                                       |                                |                  |                     |                      |                          |                   |                           |                   |
| Profit for the period   | -   | -                                     | -                              | -                | -                   | -                    | 569,422                  | 569,422           | 2,159                     | 571,581           |
| Other comprehensive income for the period   | -   | -                                     | 2,820                          | (102,997)        | -                   | -                    | -                        | (100,177)         | (4)                       | (100,181)         |
| Total comprehensive income for the period   | -   | -                                     | 2,820                          | (102,997)        | -                   | -                    | 569,422                  | 469,245           | 2,155                     | 471,400           |
| Share of the general reserve fund of an associate: transfer to the general reserve fund | -   | -                                     | -                              | -                | -                   | 655                  | (655)                    | -                 | -                         | -                 |
| Dividends declared and paid in respect of the current year                              | -   | -                                     | -                              | -                | -                   | -                    | (100,397)                | (100,397)         | -                         | (100,397)         |
| Purchase of own shares  |   |                                       |                                |                  |                     |                      |                          |                   |                           |                   |
| – Par value paid  | (22)  | -                                     | -                              | -                | -                   | -                    | -                        | (22)              | -                         | (22)              |
| – Premium paid  | -   | -                                     | -                              | -                | -                   | -                    | (5,390)                  | (5,390)           | -                         | (5,390)           |
|   | (22)  | -                                     | 2,820                          | (102,997)        | -                   | 655                  | 462,980                  | 363,436           | 2,155                     | 365,591           |
| <b>Balance at 31 December 2015</b>  | <u>29,508</u>                               | <u>271,037</u>                        | <u>12,760</u>                  | <u>(178,467)</u> | <u>754,347</u>      | <u>1,673</u>         | <u>13,965,345</u>        | <u>14,856,203</u> | <u>25,137</u>             | <u>14,881,340</u> |

Note: Retained earnings attributable to the shareholders of the Company as at 30 June 2016 include the aggregate net valuation gain relating to investment properties after deferred tax of \$9,368,235,000 (at 31 December 2015: \$9,140,398,000).

The notes on pages 16 to 34 form part of this interim financial report.



# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016 – unaudited

(Expressed in Hong Kong dollars)

|   |      | <b>Six months ended 30 June</b> |                  |
|---|------|---------------------------------|------------------|
|   |      | <b>2016</b>                     | <b>2015</b>      |
|   | Note | \$'000                          | \$'000           |
| <b>Operating activities</b>                                     |      |                                 |                  |
| Cash generated from operations                                  |      | 272,694                         | 166,440          |
| Tax paid  |      | <u>(34,423)</u>                 | <u>(34,643)</u>  |
| <b>Net cash generated from operating activities</b>             |      | <u>238,271</u>                  | <u>131,797</u>   |
| <b>Investing activities</b>                                     |      |                                 |                  |
| Payment for the purchase of property,<br>plant and equipment    |      | (6,419)                         | (19,085)         |
| Other cash flows arising from investing activities              |      | <u>5,166</u>                    | <u>17,109</u>    |
| <b>Net cash used in investing activities</b>                    |      | <u>(1,253)</u>                  | <u>(1,976)</u>   |
| <b>Financing activities</b>                                     |      |                                 |                  |
| Dividends paid to shareholders of the Company                   |      | (147,388)                       | (407,507)        |
| Other cash flows arising from financing activities              |      | <u>(29,842)</u>                 | <u>(24,689)</u>  |
| <b>Net cash used in financing activities</b>                    |      | <u>(177,230)</u>                | <u>(432,196)</u> |
| <b>Net increase/(decrease) in cash and<br/>cash equivalents</b> |      | 59,788                          | (302,375)        |
| <b>Cash and cash equivalents at 1 January</b>                   |      | 3,116,347                       | 3,347,260        |
| <b>Effect of foreign exchange rate changes</b>                  |      | <u>9,049</u>                    | <u>(23,484)</u>  |
| <b>Cash and cash equivalents at 30 June</b>                     | 11   | <u>3,185,184</u>                | <u>3,021,401</u> |

The notes on pages 16 to 34 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars unless otherwise stated)

## 1. Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Stock Exchange”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorised for issue on 26 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, Review of interim financial information performed by the independent auditor of the entity, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 7. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2015 are available from the Stock Exchange’s website. The auditors have expressed an unqualified opinion on those financial statements in their independent auditor’s report dated 30 March 2016.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 2. Changes in accounting policies

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

- Annual Improvements to HKFRSs 2012-2014 Cycle
- Amendments to HKAS 1, Presentation of financial statements: Disclosure Initiative

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

### **Annual Improvements to HKFRSs 2012-2014 Cycle**

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, Interim financial reporting, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

### **Amendments to HKAS 1, Presentation of financial statements: Disclosure initiative**

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 3. Revenue and segment reporting

### (a) Revenue

The principal activities of the Group are the operation of department stores and property investment.

