Website: www.wingon.hk

WING ON COMPANY INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

stock code: 289

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Annual Report 2019

WING ON

2019

CONTENTS

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Twenty-ninth 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 Thursday, 4 June 2020 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 2019.

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

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, 29 April 2020

Registered Office:
Victoria Place, 5th Floor,
31 Victoria Street,
Hamilton HM10,
Bermuda.

Principal Office:
7th Floor, Wing On Centre,
211 Des Voeux Road Central,
Hong Kong.

Notes:

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

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

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

(4) To be valid, a proxy form must be deposited at the Company's 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 Thursday, 28 May 2020 to Thursday, 4 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:00 p.m. on Wednesday, 27 May 2020.

(6) Subject to the approval of shareholders of the proposed final dividend at the above meeting, the Register of Members will be closed from Friday, 12 June 2020 to Wednesday, 17 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:00 p.m. on Thursday, 11 June 2020.

(7) Concerning item 3 above, the retiring Directors to be re-elected at the meeting are Mr. Lester Kwok, Mr. Mark Kwok and Miss Maria Tam Wai Chu.

(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 2019.

(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, BBS, MH (Chairman)
Mr. Lester Kwok, J.P. (Deputy Chairman and Chief Executive Officer)
Dr. Bill Kwok, J.P. (Re-designated from Non-executive Director on 1 April 2020)
Mr. Mark Kwok

Independent Non-executive Directors

Miss Maria Tam Wai Chu, GBM, GBS, J.P.
Mr. Iain Ferguson Bruce, CA, FCPA, FHKIoD, FHKSI
Mr. Leung Wing Ning
Mr. Nicholas James Debnam

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Leung Wing Ning (Chairman)
Mr. Karl C. Kwok
Mr. Nicholas James Debnam

NOMINATION COMMITTEE

Mr. Leung Wing Ning (Chairman)
Mr. Karl C. Kwok
Mr. Nicholas James Debnam

CORPORATE INFORMATION
(Continued)

AUDITOR

KPMG
Certified Public Accountants
Public Interest Entity Auditor
registered in accordance with the
Financial Reporting Council Ordinance
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

Victoria Place, 5th Floor,
31 Victoria Street,
Hamilton HM 10,
Bermuda.

PRINCIPAL OFFICE

7th Floor, Wing On Centre,
211 Des Voeux Road Central,
Hong Kong.
Website: www.wingon.hk

SHARE REGISTRARS

Tricor Progressive Limited
Level 54, Hopewell Centre,
183 Queen's Road East,
Hong Kong.

MUFG Fund Services (Bermuda) Limited
4th Floor North,
Cedar House,
41 Cedar Avenue,
Hamilton HM 12,
Bermuda.

Biography of Directors

Mr. Karl C. Kwok, BBS, MH, Chairman, Member of the Remuneration Committee and the Nomination Committee
He, aged 71, 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 was an honorary fellow of City University of Hong Kong and The Chinese University of Hong Kong in 2008 and 2017 respectively. He obtained an honorary H.L.D. from Carleton College in 2018. He joined the Group in 1974 and has been a director of the Company since October 1991. He has more than 40 years' management experience in retail, finance and investment business. He was a former president of Hong Kong Sailing Federation and was also a World Sailing Council Member (2012 to 2016). He is a member of the Board of Trustees of Chung Chi College of The Chinese University of Hong Kong, a member of the Board of Trustee of Carleton College, Minnesota, USA, vice president of the Sports Federation & Olympic Committee of Hong Kong, China, a director of Hong Kong Sports Institute, Chairman of Major Sports Events Committee (ex-officio member of Sports Commission) and a member of the Harbourfront Commission of the Hong Kong Government. He is currently 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 70, 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 has served as a Steward of The Hong Kong Jockey Club from September 2005 to 10 April 2020 and 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., Executive Director (Re-designated from Non-executive Director on 1 April 2020)
He, aged 67, was educated at Stanford University and the University of Chicago where he obtained undergraduate degrees and a Ph.D. respectively. He has been a director of the Company since November 1992. He is a director of Wocom Holdings Limited, Wing On International Holdings Limited, Wing On Corporate Management (BVI) Limited and Kee Wai Investment Company (BVI) Limited. He is currently a member of the Hang Seng Index Advisory Committee. 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 2006 to 2016. He is a past Chairman and an honorary fellow of Hong Kong Securities and Investment Institute. He is a brother of the Chairman.

Biography of Directors (Continued)

Mr. Mark Kwok, Executive Director
He, aged 65, 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 74, 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, Sinopec Kantons Holdings 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 retired as an Independent Non-executive Director of Tong Ren Tang Technologies Company Limited, which is listed on The Stock Exchange of Hong Kong Limited, on 12 June 2018. She retired as an Independent Non-executive Director of Sa Sa International Holdings Limited, which is listed on The Stock Exchange of Hong Kong Limited, on 2 September 2019. 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 the Deputy Director of the Hong Kong Basic Law Committee. She is also a member of various community services organisations. She was appointed as an Independent Non-executive Director of the Company in January 1994.

Biography of Directors (Continued)

Mr. Iain Ferguson Bruce, CA, FCPA, FHKIoD, FHKSI, Independent Non-executive Director and Chairman of the Audit Committee
He, aged 79, 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 currently an Independent Non-executive Director of Goodbaby International Holdings Limited, South Shore Holdings Limited (formerly known as The 13 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 recently retired from the Boards of Citibank (Hong Kong) Limited and MSIG Insurance (Hong Kong) Limited. He is currently a director of Carrington Investments Limited and K E Corporate Services Limited. He was appointed as an 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 72, 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 as an Independent Non-executive Director of the Company in January 2010.

Mr. Nicholas James Debnam, Independent Non-executive Director and Member of the Audit Committee, the Remuneration Committee and the Nomination Committee
He, aged 55, 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 as an Independent Non-executive Director of the Company in April 2018.

CORPORATE INFORMATION
(Continued)

Biography of senior managers

Mr. Benny Chan
He, aged 61, was educated at The Hong Kong Polytechnic University where he obtained a B.A. (Hons.) degree. He is appointed as 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 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 63, 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 *Plus*	:	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

2019 RESULTS AND DIVIDEND

For the year ended 31 December 2019, the Group's revenue decreased by 6.2% to HK$1,371.5 million (2018: HK$1,462.8 million) due to the decline in department stores revenue.

Profit attributable to shareholders for the year ended 31 December 2019 was HK$765.7 million (2018: HK$1,697.7 million), a decrease of 54.9% due mainly to the decrease in net valuation gain on investment properties which only achieved a gain of HK$302.6 million (2018: HK$1,387.5 million). Excluding this non-cash item and related deferred tax thereon, the Group's underlying profit attributable to shareholders increased by 48.0% to HK$559.4 million in 2019 (2018: HK$378.0 million) which was attributable to the gain recorded from the Group's investments in securities as opposed to the loss recorded in 2018 and increase in contribution from the Group's property investments, partly offset by the decline in profit from the Group's department stores operations.

Earnings per share was 261.0 HK cents per share in 2019 (2018: 577.7 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 48.3% to 190.7 HK cents (2018: 128.6 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 2019, the directors have recommended a final dividend of 65 HK cents (2018: 42 HK cents) per share payable to shareholders on the Register of Members on 17 June 2020 which, together with the interim dividend of 38 HK cents (2018: 28 HK cents) per share paid on 23 October 2019 making a total payment of 103 HK cents (2018: 70 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 2020, the Register of Members will be closed from Friday, 12 June 2020 to Wednesday, 17 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:00 p.m. on Thursday, 11 June 2020. Dividend warrants will be sent to shareholders on 22 June 2020.

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 more than 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 2019 was HK$19,547.3 million, an increase of 2.4% as compared to that at 31 December 2018. With cash and listed marketable securities at 31 December 2019 of about HK$3,658.6 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 2019, the Group's total borrowings amounted to HK$103.3 million, a decrease of about HK$36.4 million, due to partial repayments and exchange differences, as compared to that at 31 December 2018. The Group's total borrowings of HK$103.3 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 the end of 2020. Certain assets, comprising principally property interests with a book value of HK$3,537.9 million, have been pledged to banks as collateral security for banking facilities granted to the extent of HK$103.3 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 2019, was 0.5% as compared with 0.7% at 31 December 2018.

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$3,122.1 million at 31 December 2019 (at 31 December 2018: HK$2,851.2 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 2019, the total amount of the Group's capital expenditure commitments was HK$33.5 million (at 31 December 2018: HK$27.4 million). As at 31 December 2019, the Group had no contingent liability (at 31 December 2018: HK$Nil).

2019 BUSINESS SUMMARY

Department Stores Operations

2019 was a difficult year for the Hong Kong retail sector including the Group's department stores business. During the first half of 2019, the unseasonably warm weather in January and February adversely affected the sales of winter clothing items and winter electrical goods. In the second half of 2019, the weakening of consumer confidence amid the prolonged social unrest and disturbances took a heavy toll on retail activities. The Group's department stores operations were severely disrupted during this period due to the protests which frequently took place on weekends and at times in the vicinity of our stores, requiring our stores to either shorten their business hours or close shop for the whole day. To tackle the adverse business environment, the Group took various actions to support the department stores business including offering deeper discounts, launching extra sale promotions and extending the duration of its two popular Super Sale and Special Sale promotions. With these actions, the Group managed to lessen the sales decline in the second half of 2019 and reduce its summer inventory to a manageable level. Overall, the Group's department stores revenue decreased by 11.5% to HK$879.7 million (2018: HK$994.4 million) for the year ended 31 December 2019. The Group's department stores operating profit decreased by 61.4% to HK$37.8 million (2018: HK$97.9 million) due mainly to the decrease in revenue and gross profit.

2019 BUSINESS SUMMARY (Continued)

Property Investments

For the year ended 31 December 2019, the Group's property investment income increased by 9.5% to HK$505.1 million (2018: HK$461.4 million). Income from the Group's commercial investment properties in Hong Kong increased by 6.1% to HK$369.4 million (2018: HK$348.3 million) which was attributable to the increase in occupancy of Wing On Kowloon Centre and the higher rental rates achieved from lease renewals and new leases of both Wing On Centre and Wing On Kowloon Centre during the year. The overall occupancy of the Group's commercial investment properties in Hong Kong increased to about 99% (2018: 98%) at 31 December 2019. Income from the Group's commercial office properties in Melbourne increased by 22.2% to HK$131.5 million (2018: HK$107.6 million) during 2019. Net income in Australian dollar terms increased by 30.9% which was due mainly to the higher rental rates achieved from lease renewals and the recovery of certain land tax in respect of prior years. The overall occupancy rate of the Group's investment properties in Melbourne was 100% (2018: 100%) at 31 December 2019.

Interest in an Associate

For the year ended 31 December 2019, 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 (2018: HK$4.9 million). Overall, the Group recorded a share of profit from the associate of HK$19.5 million (2018: HK$10.9 million).

Others

As at 31 December 2019, the Group's investment portfolio amounted to HK$883.0 million (2018: HK$704.7 million), which mainly comprised of blue-chip securities on major stock exchanges and investment funds managed by professional investment managers. During the year under review, the Group's investment portfolio recorded a gain of HK$112.6 million (2018: a loss of HK$74.1 million) due to the strong performance of global financial markets, resulting in positive contribution from the investment portfolio. The Group recorded a net foreign exchange loss of HK$10.6 million (2018: HK$2.4 million) in its holdings of foreign currencies.

STAFF

As at 31 December 2019, the Group had a total staff of 648 (2018: 686). The staff costs (excluding directors' remuneration) amounted to approximately HK$211.2 million (2018: HK$222.2 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.

2020 OUTLOOK

The Group envisages that the Hong Kong retail market will remain grim at least for the first half of 2020, if not longer. The already weak consumer spending trend compounded by the outbreak of the new coronavirus COVID-19 since January 2020, which has since this month been declared as a pandemic by the World Health Organization, will undoubtably have severe implications for many business sectors including retail. This virus has already caused a noticeable drop in customer visits to our department stores resulting in significant adverse impact on its revenue in the past two months. The Group's investment portfolio will come under pressure from the recent turbulent trading of global financial markets to the COVID-19 pandemic. The Group's commercial investment properties in Hong Kong and Australia will continue to provide stable rental income. With its financial strength and a dedicated 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 2019 and our shareholders for their continuous support.

