

Website: [www.wingon.hk](http://www.wingon.hk)



**WING ON COMPANY  
INTERNATIONAL LIMITED**

(Incorporated in Bermuda with limited liability)

stock code: 289

Annual Report

2017

WING ON



永安  
2017

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# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Twenty-seventh 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 Monday, 4 June 2018 at 10:30 a.m. 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 2017.
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 the Auditor's 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 shares 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 buy back 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 bought by the Company pursuant to paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the issued shares 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 bought back 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 shares of the Company at the date of this Resolution.”

By Order of the Board  
**Karl C. Kwok**  
Chairman

Hong Kong, 27 April 2018

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.

# NOTICE OF ANNUAL GENERAL MEETING

(Continued)

## 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 Share Registrar 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 Monday, 28 May 2018 to Monday, 4 June 2018, 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 Registrar, Tricor Progressive Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong before 4:00 p.m. on Friday, 25 May 2018.
- (6) Subject to the approval of shareholders of the proposed final dividend at the above meeting, the Register of Members will be closed from Tuesday, 12 June 2018 to Friday, 15 June 2018, 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 Registrar, Tricor Progressive Limited, Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong before 4:00 p.m. on Monday, 11 June 2018.
- (7) Concerning item 3 above, the retiring Directors to be re-elected at the meeting are Mr. Karl C. Kwok, Mr. Iain Ferguson Bruce and Mr. Nicholas James Debnam. According to the Company’s Bye-Laws, Mr. Debnam will hold office until the next annual general meeting to be held on 4 June 2018, and will be subject to retirement and eligible for re-election at such general meeting.
- (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 2017.
- (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, GBM, GBS, J.P.  
Mr. Ignatius Wan Chiu Wong, LL. B.  
Mr. Iain Ferguson Bruce, CA, FCPA, FHKIoD, FHKSI  
Mr. Leung Wing Ning  
Mr. Nicholas James Debnam (Appointed on 3 April 2018)

## AUDIT COMMITTEE

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

## REMUNERATION COMMITTEE

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

## NOMINATION COMMITTEE

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

# CORPORATE INFORMATION

(Continued)

## AUDITOR

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

## SECRETARY

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

## REGISTERED OFFICE

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

## PRINCIPAL OFFICE

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

## SHARE REGISTRARS

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

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

# CORPORATE INFORMATION

(Continued)

## Biography of Directors

**Mr. Karl C. Kwok**, MH, Chairman, Member of the Remuneration Committee and the Nomination Committee

He, aged 69, 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 a Trustee Member of the Board of The Trustees of Chung Chi College of The Chinese University of Hong Kong, Chairman Emeritus of The Hong Kong-America Center, a Trust Member of The Outward Bound Trust of Hong Kong Limited, Vice President of Sports Federation & Olympic Committee of Hong Kong, China, a director of Hong Kong Sports Institute Limited and Chairman of Major Sports Events Committee (ex-officio member of Sports Commission). 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 67, 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 65, 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 has served as an Independent Non-executive Director of Hong Kong Exchanges and Clearing Limited which is listed on The Stock Exchange of Hong Kong Limited from 2000-2017 and also the Chairman of OTC Clearing Hong Kong Limited from 2015-2017, a subsidiary company of the Hong Kong Exchanges and Clearing Limited. He has served as a Non-executive Director of HSBC Private Bank (Suisse) SA from 21 August 2006 to 1 April 2016. He is a past Chairman and a honorary fellow of Hong Kong Securities and Investment Institute. He is a brother of the Chairman.



# CORPORATE INFORMATION

(Continued)

## Biography of Directors (Continued)

### **Mr. Mark Kwok**, Executive Director

He, aged 63, 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, 12th and 13th National People's Congress of the People's Republic of China in 2008, 2012 and 2017. He is currently a member of Fish Marketing Advisory Board. 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**, GBM, GBS, J.P., Independent Non-executive Director and Member of the Audit Committee

She, aged 72, 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 Nine Dragons Paper (Holdings) Limited, Sa Sa International Holdings Limited, Sinopec Kantons Holdings Limited, Tong Ren Tang Technologies Company Limited and Macau Legend Development Limited, all are listed on The Stock Exchange of Hong Kong Limited. She has been appointed as an Independent Non-executive director of China Shenhua Energy Company Limited, a company listed on Shanghai Stock Exchange and Hong Kong Stock Exchange since 23 June 2017. She retired as an Independent Non-executive Director of Guangnan (Holdings) Limited, which is listed on The Stock Exchange of Hong Kong Limited, on 1 November 2017. She resigned as an Independent Non-executive director of Minmetals Land Limited on 1 April 2018, which is listed on The Stock Exchange of Hong Kong Limited. She was a member of the Operations Review Committee and the Witness Protection Review Board of the Independent Commission Against Corruption (from January 2010 to December 2014). She was the Chairman of the Operations Review Committee, the member of the Witness Protection Review Board and the Ex-officio member of the Advisory Committee on Corruption of the ICAC (from January 2015 to December 2017). She was a deputy to the National People's Congress of the People's Republic of China. She is 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 77, 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.

# CORPORATE INFORMATION

(Continued)

## Biography of Directors (Continued)

**Mr. Iain Ferguson Bruce**, CA, FCPA, FHKIoD, FHKSI, Independent Non-executive Director and Chairman of the Audit Committee

He, aged 77, joined KPMG in Hong Kong in 1964 and was elected to its partnership in 1971. He was the Senior Partner of KPMG from 1991 until his retirement in 1996 and served as Chairman of KPMG Asia Pacific from 1993 to 1997. Since 1964, he has been a member of the Institute of Chartered Accountants of Scotland, and is a fellow of the Hong Kong Institute of Certified Public Accountants, with over 50 years of international experience in accounting and consulting. He is also a fellow of The Hong Kong Institute of Directors and the Hong Kong Securities and Investment Institute. He is an Independent Non-executive Director of MSIG Insurance (Hong Kong) Limited. He is currently an Independent Non-executive Director of Goodbaby International Holdings Limited, The 13 Holdings Limited (formerly known as Louis XIII Holdings Limited) and Tencent Holdings Limited, all are listed on The Stock Exchange of Hong Kong Limited. He is also an Independent director of Yingli Green Energy Holding Company Limited, a company whose shares are traded on the New York Stock Exchange. He was an Independent Non-executive Director of Vitasoy International Holdings Limited and retired from that company's board on 4 September 2014, and was the Chairman of KCS Limited until 1 August 2015. He resigned as an Independent Non-executive Director of Sands China Ltd., a company listed on The Stock Exchange of Hong Kong Limited, on 11 March 2016. He was a Non-executive Director of Noble Group Limited, effective 1 March 2017, a company whose shares are listed on The Singapore Exchange Securities Trading Limited, and resigned from that company's board on 11 May 2017. He was also an Independent Non-executive Director of Citibank (Hong Kong) Limited and resigned from that company's board on 2 August 2017. He was appointed Independent Non-executive Director of the Company in September 2002.

**Mr. Leung Wing Ning**, Independent Non-executive Director, Member of the Audit Committee, Chairman of the Remuneration Committee and the Nomination Committee  
He, aged 70, 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. On 27 November 2015, he resigned as 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.

**Mr. Nicholas James Debnam**, aged 53, has a degree in Physics from Imperial College, London. He qualified as a Chartered Accountant in the United Kingdom. He was an audit partner with KPMG for 20 years, from 1997 until his retirement in March 2017. Prior to his retirement, in addition to his role as an audit partner, he also led the Consumer Markets practice for KPMG in Asia. Mr. Debnam is a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants of England and Wales. He was appointed Independent Non-executive Director of the Company on 3 April 2018.

# CORPORATE INFORMATION

(Continued)

## Biography of senior managers

### Mr. Benny Chan

He, aged 59, was educated at The Hong Kong Polytechnic University where he obtained a B.A. (Hons.) degree. He is 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 also looks after the Group's overseas investment projects acting as the general manager in charge. 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. He joined the Group in 1992.

### Mr. Sin Kar Tim

He, aged 61, 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 is currently an Independent Non-executive Director of Human Health Holdings Limited which is listed on the Stock Exchange of 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 is also a fellow of the Hong Kong Institute of Directors. He joined the Group in 1980.

## Wing On Department Stores

Main Store	:	211 Des Voeux Road Central, Hong Kong	Tel: 2852 1888
wing on <i>Plus</i>	:	345 Nathan Road, Kowloon	Tel: 2710 6288
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

## 2017 RESULTS AND DIVIDEND

For the year ended 31 December 2017, the Group's revenue decreased by 4.3% to HK\$1,648.0 million (2016: HK\$1,721.7 million) due mainly to the decline in department stores revenue.

Profit attributable to shareholders for the year ended 31 December 2017 was HK\$2,657.2 million (2016: HK\$986.8 million), an increase of 169.3% due primarily to the significant increase in net valuation gain on investment properties this year as compared to 2016. Excluding this non-cash item and related deferred tax thereon, the Group's underlying profit attributable to shareholders increased by 27.7% to HK\$581.5 million (2016: HK\$455.4 million). This was attributable mainly to the increase in gains from the Group's investments in securities and the share of profit of an associate recorded in the year under review as opposed to the share of loss of the associate in 2016.

Earnings per share was 903.1 HK cents per share in 2017 (2016: 334.7 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 28.0% to 197.6 HK cents (2016: 154.4 HK cents) per share.

The Company has a practice of paying dividends to shareholders based on the amount of underlying profit attributable to shareholders for the year and makes no reference to any valuation gain or loss on investment properties. Over the last decade, the Company has consistently paid to shareholders annual dividends of about 50% of the underlying profit for each of those years. Barring unforeseen circumstances or any major funding needs, the Company intends to maintain such dividend practice. In respect of 2017, the directors have recommended a final dividend of 68 HK cents (2016: 56 HK cents) per share payable to shareholders on the Register of Members on 15 June 2018 which, together with the interim dividend of 38 HK cents (2016: 25 HK cents) per share and a special one-off dividend of 110 HK cents per share, to commemorate the 110th Anniversary of the founding of the Group's department stores business in 1907, paid on 23 October 2017 makes a total payment of 216 HK cents (2016: 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 4 June 2018, the Register of Members will be closed from Tuesday, 12 June 2018 to Friday, 15 June 2018, 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 Registrar, Tricor Progressive Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:00 p.m. on Monday, 11 June 2018 (Hong Kong time). Dividend warrants will be sent to shareholders on 22 June 2018.

# CHAIRMAN'S STATEMENT

(Continued)

## BUSINESS STRATEGY

The Group's current business strategy is to focus on the operation of its department stores business and the enhancement of rental income from its commercial property investments. These are the Group's core businesses and the primary profit contributors. With Wing On Department Stores being a household name and having a presence of 110 years in Hong Kong, its management is well aware of and adapts timely to the ever changing needs of its customers. The Group is confident that its department stores will continue to serve its customers well. In addition to its core business activities, the Group also engages in securities investments mainly in blue chip shares on major stock exchanges and investment funds managed by professional investment managers. With its sound financials, the Group will continue to strengthen its core business activities and look for opportunities to expand its business and to improve its earnings.

## LIQUIDITY AND FINANCIAL RESOURCES

### Overall Financial Position

Shareholders' equity at 31 December 2017 was HK\$17,830.6 million, an increase of 14.4% as compared to that at 31 December 2016. With cash and listed marketable securities at 31 December 2017 of about HK\$3,472.0 million as well as available banking facilities, the Group has sufficient liquidity to meet its current commitments and working capital requirements.

### Borrowings and Charges on Group Assets

At 31 December 2017, the Group's total borrowings amounted to HK\$193.2 million, a decrease of about HK\$19.5 million, due to partial repayments net of exchange differences, as compared to that at 31 December 2016. The Group's total borrowings of HK\$193.2 million relate to a mortgage loan for Australian investment properties. The mortgage loan was renewed in November 2017 for three years to November 2020, the bulk of which will be repayable by end of 2020. Certain assets, comprising principally property interests with a book value of HK\$3,375.4 million, have been pledged to banks as collateral security for banking facilities granted to the extent of HK\$193.2 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 2017, was 1.1% as compared with 1.4% at 31 December 2016.

# CHAIRMAN'S STATEMENT

(Continued)

## LIQUIDITY AND FINANCIAL RESOURCES (Continued)

### 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 dollar. Hence, the foreign exchange exposure is limited to the net investments in overseas subsidiaries of approximately HK\$2,877.9 million at 31 December 2017 (at 31 December 2016: HK\$2,258.5 million).

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

### Capital Commitments and Contingent Liabilities

At 31 December 2017, the total amount of the Group's capital expenditure commitments was HK\$23.8 million (at 31 December 2016: HK\$24.4 million). As at 31 December 2017, the Group had no contingent liability (at 31 December 2016: HK\$Nil).

## 2017 BUSINESS SUMMARY

### Department Stores Operations

The Group's department stores revenue decreased by 5.5% to HK\$1,212.0 million (2016: HK\$1,282.6 million) for the year ended 31 December 2017. The decline in revenue was largely due to the unseasonably warm weather conditions in the first quarter of 2017, which affected the sales of winter goods, and slow recovery in customer spending during the remainder of the year. The Group launched a series of sales promotion events and activities in the second half of the year to celebrate the 110th Anniversary of the founding of the Group's department stores business and to boost sales. Overall, the Group's department stores operating profits decreased by 23.2% to HK\$116.4 million (2016: HK\$151.5 million) due mainly to the decrease in revenue and thus gross profit.

# CHAIRMAN'S STATEMENT

(Continued)

## 2017 BUSINESS SUMMARY (Continued)

### Property Investments

The Group's property investment income decreased by 4.6% to HK\$425.4 million (2016: HK\$445.7 million) for the year ended 31 December 2017. In the year under review, the Group obtained a slight increase by 0.6% in rental income from its commercial investment properties in Hong Kong to HK\$322.3 million (2016: HK\$320.3 million) while maintaining an overall occupancy of about 94% (2016: 91%) at 31 December 2017. Income from the Group's commercial office properties in Melbourne decreased by 18.6% to HK\$94.8 million (2016: HK\$116.4 million) due mainly to the expiry of certain major leases in late 2016 and during 2017 resulting in a decrease in rental income and recovery of building outgoings. The majority of the vacant areas were either let to the existing tenants or taken up by new tenants. The overall occupancy rate of the Group's investment properties in Melbourne was around 95% (2016: 89%) at 31 December 2017.

### Interest in an Associate

For the year ended 31 December 2017, the Group recorded a share of profit after tax from the associate's automobile dealership interest in the People's Republic of China of HK\$3.9 million (2016: HK\$8.7 million). During the year, the Group reviewed its share of the provision held by the associate, which was made against certain indemnity claims in relation to the associate's disposal of an automobile dealership subsidiary in the United States in October 2014. Certain of these claims remained unresolved at 31 December 2017. Having reviewed these outstanding unresolved claims and in line with legal advice, the Group accordingly wrote back a provision of HK\$8.9 million while a provision of HK\$34.7 million was made in 2016.

Overall, the Group recorded a share of profit from the associate of HK\$20.9 million (2016: a loss of HK\$26.8 million).