The Group's revenue comprises the invoiced value of goods sold to customers less returns, net income from concession sales and income from property investment and is analysed by principal activities as follows:

|                                  | Six months ended 30 June |                       |
|----------------------------------|--------------------------|-----------------------|
|                                  | 2016                     | 2015                  |
|                                  | \$'000                   | \$'000                |
| Sale of goods                    | 533,404                  | 606,238               |
| Net income from concession sales | <u>126,839</u>           | <u>141,720</u>        |
| Department stores                | 660,243                  | 747,958               |
| Property investment (note 5(c))  | <u>223,190</u>           | <u>204,917</u>        |
|                                  | <u><u>883,433</u></u>    | <u><u>952,875</u></u> |

### (b) Segment reporting

The Group manages its business by two divisions, namely department stores and property investment. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following two reportable segments. No operating segments have been aggregated to form the following reportable segments.

- Department stores: this segment operates department stores in Hong Kong.
- Property investment: this segment leases commercial premises to generate rental income. Currently the Group's investment property portfolio is located in Hong Kong, Australia and the United States of America.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 3. Revenue and segment reporting (Continued)

### (b) Segment reporting (Continued)

#### (i) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

- Segment assets include all tangible, intangible assets and current assets with the exception of interest in an associate, investments in financial assets, current tax recoverable, deferred tax assets and other corporate assets. Segment liabilities include trade and other creditors, accrued charges and bank borrowings managed directly by the segments.
- Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is profit before interest income, finance costs and income tax.

In addition to receiving segment information concerning segment profit, management is provided with segment information concerning revenue (including inter-segment revenue), finance costs on bank borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 3. Revenue and segment reporting (Continued)

### (b) Segment reporting (Continued)

#### (i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods is set out below.

|                                   | Department stores        |                | Property investment      |                | Total                    |                  |
|-----------------------------------|--------------------------|----------------|--------------------------|----------------|--------------------------|------------------|
|                                   | Six months ended 30 June |                | Six months ended 30 June |                | Six months ended 30 June |                  |
|                                   | 2016                     | 2015           | 2016                     | 2015           | 2016                     | 2015             |
|                                   | \$'000                   | \$'000         | \$'000                   | \$'000         | \$'000                   | \$'000           |
| Revenue from external customers   | 660,243                  | 747,958        | 223,190                  | 204,917        | 883,433                  | 952,875          |
| Inter-segment revenue             | –                        | –              | 60,188                   | 58,744         | 60,188                   | 58,744           |
| <b>Reportable segment revenue</b> | <u>660,243</u>           | <u>747,958</u> | <u>283,378</u>           | <u>263,661</u> | <u>943,621</u>           | <u>1,011,619</u> |
| <b>Reportable segment profit</b>  | <u>82,039</u>            | <u>97,712</u>  | <u>228,484</u>           | <u>204,910</u> | <u>310,523</u>           | <u>302,622</u>   |

|  | Department stores |                | Property investment |                | Total          |                |
|--|-------------------|----------------|---------------------|----------------|----------------|----------------|
|  | At 30 June        | At 31 December | At 30 June          | At 31 December | At 30 June     | At 31 December |
|  | 2016              | 2015           | 2016                | 2015           | 2016           | 2015           |
|  | \$'000            | \$'000         | \$'000              | \$'000         | \$'000         | \$'000         |
| <b>Reportable segment assets</b>                               | 152,711           | 162,604        | 12,358,778          | 12,065,023     | 12,511,489     | 12,227,627     |
| Additions to non-current segment assets during the period/year | 380               | 14,538         | 18,586              | 42,882         | 18,966         | 57,420         |
| <b>Reportable segment liabilities</b>                          | <u>240,527</u>    | <u>274,069</u> | <u>319,455</u>      | <u>332,787</u> | <u>559,982</u> | <u>606,856</u> |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 3. Revenue and segment reporting (Continued)

