Wing On NETshop: www.wingonet.com

WING ON COMPANY INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

stock code: 289

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Annual Report 2011

WING ON

2011

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-first Annual General Meeting of Shareholders of Wing On Company International Limited will be held at 7th Floor, Wing On Centre, 211 Des Voeux Road Central, Hong Kong on Wednesday, 30 May 2012 at 10:30 a.m. (Hong Kong time) for the following purposes:

Ordinary Business

1. To receive and adopt the Reports of the Directors and of the Auditor together with the Financial Statements for the year ended 31 December 2011.

2. To declare a Final Dividend.

3. To re-elect retiring Directors and to fix the fees of Directors.

4. To fix the maximum number of Directors at 12 and authorise the Directors to appoint additional Directors up to such maximum number.

5. To re-appoint Auditor and authorise the Directors to fix their remuneration.

Special Business

6. To consider and if thought fit, pass the following resolution as an Ordinary Resolution:

   "That a general mandate be unconditionally given to the Directors to issue and dispose of additional shares not exceeding 20% of the existing issued share capital of the Company during the Relevant Period (as defined in item 7(c))."

7. To consider and if thought fit, pass the following resolution as an Ordinary Resolution:

   "That:

   (a) subject to paragraph (b) below, the exercise by the Directors during the Relevant Period (as defined in paragraph (c) below) of all powers of the Company to purchase its own shares, subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;

   (b) the aggregate nominal amount of shares of the Company purchased by the Company pursuant to paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of this Resolution, and the authority pursuant to paragraph (a) above shall be limited accordingly; and

NOTICE OF ANNUAL GENERAL MEETING
(Continued)

Special Business (Continued)

(c) for the purposes of this Resolution and Resolution set out in item 6, "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

(i) the conclusion of the next Annual General Meeting of the Company;

(ii) the expiration of the period within which the next Annual General Meeting of the Company is required by the Bye-Laws of the Company or any applicable law to be held; and

(iii) the revocation or variation of this Resolution by an ordinary resolution of the Shareholders of the Company in General Meeting."

8. To consider and if thought fit, pass the following resolution as an Ordinary Resolution:

"That the general mandate granted to the Directors to issue and dispose of additional shares pursuant to Ordinary Resolution set out in item 6 of the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Ordinary Resolution set out in item 7 of the notice convening this meeting, provided that such amount shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of this Resolution."

By Order of the Board
Karl C. Kwok
Chairman

Hong Kong, 25 April 2012

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.

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint a proxy or proxies to attend and, on a poll, vote on his behalf. Where a member appoints two or more proxies to represent him, the proxy form must clearly indicate the number of shares in the Company ("Share(s)") which each proxy represents. A proxy need not be a member of the Company.

(2) Where there are joint registered holders of any Share, any one of such persons may vote at the meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one such joint holders be present at the meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members in respect of such Share shall alone be entitled to vote in respect thereof.

(3) Pursuant to Rule 13.39(4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, all resolutions set out in this Notice will be decided by poll at the above meeting.

(4) To be valid, a proxy form must be deposited at the Company's principal office not less than 48 hours before the time appointed for the holding of the above meeting, together with the power of attorney (if any) under which it is signed.

(5) For determining eligibility to attend and vote at the above meeting, the Register of Members will be closed from Thursday, 24 May 2012 to Wednesday, 30 May 2012 (Hong Kong time), both dates inclusive, during which period no Share transfers can be registered. In order to be eligible to attend and vote at the above meeting, share transfers to be dealt with must be accompanied by the relevant share certificates and must be lodged with the Company's Share Registrars, Tricor Progressive Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:00 p.m. on Wednesday, 23 May 2012 (Hong Kong time).

(6) Subject to the approval of members of the proposed final dividend at the above meeting, the Register of members will be closed from Wednesday, 6 June 2012 to Friday, 8 June 2012 (Hong Kong time), both dates inclusive, during which period no Share transfers can be registered. To qualify for the final dividend, share transfers to be dealt with must be accompanied by the relevant share certificates and must be lodged with the Company's Share Registrars, Tricor Progressive Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:00 p.m. on Tuesday, 5 June 2012 (Hong Kong time).

(7) Concerning item 3 above, the retiring Directors to be re-elected at the meeting are Mr. Karl C. Kwok and Mr. Iain Ferguson Bruce.

(8) Concerning item 6 above, approval is being sought from members as a general mandate to authorise allotment of Shares under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. However, the Directors have no plan at the moment to issue any new Shares of the Company.

(9) An explanatory statement containing information regarding items 3, 7 and 8 above will be sent to members together with the Company's Annual Report 2011.

(10) If typhoon signal no. 8 or above or a black rainstorm warning signal is in effect any time after 8:00 a.m. on the date of the meeting, the meeting will be postponed. Members are requested to visit the website of the Company for details of alternative meeting arrangements..

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, GBS, J.P.
Mr. Ignatius Wan Chiu Wong, LL. B.
Mr. Iain Ferguson Bruce, CA, FCPA
Mr. Anthony Francis Martin Conway
Mr. Leung Wing Ning

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Anthony Francis Martin Conway (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

SHARE REGISTRARS

Tricor Progressive Limited
26th Floor, Tesbury Centre,
28 Queen's Road East, Wanchai,
Hong Kong.

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre,
11 Bermudiana Road,
Pembroke HM08, Bermuda.

CORPORATE INFORMATION
(Continued)

Biography of Directors

Mr. Karl C. Kwok, MH, Chairman, Member of the Remuneration Committee and the Nomination Committee
He, aged 63, is the Chairman of Wing On International Holdings Limited. He was educated at Carleton College, Minnesota and Wharton School, University of Pennsylvania where he obtained an M.B.A. degree. He joined the Group in 1974 and has been a director of the Company since October 1991. He has over 20 years' experience in senior management positions in banking and finance. He is the Chairman of the Board of The Trustees of Chung Chi College of The Chinese University of Hong Kong, a member of University Council and Executive Committee of the Council of The Chinese University of Hong Kong, Chairman of The Hong Kong-America Center, a trust member of The Outward Bound Trust of Hong Kong Limited, a member of Task Force on Water-land Interface of the Harbourfront Commission, the President of Hong Kong Sailing Federation, Vice President of Sports Federation & Olympic Committee of Hong Kong, China and director of Hong Kong Sports Institute Limited. He is an Independent Non-executive Director of Tai Cheung Holdings Limited which is listed on The Stock Exchange of Hong Kong Limited. He is also a director of Wing On Corporate Management (BVI) Limited and Kee Wai Investment Company (BVI) Limited.

Mr. Lester Kwok, J.P., Deputy Chairman and Chief Executive Officer
He, aged 61, was educated at Stanford University, California where he obtained a B.A. (Economics) degree. He subsequently qualified as a barrister-at-law at Gray's Inn, London in 1975 and practised in London and Hong Kong. He joined the Group in late 1985 and has been a director of the Company since October 1991. He is a Steward of The Hong Kong Jockey Club. He has served on numerous statutory appeal/review bodies at various times in the past including the Administrative Appeals Board (2000-2006), Inland Revenue Board of Review (1985-2002), Municipal Services Appeals Board (2000-2002), Town Planning Appeal Board (1994-2001), Securities and Futures Appeals Panel of the Securities and Futures Commission (1989-1995). He has also served on the Wan Chai District Board (1985-1994) and the Consumer Council (1996-1997). He is the deputy chairman and managing director of Wing On International Holdings Limited and also a director of Wing On Corporate Management (BVI) Limited and Kee Wai Investment Company (BVI) Limited. He is a brother of the Chairman.

Dr. Bill Kwok, J.P., Non-executive Director
He, aged 59, was educated at Stanford University and the University of Chicago where he obtained undergraduate degrees and a Ph.D. respectively. He has been a director of the Company since November 1992. He is a director of Wocom Holdings Limited, Wing On International Holdings Limited, Wing On Corporate Management (BVI) Limited and Kee Wai Investment Company (BVI) Limited. He is also a Non-executive Director of HSBC Private Bank (Suisse) SA and an Independent Non-executive Director of the Hong Kong Exchanges and Clearing Limited which is listed on The Stock Exchange of Hong Kong Limited. He is a member on the Investigation Panel A of the Hong Kong Institute of Certified Public Accountants, and a member of the Committee on Real Estate Investment Trusts of the Securities and Futures Commission. He is a past Chairman and a fellow of Hong Kong Securities Institutes. He is a brother of the Chairman.

Biography of Directors (Continued)

Mr. Mark Kwok, Executive Director
He, aged 57, was educated at Stanford University, California and the University of Santa Clara where he obtained a B.A. (Economics) degree and an M.B.A. degree respectively. He joined the Group in 1986 and has been responsible for the Group's retail operations until mid 2001. He has been a director of the Company since November 1992. He is currently looking after the Group's overseas investments. He was a member of the Executive Committee of the Hong Kong Retail Management Association. He has served as a member of Law Reform Commission's Sub-committee on Civil Liability for Unsafe Products from 1995 to 1997 and a Member of Election Committee of Subsector of Wholesale and Retail for the Legislative Council Elections of the HKSAR in 1997, 2000, 2002 and 2004. He has also served as a member of the Committee for electing deputies from the HKSAR for the 11th National People's Congress of the People's Republic of China in 2008. He is also a director of Wing On International Holdings Limited, Wing On Corporate Management (BVI) Limited and Kee Wai Investment Company (BVI) Limited. He is a brother of the Chairman.

Miss Maria Tam Wai Chu, GBS, J.P., Independent Non-executive Director and Member of the Audit Committee
She, aged 66, was educated at London University. She qualified as a barrister-at-law at Gray's Inn, London, and practised in Hong Kong. She was a member of the Preparatory Committee for the Hong Kong Special Administrative Region (P.R.C.) and Hong Kong Affairs Advisor (P.R.C.). She is currently an Independent Non-executive Director of Guangnan (Holdings) Limited, Minmetals Land Limited, Nine Dragons Paper (Holdings) Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Titan Petrochemicals Group Limited and Tong Ren Tang Technologies Company Limited, all are listed on The Stock Exchange of Hong Kong Limited. She is a member of the Operations Review Committee of the ICAC and a member of the Witness Protection Review Board of the ICAC effective from January 2010. She is a deputy to the National People's Congress of the People's Republic of China and a member of the Hong Kong Basic Law Committee. She is also a member of various community services organisations. She was appointed Independent Non-executive Director of the Company in January 1994.

Mr. Ignatius Wan Chiu Wong, LL.B., Independent Non-executive Director, Member of the Remuneration Committee and the Nomination Committee
He, aged 71, read law at Birmingham University where he obtained an LL.B. (Hons.) degree. He qualified as a solicitor in England and Hong Kong and has practised law in Hong Kong for more than 17 years. He has served for some 8 years in leading financial institutions in Hong Kong. He was appointed Independent Non-executive Director of the Company in July 2000.

Biography of Directors (Continued)

Mr. Iain Ferguson Bruce, CA, FCPA, Independent Non-executive Director and Chairman of the Audit Committee
He, aged 71, is a member of the Institute of Chartered Accountants of Scotland, a fellow of the Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Directors, and a member of the Hong Kong Securities Institute. He was formerly with KPMG, Hong Kong, for over 32 years and was its senior partner from 1991 to 1996. He is currently an Independent Non-executive Director of Goodbaby International Holdings Limited, Paul Y. Engineering Group Limited, Sands China Ltd., Tencent Holdings Limited and Vitasoy International Holdings Limited, all listed on The Stock Exchange of Hong Kong Limited, and a Director of Noble Group Limited, listed on the Singapore Exchange Limited, of China Medical Technologies, Inc., listed on NASDAQ, and of Yingli Green Energy Holding Company Limited, listed on the New York Stock Exchange. He is an Independent Non-executive Director of Citibank (Hong Kong) Limited and is the Chairman of KCS Limited. He was appointed Independent Non-executive Director of the Company in September 2002.

Mr. Anthony Francis Martin Conway, Independent Non-executive Director and Chairman of the Remuneration Committee
He, aged 72, is a fellow of The Hong Kong Institute of Directors, The Hong Kong Management Association and The Hong Kong Institution of Engineers. Mr. Conway has more than 40 years' experience in Information Technology and General Management. He is currently an Independent Non-executive Director of Polytec Asset Holdings Limited which is listed on The Stock Exchange of Hong Kong Limited. He is also active in public service being a Council Member of The Hong Kong Institute of Directors and of The Hong Kong Management Association. He serves on a number of Hong Kong Institute of Certified Public Accountants committees. He was appointed Independent Non-executive Director of the Company in July 2004.

Mr. Leung Wing Ning, Independent Non-executive Director, Member of the Audit Committee and Chairman of the Nomination Committee
He, aged 64, was educated at Stanford University, California and New York University, New York where he obtained a B.S. (Mechanical Engineering) and an M.B.A. degree respectively. He has over 30 years' experience in senior management positions in international trades and in banking and finance. He retired from Hang Sang Bank Limited in 2007. He is currently an Independent Non-executive Director of Winfoong International Limited which is listed on The Stock Exchange of Hong Kong Limited. He was appointed Independent Non-executive Director of the Company in January 2010.

CORPORATE INFORMATION
(Continued)

Biography of senior managers

Mr. Benny Chan

He, aged 53, was educated at The Hong Kong Polytechnic University where he obtained a B.A. (Hons.) degree. Joined in 1992, he looks after the Group's overseas investment projects acting as the manager in charge. In July 2001, he was appointed the managing director of The Wing On Department Stores (Hong Kong) Limited with full responsibility for the Group's retail department store operations. He remains the general manager of the Group's international investment division. He is a member of the Executive Committee of Hong Kong Retail Management Association. He is a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Mr. Sin Kar Tim

He, aged 55, is the chief accountant and company secretary. He is responsible for the Group's administration, accounting and finance matters. He is also a director of The Wing On Department Stores (Hong Kong) Limited. He was educated at The Chinese University of Hong Kong where he obtained a B.B.A. degree. He is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. He joined the Group in 1980.

Ms. Bong Kui Mein, Maria

She, aged 55, is a director of The Wing On Department Stores (Hong Kong) Limited and is overseeing the merchandising and concession administration functions. She was educated at the Chinese University of Hong Kong where she obtained a B.B.A. degree, and later attained an M.B.A. and a M.Sc (Electronics Commerce and Internet Computing) degrees from The University of Hong Kong. She is a member of the Canadian Certified General Accountants Association. She joined the Group in 1995.

Wing On Department Stores

Main Store	:	211 Des Voeux Road Central, Hong Kong	Tel: 2852 1888
wing on *Plus*	:	345 Nathan Road, Kowloon	Tel: 2710 6288
Tai Koo Shing Store	:	Citiplaza, Units 074 & 144, 1111 King's Road, Tai Koo Shing, Hong Kong	Tel: 2885 7588
Discovery Bay Store	:	Discovery Bay Plaza, Lantau Island, Hong Kong	Tel: 2987 9268
Tsimshatsui East Store	:	Wing On Plaza, 62 Mody Road, Kowloon	Tel: 2196 1388

CHAIRMAN'S STATEMENT

2011 RESULTS AND DIVIDEND

For the year ended 31 December 2011, the Group's turnover increased by 12.2% to HK$1,763.8 million (2010: HK$1,572.6 million). The increase was attributable mainly to the improvement in both the Group's department stores business turnover and the rental income from the Group's investment properties.

Profit attributable to shareholders for the year was HK$1,774.3 million (2010: HK$1,375.7 million), an increase of 29.0% due primarily to the increase in net valuation gain on investment properties as compared to last year. Excluding this non-cash item and related deferred tax thereon, the Group's underlying profit attributable to shareholders increased by 8.5% to HK$496.3 million (2010: HK$457.6 million). This was due mainly to the increase in the improved contributions from the Group's department stores operations, property investments and the Group's automobile dealership associate.

Earnings per share was 600.8 HK cents per share in 2011 (2010: 465.9 HK cents per share). Excluding the net valuation gain on investment properties and related deferred tax thereon, underlying earnings per share for the year increased by 8.5% to 168.1 HK cents per share (2010: 155.0 HK cents per share).