### Others

As at 31 December 2017, the Group's investment portfolio amounted to HK\$577.4 million (2016: HK\$345.8 million), which mainly comprised of blue chip securities on major stock exchanges and investment funds managed by professional investment managers. During the year, the Group's investment portfolio recorded a gain of HK\$97.6 million (2016: HK\$17.5 million). The Group recorded a net foreign exchange gain of HK\$22.9 million (2016: a loss of HK\$3.0 million) in its holdings of foreign currencies.

# CHAIRMAN'S STATEMENT

(Continued)

## STAFF

As at 31 December 2017, the Group had a total staff of 710 (2016: 740). The staff costs (excluding directors' remuneration) amounted to approximately HK\$211.7 million (2016: HK\$211.0 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.

## 2018 OUTLOOK

With favourable job and income conditions and sustained recovery in tourist arrivals, the Group expects the recovery of the Hong Kong retail sector to continue which will be favourable to the Group's department stores business. The Group is vigilant to the ever changing consumer shopping and spending behavior. To sustain sales growth, the Group will continue to enhance its information technology capabilities and optimize merchandise mix. The Group's commercial investment properties in Hong Kong and overseas will continue to provide stable rental income. With the financial strength of the Group and the dedication of its management, the Group is able to face the challenges ahead and look for good investments when opportunities arise.

On behalf of the Board, I would like to thank our management and staff for their efforts in 2017 and our shareholders for their continuous support.

**Karl C. Kwok**  
Chairman

Hong Kong, 28 March 2018



# 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 2017.

## PRINCIPAL ACTIVITIES

The principal activities of the Group are the operation of department stores and property investment. The analyses of the revenue 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 2017 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 47 to 139.

An interim dividend of 38 HK cents (2016: 25 HK cents) per share and a special one-off dividend of 110 HK cents per share to commemorate the 110th Anniversary of the founding of the Group's department stores business in 1907 were paid on 23 October 2017. The directors now recommend that a final dividend of 68 HK cents (2016: 56 HK cents) per share in respect of the year ended 31 December 2017 be payable to shareholders on the Register of Members on 15 June 2018. Dividend warrants will be sent to shareholders on 22 June 2018.

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.

## DIVIDEND POLICY

The Company has a practice of paying dividends to shareholders based on the amount of underlying profit attributable to shareholders for the year and makes no reference to any valuation gain or loss on investment properties. Over the last decade, the Company has consistently paid to shareholders annual dividends of about 50% of the underlying profit for each of those years. Barring unforeseen circumstances or any major funding needs, the Company intends to maintain such dividend practice and will review this practice when considered necessary.

## BUSINESS REVIEW

The core businesses of the Group comprise of the operation of department stores business and property investments. About 74.9% (2016: 76.4%) of the Group's non-current assets is located in Hong Kong. Hence the performance of the Group's core businesses links closely with the performance of the Hong Kong economy.

# REPORT OF THE DIRECTORS

(Continued)

## BUSINESS REVIEW (Continued)

### Principal risks and uncertainties facing the Group

Specifically, the sustainability of the department stores business of the Group relies on the continuing prosperity of the Hong Kong economy and the positive spending sentiment of its customers, and the ability of the Group's department stores to match with its customers' changing shopping needs. The major risk and uncertainty facing the Group's retail business is the performance of the economy in Hong Kong as any severe and prolonged economic downturn causing a loss of consumer confidence and spending or large scale social disturbances will result in a significant or substantial decrease in revenue for the Group's department stores business.

In addition to the economic environment, the major risk and uncertainty facing the Group's investment properties include loss of major tenants and competition among landlords. Furthermore, any significant decrease in the annual valuation of the Group's investment properties will adversely affect the profit and net asset value of the Group.

In particular, the performance of the Group's investment properties in Melbourne, Australia will be affected by the strength or weakness of the Australian dollar which will have an impact on the rental income and net asset value of these investment properties when these figures are translated back into Hong Kong dollar for reporting purposes.

Details about the Group's financial risk management are set out in Note 23 to the financial statements on pages 120 to 129.

### Department Stores Operation

The Group is currently operating four department stores in Hong Kong with a total sales floor area of approximately 315,000 square feet (2016: 315,000 square feet)

Owing to the unseasonably warm weather in the first quarter and the slow recovery in customer spending in the remainder of the year, the Group's department stores business recorded a decrease in revenue in 2017 as compared to 2016. The operating environment of the Group's department stores continued to be challenging. Tsimshatsui East branch store was affected most due to its location on the fringe of the Tsimshatsui core tourist area. To mark the 110th Anniversary of the founding of the Group's department stores business, the Group launched a series of sales promotion events and activities in the second half of the year and managed to boost sales. Overall, the Group's department stores revenue decreased by 5.5% to HK\$1,212.0 million (2016: HK\$1,282.6 million) for the year ended 31 December 2017.

In 2017, the department stores business achieved an overall gross profit margin of 44.7% (2016: 44.4%). Operating costs increased by 1.7% to HK\$425.0 million (2016: HK\$417.7 million) due mainly to the increase in expenditure incurred on the new point of sale system and enterprise resource planning system by HK\$8.3 million. Overall, operating profits decreased by 23.2% to HK\$116.4 million (2016: HK\$151.5 million).

# REPORT OF THE DIRECTORS

(Continued)

## BUSINESS REVIEW (Continued)

### Department Stores Operation (Continued)

Except for the premises of the Discovery Bay branch store which is leased from a third party landlord and the Wing On Plus branch store premises which is jointly owned by the Group and the Group's fellow subsidiary in the proportion of 64.37% and 35.63% respectively, all other stores premises and the warehouse currently occupied by the Group's department store subsidiary are properties of the Group. During the year ended 31 December 2017, a total rent of HK\$119.6 million was charged for these properties (2016: HK\$120.4 million). With most of the department stores premises leased from the Group, the directors believe that the department stores operation will be spared from the volatile leasing market, which may cause a sudden surge in retail store rentals. At the same time, the capital value of the Group's investment property portfolios will be maintained. The current strategy of the Group is to renovate its department store premises as and when necessary to provide an enjoyable shopping environment for customers. In 2017, the Group invested around HK\$3.3 million in various store renovation projects.

The Group is vigilant to the ever changing consumer shopping and spending behavior. To sustain sales growth, the Group will continue to improve its information technology capabilities and optimize merchandise mix, aiming to further enhance customer shopping experience. The Group installed a new point of sale system in August 2017. In April 2018, the Group will replace its quarterly e-stamp card loyalty promotion program by a new e-stamp loyalty promotion program, which is run annually and can be accessed through mobile application. The Group is in the course of implementing a new enterprise resource planning system and expects it to be operational by end of 2018.

### Property Investments

The Group's gross property investment income decreased by 0.7% to HK\$555.6 million (2016: HK\$559.5 million). Operating costs increased by 14.4% to HK\$130.2 million (2016: HK\$113.8 million) due mainly to increase in expenses net of recovery of about HK\$16.8 million for its investment properties in Melbourne. Hence, resulting in property investment income decreased by 4.6% to HK\$425.4 million (2016: HK\$445.7 million).

As at 31 December 2017 and excluding the areas occupied by the Group's business operations, the Group's Hong Kong investment property portfolio has a gross floor area of approximately 610,000 square feet (2016: 610,000 square feet). During 2017, the Group achieved a total gross rental income of HK\$300.5 million (2016: HK\$300.2 million) from its investment properties in Hong Kong. The average monthly basic rent achieved during 2017 was around HK\$50 per square feet (2016: HK\$50 per square feet). Overall occupancy rate for 2017, excluding the areas occupied by the Group's business operations, was 87.0% (2016: 87.7%). Excluding the areas occupied for its own use, the Group managed to secure certain new leases in the second half of the year and accordingly increase the overall occupancy to about 90% (2016: 85%) at 31 December 2017.

# REPORT OF THE DIRECTORS

(Continued)

## BUSINESS REVIEW (Continued)

### Property Investments (Continued)

The Group referred to its announcement made on 18 June 2017 in response to press reports in certain newspapers regarding the external wall cladding material used on Wing On Centre. Subsequent to the announcement, the Group engaged independent professional consultants to review Wing On Centre's fire safety measures, taking into account the materials used for cladding, and to provide recommendations to the Group on any fire safety improvements. Whilst the professional consultants concluded that the level of fire risk imposed by the cladding on Wing On Centre to be low, the professional consultants recommended to have sprinklers installed on the car parking areas of Wing On Centre, which the Group had accordingly adopted and completed such installation.

The appraised value of the Group's Hong Kong investment property portfolio was HK\$11,172.4 million as at 31 December 2017, representing an increase of 18.5% compared with the appraised value of HK\$9,427.4 million as at 31 December 2016. As part of the Group's program to modernize its commercial office buildings in Hong Kong, the Group completed replacement and upgrading of the passenger lifts for the office floors at the Wing On Centre in early 2018. The Group plans to replace and upgrade the passenger lifts for its department store at Wing On Centre and the passenger and cargo lifts at its warehouse in Kowloon Bay within the next two years.

As at 31 December 2017, the Group's investment properties located in Melbourne, Australia, have a total gross floor area of approximately 639,000 square feet (2016: 639,000 square feet). During 2017, the Group achieved a total gross rental income of A\$19.4 million (2016: A\$20.7 million) from its investment properties in Melbourne. The overall occupancy rate for 2017 was 83.6% (2016: 96.8%). The appraised value of the Group's investment property portfolio in Melbourne, Australia was A\$555.5 million (HK\$3,375.4 million) as at 31 December 2017, an increase of 19.8% compared with the appraised value of A\$463.8 million (HK\$2,587.0 million) as at 31 December 2016. The overall occupancy rate of the Group's investment properties in Melbourne, Australia was around 95% (2016: 89%) at 31 December 2017.

As at 31 December 2017, the Group's investment property located in Houston, United States of America, has a gross floor area of approximately 116,000 square feet (2016: 116,000 square feet). During 2017, the Group achieved a total gross rental income of US\$2.5 million (2016: US\$2.5 million) from its investment property in Houston. In 2017, the overall occupancy rate was 93.7% (2016: 96.4%). The appraised value of the Group's investment property portfolio in Houston was US\$26.2 million (HK\$204.7 million) as at 31 December 2017, an increase of 3.6% compared with the appraised value of US\$25.3 million (HK\$195.8 million) as at 31 December 2016. The overall occupancy rate of the Group's investment property located in Houston, United States of America was around 95% (2016: 96%) at 31 December 2017.

# REPORT OF THE DIRECTORS

(Continued)

## BUSINESS REVIEW (Continued)

### Other Investments

During the year under review, the Group continued to maintain a strong financial position with ample surplus cash to facilitate current and future business activities. The Group utilized a portion of the cash balance for investment purposes, by maintaining a balanced and diversified portfolio of primarily liquid investment holdings across various assets classes. The portfolio consists of primarily equity and debt securities, investment funds managed by professional investment managers, and derivative financial instruments. The portfolio is prudently and actively managed, with well-defined risk management parameters. The investment team reports regularly to the Investment Committee, which comprises of certain members of the senior management and of the Board.

Throughout 2017, global asset prices continued to be supported by increasingly robust economic growth, solid corporate earnings, and largely accommodative monetary policies by central banks. The Group made key changes to its asset allocation by increasing exposure to equities and diversifying beyond equities listed in Hong Kong. In addition, the Group adjusted its fixed income and credit strategies in light of an expected but gradual rise in US interest rates.

As at 31 December 2017, the Group's investment portfolio amounted to HK\$577.4 million (2016: HK\$345.8 million), which mainly comprised of blue chip securities on major stock exchanges and investment funds managed by professional investment managers. During the year, the Group's investment portfolio recorded a gain of HK\$97.6 million (2016: HK\$17.5 million).

### Compliance with Laws and Regulations

The Group has ensured and continues to ensure full compliance with relevant laws and regulations that have significant impact on its operations, including but not limited to laws and regulations in relation to product safety and liabilities, customer rights protection, employment and occupational safety and laws and regulations relating to property leasing and property management.

The management will monitor the impact for any changes in the relevant laws and regulations from time to time and seek external advice if considered necessary.

# REPORT OF THE DIRECTORS

(Continued)

## BUSINESS REVIEW (Continued)

### Key Relationships with Employees, Customers and Suppliers

The Group recognises the importance of maintaining good relations with employees, customers and suppliers to ensure the long-term success of the Group and maintain steady earnings growth.

Please refer to the section headed “Staff” in the Chairman’s Statement on page 14 for more information in relation to the Group’s measures to maintain good relations with its employees.

In addition, building sustainable and long-term relationships with tenants is important to the rental income of the Group’s property investment business. The Group strives to provide tenants with quality service and has engaged the services of reputable professional property management companies to provide such services to its tenants.

### Environmental, Social and Governance Practices

The Board has approved an ESG Policy and an ESG Committee comprised of senior management was formed. Through meetings and discussions amongst the management team, various policies and guidelines were set to address the environmental and social matters aiming to reduce carbon dioxide emissions and improve the benefits and work place conditions for staff. Internal seminars have been conducted for staff to enhance their awareness of environmental protection. Certain improvement measures have been implemented during the year.

An ESG report will be published on the website of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and the Company’s website by the end of April 2018.

Please refer to the sections headed “Business Strategy” and “2018 Outlook” in the Chairman’s Statement on page 11 and page 14 for the likely future developments of the Group’s businesses.

Please also refer to the Corporate Governance Report on pages 26 to 36 and the Chairman’s Statement on pages 10 to 14 for further business summary and information on financial position.

## 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 39.

## CHARITABLE DONATIONS

Donations made by the Group during the year amounted to HK\$60,000 (2016: HK\$26,000).

## SUBSIDIARIES

Particulars of the Company’s principal subsidiaries are set out on pages 137 and 138.

# REPORT OF THE DIRECTORS

(Continued)

## PERMITTED INDEMNITY PROVISIONS

Pursuant to the Bye-Law 178 of the Company's Bye-laws and subject to the statutes, the directors of the Company shall be entitled to be indemnified and secured harmless out of the assets of the Company against all losses and expenses which they or any of them may incur or sustain in or about the execution of their duty or supposed duty in their respective office. The Company has taken out and maintained directors and officers liability insurance throughout the year, which provides cover for the directors of the Company and its subsidiaries.

## INVESTMENT PROPERTIES

Details of the Group's investment properties are set out on page 40.

## BORROWINGS

The maturity profile of borrowings, banking facilities and assets pledged are set out in Note 20 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 revenue and purchases respectively in the year.

## DEFINED CONTRIBUTION RETIREMENT PLANS

Particulars of defined contribution retirement plans of the Group are set out in Note 10 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, GBM, GBS, J.P. (Independent Non-executive Director)

Mr. Ignatius Wan Chiu Wong, LL.B. (Independent Non-executive Director)

Mr. Iain Ferguson Bruce, CA, FCPA, FHKIoD, FHKSI, (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 2021 Annual General Meeting.