### (b) Segment reporting (Continued)

#### (ii) Reconciliations of reportable segment profit, assets and liabilities

|  | <b>Six months ended 30 June</b> |                    |
|--|---------------------------------|--------------------|
|  | <b>2016</b>                     | <b>2015</b>        |
|  | \$'000                          | \$'000             |
| <b>Profit</b>  |                                 |                    |
| Reportable segment profit derived from<br>the Group's external customers | 310,523                         | 302,622            |
| Other revenue  | 21,249                          | 26,835             |
| Other net gain   | 2,224                           | 11,928             |
| Finance costs  | (4,355)                         | (5,479)            |
| Net valuation gain on investment properties                              | 228,016                         | 207,014            |
| Share of (loss)/profit of an associate                                   | (50,207)                        | 32,921             |
| Unallocated head office and<br>corporate expenses                        | <u>(22,070)</u>                 | <u>(27,418)</u>    |
| Consolidated profit before taxation                                      | <u>485,380</u>                  | <u>548,423</u>     |
|  | <b>At</b>                       | <b>At</b>          |
|  | <b>30 June</b>                  | <b>31 December</b> |
|  | <b>2016</b>                     | <b>2015</b>        |
|  | \$'000                          | \$'000             |
| <b>Assets</b>  |                                 |                    |
| Reportable segment assets  | 12,511,489                      | 12,227,627         |
| Elimination of inter-segment receivables                                 | <u>(5,325)</u>                  | <u>(5,330)</u>     |
|  | 12,506,164                      | 12,222,297         |
| Interest in an associate   | 252,609                         | 303,422            |
| Available-for-sale securities  | 24,418                          | 24,538             |
| Deferred tax assets  | 3,696                           | 7,190              |
| Trading securities   | 381,183                         | 378,665            |
| Current tax recoverable  | 9,570                           | 999                |
| Unallocated head office and<br>corporate assets                          | <u>3,194,213</u>                | <u>3,121,356</u>   |
| Consolidated total assets  | <u>16,371,853</u>               | <u>16,058,467</u>  |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 3. Revenue and segment reporting (Continued)

### (b) Segment reporting (Continued)

#### (ii) Reconciliations of reportable segment profit, assets and liabilities (Continued)

|   | <b>At<br/>30 June<br/>2016<br/>\$'000</b> | <b>At<br/>31 December<br/>2015<br/>\$'000</b> |
|---|---|---|
| <b>Liabilities</b>                                |   |   |
| Reportable segment liabilities                    | 559,982                                   | 606,856                                       |
| Elimination of inter-segment payables             | <u>(5,325)</u>                            | <u>(5,330)</u>                                |
|   | 554,657                                   | 601,526                                       |
| Current tax payable                               | 39,628                                    | 18,678  |
| Deferred tax liabilities                          | 522,762                                   | 508,262                                       |
| Unallocated head office and corporate liabilities | <u>45,747</u>                             | <u>48,661</u>                                 |
| Consolidated total liabilities                    | <u><u>1,162,794</u></u>                   | <u><u>1,177,127</u></u>                       |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 4. Other revenue and other net gain

|   | Six months ended 30 June |               |
|---|--------------------------|---------------|
|   | 2016                     | 2015          |
|   | \$'000                   | \$'000        |
| <b>Other revenue</b>  |                          |               |
| Interest income from  |                          |               |
| – bank deposits   | 12,070                   | 17,632        |
| – trading securities  | –                        | 413           |
| Dividend income from securities   | 6,640                    | 7,305         |
| Forfeiture of unclaimed dividends   | 1,397                    | 655           |
| Others  | 1,142                    | 830           |
|   | <u>21,249</u>            | <u>26,835</u> |
| <b>Other net gain</b>   |                          |               |
| Net (loss)/gain on remeasurement to fair value of                                   |                          |               |
| – trading securities  | (2,390)                  | 4,046         |
| – derivative financial instruments  | (314)                    | 205           |
| Net realised gain on disposal of  |                          |               |
| – trading securities  | 222                      | 5,814         |
| – derivative financial instruments  | 244                      | 614           |
| Release of the exchange reserve upon refund of investment in an overseas subsidiary | –                        | 7,554         |
| Net foreign exchange gain/(loss)  | 4,455                    | (6,304)       |
| Net gain/(loss) on disposal of plant and equipment                                  | 7                        | (1)           |
|   | <u>2,224</u>             | <u>11,928</u> |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 5. Profit before taxation