Karl C. Kwok
Chairman

Hong Kong, 30 March 2020

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 2019.

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 2019 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 46 to 149.

An interim dividend of 38 HK cents (2018: 28 HK cents) per share was paid on 23 October 2019. The directors now recommend that a final dividend of 65 HK cents (2018: 42 HK cents) per share in respect of the year ended 31 December 2019 be payable to shareholders on the Register of Members on 17 June 2020. Dividend warrants will be sent to shareholders on 22 June 2020.

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 75.9% (2018: 77.2%) 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.

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.

The Group's financial, sales, merchandising, and enterprise resource planning systems are operating on its own IT systems infrastructure. Therefore, all these systems are exposed to the risk of external cyber threat and leakage of information by unauthorised access to the system.

Details about the Group's financial risk management are set out in Note 25 to the financial statements on pages 130 to 141.

BUSINESS REVIEW (Continued)

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 (2018: 315,000 square feet).

The Group's department stores business faced a challenging business environment during the year under review. During the first half of 2019, the unseasonably warm weather in January and February adversely affected the sales of winter clothing items and winter electrical goods. In the second half of 2019, the weakening of consumer confidence and local retail market conditions amid the prolonged social unrest and disturbances took a heavy toll on inbound tourism and consumption-related activities, resulting in a plunge in local retail sales. The Group's department stores operations were severely disrupted during this period due to the protests that frequently took place on weekends and at times in the vicinity of our stores, requiring our stores to either shorten their business hours or close shop for a whole day. The disturbances resulted in a significant decline in customer visits at our stores. The Group took various actions to support the department stores business including offering deeper discounts, launching extra sale promotions and extending the duration of its two popular Super Sale and Special Sale promotions. With these actions, the Group managed to lessen the sales decline in the second half of 2019 and reduce the department stores summer inventory to a manageable level. Amongst our stores, the Tsimshatsui East branch store was affected most and recorded a decrease in revenue of approximately 15.7% when compared with 2018. The Main Store in Sheung Wan and the Wing On Plus branch store on Nathan Road recorded a decrease of 10.8% and 11.4%, respectively.

Overall, the Group's department stores revenue decreased by 11.5% to HK$879.7 million (2018: HK$994.4 million) for the year ended 31 December 2019. In 2019, the department stores business achieved an overall gross profit margin of 50.7% (2018: 51.8%). Operating costs decreased by 2.1% to HK$408.1 million (2018: HK$416.9 million) due mainly to the decreases in information technology expenses and payroll costs. Overall, operating profits decreased by 61.4% to HK$37.8 million (2018: HK$97.9 million).

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 2019, a total rent of HK$119.2 million was charged for these properties (2018: HK$116.2 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. 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 2019, the Group invested around HK$5.1 million in replacement and upgrading of the department stores service facilities.

BUSINESS REVIEW (Continued)

Department Stores Operation (Continued)

The already weak consumer spending trend compounded by the outbreak of the new coronavirus COVID-19 since January 2020 will undoubtably have severe implications for many business sectors including retail. This virus has already caused a noticeable drop in customer visits to our department stores resulting in significant adverse impact on its revenue in the past two months. The Group's management will try its best to mitigate the impact caused by COVID-19 to its business.

Property Investments

The Group's gross property investment income increased by 4.5% to HK$610.9 million (2018: HK$584.6 million). Operating costs decreased by 14.1% to HK$105.8 million (2018: HK$123.2 million) due primarily to recovery of certain land tax in respect of prior years for its investment properties in Melbourne, Australia. Hence, resulting in property investment income increased by 9.5% to HK$505.1 million (2018: HK$461.4 million).

As at 31 December 2019 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 (2018: 610,000 square feet). During 2019, the Group achieved a total gross rental income of HK$351.0 million (2018: HK$327.7 million) from its investment properties in Hong Kong. The average monthly basic rent achieved during 2019 was around HK$53 per square feet (2018: HK$52 per square feet). Overall occupancy rate for 2019, excluding the areas occupied by the Group's business operations, was 98% (2018: 93%). 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 98% (2018: 97%) at 31 December 2019.

The Group in 2019 budgeted a sum of approximately HK$130 million for the replacement and upgrading of the service facilities of the Group's investment properties in Hong Kong from 2019 to 2021. In 2019, the Group spent approximately HK$26.6 million on capital works including mainly the replacement and modernization of passenger lifts and cargo lifts at Wing On Centre and the Group's godown building at Kowloon Bay for a total sum of approximately HK$17.0 million, replacement and improvement works to the electrical system and air-conditioning plants at Wing On Centre for a total sum of approximately of $4.5 million, and the roof waterproofing works at Wing On Godown for a sum of HK$2.0 million.

The appraised value of the Group's Hong Kong investment property portfolio was HK$12,334.6 million as at 31 December 2019, representing a decrease of 0.1% compared with the appraised value of HK$12,350.9 million as at 31 December 2018.

BUSINESS REVIEW (Continued)

Property Investments (Continued)

As at 31 December 2019, the Group's investment properties located in Melbourne, Australia, have a total gross floor area of approximately 639,000 square feet (2018: 639,000 square feet). During 2019, the Group achieved a total gross rental income of A$23.5 million (2018: A$21.6 million) from its investment properties in Melbourne. The overall occupancy rate for 2019 was 100% (2018: 98%). The appraised value of the Group's investment property portfolio in Melbourne, Australia was A$650.8 million (HK$3,537.9 million) as at 31 December 2019, an increase of 9.6% compared with the appraised value of A$593.8 million (HK$3,265.5 million as at 31 December 2018) in terms of Australian dollar currency (an increase of 8.3% in terms of Hong Kong dollar currency). The overall occupancy rate of the Group's investment properties in Melbourne, Australia was 100% (2018: 100%) at 31 December 2019.

As at 31 December 2019, the Group's investment property located in Houston, United States of America, has a gross floor area of approximately 116,000 square feet (2018: 116,000 square feet). During 2019, the Group achieved a total gross rental income of US$1.6 million (2018: US$1.9 million) from its investment property in Houston. In 2019, the overall occupancy rate was 75% (2018: 79%). The appraised value of the Group's investment property portfolio in Houston was US$28.0 million (HK$217.7 million) at as 31 December 2019, an increase of 2.9% compared with the appraised value of US$27.2 million (HK$212.4 million) as at 31 December 2018 in terms of United States dollar currency. The occupancy rate of the Group's investment property located in Houston, United States of America was around 78% (2018: 73%) at 31 December 2019.

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.

Financial markets generally performed well in 2019. As the global economy weakened from 2018, global central banks loosened monetary policy to stabilize economic conditions and extend the cycle. Some key factors injected uncertainty into the markets throughout the year. Firstly, global trade tensions, primarily between the US and China, brought about periods of escalation and de-escalation. Secondly, risks of a disorderly "no-deal" Brexit troubled the European markets. Thirdly, the large scale social unrest in Hong Kong weighed heavily on local markets. Against this backdrop, the prospect of positive outcomes alleviated near-term market concerns beginning in the fourth quarter of 2019, with strong market rallies towards the end of the year. Given this environment in 2019, the Group increased its fixed income holdings moderately and maintained its allocation to equities with some tactical changes.

BUSINESS REVIEW (Continued)

Other Investments (Continued)

As at 31 December 2019, the Group's investment portfolio amounted to HK$883.0 million (2018: HK$704.7 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$112.6 million (2018: a loss of HK$74.1 million) benefited from the rallying global financial markets and improved equity market at the year end.

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.

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 2020.

BUSINESS REVIEW (Continued)

Environmental, Social and Governance Practices (Continued)

Please refer to the sections headed "Business Strategy" and "2020 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 27 to 37 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$40,000 (2018: HK$83,000).

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out on pages 147 and 148.

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 21 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, BBS, 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. Iain Ferguson Bruce, CA, FCPA, FHKIoD, FHKSI, (Independent Non-executive Director)
Mr. Leung Wing Ning (Independent Non-executive Director)
Mr. Nicholas James Debnam (Independent Non-executive Director)
Mr. Ignatius Wan Chiu Wong, LL.B. (Independent Non-executive Director) (Retired on 5 June 2019)

Mr. Lester Kwok, Mr. Mark Kwok and Miss Maria Tam Wai Chu shall retire from the Board at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election. Mr. Lester Kwok, Mr. Mark Kwok and Miss Maria Tam Wai Chu will be proposed to be re-elected for a fixed term of three years until the 2023 Annual General Meeting.

Dr. Bill Kwok will be re-designated from Non-executive Director to Executive Director with effect from 1 April 2020.

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' emoluments, five highest paid individuals' emoluments and staff costs are set out in Notes 7, 8 and 5(c) 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 page 38 and in Note 27 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).

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2019, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO were as follows:

(a) The Company

	Number of ordinary shares held					
Name of Director	**Personal interests (held as beneficial owner)**	**Family interests (interests of spouse)**	**Corporate interests (interests of controlled corporation)**	**Other interests**	**Total interests**	**Total interests as a % of the issued voting shares**
Karl C. Kwok	480,620	–	–	–	480,620	0.164
Lester Kwok	649,050	–	–	–	649,050	0.222
Bill Kwok	958,298	295,000	255,000 (Note 1)	–	1,508,298	0.516
Mark Kwok	556,910	–	10,000 (Note 2)	–	566,910	0.194
Leung Wing Ning	10,000	–	–	–	10,000	0.003
Nicholas James Debnam	15,000	–	–	–	15,000	0.005

Notes:

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

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

DIRECTORS' INTERESTS IN SHARES (Continued)

(b) Kee Wai Investment Company (BVI) Limited

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

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

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

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

DIRECTORS' INTERESTS IN SHARES (Continued)

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 Issuers.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, 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	61.712
(ii)	Wing On Corporate Management (BVI) Limited	180,545,138	61.712
(iii)	Kee Wai Investment Company (BVI) Limited	180,545,138	61.712

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

SUFFICIENCY OF PUBLIC FLOAT

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY' S SHARES

Details of the purchase of own shares by the Company during the year are set out in Note 24(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 24(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, 30 March 2020

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 2019.

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 2019.

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. The names and biographies of the directors and relationships between members of the Board are set out on pages 6 to 8.

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

BOARD OF DIRECTORS (Continued)

The Board meets regularly to review and approve the financial statements, including the quarterly, half- yearly and annual financial statements, of the Group. Four 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 2019. The attendance of each director at the Board meetings and Annual General Meeting during the financial year ended 31 December 2019 is set out in the table below:

	Board meetings attended/held	Annual General Meeting attended/held
Executive Directors		
Mr. Karl C. Kwok (Chairman)	4/4	1/1
Mr. Lester Kwok (Deputy Chairman and Chief Executive Officer)	4/4	1/1
Mr. Mark Kwok	3/4	1/1
Non-executive Director		
Dr. Bill Kwok	4/4	1/1
Independent Non-executive Directors		
Miss Maria Tam Wai Chu	3/4	1/1
Mr. Iain Ferguson Bruce	4/4	1/1
Mr. Leung Wing Ning	4/4	1/1
Mr. Nicholas James Debnam	4/4	1/1
Mr. Ignatius Wan Chiu Wong (Retired on 5 June 2019)	1/1	1/1

The 2019 Annual General Meeting ("AGM") was held on 4 June 2019, 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").

BOARD OF DIRECTORS (Continued)

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 enquiries, 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 45 in the independent auditor's report for the year ended 31 December 2019.

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 2019, 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.

BOARD OF DIRECTORS (Continued)

Corporate Governance Functions (Continued)

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 2019, the Board has, on its own and through the Nomination Committee, Audit Committee and Remuneration 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. The Remuneration Committee made recommendations to the Board on the Company's policy and the remuneration structure of all directors and senior management.

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:

Executive Directors	**Type of training**
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
Independent Non-executive Directors	
Miss Maria Tam Wai Chu	B, C
Mr. Iain Ferguson Bruce	A, B, C
Mr. Leung Wing Ning	A, B, C
Mr. Nicholas James Debnam	B, C
Mr. Ignatius Wan Chiu Wong (Retired on 5 June 2019)	–

(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.

NON-EXECUTIVE DIRECTORS

There are currently one non-executive director and four independent non-executive directors. All non-executive directors have been appointed for a fixed term of not more than three years. During the financial year ended 31 December 2019, the Chairman held a meeting with the independent non-executive directors without the presence of other 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.