# **REPORT OF THE DIRECTORS**

(Continued)

## **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 TRANSACTIONS, ARRANGEMENTS OR CONTRACTS**

Details of the continuing connected transactions and related party transactions are set out in "Continuing Connected Transactions" on pages 37 and 38 and in Note 25 to the financial statements respectively.

Save for the above, no transaction, arrangement or 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 or an entity connected with a director had a material interest either directly or indirectly 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).



# REPORT OF THE DIRECTORS

(Continued)

## DIRECTORS' INTERESTS IN SHARES

As at 31 December 2017, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register required to be kept under section 352 of the SFO were as follows:

### (a) The Company

Name of Director	Personal interests (held as beneficial owner)	Number of ordinary shares held			Total interests	Total interests as a % of the issued voting shares
		Family interests (interests of spouse)	Corporate interests (interests of controlled corporation)	Other interests		
Karl C. Kwok	480,620	–	–	–	480,620	0.164
Lester Kwok	649,050	–	–	–	649,050	0.221
Bill Kwok	958,298	295,000	255,000	–	1,508,298	0.513
			(Note 1)			
Mark Kwok	556,910	–	10,000	–	566,910	0.193
			(Note 2)			
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.

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

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

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

## REPORT OF THE DIRECTORS

(Continued)

### DIRECTORS' INTERESTS IN SHARES (Continued)

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

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

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

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

### SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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 voting shares
(i) Wing On International Holdings Limited	180,545,138	61.434
(ii) Wing On Corporate Management (BVI) Limited	180,545,138	61.434
(iii) Kee Wai Investment Company (BVI) Limited	180,545,138	61.434

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.

# REPORT OF THE DIRECTORS

(Continued)

## 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

Details of the purchase of own shares by the Company during the year are set out in Note 22(d) to the financial statements. The purchases were made for the purpose of enhancing the net asset value per share and earnings per share of the Company.

Save as disclosed in Note 22(d) to the financial statements, 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, 28 March 2018

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE

The Company and the Board are committed to achieving and maintaining high standard of corporate governance. The Company has applied the principles and complied with the applicable code provisions in the Corporate Governance Code (the “Code”) set out in Appendix 14 of 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 2017.

## 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 year ended 31 December 2017.

## BOARD OF DIRECTORS

The Board currently comprises eight 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 four independent non-executive directors (one of whom is a chartered accountant). 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.

# CORPORATE GOVERNANCE REPORT

(Continued)

## 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. Seven Board meetings, convened by due notice together with agenda and accompanying board papers to all directors, were held during the financial year ended 31 December 2017. The attendance of each director at the Board meetings and Annual General Meeting during the financial year ended 31 December 2017 is set out in the table below:

	<u>Board meetings attended/held</u>	<u>Annual General Meeting attended/held</u>
<b>Executive Directors</b>		
Mr. Karl C. Kwok (Chairman)	6/7	1/1
Mr. Lester Kwok (Deputy Chairman and Chief Executive Officer)	7/7	1/1
Mr. Mark Kwok	7/7	1/1
<b>Non-executive Director</b>		
Dr. Bill Kwok	7/7	1/1
<b>Independent Non-executive Directors</b>		
Miss Maria Tam Wai Chu	6/7	1/1
Mr. Ignatius Wan Chiu Wong	7/7	1/1
Mr. Iain Ferguson Bruce	7/7	1/1
Mr. Leung Wing Ning	7/7	1/1

The 2017 Annual General Meeting (“AGM”) was held on 2 June 2017, where all the directors, including the Chairman of the Board, the Chairman of each of the Audit Committee, Remuneration Committee and Nomination Committee and the external auditor of the Company, attended the AGM to answer questions raised by shareholders. Proceedings of annual general meeting are reviewed from time to time to ensure that the Company follows good corporate governance practices. Voting results were posted on the Company’s and the Stock Exchange’s website on the day of the AGM.

All directors well understand their roles, responsibilities and obligations as stated in the Company’s Corporate Governance 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 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 statement of the auditor of the Company about their reporting responsibilities on the financial statements of the Company is set out on pages 41 to 46 in the independent auditor’s report for the year ended 31 December 2017.

# CORPORATE GOVERNANCE REPORT

(Continued)

## BOARD OF DIRECTORS (Continued)

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 businesses, and the formulation of business plans for the Board's review and approval.

The Board 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 2017, each independent non-executive director has given the Company an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

## Corporate Governance Functions

The Board is responsible for performing corporate governance duties including:

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and directors; and
- (e) to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Under the Company's Code, the Board may delegate part of the above duties to the Company's board committees. During the financial year ended 31 December 2017, the Board has, on its own and through the Nomination Committee and Audit Committee, fulfilled the above corporate governance duties. The Nomination Committee assisted the Board to review and monitor the training and continuous professional development of directors and senior management. The Audit Committee assisted the Board to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

# CORPORATE GOVERNANCE REPORT

(Continued)

## BOARD OF DIRECTORS (Continued)

### Directors' Training

During the year, the Company organised one in-house seminar to update the Directors on the new amendments to the Code and relevant Listing Rules. The Company also encourages Directors to attend relevant seminars, conferences or forums to develop and refresh their knowledge and skills. The Company Secretary also provides Directors with relevant reading materials from time to time.

During the year, a summary of training received by Directors according to the records provided by Directors is as follows:

<b>Executive Directors</b>	<b><u>Type of training</u></b>
Mr. Karl C. Kwok	A, B, C
Mr. Lester Kwok	A, B, C
Mr. Mark Kwok	A, B, C

### Non-executive Director

Dr. Bill Kwok	A, B, C
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### Independent Non-executive Directors

Miss Maria Tam Wai Chu	B, C
Mr. Ignatius Wan Chiu Wong	A, B, C
Mr. Iain Ferguson Bruce	B, C
Mr. Leung Wing Ning	A, B, C

- (A) In-house seminar
- (B) External seminars and/or conferences and/or forums
- (C) Reading materials

## 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, that all directors receive adequate and accurate information on a timely manner, 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.

# CORPORATE GOVERNANCE REPORT

(Continued)

## NON-EXECUTIVE DIRECTORS

There are currently one non-executive director and four independent non-executive directors. All non-executive directors are serving for a fixed term of not more than three years. During the financial year ended 31 December 2017, the Chairman held a meeting with the non-executive directors, including independent non-executive directors, without the presence of executive directors.

## REMUNERATION COMMITTEE

The remuneration committee of the Company (the “Remuneration Committee”) was formed on 30 June 2005 and is currently 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 are published on the Stock Exchange’s website and the Company’s website. The Remuneration Committee is responsible for making recommendations to the Board on the Company’s policy and the remuneration structure of all 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 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 or termination of office of directors and members of senior management. The remuneration of the 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.



# CORPORATE GOVERNANCE REPORT

(Continued)

## REMUNERATION COMMITTEE (Continued)

During the financial year ended 31 December 2017, the Remuneration Committee reviewed the remuneration policy and determined the remuneration packages of all executive directors and members of senior management with reference to their performance. The Remuneration Committee also reviewed the directors' fees and allowances for 2017. Two meetings of the Remuneration Committee were held in 2017. The attendance of committee members during 2017 is set out in the table below:

<b>Remuneration Committee Members</b>	<b><u>Meetings attended/held</u></b>
Mr. Leung Wing Ning (Committee Chairman)	2/2
Mr. Karl C. Kwok	2/2
Mr. Ignatius Wan Chiu Wong	2/2

The amount of remuneration paid to each director of the Company for 2017 is set out in Note 7 to the financial statements for the year ended 31 December 2017.

At the forthcoming Annual General Meeting to be held on 4 June 2018, the Board will propose a director's fee of HK\$228,000 for each director for the year 2018 as recommended by the Remuneration Committee.

## NOMINATION COMMITTEE

The Board established a nomination committee (the "Nomination Committee") on 30 March 2012, the Nomination Committee is currently comprised of two independent non-executive directors (one of whom is the Nomination Committee Chairman) and one executive director.

The terms of reference of the Nomination Committee are 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 diversity (including 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.

# CORPORATE GOVERNANCE REPORT

(Continued)

## NOMINATION COMMITTEE (Continued)

The Nomination Committee has adopted a Board Diversity Policy (“Policy”) which sets out a policy of considering a number of factors when deciding on appointments to the Board and the continuation of those appointments, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, required experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution (considering factors like skills, knowledge and experience) that the selected candidates will bring to the Board.

During the financial year ended 31 December 2017, the Nomination Committee reviewed the structure, size and diversity of the Board; assessed the independence of independent non-executive directors with reference to the Policy, and made recommendations on the re-appointment of these independent non-executive directors. At present, half of the directors on the Board are independent non-executive directors with diverse career experiences. The Board considers the current Board composition is well-balanced and of a diverse mix of skills and experience to lead and oversee the business of the Company. The Nomination Committee will review and monitor the implementation of this Policy on a regular basis to ensure optimal composition of the Board.

During the financial year ended 31 December 2017, there were no new directors appointed to the Board.

Two Nomination Committee meetings were held in 2017. The attendance of committee members during 2017 is set out in the table below:

<b>Nomination Committee Members</b>	<b><u>Meetings attended/held</u></b>
Mr. Leung Wing Ning (Committee Chairman)	2/2
Mr. Karl C. Kwok	2/2
Mr. Ignatius Wan Chiu Wong	2/2

## AUDIT COMMITTEE

The Board established an audit committee on 16 December 1998 (the “Audit Committee”). The Audit Committee is currently 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 are 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 review the scope and effectiveness of the Group’s internal control function.

# CORPORATE GOVERNANCE REPORT

(Continued)

## AUDIT COMMITTEE (Continued)

During the financial year ended 31 December 2017, the Audit Committee, inter alia, reviewed and discussed with management and the external auditor the interim and annual reports with a view to ensuring that the Group's financial reports are prepared in compliance with accounting and auditing standards, as well as Listing Rules and legal requirements in relation to financial reporting. Further, the Audit Committee engaged an external consultant to perform internal audit services and discussed the scope of work and findings with the external consultant. The Audit Committee reviewed the independence and quality of work of KPMG and recommended to the Board to re-appoint KPMG as auditor for 2017. Four meetings of the Audit Committee were held in 2017. The attendance of committee members during 2017 is set out in the table below:

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

## AUDITORS' REMUNERATION

During the financial year ended 31 December 2017, the fees charged for statutory audit services provided to the Company and its subsidiaries amounted to HK\$3,626,000 (2016: HK\$3,461,000), and, in addition, HK\$2,760,000 (2016: HK\$2,646,000) 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\$1,126,000 (2016: HK\$1,094,000) paid to the Group's external auditor for performing internal systems review services as approved by the Audit Committee.

## RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges that it is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems to safeguard the assets of the Group. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Audit Committee is delegated by the Board to assist the Board in fulfilling the above responsibilities.

The Company has no internal audit function. The Audit Committee accepted management's recommendations that an external consultant be engaged to provide independent and objective appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems.

# CORPORATE GOVERNANCE REPORT

(Continued)

## RISK MANAGEMENT AND INTERNAL CONTROLS (Continued)

During the year, an external consultant was engaged and assisted the Group to perform a review of the effectiveness of the Group's internal control systems that covers financial, operational and compliance controls. The external consultant also reviewed the adequacy of resources, staff qualifications and experience, and training programmes and budget of the Group's accounting and financial reporting functions. During the review process, the external consultant carried out fieldwork and adopted its own methodology. 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 management accepted the external consultant's comments on areas for enhancements and took follow-up actions for improvement.

The Board has established a Risk Management Policy which sets out the risk management framework and process from risk identification to risk reporting, with a view to ensuring that there is consistent basis for measuring, controlling, monitoring and reporting risks across the Group at all levels to support the achievement of the Group's strategic objectives on an ongoing basis.

The Board has approved risk appetite statements to identify major risks and defined acceptable levels for each type of risk. All department heads have an important role to play in their day-to-day work. They have to identify, assess, monitor and report the outcome of risks. Management will assess the nature and impact of risk, and report issues to the Chief Executive Officer and Board level according to the risk reporting procedures as stated in the Risk Management Policy. The Group's Chief Accountant is responsible for the risk management process. Risks which cannot be accepted or are beyond the Company's risk appetite are transferred, eliminated or controlled through risk mitigation measures. Each risk mitigation measure has a process owner who is a Department Manager and a target completion date is assigned to ensure accountability. Risks owners are also responsible for monitoring the status of the risk mitigation measures for risks under their purview. During the year, the external consultant reviewed and updated the risk management system of the Group and concluded that no new risk was identified.

A policy on the handling and disclosure of inside information was established in 2013 which sets out appropriate internal control and reporting systems to identify and assess potential inside information. The Board has delegated the responsibilities for the handling and dissemination of inside information to the executive directors, senior managers and company secretary (together known as "Responsible Officers"). Responsible Officers will maintain appropriate and effective reporting procedures to ensure a timely and structured flow to the Board of information arising from the development or occurrence of events and circumstances so that the Board can decide whether disclosure is necessary.

Management had confirmed to the Board that the Group's risk management and internal control systems are effective, and the Board considers such systems effective and adequate.

# CORPORATE GOVERNANCE REPORT

(Continued)

## 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. The Company Secretary also keeps proper records of all Board and Committee meetings (including details of matters considered, concerns raised and decisions reached) which are made available for inspection by directors at all reasonable times. The biography of the Company Secretary is set out on page 9. The Company Secretary has undertaken no less than 15 hours of professional training during the year.

## 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 (1/10) 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 (1/10) 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 or 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 (1/2) 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.

# CORPORATE GOVERNANCE REPORT

(Continued)

## SHAREHOLDERS' RIGHTS (Continued)

### (b) Procedures for shareholders to submit enquiries to the Board

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 by depositing such enquiries, addressed to the Company Secretary, at the Company's principal office in Hong Kong (as set out in the Corporate Information section of this Annual Report).

### (c) Procedures for shareholders to put forward proposals at shareholders' meetings

To put forward proposals at shareholders' meeting, a request in writing must be made by:

- (1) shareholders representing not less than one-twentieth (1/20) of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or
- (2) not less than one hundred shareholders.

The written request must be signed by all the shareholders concerned in one or more documents in like form and deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution; and not less than one week before the meeting in the case of any other requisition. Upon verification that the request is valid, the Company will give notice of the resolution or circulate the statement of not more than one thousand words with respect to the matter referred to in the proposed resolution provided that the shareholders concerned have deposited a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.

For enquiries, shareholders may contact 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 2017 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 2014, 2015 and 2017 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 11 December 2014, 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 2015 to 31 December 2017 with The Wing On Company Limited (“WOCO”) and The Wing On Properties and Securities Company Limited (“WOPS”) at a monthly rental of HK\$6,240,000 (exclusive of rates, air-conditioning charges, management fee and all other outgoings). The maximum aggregate annual rental payable to WOPS would be HK\$26,679,744. 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 Investment Company (BVI) Limited (“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 30 March 2015, WOCO entered into a Tenancy Agreement with Wocom Holdings Limited (“WOCOM”) to rent the premises at Rooms 1002 to 1006, Wing On Centre, 111 Connaught Road Central, Hong Kong for a fixed term of two years commencing from 8 June 2015 to 7 June 2017 at a monthly rental of HK\$386,000 (exclusive of rates, management fees, air-conditioning charges and any other outgoings). The maximum aggregate annual rental value would be HK\$4,632,000. 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.