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

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2016</b>                     | <b>2015</b> |
|   | \$'000                          | \$'000      |
| <b>(a) Finance costs</b>  |                                 |             |
| Interest on bank loan   | 4,355                           | 5,479       |
| <b>(b) Staff costs (excluding directors' remuneration)</b>            |                                 |             |
| Contributions to defined contribution retirement plans                | 6,101                           | 6,173       |
| Salaries, wages and other benefits                                    | 100,696                         | 107,701     |
|   | 106,797                         | 113,874     |
| <b>(c) Rentals received and receivable from investment properties</b> |                                 |             |
| Gross rentals (note 3(a))   | (223,190)                       | (204,917)   |
| Less: direct outgoings  | 38,569                          | 41,941      |
|   | (184,621)                       | (162,976)   |
| <b>(d) Other items</b>  |                                 |             |
| Depreciation and amortisation   |                                 |             |
| – owned assets  | 17,503                          | 19,742      |
| – lease incentives  | 7,206                           | 6,419       |
| Impairment losses on trade and other debtors recognised               | 16                              | 3           |
| Operating lease charges   |                                 |             |
| – minimum lease payments for hire of land and buildings               | 14,616                          | 25,318      |
| – contingent rentals for hire of land and buildings                   | 176                             | 1,068       |
| Cost of inventories sold  | 364,719                         | 412,129     |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 6. Income tax in the consolidated statement of profit or loss

|   | Six months ended 30 June |               |
|---|--------------------------|---------------|
|   | 2016                     | 2015          |
|   | \$'000                   | \$'000        |
| <b>Current tax – Hong Kong Profits Tax</b>        |                          |               |
| Provision for the period                          | 38,634                   | 38,025        |
| <b>Current tax – Overseas</b>                     |                          |               |
| Provision for the period                          | 8,312                    | 9,954         |
| <b>Deferred tax</b>                               |                          |               |
| Origination and reversal of temporary differences |                          |               |
| – changes in fair value of investment properties  | (268)                    | (2,148)       |
| – other temporary differences                     | 7,505                    | 3,009         |
|   | <u>7,237</u>             | <u>861</u>    |
| <b>Total income tax expense</b>                   | <u>54,183</u>            | <u>48,840</u> |

The provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the six months ended 30 June 2016. Taxation for overseas subsidiaries is charged similarly at the appropriate current rates of taxation ruling in the relevant countries.

## 7. Basic and diluted earnings per share

- (a) The calculation of basic earnings per share is based on the consolidated profit attributable to shareholders of the Company for the six months ended 30 June 2016 of \$430,280,000 (six months ended 30 June 2015: \$499,092,000) divided by the weighted average of 295,005,000 shares (2015: 295,295,000 shares) in issue during the interim period.

There were no outstanding potential shares throughout the periods presented.

- (b) **Adjusted basic earnings per share excluding the net valuation gain on investment properties net of related deferred tax thereon**

For the purpose of assessing the underlying performance of the Group, the management is of the view that the profit for the period should be adjusted for the net valuation gain on investment properties net of related deferred tax thereon in arriving at the “underlying profit attributable to shareholders of the Company”.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 7. Basic and diluted earnings per share (Continued)

### (b) Adjusted basic earnings per share excluding the net valuation gain on investment properties net of related deferred tax thereon (Continued)

The difference between the underlying profit attributable to shareholders of the Company and profit attributable to shareholders of the Company as shown in the consolidated statement of profit or loss for the period is reconciled as follows:

|  | Six months ended 30 June |             |                     |             |
|--|--------------------------|-------------|---------------------|-------------|
|  | 2016                     |             | 2015                |             |
|  | Amount<br>per share      |             | Amount<br>per share |             |
|  | \$'000                   | cents       | \$'000              | cents       |
| Profit attributable to shareholders of the Company as shown in the consolidated statement of profit or loss            | 430,280                  | 145.9       | 499,092             | 169.0       |
| Adjustments:   |                          |             |                     |             |
| Less: net valuation gain on investment properties  | (228,016)                | (77.3)      | (207,014)           | (70.1)      |
| Less: decrease in deferred tax liabilities in relation to the net valuation gain on investment properties              | (268)                    | (0.1)       | (2,148)             | (0.7)       |
|  | 201,996                  | 68.5        | 289,930             | 98.2        |
| Add: net valuation gain on investment properties net of related deferred tax attributable to non-controlling interests | 447                      | 0.1         | –                   | –           |
| Underlying profit attributable to shareholders of the Company  | <u>202,443</u>           | <u>68.6</u> | <u>289,930</u>      | <u>98.2</u> |

## 8. Investment properties and other property, plant and equipment

- (a) Investment properties were revalued as at 30 June 2016 by the directors using relevant market indices to update the professional valuations that were carried out as at 31 December 2015. As a result of the update, net valuation gain of \$228,016,000 (six months ended 30 June 2015: \$207,014,000) and credit of deferred tax of \$268,000 (six months ended 30 June 2015: \$2,148,000) thereon have been included in the consolidated statement of profit or loss.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 8. Investment properties and other property, plant and equipment (Continued)