REMUNERATION COMMITTEE (Continued)

During the financial year ended 31 December 2019, 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 2019. Two meetings of the Remuneration Committee were held in 2019. The attendance of committee members during 2019 is set out in the table below:

Remuneration Committee Members	Meetings attended/held
Mr. Leung Wing Ning (Committee Chairman)	2/2
Mr. Karl C. Kwok	2/2
Mr. Nicholas James Debnam (Appointed on 5 June 2019)	1/1
Mr. Ignatius Wan Chiu Wong (Retired on 5 June 2019)	1/1

The amount of remuneration paid to each director of the Company for 2019 is set out in Note 7 to the financial statements for the year ended 31 December 2019.

At the forthcoming Annual General Meeting to be held on 4 June 2020, the Board will propose a director's fee of HK$248,000 for each director for the year 2020 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.

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.

NOMINATION COMMITTEE (Continued)

During the financial year ended 31 December 2019, 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 directors. At present, four 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 2019, there were no new directors appointed to the Board.

The Nomination Committee adopted a Nomination Policy, (the "Nomination Policy") in March 2019 which sets out the objectives, procedures and criteria to be adopted when considering the candidates to be appointed or re-appointed as directors. In considering a candidate nominated for directorship, the Nomination Committee will consider relevant criteria necessary to complement the Group's corporate strategy and achieve Board diversity. The Nomination Committee will review and monitor the implementation of the Nomination Policy on a regular basis. The terms of the Nomination Policy are published on the Company's website.

Two Nomination Committee meetings were held in 2019. The attendance of committee members during 2019 is set out in the table below:

Nomination Committee Members	**Meetings attended/held**
Mr. Leung Wing Ning (Committee Chairman)	2/2
Mr. Karl C. Kwok	2/2
Mr. Nicholas James Debnam (Appointed on 5 June 2019)	1/1
Mr. Ignatius Wan Chiu Wong (Retired on 5 June 2019)	1/1

AUDIT COMMITTEE

The Board established an audit committee on 16 December 1998 (the "Audit Committee"). The Audit Committee is currently comprised of four 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.

AUDIT COMMITTEE (Continued)

During the financial year ended 31 December 2019, 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 2019. Four meetings of the Audit Committee were held in 2019. The attendance of committee members during 2019 is set out in the table below:

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

AUDITORS' REMUNERATION

During the financial year ended 31 December 2019, the fees charged for statutory audit services provided to the Company and its subsidiaries amounted to HK$4,059,000 (2018: HK$3,953,000), and, in addition, HK$2,777,000 (2018: HK$2,832,000) was charged for other non-statutory audit services, such as tax compliance and advisory services, accounting advice, interim review and internal systems reviews including those on risk management and internal control systems. Included in the fees for non-statutory audit services is an amount of HK$925,000 (2018: HK$1,152,000) paid to the Group's external auditor for performing internal systems review services including those on risk management and internal control systems 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 reviewed if an internal audit function was required and 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.

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 with no new material risks 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.

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.

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 2019 and there is currently no proposal to amend the Company's Bye-Laws in the forthcoming Annual General Meeting.

On behalf of the Board
Sin Kar Tim
Company Secretary

Hong Kong, 30 March 2020

CONTINUING CONNECTED TRANSACTIONS

The following is a summary of transactions entered into by the Company in 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 30 March 2017, The Wing On Company Limited ("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 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 Investment Company (BVI) Limited ("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.

(2) On 5 December 2017, 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 2018 to 31 December 2020 with WOCO and The Wing On Properties and Securities Company Limited ("WOPS") at a monthly rental of HK$5,840,000 (exclusive of rates, air-conditioning charges, management fee and all other outgoings). The maximum aggregate annual rental payable to WOPS would be HK$24,969,504. The Premises is jointly owned by WOCO and WOPS in the interest of 64.37% and 35.63% respectively. WODS and WOCO are wholly-owned subsidiaries of the Company. Since WOPS is an indirect non wholly-owned subsidiary of Kee Wai (BVI), a substantial shareholder of the Company, which in turn is holding approximately 61.426% interest in the existing issued share capital of the Company, the Tenancy Agreement constitutes a continuing connected transaction of the Company.

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

The 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

	2019	2018	2017 (Restated)	2016	2015
Statement of profit or loss items (HK$ million)					
Revenue	**1,371**	1,463	1,489	1,722	1,872
Profit from operations after finance costs	**640**	459	642	584	547
Profit before taxation	**962**	1,858	2,872	1,135	1,269
Income tax expense	**(196)**	(159)	(211)	(146)	(198)
Profit attributable to shareholders of the Company	**766**	1,698	2,657	987	1,069
Underlying profit attributable to shareholders of the Company	**559**	378	582	455	476
Per share basis (HK$)					
Basic earnings per share	**2.61**	5.78	9.03	3.35	3.62
Underlying earnings per share	**1.91**	1.29	1.98	1.54	1.61
Dividend per share	**1.03**	0.70	2.16	0.81	0.84
Statement of financial position items (HK$ million)					
Investment properties and other property, plant and equipment	**16,478**	16,210	15,159	12,642	12,052
Other assets	**4,541**	4,259	4,171	4,207	4,006
Total assets	**21,019**	20,469	19,330	16,849	16,058
Current liabilities	**593**	491	558	669	454
Non-current liabilities	**845**	865	910	566	723
Total liabilities	**1,438**	1,356	1,468	1,235	1,177
Non-controlling interests	**34**	33	31	27	25
Total equity attributable to shareholders of the Company	**19,547**	19,080	17,831	15,587	14,856

Notes:

(1) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated.

(2) The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information has not been restated for adoption of HKFRS 9 while comparative information for 2017 has been restated for adoption of HKFRS 15. Figures prior to 2017 have not been restated.

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 46 to 149, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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.

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	How the matter was addressed in our Audit
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$16,090 million and accounted for 77% of the Group's total assets as at 31 December 2019. The fair values of the investment properties as at 31 December 2019 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 31% of the Group's profit before taxation for the year ended 31 December 2019. 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.	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; – with the assistance of our internal property valuation specialists, evaluating and discussing the valuation methodology adopted with the external property valuers and assessing the key estimates and assumptions adopted in these valuations on a sample basis, which included estimated market rents and capitalisation rates, by comparing with market available data; and – comparing, on a sample basis, tenancy information, including committed rents, provided by management to the external property valuers with underlying contracts.

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.

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.

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

– 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.

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

30 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Revenue	3(a)	1,371,494	1,462,829
Other revenue	4	89,727	90,833
Other net gain/(loss)	4	80,757	(100,335)
Cost of department store sales	5(d)	(424,804)	(469,373)
Cost of property leasing activities	5(b)	(76,889)	(97,171)
Other operating expenses	5(c)	(395,654)	(422,449)
Profit from operations		644,631	464,334
Finance costs	5(a)	(4,353)	(5,093)
		640,278	459,241
Net valuation gain on investment properties	11	302,586	1,387,462
		942,864	1,846,703
Share of profit of an associate	12	19,498	10,904
Profit before taxation	5	962,362	1,857,607
Income tax	6	(195,549)	(158,670)
Profit for the year		766,813	1,698,937
Attributable to:			
Shareholders of the Company		765,658	1,697,681
Non-controlling interests		1,155	1,256
Profit for the year		766,813	1,698,937
Basic and diluted earnings per share	9(a)	261.0 cents	577.7 cents

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated (see note 1(c)).

The notes on pages 54 to 149 form part of these financial statements. Details of dividends payable to shareholders of the Company are set out in note 24(c).

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	2019		2018	
	$'000	$'000	$'000	$'000
Profit for the year		766,813		1,698,937
Other comprehensive income for the year (after tax and reclassification adjustments):				
Item that may not be reclassified subsequently to profit or loss:				
– other investments at fair value through other comprehensive income		(6,060)		(3,828)
Items that may be reclassified subsequently to profit or loss:				
Foreign currency translation adjustments:				
– exchange differences on translation of financial statements of overseas subsidiaries	(32,156)		(269,515)	
– share of exchange differences on translation of financial statements of an overseas associate	(2,264)		(4,997)	
		(34,420)		(274,512)
		(40,480)		(278,340)
Total comprehensive income for the year		726,333		1,420,597
Attributable to:				
Shareholders of the Company		725,358		1,419,283
Non-controlling interests		975		1,314
Total comprehensive income for the year		726,333		1,420,597

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated (see note 1(c)).

The notes on pages 54 to 149 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Non-current assets			
Investment properties	11(a)	16,090,297	15,828,721
Other property, plant and equipment	11(a)	387,574	381,653
		16,477,871	16,210,374
Interest in an associate	12	324,419	307,185
Other investments	13	140,237	143,157
Deferred tax assets	23(c)	436	11,609
		16,942,963	16,672,325
Current assets			
Trading securities	14	883,022	704,746
Inventories	15(a)	99,526	116,515
Debtors, deposits and prepayments	16	68,271	69,559
Amounts due from fellow subsidiaries	17	18,201	3,209
Other bank deposits		13,543	74,819
Cash and cash equivalents	18(a)	2,993,692	2,827,500
		4,076,255	3,796,348
Current liabilities			
Creditors and accrued charges	19	359,910	409,188
Contract liabilities	20	18,373	18,137
Secured bank loan	21	103,290	35,196
Lease liabilities	22	27,399	–
Amounts due to fellow subsidiaries	17	3,818	3,514
Current tax payable	23(a)	80,587	24,494
		593,377	490,529
Net current assets		3,482,878	3,305,819
Total assets less current liabilities carried forward		20,425,841	19,978,144

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

(Continued)

(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Total assets less current liabilities brought forward		20,425,841	19,978,144
Non-current liabilities			
Secured bank loan	21	–	104,487
Lease liabilities	22	1,020	–
Deferred tax liabilities	23(c)	843,880	760,550
		844,900	865,037
NET ASSETS		19,580,941	19,113,107
Capital and reserves			
Share capital	24(d)	29,256	29,360
Reserves		19,518,046	19,051,083
Total equity attributable to shareholders of the Company		19,547,302	19,080,443
Non-controlling interests		33,639	32,664
TOTAL EQUITY		19,580,941	19,113,107

Approved and authorised for issue by the board of directors on 30 March 2020.

Karl C. Kwok	**Lester Kwok**
Director	Director

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated (see note 1(c)).

The notes on pages 54 to 149 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	Share capital $'000 (note 24(d))	Land and building revaluation reserve $'000 (note 24(e)(i))	Investment revaluation reserve $'000 (note 24(e)(ii))	Exchange reserve $'000 (note 24(e)(iii))	Contributed surplus $'000 (note 24(e)(iv))	General reserve fund $'000 (note 24(e)(v))	Retained earnings $'000 (note 24(a))	Total $'000	Non-controlling interests $'000	Total equity $'000
		Attributable to shareholders of the Company									
Balance at 1 January 2019		29,360	271,037	131,379	(274,235)	754,347	1,541	18,167,014	19,080,443	32,664	19,113,107
Changes in equity for 2019											
Profit for the year		–	–	–	–	–	–	765,658	765,658	1,155	766,813
Other comprehensive income		–	–	(6,060)	(34,240)	–	–	–	(40,300)	(180)	(40,480)
Total comprehensive income for the year		–	–	(6,060)	(34,240)	–	–	765,658	725,358	975	726,333
Purchase of own shares	24(d)										
– par value paid		(104)	–	–	–	–	–	–	(104)	–	(104)
– premium and transaction costs paid		–	–	–	–	–	–	(23,666)	(23,666)	–	(23,666)
Dividends approved and paid in respect of the previous year	24(c)(ii)	–	–	–	–	–	–	(123,255)	(123,255)	–	(123,255)
Dividends declared and paid in respect of the current year	24(c)(i)	–	–	–	–	–	–	(111,474)	(111,474)	–	(111,474)
Share of the general reserve fund of an associate: transfer to the general reserve fund		–	–	–	–	–	159	(159)	–	–	–
		(104)	–	(6,060)	(34,240)	–	159	507,104	466,859	975	467,834
Balance at 31 December 2019		29,256	271,037	125,319	(308,475)	754,347	1,700	18,674,118	19,547,302	33,639	19,580,941

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

(Continued)

(Expressed in Hong Kong dollars)

