



WING ON COMPANY INTERNATIONAL LIMITED

永安國際有限公司

(Incorporated in Bermuda with limited liability)

INTERIM REPORT

2005

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CORPORATE INFORMATION

BOARD OF DIRECTORS

The Board of Directors as now constituted is listed below:

Mr. Karl C. Kwok (Chairman)
Mr. Lester Kwok, J.P. (Deputy Chairman and Chief Executive Officer)
Dr. Bill Kwok
Mr. Mark Kwok
Dr. Kwok Man Cho
Dr. Philip Kwok, SBS, J.P.
Miss Maria Tam Wai Chu, GBS, J.P. (Independent non-executive director)
Mr. Ignatius Wan Chiu Wong, LL.B. (Independent non-executive director)
Mr. Iain F. Bruce, CA, FCPA (Independent non-executive director)
Mr. Anthony Francis Martin Conway (Independent non-executive director)

AUDIT COMMITTEE

Mr. Iain F. Bruce (Chairman)
Miss Maria Tam Wai Chu
Dr. Philip Kwok

REMUNERATION COMMITTEE

Mr. Anthony Francis Martin Conway (Chairman)
Mr. Karl C. Kwok
Mr. Ignatius Wan Chiu Wong

AUDITORS

KPMG
Certified Public Accountants

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.

SHARE REGISTRARS

Progressive Registration Limited
Ground Floor,
Bank of East Asia Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong.

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road,
Pembroke HM08, Bermuda.

CHAIRMAN'S STATEMENT

INTERIM RESULTS AND DIVIDEND

The Group's profit attributable to shareholders of the Company for the half year ended 30 June 2005 increased by 97.3% to HK\$754.0 million (2004 restated: HK\$382.1 million), while the Group's turnover decreased fractionally by 0.9% to HK\$733.3 million (2004: HK\$739.7 million).

The Group has adopted new applicable accounting standards in preparing the interim financial report under review. The adoption of these new accounting standards, other than Hong Kong Accounting Standard ("HKAS") 40 – Investment Property, and HK(SIC) Interpretation 21 – Income Taxes – Recovery of Revalued Non-Depreciable Assets, had not resulted in a material impact on the operating results of the Group. Excluding the effect of HKAS 40 which relates to the revaluation of investment properties, and HK(SIC) Interpretation 21 which relates to the deferred tax liability on valuation gains, the profit attributable to shareholders of the Company increased by 47.0% to HK\$175.5 million (2004 restated: HK\$119.3 million). The improved result was mainly attributable to an improved profit contribution from the department store operations and property investment division, but was partly offset by the reduced profit shared from an associate in the United States.

Earnings per share increased to 255.3 HK cents per share from the 129.4 HK cents (restated) per share achieved for the same period in the preceding year. Excluding the earnings which are attributed to the net revaluation gain on investment properties and the related deferred tax thereon, underlying earnings per share for the period rose by 47.0% to 59.4 HK cents.

In view of the satisfactory results achieved, the directors have decided to pay an interim dividend of 19 HK cents (2004: 14 HK cents) per share, absorbing a total amount of HK\$56,112,000 (2004: HK\$41,346,000). The interim dividend will be paid on 27 October 2005 (Hong Kong time) to shareholders whose names appear on the Register of Members of the Company on 19 October 2005 (Hong Kong time). The Register of Members will be closed from 13 October 2005 to 19 October 2005 (Hong Kong time), both dates inclusive, during which period no share transfer will be accepted.

To qualify for the interim dividend, transfers to be dealt with must be lodged with the Company's Share Registrars, Progressive Registration Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong before 4:00 p.m. on Wednesday, 12 October 2005 (Hong Kong time).

CHAIRMAN'S STATEMENT

(Continued)

LIQUIDITY AND FINANCIAL RESOURCES

Overall Financial Position

Shareholders' equity as at 30 June 2005 was HK\$5.7 billion, an increase of 10.8% compared with that as restated at 31 December 2004. With cash and marketable securities at 30 June 2005 of about HK\$1,283.7 million as well as available banking facilities, the Group has sufficient liquidity to meet its current commitments and working capital requirements.

Borrowings and Charge on Group Assets

At 30 June 2005, the Group's total borrowings amounted to HK\$805.1 million, a decrease of about HK\$20.9 million as compared to that at 31 December 2004. About HK\$757.4 million, or 94.1% of total borrowings, which is a mortgage loan for Australian investment properties, will be repayable in 2006. The Group will negotiate with its banker to extend this loan as and when required. In view of the existing strong cash position, the Group does not anticipate any liquidity problems. Certain assets, comprising principally property interests with a book value of HK\$3.9 billion, have been pledged to banks as collateral security for banking facilities granted to the extent of HK\$1.1 billion.

Gearing Ratio

The gearing ratio, which is computed as the total borrowings of the Group divided by shareholders' funds of the Group as at 30 June 2005, was 14.0 % as compared with 15.9% as restated at 31 December 2004.

Funding and Treasury Policies

The Group adopts a prudent funding and treasury policy. To minimise exposure to foreign exchange fluctuations, the Group's borrowings are primarily denominated in Australian currency to directly tie in with the Group's business in Australia. Hence, the foreign exchange exposure is limited to the net investments in overseas subsidiaries of approximately HK\$1.4 billion at 30 June 2005 (at 31 December 2004: HK\$1.4 billion as restated).

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 are 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, United States, and Australian currencies. The use of financial instruments for hedging the Group's interest rate and foreign exchange exposure is closely monitored.

Capital Commitments and Contingent Liabilities

At 30 June 2005, the total amount of the Group's capital expenditure commitments was HK\$37,867,000 (at 31 December 2004: HK\$15,079,000) and contingent liabilities were insignificant.

CHAIRMAN'S STATEMENT

(Continued)

HALF YEAR BUSINESS REVIEW

Department Store Operations

Consumer sentiment has been positive during the period under review. For the six months ended 30 June 2005, the Group's department stores achieved a turnover of HK\$604.1 million (2004: HK\$619.7 million), a slight decrease of 2.5% when compared with the corresponding period last year. Despite the reduced total turnover, which was due to the closure of two branch stores upon lease expiration in February 2004, our remaining department stores' turnover grew by 9.7% on a same store basis. The result was due to the better retailing climate and our retail management's efforts to further enhance the operational efficiency of our retail division. Overall, the Group's department store business achieved an operating profit of HK\$36.0 million, which was 51.3% above the HK\$23.8 million achieved in the same period last year.

The Group reopened its Tsim Sha Tsui East branch store situated at the ground and basement levels of Wing On Plaza, Mody Road, Tsim Sha Tsui East in August 2005. With the KCR Tsim Sha Tsui East railway link now in operation and the expected relocation of the bus terminus in 2007 from the existing one at the Tsim Sha Tsui Star Ferry Pier to the site next to Wing On Plaza, the Group expects that the economic activities in Tsim Sha Tsui East as well as the pedestrian circulation in the areas surrounding Wing On Plaza will be improved.