On 30 March 2017, 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 fixed term of three years commencing from 8 June 2017 to 7 June 2020 at a monthly rental of HK\$410,000 (exclusive of rates, management fees, air-conditioning charges and any other outgoings). The maximum aggregate annual rental value would be HK\$4,920,000. 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 61.31% interest in the existing issued share capital of the Company, the Tenancy Agreement constitutes a continuing connected transaction of the Company.

## CONTINUING CONNECTED TRANSACTIONS

(Continued)

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 Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Main Board Listing Rule 14A.56. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.



## FIVE YEAR SUMMARY

	2017	2016	2015	2014	2013
<b>Statement of profit or loss items</b>					
(HK\$ million)					
Revenue	<b>1,648</b>	1,722	1,872	1,965	1,929
Profit from operations after finance costs	<b>642</b>	584	547	676	643
Profit before taxation	<b>2,872</b>	1,135	1,269	1,461	1,457
Income tax expense	<b>(211)</b>	(146)	(198)	(185)	(143)
Profit attributable to shareholders of the Company	<b>2,657</b>	987	1,069	1,275	1,313
Underlying profit attributable to shareholders of the Company	<b>582</b>	455	476	997	563
<b>Per share basis (HK\$)</b>					
Basic earnings per share	<b>9.03</b>	3.35	3.62	4.32	4.45
Underlying earnings per share	<b>1.98</b>	1.54	1.61	3.38	1.91
Dividend per share	<b>2.16</b>	0.81	0.84	1.77	1.00
<b>Statement of financial position items</b>					
(HK\$ million)					
Investment properties and other property, plant and equipment	<b>15,159</b>	12,642	12,052	11,630	11,502
Other assets	<b>4,171</b>	4,207	4,006	5,266	3,547
Total assets	<b>19,330</b>	16,849	16,058	16,896	15,049
Current liabilities	<b>558</b>	669	454	1,608	854
Non-current liabilities	<b>910</b>	566	723	731	411
Total liabilities	<b>1,468</b>	1,235	1,177	2,339	1,265
Non-controlling interests	<b>31</b>	27	25	23	21
Total equity attributable to shareholders of the Company	<b>17,831</b>	15,587	14,856	14,534	13,763

## PROPERTIES HELD FOR INVESTMENT

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

Location	Approximate gross floor area	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	446,000 sq.ft.*	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	7,000 sq.ft.	100%	Long lease	Commercial
3. Portions of Ground and 13th Floors and the whole of 8th to 12th Floors and 14th 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	157,000 sq.ft.*	64.37%	Medium lease	Commercial
4. The Halbouty Center, 5100 Westheimer, Houston, Harris County, Texas, USA	116,000 sq.ft.*	88.22%	Freehold	Commercial
5. 333 Collins Street, Melbourne, Victoria, Australia	616,000 sq.ft.*	100%	Freehold	Commercial
6. 349 Collins Street, Melbourne, Victoria, Australia	23,000 sq.ft.	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)

## Opinion

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 47 to 139, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of the Group's consolidated financial performance and consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing (“HKSAs”) issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (“the Code”) together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

(Continued)

(Incorporated in Bermuda with limited liability)

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Valuation of investment properties

Refer to note 11 to the consolidated financial statements.

### The Key Audit Matter

The Group holds a portfolio of investment properties located in Hong Kong, Australia and the United States of America comprising office premises, which had an aggregate fair value of HK\$14,752 million and accounted for 76% of the Group's total assets as at 31 December 2017.

The fair values of the investment properties as at 31 December 2017 were assessed by the board of directors based on independent valuations prepared by qualified external property valuers.

The net changes in fair value of investment properties recorded in the consolidated statement of profit or loss represented 77% of the Group's profit before taxation for the year ended 31 December 2017.

The valuation of investment properties is complex and involves a significant degree of judgement and estimation, particularly in determining appropriate capitalisation rates and market rents.

We identified assessing valuation of investment properties as a key audit matter because of the significance of investment properties to the Group's financial statements and because of the significant degree of judgement and estimation involved in assessing the fair values.

### How the matter was addressed in our Audit

Our audit procedures to assess the valuation of investment properties included the following:

- assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence;
- evaluating and discussing the valuation methodology adopted with the external property valuers and assessing the key estimates and assumptions adopted in these valuations, which included estimated market rents and capitalisation rates, by comparing with market available data;
- comparing the valuations of the external property valuers with recent comparable property transactions with reference to properties of the same type and in the same location as the Group's investment properties to assess whether the valuations were consistent with our expectations of the market; and
- comparing tenancy information, including committed rents, provided by management to the external property valuers with underlying property contracts, on a sample basis.

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

(Continued)

(Incorporated in Bermuda with limited liability)

## Key audit matters (Continued)

### Accounting for the interest in an associate

Refer to note 12(c) to the consolidated financial statements.

#### The Key Audit Matter

In 2014, an associate of the Group disposed of a subsidiary engaged in automobile dealerships and related business in the United States of America to a third party. A portion of the consideration was paid into an escrow account to cover claims made under warranties provided for in the sale and purchase agreement.

As at 31 December 2017, the associate had received certain claims from the buyer, some of which are currently under negotiation and the outcome of which is uncertain.

At 31 December 2017, the Group's share of net assets of this associate included its share of provisions for these unresolved claims which amounted to HK\$15,022,000.

We identified the accounting for the interest in an associate as a key audit matter because the Group's share of the provision is material to the Group's share of net assets of the associate and because the associate's assessment of provisions for these claims entailed a significant degree of management judgement which involved making certain assumptions based on the interpretation of contract terms, relevant rules and regulations and the advice of legal counsel. The inherent uncertainty in determining the level of provisions could also be subject to management bias.

#### How the matter was addressed in our Audit

Our audit procedures to assess the accounting for the interest in an associate included the following:

- discussing the status and potential exposures in respect of the warranty claims received by the associate with management and obtaining direct written confirmation regarding the progress of the claims from the external legal counsel engaged by the Group including their views on the likely outcome of each claim and the magnitude of potential exposure;
- challenging the assumptions and critical judgements made by management which impacted their estimation of the provisions required by the associate by considering the relevant opinions given by the external legal counsel and assessing whether there was an indication of management bias; and
- considering the disclosures in the consolidated financial statements in respect of the accounting for the interest in an associate and the provisions made in respect of these claims with reference to the requirements of the prevailing accounting standards.

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

(Continued)

(Incorporated in Bermuda with limited liability)

## **Information other than the consolidated financial statements and auditor's report thereon**

The directors are responsible for the other information. The other information comprises all the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## **Responsibilities of the directors for the consolidated financial statements**

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

## **Auditor's responsibilities for the audit of the consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

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

(Continued)

(Incorporated in Bermuda with limited liability)

## **Auditor's responsibilities for the audit of the consolidated financial statements** (Continued)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

(Continued)

(Incorporated in Bermuda with limited liability)

## **Auditor's responsibilities for the audit of the consolidated financial statements** (Continued)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Cheng Mei Yan Hilary.

### **KPMG**

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

28 March 2018



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Revenue</b>	3(a)	1,647,960	1,721,726
Other revenue	4	78,868	46,732
Other net gain/(loss)	4	96,222	(1,773)
Cost of department store sales	5(d)	(660,010)	(701,693)
Cost of property leasing activities	5(c)	(105,559)	(80,873)
Other operating expenses		<u>(409,615)</u>	<u>(391,813)</u>
<b>Profit from operations</b>		647,866	592,306
Finance costs	5(a)	<u>(6,138)</u>	<u>(7,826)</u>
Net valuation gain on investment properties	11	641,728 <u>2,209,441</u>	584,480 <u>577,172</u>
Share of profit/(loss) of an associate	12	2,851,169 <u>20,874</u>	1,161,652 <u>(26,821)</u>
<b>Profit before taxation</b>	5	2,872,043	1,134,831
Income tax	6	<u>(210,657)</u>	<u>(146,276)</u>
<b>Profit for the year</b>		<u>2,661,386</u>	<u>988,555</u>
<b>Attributable to:</b>			
Shareholders of the Company		2,657,189	986,769
Non-controlling interests		<u>4,197</u>	<u>1,786</u>
<b>Profit for the year</b>		<u>2,661,386</u>	<u>988,555</u>
<b>Basic and diluted earnings per share</b>	9(a)	<u>903.1 cents</u>	<u>334.7 cents</u>

The notes on pages 55 to 139 form part of these financial statements. Details of dividends payable to shareholders of the Company are set out in note 22(c).

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	2017		2016	
	\$'000	\$'000	\$'000	\$'000
<b>Profit for the year</b>		2,661,386		988,555
		-----		-----
<b>Other comprehensive income for the year (after tax and reclassification adjustments):</b>				
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation adjustments:				
– exchange differences on translation of financial statements of overseas subsidiaries	197,865		(22,636)	
– share of exchange differences on translation of financial statements of an overseas associate	6,586		(2,783)	
		-----		-----
		204,451		(25,419)
Available-for-sale securities:				
– changes in fair value recognised during the year		440		1,940
		-----		-----
		204,891		(23,479)
		-----		-----
<b>Total comprehensive income for the year</b>		<u>2,866,277</u>		<u>965,076</u>
<b>Attributable to:</b>				
Shareholders of the Company		2,861,858		963,282
Non-controlling interests		4,419		1,794
		-----		-----
<b>Total comprehensive income for the year</b>		<u>2,866,277</u>		<u>965,076</u>

The notes on pages 55 to 139 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Non-current assets</b>			
Investment properties	11(a)	14,752,496	12,210,147
Other property, plant and equipment	11(a)	<u>407,068</u>	<u>431,399</u>
		15,159,564	12,641,546
Interest in an associate	12	301,278	273,818
Available-for-sale securities	13	26,918	26,478
Deferred tax assets	21(c)	<u>17,987</u>	<u>6,158</u>
		<u>15,505,747</u>	<u>12,948,000</u>
<b>Current assets</b>			
Trading securities	14	577,435	345,828
Inventories	15(a)	93,324	102,135
Debtors, deposits and prepayments	16	75,274	77,039
Amounts due from fellow subsidiaries	17	6,694	8,312
Current tax recoverable	21(a)	4,014	11,016
Other bank deposits		126,473	–
Cash and cash equivalents	18(a)	<u>2,941,473</u>	<u>3,356,832</u>
		<u>3,824,687</u>	<u>3,901,162</u>
<b>Current liabilities</b>			
Creditors and accrued charges	19	497,749	433,870
Secured bank loan	20	38,888	212,742
Amounts due to fellow subsidiaries	17	3,092	2,755
Current tax payable	21(a)	<u>18,509</u>	<u>19,852</u>
		<u>558,238</u>	<u>669,219</u>
<b>Net current assets</b>		<u>3,266,449</u>	<u>3,231,943</u>
<b>Total assets less current liabilities carried forward</b>		<u>18,772,196</u>	<u>16,179,943</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

(Continued)

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Total assets less current liabilities brought forward</b>		18,772,196	16,179,943
<b>Non-current liabilities</b>			
Secured bank loan	20	154,338	–
Deferred tax liabilities	21(c)	755,925	565,532
		<u>910,263</u>	<u>565,532</u>
<b>NET ASSETS</b>		<u>17,861,933</u>	<u>15,614,411</u>
<b>Capital and reserves</b>			
Share capital	22(d)	29,389	29,461
Reserves		<u>17,801,194</u>	<u>15,558,019</u>
<b>Total equity attributable to shareholders of the Company</b>		17,830,583	15,587,480
<b>Non-controlling interests</b>		<u>31,350</u>	<u>26,931</u>
<b>TOTAL EQUITY</b>		<u>17,861,933</u>	<u>15,614,411</u>

Approved and authorised for issue by the board of directors on 28 March 2018.

**Karl C. Kwok**  
Director

**Lester Kwok**  
Director

The notes on pages 55 to 139 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company									
		Land and building	Investment	Exchange	Contributed	General	Retained		Non-	Total	
		Share	revaluation	revaluation	reserve	surplus	reserve	earnings	controlling	equity	
		capital	reserve	reserve	reserve	surplus	fund		interests		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	
Note		(note 22(d))	(note 22(e)(i))	(note 22(e)(ii))	(note 22(e)(iii))	(note 22(e)(iv))	(note 22(e)(v))	(note 22(a))	Total		
	<b>Balance at 1 January 2017</b>	29,461	271,037	14,700	(203,894)	754,347	1,051	14,720,778	15,587,480	26,931	15,614,411
	<b>Changes in equity for 2017</b>										
	Profit for the year	-	-	-	-	-	-	2,657,189	2,657,189	4,197	2,661,386
	Other comprehensive income	-	-	440	204,229	-	-	-	204,669	222	204,891
	Total comprehensive income for the year	-	-	440	204,229	-	-	2,657,189	2,861,858	4,419	2,866,277
	Purchase of own shares	22(d)									
	- par value paid	(72)	-	-	-	-	-	-	(72)	-	(72)
	- premium and transaction costs paid	-	-	-	-	-	-	(18,699)	(18,699)	-	(18,699)
	Dividends approved and paid in respect of the previous year	22(c)(ii)	-	-	-	-	-	(164,720)	(164,720)	-	(164,720)
	Dividends declared and paid in respect of the current year	22(c)(i)	-	-	-	-	-	(435,264)	(435,264)	-	(435,264)
		(72)	-	440	204,229	-	-	2,038,506	2,243,103	4,419	2,247,522
	<b>Balance at 31 December 2017</b>	29,389	271,037	15,140	335	754,347	1,051	16,759,284	17,830,583	31,350	17,861,933

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

(Continued)

(Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company									
		Land and building	Investment	Exchange	Contributed	General	Retained		Non-	Total	
		Share capital	revaluation reserve	revaluation reserve	reserve	surplus	reserve fund	earnings	Total	controlling interests	equity
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Note		(note 22(d))	(note 22(e)(i))	(note 22(e)(ii))	(note 22(e)(iii))	(note 22(e)(iv))	(note 22(e)(v))	(note 22(a))			
	<b>Balance at 1 January 2016</b>	29,508	271,037	12,760	(178,467)	754,347	1,673	13,965,345	14,856,203	25,137	14,881,340
	<b>Changes in equity for 2016</b>										
	Profit for the year	-	-	-	-	-	-	986,769	986,769	1,786	988,555
	Other comprehensive income	-	-	1,940	(25,427)	-	-	-	(23,487)	8	(23,479)
	Total comprehensive income for the year	-	-	1,940	(25,427)	-	-	986,769	963,282	1,794	965,076
	Share of the general reserve fund of an associate: transfer from the general reserve fund	-	-	-	-	-	(622)	622	-	-	-
	Purchase of own shares	22(d)									
	- par value paid	(47)	-	-	-	-	-	-	(47)	-	(47)
	- premium and transaction costs paid	-	-	-	-	-	-	(10,899)	(10,899)	-	(10,899)
	Dividends approved and paid in respect of the previous year	22(c)(ii)	-	-	-	-	-	(147,388)	(147,388)	-	(147,388)
	Dividends declared and paid in respect of the current year	22(c)(i)	-	-	-	-	-	(73,671)	(73,671)	-	(73,671)
		(47)	-	1,940	(25,427)	-	(622)	755,433	731,277	1,794	733,071
	<b>Balance at 31 December 2016</b>	29,461	271,037	14,700	(203,894)	754,347	1,051	14,720,778	15,587,480	26,931	15,614,411