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

|                                      | At<br>30 June<br>2016<br>\$'000 | At<br>31 December<br>2015<br>\$'000 |
|--------------------------------------|---------------------------------|-------------------------------------|
| Within one year                      | 357,559                         | 358,469                             |
| After one year but within five years | 594,094                         | 697,825                             |
| After five years                     | 165,665                         | 189,649                             |
|                                      | <u>1,117,318</u>                | <u>1,245,943</u>                    |

## 9. Interest in an associate

|   | At<br>30 June<br>2016<br>\$'000 | At<br>31 December<br>2015<br>\$'000 |
|---|---------------------------------|-------------------------------------|
| <b>Unlisted shares</b>  |                                 |                                     |
| Share of net assets other than goodwill and intangible assets | 244,700                         | 295,273                             |
| Share of goodwill and intangible assets of an associate       | 7,909                           | 8,149                               |
| Interest in an associate                                      | <u>252,609</u>                  | <u>303,422</u>                      |

On 2 October 2014, the associate of the Group sold its entire issued and outstanding shares of a subsidiary ("the disposal group") to a third party. The disposal group was engaged in automobile dealerships and related business in USA.

The gain on disposal shared by the Group for the year ended 31 December 2014 was \$373,847,000. A portion of the consideration amounting to US\$33,454,000 was paid into an escrow account during 2014 and consisted of cash of US\$10,954,000 and listed shares of the buyer amounting to US\$22,500,000. The cash and shares are held in escrow until 1 July 2016, whereafter they are expected to be transferred to the associate, less any successful claims made under warranties provided in the sale and purchase agreement.

The escrow balance at 30 June 2016 after adjusting for changes in the market value of shares held was US\$34,100,000 (at 31 December 2015: US\$40,133,000).

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 9. Interest in an associate (Continued)

Up to 30 June 2016, claims amounting to US\$355,000 (\$2,800,000) have been agreed with the buyer and accounted for in the associate's financial statements. During the period, the buyer has also made potential claims which are currently under negotiation and the outcome is uncertain. The directors of the associate have agreed to leave US\$8,950,000 (\$69,300,000) in escrow account pending resolution of these further claims and the cash balance of the escrow account of US\$12,100,000 has been returned to the associate on 20 July 2016.

The negotiation of the claims is ongoing and the outcome is subject to uncertainties. The Group is not in a position to assess the full potential liability with certainty but after discussing with legal counsel, has made a provision of \$34,700,000 for the Group's share of these claims, based on the facts and circumstances in line with accounting policy set out in note 1(t)(ii) on page 65 in the 2015 Annual Report.

## 10. Debtors, deposits and prepayments

|                                    | At<br>30 June<br>2016<br>\$'000 | At<br>31 December<br>2015<br>\$'000 |
|------------------------------------|---------------------------------|-------------------------------------|
| Trade and other debtors            | 39,816                          | 30,668                              |
| Less: allowance for doubtful debts | (21)                            | (5)                                 |
|                                    | <u>39,795</u>                   | <u>30,663</u>                       |
| Deposits and prepayments           | 43,566                          | 37,418                              |
|                                    | <u>83,361</u>                   | <u>68,081</u>                       |

All debtors, deposits and prepayments of the Group, apart from certain rental deposits and prepayments totalling \$10,071,000 (at 31 December 2015: \$25,125,000), are expected to be recovered or recognised as an expense within one year.

At the end of the reporting period, the ageing analysis of trade and other debtors (net of allowance for doubtful debts), based on the due date, is as follows:

|  | At<br>30 June<br>2016<br>\$'000 | At<br>31 December<br>2015<br>\$'000 |
|--|---------------------------------|-------------------------------------|
| Current or less than one month past due                        | 39,232                          | 30,200                              |
| One to three months past due                                   | 487                             | 411                                 |
| More than three months but less than<br>twelve months past due | 46                              | 15                                  |
| More than twelve months past due                               | 30                              | 37                                  |
|  | <u>39,795</u>                   | <u>30,663</u>                       |

Credit period granted to customers is generally 30 days from the date of billing.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 11. Cash and cash equivalents

|                          | <b>At<br/>30 June<br/>2016<br/>\$'000</b> | <b>At<br/>31 December<br/>2015<br/>\$'000</b> |
|--------------------------|---|---|
| Cash at bank and in hand | 93,745                                    | 152,639                                       |
| Bank deposits            | <u>3,091,439</u>                          | <u>2,963,708</u>                              |
|                          | <u><u>3,185,184</u></u>                   | <u><u>3,116,347</u></u>                       |