		Attributable to shareholders of the Company									
	Note	**Share capital** $'000 (note 24(d))	**Land and building revaluation reserve** $'000 (note 24(e)(i))	**Investment revaluation reserve** $'000 (note 24(e)(ii))	**Exchange reserve** $'000 (note 24(e)(iii))	**Contributed surplus** $'000 (note 24(e)(iv))	**General reserve fund** $'000 (note 24(e)(v))	**Retained earnings** $'000 (note 24(a))	**Total** $'000	**Non-controlling interests** $'000	**Total equity** $'000
Balance at 1 January 2018		29,389	271,037	135,207	335	754,347	1,051	16,759,284	17,950,650	31,350	17,982,000
Changes in equity for 2018											
Profit for the year		–	–	–	–	–	–	1,697,681	1,697,681	1,256	1,698,937
Other comprehensive income		–	–	(3,828)	(274,570)	–	–	–	(278,398)	58	(278,340)
Total comprehensive income for the year		–	–	(3,828)	(274,570)	–	–	1,697,681	1,419,283	1,314	1,420,597
Purchase of own shares	24(d)										
– par value paid		(29)	–	–	–	–	–	–	(29)	–	(29)
– premium and transaction costs paid		–	–	–	–	–	–	(7,341)	(7,341)	–	(7,341)
Dividends approved and paid in respect of the previous year	24(c)(ii)	–	–	–	–	–	–	(199,842)	(199,842)	–	(199,842)
Dividends declared and paid in respect of the current year	24(c)(i)	–	–	–	–	–	–	(82,278)	(82,278)	–	(82,278)
Share of the general reserve fund of an associate: transfer to the general reserve fund		–	–	–	–	–	490	(490)	–	–	–
		(29)	–	(3,828)	(274,570)	–	490	1,407,730	1,129,793	1,314	1,131,107
Balance at 31 December 2018		29,360	271,037	131,379	(274,235)	754,347	1,541	18,167,014	19,080,443	32,664	19,113,107

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated (see note 1(c)).

The notes on pages 54 to 149 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Operating activities			
Profit before taxation		962,362	1,857,607
Adjustments for:			
Net valuation gain on investment properties		(302,586)	(1,387,462)
Depreciation and amortisation		89,340	62,084
Impairment losses of trade debtors written back		(11)	(18)
Finance costs		4,353	5,093
Dividend income from investments in securities		(19,318)	(24,781)
Interest income from bank deposits		(59,615)	(56,099)
Interest income from investments in securities		(4,047)	(676)
Share of profit of an associate		(19,498)	(10,904)
Net (gain)/loss on disposal of plant and equipment		(303)	37
Net foreign exchange loss		15,716	1,819
Operating profit before changes in working capital		666,393	446,700
Increase in trading securities		(178,276)	(127,311)
Decrease/(increase) in inventories		16,989	(23,191)
(Increase)/decrease in debtors, deposits and prepayments		(1,067)	2,446
(Increase)/decrease in amounts due from fellow subsidiaries		(14,992)	3,485
Increase in lease incentives		(18,969)	(22,827)
Decrease in creditors and accrued charges		(48,847)	(63,881)
Increase in contract liabilities		236	1,654
Increase in amounts due to fellow subsidiaries		304	422
Cash generated from operations		421,771	217,497
Tax paid			
– Hong Kong Profits Tax paid		(16,483)	(62,444)
– Overseas tax paid		(20,490)	(8,295)
Net cash generated from operating activities		384,798	146,758

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

(Continued)

(Expressed in Hong Kong dollars)

	Note	2019 $'000	2018 $'000
Investing activities			
Payment for purchases of investment properties and other property, plant and equipment		(18,769)	(34,270)
Proceeds from disposal of plant and equipment		360	260
Payment for purchase of other investments		(3,140)	–
Interest income received from bank deposits		61,805	51,773
Interest income received from investments in securities		4,047	676
Dividends received from investments in securities		19,566	24,291
Decrease in other bank deposits		61,276	51,654
Net cash generated from investing activities		125,145	94,384
Financing activities			
Capital element of lease rentals paid	18(b)	(26,850)	–
Interest element of lease rentals paid	18(b)	(1,067)	–
Payment for purchase of own shares	24(d)	(23,770)	(7,370)
Repayment of bank loan	18(b)	(34,803)	(37,296)
Interest paid on bank loan	18(b)	(3,325)	(5,105)
Dividends paid to shareholders of the Company		(234,729)	(282,120)
Net cash used in financing activities		(324,544)	(331,891)
Net increase/(decrease) in cash and cash equivalents		185,399	(90,749)
Cash and cash equivalents at 1 January		2,827,500	2,941,473
Effect of foreign exchange rate changes		(19,207)	(23,224)
Cash and cash equivalents at 31 December	18(a)	2,993,692	2,827,500

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated (see note 1(c)).

The notes on pages 54 to 149 form part of these financial statements.

1. Significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). 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 2019 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.

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 a new HKFRS, HKFRS 16, Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, Leases, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, Leases

HKFRS 16 replaces HKAS 17, Leases, and the related interpretations, HK(IFRIC) 4, Determining whether an arrangement contains a lease, HK(SIC) 15, Operating leases – incentives, and HK(SIC) 27, Evaluating the substance of transactions involving the legal form of a lease. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

1. Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment as disclosed in note 26(b). For an explanation of how the Group applies lessee accounting, see note 1(j)(i).

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.7%.

1. Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(ii) Lessee accounting and transitional impact (Continued)

To ease the transition to HKFRS 16, the Group applied a practical expedient at the date of initial application of HKFRS 16. When the Group measures the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

The following table reconciles the operating lease commitments as disclosed in note 26(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	$'000
Operating lease commitments at 31 December 2018 (Note 26(b))	50,636
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	1,058
	51,694
Less: total future interest expenses	(1,294)
Present value of remaining lease payments, discounted using the incremental borrowing rates and total lease liabilities recognised at 1 January 2019	50,400

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities.

The Group presents right-of-use assets that do not meet the definition of investment property in "other property, plant and equipment" and presents lease liabilities separately in the consolidated statement of financial position.

1. Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(ii) Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

	Carrying amount at 31 December 2018 $'000	Capitalisation of operating lease contracts $'000	Carrying amount at 1 January 2019 $'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Other property, plant and equipment	381,653	50,400	432,053
Non-current assets	16,672,325	50,400	16,722,725
Lease liabilities (current)	–	25,303	25,303
Current liabilities	490,529	25,303	515,832
Net current assets	3,305,819	(25,303)	3,280,516
Total assets less current liabilities	19,978,144	25,097	20,003,241
Lease liabilities (non-current)	–	25,097	25,097
Non-current liabilities	865,037	25,097	890,134
Net assets	19,113,107	–	19,113,107

1. Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iii) Impact on the cash flows of the Group

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 18(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows (see note 18(c)).

The following table gives an indication of the estimated impact of the adoption of HKFRS 16 on the Group's cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

1. Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iii) Impact on the cash flows of the Group (Continued)

	2019			**2018**
	Amounts reported under HKFRS 16 (A) $'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) $'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) $'000	Compared to amounts reported under HKAS 17 $'000
Line items in the consolidated statement of cash flows for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:				
Cash generated from operations	421,771	(27,917)	393,854	217,497
Net cash generated from operating activities	384,798	(27,917)	356,881	146,758
Capital element of lease rentals paid	(26,850)	26,850	–	–
Interest element of lease rentals paid	(1,067)	1,067	–	–
Net cash used in financing activities	(324,544)	27,917	(296,627)	(331,891)

Note 1: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash used in financing activities as if HKAS 17 still applied.

1. Significant accounting policies (Continued)

(c) Changes in accounting policies (Continued)

(iv) Leasehold investment properties

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation ("leasehold investment properties"). The adoption of HKFRS 16 does not have an impact on the Group's financial statements as the Group previously elected to apply HKAS 40, Investment properties, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(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.

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.

1. Significant accounting policies (Continued)

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

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)(iii)).

(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)(iii)). 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.

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.

1. Significant accounting policies (Continued)

(e) Associates (Continued)

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 policies for investments in debt and equity securities, other than investments in subsidiaries and an associate, are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss for which transaction costs are recognised directly in the consolidated statement of profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 25(b)(vi). These investments are subsequently accounted for as follows, depending on their classification.

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(u)(v)).

– fair value through other comprehensive income ("FVOCI") (recycling), if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in the consolidated other comprehensive income, except for the recognition in the consolidated statement of profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in the consolidated other comprehensive income is recycled from equity to the consolidated statement of profit or loss.

1. Significant accounting policies (Continued)

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

Investments other than equity investments (Continued)

– fair value through profit or loss ("FVPL"), if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in the consolidated statement of profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in the consolidated other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in the consolidated other comprehensive income remains in the investment revaluation reserve until the investment is disposed of. At the time of disposal, the amount accumulated in the investment revaluation reserve is transferred to retained earnings. It is not recycled through the consolidated statement of profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in the consolidated statement of profit or loss as other income in accordance with the policy set out in note 1(u)(iii).

(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.

1. Significant accounting policies (Continued)

(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(u)(ii).

In the comparative period, when the Group held a property interest under an operating lease and used the property to earn rental income and/or for capital appreciation in the long term, the Group could elect on a property-by-property basis to classify and account for such interest as an investment property. Any such property interest which had been classified as an investment property was accounted for as if it were held under a finance lease (see note 1(j)), and the same accounting policies were applied to that interest as were applied to other investment properties leased under finance leases.

(i) 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)(iii)):

– interests in leasehold land and buildings where the Group is the registered owner of the property interest;

– right-of-use assets arising from leases over leasehold properties where the Group is not the registered owner of the property interest; and

– items of plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment (see note 1(j)).

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.

1. Significant accounting policies (Continued)

(i) Property, plant and equipment (Continued)

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 the 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.

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:

– Ownership interests in 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

– Other properties leased for own use are depreciated over the unexpired term of leases.

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.

1. Significant accounting policies (Continued)

(j) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases other than properties leased for own use.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or a rate are not included in the measurement of the lease liability and hence are charged to the consolidated statement of profit or loss in the accounting period in which they are incurred.

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

(j) **Leased assets** (Continued)

(i) As a lessee (Continued)

(A) Policy applicable from 1 January 2019 (Continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 1(i) and 1(k)(iii)), except for right-of-use assets that meet the definition of investment property are carried at fair value in accordance with note 1(h).

The Group presents right-of-use assets that do not meet the definition of investment property in "other property, plant and equipment" and presents lease liabilities separately in the consolidated statement of financial position.

(B) Policy applicable prior to 1 January 2019

In the comparative period, as a lessee the Group classified leases as finance leases if the leases transferred substantially all the risks and rewards of ownership to the Group. Leases which did not transfer substantially all the risks and rewards of ownership to the Group were classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property was classified as investment property on a property-by-property basis and, if classified as investment property, was accounted for as if held under a finance lease (see note 1(h)); and

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

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

(j) **Leased assets** (Continued)

(i) As a lessee (Continued)

(B) Policy applicable prior to 1 January 2019 (Continued)

Where the Group had the use of assets held under operating leases, payments made under the leases were 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 was more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received were recognised in the consolidated statement of profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals were charged to the consolidated statement of profit or loss in the accounting period in which they were incurred.

(ii) As a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

The rental income from operating leases is recognised in accordance with note 1(u)(ii).

(k) **Credit losses and impairment of assets**

(i) Credit losses from financial instruments and lease receivables

The Group recognises a loss allowance for expected credit losses (“ECLs”) on the following items:

– financial assets measured at amortised cost (including cash and cash equivalents, other bank deposits, trade and other receivables); and

– lease receivables.

1. Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

Financial assets measured at fair value, including investment funds, debt and equity securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; or

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in the consolidated statement of profit or loss. The Group recognises an impairment gain or loss with a corresponding adjustment to the carrying amount of the financial instruments through a loss allowance account.

1. Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments and lease receivables (Continued)

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in the consolidated statement of profit or loss in the period in which the recovery occurs.

(ii) Credit losses from 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 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.

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.

1. Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(ii) Credit losses from financial guarantees issued (Continued)

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in trade and other payables in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(iii) Impairment of other non-current 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, including right-of-use assets (other than investment properties carried at revalued amounts);

– interest in an associate; and

– investments in subsidiaries in the Company’s statement of financial position.

1. Significant accounting policies (Continued)

(k) Credit losses and impairment of assets (Continued)

(iii) Impairment of other non-current assets (Continued)

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

– 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.