The notes on pages 55 to 139 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Operating activities</b>			
Profit before taxation		2,872,043	1,134,831
Adjustments for:			
Net valuation gain on investment properties		(2,209,441)	(577,172)
Depreciation and amortisation		54,851	55,407
Impairment losses of trade and other debtors (written back)/recognised		(11)	35
Finance costs		6,138	7,826
Dividend income from investments in securities		(26,864)	(16,395)
Interest income from bank deposits		(39,280)	(25,812)
Share of (profit)/loss of an associate		(20,874)	26,821
Net (gain)/loss on disposal of plant and equipment		(199)	176
Foreign exchange (gain)/loss		(16,746)	699
		619,617	606,416
<b>Operating profit before changes in working capital</b>		619,617	606,416
(Increase)/decrease in trading securities		(231,607)	32,837
Decrease in inventories		8,811	2,627
Decrease/(Increase) in debtors, deposits and prepayments		4,276	(7,422)
Decrease/(increase) in amounts due from fellow subsidiaries		1,618	(5,690)
Increase in creditors and accrued charges		24,255	35,648
Increase/(decrease) in amounts due to fellow subsidiaries		337	(56)
		427,307	664,360
<b>Cash generated from operations</b>		427,307	664,360
Tax paid			
– Hong Kong Profits Tax paid		(66,659)	(72,519)
– Overseas tax paid		(3,130)	(19,279)
		357,518	572,562
<b>Net cash generated from operating activities</b>		357,518	572,562

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

(Continued)

(Expressed in Hong Kong dollars)

	Note	2017 \$'000	2016 \$'000
<b>Investing activities</b>			
Payment of lease incentives		(36,267)	(59,389)
Payment for the purchases of investment properties and other property, plant and equipment		(48,312)	(34,163)
Proceeds from disposal of plant and equipment		323	77
Interest income received from bank deposits		38,483	24,333
Dividends received from investments in securities		26,397	16,285
Increase in other bank deposits		(126,473)	—
<b>Net cash used in investing activities</b>		(145,849)	(52,857)
<b>Financing activities</b>			
Payment for purchase of own shares	22(d)	(18,771)	(10,946)
Repayment of bank loan	18(b)	(38,257)	(36,798)
Interest paid	18(b)	(6,143)	(7,832)
Dividends paid to shareholders of the Company		(599,984)	(221,059)
<b>Net cash used in financing activities</b>		(663,155)	(276,635)
<b>Net (decrease)/increase in cash and cash equivalents</b>		(451,486)	243,070
<b>Cash and cash equivalents at 1 January</b>		3,356,832	3,116,347
<b>Effect of foreign exchange rate changes</b>		36,127	(2,585)
<b>Cash and cash equivalents at 31 December</b>	18(a)	2,941,473	3,356,832

The notes on pages 55 to 139 form part of these financial statements.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

## 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”). Significant accounting policies adopted by the Group are disclosed 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. 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 2017 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in an associate.

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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (b) Basis of preparation of the financial statements (Continued)

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.

### (c) Changes in accounting policies

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group. However, additional disclosure has been included in note 18(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

### (d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions and cash flows 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 the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (d) Subsidiaries and non-controlling interests (Continued)

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 statement of profit or loss and the consolidated statement of profit or loss and other 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 interest 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 statement of profit or loss. 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(f)) 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(k)).

### (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 associate'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(k)). 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 statement of profit or loss, 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (e) Associates (Continued)

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 statement of profit or loss. 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(f)).

### (f) 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 an associate, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses 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 statement of profit or loss 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 statement of profit or loss. The net gain or loss recognised in the consolidated statement of profit or loss 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(t)(iii) and 1(t)(v) respectively.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (f) Other investments in debt and equity securities (Continued)

- Investments in securities which do not fall into the above category 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. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the consolidated statement of financial position at cost less impairment losses (see note 1(k)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in the consolidated statement of profit or loss in accordance with the accounting policies set out in notes 1(t)(iii) and 1(t)(v), respectively.

When the investments are derecognised or impaired (see note 1(k)), the cumulative gain or loss recognised in equity is reclassified to the consolidated statement of profit or loss.

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

### (g) 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 statement of profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

### (h) 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 statement of profit or loss. Rental income from investment properties is accounted for as described in the accounting policy set out in note 1(t)(ii).

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (h) Investment properties (Continued)

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.

### (i) 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(k)):

- 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 statement of profit or loss 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 statement of profit or loss.

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 statement of profit or loss 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 statement of profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (i) 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.

### (j) 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 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

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (j) Leased assets (Continued)

#### (i) Classification of assets leased to the Group (Continued)

- 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.

#### (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 statement of profit or loss 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 statement of profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated statement of profit or loss in the accounting period in which they are incurred.

### (k) 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;



# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (k) Impairment of assets (Continued)

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

- 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 instrument below its cost.

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

- For investments in interest in an associate accounted for under the equity method in the consolidated financial statements (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(k)(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(k)(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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (k) Impairment of assets (Continued)

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

- 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 statement of profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale securities, the cumulative loss that has been recognised in the investment revaluation reserve is reclassified to the consolidated statement of profit or loss. The amount of the cumulative loss that is recognised in the consolidated statement of profit or loss 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 statement of profit or loss.

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

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (k) Impairment of assets (Continued)

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

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 statement of profit or loss.

- (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 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
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (k) Impairment of assets (Continued)

#### (ii) Impairment of other assets (Continued)

##### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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 statement of profit or loss 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 of disposal, 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 in equity and any excess will be charged to the consolidated statement of profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (k) Impairment of assets (Continued)

#### (ii) Impairment of other assets (Continued)

##### – Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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 statement of profit or loss in the year in which the reversals are recognised.

#### (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(k)(i) and 1(k)(ii)).

Impairment losses recognised in an interim period in respect of 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 statement of profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (l) Inventories

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

Cost is determined on a weighted average basis and includes the direct costs of purchase. Net realisable value is determined by reference to the sales proceeds of items sold in the ordinary course of business subsequent to the 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.

### (m) 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(k)), 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.

### (n) 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 statement of profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### (o) 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (p) 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.

### (q) 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 at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

### (r) 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 statement of profit or loss 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (r) Income tax (Continued)

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 the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences relating to investments in subsidiaries and associate 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.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(h), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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.

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.



# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (r) Income tax (Continued)

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.

### (s) 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 is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. 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 statement of profit or loss on initial recognition of any deferred income.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (s) 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 statement of profit or loss 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(s)(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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (t) 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 statement of profit or loss 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 statement of profit or loss 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 statement of profit or loss 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (u) 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 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 statement of profit or loss.

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 measured.

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.

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 statement of profit or loss when the profit or loss on disposal is recognised.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (v) 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.

### (w) 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;

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 1. Significant accounting policies (Continued)

### (w) Related parties (Continued)

- (ii) An entity is related to the Group if any of the following conditions applies: (Continued)
- (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);
  - (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); or
  - (h) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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.

### (x) 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 2. Sources of estimation uncertainty

Note 23 contains information about the assumptions and their risk factors relating to financial instruments. Other key sources of estimation uncertainty are as follows:

#### (a) Recognition of deferred tax assets

As explained in note 21, 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 11(c), the investment properties were revalued by independent professional valuers as at 31 December 2017. 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.

#### (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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 2. Sources of estimation uncertainty (Continued)

### (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. Revenue and segment reporting

### (a) Revenue

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

The Group's revenue 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:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Sales of goods	968,160	1,028,972
Net income from concession sales	243,813	253,654
	<u>1,211,973</u>	<u>1,282,626</u>
Department stores	1,211,973	1,282,626
Property investment	435,987	439,100
	<u>1,647,960</u>	<u>1,721,726</u>

The Group's customer base is diversified and does not have any customer with whom transactions have exceeded 10% of the Group's total revenue. Further details regarding the Group's principal activities are disclosed below.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3. Revenue and segment reporting (Continued)

#### (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 ("USA").

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

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

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

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

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

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3. Revenue and segment reporting (Continued)

#### (b) Segment reporting (Continued)

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	Department stores		Property investment		Total	
	2017	2016	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from						
external customers	1,211,973	1,282,626	435,987	439,100	1,647,960	1,721,726
Inter-segment revenue	-	-	119,581	120,385	119,581	120,385
<b>Reportable segment revenue</b>	<u>1,211,973</u>	<u>1,282,626</u>	<u>555,568</u>	<u>559,485</u>	<u>1,767,541</u>	<u>1,842,111</u>
<b>Reportable segment profit</b>	<u>116,416</u>	<u>151,495</u>	<u>425,409</u>	<u>445,666</u>	<u>541,825</u>	<u>597,161</u>
Finance costs	-	-	6,138	7,826	6,138	7,826
Depreciation and amortisation for the year	8,921	7,354	45,421	47,687	54,342	55,041
Impairment losses of trade and other debtors (written back)/recognised	(11)	35	-	-	(11)	35
<b>Reportable segment assets</b>	163,772	166,298	15,163,641	12,657,860	15,327,413	12,824,158
Additions to non-current segment assets during the year	7,793	12,953	113,205	79,885	120,998	92,838
<b>Reportable segment liabilities</b>	<u>318,156</u>	<u>313,652</u>	<u>328,526</u>	<u>295,811</u>	<u>646,682</u>	<u>609,463</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3. Revenue and segment reporting (Continued)

#### (b) Segment reporting (Continued)

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
<b>Profit</b>		
Reportable segment profit	541,825	597,161
Share of profit/(loss) of an associate	20,874	(26,821)
Other revenue	78,868	46,732
Other net gain/(loss)	96,222	(1,773)
Finance costs	(6,138)	(7,826)
Net valuation gain on investment properties	2,209,441	577,172
Unallocated head office and corporate expenses	<u>(69,049)</u>	<u>(49,814)</u>
Consolidated profit before taxation	<u>2,872,043</u>	<u>1,134,831</u>
<b>Assets</b>		
Reportable segment assets	15,327,413	12,824,158
Elimination of inter-segment receivables	<u>(6,407)</u>	<u>(6,246)</u>
	15,321,006	12,817,912
Interest in an associate	301,278	273,818
Available-for-sale securities	26,918	26,478
Deferred tax assets	17,987	6,158
Trading securities	577,435	345,828
Current tax recoverable	4,014	11,016
Unallocated head office and corporate assets	<u>3,081,796</u>	<u>3,367,952</u>
Consolidated total assets	<u>19,330,434</u>	<u>16,849,162</u>
<b>Liabilities</b>		
Reportable segment liabilities	646,682	609,463
Elimination of inter-segment payables	<u>(6,407)</u>	<u>(6,246)</u>
	640,275	603,217
Current tax payable	18,509	19,852
Deferred tax liabilities	755,925	565,532
Unallocated head office and corporate liabilities	<u>53,792</u>	<u>46,150</u>
Consolidated total liabilities	<u>1,468,501</u>	<u>1,234,751</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 3. Revenue 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 investment properties and other property, plant and equipment and interest in an associate ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the specified non-current assets is based on the physical location of the asset in the case of investment properties and other property, plant and equipment and the location of operations in the case of interest in an associate.

	<b>Revenue from external customers</b>		<b>Specified non-current assets</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
	\$'000	\$'000	\$'000	\$'000
Hong Kong (place of domicile)	1,512,476	1,582,810	11,579,151	9,858,656
Australia	115,976	119,174	3,375,720	2,587,108
USA	19,508	19,742	344,510	334,483
People's Republic of China ("PRC")	–	–	161,461	135,117
	<u>135,484</u>	<u>138,916</u>	<u>3,881,691</u>	<u>3,056,708</u>
	<u>1,647,960</u>	<u>1,721,726</u>	<u>15,460,842</u>	<u>12,915,364</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

	2017	2016
	\$'000	\$'000
<b>Other revenue</b>		
Interest income from bank deposits	39,280	25,812
Dividend income from investments in securities	26,864	16,395
Compensation received on early termination of leases	9,103	754
Forfeiture of unclaimed dividends	1,583	1,397
Others	2,038	2,374
	<u>78,868</u>	<u>46,732</u>
<b>Other net gain/(loss)</b>		
Net gain/(loss) on remeasurement to fair value of		
– trading securities	41,185	(2,437)
– derivative financial instruments	–	(185)
Net realised gain/(loss) on disposal of		
– trading securities	23,965	5,137
– derivative financial instruments	7,592	(1,077)
Net foreign exchange gain/(loss)	23,281	(3,035)
Net gain/(loss) on disposal of plant and equipment	199	(176)
	<u>96,222</u>	<u>(1,773)</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 5. Profit before taxation

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
<b>(a) Finance costs</b>		
Interest on bank loan	<u>6,138</u>	<u>7,826</u>
<b>(b) Staff costs (excluding directors' remuneration)</b>		
Contributions to defined contribution retirement plans	12,162	12,160
Salaries, wages and other benefits	<u>199,496</u>	<u>198,815</u>
	<u>211,658</u>	<u>210,975</u>
<b>(c) Rentals received and receivable from investment properties</b>		
Gross rentals	(435,987)	(439,100)
Less: direct outgoings	<u>105,559</u>	<u>80,873</u>
	<u>(330,428)</u>	<u>(358,227)</u>
<b>(d) Other items</b>		
Depreciation and amortisation		
– owned assets (note 11(a))	35,826	35,223
– lease incentives (note 11(a))	19,025	20,184
Impairment losses of trade and other debtors (written back)/recognised (note 16(b))	(11)	35
Auditors' remuneration		
– audit services	4,424	4,223
– tax services	497	472
– other services	1,466	1,411
Operating lease charges		
– minimum lease payments for hire of land and buildings	28,874	29,138
– contingent rentals for hire of land and buildings	27	181
Cost of inventories sold (note 15(b))	<u>660,010</u>	<u>701,693</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (a) Income tax in the consolidated statement of profit or loss represents:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
<b>Current tax – Hong Kong Profits Tax</b>		
Provision for the year	66,135	70,746
Over-provision in respect of prior years	(60)	(60)
	66,075	70,686
	66,075	70,686
<b>Current tax – Overseas</b>		
Provision for the year	10,143	11,701
Under-provision in respect of prior years	39	253
	10,182	11,954
	10,182	11,954
<b>Deferred tax (note 21(b))</b>		
Effect on deferred tax balances at		
1 January resulting from a decrease in		
tax rate of the USA		
– changes in fair value of investment properties	(14,094)	–
– other temporary differences	(8,639)	–
Origination and reversal of temporary differences		
– changes in fair value of investment properties	145,437	44,780
– other temporary differences	11,696	18,856
	134,400	63,636
	134,400	63,636
<b>Total income tax expense</b>	<b>210,657</b>	<b>146,276</b>

The provision for Hong Kong Profits Tax for 2017 is calculated at 16.5% (2016: 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.