In respect of 2011, the directors have recommended a final dividend of 55 HK cents (2010: 59 HK cents) per share payable to shareholders on the Register of Members on 8 June 2012 (Hong Kong time) which, together with the interim dividend of 33 HK cents (2010: 22 HK cents) per share paid on 19 October 2011 (Hong Kong time) makes a total payment of 88 HK cents (2010: 81 HK cents) per share for the whole year.

Subject to the approval of shareholders of the proposed final dividend at the forthcoming Annual General Meeting to be held on 30 May 2012, the Register of Members will be closed from 6 June 2012 to 8 June 2012 (Hong Kong time), both dates inclusive, during which period no share transfers can be registered. To qualify for the final dividend, share transfers to be dealt with must be lodged with the Company's Share Registrars, Tricor Progressive Limited, 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong before 4:00 p.m. on Tuesday, 5 June 2012 (Hong Kong time). Dividend warrants will be sent to shareholders on 18 June 2012 (Hong Kong time).

LIQUIDITY AND FINANCIAL RESOURCES

Overall Financial Position

Shareholders' equity at 31 December 2011 was HK$10,754.2 million, an increase of 17.2% as compared to that at 31 December 2010. With cash and listed marketable securities at 31 December 2011 of about HK$1,966.6 million as well as available banking facilities, the Group has sufficient liquidity to meet its current commitments and working capital requirements.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Borrowings and Charges on Group Assets

At 31 December 2011, the Group's total borrowings amounted to HK$553.6 million, a decrease of about HK$40.6 million, due to partial repayments net of exchange differences, as compared to that at 31 December 2010. The Group's total borrowings of HK$553.6 million relate to a mortgage loan for Australian investment properties. The mortgage loan was renewed in December 2011 for three years to December 2014; the bulk of which will be repayable by the end of 2014. Certain assets, comprising principally property interests with a book value of HK$2,626.1 million, have been pledged to banks as collateral security for banking facilities granted to the extent of HK$1,014.0 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 31 December 2011, was 5.1% as compared with 6.5% at 31 December 2010.

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$2,115.8 million at 31 December 2011 (at 31 December 2010: HK$1,958.7 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, Australian dollar and Renminbi.

Capital Commitments and Contingent Liabilities

At 31 December 2011, the total amount of the Group's capital expenditure commitments was HK$2.5 million (at 31 December 2010: HK$5.7 million). The Company has issued a corporate guarantee to a financial institution in respect of a banking facility granted to a wholly-owned subsidiary of an associate, which expires within one year. The associate has also issued a corporate guarantee to a financial institution in respect of a financial facility granted to a jointly controlled entity of the associate, which expires within one year. At 31 December 2011, the maximum contingent liability shared by the Group was HK$15.4 million (at 31 December 2010: HK$28.1 million).

BUSINESS REVIEW

Department Stores Operations

In 2011 the Group's department stores business achieved a 12.5% increase in turnover to HK$1,381.8 million (2010: HK$1,228.0 million) while its operating profit increased by 29.4% to HK$223.4 million (2010: HK$172.7 million). The Group was able to achieve these better results on the back of strong local consumer demand aided by Mainland shoppers, and the continued efforts in providing timely promotional events, regularly improving the merchandise mix and quality of customer service.

Property Investments

In the year under review, the Group's property investment income increased by 11.3% to HK$360.7 million (2010: HK$324.2 million). Demand by tenants for quality office space in Hong Kong remained strong in 2011 and the upward office rental trend continued. The Group achieved a 7.4% increase in rental income from its commercial investment properties in Hong Kong to HK$201.2 million (2010: HK$187.3 million) while maintaining an overall occupancy rate of over 95%. Income from the Group's commercial investment properties in Australia increased by 17.6% to HK$154.0 million (2010: HK$130.9 million) whilst the occupancy and achieved rental rates remained stable throughout 2011. The increase was mainly due to the strong Australian dollar during the year as income is translated back to the Hong Kong dollar for reporting purposes. The overall occupancy rate of the commercial investment properties in Australia stayed at about 95%.

Automobile Dealership Business

With the stabilising economy and the gradual return of consumer confidence in the United States, car sales in the United States recorded a solid growth in the year under review. Despite the improving car market, the Group's automobile dealership associate in the United States was unable to reap the benefit fully due to the disruption in the supply of cars and spare parts from Japanese automakers caused by the big earthquake in Japan in March 2011 and the flooding in Thailand during the year. This resulted in a drop in the associate's sales of Japanese brand cars during the year under review. Notwithstanding this, the associate's business operations improved as its margins on car sales increased due to shortage of vehicle supplies. For the year ended 31 December 2011, the Group's share of after tax profit of the associate was HK$72.7 million (2010: HK$13.9 million), an increase of HK$58.8 million compared to the previous year. Excluding the loss on fair value re-measurement of HK$10.7 million (2010: HK$19.4 million) in respect of the associate's Employee Stock Ownership Plan and Senior Stock Purchase Plan, the Group's share of after tax profit from the associate amounted to HK$83.4 million (2010: HK$33.3 million). During the year under review, the associate's interests in two automobile dealerships in Guangdong Province were able to contribute profits to the Group, despite the shortage of inventory supplies. The Group's associate had set up an automobile dealership with an external party in Shandong Province, the People's Republic of China. The dealership has commenced business recently.

CHAIRMAN'S STATEMENT
(Continued)

BUSINESS REVIEW (Continued)

Others

Due to poor stock market performance in the second half of 2011, the Group's investments in securities recorded a loss of HK$43.6 million in 2011 (2010: a profit of HK$58.0 million). The Group recorded a net foreign exchange gain of HK$10.1 million in 2011 (2010: HK$10.9 million) in its holdings of foreign currencies. The Group also recognised a foreign exchange gain of HK$12.7 million (2010: HK$11.5 million) upon the return of investments from subsidiaries in Australia.

STAFF

As at 31 December 2011, the Group had a total staff of 843 (2010: 953). The staff costs (excluding directors' remuneration) amounted to approximately HK$200.2 million (2010: HK$193.4 million). The Group provides employee benefits such as staff insurance, staff discount on purchases, a housing scheme, the Mandatory Provident Fund ("MPF") Scheme and MPF exempted defined contribution retirement schemes. Discretionary management bonuses are granted to senior managers and preferential staff loans for defined purposes are offered to managerial staff.

In addition to basic salaries, the Group's retail division provides sales incentive gratuities to sales operation staff in order to motivate their sales efforts. The Group's retail division also formulates and launches in-house training programmes for various levels of staff to maintain and upgrade service quality and managerial capacities. The Group also provides external training sponsorship and tuition assistance.

OUTLOOK FOR 2012

The European sovereign debt crisis and the fiscal issues in the United States will continue to overshadow the economic prospects of Hong Kong. Barring adverse declines in global economies, the Group's department stores business should continue to benefit from local consumer demand and the continued influx of visitors from the Mainland. The increasing inflationary pressure on operating costs would become more apparent in 2012. Despite the concerns over global economies, the Group's investment properties in Hong Kong and Australia will continue to provide stable rental income with their current high occupancy rates. The Group's associate engaging in automobile dealership business should continue to contribute profit to the Group in the expectation of a full resumption of inventory supplies and a steady recovery of the United States economy.

On behalf of the Board, I would like to thank our management and staff for their efforts in 2011 and our shareholders for their continuing support.

Karl C. Kwok
Chairman

Hong Kong, 29 March 2012

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Group are the operation of department stores and property investment. The analyses of the turnover and profit from operations of the Group by segment and geographic information respectively are set out in Note 3 to the financial statements.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2011 and the state of the Company's and the Group's affairs as at that date are set out in the financial statements on pages 32 to 115.

An interim dividend of 33 HK cents (2010: 22 HK cents) per share was paid on 19 October 2011 (Hong Kong time). The directors now recommend that a final dividend of 55 HK cents (2010: 59 HK cents) per share in respect of the year ended 31 December 2011 be payable to shareholders on the Register of Members on 8 June 2012 (Hong Kong time). Dividend warrants will be sent to shareholders on 18 June 2012 (Hong Kong time).

Time for closure of the Register of Members and the latest time for transfers to be dealt with in order to qualify for the final dividend are set out in the notes to the Notice of Annual General Meeting.

RESERVES

Movements in reserves during the year are set out on page 37.

FIVE YEAR SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 28.

CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK$63,000 (2010: HK$10,000).

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out on pages 113 and 114.

FIXED ASSETS

Movements in fixed assets during the year are set out in Note 13 to the financial statements.

INVESTMENT PROPERTIES

Details of the Group's investment properties are set out on page 29.

BORROWINGS

The maturity profile of borrowings, banking facilities and assets pledged are set out in Note 25 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers and the five largest suppliers of the Group accounted for less than 30% of the Group's turnover and purchases respectively in the year.

DEFINED CONTRIBUTION RETIREMENT PLANS

Particulars of defined contribution retirement plans of the Group are set out in Note 12 to the financial statements.

DIRECTORS

The directors during the financial year and up to the date of this report were:

Mr. Karl C. Kwok, MH (Chairman)
Mr. Lester Kwok, J.P. (Deputy Chairman and Chief Executive Officer)
Dr. Bill Kwok, J.P. (Non-executive Director)
Mr. Mark Kwok (Executive Director)
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 Ferguson Bruce, CA, FCPA, (Independent Non-executive Director)
Mr. Anthony Francis Martin Conway (Independent Non-executive Director)
Mr. Leung Wing Ning (Independent Non-executive Director)

Mr. Karl C. Kwok and Mr. Iain Ferguson Bruce shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election. Mr. Karl C. Kwok and Mr. Iain Ferguson Bruce will be proposed to be re-elected for a fixed term of three years until the 2015 Annual General Meeting.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGERS

Brief biographical details in respect of Directors of the Company and senior managers of the Group are set out on pages 6 to 9.

DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of directors' remuneration, five highest paid individuals' emoluments and staff costs are set out in Notes 7, 8 and 5(b) to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

Details of the continuing connected transactions and related party transactions are set out in "Continuing Connected Transactions" on pages 26 to 27 and in Note 31 to the financial statements respectively.

Save for the above, no contract of significance to which the Company, any of its holding companies, or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest subsisted at the end of the year or at any time during the year.

At no time during the year was the Company, any of its holding companies or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisitions of shares in, or debentures of, the Company or any other body corporate.

There is no service contract with any director which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2011, 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

	Number of ordinary shares held					
Name of Director	**Personal interests (held as beneficial owner)**	**Family interests (interests of spouse)**	**Corporate interests (interests of controlled corporation)**	**Other interests**	**Total interests**	**Total interests as a % of the issued share capital**
Karl C. Kwok	320,710	–	–	–	320,710	0.109
Lester Kwok	489,140	–	–	–	489,140	0.166
Bill Kwok	798,388	295,000	255,000 (Note 1)	–	1,348,388	0.457
Mark Kwok	397,000	–	10,000 (Note 2)	–	407,000	0.138
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.

DIRECTORS' INTERESTS IN SHARES (Continued)

(b) Kee Wai Investment Company (BVI) Limited

	Number of ordinary shares held					
Name of Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse)	Corporate interests (interests of controlled corporation)	Other interests	Total interests	Total interests as a % of the issued share capital
Karl C. Kwok	12,110	–	–	–	12,110	21.246
Lester Kwok	12,110	–	–	–	12,110	21.246
Bill Kwok	12,110	–	–	–	12,110	21.246
Mark Kwok	12,110	–	–	–	12,110	21.246

Note: The above directors together control approximately 85% of the voting rights in Kee Wai Investment Company (BVI) Limited.

(c) The Wing On Fire & Marine (2011) Limited (Formerly known as "The Wing On Fire & Marine Insurance Company Limited")

	Number of ordinary shares held					
Name of Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse)	Corporate interests (interests of controlled corporation)	Other interests	Total interests	Total interests as a % of the issued share capital
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 executives 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.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, 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 a % of the issued share capital
(i)	Wing On International Holdings Limited	180,545,138	61.141
(ii)	Wing On Corporate Management (BVI) Limited	180,545,138	61.141
(iii)	Kee Wai Investment Company (BVI) Limited	180,545,138	61.141

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.

SUFFICIENCY OF PUBLIC FLOAT

According to information that is available to the Company, the percentage of the Company's shares which are in the hands of public exceeds 25% of the Company's total number of issued shares.

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 year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-Laws although there is no restriction against such rights under Bermuda Law.

AUDITOR

A resolution for the reappointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board
Karl C. Kwok
Chairman

Hong Kong, 29 March 2012

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE

The Company and the Board are committed to achieving and maintaining a high standard of corporate governance. The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") throughout the financial year ended 31 December 2011.

In October 2011 the Stock Exchange issued a new edition of the Code, entitled the Corporate Governance Code ("CG Code"), which is applicable to financial reports covering the period after 1 April 2012. As part of our unwavering commitment to high standards of corporate governance, we have undertaken the necessary steps to adopt and procure compliance with the new code provisions as set out in the CG Code.

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 financial year ended 31 December 2011.

BOARD OF DIRECTORS

The Board currently comprises nine directors, including the Chairman (who is also an executive director), the Deputy Chairman (who is also the chief executive officer and an executive director), one executive director, one non-executive director and five independent non-executive directors. The names and biographies of the directors and relationship between members of the Board are set out on pages 6 to 8.

Mr. Karl C. Kwok (chairman), Mr. Lester Kwok (deputy chairman and chief executive officer), Mr. Mark Kwok (executive director), and Dr. Bill Kwok (non-executive director) are brothers.

BOARD OF DIRECTORS (Continued)

The Board meets regularly to review and approve the financial statements, including the quarterly, half-yearly and annual financial statements, of the Group. Six Board meetings were held during the financial year ended 31 December 2011. The attendance of each director at the Board meetings during the financial year ended 31 December 2011 is set out in the table below:

	Board Meetings attended/held
Executive Directors	
Mr. Karl C. Kwok (Chairman)	6/6
Mr. Lester Kwok (Deputy Chairman and Chief Executive Officer)	6/6
Mr. Mark Kwok	6/6
Non-executive Director	
Dr. Bill Kwok	6/6
Independent Non-executive Directors	
Miss Maria Tam Wai Chu	6/6
Mr. Ignatius Wan Chiu Wong	6/6
Mr. Iain Ferguson Bruce	3/6
Mr. Anthony Francis Martin Conway	6/6
Mr. Leung Wing Ning	6/6

All directors well understand their roles, responsibilities and obligations as stated in the Company's Code ("the Company's Code"). The Directors acknowledge their responsibility for preparing financial statements which give a true and fair view of the state of affairs of the Group. The statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out on pages 30 and 31 in the independent auditor's report for the year ended 31 December 2011. The Directors, having made appropriate enquires, confirm that there are no material uncertainties relating to events or conditions that may cast doubt upon the Company's ability to continue as a going concern.

The Board is responsible for the determination of the overall business strategies, policies and plans of the Group. All major and significant acquisitions, disposals, capital transactions and investments are subject to the approval of the Board. The Group's senior management is delegated with the day to day running and operational matters of the Group's business, and the formulation of business plans for the Board's review and approval.

The Company considers the independent non-executive directors to be independent pursuant to the factors enumerated in Rule 3.13 of the Listing Rules.

From the date of each of their appointments to the Board through and including the year ended 31 December 2011, each independent non-executive director has given the Company an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the Chairman and the Chief Executive Officer are segregated and are not exercised by the same individual, and are clearly defined in the Company's Code. Amongst his other duties, in his role as Chairman, Mr. Karl C. Kwok, is responsible for ensuring that all directors are properly briefed on issues arising at Board meetings and for providing leadership for the Board. The Chairman is also responsible for ensuring that good corporate governance practices and procedures are established and followed. Amongst his other duties, in his role as Chief Executive Officer, Mr. Lester Kwok, is responsible for providing leadership to the management and to manage and oversee the business affairs of the Group. The Chief Executive Officer is to implement Board policies and decisions applicable to the management and operational matters of the Group in addition to presenting annual business budgets of the Group to the Board for approval.