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

(k) **Credit losses and impairment of assets** (Continued)

(iii) Impairment of other non-current 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 an 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.

(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**

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive the consideration, the account is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(k)(i)).

1. Significant accounting policies (Continued)

(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.

(p) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(u)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(m)).

(q) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 1(k)(i).

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

(r) Employee benefits

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

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

(ii) Termination benefits

Termination benefits are recognised 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.

(s) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the consolidated 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.

1. Significant accounting policies (Continued)

(s) 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.

1. Significant accounting policies (Continued)

(s) 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.

(t) Provisions and contingent liabilities

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

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

1. Significant accounting policies (Continued)

(u) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, net of returns and trade discounts, excluding those amounts collected on behalf of third parties.

(i) Sale of goods

Revenue arising from the sale of goods and net income from concession and consignment sales are recognised when the customer takes possession of and accepts the goods.

(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.

1. Significant accounting policies (Continued)

(v) Translation of foreign currencies

The functional currency of the Company and its subsidiaries which operate in Hong Kong is Hong Kong dollars while those for subsidiaries which operate in 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.

1. Significant accounting policies (Continued)

(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;

(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.

1. Significant accounting policies (Continued)

(x) Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

(y) Segment reporting

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

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

2. Sources of estimation uncertainty

Note 25 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 23, 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.

2. Sources of estimation uncertainty (Continued)

(b) Valuation of investment properties

As described in note 11(c), the investment properties were revalued by independent professional valuers as at 31 December 2019. 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.

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 consignment sales and income from property investment and disaggregation of revenue by category is analysed as follows:

	2019 $'000	2018 $'000
Under the scope of HKFRS 15, Revenue from contracts with customers:		
Department stores		
– Sales of goods	590,077	679,996
– Net income from concession sales	220,787	243,771
– Net income from consignment sales	68,860	70,677
	879,724	994,444
Property investment		
– Building management fees and other rental related income	62,716	61,926
Under the scope of HKFRS 16/HKAS 17, Leases:		
Property investment		
– Gross rentals from investment properties	429,054	406,459
	1,371,494	1,462,829

Disaggregation of revenue from contracts with customers by geographical locations is disclosed in note 3(b)(iii).

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.

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 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, lease liabilities, contract liabilities 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 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 lease liabilities and bank borrowings managed directly by the segments, depreciation, amortisation and impairment losses and additions to non-current segment assets used by the segments in their operations.

3. 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 2019 and 2018 is set out below.

	Department stores		Property investment		Total	
	2019	2018	2019	2018	2019	2018
	$'000	$'000	$'000	$'000	$'000	$'000
Revenue from external customers	879,724	994,444	491,770	468,385	1,371,494	1,462,829
Inter-segment revenue	–	–	119,179	116,240	119,179	116,240
Reportable segment revenue	879,724	994,444	610,949	584,625	1,490,673	1,579,069
Reportable segment profit	37,832	97,897	505,127	461,388	542,959	559,285
Finance costs	1,067	–	3,286	5,093	4,353	5,093
Depreciation and amortisation for the year	37,481	9,434	50,659	51,696	88,140	61,130
Impairment losses of trade debtors written back	(11)	(18)	–	–	(11)	(18)
Reportable segment assets	179,913	176,360	16,460,132	16,212,966	16,640,045	16,389,326
Additions to non-current segment assets during the year	14,530	10,182	25,644	45,512	40,174	55,694
Reportable segment liabilities	241,913	248,076	224,506	271,291	466,419	519,367

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated (see note 1(c)).

3. Revenue and segment reporting (Continued)

(b) Segment reporting (Continued)

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

	2019 $'000	2018 $'000
Profit		
Reportable segment profit	542,959	559,285
Share of profit of an associate	19,498	10,904
Other revenue	89,727	90,833
Other net gain/(loss)	80,757	(100,335)
Finance costs	(4,353)	(5,093)
Net valuation gain on investment properties	302,586	1,387,462
Unallocated head office and corporate expenses	(68,812)	(85,449)
Consolidated profit before taxation	962,362	1,857,607
Assets		
Reportable segment assets	16,640,045	16,389,326
Elimination of inter-segment receivables	(5,634)	(4,811)
	16,634,411	16,384,515
Interest in an associate	324,419	307,185
Other investments	140,237	143,157
Deferred tax assets	436	11,609
Trading securities	883,022	704,746
Unallocated head office and corporate assets	3,036,693	2,917,461
Consolidated total assets	21,019,218	20,468,673
Liabilities		
Reportable segment liabilities	466,419	519,367
Elimination of inter-segment payables	(5,634)	(4,811)
	460,785	514,556
Current tax payable	80,587	24,494
Deferred tax liabilities	843,880	760,550
Unallocated head office and corporate liabilities	53,025	55,966
Consolidated total liabilities	1,438,277	1,355,566

3. Revenue and segment reporting (Continued)

(b) Segment reporting (Continued)

(iii) Geographic information

The following table sets out information about the geographical 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.

	Revenue from external customers		Specified non-current assets	
	2019	**2018**	**2019**	**2018**
	$'000	$'000	$'000	$'000
Hong Kong (place of domicile)	1,230,754	1,322,136	12,721,983	12,732,272
Australia	127,956	126,012	3,538,147	3,265,738
USA	12,784	14,681	340,783	334,154
People's Republic of China ("PRC")	–	–	201,377	185,395
	140,740	140,693	4,080,307	3,785,287
	1,371,494	1,462,829	16,802,290	16,517,559

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

	2019 $'000	2018 $'000
Other revenue		
Interest income from bank deposits	59,615	56,099
Interest income from investments in securities	4,047	676
Dividend income from investments in securities	19,318	24,781
Compensation received on early termination of leases	2,701	5,601
Others	4,046	3,676
	89,727	90,833
Other net gain/(loss)		
Net gain/(loss) on remeasurement to fair value of trading securities	40,942	(114,406)
Net realised gain on disposal of		
– trading securities	37,592	8,533
– derivative financial instruments	12,590	8,029
Net foreign exchange loss	(10,670)	(2,454)
Net gain/(loss) on disposal of plant and equipment	303	(37)
	80,757	(100,335)

5. Profit before taxation

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

	2019 $'000	2018 $'000
(a) Finance costs		
Interest on bank loan	3,286	5,093
Interest on lease liabilities	1,067	–
	4,353	5,093
(b) Rentals receivable from investment properties		
Gross income from property investment	(491,770)	(468,385)
Less: direct outgoings	76,889	97,171
	(414,881)	(371,214)

5. Profit before taxation (Continued)

(c) Other operating expenses, include

	2019 $'000	2018 $'000
Staff costs (excluding directors' emoluments)		
– salaries, wages and other benefits	199,646	210,339
– contributions to defined contribution retirement plans	11,560	11,837
	211,206	222,176
Less: included in cost of property leasing activities	(4,031)	(3,885)
	207,175	218,291
Directors' emoluments (note 7)	24,960	29,414
Depreciation (note 11(a))		
– land and buildings*	–	25,186
– owned plant and equipment	12,333	11,493
– right-of-use assets* (note 11(d))	52,386	–
Auditors' remuneration		
– audit services	4,932	4,746
– tax services	648	543
– other services	1,256	1,496
Impairment losses of trade debtors written back (note 16(b))	(11)	(18)
Operating lease charges under HKAS 17*		
– minimum lease payments for hire of land and buildings	–	27,171
– contingent rentals for hire of land and buildings	–	30
Advertising expenses	14,640	13,842
Information technology expenses	9,275	19,126
Credit card commission	7,722	8,953
Electricity, water and gas	7,122	7,173
Government rent and rates	6,775	6,539
Legal and professional fees	4,846	8,152

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, comparative information is not restated (see note 1(c)).

5. Profit before taxation (Continued)

	2019 $'000	2018 $'000
(d) Other items		
Amortisation on lease incentives (note 11(a))	24,621	25,405
Cost of inventories sold (note 15(b))	424,804	469,373

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

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

	2019 $'000	2018 $'000
Current tax – Hong Kong Profits Tax		
Provision for the year	62,378	63,312
Over-provision in respect of prior years	(60)	(92)
	62,318	63,220
Current tax – Overseas		
Provision for the year	30,895	17,140
(Over)/under-provision in respect of prior years	(45)	662
	30,850	17,802
Deferred tax (note 23(b))		
Origination and reversal of temporary differences		
– changes in fair value of investment properties	95,713	67,231
– other temporary differences	6,668	10,417
	102,381	77,648
Total income tax expense	195,549	158,670

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime. For this subsidiary, the first $2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

Taxation for overseas subsidiaries is charged similarly at the appropriate current rates of taxation ruling in the relevant countries.

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

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

	2019 $'000	2018 $'000
Profit before taxation	962,362	1,857,607
Notional Hong Kong Profits Tax calculated at 16.5% (2018: 16.5%)	158,790	306,505
Tax effect of non-deductible expenses	13,704	28,516
Tax effect of non-taxable revenue	(31,286)	(213,766)
Tax effect of reversal of previously recognised tax losses	1,374	–
Tax effect of unused tax losses not recognised	125	–
Tax effect of previously unrecognised tax losses utilised this year	(2,368)	(1,653)
Effect of different tax rates of subsidiaries operating in other jurisdictions	54,769	38,341
Effect of overseas withholding tax	139	322
(Over)/under-provision in respect of prior years	(105)	570
Others	407	(165)
Actual tax expense	195,549	158,670

7. Directors' emoluments

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:

	2019				
	Directors' fees	**Salaries, allowances and benefits in kind**	**Discretionary bonuses**	**Contributions to defined contribution retirement plans**	**Total**
	$'000	$'000	$'000	$'000	$'000
Executive directors					
Mr. Karl C. Kwok	238	6,249	2,441	18	8,946
Mr. Lester Kwok	238	5,576	2,251	18	8,083
Mr. Mark Kwok	238	3,564	1,440	306	5,548
	714	15,389	6,132	342	22,577
Non-executive director					
Dr. Bill Kwok	238	–	–	–	238
Independent non-executive directors					
Miss Maria Tam Wai Chu	238	141	–	–	379
Mr. Ignatius Wan Chiu Wong	101	86	–	–	187
Mr. Iain Ferguson Bruce	238	189	–	–	427
Mr. Leung Wing Ning	238	419	–	–	657
Mr. Nicholas James Debnam	238	257	–	–	495
	1,053	1,092	–	–	2,145
	2,005	16,481	6,132	342	24,960

7. Directors' emoluments (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):

	2018				
	Directors' fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Contributions to defined contribution retirement plans $'000	Total $'000
Executive directors					
Mr. Karl C. Kwok	228	6,008	4,506	18	10,760
Mr. Lester Kwok	228	5,362	4,155	18	9,763
Mr. Mark Kwok	228	3,428	2,658	294	6,608
	684	14,798	11,319	330	27,131
Non-executive director					
Dr. Bill Kwok	228	–	–	–	228
Independent non-executive directors					
Miss Maria Tam Wai Chu	228	136	–	–	364
Mr. Ignatius Wan Chiu Wong	228	194	–	–	422
Mr. Iain Ferguson Bruce	228	182	–	–	410
Mr. Leung Wing Ning	228	403	–	–	631
Mr. Nicholas James Debnam	171	57	–	–	228
	1,083	972	–	–	2,055
	1,995	15,770	11,319	330	29,414

8. Individuals with highest emoluments

Of the five individuals with the highest emoluments in the Group, three (2018: three) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2018: two) individuals are as follows:

	2019	2018
	$'000	$'000
Salaries, allowances and benefits in kind	8,381	8,174
Contributions to defined contribution retirement plans	704	677
Discretionary bonuses	3,316	6,123
	12,401	14,974

The emoluments of the two (2018: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2019	2018
$		
3,500,001 - 4,000,000	1	–
4,500,001 - 5,000,000	–	1
8,000,001 - 8,500,000	1	–
10,000,001 - 10,500,000	–	1
	2	2

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 2019 of $765,658,000 (2018: $1,697,681,000) divided by the weighted average of 293,391,000 shares (2018: 293,857,000 shares) in issue during the year.