In December 2017, the USA Government promulgated a decrease in the Federal Income Tax rate applicable to the Group's operations in USA from 35% to 21% as from the year ended 31 December 2018. This decrease is taken into account in the preparation of these financial statements. Accordingly, the opening balance of deferred tax has been re-measured to reflect the change of tax rate at the date of enactment.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Profit before taxation	<u>2,872,043</u>	<u>1,134,831</u>
Notional Hong Kong Profits Tax calculated at 16.5% (2016: 16.5%)	473,887	187,247
Tax effect of non-deductible expenses	9,724	12,863
Tax effect of non-taxable revenue	(314,774)	(80,551)
Tax effect of temporary differences not recognised	–	(9)
Tax effect of previously unrecognised temporary differences recognised this year	7	–
Tax effect of previously unrecognised tax losses recognised/utilised this year	(6,875)	(1,396)
Effect of different tax rates of subsidiaries operating in other jurisdictions	71,355	27,909
Effect of deferred tax balances at 1 January resulting from a decrease in tax rate of the USA	(22,733)	–
Effect of overseas withholding tax	87	20
(Over)/under-provision in respect of prior years	<u>(21)</u>	<u>193</u>
Actual tax expense	<u>210,657</u>	<u>146,276</u>



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 7. Directors' remuneration

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2017				Total \$'000
	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	
<b>Executive directors</b>					
Mr. Karl C. Kwok	218	5,791	2,625	18	8,652
Mr. Lester Kwok	218	5,169	2,421	18	7,826
Mr. Mark Kwok	218	3,304	1,549	284	5,355
	654	14,264	6,595	320	21,833
<b>Non-executive director</b>					
Dr. Bill Kwok	218	–	–	–	218
<b>Independent non-executive directors</b>					
Miss Maria Tam Wai Chu	218	131	–	–	349
Mr. Ignatius Wan Chiu Wong	218	187	–	–	405
Mr. Iain Ferguson Bruce	218	175	–	–	393
Mr. Leung Wing Ning	218	388	–	–	606
	872	881	–	–	1,753
	1,744	15,145	6,595	320	23,804

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 7. Directors' remuneration (Continued)

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows: (Continued)

	2016				Total \$'000
	Directors' fees \$'000	Salaries, allowances and benefits in kind \$'000	Discretionary bonuses \$'000	Retirement scheme contributions \$'000	
<b>Executive directors</b>					
Mr. Karl C. Kwok	210	5,595	2,742	18	8,565
Mr. Lester Kwok	210	4,994	2,528	18	7,750
Mr. Mark Kwok	210	3,192	1,618	274	5,294
	630	13,781	6,888	310	21,609
<b>Non-executive director</b>					
Dr. Bill Kwok	210	-	-	-	210
<b>Independent non-executive directors</b>					
Miss Maria Tam Wai Chu	210	126	-	-	336
Mr. Ignatius Wan Chiu Wong	210	180	-	-	390
Mr. Iain Ferguson Bruce	210	168	-	-	378
Mr. Leung Wing Ning	210	373	-	-	583
	840	847	-	-	1,687
	1,680	14,628	6,888	310	23,506

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 8. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2016: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2016: two) individuals are as follows:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Salaries, allowances and benefits in kind	7,809	7,577
Contributions to defined contribution retirement plans	653	642
Discretionary bonuses	<u>3,568</u>	<u>3,791</u>
	<u>12,030</u>	<u>12,010</u>

The emoluments of the two (2016: two) individuals with the highest emoluments are within the following bands:

	<b>Number of individuals</b>	
	<b>2017</b>	<b>2016</b>
\$		
3,500,001 – 4,000,000	1	–
4,000,001 – 4,500,000	–	1
7,500,001 – 8,000,000	–	1
8,000,001 – 8,500,000	<u>1</u>	<u>–</u>
	<u>2</u>	<u>2</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 9. 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 2017 of \$2,657,189,000 (2016: \$986,769,000) divided by the weighted average of 294,216,000 shares (2016: 294,855,000 shares) in issue during the year.

Weighted average number of shares:

	<b>2017</b>	<b>2016</b>
	'000	'000
Issued shares at 1 January	294,606	295,081
Effect of shares purchased	<u>(390)</u>	<u>(226)</u>
Weighted average number of shares in issue at 31 December	<u>294,216</u>	<u>294,855</u>

There were no outstanding potential shares throughout the years presented.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 9. 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

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”.

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

	2017		2016	
	\$'000	Amount per share cents	\$'000	Amount per share cents
Profit attributable to shareholders of the Company as shown in the consolidated statement of profit or loss	2,657,189	903.1	986,769	334.7
Less: Net valuation gain on investment properties	(2,209,441)	(750.9)	(577,172)	(195.8)
Add: Increase in deferred tax liabilities in relation to the net valuation gain on investment properties	145,437	49.4	44,780	15.2
Less: Effect on deferred tax balances in relation to the aggregate net valuation gain on investment properties at 1 January resulting from a decrease in tax rate of the USA	(14,094)	(4.8)	-	-
	579,091	196.8	454,377	154.1
Add: Valuation gain on investment property net of related deferred tax attributable to non-controlling interests	2,413	0.8	985	0.3
Underlying profit attributable to shareholders of the Company	581,504	197.6	455,362	154.4

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 10. 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 \$12,482,000 (2016: \$12,470,000).

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a)

	Land and buildings \$'000	Plant and equipment \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
<b>Cost or valuation:</b>					
At 1 January 2017	815,325	439,059	1,254,384	12,131,267	13,385,651
Exchange adjustments	–	42	42	233,654	233,696
Additions	–	11,608	11,608	35,962	47,570
Disposals	–	(723)	(723)	–	(723)
Fair value adjustment	–	–	–	2,209,441	2,209,441
	<u>815,325</u>	<u>449,986</u>	<u>1,265,311</u>	<u>14,610,324</u>	<u>15,875,635</u>
At 31 December 2017	815,325	449,986	1,265,311	14,610,324	15,875,635
<b>Accumulated depreciation and impairment losses:</b>					
At 1 January 2017	426,481	396,504	822,985	–	822,985
Exchange adjustments	–	31	31	–	31
Depreciation charge for the year (note 5(d))	25,186	10,640	35,826	–	35,826
Written back on disposals	–	(599)	(599)	–	(599)
	<u>451,667</u>	<u>406,576</u>	<u>858,243</u>	<u>–</u>	<u>858,243</u>
At 31 December 2017	451,667	406,576	858,243	–	858,243
<b>Lease incentives:</b>					
At 1 January 2017	–	–	–	78,880	78,880
Exchange adjustments	–	–	–	6,735	6,735
Additions (note (f))	–	–	–	75,582	75,582
Amortisation for the year (note 5(d))	–	–	–	(19,025)	(19,025)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(19,025)</u>	<u>(19,025)</u>
At 31 December 2017	–	–	–	142,172	142,172
<b>Net book value:</b>					
At 31 December 2017	<u>363,658</u>	<u>43,410</u>	<u>407,068</u>	<u>14,752,496</u>	<u>15,159,564</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

(a) (Continued)

	Land and buildings \$'000	Plant and equipment \$'000	Sub-total \$'000	Investment properties \$'000	Total \$'000
<b>Cost or valuation:</b>					
At 1 January 2016	815,325	423,477	1,238,802	11,563,176	12,801,978
Exchange adjustments	–	(4)	(4)	(25,433)	(25,437)
Additions	–	17,635	17,635	16,352	33,987
Disposals	–	(2,049)	(2,049)	–	(2,049)
Fair value adjustment	–	–	–	577,172	577,172
	<u>815,325</u>	<u>439,059</u>	<u>1,254,384</u>	<u>12,131,267</u>	<u>13,385,651</u>
At 31 December 2016	815,325	439,059	1,254,384	12,131,267	13,385,651
<b>Accumulated depreciation and impairment losses:</b>					
At 1 January 2016	401,296	388,266	789,562	–	789,562
Exchange adjustments	–	(4)	(4)	–	(4)
Depreciation charge for the year (note 5(d))	25,185	10,038	35,223	–	35,223
Written back on disposals	–	(1,796)	(1,796)	–	(1,796)
	<u>426,481</u>	<u>396,504</u>	<u>822,985</u>	<u>–</u>	<u>822,985</u>
At 31 December 2016	426,481	396,504	822,985	–	822,985
<b>Lease incentives:</b>					
At 1 January 2016	–	–	–	39,425	39,425
Exchange adjustments	–	–	–	250	250
Additions (note (f))	–	–	–	59,389	59,389
Amortisation for the year (note 5(d))	–	–	–	(20,184)	(20,184)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>78,880</u>	<u>78,880</u>
At 31 December 2016	–	–	–	78,880	78,880
<b>Net book value:</b>					
At 31 December 2016	<u>388,844</u>	<u>42,555</u>	<u>431,399</u>	<u>12,210,147</u>	<u>12,641,546</u>



# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

### (a) (Continued)

The analysis of cost or valuation of the investment properties and other property, plant and equipment of the Group is as follows:

	At cost \$'000	At professional valuation in 2017 \$'000	At directors' valuation in 1981 \$'000 (note (b))	Total \$'000
<b>At 31 December 2017</b>				
<b>Land and buildings</b>				
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
<b>Investment properties</b>				
Long lease in Hong Kong	–	9,805,200	–	9,805,200
Medium term lease in Hong Kong	–	1,367,219	–	1,367,219
Freehold outside Hong Kong	–	3,437,905	–	3,437,905
<b>Plant and equipment</b>	449,986	–	–	449,986
	1,123,542	14,610,324	141,769	15,875,635

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

### (a) (Continued)

The analysis of cost or valuation of the investment properties and other property, plant and equipment of the Group is as follows: (Continued)

	At cost \$'000	At professional valuation in 2016 \$'000	At directors' valuation in 1981 \$'000 (note (b))	Total \$'000
<b>At 31 December 2016</b>				
<b>Land and buildings</b>				
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
<b>Investment properties</b>				
Long lease in Hong Kong	–	8,219,800	–	8,219,800
Medium term lease in Hong Kong	–	1,207,581	–	1,207,581
Freehold outside Hong Kong	–	2,703,886	–	2,703,886
<b>Plant and equipment</b>	439,059	–	–	439,059
	1,112,615	12,131,267	141,769	13,385,651

- (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 2017 is \$79,297,000 (2016: \$81,027,000).

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 2017 is \$27,262,000 (2016: \$27,934,000).

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (c) Fair value measurement of investment properties

##### (i) Fair value hierarchy

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

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

At 31 December 2017, all of the Group's investment properties fall into Level 3 of the fair value hierarchy as described above.

Investment properties of the Group were revalued as at 31 December 2017 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 Cushman & Wakefield 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 m3property (Vic) Pty. Ltd, Certified Practising Valuers, who have among their staff members of Australian Property Institute, or Bolton, Baer & White LLC., General Real Estate Appraisers, who have among their staff members of the Houston Chapter of the Appraisal Institute.

The Group's chief accountant has discussions with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (c) Fair value measurement of investment properties (Continued)

##### (ii) Information about Level 3 fair value measurements

Investment properties	Valuation techniques	Unobservable input	Range
– Hong Kong	Income capitalisation approach	Capitalisation rate	2.8% to 4% (2016: 3% to 4%)
		Average unit market rent per month	\$32.5 to \$130/sq.ft. (2016: \$33 to \$130/sq.ft.)
– Australia	Discounted cash flow approach	Risk-adjusted discount rate	6.3% (2016: 6.5%)
		Expected market rental growth	3.4% to 4% (2016: 3.3% to 3.7%)
		Terminal yield rate	5.3% (2016: 5.8%)
	Income capitalisation approach	Capitalisation rate	5% (2016: 5% to 5.5%)
– USA	Market comparison approach	Premium (discount) on quality of the buildings	-15% to 5% (2016: -15% to 5%)

The fair value of certain investment properties located in Hong Kong and Australia are determined by using income capitalisation approach and with reference to sales evidence as available in the market. The income capitalisation approach is the sum of the term value and the reversionary value by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period. The fair value measurement is positively correlated to the average unit market rent per month and negatively correlated to the capitalisation rate.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (c) Fair value measurement of investment properties (Continued)

##### (ii) Information about Level 3 fair value measurements (Continued)

The fair value of certain investment properties located in Australia is determined by formulating a projection of net income over a specified time horizon and discounting this cash flow including the projected terminal value at the end of the projection period at an appropriate rate. The fair value measurement is positively correlated to the expected market rental growth and negatively correlated to the risk-adjusted discount rate and terminal yield rate.

The fair value of investment property located in USA is determined by using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group's investment property compared to the recent sales. Higher premium for investment property will result in a higher fair value measurement.

Fair value adjustment of investment properties is recognised in the line item "net valuation gain on investment properties" on the face of the consolidated statement of profit or loss.

The net gain recognised in profit or loss for the year arises from the investment properties held at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (d) Investment properties leased out under operating leases

The Group leases out investment properties under operating leases. The leases typically run for an initial period of one year to twelve 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 \$14,752,496,000 (2016: \$12,210,147,000).

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Within one year	353,186	325,804
After one year but within five years	725,785	485,013
After five years	<u>270,864</u>	<u>132,177</u>
	<u>1,349,835</u>	<u>942,994</u>

(e) Plant and equipment comprise plant, equipment, fixtures and fittings and motor vehicles.

(f) During the year, lease incentives totalling \$75,582,000 (2016: \$59,389,000) were given to tenants of an investment property in Australia. The lease incentives are being amortised over the lease terms.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12. Interest in an associate

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
<b>Unlisted shares</b>		
Share of net assets other than intangible assets	293,709	266,162
Share of intangible assets of an associate	<u>7,569</u>	<u>7,656</u>
Interest in an associate	<u>301,278</u>	<u>273,818</u>

- (a) Details of the associate and its principal subsidiaries and joint venture are set out on page 139.

Associate is accounted for using the equity method in the consolidated financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12. Interest in an associate (Continued)

#### (b) Summary financial information of an associate

Summarised financial information of the associate, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements, is disclosed below:

	<b>DCH Auto Group (USA) Limited</b>	
	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Gross amounts of the associate's		
– Current assets	623,891	634,160
– Non-current assets	106,268	133,270
– Current liabilities	(127,603)	(219,794)
– Equity	<u>(602,556)</u>	<u>(547,636)</u>
Revenue	<u>490,721</u>	<u>511,522</u>
Profit/(loss) from continuing operations	41,748	(53,642)
Other comprehensive income	<u>13,172</u>	<u>(5,566)</u>
Total comprehensive income	<u>54,920</u>	<u>(59,208)</u>
Reconciled to the Group's interest in an associate		
– Gross amounts of net assets of the associate	602,556	547,636
– Group's effective interest	50%	50%
– Group's share of net assets of the associate	<u>301,278</u>	<u>273,818</u>
Carrying amount in the consolidated financial statements	<u>301,278</u>	<u>273,818</u>



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 12. Interest in an associate (Continued)

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

A portion of the consideration amounting to US\$33,454,000 was paid into an escrow account during 2014. Such consideration would be transferred to the associate after 1 July 2016, after deducting any successful claims made under warranties provided in the sale and purchase agreement.