NON-EXECUTIVE DIRECTORS

There are currently one non-executive director and five independent non-executive directors. All non-executive directors are serving for a fixed term of not more than three years.

REMUNERATION OF DIRECTORS

The remuneration committee of the Company (the "Remuneration Committee") was initially formed on 30 June 2005 and currently is comprised of two independent non-executive directors (one of whom is the Remuneration Committee Chairman) and one executive director.

The terms of reference of the Remuneration Committee will be published on the Stock Exchange's website and the Company's website. The Remuneration Committee has the responsibility for determining the specific remuneration packages of all executive directors and members of senior management and for making recommendations to the Board on the remuneration of non-executive directors. It also reviews and approves any performance-based remuneration and compensation arrangements for loss of office of directors and members of senior management. The Remuneration Committee is responsible for making recommendations to the Board on the Company's policy and the structure of remuneration of directors and members of senior management of the Group and for ensuring that no director takes part in deciding his/her own remuneration. The remuneration of directors is determined with reference to factors such as salaries paid by comparable companies, individual duties, responsibilities, performance and time commitments of each director and the results of the Group. The Remuneration Committee considers that discretionary performance bonuses should be incentives for executive directors to monitor and improve the performance of the Group. Discretionary performance bonuses to be awarded to the executive directors are based on an incremental scale linked to the after tax profit target levels of the Group. Directors serving on board committees will receive extra allowances for such additional services rendered.

REMUNERATION OF DIRECTORS (Continued)

During the financial year ended 31 December 2011, the Remuneration Committee has reviewed the remuneration packages of all executive directors and members of senior management. The Remuneration Committee has also reviewed the directors' fees and allowances for 2011. Three meetings of the Remuneration Committee were held in 2011. The attendance of committee members during 2011 is set out in the table below:

Remuneration Committee Members	Meetings attended/held
Mr. Anthony Francis Martin Conway (Committee Chairman)	3/3
Mr. Karl C. Kwok	3/3
Mr. Ignatius Wan Chiu Wong	3/3

The amount of remuneration paid to each director of the Company for 2011 is set out in Note 7 to the financial statements for the year ended 31 December 2011.

At the forthcoming Annual General Meeting to be held on 30 May 2012, the Board will propose a director's fee of HK$150,000 for each director for the year 2012 as recommended by the Remuneration Committee.

NOMINATION OF DIRECTORS

The Company did not have a Nomination Committee in 2011. Before the formation of a Nomination Committee, the Chairman of the Board was responsible for nominating any suitable person to join the Board if considered necessary. Such nomination was required to be approved by the Board.

A nomination committee will be formed on 30 March 2012, and will comprise the Chairman for the Board and two independent non-executive directors (the "Nomination Committee").

The terms of reference of the Nomination Committee will be published on the Stock Exchange's website and the Company's website. According to the terms of reference, the Nomination Committee is required to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; to assess the independence of independent non-executive directors and to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

AUDITORS' REMUNERATION

During the financial year ended 31 December 2011, the fees charged for statutory audit services provided to the Company and its subsidiaries amounted to HK$2,815,000 (2010: HK$2,757,000), and, in addition, HK$2,873,000 (2010: HK$2,701,000) was charged for other non-statutory audit services, such as tax compliance and advisory services, accounting advice, interim review and internal systems reviews. Included in the fees for non-statutory audit services is an amount of HK$1,006,000 (2010: HK$800,000) paid to the Group's external auditor for performing internal systems review services as approved by the Audit Committee.

AUDIT COMMITTEE

The Board established an audit committee on 16 December 1998 (the "Audit Committee"). The current Audit Committee is comprised of three independent non-executive directors (including the Committee Chairman who possesses the necessary business and financial knowledge and experience to understand financial statements).

The terms of reference of the Audit Committee will be published on the Stock Exchange's website and the Company's website. According to its terms of reference, the Audit Committee is required, amongst other duties, to oversee the Company's relationship with the external auditor, to review the Group's interim results and annual financial statements and to monitor compliance with statutory and listing requirements, and to engage external consultants to review the scope and effectiveness of the Group's internal control function. During the financial year ended 31 December 2011, the Audit Committee has reviewed and discussed with management and the external auditor the interim and annual results with a view to ensuring that the Group's financial statements were prepared in accordance with accounting principles generally accepted in Hong Kong. The Audit Committee has engaged an external consultant to perform internal audit services as and when required. The Audit Committee has also reviewed the independence and quality of work of KPMG and has recommended to the Board to re-appoint KPMG as auditor for 2012. Four meetings of the Audit Committee were held in 2011. The attendance of committee members during 2011 is set out in the table below:

Audit Committee Members	**Meetings attended/held**
Mr. Iain Ferguson Bruce (Committee Chairman)	4/4
Miss Maria Tam Wai Chu	4/4
Mr. Leung Wing Ning	4/4

INTERNAL CONTROLS

The Board recognises its responsibility for maintaining an adequate and sound internal control system to safeguard the assets of the Group. An external consultant was appointed to conduct regular reviews of the Group's major internal control systems in order to assist the Group to comply fully with, amongst other Code Provisions, Code Provisions C.2.1 and C.2.2 of the Code.

During the year, the external consultant has assisted the Group to perform a review of the effectiveness of certain major components of the Group's internal control systems including the adequacy of resources, staff qualifications and experience, and training programmes and budget of the Group's accounting and financial reporting function. The external consultant, based on the results of the review done, noted that there were no material or significant internal control deficiencies during the course of the review. The Board, through the Audit Committee and the external consultant, has reviewed the internal controls of the Group and is satisfied that this Code requirement has been complied with in respect of the year ended 31 December 2011.

COMPANY SECRETARY

The Company Secretary is an employee of the Company and has day-to-day knowledge of the Company's affairs. The Company Secretary is responsible for advising the Board through the Chairman and/or the Chief Executive Officer on governance matters and also facilitates the induction and professional development of directors.

SHAREHOLDERS' RIGHTS

(a) Procedures for shareholders to convene a special general meeting

The provisions for a shareholder to convene a special general meeting of the Company are set out in Section 74 of the Bermuda Companies Act 1981:

(1) The directors of a company, notwithstanding anything in its Bye-Laws shall, on the requisition of members of the company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the company as at the date of the deposit carries the right of voting at general meetings of the company, or, in the case of a company not having a share capital, members of the company representing not less than one-tenth of the total voting rights of all the members having at the said date a right to vote at general meetings of the company, forthwith proceed duly to convene a special general meeting of the company.

(2) The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the company, and may consist of several documents in like form each signed by one more requisitionists.

(3) If the directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

(4) A meeting convened under this section by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by directors.

(5) Any reasonable expenses incurred by the requisitionists by reason of the failure of the directors duly to convene a meeting shall be repaid to the requisitionists by the company, and any sum so repaid shall be retained by the company out of any sums due or to become due from the company by way of fees or other remuneration in respect of their services to such directors as were in default.

SHAREHOLDERS' RIGHTS (Continued)

(b) Procedures for shareholders to submit enquiries to the Board and put forward proposals at shareholders' meetings

Shareholders are welcome to attend annual general meetings at which time they can raise questions directly to the Board and the management. Alternatively, shareholders may submit their enquiries in writing to the Board and put forward written proposals at shareholders' meetings to the Company Secretary at the Company's principal office in Hong Kong.

INVESTOR RELATIONS

There is no change in the Company's Bye-Laws during 2011 and there is currently no proposal to amend the Company's Bye-Laws in the forthcoming Annual General Meeting.

CONTINUING CONNECTED TRANSACTIONS

The following is a summary of transactions entered into by the Company in 2008 and 2011 which constituted "Continuing Connected Transactions" for the Company under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. For full details of these transactions, please refer to the official announcements made by the Company at the relevant time.

(1) On 15 April 2008, The Wing On Company Limited ("WOCO") entered into a Tenancy Agreement with Wocom Holdings Limited ("WOCOM") to renew the tenancy of Rooms 1001 to 1006 Wing On Centre, 111 Connaught Road Central, Hong Kong for a three years fixed term commencing from 8 June 2008 to 7 June 2011 at a monthly rental of HK$317,000 (exclusive of management fees, air-conditioning charges and government rates). The maximum aggregate annual rental value would be HK$3,804,000. Since WOCOM is an indirect non wholly-owned subsidiary of Kee Wai Investment Company (BVI) Limited ("Kee Wai (BVI)"), a substantial shareholder of the Company, which in turn is holding approximately 61.13% interest in the existing issued share capital of the Company, the Tenancy Agreement constitutes a continuing connected transaction for the Company.

    On 29 March 2011, WOCO entered into a Tenancy Agreement with WOCOM to rent the premises at Rooms 1002 to 1006 Wing On Centre, 111 Connaught Road Central, Hong Kong for a three years fixed term commencing from 8 June 2011 to 7 June 2014 at a monthly rental of HK$345,000 (exclusive of rates, management fees, air-conditioning charges and any other outgoings). The maximum aggregate annual rental value would be HK$4,140,000. Since WOCOM is an indirect non wholly-owned subsidiary of Kee Wai (BVI), a substantial shareholder of the Company, which in turn is holding approximately 61.14% interest in the existing issued share capital of the Company, the Tenancy Agreement constitutes a continuing connected transaction of the Company.

(2) On 12 December 2008, The Wing On Department Stores (Hong Kong) Limited ("WODS") entered into a Tenancy Agreement to renew the tenancy of Basement 1, Portion of Ground Floor and the whole of 1st to 6th Floors, Wing On Kowloon Centre, 345 Nathan Road, Kowloon, Hong Kong ("Premises") for a fixed term of three years from 1 January 2009 to 31 December 2011 with WOCO and The Wing On Properties and Securities Company Limited ("WOPS") at a monthly rental of HK$3,920,000 (exclusive of rates, air-conditioning charges, management fees and all other outgoings). The maximum aggregate annual rental payable to WOPS would be HK$16,760,352. The Premises are jointly owned by WOCO and WOPS in the interest of 64.37% and 35.63% respectively. WODS and WOCO are wholly-owned subsidiaries of the Company. Since WOPS is an indirect non wholly-owned subsidiary of Kee Wai (BVI), a substantial shareholder of the Company, which in turn is holding approximately 61.13% interest in the existing issued share capital of the Company, the Tenancy Agreement constitutes a continuing connected transaction of the Company.

On 13 December 2011, WODS entered into a Tenancy Agreement to renew the tenancy of the Premises for a fixed term of three years from 1 January 2012 to 31 December 2014 with WOCO and WOPS at a monthly rental of HK$4,800,000 (exclusive of rates, air-conditioning charges, management fee and all other outgoings). The maximum aggregate annual rental payable to WOPS would be HK$20,522,880. The Premises is jointly owned by WOCO and WOPS in the interest of 64.37% and 35.63% respectively. WODS and WOCO are wholly-owned subsidiaries of the Company. Since WOPS is an indirect non wholly-owned subsidiary of Kee Wai (BVI), a substantial shareholder of the Company, which in turn is holding approximately 61.14% interest in the existing issued share capital of the Company, the Tenancy Agreement constitutes a continuing connected transaction of the Company.

The independent non-executive directors have reviewed and confirmed that the Continuing Connected Transactions disclosed above were entered in the ordinary and usual course of business of the Group and on normal commercial terms and in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The external auditor has also confirmed that the Continuing Connected Transactions disclosed above have been approved by the Directors of the Company, the rentals charged for each of the transactions were in accordance with the rental charges set out in the relevant agreement governing the transactions and the aggregate dollar amount of each of the transactions did not exceed the annual Cap Amount as set out in the minutes of the Board of Directors approving the Continuing Connected Transactions.

FIVE YEAR SUMMARY

	2011	2010	2009	2008	2007
Income statement items (HK$ million)					
Turnover	**1,764**	1,573	1,443	1,408	1,295
Profit from operations after finance costs	**518**	527	446	213	432
Profit/(loss) before taxation	**2,148**	1,650	836	(278)	1,914
Income tax (expense)/benefit	**(373)**	(273)	(98)	106	(323)
Profit/(loss) attributable to shareholders	**1,774**	1,376	737	(173)	1,589
Statement of financial position items (HK$ million)					
Fixed assets	**10,207**	8,568	7,175	6,315	7,287
Other assets	**3,072**	2,773	2,614	2,285	2,502
Total assets	**13,279**	11,341	9,789	8,600	9,789
Current liabilities	**552**	990	414	341	346
Non-current liabilities	**1,955**	1,156	1,583	1,480	1,866
Total liabilities	**2,507**	2,146	1,997	1,821	2,212
Non-controlling interests	**18**	18	17	16	15
Total equity attributable to shareholders of the Company	**10,754**	9,177	7,775	6,763	7,562
Per share basis (HK$)					
Basic earnings/(loss) per share	**6.01**	4.66	2.50	(0.58)	5.38
Dividend per share	**0.88**	0.81	0.70	0.34	1.76

PROPERTIES HELD FOR INVESTMENT

Particulars of properties held for investment by the Group are as follows:

	Location	Approximate floor area (sq.ft.)	Held by the Group	Category of the lease	Use
1.	Portions of Ground and 6th Floors and the whole of 5th and 8th to 29th Floors together with carparking floors on 3rd and 4th Floors, Wing On Centre, 209-211 Des Voeux Road Central, and 110-114 Connaught Road Central, Sheung Wan, Hong Kong. Inland Lot No. 7916	359,474*	100%	Long lease	Commercial
2.	Shop Nos. 14-17, 19-23 and 47-51 on Ground Floor, Wing On Plaza, 62 Mody Road, Tsimshatsui East, Kowloon. 8666/26500th shares of and in Kowloon Inland Lot No. 10586	7,176	100%	Long lease	Commercial
3.	Portion of Ground Floor and the whole of 8th to 18th Floors together with carparking floors on Basements 2 and 3, Wing On Kowloon Centre, 345 Nathan Road, Yaumatei, Kowloon. Kowloon Inland Lot Nos. 6501 and 9564, Section A and the Remaining Portion of Kowloon Inland Lot No. 6703	157,751*	64.37%	Medium lease	Commercial
4.	The Halbouty Center, 5100 Westheimer, Houston, Harris County, Texas, USA	103,656*	88.22%	Long lease	Commercial
5.	333 Collins Street, Melbourne, Victoria, Australia	610,374*	100%	Freehold	Commercial
6.	349 Collins Street, Melbourne, Victoria, Australia	21,698	100%	Freehold	Commercial

* excluding carparking area for properties with carparking floors

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF WING ON COMPANY INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Wing On Company International Limited ("the Company") and its subsidiaries (together "the Group") set out on pages 32 to 115, which comprise the consolidated and Company statements of financial position as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF WING ON COMPANY INTERNATIONAL LIMITED

(Continued)

(Incorporated in Bermuda with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

29 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Turnover	3(a)	1,763,783	1,572,597
Other revenue	4	46,454	37,288
Other net (loss)/gain	4	(32,367)	71,629
Cost of department store sales	5(d)	(775,249)	(690,652)
Cost of property leasing activities	5(c)	(63,583)	(62,503)
Other operating expenses		(386,095)	(362,808)
Profit from operations		552,943	565,551
Finance costs	5(a)	(34,445)	(38,903)
		518,498	526,648
Net valuation gain on investment properties	13(c)	1,556,166	1,107,570
		2,074,664	1,634,218
Share of profits less losses of associates		73,001	15,924
Profit before taxation	5	2,147,665	1,650,142
Income tax	6	(373,045)	(273,364)
Profit for the year		1,774,620	1,376,778
Attributable to:			
Shareholders of the Company		1,774,265	1,375,656
Non-controlling interests		355	1,122
Profit for the year		1,774,620	1,376,778
Basic and diluted earnings per share	11(a)	600.8 cents	465.9 cents

