AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

2013 Annual Report

Stock Code: 984

AEON Principle

Throughout the generations since its establishment, the philosophy of listening to customers and looking at business from the customers' perspective has continuously guided AEON's efforts toward innovation. AEON will continue to embrace our **"Customer-First"** philosophy to guide our efforts in contribution to the peace and prosperity of the region.

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Corporate Information

Board of Directors

Executive Directors

CHAN Pui Man Christine *(Managing Director)*
SUZUKI Junichi *(Deputy Managing Director)*
MIZUSHIMA Yoshiaki *(Deputy Managing Director)*
CHAK Kam Yuen

Non-executive Directors

OKUNO Yoshinori *(Chairman)*
AGAWA Yutaka
HABU Yuki
YASUKAWA Kazuhiko

Independent Non-executive Directors

SHAM Sui Leung Daniel
CHENG Yin Ching Anna
CHAN Yi Jen Candi Anna
LO Miu Sheung Betty

Company Secretary

CHAN Kwong Leung Eric

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

Mizuho Bank, Ltd.
The Bank of Tokyo — Mitsubishi UFJ, Ltd.
Sumitomo Mitsui Banking Corporation
Standard Chartered Bank (Hong Kong) Limited
The Hong Kong and Shanghai Banking Corporation Limited

Share Registrars

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

Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong (effective 31.3.2014)

Registered Office

G-4th Floor, Kornhill Plaza (South)
2 Kornhill Road, Hong Kong

Head Office and Principal Place of Business

7/F., D2 Place
9 Cheung Yee Street
Lai Chi Kok, Kowloon
Tel: (852) 2565 3600
Fax: (852) 2563 8654

Stock Code

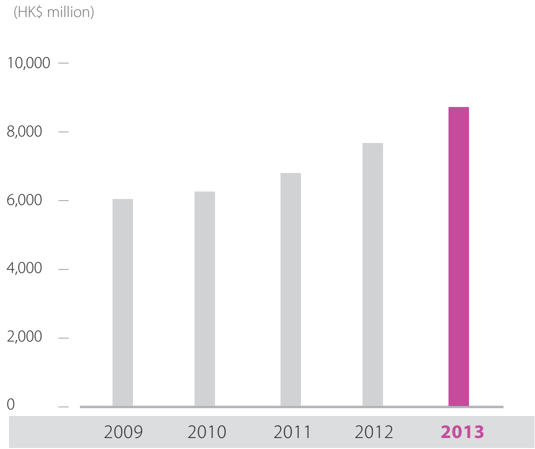
984

Website

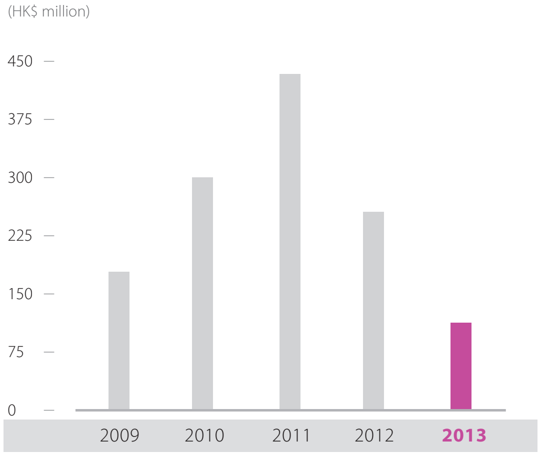
www.aeonstores.com.hk

Financial Highlights

Revenue

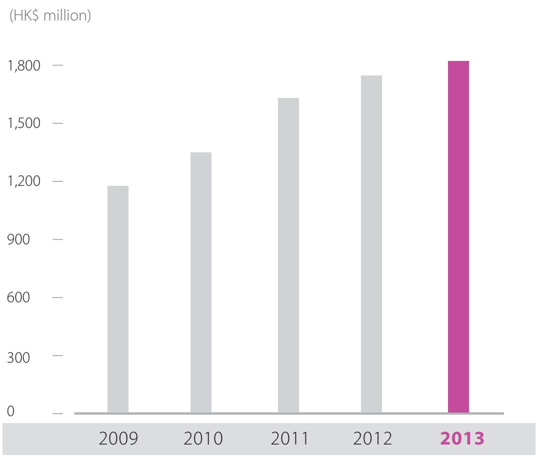


Profit Attributable to Owners of the Company



Earnings and Dividends per Share

Equity Attributable to Owners of the Company



Chairman's Statement

Mr. OKUNO Yoshinori
Chairman

The year of 2013 was marked by a number of challenges for AEON Stores (Hong Kong) Co., Limited and its subsidiaries ("AEON Stores" or the "Group"). In the first half of the financial year, a slowdown in economic growth in China along with the volatile stock market performances in both China and Hong Kong have dampened consumer sentiment across the two areas. These trends coupled with the highly competitive operating environment of the retail sector have inevitably affected the development of the Group. In the face of the rapidly changing macroeconomic environment, the Group has promptly adjusted its business strategy, which has helped stabilise its business performance in the second half of the year.