Up to 31 December 2017, the associate received payments from the escrow account leaving a balance of US\$8,964,000 (2016: US\$25,088,000) still held in the escrow account pending agreement of the claims made under warranties.

A provision of US\$8,950,000 had been recognised in the associate’s financial statements as at 31 December 2016 to account for these potential claims under warranties. Up to 31 December 2017, certain claims of US\$2,801,000 have been agreed with the buyer and accordingly, US\$2,299,000 of the related provision have been written back in the associate’s 2017 financial statements. US\$2,801,000 was settled from the escrow account in January 2018.

The Group is not in a position to assess the full potential liability of the claims made with certainty but based on discussions with legal counsel, believe that the Group’s share of the provision held for the remaining unresolved claims of US\$1,925,000 (\$15,022,000) which is included in the above summary of financial information and accounted for in determining the Group’s share of net assets is appropriate in light of the current circumstances.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 13. Available-for-sale securities

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
<b>Equity securities</b>		
Unlisted, at cost	11,568	11,568
<b>Club debentures</b>		
Unlisted, at fair value	15,350	14,910
	26,918	26,478

Included in the unlisted equity securities are amounts carried at cost of \$11,568,000 (2016: \$11,568,000) as at 31 December 2017. Management considers that the fair values of these securities cannot be measured reliably as there are no quoted prices available.

### 14. Trading securities

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
<b>Debt securities, at fair value</b>		
– Listed outside Hong Kong	5,171	4,021
<b>Equity securities, at fair value</b>		
Listed		
– in Hong Kong	223,383	232,149
– outside Hong Kong	175,535	64,161
	398,918	296,310
<b>Investment funds, at fair value</b>		
– Unlisted but quoted	173,346	45,497
	577,435	345,828

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 15. Inventories

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

	2017 \$'000	2016 \$'000
Merchandise held for sale	92,206	101,088
Merchandise held for sale in transit	1,118	1,047
	<u>93,324</u>	<u>102,135</u>

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

	2017 \$'000	2016 \$'000
Carrying amount of inventories sold	659,491	701,138
Write-down of inventories	519	555
	<u>660,010</u>	<u>701,693</u>

### 16. Debtors, deposits and prepayments

	2017 \$'000	2016 \$'000
Trade and other debtors	40,176	37,432
Less: allowance for doubtful debts (note (b))	(29)	(40)
	<u>40,147</u>	<u>37,392</u>
Deposits and prepayments	35,127	39,647
	<u>75,274</u>	<u>77,039</u>

All debtors, deposits and prepayments of the Group, apart from certain rental deposits and prepayments totalling \$23,504,000 (2016: \$29,787,000), are expected to be recovered or recognised as an expense within one year.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 16. Debtors, deposits and prepayments (Continued)

#### (a) Ageing analysis

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Current or less than one month past due	39,770	36,925
One to three months past due	304	363
More than three months but less than twelve months past due	61	102
More than twelve months past due	12	2
	<u>40,147</u>	<u>37,392</u>

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

According to the Group's credit policy set out in note 23(b)(i) to the financial statements, credit period granted to customers is generally 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. 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 does not hold any collateral over these balances.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 16. 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:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
At 1 January	40	5
Impairment losses (written back)/recognised (note 5(d))	<u>(11)</u>	<u>35</u>
At 31 December	<u><u>29</u></u>	<u><u>40</u></u>

### 17. Amounts due from/(to) fellow subsidiaries

The amounts due from/(to) fellow subsidiaries are unsecured, interest free and repayable on demand.

### 18. Cash and cash equivalents and other cash flow information

#### (a) Cash and cash equivalents comprise:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Cash at bank and in hand	181,895	158,677
Bank deposits	<u>2,759,578</u>	<u>3,198,155</u>
	<u><u>2,941,473</u></u>	<u><u>3,356,832</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 18. Cash and cash equivalents and other cash flow information (Continued)

#### (b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the group's consolidated statement of cash flows as cash flows from financing activities.

	<b>Secured bank loan \$'000</b>
<b>At 1 January 2017</b>	212,742
<b>Changes from financing cash flows:</b>	
Repayment of bank loan	(38,257)
Interest paid on bank loan	(6,143)
	<u>(44,400)</u>
Total changes from financing cash flows	(44,400)
<b>Exchange adjustments</b>	<u>18,387</u>
<b>Other changes:</b>	
Interest expenses on bank loan (note 5(a))	6,138
Other borrowing costs amortised	359
	<u>6,497</u>
Total other changes	6,497
<b>At 31 December 2017</b>	<u><u>193,226</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 19. Creditors and accrued charges

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Trade and other creditors	457,812	394,656
Accrued charges	<u>39,937</u>	<u>39,214</u>
	<u>497,749</u>	<u>433,870</u>

All creditors and accrued charges of the Group, apart from certain rental deposits received and accrued charges totalling \$43,518,000 (2016: \$40,745,000), are expected to be settled or recognised as income within one year or are repayable on demand.

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Amounts not yet due	344,712	288,501
On demand or less than one month overdue	107,695	100,980
One to three months overdue	3,496	3,242
Three to twelve months overdue	431	752
More than twelve months overdue	<u>1,478</u>	<u>1,181</u>
	<u>457,812</u>	<u>394,656</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 20. Secured bank loan

At 31 December 2017, the secured bank loan of the Group was repayable as follows:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Within one year or on demand	38,888	212,742
After one year but within two years	38,888	–
After two years but within five years	115,450	–
	<u>154,338</u>	<u>–</u>
	<u>193,226</u>	<u>212,742</u>

The bank loan is denominated in Australian Dollars (“AUD”) and bears interest at market rates plus 1.15% (2016: 1.15%) per annum. The Group is required to repay the loan principal on a quarterly basis at AUD1,600,000 until maturity on 14 November 2020.

At 31 December 2017, banking facilities of the Group amounting to \$193,226,000 (2016: \$213,072,000) were secured by mortgages over the investment properties with an aggregate value of \$3,375,385,000 (2016: \$2,586,984,000). The facilities were utilised to the extent of \$193,226,000 (2016: \$213,072,000).

Under the banking facilities arrangement, a subsidiary of the Group undertakes to provide further mortgages over other properties or repay part of the secured loan should 50% of the value of the pledged investment properties fall to less than the outstanding loan balance.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 21. Income tax in the statement of financial position

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Provision for Hong Kong Profits Tax for the year	66,135	70,746
Provisional Profits Tax paid	<u>(53,072)</u>	<u>(57,099)</u>
	13,063	13,647
Balance of Profits Tax provision relating to prior years	<u>263</u>	<u>263</u>
	13,326	13,910
Overseas tax payable/(recoverable)	<u>1,169</u>	<u>(5,074)</u>
	<u>14,495</u>	<u>8,836</u>
<b>Represented by:</b>		
Current tax recoverable	(4,014)	(11,016)
Current tax payable	<u>18,509</u>	<u>19,852</u>
	<u>14,495</u>	<u>8,836</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 21. 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	Others (note)	Future benefit of tax losses	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Deferred tax arising from:</b>					
At 1 January 2017	227,581	313,198	19,399	(804)	559,374
Charged/(credited) to the consolidated statement of profit or loss (note 6(a))	(1,362)	131,343	5,817	(1,398)	134,400
Charged to the exchange reserve	14,768	27,535	1,861	-	44,164
At 31 December 2017	<u>240,987</u>	<u>472,076</u>	<u>27,077</u>	<u>(2,202)</u>	<u>737,938</u>
At 1 January 2016	222,052	271,785	7,537	(302)	501,072
Charged/(credited) to the consolidated statement of profit or loss (note 6(a))	7,056	44,780	12,302	(502)	63,636
Credited to the exchange reserve	(1,527)	(3,367)	(440)	-	(5,334)
At 31 December 2016	<u>227,581</u>	<u>313,198</u>	<u>19,399</u>	<u>(804)</u>	<u>559,374</u>

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

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (c) Reconciliation to the consolidated statement of financial position

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Deferred tax assets recognised in the consolidated statement of financial position	(17,987)	(6,158)
Deferred tax liabilities recognised in the consolidated statement of financial position	<u>755,925</u>	<u>565,532</u>
	<u><u>737,938</u></u>	<u><u>559,374</u></u>

#### (d) Deferred tax assets not recognised

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Deductible temporary differences	–	1
Future benefit of accumulated tax losses	<u>12,492</u>	<u>19,367</u>
	<u><u>12,492</u></u>	<u><u>19,368</u></u>

The Group has not recognised deferred tax assets in respect of the future benefit of accumulated tax losses of certain subsidiaries as management of the Group considers that it is not possible as at 31 December 2017 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 2017, temporary differences relating to the undistributed profits of subsidiaries amounted to \$2,205,822,000 (2016: \$1,624,266,000). Deferred tax liabilities of \$661,747,000 (2016: \$487,280,000) 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 it has been determined that it is probable that profits will not be distributed in the foreseeable future.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 22. 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 51 and 52.

Retained earnings attributable to the shareholders of the Company as at 31 December 2017 include the aggregate net valuation gain relating to investment properties after deferred tax of \$11,747,490,000 (2016: \$9,671,805,000).

#### (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)(iv))	Retained earnings \$'000	Total \$'000
Balance at 1 January 2017	29,461	2,997,350	1,466,204	4,493,015
Total comprehensive income for the year	–	–	438,249	438,249
Purchase of own shares (note (d))				
– par value paid	(72)	–	–	(72)
– premium and transaction costs paid	–	–	(18,699)	(18,699)
Dividends approved and paid in respect of the previous year (note (c)(ii))	–	–	(164,720)	(164,720)
Dividends declared and paid in respect of the current year (note (c)(i))	–	–	(435,264)	(435,264)
	<u>29,389</u>	<u>2,997,350</u>	<u>1,285,770</u>	<u>4,312,509</u>
Balance at 31 December 2017				
Balance at 1 January 2016	29,508	2,997,350	1,292,524	4,319,382
Total comprehensive income for the year	–	–	405,638	405,638
Purchase of own shares (note (d))				
– par value paid	(47)	–	–	(47)
– premium and transaction costs paid	–	–	(10,899)	(10,899)
Dividends approved and paid in respect of the previous year (note (c)(ii))	–	–	(147,388)	(147,388)
Dividends declared and paid in respect of the current year (note (c)(i))	–	–	(73,671)	(73,671)
	<u>29,461</u>	<u>2,997,350</u>	<u>1,466,204</u>	<u>4,493,015</u>
Balance at 31 December 2016				

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (c) Dividends

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Interim dividend:		
– declared during the year	111,774	73,691
– attributable to shares purchased in June 2017/September 2016 (note (d))	<u>(17)</u>	<u>(20)</u>
Interim dividend paid of 38 cents (2016: 25 cents) per share	<u>111,757</u>	<u>73,671</u>
Special dividend:		
– declared during the year	323,557	–
– attributable to shares purchased in June 2017	<u>(50)</u>	<u>–</u>
Special dividend paid of 110 cents (2016: Nil) per share	<u>323,507</u>	<u>–</u>
	435,264	73,671
Final dividend proposed after the end of the reporting period of 68 cents (2016: 56 cents) per share	<u>199,842</u>	<u>164,979</u>
	<u>635,106</u>	<u>238,650</u>

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.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (c) Dividends (Continued)

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

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Final dividend in respect of the financial year ended 31 December 2016/ 31 December 2015		
– approved during the year	164,979	147,541
– attributable to shares purchased in January, April and May 2017/ April and May 2016 (note (d))	<u>(259)</u>	<u>(153)</u>
 Final dividend paid during the year of 56 cents (during 2016: 50 cents) per share	 <u>164,720</u>	 <u>147,388</u>

#### (d) Share capital

	<b>2017</b>		<b>2016</b>	
	Number of shares '000	\$'000	Number of shares '000	\$'000
<b>Authorised:</b>				
Shares of \$0.1 each	<u>400,000</u>	<u>40,000</u>	<u>400,000</u>	<u>40,000</u>
<b>Issued and fully paid:</b>				
At 1 January	294,606	29,461	295,081	29,508
Shares purchased (note)	<u>(721)</u>	<u>(72)</u>	<u>(475)</u>	<u>(47)</u>
At 31 December	<u>293,885</u>	<u>29,389</u>	<u>294,606</u>	<u>29,461</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (d) Share capital (Continued)

Note:

Purchases of own shares

During the year ended 31 December 2017, the Company purchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares purchased	Aggregate price paid \$'000	Highest price paid per share \$	Lowest price paid per share \$
January 2017	103,000	2,469	24.00	23.85
April 2017	60,000	1,539	25.95	25.30
May 2017	300,000	7,752	26.00	25.50
June 2017	45,000	1,128	25.25	25.05
November 2017	177,000	4,836	27.35	27.10
December 2017	36,000	984	27.40	27.25
	<u>721,000</u>	<u>18,708</u>		

Pursuant to section 42A of the Bermuda Companies Act 1981, the above purchased shares were cancelled upon purchase and the issued share capital of the Company was reduced by the nominal value of these shares accordingly. The premium and transaction costs paid on the purchase of the shares of \$18,636,000 (2016: \$10,862,000) and \$63,000 (2016: \$37,000) respectively were charged against retained earnings.

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

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 22. 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(i).

##### (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 statement of profit or loss and is dealt with in accordance with the accounting policy set out in note 1(f).

##### (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(u).

##### (iv) 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.

##### (v) General reserve fund

According to applicable 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 until the balance of fund is at least half of the paid-in capital of the relevant associate company. The transfer to this reserve must be made before distribution of dividends to shareholders can be made.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

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

#### (f) Distributability of reserves of the Company

At 31 December 2017, the aggregate amount of reserves available for distribution to shareholders of the Company was \$4,283,120,000 (2016: \$4,463,554,000). After the end of the reporting period the directors proposed a final dividend of 68 cents (2016: 56 cents) per share, amounting to \$199,842,000 (2016: \$164,979,000) (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 an associate

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

	2017	2016
	\$'000	\$'000
Retained earnings	126,614	105,740
Exchange reserve	(2,236)	(8,822)
General reserve fund	1,051	1,051
	<u>125,429</u>	<u>97,969</u>

#### (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 2017, the Group had secured a bank loan of \$193,226,000 (2016: \$212,742,000) which is repayable as disclosed in note 20. The gearing ratio, representing the ratio of bank borrowings to the total share capital and reserves attributable to shareholders of the Company was 1.1% (2016: 1.4%) as at 31 December 2017. The Group had bank deposits and cash balances as at 31 December 2017 amounting to \$3,067,946,000 (2016: \$3,356,832,000).