The notes on pages 40 to 115 form part of these financial statements. Details of dividends payable to shareholders of the Company are set out in note 27(c).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	2011		2010	
	$'000	$'000	$'000	$'000
Profit for the year		1,774,620		1,376,778
Other comprehensive income for the year (after tax and reclassification adjustments):				
Foreign currency translation adjustments:				
– exchange differences on translation of financial statements of overseas subsidiaries	(3,784)		232,937	
– share of exchange differences on translation of financial statements of overseas associates	124		3,159	
– release of the exchange reserve upon return on investments in overseas subsidiaries	(12,733)		(11,457)	
		(16,393)		224,639
Land and building revaluation:				
– surplus on revaluation of land and building held for own use reclassified to investment properties	78,843		–	
– share of land and building revaluation reserve of an associate	382		–	
		79,225		–
Share of cash flow hedge of an associate:				
– net movement in the hedging reserve		12,889		5,420
Available-for-sale securities:				
– net movement in the investment revaluation reserve		(1,117)		2,709
		74,604		232,768
Total comprehensive income for the year		1,849,224		1,609,546
Attributable to:				
Shareholders of the Company		1,848,905		1,608,365
Non-controlling interests		319		1,181
Total comprehensive income for the year		1,849,224		1,609,546

The notes on pages 40 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Fixed assets	13(a)		
– Investment properties		9,651,226	7,976,716
– Other property, plant and equipment		555,513	591,706
		10,206,739	8,568,422
Goodwill	14	1,178	1,178
Interest in associates	16	795,809	711,276
Available-for-sale securities	17	22,468	27,485
Deferred tax assets	26(c)	10,512	25,922
		11,036,706	9,334,283
Current assets			
Trading securities	18	332,478	291,651
Held-to-maturity investments	19	48,435	–
Inventories	20(a)	102,865	90,437
Debtors, deposits and prepayments	21	52,412	50,110
Loans to an associate	16(b)	19,387	3,264
Amounts due from fellow subsidiaries	22	2,563	1,801
Amount due from an associate	22	204	–
Current tax recoverable	26(a)	137	95
Cash and cash equivalents	23	1,683,832	1,569,618
		2,242,313	2,006,976
Current liabilities			
Creditors and accrued charges	24	467,411	359,331
Amounts due to fellow subsidiaries	22	2,767	3,645
Secured bank loan	25	49,869	594,187
Amount due to an associate	22	–	12,935
Current tax payable	26(a)	31,977	19,986
		552,024	990,084
Net current assets		1,690,289	1,016,892
Total assets less current liabilities carried forward		12,726,995	10,351,175

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)
At 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Total assets less current liabilities brought forward		12,726,995	10,351,175
Non-current liabilities			
Secured bank loan	25	503,750	–
Deferred tax liabilities	26(c)	1,451,004	1,156,487
		1,954,754	1,156,487
NET ASSETS		10,772,241	9,194,688
Capital and reserves			
Share capital	27(d)	29,530	29,530
Reserves		10,724,681	9,147,447
Total equity attributable to shareholders of the Company		10,754,211	9,176,977
Non-controlling interests		18,030	17,711
TOTAL EQUITY		10,772,241	9,194,688

Approved and authorised for issue by the board of directors on 29 March 2012.

Karl C. Kwok
Director

Lester Kwok
Director

The notes on pages 40 to 115 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2011

(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Non-current assets			
Investments in subsidiaries	15	2,801,990	2,801,990
Current assets			
Debtors, deposits and prepayments	21	359	246
Amounts due from subsidiaries	22	623,099	740,467
Cash and cash equivalents	23	97,447	121,975
		720,905	862,688
Current liabilities			
Creditors and accrued charges	24	13,422	12,392
Amounts due to subsidiaries	22	37,188	4,219
		50,610	16,611
Net current assets		670,295	846,077
NET ASSETS		3,472,285	3,648,067
Capital and reserves	27(b)		
Share capital		29,530	29,530
Reserves		3,442,755	3,618,537
TOTAL EQUITY		3,472,285	3,648,067

Approved and authorised for issue by the board of directors on 29 March 2012.

Karl C. Kwok
Director

Lester Kwok
Director

The notes on pages 40 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company										
	Note	Share capital $'000 (note 27(d))	Land and building revaluation reserve $'000 (note 27(e)(i))	Investment revaluation reserve $'000 (note 27(e)(ii))	Exchange reserve $'000 (note 27(e)(iii))	Hedging reserve $'000 (note 27(e)(iv))	Contributed surplus $'000 (note 27(e)(v))	General reserve fund $'000 (note 27(e)(vi))	Retained earnings $'000 (note 27(a))	Total $'000	Non-controlling interests $'000	Total equity $'000
Balance at 1 January 2011		29,530	176,750	11,807	579,292	(40,241)	754,347	1,068	7,664,424	9,176,977	17,711	9,194,688
Changes in equity for 2011												
Profit for the year		–	–	–	–	–	–	–	1,774,265	1,774,265	355	1,774,620
Other comprehensive income	10(a)	–	79,225	(1,117)	(16,357)	12,889	–	–	–	74,640	(36)	74,604
Total comprehensive income for the year		–	79,225	(1,117)	(16,357)	12,889	–	–	1,774,265	1,848,905	319	1,849,224
Share of the general reserve fund of an associate: transfer to the general reserve fund		–	–	–	–	–	–	660	(660)	–	–	–
Dividends approved in respect of the previous year	27(c)(ii)	–	–	–	–	–	–	–	(174,224)	(174,224)	–	(174,224)
Dividends declared and paid in respect of the current year	27(c)(i)	–	–	–	–	–	–	–	(97,447)	(97,447)	–	(97,447)
		–	–	–	–	–	–	660	(272,331)	(271,671)	–	(271,671)
Balance at 31 December 2011		29,530	255,975	10,690	562,935	(27,352)	754,347	1,728	9,166,358	10,754,211	18,030	10,772,241
Balance at 1 January 2010		29,530	176,750	9,098	354,712	(45,661)	754,347	541	6,496,002	7,775,319	16,530	7,791,849
Changes in equity for 2010												
Profit for the year		–	–	–	–	–	–	–	1,375,656	1,375,656	1,122	1,376,778
Other comprehensive income	10(a)	–	–	2,709	224,580	5,420	–	–	–	232,709	59	232,768
Total comprehensive income for the year		–	–	2,709	224,580	5,420	–	–	1,375,656	1,608,365	1,181	1,609,546
Share of the general reserve fund of an associate: transfer to the general reserve fund		–	–	–	–	–	–	527	(527)	–	–	–
Dividends approved in respect of the previous year	27(c)(ii)	–	–	–	–	–	–	–	(141,742)	(141,742)	–	(141,742)
Dividends declared and paid in respect of the current year	27(c)(i)	–	–	–	–	–	–	–	(64,965)	(64,965)	–	(64,965)
		–	–	–	–	–	–	527	(207,234)	(206,707)	–	(206,707)
Balance at 31 December 2010		29,530	176,750	11,807	579,292	(40,241)	754,347	1,068	7,664,424	9,176,977	17,711	9,194,688

The notes on pages 40 to 115 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Operating activities			
Profit before taxation		2,147,665	1,650,142
Adjustments for:			
Net valuation gain on investment properties		(1,556,166)	(1,107,570)
Depreciation and amortisation		55,150	53,970
Impairment of trade and other debtors written back		(99)	(139)
Impairment of available-for-sale securities written back		–	(4,799)
Impairment of fixed assets		1	–
Finance costs		34,445	38,903
Dividend income from investments in securities		(13,902)	(9,933)
Interest income from bank deposits		(27,247)	(23,905)
Interest income from loans to an associate		(163)	(244)
Interest income from trading securities		(1,250)	(260)
Release of the exchange reserve upon return on investments in overseas subsidiaries		(12,733)	(11,457)
Share of profits less losses of associates		(73,001)	(15,924)
Net loss on disposal of other fixed assets		29	20
Net gain on disposal of available-for-sale securities		(3,950)	–
Gain on dissolution of a subsidiary		(2,274)	–
Foreign exchange gain		(6,029)	(8,519)
Operating profit before changes in working capital		540,476	560,285
Increase in trading securities		(40,827)	(116,711)
Increase in inventories		(12,428)	(9,084)
Increase in debtors, deposits and prepayments		(1,116)	(3,795)
Increase in amounts due from fellow subsidiaries		(762)	(8)
Increase in amount due from an associate		(41)	–
Increase in creditors and accrued charges		108,151	28,377
(Decrease)/increase in amounts due to fellow subsidiaries		(878)	2,058
(Decrease)/increase in amount due to an associate		(12,935)	46
Cash generated from operations		579,640	461,168
Tax paid			
– Hong Kong Profits Tax paid		(40,225)	(40,791)
– Overseas tax paid		(25,337)	(19,757)
Net cash generated from operating activities		514,078	400,620

CONSOLIDATED STATEMENT OF CASH FLOWS

(Continued)
For the year ended 31 December 2011
(Expressed in Hong Kong dollars)

	Note	2011 $'000	2010 $'000
Investing activities			
Payment of lease incentives		(23,210)	(13,641)
Payment for purchases of fixed assets		(23,461)	(21,020)
Payment for purchases of held-to-maturity investments		(48,435)	–
Proceeds from disposal of available-for-sale securities		7,850	–
Proceeds from disposal of other fixed assets		40	9
Proceeds from liquidation of an investment fund		–	29,532
Capital injection to an associate		(7,850)	–
New loans to an associate		(19,387)	(2,060)
Loans repaid by an associate		12,977	–
Interest income received from bank deposits		27,787	23,972
Dividends received from investments in securities		13,522	9,878
Net cash (used in)/generated from investing activities		(60,167)	26,670
Financing activities			
Repayment of bank loan		(38,867)	(189,192)
Payment for transactions costs on bank loan renewal		(2,491)	–
Interest paid		(26,630)	(37,424)
Dividends paid to shareholders of the Company		(271,671)	(206,707)
Net cash used in financing activities		(339,659)	(433,323)
Net increase/(decrease) in cash and cash equivalents		114,252	(6,033)
Cash and cash equivalents at 1 January		1,569,618	1,510,819
Effect of foreign exchange rate changes		(38)	64,832
Cash and cash equivalents at 31 December	23	1,683,832	1,569,618

The notes on pages 40 to 115 form part of these financial statements.

1. Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis except as otherwise stated in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1. Significant accounting policies (Continued)

(c) Changes in accounting policies

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

- HKAS 24 (revised), *Related party disclosures*

- Improvements to HKFRSs 2010

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

The impact of these developments are discussed below:

- HKAS 24 (revised) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous period. HKAS 24 (revised) also introduces modified disclosure requirements for government-related entities. This does not impact the Group because the Group is not a government-related entity.

- Improvements to HKFRSs 2010 omnibus standard introduces a number of amendments to the disclosure requirements in HKFRS 7, *Financial instruments: disclosures*. These amendments do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial statements in the current and previous periods.

1. Significant accounting policies (Continued)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the consolidated income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 1(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 1(l)).

1. Significant accounting policies (Continued)

(e) Associates

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

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the associate's net assets and any impairment loss relating to the investment (see note 1(l)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associate and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associate's other comprehensive income is recognised in the consolidated other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that associate, with a resulting gain or loss being recognised in the consolidated income statement. Any interest retained in that former associate at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(g)).

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in the consolidated income statement as a gain on a bargain purchase.

1. **Significant accounting policies** (Continued)

(f) **Goodwill** (Continued)

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1(l)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(g) **Other investments in debt and equity securities**

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

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

– Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in the consolidated income statement as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated income statement. The net gain or loss recognised in the consolidated income statement does not include any dividends or interest earned on these investments as these are recognised in accordance with the accounting policies set out in notes 1(u)(iii) and 1(u)(v) respectively.

– Dated debt investments that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity investments. Held-to-maturity investments are stated at amortised cost less impairment losses (see note 1(l)). Interest earned on these investments is recognised in accordance with the accounting policy set out in note 1(u)(v).

1. **Significant accounting policies** (Continued)

(g) **Other investments in debt and equity securities** (Continued)

– Investments in securities which do not fall into the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in the consolidated other comprehensive income and accumulated separately in equity in the investment revaluation reserve. Dividend income from these investments is recognised in the consolidated income statement in accordance with the accounting policy set out in note 1(u)(iii). When these investments are derecognised or impaired (see note 1(l)), the cumulative gain or loss is reclassified from equity to the consolidated income statement.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(l)).

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(h) **Derivative financial instruments**

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated income statement, except where the derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised liability which qualifies for cash flow hedge accounting, in which case any gains or losses on remeasurement of the effective portion of the derivative financial instruments to fair value are recognised in the consolidated other comprehensive income and accumulated separately in equity in the hedging reserve. Any gain or loss on remeasurement of the ineffective portion is recognised immediately in the consolidated income statement.

The associated gain or loss is reclassified from equity to the consolidated income statement in the same period or periods during which the liability assumed affects the consolidated income statement (such as when interest expense is recognised).

When a hedging instrument expires or is sold, terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity until the transaction occurs and it is recognised in accordance with the above policy. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss is reclassified from equity to the consolidated income statement immediately.

1. Significant accounting policies (Continued)

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold or freehold interest to earn rental income and/or for capital appreciation in the long term.

Investment properties are stated at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated income statement. Rental income from investment properties is accounted for as described in the accounting policy set out in note 1(u)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation in the long term, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases.

(j) Other property, plant and equipment

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(l)):

– land classified as being held under finance leases and buildings thereon; and

– other items of plant and equipment.

The Group has taken advantage of the provisions set out in paragraph 80A of HKAS 16, *Property, plant and equipment* issued by the HKICPA, with the effect that the land and building which was revalued by the directors in 1981 has not been revalued to fair value at the end of each reporting period.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal. Upon disposal of the land and building which was revalued in 1981, the attributable revaluation surplus will be transferred from the land and building revaluation reserve to retained earnings and not to the consolidated income statement.

When the use of a property changes from owner-occupied to investment property, the property is re-measured to fair value and reclassified as an investment property. Any gain arising on remeasurement is recognised in the consolidated income statement to the extent that it reverses a previous impairment loss on the specific property, with any remaining gain recognised in consolidated other comprehensive income and presented in the land and building revaluation reserve in equity. Any loss is recognised immediately in the consolidated income statement.

1. Significant accounting policies (Continued)

(j) Other property, plant and equipment (Continued)

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment using the straight-line method over their estimated useful lives as follows:

–	Leasehold land and buildings	22–999 years
–	Furniture and fixtures	10% – 20% per annum
–	Computer hardware and software	20% per annum
–	Motor vehicles	25% per annum

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. The useful life of an asset is reviewed annually.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

1. Significant accounting policies (Continued)

(k) Leased assets (Continued)

(ii) Operating lease charges

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

(l) Impairment of assets

(i) Impairment of investments in debt and equity securities and trade and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity security below its cost.

1. Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

(i) Impairment of investments in debt and equity securities and trade and other receivables (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in subsidiaries and interest in associates recognised using the equity method (see note 1(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with the accounting policy set out in note 1(l)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with the accounting policy set out in note 1(l)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for unquoted equity securities carried at cost are not reversed.

– For trade and other current receivables and other financial assets carried at cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

An impairment loss for trade and other receivables carried at amortised cost is measured as the difference between the financial asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset), where the effect of discounting is material.

This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that would have been determined had no impairment loss been recognised in prior years.

1. **Significant accounting policies** (Continued)

(l) **Impairment of assets** (Continued)

(i) Impairment of investments in debt and equity securities and trade and other receivables (Continued)

– For available-for-sale securities, the cumulative loss that has been recognised in the investment revaluation reserve is reclassified to the consolidated income statement. The amount of the cumulative loss that is recognised in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

Impairment losses recognised in the consolidated income statement in respect of available-for-sale equity securities are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognised in the consolidated other comprehensive income.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

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

– goodwill.

1. **Significant accounting policies** (Continued)

(l) **Impairment of assets** (Continued)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

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

– Recognition of impairment losses

An impairment loss is recognised in the consolidated income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount except for the land and building which was revalued in 1981. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

When an impairment loss arises on the land and building which was revalued in 1981, it will first be charged against the attributable balance relating to that property included in the land and building revaluation reserve and any excess will be charged to the consolidated income statement.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

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

1. Significant accounting policies (Continued)

(l) Impairment of assets (Continued)

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition and reversal criteria as it would at the end of the financial year (see notes 1(l)(i) and 1(l)(ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in the consolidated other comprehensive income and not in the consolidated income statement.