## 12. Creditors and accrued charges

At the end of the reporting period, the ageing analysis of trade and other creditors, based on the due date, is as follows:

|  | <b>At<br/>30 June<br/>2016<br/>\$'000</b> | <b>At<br/>31 December<br/>2015<br/>\$'000</b> |
|--|---|---|
| Amounts not yet due                      | 270,138                                   | 300,477                                       |
| On demand or less than one month overdue | 52,457                                    | 52,731  |
| One to three months overdue              | 2,560                                     | 418   |
| Three to twelve months overdue           | 436                                       | 333   |
| More than twelve months overdue          | <u>1,179</u>                              | <u>1,166</u>                                  |
| Trade and other creditors                | 326,770                                   | 355,125                                       |
| Accrued charges                          | <u>32,553</u>                             | <u>41,945</u>                                 |
|  | <u><u>359,323</u></u>                     | <u><u>397,070</u></u>                         |

All creditors and accrued charges of the Group, apart from certain rental deposits received and accrued charges totalling \$45,781,000 (at 31 December 2015: \$44,407,000), are expected to be settled or recognised as income within one year or are repayable on demand.

Credit period granted to the Group is generally between 30 days and 90 days from the date of billing.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 13. Capital, reserves and dividends

### (a) Dividends

- (i) Dividends payable to shareholders of the Company attributable to the interim period:

|  | <b>Six months ended 30 June</b> |                |
|--|---------------------------------|----------------|
|  | <b>2016</b>                     | <b>2015</b>    |
|  | <b>\$'000</b>                   | <b>\$'000</b>  |
| Interim dividend:  |                                 |                |
| – declared after the interim period  | 73,691                          | 100,400        |
| – attributable to shares purchased in<br>September 2015  | <u>–</u>                        | <u>(3)</u>     |
| Interim dividend payable after the<br>interim period of 25 cents<br>(2015: 34 cents) per share | <u>73,691</u>                   | <u>100,397</u> |

The interim dividend declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

- (ii) Dividends payable to shareholders of the Company attributable to the previous financial year, approved and payable during the interim period:

|  | <b>Six months ended 30 June</b> |                |
|--|---------------------------------|----------------|
|  | <b>2016</b>                     | <b>2015</b>    |
|  | <b>\$'000</b>                   | <b>\$'000</b>  |
| Final dividend in respect of the financial<br>year ended 31 December 2015                                |                                 |                |
| – approved during the interim period   | 147,541                         | 407,507        |
| – attributable to shares purchased in<br>April and May 2016  | <u>(153)</u>                    | <u>–</u>       |
| Final dividend payable during the<br>following interim period of 50 cents<br>(2014: 138 cents) per share | <u>147,388</u>                  | <u>407,507</u> |



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 13. Capital, reserves and dividends (Continued)

### (b) Purchase of own shares

During the six months ended 30 June 2016, the Company purchased its own shares on the Stock Exchange as follows:

| Month/year | Number<br>of shares<br>purchased | Aggregate<br>price paid<br>\$'000 | Highest<br>price paid<br>per share<br>\$ | Lowest<br>price paid<br>per share<br>\$ |
|------------|----------------------------------|-----------------------------------|--|---|
| April 2016 | 32,000                           | 720                               | 22.55                                    | 22.40                                   |
| May 2016   | 272,000                          | 6,197                             | 23.00                                    | 22.55                                   |
| June 2016  | 15,000                           | 325                               | 21.65                                    | 21.60                                   |
|            | <u>319,000</u>                   | <u>7,242</u>                      |  |   |

Pursuant to section 42A of the Bermuda Companies Act 1981, the above purchased shares were cancelled upon purchase and the issued share capital of the Company was reduced by the nominal value of these shares of \$32,000 accordingly. The premium and transaction costs paid on the purchase of the shares of \$7,210,000 and \$24,000 respectively (2015: \$Nil) were charged against retained earnings.