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.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. Financial risk management and fair values

#### (a) Categories of financial instruments

	2017 \$'000	2016 \$'000
<b>Financial assets</b>		
Financial assets at fair value through profit or loss		
– Trading securities	577,435	345,828
Available-for-sale securities	26,918	26,478
Loans and receivables		
– Debtors and deposits	47,158	44,900
– Amounts due from fellow subsidiaries	6,694	8,312
– Other bank deposits	126,473	–
– Cash and cash equivalents	2,941,473	3,356,832
	<u>3,121,798</u>	<u>3,410,044</u>
	<u>3,726,151</u>	<u>3,782,350</u>
<b>Financial liabilities</b>		
Creditors and accrued charges	(497,749)	(433,870)
Amounts due to fellow subsidiaries	(3,092)	(2,755)
Secured bank loan	(193,226)	(212,742)
	<u>(694,067)</u>	<u>(649,367)</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. 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 16.

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 except certain bank deposits placed with a licensed financial institution. At the end of the reporting period, 40.4% (2016: 36.2%) of bank deposits and cash are placed in the same financial institution. The Group monitors the credit rating on an ongoing basis. 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.

# NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

## 23. 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 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 can be required to pay:

	Contractual undiscounted cash flow				Total \$'000	Carrying amount at 31 December \$'000
	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	More than five years \$'000		
<b>2017</b>						
Creditors and accrued charges	454,231	13,969	23,443	6,106	497,749	497,749
Amounts due to fellow subsidiaries	3,092	-	-	-	3,092	3,092
Secured bank loan	44,665	42,809	118,510	-	205,984	193,226
	<u>501,988</u>	<u>56,778</u>	<u>141,953</u>	<u>6,106</u>	<u>706,825</u>	<u>694,067</u>
<b>2016</b>						
Creditors and accrued charges	393,125	21,555	19,190	-	433,870	433,870
Amounts due to fellow subsidiaries	2,755	-	-	-	2,755	2,755
Secured bank loan	219,094	-	-	-	219,094	212,742
	<u>614,974</u>	<u>21,555</u>	<u>19,190</u>	<u>-</u>	<u>655,719</u>	<u>649,367</u>

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. 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 2017 is 2.9% (2016: 3.0%).

At 31 December 2017, 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 \$14,203,000 (2016: \$15,660,000). Other components of the consolidated equity would not be affected (2016: \$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 2016.

##### (iv) Foreign currency risk

The Group is exposed to foreign currency risk primarily through investments in securities and bank deposits 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, Euro 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.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. Financial risk management and fair values (Continued)

#### (b) Financial risk management (Continued)

##### (iv) Foreign currency risk (Continued)

The following tables detail the Group'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.

	Exposure to foreign currency (expressed in Hong Kong dollars)					
	United	Australian dollars \$'000	Japanese Yen \$'000	Pound Sterling \$'000	Euro \$'000	Renminbi \$'000
	States dollars \$'000					
<b>2017</b>						
Trading securities	264,527	41,477	16,882	14,300	9,221	6,152
Debtors and deposits	4,047	10	-	-	117	34
Amounts due from fellow subsidiaries	767	-	-	-	-	-
Other bank deposits	126,473	-	-	-	-	-
Cash and cash equivalents	1,756,701	29,921	-	187	51	807
Creditors and accrued charges	(258)	-	-	-	(1,607)	(80)
	2,152,257	71,408	16,882	14,487	7,782	6,913
<b>2016</b>						
Trading securities	78,613	14,924	13,835	-	702	6,917
Debtors and deposits	3,055	21	-	2	163	31
Amounts due from fellow subsidiaries	507	311	77	-	-	60
Cash and cash equivalents	1,933,970	107,936	-	12,736	78	1,168
Creditors and accrued charges	(258)	-	-	-	(2,089)	(59)
	2,015,887	123,192	13,912	12,738	(1,146)	8,117

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. Financial risk management and fair values (Continued)

#### (b) Financial risk management (Continued)

##### (iv) Foreign currency risk (Continued)

The following tables indicate 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.

	2017		2016	
	Increase/ (decrease) in foreign exchange rates %	Increase/ (decrease) in profit after taxation and retained earnings \$'000	Increase/ (decrease) in foreign exchange rates %	Increase/ (decrease) in profit after taxation and retained earnings \$'000
United States dollars	0.5 (0.5)	10,761 (10,761)	0.5 (0.5)	10,079 (10,079)
Australian dollars	10.0 (10.0)	7,141 (7,141)	10.0 (10.0)	12,319 (12,319)
Japanese Yen	10.0 (10.0)	1,688 (1,688)	10.0 (10.0)	1,391 (1,391)
Pound Sterling	10.0 (10.0)	1,449 (1,449)	10.0 (10.0)	1,274 (1,274)
Euro	10.0 (10.0)	778 (778)	10.0 (10.0)	(115) 115
Renminbi	10.0 (10.0)	691 (691)	10.0 (10.0)	812 (812)

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. Financial risk management and fair values (Continued)

#### (b) Financial risk management (Continued)

##### (iv) Foreign currency risk (Continued)

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 2016.

##### (v) Price risk

The Group is exposed to price changes arising from trading securities (see note 14) and available-for-sale securities (see note 13). Except the unlisted equity securities carried at cost as disclosed in note 13, 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.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. Financial risk management and fair values (Continued)

#### (b) Financial risk management (Continued)

##### (v) Price risk (Continued)

At 31 December 2017, it is estimated that an increase/decrease of 10% (2016: 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:

	2017		2016	
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	
<b>Increase/(decrease) in price variable</b>				
- 10%	54,058	1,535	30,573	1,491
- (10)%	(54,058)	(1,535)	(30,573)	(1,491)

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 2016.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. Financial risk management and fair values (Continued)

#### (b) Financial risk management (Continued)

##### (vi) Fair values

##### Fair value hierarchy

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

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

	Fair value measurements as at 31 December 2017 categorised into			Fair value measurements as at 31 December 2016 categorised into		
	Fair value at 31 December 2017 \$'000	Level 1 \$'000	Level 2 \$'000	Fair value at 31 December 2016 \$'000	Level 1 \$'000	Level 2 \$'000
	<b>Recurring fair value measurements</b>					
Assets						
Unlisted available-for-sale securities	15,350	-	15,350	14,910	-	14,910
Trading securities	577,435	404,089	173,346	345,828	300,331	45,497

During the years ended 31 December 2017 and 2016, there were no transfers between financial instruments in different levels. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 23. Financial risk management and fair values (Continued)

#### (b) Financial risk management (Continued)

##### (vi) Fair values (Continued)

#### **Valuation techniques and inputs used in Level 2 fair value measurements**

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

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

#### **Fair value of financial assets and liabilities carried at other than fair value**

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 2016 except for the unlisted equity securities of \$11,568,000 (2016: \$11,568,000), which do not have a quoted price in an active market and therefore their fair values cannot be reliably measured (see note 13). These unlisted equity securities are stated at cost at the end of the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 24. Commitments

#### (a) Capital commitments

Capital commitments outstanding as at 31 December 2017 not provided for in the financial statements were as follows:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Authorised and contracted for	20,541	23,527
Authorised and not contracted for	3,211	863
	<u>23,752</u>	<u>24,390</u>

#### (b) Commitments under operating leases

At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Within one year	25,440	27,223
After one year but within five years	50,010	93
	<u>75,450</u>	<u>27,316</u>

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 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 2017 is stated in note 5(d).

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 25. 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:

	<b>2017</b>	<b>2016</b>
	\$'000	\$'000
Directors' fees	654	630
Salaries and other short-term employee benefits	35,504	35,633
Contributions to defined contribution retirement plans	1,140	1,156
	<u>37,298</u>	<u>37,419</u>

#### (b) 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 of the Group. Rental and management fees payable to this fellow subsidiary amounted to \$30,678,000 (2016: \$30,676,000) during the year. The amount due from the fellow subsidiary as at 31 December 2017 amounted to \$2,554,000 (2016: \$2,554,000).
- (ii) A subsidiary of the Group rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to \$5,536,000 (2016: \$5,374,000) during the year. The amount due to the fellow subsidiary as at 31 December 2017 amounted to \$1,366,000 (2016: \$1,294,000).
- (iii) A fellow subsidiary, engaged in securities trading, deals in securities for certain subsidiaries of the Group. Commission of \$288,000 (2016: \$171,000) was payable to this fellow subsidiary during the year. The amount due from the fellow subsidiary as at 31 December 2017 amounted to \$4,140,000 (2016: \$5,758,000).

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 25. Material related party transactions (Continued)

#### (b) Recurring transactions (Continued)

- (iv) A subsidiary of the Group provides building and tenancy management services to a fellow subsidiary. Building and tenancy management fees receivable from this fellow subsidiary amounted to \$912,000 (2016: \$912,000) during the year. The amount due to the fellow subsidiary as at 31 December 2017 amounted to \$1,726,000 (2016: \$1,436,000).
- (v) A fellow subsidiary rents retail premises to a subsidiary of the Group. Rental and management fees payable to this fellow subsidiary amounted to \$82,000 (2016: \$380,000) during the year. The amount due to the fellow subsidiary as at 31 December 2017 amounted to \$Nil (2016: \$25,000).

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.

#### (c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of (i) and (ii) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in the section “continuing connected transactions” of the Annual Report.

The related party transactions in respect of (iii), (iv) and (v) above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules, however they are exempt from the disclosure requirements in Chapter 14A of the Listing Rules.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 26. Company-level statement of financial position

	Note	2017 \$'000	2016 \$'000
<b>Non-current assets</b>			
Investments in subsidiaries	(a)	2,801,991	2,801,990
<b>Current assets</b>			
Debtors, deposits and prepayments		748	720
Amounts due from subsidiaries		1,500,997	1,660,282
Cash and cash equivalents		40,128	60,194
		<u>1,541,873</u>	<u>1,721,196</u>
<b>Current liabilities</b>			
Creditors and accrued charges		17,816	16,523
Amounts due to subsidiaries		13,539	13,648
		<u>31,355</u>	<u>30,171</u>
<b>Net current assets</b>		<u>1,510,518</u>	<u>1,691,025</u>
<b>NET ASSETS</b>		<u>4,312,509</u>	<u>4,493,015</u>
<b>Capital and reserves</b>			
	22(b)		
Share capital		29,389	29,461
Reserves		4,283,120	4,463,554
<b>TOTAL EQUITY</b>		<u>4,312,509</u>	<u>4,493,015</u>

Approved and authorised for issue by the board of directors on 28 March 2018.

**Karl C. Kwok**  
Director

**Lester Kwok**  
Director

Note (a): The investments in subsidiaries represent the unlisted shares stated at cost. Details of the principal subsidiaries are set out on pages 137 and 138. The Group does not have any subsidiary which has a material non-controlling interest.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 27. Immediate and ultimate controlling parties

At 31 December 2017, 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 100% 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.

### 28. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group:

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 9, Financial instruments	1 January 2018
HKFRS 15, Revenue from contracts with customers	1 January 2018
Amendments to HKAS 40, Investment property: Transfers of investment property	1 January 2018
HK(IFRIC) 22, Foreign currency transactions and advance consideration	1 January 2018
HKFRS 16, Leases	1 January 2019
HK(IFRIC) 23, Uncertainty over income tax treatments	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements except HKFRS 9, HKFRS 15 and HKFRS 16. Further details of the expected impacts are discussed below.



## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 28. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (Continued)

#### **HKFRS 9, Financial instruments**

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting.

Based on the preliminary assessment, the Group expects that the application of HKFRS 9 in the future may have a material impact on the amounts reported in respect of available-for-sale securities, as these may have to be measured at fair value at the end of subsequent reporting periods with changes in fair value being recognised either in profit or loss or other comprehensive income. The Group plans to irrevocably designate these available-for sale securities as fair value through other comprehensive income.

#### **HKFRS 15, Revenue from contracts with customers**

HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from the sale of goods and rendering of services. The Group is currently assessing the impacts of adopting HKFRS 15 on its financial statements. Based on the preliminary assessment, the Group has identified the following area which is likely to be affected:

##### Principal versus agent considerations

Currently, the principal versus agent determination is based on the risk-and-reward approach. If the entity has exposure to the significant risks and rewards associated with the sale of goods or rendering of services in a transaction, the entity is determined as a principal and revenue of the transaction is recognised on a gross basis. If the entity is determined as an agent in a transaction, revenue of the transaction is recognised on a net basis.

Under HKFRS 15, revenue recognition is subject to transfer of control as mentioned above. An entity is considered as a principal when the entity has control over specified goods or services in advance of transferring them to the customers.

As a result of this change from the risk-and-reward approach to the contract-by-contract transfer-of-control approach, it is possible that the principal versus agent determination for some of the Group's contracts may change.

The Group has assessed that the new revenue standard is not likely to have significant impact on the principal versus agent determination for property investment segment. However, principal versus agent determination for department stores segment is likely to be affected, where revenue of certain transactions may change to recognise from gross basis to net basis. Further analysis is required to determine whether this change in accounting policy may have a material impact on the amounts reported in any given financial reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

(Continued)

(Expressed in Hong Kong dollars unless otherwise indicated)

### 28. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2017 (Continued)

#### HKFRS 16, Leases

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is to account for all leases in a similar way to current finance lease accounting. Therefore it is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 24(b), at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to \$75,450,000 for properties, the majority of which is payable after one year but within five years after the reporting date. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease.

## PRINCIPAL SUBSIDIARIES AND ASSOCIATE

At 31 December 2017

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

Name of company	Place of incorporation/ business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective holding	held by the Company	held by a subsidiary	
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
Choice Century International 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 no par value	100	–	100	Securities trading
Somhill Pty Ltd	Australia	2 ordinary shares of no par value	100	–	100	Investment in an investment trust

## PRINCIPAL SUBSIDIARIES AND ASSOCIATE

(Continued)

At 31 December 2017

### Principal subsidiaries (Continued)

Name of company	Place of incorporation/ business	Particulars of issued and paid up capital	Proportion of ownership interest			Principal activity
			Group's effective holding	held by the Company	held by a subsidiary	
The Wing On Company, Inc.*	USA	12,310 shares of common stock of no par value	88.22	–	88.22	Investment holding
The Wing On Company Limited	Hong Kong	296,100,000 shares of no par value	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 no par value	100	–	100	Department stores
The Wing On Property Management Company Limited	Hong Kong	5,000 shares of no par value	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 no par value	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 no par value	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 ASSOCIATE

(Continued)

At 31 December 2017

### Associate and its principal subsidiaries and joint venture

Name of company	Form of business structure	Place of incorporation/ business	Class of share held	Proportion of ownership interest held by the Group	Principal activity
DCH Auto Group (USA) Limited	Incorporated	British Virgin Islands	“A” shares and “B” shares	50	Investment holding
DCH Auto Group (Asia) Limited <sup>#</sup>	Incorporated	British Virgin Islands	Ordinary	50	Investment holding
Mei Chang Group (HK) Limited <sup>*#</sup>	Incorporated	Hong Kong	Ordinary	50	Investment holding
Meichang Auto Group (Asia) Limited <sup>*#</sup>	Incorporated	Hong Kong	Ordinary	25.5	Investment holding

\* Not audited by KPMG.

# Principal subsidiaries and joint venture of DCH Auto Group (USA) Limited.