(m) Inventories

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

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

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

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see note 1(l)), except where the receivables are interest-free balances with related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

1. Significant accounting policies (Continued)

(o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(p) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and cash equivalents

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

(r) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

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

(ii) Termination benefits

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

1. Significant accounting policies (Continued)

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in the consolidated other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in the consolidated other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

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

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences relating to investments in subsidiaries and associates to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

1. Significant accounting policies (Continued)

(s) Income tax (Continued)

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

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

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

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(t) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group or the Company issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's accounting policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the consolidated income statement on initial recognition of any deferred income.

1. Significant accounting policies (Continued)

(t) Financial guarantees issued, provisions and contingent liabilities (Continued)

(i) Financial guarantees issued (Continued)

The amount of the guarantee initially recognised as deferred income is amortised in the consolidated income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with the accounting policy set out in note 1(t)(ii) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group or the Company under the guarantee, and (ii) the amount of that claim on the Group or the Company is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

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

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

1. Significant accounting policies (Continued)

(u) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, net of returns and trade discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

(i) Sale of goods and net income from concession sales

Revenue arising from the sale of goods and net income from concession sales are recognised when the customer has accepted the goods and the related risks and rewards of ownership.

(ii) Rental income from operating leases

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

(iii) Dividends

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

(iv) Profit on sale of listed securities

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

(v) Interest income

Interest income is recognised as it accrues using the effective interest method.

1. Significant accounting policies (Continued)

(v) Translation of foreign currencies

The functional currency of the Company and its subsidiaries which operate in Hong Kong is Hong Kong dollars while those for subsidiaries which operate in the People's Republic of China (the "PRC") and overseas are in their respective local currencies. The presentation currency of the Group is Hong Kong dollars.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in the consolidated income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Hong Kong dollars at the closing foreign exchange rates ruling at the end of the reporting period. The resulting exchange differences are recognised in the consolidated other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign enterprise, the cumulative amount of the exchange differences relating to the foreign enterprise is reclassified from equity to the consolidated income statement when the profit or loss on disposal is recognised.

(w) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

1. Significant accounting policies (Continued)

(x) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(b) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(c) both entities are joint ventures of the same third party;

(d) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(e) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(f) the entity is controlled or jointly controlled by a person identified in (i); or

(g) a person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1. Significant accounting policies (Continued)

(y) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. Sources of estimation uncertainty

Notes 14 and 28 contain information about the assumptions and their risk factors relating to goodwill impairment and financial instruments. Other key sources of estimation uncertainty are as follows:

(a) Recognition of deferred tax assets

As explained in note 26, the Group recognises deferred tax assets in respect of accumulated tax losses and deductible temporary differences based on management's estimation of future taxable profits against which the accumulated tax losses and deductible temporary differences may be offset in the foreseeable future for each individual subsidiary. The Group has assumed that, based on current economic circumstances, its operations may generate sufficient taxable profits to utilise certain accumulated tax losses and deductible temporary differences in the foreseeable future. It is possible that certain assumptions adopted in the preparation of the profit forecasts for the Group's operations may not be indicative of future taxable profits. Any increase or decrease in the recognition of deferred tax assets would affect the Group's net asset value.

(b) Valuation of investment properties

As described in note 13(c), the investment properties were revalued by independent professional valuers on a market value basis as at 31 December 2011. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. Any increase or decrease in the valuations would affect the Group's results in future years.

2. Sources of estimation uncertainty (Continued)

(c) Depreciation

Property, plant and equipment is depreciated on a straight-line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets. The depreciation expense for future periods is adjusted if there are material changes from previous estimates.

(d) Impairment of available-for-sale securities

Investments in securities classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Judgement is required to determine whether a decline in the fair value of an investment is significant or prolonged. In making this judgement, the Group considers a number of factors including the historical data on market volatility, the price of the specific investment, industry and sector performance, and financial information regarding the issuers of the investment.

3. Turnover and segment reporting

(a) Turnover

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

The Group's turnover comprised 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:

	2011	**2010**
	$'000	$'000
Sale of goods	1,135,516	1,007,988
Net income from concession sales	246,279	220,018
Department stores	1,381,795	1,228,006
Property investment	381,988	344,591
	1,763,783	1,572,597

3. Turnover and segment reporting (Continued)

(a) Turnover (Continued)

Further details regarding the Group's principal activities are disclosed below:

(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.

(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 goodwill, interest in associates, 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.

3. Turnover 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 years ended 31 December 2011 and 2010 is set out below.

	Department stores		Property investment		Total	
	2011	**2010**	**2011**	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	1,381,795	1,228,006	381,988	344,591	1,763,783	1,572,597
Inter-segment revenue	–	–	77,961	78,511	77,961	78,511
Reportable segment revenue	1,381,795	1,228,006	459,949	423,102	1,841,744	1,651,108
Reportable segment profit	223,385	172,727	360,670	324,223	584,055	496,950
Finance costs	–	–	34,445	38,903	34,445	38,903
Depreciation and amortisation for the year	7,675	9,363	47,212	44,334	54,887	53,697
Impairment of trade and other debtors (written back)/recognised	(18)	6	(81)	(145)	(99)	(139)
Reportable segment assets	164,072	148,831	10,200,702	8,558,554	10,364,774	8,707,385
Additions to non-current segment assets during the year	7,366	6,513	38,708	28,832	46,074	35,345
Reportable segment liabilities	380,937	291,276	616,835	645,825	997,772	937,101

3. **Turnover and segment reporting** (Continued)

(b) **Segment reporting** (Continued)

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

	2011 $'000	**2010** $'000
Profit		
Reportable segment profit derived from the Group's external customers	584,055	496,950
Share of profits less losses of associates	73,001	15,924
Other revenue	46,454	37,288
Other net (loss)/gain	(32,367)	71,629
Finance costs	(34,445)	(38,903)
Net valuation gain on investment properties	1,556,166	1,107,570
Unallocated head office and corporate expenses	(45,199)	(40,316)
Consolidated profit before taxation	2,147,665	1,650,142
Assets		
Reportable segment assets	10,364,774	8,707,385
Elimination of inter-segment receivables	(5,044)	(7,261)
	10,359,730	8,700,124
Goodwill	1,178	1,178
Interest in associates	795,809	711,276
Available-for-sale securities	22,468	27,485
Deferred tax assets	10,512	25,922
Trading securities	332,478	291,651
Held-to-maturity investments	48,435	–
Loans to an associate	19,387	3,264
Amount due from an associate	204	–
Current tax recoverable	137	95
Unallocated head office and corporate assets	1,688,681	1,580,264
Consolidated total assets	13,279,019	11,341,259
Liabilities		
Reportable segment liabilities	997,772	937,101
Elimination of inter-segment payables	(5,044)	(7,261)
	992,728	929,840
Amounts due to fellow subsidiaries	2,767	3,645
Amount due to an associate	–	12,935
Current tax payable	31,977	19,986
Deferred tax liabilities	1,451,004	1,156,487
Unallocated head office and corporate liabilities	28,302	23,678
Consolidated total liabilities	2,506,778	2,146,571

3. Turnover and segment reporting (Continued)

(b) Segment reporting (Continued)

(iii) Geographic information

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, goodwill and interest in associates ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of fixed assets, the location of the operation to which they are allocated in the case of goodwill, and the location of operations in the case of interest in associates.

	Revenue from external customers		**Specified non-current assets**	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Hong Kong (place of domicile)	1,589,445	1,421,724	7,480,314	6,014,083
Australia	158,600	134,129	2,626,278	2,454,648
United States of America	15,738	16,744	897,134	812,145
	174,338	150,873	3,523,412	3,266,793
	1,763,783	1,572,597	11,003,726	9,280,876

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

	2011 $'000	2010 $'000
Other revenue		
Interest income from		
– bank deposits	27,247	23,905
– loans to an associate	163	244
– trading securities	1,250	260
Dividend income from		
– listed securities	10,984	6,674
– unlisted securities	2,918	3,259
Forfeiture of unclaimed dividends	1,101	1,075
Compensation received on early termination of leases	–	104
Others	2,791	1,767
	46,454	37,288
Other net (loss)/gain		
Net (loss)/gain on remeasurement to fair value of trading securities	(47,783)	24,132
Net realised (loss)/gain on disposal of		
– trading securities	(13,472)	9,269
– derivative financial instruments	(148)	11,081
Release of the exchange reserve upon return on investments in overseas subsidiaries	12,733	11,457
Impairment loss on available-for-sale securities written back	–	4,799
Net foreign exchange gain	10,108	10,911
Net gain on disposal of available-for-sale securities (note 10(b))	3,950	–
Gain on dissolution of a subsidiary	2,274	–
Net loss on disposal of other fixed assets	(29)	(20)
	(32,367)	71,629

5. Profit before taxation

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

	2011 $'000	2010 $'000
(a) Finance costs		
Interest on bank loan repayable within five years	34,445	38,903
(b) Staff costs (excluding directors' remuneration)		
Contributions to defined contribution retirement plans	11,071	10,577
Salaries, wages and other benefits	189,157	182,855
	200,228	193,432
(c) Rentals received and receivable from investment properties		
Gross rentals	(381,988)	(344,591)
Less: direct outgoings	63,583	62,503
	(318,405)	(282,088)
(d) Other items		
Depreciation and amortisation		
– owned assets	38,619	41,413
– lease incentives	16,531	12,557
Impairment losses (written back)/recognised		
– available-for-sale securities	–	(4,799)
– trade and other debtors (note 21(b))	(99)	(139)
– fixed assets (note 13(a))	1	–
Auditors' remuneration		
– current year	2,829	2,714
– prior year	(14)	43
Operating lease charges		
– minimum lease payments for hire of land and buildings	37,415	36,242
– contingent rentals for hire of land and buildings	372	372
Cost of inventories sold (note 20(b))	775,249	690,652

6. Income tax in the consolidated income statement

(a) Income tax in the consolidated income statement represents:

	2011 $'000	2010 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	49,527	32,138
Over-provision in respect of prior year	(333)	(52)
	49,194	32,086
Current tax – Overseas		
Provision for the year	28,386	17,824
Under/(over)-provision in respect of prior year	9	(1,272)
	28,395	16,552
Deferred tax (note 26(b))		
Origination and reversal of temporary differences		
– changes in fair value of investment properties	278,252	188,883
– other temporary differences	17,204	35,843
	295,456	224,726
Total income tax expense	373,045	273,364

The provision for Hong Kong Profits Tax for 2011 is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year. Taxation for overseas subsidiaries is charged similarly at the appropriate current rates of taxation ruling in the relevant countries.

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

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

	2011	**2010**
	$'000	$'000
Profit before taxation	2,147,665	1,650,142
Notional Hong Kong Profits Tax calculated at 16.5% (2010: 16.5%)	354,365	272,273
Tax effect of non-deductible expenses	7,572	3,791
Tax effect of non-taxable revenue	(9,335)	(7,325)
Tax effect of unused tax losses not recognised	6,575	672
Tax effect of temporary differences not recognised	(3)	(4)
Tax effect of previously unrecognised tax losses utilised this year	–	(1,943)
Tax effect of previously unrecognised temporary differences utilised this year	–	(1)
Effect of different tax rates of subsidiaries and associates operating in other jurisdictions	14,215	7,235
Effect of overseas withholding tax	(20)	(10)
Over-provision in respect of prior year	(324)	(1,324)
Actual tax expense	373,045	273,364

7. Directors' remuneration

The remuneration of the directors is as follows:

	2011				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Mr. Karl C. Kwok	150	4,424	2,477	12	7,063
Mr. Lester Kwok	150	3,997	2,284	12	6,443
Mr. Mark Kwok	150	2,553	1,462	219	4,384
	450	10,974	6,223	243	17,890
Non-executive director					
Dr. Bill Kwok	150	–	–	–	150
Independent non-executive directors					
Miss Maria Tam Wai Chu	150	99	–	–	249
Mr. Ignatius Wan Chiu Wong	150	88	–	–	238
Mr. Iain Ferguson Bruce	150	132	–	–	282
Mr. Anthony Francis Martin Conway	150	121	–	–	271
Mr. Leung Wing Ning (note (b))	150	99	–	–	249
	750	539	–	–	1,289
	1,350	11,513	6,223	243	19,329

7. Directors' remuneration (Continued)

The remuneration of the directors is as follows: (Continued)

	2010				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total $'000
Executive directors					
Mr. Karl C. Kwok	140	4,023	1,408	12	5,583
Mr. Lester Kwok	140	3,634	1,298	12	5,084
Mr. Mark Kwok	140	2,321	831	199	3,491
	420	9,978	3,537	223	14,158
Non-executive directors					
Dr. Bill Kwok	140	–	–	–	140
Dr. Philip Kwok (note (a))	70	254	–	–	324
	210	254	–	–	464
Independent non-executive directors					
Miss Maria Tam Wai Chu	140	90	–	–	230
Mr. Ignatius Wan Chiu Wong	140	80	–	–	220
Mr. Iain Ferguson Bruce	140	120	–	–	260
Mr. Anthony Francis Martin Conway	140	110	–	–	250
Mr. Leung Wing Ning (note (b))	140	45	–	–	185
	700	445	–	–	1,145
	1,330	10,677	3,537	223	15,767

Notes:

(a) Dr. Philip Kwok retired from the board of directors on 9 June 2010.

(b) Mr. Leung Wing Ning was appointed to the board of directors on 1 January 2010.

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2010: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2010: two) individuals are as follows:

	2011	2010
	$'000	$'000
Salaries, allowances and benefits in kind	6,135	6,174
Contributions to defined contribution retirement plans	513	430
Discretionary bonuses	3,426	1,293
	10,074	7,897

The emoluments of the two (2010: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2011	2010
$		
2,500,001–3,000,000	–	1
3,000,001–3,500,000	1	–
5,000,001–5,500,000	–	1
6,500,001–7,000,000	1	–
	2	2

9. Profit attributable to shareholders of the Company

The consolidated profit attributable to shareholders of the Company includes a profit of $95,889,000 (2010: $177,181,000) which has been dealt with in the financial statements of the Company.

Details of dividends paid and payable to shareholders of the Company are set out in note 27(c).

10. Consolidated other comprehensive income

(a) Tax effects relating to each component of consolidated other comprehensive income

	2011			2010		
	Before-tax amount $'000	Tax expense $'000	Net-of tax amount $'000	Before-tax amount $'000	Tax expense $'000	Net-of tax amount $'000
Foreign currency translation adjustments:						
– exchange differences on translation of financial statements of overseas subsidiaries	(3,784)	–	(3,784)	232,937	–	232,937
– share of exchange differences on translation of financial statements of overseas associates	124	–	124	3,159	–	3,159
– release of the exchange reserve upon return on investments in overseas subsidiaries	(12,733)	–	(12,733)	(11,457)	–	(11,457)
Land and building revaluation:						
– surplus on revaluation of land and building held for own use reclassified to investment properties	94,423	(15,580)	78,843	–	–	–
– share of land and building revaluation reserve of an associate	632	(250)	382	–	–	–
Share of cash flow hedge of an associate:						
– net movement in the hedging reserve (note (b))	21,321	(8,432)	12,889	9,418	(3,998)	5,420
Available-for-sale securities:						
– net movement in the investment revaluation reserve (note (b))	(1,117)	–	(1,117)	2,709	–	2,709
Consolidated other comprehensive income for the year	98,866	(24,262)	74,604	236,766	(3,998)	232,768

10. Consolidated other comprehensive income (Continued)

(b) Components of consolidated other comprehensive income, including reclassification adjustments

	2011 $'000	2010 $'000
Cash flow hedge:		
– effective portion of changes in fair value of hedging instruments recognised during the year	–	(23,540)
– reclassification adjustments for amounts transferred to the consolidated income statement: share of profits less losses of associates	21,321	32,958
– net deferred tax charged to the consolidated other comprehensive income	(8,432)	(3,998)
Net movement in the hedging reserve during the year recognised in the consolidated other comprehensive income	12,889	5,420
Available-for-sale securities:		
– changes in fair value recognised during the year	2,833	2,709
– reclassification adjustments for amounts transferred to the consolidated income statement: other net gain (note 4)	(3,950)	–
Net movement in the investment revaluation reserve during the year recognised in the consolidated other comprehensive income	(1,117)	2,709

11. 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 year ended 31 December 2011 of $1,774,265,000 (2010: $1,375,656,000) divided by 295,295,000 shares (2010: 295,295,000 shares) in issue during the year.