Property Investments

The Group's property investment income for the half year ended 30 June 2005 increased by about 40.7% to HK\$147.0 million (2004: HK\$104.5 million).

The gradual revival in local economy and the rising property market has resulted in an increase in the demand for office space during the period under review. Benefiting from the increase in market activities, the Group achieved about 95% overall occupancy for its commercial properties in Hong Kong, compared to a level of about 90% in the corresponding period last year. Rental income from local property investments was slightly down by 2.2% to HK\$48.2 million. This was mainly due to the unfavourable rental rates achieved for lease renewals and new lettings prior to the recovery cycle of the office leasing market.

Income from the commercial office properties in Australia increased by 84.9% to HK\$96.0 million mainly owing to a one-off compensation of HK\$34.0 million received from a tenant for early lease termination. The overall achieved occupancy for the commercial properties in Australia remained at above 95%.

The Group has elected the fair value model for investment properties under HKAS 40. As at 30 June 2005, the investment properties of the Group were revalued at HK\$4,561.1 million (31 December 2004: HK\$4,135.2 million). As a result of the revaluation, a net gain of HK\$698.8 million (2004 restated: HK\$301.2 million) and related deferred tax thereon of HK\$120.2 million (2004 restated: HK\$38.3 million) have been included in the current period's income statement.

CHAIRMAN'S STATEMENT

(Continued)

Automobile Dealership Business

Although the turnover from the automobile dealership business conducted by an associate of the Group in the United States had achieved an 18.3% growth in the first six months of 2005, the increased operational expenses and interest costs had offset this growth and resulted in a decrease of profit after taxation by 22.7%.

Others

The exchange rates for the Australian and New Zealand currencies have been relatively stable during the first half of 2005 compared to the same period in 2004, thus resulting in a relatively slight net exchange loss of HK\$0.9 million (2004: exchange loss HK\$12.4 million). The Group's investment in securities continued to generate profits for the Group.

Staff

As at 30 June 2005, the Group had a total staff of 919 (at 30 June 2004: 865). The Group's remuneration policies, bonus schemes, Mandatory Provident Fund schemes, etc., have not changed materially from the information disclosed in the 2004 annual report.

OUTLOOK FOR THE REMAINDER OF 2005

The Hong Kong economy has picked up during the first half of 2005 and is expected to continue in the second half of 2005. The opening of the Hong Kong Disneyland in September this year will boost tourist traffic as well as local customer confidence further. Management holds the view that the department stores operation will continue to perform in line with the retail market trend for the remainder of 2005.

Investment properties both in Hong Kong and in Australia will continue to contribute to the Group's profits. Our automobile dealership associate in the United States is expected to continue to perform positively in the second half of the year.

Karl C. Kwok
Chairman

Hong Kong, 15 September 2005

AUDITORS' INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF WING ON COMPANY INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

INTRODUCTION

We have been instructed by the Company to review the interim financial report set out on pages 7 to 38.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

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 34, Interim financial reporting issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent 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.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

KPMG
Certified Public Accountants

Hong Kong, 15 September 2005

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June 2005	2004 (restated)
	Note	\$'000	\$'000
Turnover	3	733,313	739,651
Other revenue	4	60,852	23,365
Other net gain/(loss)	4	8,295	(7,536)
Cost of department store sales		(418,105)	(435,721)
Cost of property leasing activities		(31,117)	(30,721)
Other operating expenses		(144,441)	(154,641)
		208,797	134,397
Net valuation gain on investment properties	9	698,805	301,217
Profit from operations	3	907,602	435,614
Finance costs	5(a)	(27,051)	(28,399)
		880,551	407,215
Share of profits less losses of associates		42,548	59,851
Profit before taxation	5	923,099	467,066
Income tax	6	(168,762)	(84,583)
Profit after taxation		754,337	382,483
Attributable to:			
Shareholders of the Company	15	753,997	382,127
Minority interests	15	340	356
Profit after taxation	15	754,337	382,483
Dividends attributable to the interim period:			
Interim dividend declared and payable after the interim period end	7(a)	56,112	41,346
Basic earnings per share	8(a)	255.3 cents	129.4 cents

The notes on pages 15 to 38 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2005 – unaudited
(Expressed in Hong Kong dollars)

		At 30 June 2005	At 31 December 2004 (restated)
	Note	\$'000	\$'000
Non-current assets			
Fixed assets			
– Investment properties		4,561,068	4,135,195
– Other property, plant and equipment		763,829	553,060
	9	5,324,897	4,688,255
Goodwill		1,178	1,178
Interest in associates	10	589,156	563,933
Available-for-sale securities		28,861	76,954
Deferred tax assets		1,877	989
		5,945,969	5,331,309
Current assets			
Assets held for sale	11	7,100	–
Trading securities		189,510	169,585
Inventories		49,986	53,284
Debtors, deposits and prepayments	12	101,156	53,167
Current tax recoverable		213	277
Amounts due from fellow subsidiaries		4,751	15,194
Cash and cash equivalents	13	1,116,794	1,124,459
		1,469,510	1,415,966
Current liabilities			
Creditors and accrued charges	14	212,643	215,152
Bank loans		47,336	48,548
Obligations under finance leases		358	614
Current tax payable		11,961	10,474
Amounts due to fellow subsidiaries		1,496	2,578
		273,794	277,366
Net current assets		1,195,716	1,138,600
Total assets less current liabilities carried forward		7,141,685	6,469,909

CONSOLIDATED BALANCE SHEET

(Continued)
At 30 June 2005 – unaudited
(Expressed in Hong Kong dollars)

		At 30 June 2005	At 31 December 2004 (restated)
	Note	\$'000	\$'000
Total assets less current liabilities brought forward		7,141,685	6,469,909
Non-current liabilities			
Interest-bearing bank loans		757,376	776,768
Deferred tax liabilities		620,259	488,858
Obligations under finance leases		–	51
Total non-current liabilities		1,377,635	1,265,677
Net assets		5,764,050	5,204,232
Capital and reserves			
Share capital		29,533	29,533
Reserves		5,720,177	5,160,687
Total equity attributable to shareholders of the Company	15	5,749,710	5,190,220
Minority interests	15	14,340	14,012
Total equity	15	5,764,050	5,204,232

The notes on pages 15 to 38 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June 2005		Six months ended 30 June 2004 (restated)	
	Note	\$'000	\$'000	\$'000	\$'000
Total equity at 1 January:					
Attributable to shareholders of the Company (as previously reported at 31 December)	2(c)(ii) & (iii), 15	5,486,996		4,583,882	
Minority interests (as previously presented separately from liabilities and equity at 31 December)	2(c)(ii) & (iii), 15	13,149		12,869	
	2(c)(ii) & (iii), 15	5,500,145		4,596,751	
Prior period adjustments arising from changes in accounting policies	2(c)(ii) & (iii), 15	(295,913)		(168,575)	
As restated, before opening balance adjustments	2(c)(ii), 15	5,204,232		4,428,176	
Opening balance adjustments arising from changes in accounting policies	2(c)(ii), 15	(44,197)		–	
At 1 January, after prior period and opening balance adjustments	2(c)(ii) & (iii), 15		5,160,035		4,428,176