AEON Stores has rapidly expanded in Hong Kong and south China, opening nearly 20 stores under different business models within several years. Responding to the challenges in market environment, in the past few months the Group has focused on enhancing operational efficiency, optimising sales performance of the newly opened stores, and boosting same store sales performance of the established stores. Through the constant and diligent efforts of all of our staff, the Group has managed to maintain a double-digit growth in revenue. The overall decline in staff cost to revenue ratio, in addition to the relative decrease in impairment loss in the second half of the year, helped boost the business performance and achieve a turnaround from the loss recorded in the first half. Profit attributable to shareholders amounted to approximately HK$107.0 million in 2013.

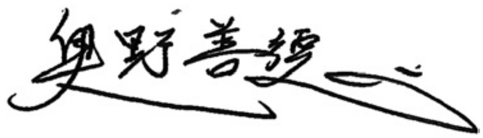
To offer more attractive choices of quality merchandise and services to enrich the life of our customers, the Group has unified the name of all its stores in Hong Kong and south China under the "AEON" brand effective 1 March 2013. The move has not only reinforced its branding efforts and highlighted the strong support by AEON Co., Ltd., but also created synergies for the Group in both management and operations. We are continuing to realise AEON's operational philosophy "Everything we do, we do for our customers" by providing more satisfying merchandise, services and shopping experiences to our customers.

Looking ahead, 2014 will be a year of dedicated efforts for optimising the business operations and consolidating the business foundation for the Group. With lingering uncertainties



within the operational environment across Hong Kong and south China, including slow resumption to rapid economic growth and rising cost pressures, the management remains prudently optimistic about the prospects and will be well-prepared to encounter any challenges that may arise. Apart from its ongoing strategy to enhance efficiency during the past year, the Group will also examine the preference of customers across different regions, review the interior design, merchandise mix and ancillary services of all stores and make adjustments accordingly in a bid to provide a distinctive shopping experience to customers in an exciting ambience and trendy appearance. AEON Stores will continue to capitalise on the solid foundation it has built in the Hong Kong and south China markets as well as its strong financial position to consolidate its leading presence in the retail sector.

Last but not least, on behalf of the Board, I would like to thank our management and all of our staff for their hard work and dedicated contributions. The Group is dedicated to upholding the principles of good corporate citizenship, with the aim to become one of the best retailers in the hearts of its customers.



OKUNO Yoshinori
Chairman

Hong Kong, 21 March 2014

Management Discussion and Analysis

Ms. CHAN Pui Man Christine
Managing Director

Financial Review

The global economy continued to experience a sluggish recovery entering 2013, which resulted in weak consumer sentiment. Rising inflation further discouraged consumer spending during the year and inevitably affected the Group's performance. In spite of a gloomy business environment, the Group maintained a stable growth in revenue in 2013, increasing 15.1% to HK$8,487.5 million from HK$7,377.2 million last year. This was mainly attributable to the Group's expanded retail network in both Hong Kong and the PRC markets. Gross profit margin slightly adjusted to 32.2% (2012: 33.1%) due to promotional activities to boost sales performance. Profit attributable to owners of the Company amounted to HK$107.0 million (2012: HK$238.9 million) during the year, a significant turnaround from the loss in the first half of the financial year. Profit dropped when compared with the previous year mainly due to the unsatisfactory sales performance of the PRC operations which was affected by the continued slower growth of the economy of China, increased impairment loss recognised in respect of property, plant and equipment as well as higher operating expenses during the year.

During the period under review, staff costs increased by 11.3% and the ratio of staff costs to revenue slightly decreased from 12.3% to 11.9%. Rental costs rose by 19.4% and the ratio of rental cost to revenue increased from 11.1% to 11.6% due to the opening of several stores in the PRC in the second half of 2012, while their revenue contributions had not been fully developed during the year under review. Other expenses including rents, selling, distribution and administrative expenses increased by 21.2% due to the enlarged scale of the Group's operations from the newly opened stores.

As at 31 December 2013, the Group maintained a strong net cash position with cash and bank balance and short term time deposits of HK$2,345 million (31 December 2012: HK$2,241 million). The Group has sufficient internal resources to finance future business expansion.