There were no outstanding potential shares throughout the years 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 year 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”.

11. 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 income statement for the year is reconciled as follows:

	2011		**2010**	
		Amount per share		**Amount per share**
	$'000	cents	$'000	cents
Profit attributable to shareholders of the Company as shown in the consolidated income statement	1,774,265	600.8	1,375,656	465.9
Net valuation gain on investment properties	(1,556,166)	(526.9)	(1,107,570)	(375.1)
Increase in deferred tax liabilities in relation to the net valuation gain on investment properties	278,252	94.2	188,883	64.0
	496,351	168.1	456,969	154.8
Valuation (loss)/gain on investment property net of related deferred tax attributable to non-controlling interests	(66)	–	607	0.2
Underlying profit attributable to shareholders of the Company	496,285	168.1	457,576	155.0

12. Defined contribution retirement plans

The Group operates a Mandatory Provident Fund Scheme (the "MPF scheme") and a number of MPF exempted defined contribution retirement plans ("MPF exempted schemes") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Both the MPF scheme and the MPF exempted schemes are defined contribution retirement plans administered by independent trustees. The Group is required to make contributions to the MPF exempted schemes based on a percentage of the employees' basic monthly salaries which is dependent on their length of service within the Group. The Group's contributions to the MPF scheme vest immediately while the Group's contributions to the MPF exempted schemes vest according to the length of service within the Group. Forfeited contributions in the MPF exempted schemes are allocated to existing employees. The Group's total contribution for the year was $11,314,000 (2010: $10,800,000).

13. Fixed assets

(a) Group

	Land and buildings $'000	Other fixed assets $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:					
At 1 January 2011	829,386	423,027	1,252,413	7,918,035	9,170,448
Exchange adjustments	236	–	236	(3,892)	(3,656)
Additions	–	7,972	7,972	15,306	23,278
Disposals	–	(10,062)	(10,062)	–	(10,062)
Fair value adjustment	–	–	–	1,556,166	1,556,166
Offset of accumulated depreciation on properties transferred to investment properties	(3,018)	–	(3,018)	–	(3,018)
Revaluation surplus of properties reclassified to investment properties	94,423	–	94,423	–	94,423
Reclassification to investment properties	(99,899)	–	(99,899)	99,899	–
At 31 December 2011	821,128	420,937	1,242,065	9,585,514	10,827,579
Accumulated depreciation and impairment losses:					
At 1 January 2011	283,953	376,754	660,707	–	660,707
Exchange adjustments	236	–	236	–	236
Depreciation charge for the year	25,186	13,433	38,619	–	38,619
Impairment loss	–	1	1	–	1
Written back on disposals	–	(9,993)	(9,993)	–	(9,993)
Offset of accumulated depreciation on properties transferred to investment properties	(3,018)	–	(3,018)	–	(3,018)
At 31 December 2011	306,357	380,195	686,552	–	686,552
Lease incentives:					
At 1 January 2011	–	–	–	58,681	58,681
Exchange adjustments	–	–	–	352	352
Additions	–	–	–	23,210	23,210
Amortisation for the year	–	–	–	(16,531)	(16,531)
At 31 December 2011	–	–	–	65,712	65,712
Net book value:					
At 31 December 2011	514,771	40,742	555,513	9,651,226	10,206,739

13. Fixed assets (Continued)

(a) Group (Continued)

	Land and buildings $'000	Other fixed assets $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:					
At 1 January 2010	829,162	417,518	1,246,680	6,496,618	7,743,298
Exchange adjustments	224	86	310	298,762	299,072
Additions	–	6,621	6,621	15,085	21,706
Disposals	–	(1,198)	(1,198)	–	(1,198)
Fair value adjustment	–	–	–	1,107,570	1,107,570
At 31 December 2010	829,386	423,027	1,252,413	7,918,035	9,170,448
Accumulated depreciation and impairment losses:					
At 1 January 2010	258,440	361,747	620,187	–	620,187
Exchange adjustments	224	52	276	–	276
Depreciation charge for the year	25,289	16,124	41,413	–	41,413
Written back on disposals	–	(1,169)	(1,169)	–	(1,169)
At 31 December 2010	283,953	376,754	660,707	–	660,707
Lease incentives:					
At 1 January 2010	–	–	–	51,531	51,531
Exchange adjustments	–	–	–	6,066	6,066
Additions	–	–	–	13,641	13,641
Amortisation for the year	–	–	–	(12,557)	(12,557)
At 31 December 2010	–	–	–	58,681	58,681
Net book value:					
At 31 December 2010	545,433	46,273	591,706	7,976,716	8,568,422

13. Fixed assets (Continued)

(a) Group (Continued)

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

	At cost	At professional valuation in 2011	At directors' valuation in 1981	Total
	$'000	$'000	$'000 (note (b))	$'000
At 31 December 2011				
Land and buildings				
Leasehold land and buildings				
– held under long lease in Hong Kong	230,156	–	141,769	371,925
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	5,803	–	–	5,803
Investment properties				
Long lease				
– in Hong Kong	–	6,082,400	–	6,082,400
– outside Hong Kong	–	100,147	–	100,147
Medium term lease in Hong Kong	–	842,603	–	842,603
Freehold outside Hong Kong	–	2,560,364	–	2,560,364
Other fixed assets	420,937	–	–	420,937
	1,100,296	9,585,514	141,769	10,827,579

13. Fixed assets (Continued)

(a) Group (Continued)

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

	At cost	At professional valuation in 2010	At directors' valuation in 1981	Total
	$'000	$'000	$'000 (note (b))	$'000
At 31 December 2010				
Land and buildings				
Leasehold land and buildings				
– held under long lease in Hong Kong	230,156	–	150,263	380,419
– held under medium term lease in Hong Kong	443,400	–	–	443,400
– held under medium term lease outside Hong Kong	5,567	–	–	5,567
Investment properties				
Long lease				
– in Hong Kong	–	4,751,900	–	4,751,900
– outside Hong Kong	–	99,692	–	99,692
Medium term lease in Hong Kong	–	670,736	–	670,736
Freehold outside Hong Kong	–	2,395,707	–	2,395,707
Other fixed assets	423,027	–	–	423,027
	1,102,150	7,918,035	150,263	9,170,448

(b) In preparing these financial statements, advantage has been taken of the provisions set out in paragraph 80A of HKAS 16, *Property, plant and equipment*, issued by the HKICPA, with the effect that the land and buildings which were revalued by the directors in 1981 have not been revalued to fair value at the end of the reporting period. The carrying amount of the relevant land and buildings of the Group as at 31 December 2011 is $89,676,000 (2010: $96,882,000).

The carrying amount of the land and buildings of the Group which were revalued in 1981 that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation as at 31 December 2011 is $31,297,000 (2010: $34,024,000).

13. Fixed assets (Continued)

(b) (Continued)

For the year ended 31 December 2011, certain portion of the land and buildings revalued by the directors in 1981 held in Hong Kong has been transferred from other property, plant and equipment to investment properties, since these properties were no longer used by the Group and as such it was decided that these properties would be leased to third parties. Upon the transfer, a revaluation surplus of $78,843,000 has been recognised in equity in the land and building revaluation reserve, net of deferred tax of $15,580,000.

(c) Investment properties of the Group were revalued as at 31 December 2011 on a market value basis by firms of independent surveyors, who have among their staff professionals with recent experience in the locations and the categories of the properties being valued.

The investment properties of the Group situated in Hong Kong were revalued by DTZ Debenham Tie Leung Limited, who have among their staff members of the Hong Kong Institute of Surveyors.

The investment properties of the Group situated outside Hong Kong were revalued either by Jones Lang LaSalle Advisory Services Pty Limited, Certified Practising Valuers, who have among their staff members of Australian Property Institute, or Bolton & Baer, Ltd., General Real Estate Appraisers, who have among their staff members of the Houston Chapter of the Appraisal Institute.

The net valuation gain of $1,556,166,000 (2010: $1,107,570,000) has been recognised in the consolidated income statement.

(d) Fixed assets leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of three months to ten years, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

The carrying amount of investment properties of the Group held for use in operating leases was $9,651,226,000 (2010: $7,976,716,000).

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

	2011	**2010**
	$'000	$'000
Within one year	316,418	247,184
After one year but within five years	707,293	508,206
After five years	127,295	182,445
	1,151,006	937,835

13. Fixed assets (Continued)

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

(f) During the year, lease incentives totalling $23,210,000 (2010: $13,641,000) were given to tenants of an investment property in Australia. The lease incentives are being amortised over the lease terms.

14. Goodwill

	Group
	$'000
Cost and carrying amount:	
At 1 January 2010, 31 December 2010, 1 January 2011 and 31 December 2011	1,178

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating unit identified according to the country of operation and reportable segment as follows:

	2011	**2010**
	$'000	$'000
Property investment – the United States of America	1,178	1,178

The recoverable amount of the cash-generating unit is determined based on fair value less cost to sell. The fair value was assessed by a general real estate appraiser on a market value basis as at 31 December 2011. Management considers that no impairment is necessary.

15. Investments in subsidiaries

	Company	
	2011	**2010**
	$'000	$'000
Unlisted shares, at cost	2,801,990	2,801,990

Details of the principal subsidiaries are set out on pages 113 and 114.

16. Interest in associates

	Group 2011 $'000	Group 2010 $'000
Unlisted shares		
Share of net assets other than goodwill and intangible assets	321,814	225,564
Share of goodwill and intangible assets of an associate	473,995	475,999
	795,809	701,563
Loans to an associate (note (b))	–	9,713
	795,809	711,276

(a) Details of the principal associates are set out on page 115.

(b) Loans to an associate

	Group 2011 $'000	Group 2010 $'000
Within one year or on demand	19,387	3,264
After one year but within two years	–	9,713
	19,387	12,977

As at 31 December 2011, the loans to an associate are unsecured, interest free and have no fixed repayment terms.

As at 31 December 2010, the loans to an associate were unsecured, bear interest at market rates plus 1.25% per annum with no fixed repayment terms and comprised an amount of $9,713,000 repayable on 13 June 2012. The amount of $9,713,000 was fully repaid during the current year.

(c) Summary financial information of associates

	Assets $'000	Liabilities $'000	Equity $'000	Revenues $'000	Profit $'000
2011					
100 per cent	5,850,992	4,225,931	1,625,061	14,612,983	143,977
Group's effective interest	2,907,107	2,111,298	795,809	7,306,492	73,001
2010					
100 per cent	5,616,315	4,213,189	1,403,126	13,708,622	31,848
Group's effective interest	2,808,157	2,106,594	701,563	6,854,311	15,924

16. Interest in associates (Continued)

(d) An associate of the Group in the United States of America operates an Employee Stock Ownership Plan and a Senior Stock Purchase Plan for its senior management and measures the related financial liabilities at fair value at the end of each reporting period. For the year ended 31 December 2011, a fair value adjustment of $10,672,000 (2010: $19,435,000) in respect of these plans has been charged to the consolidated income statement of the Group as part of the Group's share of profits less losses of associates.

17. Available-for-sale securities

	Group	
	2011	**2010**
	$'000	$'000
Equity securities		
Unlisted		
– at fair value	–	6,803
– at cost	11,568	11,568
	11,568	18,371
Club debentures		
Unlisted, at fair value	10,900	9,114
	22,468	27,485

Included in the unlisted equity securities are amounts carried at cost of $11,568,000 (2010: $11,568,000) as at 31 December 2011. Management considers that the fair values of these securities cannot be measured reliably as there are no quoted prices available.

As at 31 December 2010, included in the unlisted equity securities were amounts totalling $6,803,000 which represented investments in 50% of each of the class E ordinary shares and class J participating shares of North Bay Reinsurance Ltd., SPC, a company incorporated in the Cayman Islands, disclosed pursuant to section 129 of Hong Kong Companies Ordinance.

18. Trading securities

	Group 2011 $'000	Group 2010 $'000
Debt securities, at fair value		
– Unlisted but quoted	13,266	–
– Listed outside Hong Kong	21,205	20,974
	34,471	20,974
Equity securities, at fair value		
Listed		
– in Hong Kong	201,773	165,524
– outside Hong Kong	59,531	64,995
	261,304	230,519
Investment funds, at fair value		
Listed outside Hong Kong	278	882
Unlisted but quoted	36,425	39,276
	36,703	40,158
	332,478	291,651

19. Held-to-maturity investments

	Group 2011 $'000	Group 2010 $'000
Certificates of deposit	48,435	–

These certificates of deposit are issued by a financial institution in Hong Kong, denominated in Renminbi, bear interest at a rate of 1.63% per annum and have a term of one year from 20 September 2011 to 20 September 2012.

20. Inventories

(a) Inventories in the consolidated statement of financial position comprise:

	Group 2011 $'000	Group 2010 $'000
Merchandise held for sale	101,056	89,567
Merchandise held for sale in transit	1,809	870
	102,865	90,437

(b) The analysis of the amount of inventories recognised as an expense and included in the consolidated income statement is as follows:

	Group 2011 $'000	Group 2010 $'000
Carrying amount of inventories sold	774,001	689,696
Write-down of inventories	1,248	956
	775,249	690,652

21. Debtors, deposits and prepayments

	Group		Company	
	2011	2010	2011	2010
	$'000	$'000	$'000	$'000
Trade and other debtors	25,351	20,690	94	3
Less: Allowance for doubtful debts (note (b))	(250)	(348)	–	–
	25,101	20,342	94	3
Deposits and prepayments	27,311	29,768	265	243
	52,412	50,110	359	246

All debtors, deposits and prepayments of the Group, apart from certain rental deposits and prepayments totalling $17,255,000 (2010: $12,531,000), are expected to be recovered or recognised as an expense within one year.

21. Debtors, deposits and prepayments (Continued)

(a) Ageing analysis

Included in debtors, deposits and prepayments are trade and other debtors (net of allowance for doubtful debts) with the following ageing analysis as of the end of the reporting period:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Current or less than one month past due	24,487	19,761	94	3
One to three months past due	485	472	–	–
More than three months but less than twelve months past due	104	62	–	–
More than twelve months past due	25	47	–	–
	25,101	20,342	94	3

The above trade and other debtors are neither individually nor collectively considered to be impaired.

Trade and other debtors are normally due within 30 days from the date of billing.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group or the Company. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group and the Company do not hold any collateral over these balances.

21. Debtors, deposits and prepayments (Continued)

(b) Impairment of trade and other debtors

Impairment losses in respect of trade and other debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other debtors directly.

The movement in the allowance for doubtful debts during the year is as follows:

	Group	
	2011	**2010**
	$'000	$'000
At 1 January	348	819
Exchange adjustments	1	100
Impairment loss written back (note 5(d))	(99)	(139)
Bad debts written-off	–	(432)
At 31 December	250	348

22. Amounts due from/(to) subsidiaries, fellow subsidiaries and an associate

The amounts due from/(to) subsidiaries, fellow subsidiaries and an associate are unsecured, interest free and have no fixed repayment terms.

23. Cash and cash equivalents

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Cash at bank and in hand	188,212	87,530	8,746	6,759
Bank deposits	1,495,620	1,482,088	88,701	115,216
	1,683,832	1,569,618	97,447	121,975

24. Creditors and accrued charges

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Trade and other creditors	424,615	322,859	10,963	10,299
Accrued charges	42,796	36,472	2,459	2,093
	467,411	359,331	13,422	12,392

All creditors and accrued charges of the Group, apart from certain rental deposits received and accrued charges totalling $28,200,000 (2010: $11,772,000), are expected to be settled or recognised as income within one year or are repayable on demand.