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Continued)

For the six months ended 30 June 2005 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June 2005		Six months ended 30 June 2004 (restated)	
Note	\$'000	\$'000	\$'000	\$'000	\$'000
Net income and expense for the period recognised directly in equity:					
Surplus on revaluation of investment properties, net of deferred tax:					
Attributable to shareholders of the Company (as previously reported)					
				339,042	
Minority interests (as previously presented separately from liabilities and equity)					
				121	
				339,163	
Prior period adjustments arising from changes in accounting policies under HKAS 40					
				(339,163)	
Surplus on revaluation of investment properties, net of deferred tax: (2004: as restated)					
		–			–
Share of decrease in capital reserves of associates (as previously reported)					
				(533)	
Prior period adjustments arising from changes in accounting policies under HKAS 19					
				533	
Share of decrease in capital reserves of associates (2004: as restated)					
		–			–

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Continued)

For the six months ended 30 June 2005 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June 2005		Six months ended 30 June 2004 (restated)	
	Note	\$'000	\$'000	\$'000	\$'000
Changes in fair value of available-for-sale securities	15		528		9,084
Exchange differences arising on consolidation:					
Attributable to shareholders of the Company (as previously reported)				(72,395)	
Minority interests (as previously presented separately from liabilities and equity)				53	
				(72,342)	
Prior period adjustments arising from changes in accounting policies under HKAS 40				4,341	
Prior period adjustments arising from changes in accounting policies under HKFRS 2				(4)	
Exchange differences arising on consolidation (2004: as restated)	15		(29,766)		(68,005)
Release of minority interests upon dissolution of a subsidiary	15		–		(502)
Net expense for the period recognised directly in equity (2004: as restated)			(29,238)		(59,423)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Continued)

For the six months ended 30 June 2005 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June 2005		Six months ended 30 June 2004 (restated)	
Note	\$'000	\$'000	\$'000	\$'000	\$'000
Net profit for the period:					
Attributable to shareholders of the Company (as previously reported)				123,761	
Minority interests (as previously presented separately in the income statement)				246	
				124,007	
Prior period adjustments arising from changes in accounting policies	2(c)(i)			258,476	
Net profit for the period (2004: as restated)	15		754,337		382,483
Total recognised income for the period (2004: as restated)			725,099		323,060
Attributable to:					
Shareholders of the Company		724,771		323,150	
Minority interests		328		(90)	
		725,099		323,060	
Dividends approved in respect of the previous year	7(b), 15		(121,084)		(115,177)
Total equity at 30 June			5,764,050		4,636,059

The notes on pages 15 to 38 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005 – unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
	Note	2005	2004
		\$'000	\$'000
Cash generated from operations		142,293	106,551
Tax refunded		–	174
Tax paid		(14,716)	(23,133)
Net cash generated from operating activities		<u>127,577</u>	<u>83,592</u>
Net cash generated from investing activities		15,368	75,408
Net cash used in financing activities		<u>(135,388)</u>	<u>(144,099)</u>
Net increase in cash and cash equivalents		7,557	14,901
Cash and cash equivalents at 1 January		1,124,459	1,004,140
Effect of foreign exchange rates changes		<u>(15,222)</u>	<u>(61,784)</u>
Cash and cash equivalents at 30 June		<u><u>1,116,794</u></u>	<u><u>957,257</u></u>
		At	At
		30 June	30 June
		2005	2004
		\$'000	\$'000
Analysis of the balances of cash and cash equivalents			
Cash at bank and in hand		86,373	45,721
Bank deposits		<u>1,030,421</u>	<u>947,491</u>
Cash and cash equivalents in the consolidated balance sheet	13	1,116,794	993,212
Bank deposits pledged		<u>–</u>	<u>(35,955)</u>
Cash and cash equivalents in the consolidated cash flow statement		<u><u>1,116,794</u></u>	<u><u>957,257</u></u>

The notes on pages 15 to 38 form part of this interim financial report.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Significant accounting policies

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 issuance on 15 September 2005.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2004 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2005 annual financial statements. Details of these 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 2004 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”, which term collectively includes HKASs and Interpretations).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, Engagements to review interim financial reports, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included on page 6. 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 2004 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Stock Exchange’s website. The auditors have expressed an unqualified opinion on those financial statements in their report dated 12 April 2005.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies

(a) Recently issued accounting standards

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretations or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

(i) Employee benefits (HKFRS 2, Share-Based Payment)

In prior years, no amounts were recognised when employees of an associate (which term includes the directors of the associate) were allotted share appreciation rights in an associate of the Group.

With effect from 1 January 2005, in order to comply with HKFRS 2, the associate measures the services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the associate is required to remeasure the fair value of the liability at each reporting date and at the date of settlement, with any changes in value recognised in income statement for the period.

(ii) Investment properties (HKAS 40, Investment Property, and HK(SIC) Interpretation 21, Income Taxes – Recovery of Revalued Non-Depreciable Assets)

Changes in accounting policies relating to investment properties are as follows:

- Timing of recognition of movements in fair value in the income statement

In prior years, movements in the fair value of the Group's investment properties were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances, movements in the fair value were recognised in the income statement.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(a) Recently issued accounting standards (Continued)

(ii) Investment properties (HKAS 40, Investment Property, and HK(SIC) Interpretation 21, Income Taxes – Recovery of Revalued Non-Depreciable Assets) (Continued)

Upon adoption of HKAS 40 as from 1 January 2005, all changes in the fair value of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40.

- Measurement of deferred tax on movements in fair value

In prior years, the Group was required to apply the tax rate that would be applicable upon the sale of investment properties to determine whether any deferred tax should be recognised on the revaluation of investment properties. As there would have been no tax payable on the disposal of the Group's investment properties located in Hong Kong, no deferred tax in respect of the investment properties was provided in prior years.

As from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the Group recognises deferred tax on movements in the value of an investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

(iii) Amortisation of positive and negative goodwill (HKFRS 3, Business Combinations and HKAS 36, Impairment of Assets)

In prior periods:

- positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and
- negative goodwill was recognised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases, it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in accordance with HKFRS 3 and HKAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indications of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount. Negative goodwill arising on an acquisition is recognised directly in income statement.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(a) Recently issued accounting standards (Continued)

- (iv) Financial instruments (HKAS 32, Financial Instruments: Disclosure and Presentation and HKAS 39, Financial Instruments: Recognition and Measurement)

In prior years, the accounting policies for certain financial instruments were as follows:

- trading securities were stated in the balance sheet at fair value and changes in fair value were recognised in the consolidated income statement as they arose;
- other non-current investments were stated in the balance sheet at fair value with changes in fair value recognised in the investment revaluation reserve; and
- derivative financial instruments entered into by management were recognised on a cash basis.