Weighted average number of shares:

	2019	**2018**
	’000	’000
Issued shares at 1 January	293,603	293,885
Effect of shares purchased	(212)	(28)
Weighted average number of shares in issue during the year	293,391	293,857

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

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, 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:

	2019		**2018**	
		Amount per share		**Amount per share**
	$'000	cents	$'000	cents
Profit attributable to shareholders of the Company as shown in the consolidated statement of profit or loss	765,658	261.0	1,697,681	577.7
Less: Net valuation gain on investment properties	(302,586)	(103.1)	(1,387,462)	(472.2)
Add: Increase in deferred tax liabilities in relation to the net valuation gain on investment properties	95,713	32.6	67,231	22.9
	558,785	190.5	377,450	128.4
Add: Valuation gain on investment property net of related deferred tax attributable to non-controlling interests	569	0.2	582	0.2
Underlying profit attributable to shareholders of the Company	559,354	190.7	378,032	128.6

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 contributions for the year were $11,902,000 (2018: $12,167,000).

11. Investment properties and other property, plant and equipment

(a)

	Ownership interests in land and buildings held for own use $'000	Other properties leased for own use $'000	Plant and equipment $'000	Sub-total $'000	Investment properties $'000	Total $'000
Cost or valuation:						
At 31 December 2018	815,325	–	461,153	1,276,478	15,701,196	16,977,674
Impact on initial application of HKFRS 16 (note)	–	49,427	973	50,400	–	50,400
At 1 January 2019	815,325	49,427	462,126	1,326,878	15,701,196	17,028,074
Exchange adjustments	–	–	(7)	(7)	(37,243)	(37,250)
Additions	–	3,940	16,360	20,300	3,338	23,638
Disposals	–	(447)	(878)	(1,325)	–	(1,325)
Fair value adjustment	–	–	–	–	302,586	302,586
At 31 December 2019	815,325	52,920	477,601	1,345,846	15,969,877	17,315,723
Accumulated depreciation and impairment losses:						
At 1 January 2019	476,853	–	417,972	894,825	–	894,825
Exchange adjustments	–	–	(4)	(4)	–	(4)
Depreciation charge for the year (note 5(c))	25,185	26,584	12,950	64,719	–	64,719
Written back on disposals	–	(447)	(821)	(1,268)	–	(1,268)
At 31 December 2019	502,038	26,137	430,097	958,272	–	958,272
Lease incentives:						
At 1 January 2019	–	–	–	–	127,525	127,525
Exchange adjustments	–	–	–	–	(1,453)	(1,453)
Additions (note (g))	–	–	–	–	18,969	18,969
Amortisation for the year (note 5(d))	–	–	–	–	(24,621)	(24,621)
At 31 December 2019	–	–	–	–	120,420	120,420
Net book value:						
At 31 December 2019	313,287	26,783	47,504	387,574	16,090,297	16,477,871

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
Cost or valuation:					
At 1 January 2018	815,325	449,986	1,265,311	14,610,324	15,875,635
Exchange adjustments	–	(60)	(60)	(319,002)	(319,062)
Additions	–	11,592	11,592	22,412	34,004
Disposals	–	(365)	(365)	–	(365)
Fair value adjustment	–	–	–	1,387,462	1,387,462
At 31 December 2018	815,325	461,153	1,276,478	15,701,196	16,977,674
Accumulated depreciation and impairment losses:					
At 1 January 2018	451,667	406,576	858,243	–	858,243
Exchange adjustments	–	(29)	(29)	–	(29)
Depreciation charge for the year (note 5(c))	25,186	11,493	36,679	–	36,679
Written back on disposals	–	(68)	(68)	–	(68)
At 31 December 2018	476,853	417,972	894,825	–	894,825
Lease incentives:					
At 1 January 2018	–	–	–	142,172	142,172
Exchange adjustments	–	–	–	(12,069)	(12,069)
Additions (note (g))	–	–	–	22,827	22,827
Amortisation for the year (note 5(d))	–	–	–	(25,405)	(25,405)
At 31 December 2018	–	–	–	127,525	127,525
Net book value:					
At 31 December 2018	338,472	43,181	381,653	15,828,721	16,210,374

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17 (see note 1(c)).

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

(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 at $141,769,000 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 2019 is $75,837,000 (2018: $77,567,000).

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 2019 is $25,916,000 (2018: $26,589,000).

(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 2019, all of the Group's investment properties fall into Level 3 of the fair value hierarchy as described above.

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

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

(i) Fair value hierarchy (Continued)

The analysis of valuation of the investment properties of the Group is as follows:

	2019	**2018**
	$'000	$'000
Investment properties:		
– leasehold in Hong Kong	12,334,611	12,350,872
– freehold outside Hong Kong	3,635,266	3,350,324
	15,969,877	15,701,196

Investment properties of the Group were revalued as at 31 December 2019 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.

(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 3.9% (2018: 2.8% to 3.9%)
		Average unit market rent per month	$31.5 to $130/sq.ft. (2018: $33.5 to $140/sq.ft.)
– Australia	Discounted cash flow approach	Risk-adjusted discount rate	6.5% (2018: 6.3%)
		Expected market rental growth	3.2% to 5.6% (2018: 4.0% to 6.3%)
		Terminal yield rate	5.0% (2018: 5.5%)
	Income capitalisation approach	Capitalisation rate	4.8% (2018: 5.0%)
– USA	Market comparison approach	Premium (discount) on quality of the building	-20% to 40% (2018: -15% to 40%)

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.

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 the consolidated statement of profit or loss for the year arises from the investment properties held at the end of the reporting period.

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

(d) Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Note	31 December 2019 $'000	1 January 2019 $'000
Ownership interests in leasehold land and buildings held for own use, carried at depreciated cost in Hong Kong, with remaining lease term of:	(i)		
– 50 years or more		158,715	170,485
– between 10 and 50 years		154,572	167,987
		313,287	338,472
Other properties leased for own use, carried at depreciated cost	(ii)	26,783	49,427
Plant and equipment, carried at depreciated cost	(iii)	1,286	973
		341,356	388,872
Ownership interests in leasehold investment properties, carried at fair value, with remaining lease term of:			
– 50 years or more		10,864,400	10,866,500
– between 10 and 50 years		1,470,211	1,484,372
		12,334,611	12,350,872
		12,675,967	12,739,744

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

(d) Right-of-use assets (Continued)

The analysis of expense items in relation to leases recognised in the consolidated statement of profit or loss is as follows:

	2019	2018 (Note)
	$'000	$'000
Depreciation of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land and buildings	25,185	–
Other properties leased for own use	26,584	–
Plant and equipment	617	–
	52,386	–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, comparative information is not restated (see note 1(c)).

During the year ended 31 December 2019, additions to right-of-use assets were $5,969,000. These included the additions of leasehold improvements for properties of $2,029,000 and the remainder related to the capitalised lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 18(c) and 22, respectively.

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

(d) Right-of-use assets (Continued)

(i) Ownership interests in leasehold land and buildings held for own use

The Group holds several commercial buildings for its operation of department stores. The Group is the registered owner of these property interests, including the whole or part of undivided share in the underlying land. Lump sum payments were made upfront to acquire these property interests from their previous registered owners, and there are no ongoing payments to be made under the terms of the land lease, other than payments based on rateable values set by the relevant government authorities. These payments vary from time to time and are payable to the relevant government authorities.

(ii) Other properties leased for own use

The Group has obtained the right to use other properties as its retail stores and staff quarters through tenancy agreements. The leases typically run for an initial period of two to three years. Lease payments are usually changed every two to three years to reflect market rentals.

(iii) Other leases

The Group leases computer equipment under a lease expiring in three years. The lease does not include variable lease payments.

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

(e) 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 variable lease payments.

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

	2019	**2018**
	$'000	$'000
Within one year	388,337	408,659
After one year but within two years	265,228	316,117
After two years but within three years	145,480	193,484
After three years but within four years	105,049	103,834
After four years but within five years	86,586	74,923
After five years	157,226	199,565
	1,147,906	1,296,582

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

(g) During the year ended 31 December 2019, lease incentives totalling $18,969,000 (2018: $22,827,000) were given to tenants of an investment property in Australia. The lease incentives are being amortised over the lease terms.

12. Interest in an associate

	2019 $'000	2018 $'000
Unlisted shares		
Share of net assets other than intangible assets	317,622	300,012
Share of intangible assets of an associate	6,797	7,173
Interest in an associate	324,419	307,185

(a) Details of the associate and its principal subsidiaries and joint venture are set out on page 149.

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

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:

	DCH Auto Group (USA) Limited	
	2019	**2018**
	$'000	$'000
Gross amounts of the associate's		
– Current assets	626,209	601,606
– Non-current assets	156,882	129,531
– Current liabilities	(134,253)	(116,767)
– Equity	(648,838)	(614,370)
Revenue	1,206,833	787,950
Profit from continuing operations	38,997	21,808
Other comprehensive income	(4,529)	(9,994)
Total comprehensive income	34,468	11,814
Reconciled to the Group's interest in an associate		
– Gross amounts of net assets of the associate	648,838	614,370
– Group's effective interest	50%	50%
– Group's share of net assets of the associate	324,419	307,185
Carrying amount in the consolidated financial statements	324,419	307,185

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 the 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 2019, the associate settled most of the claims with the buyer and received payments from the escrow account, leaving a balance of US$151,000 (2018: US$6,179,000) still held in the escrow account pending agreement of the remaining claims made under warranties. A provision of US$150,000 had been recognised in the associate's financial statements as at 31 December 2019 (2018: US$4,170,000).

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, believes that the Group's share of the provision held for the remaining unresolved claims of US$75,000 ($583,000) 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.

13. Other investments

	2019	**2018**
	$'000	$'000
Equity securities designated at FVOCI (non-recycling)		
– Unlisted, at fair value	140,237	143,157

The Group designated certain equity investments at FVOCI (non-recycling), as they are held for long-term strategic purposes. Dividends of $2,054,000 (2018: $3,574,000) were recognised on these investments during the year.

The Group's investments substantially represent an investment in an unlisted company, which engages in various industries. Dividends of such investment of $1,634,000 (2018: $3,154,000) were recognised during the year.

14. Trading securities

	2019	2018
	$'000	$'000
Debt securities, at FVPL		
Listed		
– in Hong Kong	12,538	2,333
– outside Hong Kong	83,702	37,252
	96,240	39,585
Equity securities, at FVPL		
Listed		
– in Hong Kong	277,151	269,369
– outside Hong Kong	270,139	188,205
	547,290	457,574
Investment funds, at FVPL		
– Listed outside Hong Kong	7,813	–
– Unlisted but quoted	231,679	207,587
	239,492	207,587
	883,022	704,746

15. Inventories

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

	2019	2018
	$'000	$'000
Merchandise held for sale	99,010	115,949
Merchandise held for sale in transit	516	566
	99,526	116,515

(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:

	2019	2018
	$'000	$'000
Carrying amount of inventories sold	421,731	468,484
Write-down of inventories	3,073	889
	424,804	469,373

16. Debtors, deposits and prepayments

	2019	2018
	$'000	$'000
Trade debtors, net of loss allowance (note 16(b))	22,424	32,154
Deposits and prepayments	45,847	37,405
	68,271	69,559

All debtors, deposits and prepayments of the Group, apart from certain rental deposits and prepayments totalling $24,966,000 (2018: $19,281,000), are expected to be recovered or recognised as an expense within one year.

16. Debtors, deposits and prepayments (Continued)

(a) Ageing analysis

At the end of the reporting period, the ageing analysis of trade debtors (net of loss allowance), based on the due date, is as follows:

	2019	**2018**
	$'000	$'000
Current (not past due) or less than one month past due	21,980	31,920
One to three months past due	329	151
More than three months but less than twelve months past due	76	75
More than twelve months past due	39	8
	22,424	32,154

According to the Group's credit policy, the credit period granted to customers is generally 30 days from the date of billing. The Group does not hold any collateral over these balances. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in note 25(b)(i) to the financial statements.

16. Debtors, deposits and prepayments (Continued)

(b) Impairment of trade debtors

The Group measures loss allowances for trade debtors at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The movement in the loss allowance account in respect of trade debtors during the year is as follows:

	2019 $'000	2018 $'000
At 1 January	11	29
Impairment losses written back (note 5(c))	(11)	(18)
At 31 December	–	11

The lifetime ECL rate for trade debtors is immaterial. No loss allowance in respect of trade debtors is recognised as at 31 December 2019.