Included in creditors and accrued charges are trade and other creditors with the following ageing analysis as of the end of the reporting period:

	Group		Company	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Amounts not yet due	301,603	270,734	–	–
On demand or less than one month overdue	120,415	48,392	10,963	10,299
One to three months overdue	517	1,433	–	–
Three to twelve months overdue	134	285	–	–
More than twelve months overdue	1,946	2,015	–	–
	424,615	322,859	10,963	10,299

25. Secured bank loan

At 31 December 2011, the secured bank loan of the Group was repayable as follows:

	Group	
	2011	**2010**
	$'000	$'000
Within one year or on demand	49,869	594,187
After one year but within two years	49,869	–
After two year but within five years	453,881	–
	503,750	–
	553,619	594,187

The bank loan is denominated in Australian Dollars ("AUD") and bears interest at market rates plus 1.3% (2010: 1%) per annum. As at 31 December 2010, the loan principal was repayable on a quarterly basis at AUD1,600,000 until 23 December 2011. During the year, the loan agreement has been renewed, and the Group is required to repay the loan principal on a quarterly basis at AUD1,600,000 until maturity on 22 December 2014.

At 31 December 2011, banking facilities of the Group amounting to $1,013,990,000 (2010: $1,014,080,000) were secured by mortgages over the investment properties with an aggregate value of $2,626,076,000 (2010: $2,454,388,000). The facilities were utilised to the extent of $556,110,000 (2010: $594,187,000).

Under the banking facilities arrangement, a subsidiary undertakes to provide further mortgages over other properties or repay part of the secured loan should 60% of the value of the pledged investment properties fall to less than the outstanding loan balance.

26. Income tax in the statement of financial position

(a) Current tax in the consolidated statement of financial position represents:

	Group 2011 $'000	Group 2010 $'000
Provision for Hong Kong Profits Tax for the year	49,527	32,138
Provisional Profits Tax paid	(32,543)	(22,745)
	16,984	9,393
Balance of Profits Tax provision relating to prior year	1,378	–
	18,362	9,393
Overseas tax payable	13,478	10,498
	31,840	19,891
Represented by:		
Current tax recoverable	(137)	(95)
Current tax payable	31,977	19,986
	31,840	19,891

26. Income tax in the statement of financial position (Continued)

(b) Deferred tax assets and liabilities recognised

The components of deferred tax assets and liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation	Revaluation of investment properties	Revaluation of land and buildings	Others (note)	Future benefit of tax losses	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Deferred tax arising from:						
At 1 January 2011	33,472	1,069,516	27,635	15,323	(15,381)	1,130,565
Charged to the consolidated income statement (note 6(a))	480	278,252	–	1,364	15,360	295,456
(Credited)/charged to the exchange reserve	35	(1,112)	–	(32)	–	(1,109)
Charged to the land and building revaluation reserve	–	–	15,580	–	–	15,580
At 31 December 2011	33,987	1,346,656	43,215	16,655	(21)	1,440,492
At 1 January 2010	22,432	850,741	27,635	13,572	(43,711)	870,669
Charged/(credited) to the consolidated income statement (note 6(a))	7,729	188,883	–	(216)	28,330	224,726
Charged to the exchange reserve	3,311	29,892	–	1,967	–	35,170
At 31 December 2010	33,472	1,069,516	27,635	15,323	(15,381)	1,130,565

Note: Others mainly relate to temporary differences arising from lease incentives.

(c) Reconciliation to the statements of financial position

	2011	2010
	$'000	$'000
Deferred tax assets recognised in the consolidated statement of financial position	(10,512)	(25,922)
Deferred tax liabilities recognised in the consolidated statement of financial position	1,451,004	1,156,487
	1,440,492	1,130,565

26. Income tax in the statement of financial position (Continued)

(d) Deferred tax assets not recognised

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

	Group	
	2011	**2010**
	$'000	$'000
Deductible temporary differences	23	26
Future benefit of accumulated tax losses	25,338	18,763
	25,361	18,789

The Group has not recognised deferred tax assets in respect of the future benefit of accumulated tax losses and deductible temporary differences of certain subsidiaries as management of the Group considers that it is not possible as at 31 December 2011 to estimate, with any degree of certainty, the future taxable profits which may be earned by these subsidiaries and against which the accumulated tax losses may be offset in the foreseeable future. The tax losses do not expire under current tax legislation.

(e) Deferred tax liabilities not recognised

At 31 December 2011, temporary differences relating to the undistributed profits of subsidiaries and associates amounted to $2,060,992,000 (2010: $1,881,375,000). Deferred tax liabilities of $618,298,000 (2010: $564,413,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained earnings as the Company controls the dividend policy of these subsidiaries and associates and it has been determined that it is probable that profits will not be distributed in the foreseeable future.

27. Capital, reserves and dividends

(a) Group

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity on pages 37.

Retained earnings attributable to the shareholders of the Company as at 31 December 2011 include the aggregate net valuation gain relating to investment properties after deferred tax of $5,597,132,000 (2010: $4,319,152,000).

27. Capital, reserves and dividends (Continued)

(b) Company

Details of the changes in the Company's individual components of equity between the beginning and the end of the reporting period are set out below:

	Share capital $'000 (note (d))	Contributed surplus $'000 (note (e)(v))	Retained earnings $'000	Total $'000
Balance at 1 January 2011	29,530	2,997,350	621,187	3,648,067
Total comprehensive income for the year	–	–	95,889	95,889
Dividends approved in respect of the previous year (note (c)(ii))	–	–	(174,224)	(174,224)
Dividends declared and paid in respect of the current year (note (c)(i))	–	–	(97,447)	(97,447)
Balance at 31 December 2011	29,530	2,997,350	445,405	3,472,285
Balance at 1 January 2010	29,530	2,997,350	650,713	3,677,593
Total comprehensive income for the year	–	–	177,181	177,181
Dividends approved in respect of the previous year (note (c)(ii))	–	–	(141,742)	(141,742)
Dividends declared and paid in respect of the current year (note (c)(i))	–	–	(64,965)	(64,965)
Balance at 31 December 2010	29,530	2,997,350	621,187	3,648,067

27. Capital, reserves and dividends (Continued)

(c) Dividends

(i) Dividends payable to shareholders of the Company attributable to the year:

	2011 $'000	**2010** $'000
Interim dividend declared and paid of 33 cents (2010: 22 cents) per share	97,447	64,965
Final dividend proposed after the end of the reporting period of 55 cents (2010: 59 cents) per share	162,412	174,224
	259,859	239,189

The final dividend proposed 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 paid during the year:

	2011 $'000	**2010** $'000
Final dividend in respect of the financial year ended 31 December 2010 of 59 cents (31 December 2009: 48 cents) per share approved and paid during the year	174,224	141,742

(d) Share capital

	2011 **Number of shares** '000	**2011** $'000	**2010** **Number of shares** '000	**2010** $'000
Authorised:				
Shares of $0.1 each	400,000	40,000	400,000	40,000
Issued and fully paid:				
Shares of $0.1 each	295,295	29,530	295,295	29,530

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.

27. Capital, reserves and dividends (Continued)

(e) Nature and purpose of reserves

(i) Land and building revaluation reserve

The revaluation reserve has been set up and is dealt with in accordance with the accounting policy adopted for land and buildings set out in note 1(j).

(ii) Investment revaluation reserve

The investment revaluation reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period less any impairment losses recognised in the consolidated income statement and is dealt with in accordance with the accounting policy set out in note 1(g).

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 1(v).

(iv) Hedging reserve

The hedging reserve comprises the cumulative net change in the fair value of the effective portion of hedging instruments used in cash flow hedges pending subsequent recognition of the hedged cash flow in accordance with the accounting policy adopted for cash flow hedges set out in note 1(h).

(v) Contributed surplus

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

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

(vi) General reserve fund

According to applied rules and regulations in the PRC, the Group's operating associates are required to transfer 10% of the profit after taxation, as determined in accordance with the generally accepted accounting principles in the PRC, to a general reserve fund. The transfer to this reserve must be made before distribution of dividends to shareholders can be made.

27. Capital, reserves and dividends (Continued)

(f) Distributability of reserves of the Company

At 31 December 2011, the aggregate amount of reserves available for distribution to shareholders of the Company was $3,442,755,000 (2010: $3,618,537,000). After the end of the reporting period the directors proposed a final dividend of 55 cents (2010: 59 cents) per share, amounting to $162,412,000 (2010: $174,224,000) (note (c)). This dividend has not been recognised as a liability at the end of the reporting period.

(g) The Group's share of the post-acquisition accumulated reserves of associates

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

	2011	**2010**
	$'000	$'000
Retained earnings	644,078	571,737
Exchange reserve	988	864
Hedging reserve	(27,352)	(40,241)
Land and building revaluation reserve	518	136
General reserve fund	1,728	1,068
	619,960	533,564

(h) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

At 31 December 2011, the Group had secured a bank loan of $553,619,000 (2010: $594,187,000) which is repayable as disclosed in note 25. The gearing ratio, representing the ratio of bank borrowings to the total share capital and reserves attributable to shareholders of the Company was 5.1% (2010: 6.5%) as at 31 December 2011. The Group had bank deposits and cash balances as at 31 December 2011 amounting to $1,683,832,000 (2010: $1,569,618,000).

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

28. Financial risk management and fair values

(a) Categories of financial instruments

	Group 2011 $'000	Group 2010 $'000	Company 2011 $'000	Company 2010 $'000
Financial assets				
Financial assets at fair value through profit or loss				
– Trading securities	332,478	291,651	–	–
Available-for-sale securities	22,468	27,485	–	–
Held-to-maturity investments	48,435	–	–	–
Loans and receivables				
– Loans to an associate	19,387	12,977	–	–
– Debtors and deposits	40,253	31,795	94	3
– Amounts due from fellow subsidiaries	2,563	1,801	–	–
– Amounts due from subsidiaries	–	–	623,099	740,467
– Amount due from an associate	204	–	–	–
– Cash and cash equivalents	1,683,832	1,569,618	97,447	121,975
	1,746,239	1,616,191	720,640	862,445
	2,149,620	1,935,327	720,640	862,445
Financial liabilities				
Creditors and accrued charges	(467,411)	(359,331)	(13,422)	(12,392)
Amounts due to fellow subsidiaries	(2,767)	(3,645)	–	–
Amounts due to subsidiaries	–	–	(37,188)	(4,219)
Amount due to an associate	–	(12,935)	–	–
Secured bank loan	(553,619)	(594,187)	–	–
	(1,023,797)	(970,098)	(50,610)	(16,611)

28. Financial risk management and fair values (Continued)

(b) Financial risk management

Exposure to credit, liquidity, interest rate and foreign currency risks arises in the normal course of the Group's business. The Group is also exposed to price risk arising from its investments in other entities. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below:

(i) Credit risk

The Group's credit risk is primarily attributable to cash at bank, bank deposits, trade and other debtors and investments. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Cash at bank and bank deposits are placed with licensed financial institutions. Bankruptcy or insolvency of its financial institutions may cause the Group's rights with respect to these assets to be delayed or limited. The Group monitors the credit rating of its financial institutions on an on-going basis. If the credit rating of one of its financial institutions was to deteriorate significantly, the Group will move the cash holdings to another financial institution.

For trade and other debtors, credit checks are part of the normal operating process and stringent monitoring procedures are in place to deal with overdue debts. In addition, the Group reviews the recoverable amounts of trade and other debtors at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade and other debtors is set out in note 21.

Investments are normally only in liquid securities and derivative financial instruments quoted on a recognised stock exchange and investment funds (except where entered into for long term strategic purposes) and with counterparties that have a sound credit standing. Given their high credit standing, management does not expect any investment counterparty to fail to meet its obligations.

The Group has no significant concentrations of credit risk with exposure spread over a number of counterparties and customers. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance.

Except for the financial guarantees given by the Company and an associate of the Group as set out in note 30, the Group does not provide any other guarantees which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 30.

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(ii) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the Company's board of directors when the borrowings exceed certain pre-determined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group and the Company can be required to pay:

Group

	2011				
	Contractual undiscounted cash flow				
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	Total	Carrying amount at 31 December
	$'000	$'000	$'000	$'000	$'000
Creditors and accrued charges	439,211	6,152	22,048	467,411	467,411
Amounts due to fellow subsidiaries	2,767	–	–	2,767	2,767
Secured bank loan	83,037	79,317	481,219	643,573	553,619
	525,015	85,469	503,267	1,113,751	1,023,797
Financial guarantees issued: Maximum amount guaranteed (note 30)	15,425	–	–	15,425	–

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(ii) Liquidity risk (Continued)

Group (Continued)

	2010				
	Contractual undiscounted cash flow				
	Within one year or on demand $'000	More than one year but less than two years $'000	More than two years but less than five years $'000	Total $'000	Carrying amount at 31 December $'000
Creditors and accrued charges	347,559	8,599	3,173	359,331	359,331
Amounts due to fellow subsidiaries	3,645	–	–	3,645	3,645
Amount due to an associate	12,935	–	–	12,935	12,935
Secured bank loan	628,693	–	–	628,693	594,187
	992,832	8,599	3,173	1,004,604	970,098
Financial guarantees issued: Maximum amount guaranteed (note 30)	28,068	–	–	28,068	–

Company

	2011			2010		
	Contractual undiscounted cash flow			Contractual undiscounted cash flow		
	Within one year or on demand $'000	Total $'000	Carrying amount at 31 December $'000	Within one year or on demand $'000	Total $'000	Carrying amount at 31 December $'000
Creditors and accrued charges	13,422	13,422	13,422	12,392	12,392	12,392
Amounts due to subsidiaries	37,188	37,188	37,188	4,219	4,219	4,219
	50,610	50,610	50,610	16,611	16,611	16,611
Financial guarantees issued: Maximum amount guaranteed (note 30)	15,425	15,425	–	20,717	20,717	–

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(iii) Interest rate risk

The Group's interest rate risk arises primarily from bank deposits and floating rate long-term borrowings.

For the floating rate borrowings, when appropriate and at times of interest rate uncertainty or volatility, hedging instruments including swaps may be used to assist in the Group's management of interest rate exposure. The effective interest rate of the Group's secured bank loan as at 31 December 2011 is 5.9% (2010: 6.0%).

At 31 December 2011, it is estimated that a general increase/decrease of 50 basis points in interest rates, with all other variables held constant, would have increased/decreased the Group's profit after taxation and retained earnings by approximately $5,897,000 (2010: $5,265,000). Other components of the consolidated equity would not be affected (2010: $Nil) by the change in interest rates.

The sensitivity analysis above indicates the annualised impact on the Group's profit after taxation and retained earnings that would arise assuming that the change in interest rates had occurred at the end of the reporting period and had been applied to floating rate instruments which expose the Group to cash flow interest rate risk at that date. The analysis has been performed on the same basis for 2010.

(iv) Foreign currency risk

The Group is exposed to foreign currency risk primarily through investments in securities, bank deposits and loans to an associate that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars, Australian dollars, Japanese Yen, Pound Sterling and Renminbi. The Group ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short term imbalances.

The following tables detail the Group's and the Company's exposure at the end of the reporting period to foreign currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the operations to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the end of the reporting period. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(iv) Foreign currency risk (Continued)

Group

	Exposure to foreign currencies (expressed in Hong Kong dollars)									
	2011					2010				
	United States dollars	Australian dollars	Japanese Yen	Pound Sterling	Renminbi	United States dollars	Australian dollars	Japanese Yen	Pound Sterling	Renminbi
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Available-for-sale securities	–	–	–	–	–	6,803	–	–	–	–
Trading securities	67,801	32,461	9,973	–	13,614	70,373	34,975	12,253	–	344
Held-to-maturity investments	–	–	–	–	48,435	–	–	–	–	–
Debtors and deposits	541	66	–	16	363	245	8	–	7	51
Loans to an associate	19,387	–	–	–	–	12,977	–	–	–	–
Amounts due from fellow subsidiaries	44	4	469	–	–	4	1	156	–	–
Amount due from an associate	204	–	–	–	–	–	–	–	–	–
Cash and cash equivalents	591,637	79,617	–	38,278	125,281	622,449	34,725	–	–	51,248
Creditors and accrued charges	(164)	–	–	(56)	–	(156)	–	–	–	–
Amount due to an associate	–	–	–	–	–	(12,935)	–	–	–	–
	679,450	112,148	10,442	38,238	187,693	699,760	69,709	12,409	7	51,643

Company

	Exposure to United States dollars (expressed in Hong Kong dollars)	
	2011	**2010**
	$'000	$'000
Cash and cash equivalents	40,594	48,542

The following table indicates the change in the Group's profit after taxation and retained earnings that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies.