With effect from 1 January 2005, and in accordance with HKAS 39, the following new accounting policies have been adopted for the financial instruments mentioned above:

- All trading securities are carried at fair value. Changes in fair value are recognised in the income statement as they arise.
- All non-trading investments are classified as available-for-sale securities and carried at fair value. Changes in fair value are recognised in equity, unless there is objective evidence that an individual investment has been impaired. If there is objective evidence that an individual investment has been impaired, any amount held in the investment revaluation reserve in respect of the investment is transferred to the income statement in the period in which the impairment is identified. Any subsequent increase in the fair value of available-for-sale securities is recognised directly in equity.

An exception to the above relates to equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured. These are measured at cost (less impairment loss, if any) until such time, if ever, that a reliable fair value becomes available. At this point, such investments should be carried at fair value in the same way as other available-for-sale securities.

- All derivative financial instruments entered into by the Group are stated at fair value. Changes in the fair value of derivatives are recognised in the income statement.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(a) Recently issued accounting standards (Continued)

- (v) Retranslation of goodwill relating to a net investment in a foreign operation (HKAS 21, The Effects of Changes in Foreign Exchange Rates)

In prior years, goodwill was carried at cost less amortisation and impairment as described in note 2(a)(iii).

With effect from 1 January 2005, in order to comply with HKAS 21, any goodwill arising on the acquisition of a foreign operation is treated as an asset of the foreign operation. Thus it is expressed in the functional currency of that foreign operation and is retranslated at the closing rate at each balance sheet date. Any resulting exchange difference is taken directly to the exchange reserve together with any other differences arising from the re-translation of the net assets of the foreign operation.

In accordance with the transitional provisions in HKAS 21, this new policy has not been adopted retrospectively and will only be applied to acquisitions occurring on or after 1 January 2005. As the Group has not acquired any new foreign operations since that date, the change in policy has had no impact on the interim financial report for the six months ended 30 June 2005.

- (vi) Minority interests (HKAS 1, Presentation of Financial Statements and HKAS 27, Consolidated and Separate Financial Statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the shareholders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the shareholders of the Company.

The presentation of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period has been restated accordingly.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(b) Change in application of accounting policies

An associate of the Group operates a phantom stock plan, which is a type of deferred profit sharing bonus arrangement, for certain of its key staff. In prior years, this arrangement has been accounted for in accordance with management's interpretation of the then existing accounting standards. In the current period, management of the associate have reconsidered the accounting treatment for this arrangement in light of the new guidance set out in HKFRS 2, Share-Based Payment, and HKAS 32, Financial Instruments: Disclosure and Presentation, and have concluded that the arrangement should be accounted for in accordance with the requirements of HKAS 19, Employee Benefits. As a result of the application of this new accounting treatment, the Group now accounts for 50% of the results and assets of this associate, consistent with its equity shareholding therein. This new accounting treatment has been applied retrospectively by the associate. However, the effect of this new accounting treatment on the Group's share of net assets of associates at 30 June 2005 and 31 December 2004, and the Group's share of profits less losses of associates for the six months ended 30 June 2005 and 30 June 2004 is not considered to be material.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in the accounting policies

The following sets out further information on the changes in accounting policies as described in notes 2(a) and 2(b) above for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(i) Effect on consolidated income statement

	Effects of adopting					Total \$'000
	HKAS 19 [#] \$'000 (note 2(b))	HKFRS 2 [#] \$'000 (note 2(a)(i))	Interpretation 21 [#] \$'000 (note 2(a)(ii))	HKFRS 3 [^] \$'000 (note 2(a)(iii))	HKAS 39 [^] \$'000 (note 2(a)(iv))	
Six months ended 30 June 2005						
Increase/(decrease) in:						
Net valuation gain on investment properties	-	-	698,805	-	-	698,805
Other operating expenses	-	-	-	(58)	-	(58)
Profit from operations	-	-	698,805	(58)	-	698,747
Share of profits less losses of associates						
- cash settled share-based transactions	-	(3,571)	-	-	-	(3,571)
- employee benefits	1,159	-	-	-	-	1,159
- amortisation of goodwill	-	-	-	5,607	-	5,607
- interest rate swaps	-	-	-	-	(2,113)	(2,113)
	<u>1,159</u>	<u>(3,571)</u>	<u>-</u>	<u>5,607</u>	<u>(2,113)</u>	<u>1,082</u>
Profit before taxation	<u>1,159</u>	<u>(3,571)</u>	<u>698,805</u>	<u>5,549</u>	<u>(2,113)</u>	<u>699,829</u>
Income tax						
- deferred tax	-	-	(120,222)	-	-	(120,222)
- share of associates' taxation	(1,109)	-	-	-	-	(1,109)
	<u>(1,109)</u>	<u>-</u>	<u>(120,222)</u>	<u>-</u>	<u>-</u>	<u>(121,331)</u>
Profit after taxation	<u>50</u>	<u>(3,571)</u>	<u>578,583</u>	<u>5,549</u>	<u>(2,113)</u>	<u>578,498</u>
Attributable to:						
Shareholders of the Company	50	(3,571)	578,523	5,549	(2,113)	578,438
Minority interests	-	-	60	-	-	60
	<u>50</u>	<u>(3,571)</u>	<u>578,583</u>	<u>5,549</u>	<u>(2,113)</u>	<u>578,498</u>
Basic earnings per share (cents)	<u>-</u>	<u>(1.2)</u>	<u>195.9</u>	<u>1.9</u>	<u>(0.7)</u>	<u>195.9</u>

adjustments which take effect retrospectively

^ adjustments which take effect prospectively from 1 January 2005

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in the accounting policies (Continued)

(i) Effect on consolidated income statement (Continued)

	Effects of adopting					Total \$'000
	HKAS 19 ^f \$'000 (note 2(b))	HKFRS 2 ^f \$'000 (note 2(a)(i))	HKAS 40 and HK(SIC) Interpretation 21 ^f \$'000 (note 2(a)(ii))	HKFRS 3 ^A \$'000 (note 2(a)(iii))	HKAS 39 ^A \$'000 (note 2(a)(iv))	
Six months ended 30 June 2004						
Increase/(decrease) in:						
Net valuation gain on investment properties	-	-	301,217	-	-	301,217
Profit from operations	-	-	301,217	-	-	301,217
Share of profits less losses of associates						
- cash settled share-based transactions	-	(3,885)	-	-	-	(3,885)
- employee benefits	1,193	-	-	-	-	1,193
	<u>1,193</u>	<u>(3,885)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,692)</u>
Profit before taxation	<u>1,193</u>	<u>(3,885)</u>	<u>301,217</u>	<u>-</u>	<u>-</u>	<u>298,525</u>
Income tax						
- deferred tax	-	-	(38,323)	-	-	(38,323)
- share of associates' taxation	(1,726)	-	-	-	-	(1,726)
	<u>(1,726)</u>	<u>-</u>	<u>(38,323)</u>	<u>-</u>	<u>-</u>	<u>(40,049)</u>
Profit after taxation	<u>(533)</u>	<u>(3,885)</u>	<u>262,894</u>	<u>-</u>	<u>-</u>	<u>258,476</u>
Attributable to:						
Shareholders of the Company	(533)	(3,885)	262,784	-	-	258,366
Minority interests	-	-	110	-	-	110
	<u>(533)</u>	<u>(3,885)</u>	<u>262,894</u>	<u>-</u>	<u>-</u>	<u>258,476</u>
Basic earnings per share (cents)	<u>(0.2)</u>	<u>(1.3)</u>	<u>89.0</u>	<u>-</u>	<u>-</u>	<u>87.5</u>

adjustments which take effect retrospectively

^ adjustments which take effect prospectively from 1 January 2005

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in the accounting policies (Continued)