17. Amounts due from/(to) fellow subsidiaries

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

18. Cash and cash equivalents and other cash flow information

(a) Cash and cash equivalents comprise:

	2019 $'000	2018 $'000
Cash at bank and in hand	476,415	520,562
Bank deposits	2,517,277	2,306,938
	2,993,692	2,827,500

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.

	Lease liabilities $'000 (Note 22)	Secured bank loan $'000 (Note 21)	Total $'000
At 1 January 2019	–	139,683	139,683
Impact on initial application of HKFRS 16 (Note)	50,400	–	50,400
	50,400	139,683	190,083
Changes from financing cash flows:			
Repayment of bank loan	–	(34,803)	(34,803)
Interest paid on bank loan	–	(3,325)	(3,325)
Capital element of lease rentals paid	(26,850)	–	(26,850)
Interest element of lease rentals paid	(1,067)	–	(1,067)
Total changes from financing cash flows	(27,917)	(38,128)	(66,045)
Exchange adjustments	–	(1,551)	(1,551)
Other changes:			
Interest expenses (note 5(a))	1,067	3,286	4,353
Increase in lease liabilities from entering into new leases during the year	4,869	–	4,869
Total other changes	5,936	3,286	9,222
At 31 December 2019	28,419	103,290	131,709

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17 (see note 1(c)).

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

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

	Secured bank loan $'000 (Note 21)
At 1 January 2018	193,226
Changes from financing cash flows:	
Repayment of bank loan	(37,296)
Interest paid on bank loan	(5,105)
Total changes from financing cash flows	(42,401)
Exchange adjustments	(16,235)
Other change:	
Interest expenses (note 5(a))	5,093
At 31 December 2018	139,683

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2019 $'000	2018 (Note) $'000
Within operating cash flows	–	27,201
Within investing cash flows	2,029	16,973
Within financing cash flows	27,917	–
	29,946	44,174

Note: As explained in the note to note 18(b), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated (see note 1(c)).

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

(c) Total cash outflow for leases (Continued)

These amounts relate to the following:

	2019 $'000	2018 $'000
Lease rentals paid	27,917	27,201
Additions of leasehold improvements for properties	2,029	16,973
	29,946	44,174

19. Creditors and accrued charges

	2019 $'000	2018 $'000
Trade and other creditors	323,308	375,689
Accrued charges	36,602	33,499
	359,910	409,188

All creditors and accrued charges, apart from certain rental deposits received totalling $49,309,000 (2018: $59,240,000), 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:

	2019 $'000	2018 $'000
Amounts not yet due	257,265	297,231
On demand or less than one month overdue	60,545	69,516
One to three months overdue	3,592	7,088
Three to twelve months overdue	413	142
More than twelve months overdue	1,493	1,712
	323,308	375,689

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

20. Contract liabilities

	2019	2018
	$'000	$'000
Advances received from gift certificates	14,869	15,674
Reward points under customer loyalty programme	3,504	2,463
	18,373	18,137

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– Gift certificates

When the Group receives consideration for gift certificates from customers, this will give rise to contract liabilities at the time of purchase, until revenue is recognised when the gift certificates are redeemed for future sale or when they expire.

– Reward points under customer loyalty programme

The Group operates a customer loyalty programme where customers accumulate reward points for purchases made which entitle them to discount on future purchases. A contract liability for the reward points is recognised at the time of sale. Revenue is recognised when the reward points are redeemed or when they expire.

The movements in contract liabilities during the year are as follows:

	2019	2018
	$'000	$'000
Balance at 1 January	18,137	16,483
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year	(6,583)	(4,891)
Net increase in contract liabilities as a result of issuance of gift certificates and reward points under customer loyalty programme	6,819	6,545
Balance at 31 December	18,373	18,137

The amount of advances received from gift certificates and reward points under customer loyalty programme expected to be recognised as income after more than one year is $12,492,000 (2018: $12,237,000).

21. Secured bank loan

At 31 December 2019, the secured bank loan of the Group was repayable as follows:

	2019	**2018**
	$'000	$'000
Within one year or on demand	103,290	35,196
After one year but within two years	–	104,487
	103,290	139,683

The bank loan is denominated in Australian Dollars ("AUD") and bears interest at market rates plus 1.15% (2018: 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 2019, banking facilities of the Group amounting to $103,290,000 (2018: $139,683,000) were secured by mortgages over investment properties with an aggregate value of $3,537,944,000 (2018: $3,265,484,000). The facilities were utilised to the extent of $103,290,000 (2018: $139,683,000).

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.

22. Lease liabilities

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current reporting period and at the date of transition to HKFRS 16:

	31 December 2019		**1 January 2019** (Note)	
	Present value of the minimum lease payments	**Total minimum lease payments**	**Present value of the minimum lease payments**	**Total minimum lease payments**
	$'000	$'000	$'000	$'000
Within one year	27,399	27,763	25,303	26,289
After one year but within two years	1,020	1,029	25,097	25,405
	28,419	28,792	50,400	51,694
Less: total future interest expenses		(373)		(1,294)
Present value of lease liabilities		28,419		50,400

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of transition to HKFRS 16 are set out in note 1(c).

23. Income tax in the consolidated statement of financial position

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

	2019 $'000	2018 $'000
Provision for Hong Kong Profits Tax for the year	62,378	63,312
Provisional Profits Tax paid	(2,766)	(49,473)
	59,612	13,839
Balance of Profits Tax provision relating to prior years	325	263
	59,937	14,102
Overseas tax payable	20,650	10,392
	80,587	24,494
Represented by:		
Current tax payable	80,587	24,494

23. Income tax in the consolidated 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
Deferred tax arising from:					
At 1 January 2019	229,391	492,916	28,049	(1,415)	748,941
Charged/(credited) to the consolidated statement of profit or loss (note 6(a))	5,909	95,713	(608)	1,367	102,381
Credited to the exchange reserve	(2,004)	(5,544)	(330)	–	(7,878)
At 31 December 2019	233,296	583,085	27,111	(48)	843,444
At 1 January 2018	240,987	472,076	27,077	(2,202)	737,938
Charged to the consolidated statement of profit or loss (note 6(a))	5,814	67,231	3,816	787	77,648
Credited to the exchange reserve	(17,410)	(46,391)	(2,844)	—	(66,645)
At 31 December 2018	229,391	492,916	28,049	(1,415)	748,941

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

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

(c) Reconciliation to the consolidated statement of financial position

	2019 $'000	2018 $'000
Deferred tax assets recognised in the consolidated statement of financial position	(436)	(11,609)
Deferred tax liabilities recognised in the consolidated statement of financial position	843,880	760,550
	843,444	748,941

(d) Deferred tax assets not recognised

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

	2019 $'000	2018 $'000
Future benefit of accumulated tax losses	13,425	14,294

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 2019 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 2019, temporary differences relating to the undistributed profits of subsidiaries amounted to $2,378,516,000 (2018: $2,154,345,000). Deferred tax liabilities of $713,555,000 (2018: $646,304,000) 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 these profits will not be distributed in the foreseeable future.

24. 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 50 and 51.

Retained earnings attributable to the shareholders of the Company as at 31 December 2019 include the aggregate net valuation gain relating to investment properties after deferred tax of $13,273,443,000 (2018: $13,067,139,000).

(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 2019	29,360	2,997,350	1,300,948	4,327,658
Total comprehensive income for the year	–	–	296,553	296,553
Purchase of own shares (note (d))				
– par value paid	(104)	–	–	(104)
– premium and transaction costs paid	–	–	(23,666)	(23,666)
Dividends approved and paid in respect of the previous year (note (c)(ii))	–	–	(123,255)	(123,255)
Dividends declared and paid in respect of the current year (note (c)(i))	–	–	(111,474)	(111,474)
Balance at 31 December 2019	29,256	2,997,350	1,339,106	4,365,712
Balance at 1 January 2018	29,389	2,997,350	1,285,770	4,312,509
Total comprehensive income for the year	–	–	304,639	304,639
Purchase of own shares (note (d))				
– par value paid	(29)	–	–	(29)
– premium and transaction costs paid	–	–	(7,341)	(7,341)
Dividends approved and paid in respect of the previous year (note (c)(ii))	–	–	(199,842)	(199,842)
Dividends declared and paid in respect of the current year (note (c)(i))	–	–	(82,278)	(82,278)
Balance at 31 December 2018	29,360	2,997,350	1,300,948	4,327,658

24. Capital, reserves and dividends (Continued)

(c) Dividends

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

	2019 $'000	2018 $'000
Interim dividend:		
– declared during the year	111,516	82,288
– attributable to shares purchased in July 2019/September 2018 (note (d))	(42)	(10)
Interim dividend paid of 38 cents (2018: 28 cents) per share	111,474	82,278
Final dividend proposed after the end of the reporting period of 65 cents (2018: 42 cents) per share	190,165	123,313
	301,639	205,591

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

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

	2019 $'000	2018 $'000
Final dividend in respect of the financial year ended 31 December 2018/ 31 December 2017		
– approved during the year	123,313	199,842
– attributable to shares purchased in January and May 2019 (note (d))	(58)	–
Final dividend paid during the year of 42 cents (during 2018: 68 cents) per share	123,255	199,842

24. Capital, reserves and dividends (Continued)

(d) Share capital

	2019 Number of shares '000	2019 $'000	2018 Number of shares '000	2018 $'000
Authorised:				
Shares of $0.1 each	400,000	40,000	400,000	40,000
Issued and fully paid:				
At 1 January	293,603	29,360	293,885	29,389
Shares purchased (note)	(1,042)	(104)	(282)	(29)
At 31 December	292,561	29,256	293,603	29,360

Note:

During the year ended 31 December 2019, 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 2019	46,000	1,168	25.45	25.10
May 2019	93,000	2,469	26.85	26.40
July 2019	110,000	2,691	24.75	24.25
October 2019	72,000	1,634	23.00	22.00
November 2019	112,000	2,553	22.95	22.70
December 2019	609,000	13,174	22.40	21.00
	1,042,000	23,689		

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 $23,585,000 (2018: $7,316,000) and $81,000 (2018: $25,000) 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.

24. 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 equity investments designated at FVOCI (non-recycling) that are held at the end of the reporting period (see 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(v).

(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.

24. Capital, reserves and dividends (Continued)

(f) Distributability of reserves of the Company

At 31 December 2019, the aggregate amount of reserves available for distribution to shareholders of the Company was $4,336,456,000 (2018: $4,298,298,000). After the end of the reporting period the directors proposed a final dividend of 65 cents (2018: 42 cents) per share, amounting to $190,165,000 (2018: $123,313,000) (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:

	2019	**2018**
	$'000	$'000
Retained earnings	156,367	137,028
Exchange reserve	(9,497)	(7,233)
General reserve fund	1,700	1,541
	148,570	131,336

(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 2019, the Group had secured a bank loan of $103,290,000 (2018: $139,683,000) which is repayable as disclosed in note 21. The gearing ratio, representing the ratio of bank borrowings to the total share capital and reserves attributable to shareholders of the Company was 0.5% (2018: 0.7%) as at 31 December 2019. The Group had bank deposits and cash balances as at 31 December 2019 amounting to $3,007,235,000 (2018: $2,902,319,000).

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.

25. Financial risk management and fair values

(a) Categories of financial instruments

	2019 $'000	2018 $'000
Financial assets		
Financial assets measured at FVPL		
– Trading securities	883,022	704,746
Equity securities designated at FVOCI (non-recycling)		
– Other investments	140,237	143,157
Financial assets measured at amortised cost		
– Debtors and deposits	30,509	35,471
– Amounts due from fellow subsidiaries	18,201	3,209
– Other bank deposits	13,543	74,819
– Cash and cash equivalents	2,993,692	2,827,500
	3,055,945	2,940,999
	4,079,204	3,788,902
Financial liabilities		
Creditors and accrued charges	359,910	409,188
Lease liabilities	28,419	–
Amounts due to fellow subsidiaries	3,818	3,514
Secured bank loan	103,290	139,683
	495,437	552,385

(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.

25. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(i) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

The Group's credit risk is primarily attributable to cash at bank, bank deposits, trade 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 ongoing 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 with a credit rating, for which the Group considers to have low credit risk.

For trade 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 measures loss allowance for trade debtors at an amount equal to lifetime ECLs, taken into account historical data, current conditions and the Group's view of economic conditions over the expected lives of the receivables. Further quantitative disclosure in respect of the Group's exposure to credit risk arising from trade 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, 23.2% (2018: 27.9%) 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.