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(iv) Foreign currency risk (Continued)

Group

	2011		2010	
	Increase/ (decrease) in foreign exchange rates	**Increase/ (decrease) in profit after taxation and retained earnings**	**Increase/ (decrease) in foreign exchange rates**	**Increase/ (decrease) in profit after taxation and retained earnings**
	%	$'000	%	$'000
United States dollars	0.5	3,397	0.5	3,499
	(0.5)	(3,397)	(0.5)	(3,499)
Australian dollars	10.0	11,215	10.0	6,971
	(10.0)	(11,215)	(10.0)	(6,971)
Japanese Yen	10.0	1,044	10.0	1,241
	(10.0)	(1,044)	(10.0)	(1,241)
Pound Sterling	10.0	3,824	10.0	–
	(10.0)	(3,824)	(10.0)	–
Renminbi	10.0	18,769	10.0	5,164
	(10.0)	(18,769)	(10.0)	(5,164)

Results of the analysis as presented in the above table represent an aggregation of the effects on the profit after taxation and retained earnings of each entity of the Group measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis has been performed on the same basis for 2010.

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(v) Price risk

The Group is exposed to price changes arising from trading securities (see note 18), derivative financial instruments and available-for-sale securities (see note 17). Except the unlisted equity securities carried at cost as disclosed in note 17, all of these investments are measured at fair value at the end of each reporting period with reference to the quoted price. Management monitors this exposure and takes appropriate action when it is required.

Decisions to buy or sell trading securities and derivative financial instruments are based on daily monitoring of the performance of individual securities compared to industry indicators, as well as the Group's liquidity needs.

All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

At 31 December 2011, it is estimated that an increase/decrease of 10% (2010: 10%) in the relevant price risk variable, with all other variables held constant, would have increased/decreased the Group's profit after taxation and retained earnings and other components of the consolidated equity as follows:

Group

	2011		**2010**	
	Increase/ (decrease) in profit after taxation and retained earnings $'000	**Increase/ (decrease) in other components of the consolidated equity** $'000	**Increase/ (decrease) in profit after taxation and retained earnings** $'000	**Increase/ (decrease) in other components of the consolidated equity** $'000
Increase/(decrease) in price variable				
–10%	29,919	1,090	26,434	1,592
–(10)%	(29,919)	(1,090)	(26,434)	(1,592)

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(v) Price risk (Continued)

The sensitivity analysis indicates the change in the Group's profit after taxation and retained earnings and other components of the consolidated equity that would arise assuming that the changes in the relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to price risk at the end of the reporting period. It is also assumed that the fair values of the Group's investments would change in accordance with the historical correlation with the relevant risk variables, that none of the Group's available-for-sale securities would be considered impaired as a result of the decrease in the relevant risk variables, and that all other variables remain constant. The analysis has been performed on the same basis for 2010.

(vi) Fair values

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of fair value hierarchy defined in HKFRS 7, *Financial instruments: disclosures*, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments;

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data; and

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(vi) Fair values (Continued)

Group

	2011			
	Level 1 $'000	**Level 2** $'000	**Level 3** $'000	**Total** $'000
Assets				
Unlisted available-for-sale securities	–	10,900	–	10,900
Trading securities	295,775	36,703	–	332,478
	295,775	47,603	–	343,378

	2010			
	Level 1 $'000	**Level 2** $'000	**Level 3** $'000	**Total** $'000
Assets				
Unlisted available-for-sale securities	–	9,114	6,803	15,917
Trading securities	251,493	40,158	–	291,651
	251,493	49,272	6,803	307,568

During the years ended 31 December 2011 and 2010, there were no significant transfers between financial instruments in different levels.

28. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(vi) Fair values (Continued)

The movement during the year in the balance of Level 3 fair value measurements is as follows:

	Group	
	2011	**2010**
	$'000	$'000
Unlisted available-for-sale securities		
At 1 January	6,803	5,308
Net unrealised gain recognised in consolidated other comprehensive income during the year	1,047	1,495
Disposal during the year	(7,850)	–
At 31 December	–	6,803
Total gains for the year reclassified from consolidated other comprehensive income to the consolidated income statement	3,950	–

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2011 and 2010 except for those unlisted available-for-sale securities, the fair value of which cannot be reliably measured (see note 17).

The fair value of quoted securities is based on quoted market prices at the end of the reporting period without any deduction of transaction costs.

The fair value of interest-bearing bank borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

29. Commitments

(a) Capital commitments

Capital commitments outstanding as at 31 December 2011 not provided for in the financial statements were as follows:

	Group	
	2011	**2010**
	$'000	$'000
Authorised and contracted for	2,521	5,654

(b) Commitments under operating leases

At 31 December 2011, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Group	
	2011	**2010**
	$'000	$'000
Within one year	40,944	37,117
After one year but within five years	65,299	44,642
	106,243	81,759

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one year to three years, with an option to renew the leases upon expiry when all terms may be renegotiated. Certain leases involve lease payments comprising a base amount plus an incremental contingent rental, which are determined based on a percentage of sales undertaken in the premises under the operating leases. The amount of contingent rentals incurred in 2011 is stated in note 5(d).

30. Financial guarantees issued

At 31 December 2011, the Company had issued a corporate guarantee in the sum of $15,425,000 (2010: $21,014,000) to a financial institution in Hong Kong in respect of a banking facility granted to a wholly-owned subsidiary of an associate, which expires within one year. The maximum liability of the Company as at 31 December 2011 was $15,425,000 (2010: $20,717,000), representing its share of the banking facilities utilised by the wholly-owned subsidiary of the associate.

30. Financial guarantees issued (Continued)

The associate has also issued a corporate guarantee in the sum of $50,347,000 (2010: $48,299,000) to a financial institution in the PRC in respect of a financial facility granted to a jointly controlled entity of the associate, which expires within one year. The maximum liability of the associate as at 31 December 2011 was $Nil (2010: $14,702,000), representing its share of the financial facility utilised by the jointly controlled entity of the associate.

As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company or the associate under these guarantees. As at 31 December 2011, the total maximum liability shared by the Group was $15,425,000 (2010: $28,068,000).

31. Material related party transactions

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2011	**2010**
	$'000	$'000
Directors' fees	450	420
Salaries and other short-term employee benefits	29,759	23,355
Contributions to defined contribution retirement plans	921	795
	31,130	24,570

(b) Financing arrangements

A subsidiary of the Group has entered into loan agreements with an associate as disclosed in note 16. Related amounts are disclosed as follows:

	Amounts owed by an associate		**Related interest income**	
	2011	**2010**	**2011**	**2010**
	$'000	$'000	$'000	$'000
Loans to an associate	19,387	12,977	163	244

Details of new loans and loans repaid during the year are disclosed in the consolidated statement of cash flows.

31. **Material related party transactions** (Continued)

(c) Recurring transactions

Fellow subsidiaries represent subsidiaries of Wing On International Holdings Limited ("WOIH"), 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 $20,757,000 (2010: $20,756,000) during the year. The amount due from the fellow subsidiary as at 31 December 2011 amounted to $2,041,000 (2010: $1,728,000).

(ii) A subsidiary rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to $4,667,000 (2010: $4,518,000) during the year. The amount due to the fellow subsidiary as at 31 December 2011 amounted to $1,171,000 (2010: $1,106,000).

(iii) A fellow subsidiary, engaged in securities trading, deals in securities for certain subsidiaries of the Group. Commission of $635,000 (2010: $750,000) was payable to this fellow subsidiary during the year. The amount due from the fellow subsidiary as at 31 December 2011 amounted to $522,000 (2010: amount due to the fellow subsidiary of $2,475,000).

(iv) A subsidiary provides building and tenancy management services to a fellow subsidiary. Building and tenancy management fees receivable from this fellow subsidiary amounted to $912,000 (2010: $912,000) during the year. The amount due to the fellow subsidiary as at 31 December 2011 amounted to $1,596,000 (2010: amount due from the fellow subsidiary of $9,000).

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.

32. Immediate and ultimate controlling parties

At 31 December 2011, the directors consider the Company's immediate parent to be WOIH, which is incorporated in Bermuda, and the ultimate controlling party to be Kee Wai Investment Company (BVI) Limited ("KW(BVI)"), which is incorporated in the British Virgin Islands. Messrs. Karl C. Kwok, Lester Kwok, Bill Kwok and Mark Kwok, directors of the Company, together control approximately 85% of the voting rights in KW(BVI). KW(BVI) does not produce financial statements available for public use while WOIH produces financial statements available for public use.

(Expressed in Hong Kong dollars unless otherwise indicated)

33. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	Effective for accounting periods beginning on or after
Amendments to HKFRS 7, *Financial instruments: disclosures*	1 July 2011
Amendments to HKAS 12, *Income taxes*	1 January 2012
Amendments to HKAS 1, *Presentation of financial statements*	1 July 2012
HKFRS 9, *Financial instruments*	1 January 2015
HKFRS 10, *Consolidated financial statements*	1 January 2013
HKFRS 11, *Joint arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair value measurement*	1 January 2013
HKAS 19 (2011), *Employee benefits*	1 January 2013
HKAS 27 (2011), *Separate financial statements*	1 January 2013
HKAS 28 (2011), *Investments in associates and joint ventures*	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position except for the amendments to HKAS 12, *Income taxes*.

The amendments to HKAS 12 will be adopted in the Group's financial statements for the year ending 31 December 2012, when the Group will be required to make retrospective adjustments to the amounts reported in respect of the years ended 31 December 2010 and 2011, to the extent that the tax consequences of recovering the carrying amount of the investment properties through sale would differ from the amounts recognised for the deferred taxation under the current accounting policy, in respect of those investment properties which are not held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time rather than through sale.

33. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2011 (Continued)

Based on the Group's preliminary assessment, the adoption of the amendments to HKAS 12 will result in a retrospective restatement of the amounts reported as follows:

	2011 $'000	**2010** $'000
Consolidated statement of financial position as at 1 January		
Decrease in deferred tax liabilities	(804,312)	(627,590)
Increase in retained earnings	804,312	627,590
Consolidated statement of financial position as at 31 December		
Decrease in deferred tax liabilities	(1,051,299)	(804,312)
Increase in retained earnings	1,035,719	804,312
Increase in land and building revaluation reserve	15,580	–

	2011 $'000
Consolidated income statement for the year	
Decrease in income tax expenses	(231,407)
Increase in profit for the year	231,407
Increase in basic and diluted earnings per share	78.4 cents
Consolidated statement of comprehensive income for the year	
Increase in profit for the year	231,407
Increase in surplus on revaluation of land and buildings held for own use reclassified to investment properties	15,580
Increase in total comprehensive income	246,987

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

At 31 December 2011

The directors are of the opinion that a complete list of the particulars of all subsidiaries and associates would be of excessive length and, therefore, the following list contains only the particulars of subsidiaries and associates which principally affect the results, assets or liabilities of the Group.

The complete list of all the subsidiaries and associates will be annexed to the Company's next annual return pursuant to the Hong Kong Companies Ordinance.

Principal subsidiaries

			Proportion of ownership interest			
Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Group's effective holding	held by the Company	held by a subsidiary	Principal activity
333 Choice Properties Pty Ltd	Australia	2 ordinary shares of no par value	100	–	100	Trustee for an investment trust
Asmar Properties Limited	British Virgin Islands	1 share of US$1	100	100	–	Investment holding
Belair Properties Limited	British Virgin Islands	1 share of US$1	100	100	–	Investment holding and securities trading
Clever Choice Investments Limited	British Virgin Islands	1 share of US$1	100	100	–	Investment holding
Clever Choice Properties Pty Limited	Australia	2 ordinary shares of no par value and 1,800 redeemable preference shares of no par value	100	–	100	Investment holding
Cornerstone Assets Limited	British Virgin Islands	1 share of US$1	100	100	–	Investment holding
Fine Choice Investments Limited	British Virgin Islands	1 share of US$1	100	100	–	Investment holding
Fine Choice Properties Pty Limited	Australia	2 ordinary shares of no par value	100	–	100	Investment holding
Fortuna Yakitori Stall, Limited	Hong Kong	10,000 shares of HK$100 each	100	–	100	Securities trading
Somhill Pty. Ltd.	Australia	2 ordinary shares of no par value	100	–	100	Investment in an investment trust
The Wing On Company, Inc. *	USA	12,310 shares of common stock of no par value	88.22	–	88.22	Investment holding

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(Continued)
At 31 December 2011

Principal subsidiaries (Continued)

Name of company	Place of incorporation/ operation	Particulars of issued and paid up capital	Proportion of ownership interest: Group's effective holding	held by the Company	held by a subsidiary	Principal activity
The Wing On Company Limited	Hong Kong	296,100,000 shares of HK$2 each	100	–	100	Investment holding and property investment
The Wing On Department Stores (Bermuda) Limited	Bermuda	60,100,000 shares of HK$1 each	100	–	100	Investment holding
The Wing On Department Stores (Hong Kong) Limited	Hong Kong	2 shares of HK$100 each	100	–	100	Department stores
The Wing On Property Management Company Limited	Hong Kong	5,000 shares of HK$10 each	100	–	100	Property management
The Wing On Services Limited	British Virgin Islands	1 share of HK$10	100	–	100	Ownership of trade marks
Tonnish Limited	Hong Kong	500 shares of HK$10 each	100	–	100	Property investment
Wing On Company (BVI) Limited	British Virgin Islands	100,000 shares of HK$0.10 each	100	100	–	Investment holding
Wing On Computer Systems Limited	Hong Kong	180,000 shares of HK$100 each	100	–	100	Computer services
WOCO Investment Corporation*	USA	4,300 shares of common stock of US$10 each	88.22	–	100	Property investment
Wonder Choice Investments Limited	British Virgin Islands	1 share of US$1	100	100	–	Investment holding
Wonder Choice Properties Pty Limited	Australia	2 ordinary shares of no par value and 1,300 redeemable preference shares of no par value	100	–	100	Investment holding

* Not audited by KPMG.

PRINCIPAL SUBSIDIARIES AND ASSOCIATES

(Continued)
At 31 December 2011

Principal associates

Name of company	Form of business structure	Place of incorporation/ operation	Class of share held	Proportion of ownership interest held by the Group	Principal activity
DCH North America Inc.	Incorporated	USA	Common stock	50	Motor vehicle dealer and property investment; general importer and exporter
DCH Auto Group (USA) Inc.	Incorporated	USA	Common stock	50	Investment holding
DCH Auto Group (USA) Limited	Incorporated	British Virgin Islands	‘A’ shares and ‘B’ shares	50	Investment holding
DCH Auto Group (Asia) Limited	Incorporated	British Virgin Islands	Ordinary	50	Investment holding
Dongguan Meidong Automotive Services Co., Ltd.	Incorporated	PRC	Registered capital	25.5	Motor vehicle dealer
Jumbo Returns Limited	Incorporated	Hong Kong	Ordinary	50	Investment holding
Meichang Auto Group (Asia) Limited	Incorporated	Hong Kong	Ordinary	50	Investment holding
深圳深美昌汽車服務有限公司	Incorporated	PRC	Registered capital	50	Motor vehicle dealer
Qingdao Meichang Yangguang Lexus Automotive Sales and Services Co., Ltd.	Incorporated	PRC	Registered capital	25.5	Motor vehicle dealer