As at 31 December 2013, deposits of HK$29.4 million (31 December 2012: HK$28.5 million) were pledged as guarantees to landlords for rental deposits. Deposits of HK$15.2 million (31 December 2012: Nil) were pledged as a guarantee to regulatory bodies for gift cards sold.

During the year under review, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC amounted to HK$196 million. The Group intends to finance future capital expenditure by internal resources and short-term borrowings.

As less than 5% of the Group's total purchases were settled in foreign currencies, its financial position has not been materially affected by fluctuations in exchange rates.

Business Review

Hong Kong Operations

Consumers remained cautious about spending due to soaring consumer prices and inflation throughout the year, and the volatile stock market further dampened consumer sentiment. The Group adjusted its promotional activities starting from the second quarter and successfully maintained satisfactory sales performance in the following months, thus defending its revenue growth. For the year ended 31 December 2013, revenue from Hong Kong operations increased by 13.0% to HK$3,983.3 million (2012: HK$3,525.2 million). Segment profit rose from HK$136.7 million last year to HK$182.5 million in 2013. If the impact of impairment loss of property, plant and equipment on the segment results for both years is excluded, Hong Kong segment profit increased by 17.7%.

During the year, while the Group devoted most of its efforts in enhancing the operational efficiency of existing stores, it continued to identify suitable locations for new stores in a cautious manner. Apart from opening one store in Lok Ma Chau in May 2013, it opened a second store in Po Lam to capture the growing business opportunity from a rising residential population in the Tseng Kwan O area.

As at 31 December 2013, the Group had 42 (2012: 43) stores in densely populated residential and commercial districts across Hong Kong.

PRC operations

The PRC market experienced a continued slowdown of economic growth which affected our sales performance. Nonetheless, the Group managed to maintain revenue growth of 16.9% to HK$4,504.2 million (2012: HK$3,852.0 million) during the year under review. A segment loss of HK$158.3 million (2012: profit HK$17.4 million) was recorded due to the soaring expenses that exceeded revenue growth, as well as the impairment loss recognised in respect of property, plant and equipment of HK$101.3 million (2012: HK$11.1 million). If the impairment loss of property, plant and equipment on the segment results for both years is excluded, the PRC segment result would have registered a loss of HK$56.9 million (2012: profit HK$28.5 million).The Group opened a total of four stores in Huizhou, Guangzhou and Shenzhen in Guangdong province during 2013.

As at 31 December 2013, the Group operated 29 (2012: 25) stores in south China.

Prospects

Hong Kong operations

Looking ahead, the Group is cautiously optimistic about the retail market in 2014 as the global economy appears to be gradually stabilising. The overall retail industry and consumer sentiment in Hong Kong, however, should continue to see challenges, which may adversely affect the Group's business in the coming year. Therefore, focusing resources on optimising sales performances of newly opened stores and improving merchandise offerings and services is to be the key focus of the Group. At the same time, the Group is implementing measures to strengthen internal management in order to enhance operational efficiency.

PRC operations

On the PRC front, despite some challenges in the operating environment, such as rising operating costs, rapid change of consumption patterns, etc., the overall economy of the PRC remains healthy with growth potential which should benefit the retail industry in the long run. Therefore, the Group remains prudently optimistic about its operations in south China. While dedicated to boosting performance of existing stores, the Group is exploring new initiatives to expand sensibly in the PRC market, including the opening of specialty stores with more flexibility in site locations at a lower investment cost, to suit the needs of different customers.

Human Resources

As at 31 December 2013, the Group had approximately 8,700 full-time and 1,500 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices within the industry. Committed to delivering the highest standard of service to all of its customers, the Group continues to enhance the quality and skills of its staff by providing professional training and mentorship. It is also striving to create an environment where employees can grow and feel a sense of belonging and loyalty to the Group.

Creating Long-Term Value

The Group's business strategy is to optimise customer satisfaction by providing safe, reliable and environmentally-friendly merchandise, a pleasant shopping environment and quality customer-oriented services. Embedded in the heart of every AEON employee is our AEON principles, as the Group is determined to create long-term value through earning the trust of our customers.