(ii) Effect on consolidated balance sheet as at 1 January 2005

	At 31 December 2004 (as previously reported) \$'000	Effects of adopting				Effects of adopting				At 1 January 2005 (restated) \$'000
		HKAS 40 and HK(SIC) Interpretation				At 31 December 2004				
		HKAS 19 [#] \$'000 (note 2(b))	HKFRS 2 [^] \$'000 (note 2(a)(i))	21 [#] \$'000 (note 2(a)(ii))	Sub-total \$'000	(restated) \$'000	HKFRS 3 [^] \$'000 (note 2(a)(iii))	HKAS 39 [^] \$'000 (note 2(a)(iv))	Sub-total \$'000	
Investment properties	4,135,195	-	-	-	-	4,135,195	-	-	-	4,135,195
Other property, plant and equipment	553,060	-	-	-	-	553,060	-	-	-	553,060
Interest in associates	571,069	-	(7,136)	-	(7,136)	563,933	2,460	(804)	1,656	565,589
Available-for-sale securities	76,954	-	-	-	-	76,954	-	(45,853)	(45,853)	31,101
Deferred tax liabilities	(200,081)	-	-	(288,777)	(288,777)	(488,858)	-	-	-	(488,858)
Other assets less other liabilities	363,948	-	-	-	-	363,948	-	-	-	363,948
Net assets	5,500,145	-	(7,136)	(288,777)	(295,913)	5,204,232	2,460	(46,657)	(44,197)	5,160,035
Share capital	29,533	-	-	-	-	29,533	-	-	-	29,533
Contributed surplus	754,347	-	-	-	-	754,347	-	-	-	754,347
Investment property revaluation reserve	1,533,064	-	-	(1,533,064)	(1,533,064)	-	-	-	-	-
Land and building revaluation reserve	174,939	-	-	-	-	174,939	-	-	-	174,939
Investment revaluation reserve	50,085	-	-	-	-	50,085	-	(45,853)	(45,853)	4,232
Exchange reserve	206,448	-	12	(3,798)	(3,786)	202,662	-	-	-	202,662
Other capital reserves	295,011	(36,308)	-	(239,064)	(275,372)	19,639	-	-	-	19,639
Retained earnings	2,443,569	36,308	(7,148)	1,486,286	1,515,446	3,959,015	2,460	(804)	1,656	3,960,671
	5,486,996	-	(7,136)	(289,640)	(296,776)	5,190,220	2,460	(46,657)	(44,197)	5,146,023
Minority interests	13,149	-	-	863	863	14,012	-	-	-	14,012
Total equity	5,500,145	-	(7,136)	(288,777)	(295,913)	5,204,232	2,460	(46,657)	(44,197)	5,160,035

adjustments which take effect retrospectively

^ adjustments which take effect prospectively from 1 January 2005

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

2. Changes in accounting policies (Continued)

(c) Summary of the effect of changes in the accounting policies (Continued)

(iii) Effect on consolidated balance sheet as at 1 January 2004

	At 1 January 2004 (as previously reported) \$'000	Effects of adopting			At 1 January 2004 (restated) \$'000
		HKAS 19 [#] \$'000 (note 2(b))	HKAS 40 and HK(SIC) Interpretation 21 [#] \$'000 (note 2(a)(ii))	Sub-total \$'000	
Investment properties	3,423,487	-	-	-	3,423,487
Other property, plant and equipment	592,576	-	-	-	592,576
Interest in associates	584,140	-	-	-	584,140
Available-for-sale securities	76,300	-	-	-	76,300
Deferred tax liabilities	(186,939)	-	(168,575)	(168,575)	(355,514)
Other assets less other liabilities	107,187	-	-	-	107,187
Net assets	4,596,751	-	(168,575)	(168,575)	4,428,176
Share capital	29,533	-	-	-	29,533
Contributed surplus	754,347	-	-	-	754,347
Investment property revaluation reserve	849,098	-	(849,098)	(849,098)	-
Land and building revaluation reserve	174,939	-	-	-	174,939
Investment revaluation reserve	41,413	-	-	-	41,413
Exchange reserve	150,816	-	(3)	(3)	150,813
Other capital reserves	294,230	(35,527)	(239,064)	(274,591)	19,639
Retained earnings	2,289,506	35,527	918,831	954,358	3,243,864
	4,583,882	-	(169,334)	(169,334)	4,414,548
Minority interests	12,869	-	759	759	13,628
Total equity	4,596,751	-	(168,575)	(168,575)	4,428,176

adjustments which take effect retrospectively

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

3. Turnover and segment reporting

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

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

The Group's primary format for reporting segment information is business segments which comprises the following:

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.

	Department stores		Property investment		Inter-segment elimination		Unallocated		Total	
	Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June		Six months ended 30 June	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
			(note)							(restated)
Revenue from external customers (turnover)	604,135	619,729	129,178	119,922	-	-	-	-	733,313	739,651
Inter-segment revenue	-	-	34,395	33,397	(34,395)	(33,397)	-	-	-	-
Other revenue from external customers	-	-	33,974	-	-	-	1,093	1,067	35,067	1,067
Total	<u>604,135</u>	<u>619,729</u>	<u>197,547</u>	<u>153,319</u>	<u>(34,395)</u>	<u>(33,397)</u>	<u>1,093</u>	<u>1,067</u>	<u>768,380</u>	<u>740,718</u>
Segment result	<u>35,974</u>	<u>23,790</u>	<u>147,042</u>	<u>104,522</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>183,016</u>	<u>128,312</u>
Net valuation gain on investment properties									698,805	301,217
Interest income									22,552	20,208
Unallocated operating income/(expenses) net of (expenses)/income									3,229	(14,123)
Profit from operations									<u>907,602</u>	<u>435,614</u>

Note: Operating profit contributed by the property investment includes net rental income receivable of \$33,888,000 (2004: \$32,890,000) from the department stores operation.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