The holders of shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 14. Fair value measurement of financial instruments

### (a) Financial assets and liabilities measured at fair value

#### (i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

|  | Fair value measurements<br>as at 30 June 2016<br>categorised into |         |         | Fair value measurements<br>as at 31 December 2015<br>categorised into |         |         |
|--|---|---------|---------|---|---------|---------|
|  | Fair value at<br>30 June<br>2016                                  | Level 1 | Level 2 | Fair value at<br>31 December<br>2015                                  | Level 1 | Level 2 |
|  | \$'000  | \$'000  | \$'000  | \$'000  | \$'000  | \$'000  |

#### Recurring fair value measurements

##### Assets

|  |         |         |        |         |         |        |
|--|---------|---------|--------|---------|---------|--------|
| Unlisted available-for-sale securities | 12,850  | -       | 12,850 | 12,970  | -       | 12,970 |
| Trading securities                     | 381,183 | 337,986 | 43,197 | 378,665 | 332,106 | 46,559 |

During the six months ended 30 June 2016, there were no transfers of financial instruments between different levels (2015: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 14. Fair value measurement of financial instruments (Continued)

### (a) Financial assets and liabilities measured at fair value (Continued)

#### (ii) Valuation techniques and inputs used in Level 2 fair value measurements

The trading securities in Level 2 represent investment funds. The fair value of these investment funds is determined by reference to quoted price in an active market of the listed securities comprising the fund portfolio being valued, adjusted for factors unique to the funds being valued.

The fair value of the unlisted available-for-sale securities is determined by reference to quoted price in an active market of instruments similar to the securities being valued, adjusted for factors unique to the securities being valued.

### (b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2016 and 31 December 2015 except for the unlisted equity securities of \$11,568,000 (at 31 December 2015: \$11,568,000), which do not have a quoted price in an active market and therefore their fair values cannot be reliably measured. These unlisted equity securities are stated at cost at the end of the reporting period.

## 15. Capital commitments

At the end of the reporting period, capital commitments of the Group outstanding not provided for in the interim financial report were as follows:

|                               | At<br>30 June<br>2016<br>\$'000 | At<br>31 December<br>2015<br>\$'000 |
|-------------------------------|---------------------------------|-------------------------------------|
| Authorised and contracted for | <u>21,542</u>                   | <u>22,009</u>                       |

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)

(Expressed in Hong Kong dollars unless otherwise stated)

## 16. Material related party transactions

### (a) Key management personnel remuneration

Remuneration for key management personnel of the Group for the six months ended 30 June 2016 was as follows:

|  | Six months ended 30 June |               |
|--|--------------------------|---------------|
|  | 2016                     | 2015          |
|  | \$'000                   | \$'000        |
| Salaries and other short-term employee benefits        | 22,458                   | 40,071        |
| Contributions to defined contribution retirement plans | 578                      | 555           |
|  | <u>23,036</u>            | <u>40,626</u> |

### (b) Recurring transactions

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

- (i) A fellow subsidiary rents retail premises to a subsidiary of the Group. Rental and management fees payable to this fellow subsidiary amounted to \$15,546,000 (2015: \$15,342,000) during the period. The amount due from the fellow subsidiary as at 30 June 2016 amounted to \$2,554,000 (at 31 December 2015: \$2,554,000).
- (ii) A subsidiary of the Group rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to \$2,687,000 (2015: \$2,687,000) during the period. The amount due to the fellow subsidiary as at 30 June 2016 amounted to \$1,294,000 (at 31 December 2015: \$1,294,000).
- (iii) A fellow subsidiary, engaged in securities trading, deals in securities for certain subsidiaries of the Group. Commission of \$58,000 (2015: \$289,000) was payable to this fellow subsidiary during the period. The amount due from the fellow subsidiary as at 30 June 2016 amounted to \$668,000 (at 31 December 2015: \$68,000).
- (iv) A subsidiary of the Group provides building and tenancy management services to a fellow subsidiary. Building and tenancy management fees receivable from this fellow subsidiary amounted to \$456,000 (2015: \$456,000) during the period. The amount due to the fellow subsidiary as at 30 June 2016 amounted to \$1,271,000 (at 31 December 2015: \$1,517,000).

The directors of the Group are of the opinion that the above transactions were carried out at pre-determined amounts in accordance with terms mutually agreed by the Group and the respective companies.

## 17. Approval of the interim financial report

The interim financial report was approved by the Board of Directors on 26 August 2016.

## SUPPLEMENTARY INFORMATION

### CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions in the Corporate Governance Code set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the six months ended 30 June 2016.

### DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the “Model Code”) as its code of conduct regarding directors’ securities transactions. The Company has made specific enquiries of all directors and all directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2016.