25. 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					
	Within one year or on demand	More than one year but less than two years	More than two years but less than five years	More than five years	Total	Carrying amount at 31 December
	$'000	$'000	$'000	$'000	$'000	$'000
2019						
Creditors and accrued charges	310,601	30,750	14,552	4,007	359,910	359,910
Lease liabilities	27,763	1,029	–	–	28,792	28,419
Amounts due to fellow subsidiaries	3,818	–	–	–	3,818	3,818
Secured bank loan	105,209	–	–	–	105,209	103,290
	447,391	31,779	14,552	4,007	497,729	495,437
2018						
Creditors and accrued charges	349,948	27,349	31,549	342	409,188	409,188
Amounts due to fellow subsidiaries	3,514	–	–	–	3,514	3,514
Secured bank loan	39,589	106,930	–	–	146,519	139,683
	393,051	134,279	31,549	342	559,221	552,385

25. 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 cash at bank, bank deposits, lease liabilities and floating rate long-term borrowings.

Lease liabilities at fixed rates expose the Group to fair value interest rate risk. The effective interest rate of the Group's lease liabilities as at 31 December 2019 is 2.7% (2018: Nil).

Borrowings issued at floating rates expose the Group to cash flow interest rate risk. 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 2019 is 2.1% (2018: 3.1%).

At 31 December 2019, 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 $14,071,000 (2018: $13,548,000). Other components of the consolidated equity would not be affected (2018: $Nil) by the change in interest rates.

The sensitivity analysis above indicates the instantaneous change in 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 re-measure fixed rate instruments which expose the Group to fair value interest rate risk at that date. In respect of the exposure to cash flow interest rate risk arising from floating rate instruments at the end of the reporting period, the sensitivity analysis above indicates the annualised impact on the Group's profit after taxation and retained earnings of such a change in interest rates. The analysis has been performed on the same basis for 2018.

(iv) Foreign currency risk

The Group is exposed to foreign currency risk primarily through its investments, bank deposits and cash 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.

25. 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 States dollars $'000	Australian dollars $'000	Japanese Yen $'000	Pound Sterling $'000	Euro $'000	Renminbi $'000
2019						
Trading securities	457,465	39,513	25,674	12,814	30,125	2,301
Debtors and deposits	5,003	–	1	1	76	34
Other bank deposits	13,543	–	–	–	–	–
Cash and cash equivalents	1,746,619	48,770	1	359	9,526	977
Creditors and accrued charges	(643)	–	(74)	–	(437)	(75)
	2,221,987	88,283	25,602	13,174	39,290	3,237
2018						
Trading securities	314,991	35,406	20,739	10,287	24,997	5,215
Debtors and deposits	7,553	–	1	1	78	330
Other bank deposits	74,819	–	–	–	–	–
Cash and cash equivalents	1,747,561	22,640	–	818	3,939	1,205
Creditors and accrued charges	(258)	–	(629)	–	(1,955)	(72)
	2,144,666	58,046	20,111	11,106	27,059	6,678

25. 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.

	2019		2018	
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained earnings	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) in profit after taxation and retained earnings
	%	$'000	%	$'000
United States dollars	0.5	11,110	0.5	10,723
	(0.5)	(11,110)	(0.5)	(10,723)
Australian dollars	10.0	8,828	10.0	5,805
	(10.0)	(8,828)	(10.0)	(5,805)
Japanese Yen	10.0	2,560	10.0	2,011
	(10.0)	(2,560)	(10.0)	(2,011)
Pound Sterling	10.0	1,317	10.0	1,111
	(10.0)	(1,317)	(10.0)	(1,111)
Euro	10.0	3,929	10.0	2,706
	(10.0)	(3,929)	(10.0)	(2,706)
Renminbi	10.0	324	10.0	668
	(10.0)	(324)	(10.0)	(668)

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.

25. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(iv) Foreign currency risk (Continued)

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 2018.

(v) Price risk

The Group is exposed to price changes arising from trading securities (see note 14) and other investments held for non-trading purposes (see note 13). All of these investments are listed or measured at fair value at the end of each reporting period with reference to the quoted price or the adjusted net assets value. 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.

25. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(v) Price risk (Continued)

At 31 December 2019, it is estimated that an increase/decrease of 10% (2018: 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:

	2019		2018	
	Increase/ (decrease) in profit after taxation and retained earnings	**Increase/ (decrease) in other components of the consolidated equity**	**Increase/ (decrease) in profit after taxation and retained earnings**	**Increase/ (decrease) in other components of the consolidated equity**
	$'000	$'000	$'000	$'000
Increase/(decrease) in price variable				
– 10%	83,500	14,024	65,860	14,316
– (10)%	(83,500)	(14,024)	(65,860)	(14,316)

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, and that all other variables remain constant. The analysis has been performed on the same basis for 2018.

25. 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 2019 categorised into				Fair value measurements as at 31 December 2018 categorised into		
	Fair value at 31 December 2019	Level 1	Level 2	Level 3	Fair value at 31 December 2018	Level 1	Level 2	Level 3
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Recurring fair value measurements								
Assets								
Other investments	140,237	–	–	140,237	143,157	–	–	143,157
Trading securities	883,022	651,343	231,679	–	704,746	497,159	207,587	–

During the years ended 31 December 2019 and 2018, 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.

(Expressed in Hong Kong dollars unless otherwise indicated)

25. 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.

Information about Level 3 fair value measurements

	Valuation techniques	**Significant unobservable inputs**	**Range**
Other investments	Adjusted net assets	Discount for lack of marketability	40% (2018: 40%)
		Minority discount	15% (2018: 15%)
		Control premium	10% (2018: 10%)

The fair value of other investments is determined using the net assets value adjusted for lack of marketability discount and minority discount and the quoted price in an active market of a listed equity instrument adjusted for control premium. The fair value is negatively correlated to the discount for lack of marketability and minority discount and positively correlated to the control premium.

25. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(vi) Fair values (Continued)

Information about Level 3 fair value measurements (Continued)

At 31 December 2019, it is estimated that an increase/decrease of 3% in each of the unobservable inputs, with all other variables held constant, would have increased/decreased the Group's other comprehensive income as follows:

	2019		2018	
	Increase/ (decrease) in unobservable inputs	Effect on other comprehensive income	Increase/ (decrease) in unobservable inputs	Effect on other comprehensive income
	%	$'000	%	$'000
Discount for lack of marketability	3	(6,055)	3	(6,359)
	(3)	6,093	(3)	6,397
Minority discount	3	(4,269)	3	(4,497)
	(3)	4,304	(3)	4,494
Control premium	3	988	3	1,140
	(3)	(950)	(3)	(1,102)

25. Financial risk management and fair values (Continued)

(b) Financial risk management (Continued)

(vi) Fair values (Continued)

Information about Level 3 fair value measurements (Continued)

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

	2019 $'000	2018 $'000
Other investments:		
Balance at 1 January	143,157	146,985
Additions during the year	3,140	–
Debited to other comprehensive income during the year	(6,060)	(3,828)
Balance at 31 December	140,237	143,157

Any gains or losses arising from the remeasurement of the Group's unlisted equity securities held for long-term strategic purposes are recognised in the investment revaluation reserve in other comprehensive income. Upon disposal of the equity securities, the amount accumulated in other comprehensive income is transferred directly to retained earnings.

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 2019 and 2018.

26. Commitments

(a) Capital commitments

Capital commitments outstanding as at 31 December 2019 not provided for in the financial statements were as follows:

	2019	**2018**
	$'000	$'000
Authorised and contracted for	33,468	27,101
Authorised and not contracted for	–	318
	33,468	27,419

(b) Commitments under operating leases

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018
	$'000
Within one year	25,561
After one year but within five years	25,075
	50,636

The Group is the lessee in respect of a number of properties and items of plant and equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 1(c)). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 1(j), and the details regarding the Group's future lease payments are disclosed in note 22.

27. 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:

	2019	**2018**
	$'000	$'000
Directors' fees	714	684
Salaries and other short-term employee benefits	33,218	40,414
Contributions to defined contribution retirement plans	1,046	1,007
	34,978	42,105

(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 $28,962,000 (2018: $28,966,000) during the year. The amount due from the fellow subsidiary as at 31 December 2019 amounted to $2,412,000 (2018: $2,412,000).

(ii) A subsidiary of the Group rents office premises to a fellow subsidiary. Rental and management fees receivable from this fellow subsidiary amounted to $5,662,000 (2018: $5,662,000) during the year. The amount due to the fellow subsidiary as at 31 December 2019 amounted to $1,366,000 (2018: $1,366,000).

27. Material related party transactions (Continued)

(b) Recurring transactions (Continued)

(iii) A fellow subsidiary, engaged in securities trading, deals in securities for certain subsidiaries of the Group. Commission of $407,000 (2018: $367,000) was payable to this fellow subsidiary during the year. The amount due from the fellow subsidiary as at 31 December 2019 amounted to $15,789,000 (2018: $797,000).

(iv) A subsidiary of the Group provides building and tenancy management services to a fellow subsidiary. Building and tenancy management fees receivable from this fellow subsidiary amounted to $912,000 (2018: $912,000) during the year. The amount due to the fellow subsidiary as at 31 December 2019 amounted to $2,452,000 (2018: $2,148,000).

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) and (iv) 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.

28. Company-level statement of financial position

	Note	2019 $'000	2018 $'000
Non-current assets			
Investments in subsidiaries	(a)	2,801,991	2,801,991
Current assets			
Debtors, deposits and prepayments		799	378
Amounts due from subsidiaries		1,550,946	1,517,543
Cash and cash equivalents		42,763	38,831
		1,594,508	1,556,752
Current liabilities			
Creditors and accrued charges		17,352	17,609
Amounts due to subsidiaries		13,435	13,476
		30,787	31,085
Net current assets		1,563,721	1,525,667
NET ASSETS		4,365,712	4,327,658
Capital and reserves	24(b)		
Share capital		29,256	29,360
Reserves		4,336,456	4,298,298
TOTAL EQUITY		4,365,712	4,327,658

Approved and authorised for issue by the board of directors on 30 March 2020.

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 147 and 148. The Group does not have any subsidiary which has a material non-controlling interest.

29. Non-adjusting event after the reporting period

The outbreak of COVID-19 ("the outbreak") in Hong Kong since early 2020 caused a significant adverse impact on the Group's department stores business. The recent wide spread of the outbreak throughout the world will definitely affect the global economy and is expected not to be resolved within a short period.

The Group's department stores business will be operating under extreme difficulties resulting in a significant drop in revenue. The fair value of the Group's investment properties and investment portfolio will also be subject to fluctuations due to the outbreak.

At present, it is difficult for the Group's management to assess the financial impact of the outbreak. The Group's management will continue to monitor the situation and minimise the impact.

The outbreak is a non-adjusting event after the financial year end and does not result in any adjustments to the consolidated financial statements for the year ended 31 December 2019.

30. Immediate and ultimate controlling parties

At 31 December 2019, 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.

31. Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard which are not yet effective for the year ended 31 December 2019 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these developments is expected to be in the year of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's consolidated financial statements.

PRINCIPAL SUBSIDIARIES AND ASSOCIATE

At 31 December 2019

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

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

Principal subsidiaries

			Proportion of ownership interest			
Name of company	**Place of incorporation/ business**	**Particulars of issued and paid up capital**	**Group's effective holding**	**held by the Company**	**held by a subsidiary**	**Principal activity**
333 Choice Properties Pty Ltd	Australia	2 ordinary shares of no par value	100	–	100	Trustee for an investment trust
Asmar Properties Limited	British Virgin Islands	1 share of US$1	100	100	–	Investment holding
Belair Properties Limited	British Virgin Islands	1 share of US$1	100	100	–	Investment holding and securities trading
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 2019

Principal subsidiaries (Continued)

			Proportion of ownership interest			
Name of company	Place of incorporation/ business	Particulars of issued and paid up capital	Group's effective holding	held by the Company	held by a subsidiary	Principal activity
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 2019

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 #	Incorporated	British Virgin Islands	Ordinary	50	Investment holding
Mei Chang Group (HK) Limited * #	Incorporated	Hong Kong	Ordinary	50	Investment holding
Meichang Auto Group (Asia) Limited * #	Incorporated	Hong Kong	Ordinary	25.5	Investment holding

* Not audited by KPMG.

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