4. Other revenue and other net gain/(loss)

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000
Other revenue		
Compensation received on early termination of lease	33,974	–
Dividend and interest income from securities	3,233	2,090
Other interest income	22,552	20,208
Others	1,093	1,067
	<u>60,852</u>	<u>23,365</u>
Other net gain/(loss)		
Net loss on disposal of fixed assets	(79)	(13)
Net exchange loss	(947)	(12,400)
Net gain on disposal of trading securities	1,140	2,237
Net gain on remeasurement to fair value of trading securities	915	1,514
Impairment of available-for-sale securities	(2,769)	(413)
Net gain on dissolution of a subsidiary	10,035	1,539
	<u>8,295</u>	<u>(7,536)</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

5. Profit before taxation

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

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000
(a) Finance costs:		
Interest on bank advances and other borrowings repayable within five years	<u>27,051</u>	<u>28,399</u>
(b) Staff costs:		
Contributions to defined contribution retirement plans	4,252	4,273
Salaries, wages and other benefits	<u>72,042</u>	<u>72,488</u>
	<u>76,294</u>	<u>76,761</u>
(c) Rentals received and receivable from investment properties:		
Gross rentals	(129,178)	(119,922)
Direct outgoings	<u>31,117</u>	<u>30,721</u>
	<u>(98,061)</u>	<u>(89,201)</u>
(d) Other items:		
Cost of inventories sold	418,105	435,721
Operating lease charges		
– rentals of land and buildings	12,493	19,662
– contingent rentals	480	261
Depreciation and amortisation		
– owned assets	22,617	24,652
– assets held for use under finance leases	185	185
Inventory write-down and losses	816	799
Amortisation of goodwill	–	118
Recognition of negative goodwill	<u>–</u>	<u>(176)</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

6. Income tax in the consolidated income statement

	Six months ended 30 June	
	2005	2004
	\$'000	(restated) \$'000
Current taxation – Provision for Hong Kong Profits Tax		
Provision for Hong Kong Profits Tax for the period	8,338	8,347
Over-provision in respect of prior years	–	(174)
	<u>8,338</u>	<u>8,173</u>
Current taxation – Overseas		
Tax for the period	7,857	5,546
Under/(over)-provision in respect of prior years	188	(6)
	<u>8,045</u>	<u>5,540</u>
Deferred tax		
Origination and reversal of temporary differences		
– changes in fair value of investment properties	120,222	38,323
– other temporary differences	13,677	3,773
	<u>133,899</u>	<u>42,096</u>
Share of associates' taxation	<u>18,480</u>	<u>28,774</u>
Total income tax expense	<u>168,762</u>	<u>84,583</u>

The provision for Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30 June 2005. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

7. Dividends

(a) Dividends attributable to the interim period:

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000
Interim dividend declared and payable after the interim period end of 19 cents (2004: 14 cents) per share	<u>56,112</u>	<u>41,346</u>

The interim dividend has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the interim period/year:

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Final dividends in respect of the previous financial year ended 31 December 2004, approved and paid during the following interim period/year, of 41 cents (year ended 31 December 2003: 39 cents) per share	<u>121,084</u>	<u>115,177</u>

8. Basic earnings per share

- (a) The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company for the six months ended 30 June 2005 of \$753,997,000 (six months ended 30 June 2004 (restated): \$382,127,000) divided by 295,326,000 shares (2004: 295,326,000 shares) in issue during the period.

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

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

As described in note 2(a)(ii), the Group adopts the fair value model for investment properties and accordingly, all changes in fair value of investment properties and related deferred tax thereon are recognised in the consolidated income statement. Since there is no capital gains tax in Hong Kong, should any such sale eventuate, any gain would be regarded as capital in nature and would not be subject to any tax in Hong Kong. To reflect the commercial substance of the business, the management is of the view that the profit for the period should be adjusted for the net valuation gain on investment properties and related deferred tax thereon.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

8. Basic earnings per share (Continued)

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

The difference between the adjusted profit attributable to shareholders of the Company and net profit attributable to shareholders of the Company as shown in the consolidated income statement for the period is reconciled as follows:

	Six months ended 30 June 2005		Six months ended 30 June 2004	
	\$'000	Per share cents	\$'000	Per share cents
Net profit attributable to shareholders of the Company as shown in the consolidated income statement	753,997	255.3	382,127	129.4
Net valuation gain on investment properties	(698,805)	(236.6)	(301,217)	(102.0)
	55,192	18.7	80,910	27.4
Increase in deferred taxation liabilities in relation to net valuation gain on investment properties	120,222	40.7	38,323	13.0
	175,414	59.4	119,233	40.4
Net valuation gain on investment properties net of related deferred taxation attributable to minority interests	60	-	110	-
Adjusted profit attributable to shareholders of the Company	175,474	59.4	119,343	40.4

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

9. Fixed assets

Investment properties were revalued at 30 June 2005 by the directors using relevant market indices to update the professional valuations that were carried out at 31 December 2004. As a result of the update, a net gain of \$698,805,000 (six months ended 30 June 2004 (restated): \$301,217,000), and deferred tax of \$120,222,000 thereon (six months ended 30 June 2004 (restated): \$38,323,000) have been included in the consolidated income statement.

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

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Within one year	154,086	188,991
After one year but within five years	266,610	285,238
After five years	102,761	63,263
	<u>523,457</u>	<u>537,492</u>

10. Interest in associates

	At 30 June 2005 \$'000	At 31 December 2004 (restated) \$'000
Unlisted shares		
Share of net assets other than goodwill	429,455	406,566
Share of positive goodwill	174,138	174,272
Negative goodwill on acquisition	–	(2,460)
Amount due from an associate	93	93
Amounts due to associates	(14,530)	(14,538)
	<u>589,156</u>	<u>563,933</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

10. Interest in associates (Continued)

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

	Six months ended 30 June	
	2005	2004
	\$'000	(restated) \$'000
Operating results		
Turnover	6,718,228	5,680,045
Profit before taxation	84,967	119,694
Profit after taxation	<u>48,008</u>	<u>62,146</u>
Group's share of profit after taxation attributable to the material associate	<u>24,004</u>	<u>31,073</u>
	At	At
	30 June	31 December
	2005	2004
	\$'000	(restated) \$'000
Non-current assets	1,827,567	1,706,955
Current assets*	<u>2,081,265</u>	<u>2,147,825</u>
Total assets	<u>3,908,832</u>	<u>3,854,780</u>
Current liabilities	460,013	590,967
Non-current liabilities	<u>2,241,804</u>	<u>2,102,179</u>
Total liabilities	<u>2,701,817</u>	<u>2,693,146</u>
Net assets	<u>1,207,015</u>	<u>1,161,634</u>
Group's share of net assets attributable to the material associate	<u>603,507</u>	<u>580,817</u>

* Current assets comprise mainly inventories of motor vehicles.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

11. Assets held for sale

Three units of an investment property, part of the property investment segment, of the Group located in Hong Kong are presented as assets held for sale as a result of the Group entering into agreements with third parties to sell these units on 29 June 2005. The sale is expected to be completed by 15 September 2005 at an agreed price of \$9,500,000. The carrying amount of the assets held for sale at 30 June 2005 was \$7,100,000 which approximates the fair value of these assets at that date.