### DIRECTORS’ INTERESTS IN SHARES

As at 30 June 2016, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO were as follows:

#### (a) The Company

| Name of Director | Personal interests (held as beneficial owner) | Number of ordinary shares held         |  |                 | Total interests | Total interests as a % of the issued voting shares |
|------------------|---|--|--|-----------------|-----------------|--|
|                  |   | Family interests (interests of spouse) | Corporate interests (interests of corporation) | Other interests |                 |  |
| Karl C. Kwok     | 480,620                                       | –                                      | –  | –               | 480,620         | 0.163  |
| Lester Kwok      | 649,050                                       | –                                      | –  | –               | 649,050         | 0.220  |
| Bill Kwok        | 958,298                                       | 295,000                                | 255,000<br>(Note 1)                            | –               | 1,508,298       | 0.512  |
| Mark Kwok        | 556,910                                       | –                                      | 10,000<br>(Note 2)                             | –               | 566,910         | 0.192  |
| Leung Wing Ning  | 10,000  | –                                      | –  | –               | 10,000          | 0.003  |

Notes:

1. Dr. Bill Kwok is entitled to control not less than one-third of the voting power at general meetings of a private company which beneficially owns 255,000 ordinary shares in the Company.
2. Mr. Mark Kwok is entitled to control not less than one-third of the voting power at general meetings of a private company which beneficially owns 10,000 ordinary shares in the Company.

## SUPPLEMENTARY INFORMATION

(Continued)

### DIRECTORS' INTERESTS IN SHARES (Continued)

#### (b) Kee Wai Investment Company (BVI) Limited

| Name of Director | Personal interests (held as beneficial owner) | Number of ordinary shares held         |   |                 | Total interests | Total interests as a % of the issued voting shares |
|------------------|---|--|---|-----------------|-----------------|--|
|                  |   | Family interests (interests of spouse) | Corporate interests (interests of controlled corporation) | Other interests |                 |  |
| Karl C. Kwok     | 14,250  | –                                      | –   | –               | 14,250          | 25   |
| Lester Kwok      | 14,250  | –                                      | –   | –               | 14,250          | 25   |
| Bill Kwok        | 14,250  | –                                      | –   | –               | 14,250          | 25   |
| Mark Kwok        | 14,250  | –                                      | –   | –               | 14,250          | 25   |

Note: The above directors together control 100% of the voting rights in Kee Wai Investment Company (BVI) Limited.

#### (c) The Wing On Fire & Marine (2011) Limited

| Name of Director | Personal interests (held as beneficial owner) | Number of ordinary shares held         |   |                 | Total interests | Total interests as a % of the issued voting shares |
|------------------|---|--|---|-----------------|-----------------|--|
|                  |   | Family interests (interests of spouse) | Corporate interests (interests of controlled corporation) | Other interests |                 |  |
| Karl C. Kwok     | 324   | –                                      | –   | –               | 324             | 0.017  |
| Lester Kwok      | 216   | –                                      | –   | –               | 216             | 0.012  |
| Bill Kwok        | 216   | –                                      | –   | –               | 216             | 0.012  |
| Mark Kwok        | 216   | –                                      | –   | –               | 216             | 0.012  |

In addition to the above, certain directors hold shares in a subsidiary on trust and as nominee for its intermediary holding company.

Save as disclosed herein, none of the directors nor the chief executive of the Company has any interests or short positions in any shares, underlying shares and debentures of the Company or any associated corporation (as defined above) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to section 347 of the SFO or which are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which are required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

## SUPPLEMENTARY INFORMATION

(Continued)

### SUBSTANTIAL SHAREHOLDERS

As at 30 June 2016, according to the information available to the Company, the following companies were interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under section 336 of the SFO:

| <b>Name</b>                                     | <b>Number of<br/>ordinary<br/>shares held</b> | <b>Total<br/>interests<br/>as a %<br/>of the issued<br/>voting shares</b> |
|---|---|---|
| (i) Wing On International Holdings Limited      | 180,545,138                                   | 61.251  |
| (ii) Wing On Corporate Management (BVI) Limited | 180,545,138                                   | 61.251  |
| (iii) Kee Wai Investment Company (BVI) Limited  | 180,545,138                                   | 61.251  |

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of all of the above-stated shareholdings to the extent that the shareholdings stated against party (i) above are entirely duplicated in the relevant shareholdings stated against party (ii) above, with the same duplication of the shareholdings in respect of (ii) in (iii). All of the above named parties are deemed to be interested in the relevant shareholdings under the SFO.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

Details of the purchase of own shares by the Company during the period are set out in Note 13(b) to the interim financial report. The purchases were made for the purpose of enhancing the net asset value per share and earnings per share of the Company.

Save as disclosed in Note 13(b) to the interim financial report, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period.