12. Debtors, deposits and prepayments

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Trade and other debtors, net of impairment loss	23,277	13,886
Deposits and prepayments	77,879	39,281
	<u>101,156</u>	<u>53,167</u>

- (a) The ageing analysis of trade and other debtors, net of impairment loss, is as follows:

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Current	18,683	11,749
One to three months overdue	1,454	1,476
More than three months overdue	3,140	661
	<u>23,277</u>	<u>13,886</u>

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

- (b) All deposits and prepayments, apart from certain rental deposits totalling \$8,393,000 (2004: \$8,186,000) and lease incentive assets totalling \$40,597,000 (2004: \$Nil), are expected to be recovered within one year of the balance sheet date.

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

13. Cash and cash equivalents

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Cash at bank and in hand	86,373	118,418
Bank deposits	1,030,421	1,006,041
	<u>1,116,794</u>	<u>1,124,459</u>

14. Creditors and accrued charges

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Trade and other creditors	178,358	185,201
Accrued charges	34,285	29,951
	<u>212,643</u>	<u>215,152</u>

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

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Amounts not yet due	154,844	145,336
On demand or overdue for less than one month	18,581	35,212
One to three months overdue	868	915
Three to twelve months overdue	4,065	3,738
	<u>178,358</u>	<u>185,201</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

15. Capital and reserves

Note	Attributable to shareholders of the Company										
	Share capital	Investment property revaluation reserve	Land and building revaluation reserve	Investment revaluation reserve	Exchange reserve	Other capital reserves	Contributed surplus	Retained earnings	Total	Minority interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2005											
- as previously reported	29,533	1,533,064	174,939	50,085	206,448	295,011	754,347	2,443,569	5,486,996	13,149	5,500,145
- prior period adjustments in respect of:											
- cash settled share-based transactions	-	-	-	-	12	-	-	(7,148)	(7,136)	-	(7,136)
- investment properties	-	(1,533,064)	-	-	(3,798)	(239,064)	-	1,486,286	(289,640)	863	(288,777)
- employee benefits	-	-	-	-	-	(36,308)	-	36,308	-	-	-
- as restated, before opening balance adjustments	29,533	-	174,939	50,085	202,662	19,639	754,347	3,959,015	5,190,220	14,012	5,204,232
- opening balance adjustment in respect of negative goodwill arising on acquisitions of associates	-	-	-	-	-	-	-	2,460	2,460	-	2,460
- opening balance adjustment in respect of financial instruments	-	-	-	(45,853)	-	-	-	(804)	(46,657)	-	(46,657)
- as restated, after opening balance adjustments	29,533	-	174,939	4,232	202,662	19,639	754,347	3,960,671	5,146,023	14,012	5,160,035
Dividends approved in respect of the previous year	7(b)	-	-	-	-	-	-	(121,084)	(121,084)	-	(121,084)
Changes in fair value of available-for-sale securities	-	-	-	528	-	-	-	-	528	-	528
Exchange differences arising on consolidation	-	-	-	-	(29,754)	-	-	-	(29,754)	(12)	(29,766)
Profit for the period	-	-	-	-	-	-	-	753,997	753,997	340	754,337
At 30 June 2005	29,533	-	174,939	4,760	172,908	19,639	754,347	4,593,584	5,749,710	14,340	5,764,050

Note: Retained earnings at 30 June 2005 include net valuation gain on investment properties after deferred tax and minority interests of \$2,064,809,000 (at 31 December 2004 (restated): \$1,486,286,000).

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

15. Capital and reserves (Continued)

Note	Attributable to shareholders of the Company										
	Share capital	Investment property revaluation reserve	Land and building revaluation reserve	Investment revaluation reserve	Exchange reserve	Other capital reserves	Contributed surplus	Retained earnings	Total	Minority interests	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2004											
- as previously reported	29,533	849,098	174,939	41,413	150,816	294,230	754,347	2,289,506	4,583,882	12,869	4,596,751
- prior period adjustments in respect of:											
- investment properties	-	(849,098)	-	-	(3)	(239,064)	-	918,831	(169,334)	759	(168,575)
- employee benefits	-	-	-	-	-	(35,527)	-	35,527	-	-	-
- as restated	29,533	-	174,939	41,413	150,813	19,639	754,347	3,243,864	4,414,548	13,628	4,428,176
Dividends approved in respect of the previous year	7(b)	-	-	-	-	-	-	(115,177)	(115,177)	-	(115,177)
Changes in fair value of available-for-sale securities		-	-	9,084	-	-	-	-	9,084	-	9,084
Exchange differences arising on consolidation (as restated)		-	-	-	(68,061)	-	-	-	(68,061)	56	(68,005)
Release of minority interests upon dissolution of a subsidiary		-	-	-	-	-	-	-	-	(502)	(502)
Profit for the period (as restated)		-	-	-	-	-	-	382,127	382,127	356	382,483
At 30 June 2004 (as restated)	<u>29,533</u>	<u>-</u>	<u>174,939</u>	<u>50,497</u>	<u>82,752</u>	<u>19,639</u>	<u>754,347</u>	<u>3,510,814</u>	<u>4,622,521</u>	<u>13,538</u>	<u>4,636,059</u>
At 1 July 2004 (as restated)	29,533	-	174,939	50,497	82,752	19,639	754,347	3,510,814	4,622,521	13,538	4,636,059
Changes in fair value of available-for-sale securities		-	-	(412)	-	-	-	-	(412)	-	(412)
Exchange differences arising on consolidation (as restated)		-	-	-	119,910	-	-	-	119,910	(36)	119,874
Profit for the period (as restated)		-	-	-	-	-	-	489,547	489,547	510	490,057
Dividends declared and paid in respect of the current year	7(a)	-	-	-	-	-	-	(41,346)	(41,346)	-	(41,346)
At 31 December 2004 (as restated)	<u>29,533</u>	<u>-</u>	<u>174,939</u>	<u>50,085</u>	<u>202,662</u>	<u>19,639</u>	<u>754,347</u>	<u>3,959,015</u>	<u>5,190,220</u>	<u>14,012</u>	<u>5,204,232</u>

16. Capital commitments

Capital commitments of the Group at 30 June 2005 not provided for in the interim financial report were as follows:

	At 30 June 2005 \$'000	At 31 December 2004 \$'000
Authorised and contracted for	13,150	14,969
Authorised but not contracted for	24,717	110
	<u>37,867</u>	<u>15,079</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

17. Contingent liabilities

The Company has undertaken to guarantee certain loans and other facilities granted to certain subsidiaries to the extent of \$946,720,000 (at 31 December 2004: \$970,960,000) of which \$804,712,000 (at 31 December 2004: \$825,316,000) was utilised at 30 June 2005.

18. Material related party transactions

(a) 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:

- (i) A fellow subsidiary rents retail premises to a subsidiary. Rental and management fees payable to this fellow subsidiary amounted to \$7,211,000 (2004: \$7,377,000) during the period. The net amount due from the fellow subsidiary at 30 June 2005 amounted to \$331,000 (at 31 December 2004: a net amount of \$709,000 due to the fellow subsidiary).
- (ii) A subsidiary rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to \$1,032,000 (2004: \$1,013,000) during the period. The net amount due to the fellow subsidiary at 30 June 2005 amounted to \$172,000 (at 31 December 2004: \$92,000).
- (iii) A fellow subsidiary, engaging in securities trading, deals in securities for certain subsidiaries of the Group. Commission of \$118,000 (2004: \$188,000) was payable to the fellow subsidiary during the period. The amounts due from the fellow subsidiary at 30 June 2005 amounted to \$3,379,000 (at 31 December 2004: \$13,742,000).

(b) Key management personnel compensation

Compensation in respect of key management personnel of the Group (including certain directors) for the six months ended 30 June 2005 was as follows:

	Six months ended 30 June	
	2005	2004
	\$'000	\$'000
Salaries and other short-term employee benefits	3,789	3,777
Contributions to defined contribution retirement plans	174	170
	<u>3,963</u>	<u>3,947</u>

NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Continued)
(Expressed in Hong Kong dollars)

19. Post balance sheet events

- (a) An investment property, part of the property investment segment, of the Group located in the United States was sold on 1 September 2005 at an agreed price of \$29,095,000. The carrying value of the property as at 30 June 2005, which approximated its fair value at that date, was \$20,173,000.
- (b) Three units of an investment property, part of the property investment segment, of the Group located in Hong Kong presented as assets held for sale at a carrying value of \$7,100,000 as at 30 June 2005 were sold on 15 September 2005 at an agreed price of \$9,500,000.

20. Approval of the interim financial report

The interim financial report was approved by the Board of Directors on 15 September 2005.

SUPPLEMENTARY INFORMATION

CORPORATE GOVERNANCE

On 30 June 2005, the Company adopted its own Corporate Governance Practices Code (the “Company’s Code”) with reference to the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

During the six months ended 30 June 2005, the Company was in compliance with the code provisions of the Code except in relation to the following:

- (1) Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. On 30 June 2005, the Company appointed Mr. Lester Kwok as the Chief Executive Officer with effect from 1 July 2005 and his responsibilities were established and set out in writing in the Company’s Code.
- (2) Under code provision A.4.1 and A.4.2, (1) the non-executive directors should be appointed for a specific term, subject to re-election and (2) all directors appointed to fill casual vacancies should be subject to election by shareholders at the first general meeting after their appointment and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Company’s non-executive directors are not appointed for a specific term and one third of the directors are subject to retirement by rotation at each annual general meeting. The Chairman and the Managing Director are not subject to retirement by rotation. According to the Bye-Laws of the Company, all directors appointed shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election at the meeting. Further, under the Company’s Bye-Laws, one-third of all directors are subject to retirement by rotation at each annual general meeting provided that the Chairman and the Managing Director shall not be subject to retirement by rotation. The Board will propose to amend the Company’s Bye-Laws at the 2006 Annual General Meeting with a view to ensure full compliance with the Code. Details of the amendments are subject to further discussions of the Board.

SUPPLEMENTARY INFORMATION

(Continued)

CORPORATE GOVERNANCE (Continued)

- (3) Under code provision B.1.1, a remuneration committee with specific written terms of reference which deal clearly with its authority and duties should be established. A majority of the members of the remuneration committee should be independent non-executive directors. On 30 June 2005, a Remuneration Committee with the terms of reference set out in the Company's Code was established. The Remuneration Committee comprises three members (two of whom are independent non-executive directors), namely, Mr. Anthony Francis Martin Conway (independent non-executive director) as the chairman of the committee, Mr. Karl C. Kwok and Mr. Ignatius Wan Chiu Wong (independent non-executive director).
- (4) Under code provision A.5.4, the board of directors should establish written guidelines on no less exacting terms than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 (the "Model Code") to the Listing Rules for relevant employees in respect of their dealings in the securities of the listed company. On 15 September 2005, the Board approved the establishment of such written guidelines with effect from 1 September 2005.

The Company has adopted the Model Code as its code of conduct regarding directors' securities transactions. The Company has made specific enquiries with all directors and all directors have confirmed that they have complied with the required standard set out in the Model Code.

SUPPLEMENTARY INFORMATION

(Continued)

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2005, 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	Number of ordinary shares held					Total interests as % of the issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse)	Corporate interests (interests of controlled corporation)	Other interests	Total interests	
Karl C. Kwok	320,710	–	–	–	320,710	0.11
Lester Kwok	489,140	–	–	–	489,140	0.17
Bill Kwok	798,388	295,000	255,000 (Note 1)	–	1,348,388	0.46
Mark Kwok	397,000	–	10,000 (Note 2)	–	407,000	0.14
Kwok Man Cho	425,400	116,500	–	–	541,900	0.18
Philip Kwok	150,000	–	–	–	150,000	0.05

Notes:

- 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.
- 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.

(b) Kee Wai Investment Company (BVI) Limited

Name of Director	Number of ordinary shares held					Total interests as % of the issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse)	Corporate interests (interests of controlled corporation)	Other interests	Total interests	
Karl C. Kwok	11,250	–	–	–	11,250	19.74
Lester Kwok	11,250	–	–	–	11,250	19.74
Bill Kwok	11,250	–	–	–	11,250	19.74
Mark Kwok	11,250	–	–	–	11,250	19.74

SUPPLEMENTARY INFORMATION

(Continued)

DIRECTORS' INTERESTS IN SHARES (Continued)

(c) Wing On Corporate Management (BVI) Limited

Name of Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse)	Number of ordinary shares held			Total interests	Total interests as % of the issued share capital
			Corporate interests (interests of controlled corporation)	Other interests			
Kwok Man Cho	124,177	–	–	–	–	124,177	5.31
Philip Kwok	20,000	–	–	–	–	20,000	0.86

(d) The Wing On Fire & Marine Insurance Company Limited

Name of Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse)	Number of ordinary shares held			Total interests	Total interests as % of the issued share capital
			Corporate interests (interests of controlled corporation)	Other interests			
Karl C. Kwok	324	–	–	–	–	324	0.02
Lester Kwok	216	–	–	–	–	216	0.01
Bill Kwok	216	–	–	–	–	216	0.01
Mark Kwok	216	–	–	–	–	216	0.01
Kwok Man Cho	432	–	–	–	–	432	0.02
Philip Kwok	324	–	–	–	–	324	0.02

In addition to the above, certain directors hold shares in subsidiaries on trust and as nominee for their intermediary holding companies.

Save as disclosed herein, none of the directors nor the chief executives of the Company has any interest or short positions in any shares, underlying shares and debentures of the Company or any associated association (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 2005, 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:

Name	Number of ordinary shares held	Total interests as % of the issued share capital
(i) Wing On International Holdings Limited	180,545,138	61.13
(ii) Wing On Corporate Management (BVI) Limited	180,545,138	61.13
(iii) Kee Wai Investment Company (BVI) Limited	180,545,138	61.13

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the period.