CHAN Pui Man Christine
Managing Director

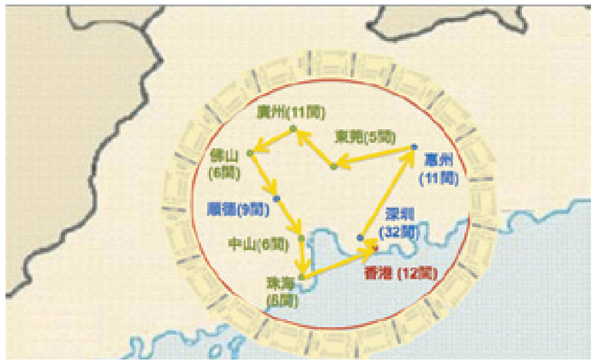
Hong Kong, 21 March 2014

Corporate Social Responsibility Report

The Group has been dedicated to meet its obligations of being a good corporate citizen, trying its best to contribute to the community in different fields. The Group has maintained its commitment to pursuing peace and contributing to society by carrying out various corporate social responsibility activities and appointing the 11th of every month as "AEON Day" when it organizes a variety of social activities, including environmental protection, fund-raising, education and community services for people in need.

"Yellow Receipt" Campaign

Starting from August 2012, the Group has launched a fund-raising campaign named "Yellow Receipts" in Hong Kong and other areas in China. In every 11th of the month – AEON Day, a receipt in yellow color will be given to our customers after purchase with the total transaction amount printed on it. Customers are invited to vote for the charity organizations that they would like to support with the yellow receipts. Goods in the amount of 1% of total receipt amount will be donated to the organizations by the Group. Over HK$1.8 million of goods have been donated to 103 organizations in 2013.



In addition, to commemorate the Group's rebranding from JUSCO to AEON, a cross-city "Loving Passing" campaign has been held in the Pearl River Delta region from January 2013. The Group has visited and participated in activities organized by 98 local charity organizations in 8 cities from Hong Kong, Shenzhen, Dongguan, Huizhou, Foshan, Guangzhou, Zhongshan to Zhuhai.

Fund Raising Activities

The Group has worked with World Vision to hold the "Used Book Recycling Campaign" to raise funds for 22 consecutive years. In 2013, about 330,000 books were collected and a total of over HK$1.5 million was raised which funded to build a four-storey teaching block in Liannan, Guangdong to provide suitable learning environment for 700 students. As of 2013, the "Used Book Recycling Campaign" has collected over 4.4 million books and over HK$27 million has been raised which funded to build schools in many provinces in China, such as Guangxi, Guizhou, Guangdong, Ningxia, Gansu, Shanxi and Sichuan.

In addition, the Group has also been concerned about disaster relief and reconstruction work. Last year, some parts of the world experienced disastrous earthquakes or typhoons. The Group has arranged donation boxes in stores and office to raise money from customers and staff and more than HK$180,000 was raised for the victims in Sichuan and Philippines.

Project	Amount Raised (HK$'000)
Sichuan Ya'an Earthquake	139
Philippines Typhoon	49

Community Services

The Group is always caring for and lending its support to those in need by organizing regular volunteer activities to visit elderly homes, special education training centres, rehabilitation centres, special schools and special families. During the past year, the Group has further expanded its community services to eight cities in the Pearl River Delta Region including Hong Kong, Guangzhou, Foshan, Dongguan, Zhongshan, Zhuhai, Shenzhen and Huizhou. It is hoped that when customers join us in these volunteer activities, they will understand the Group's dedication to contributing to society.

Education

To foster children's consciousness of environmental protection and contribution to society, Guangdong AEON has been running a kid's club named "Tomato Club", open to kids aged 8 to 12. The "Tomato Club" organizes free environmental learning and community service activities regularly. From October 2013, it was renamed to "AEON Cheers Club", which all other AEON companies in Hong Kong and in the PRC are starting to launch together. Guangdong's AEON Cheers Club will continue to organize activities with the theme of environmental protection, leading the next generation to a greener future.

Environmental Protection

In order to promote the message of environmental protection, AEON Group has begun tree-planting activities since 1991. By 2013, a total of 10 million trees have been planted across the globe. In Hong Kong, the Group has also been devoted in tree-planting and other kinds of green activities since its establishment in 1985. In April 2013, Guangdong AEON organised a cherry blossom tree planting event in Zengcheng. 1,700 employees and customers from 17 stores gathered together and planted 1,200 shrubs over an area of 53,333 square metres. For the many years to come, the Group will continue to plant more trees and nurture them to grow.

The Group's other subsidiary in South China has been recruiting children in local community since November and together, they have hanged wooden signs written with environmental conservation messages on the trees along a road to express their love towards trees and to promote the idea of "green life" to the public.

While the Group is taking an active part in tree-planting and other environmental protection activities such as beach cleaning, forest protection and marine conservation education, energy saving is also another focus of attention of the Group. In March, the stores in Hong Kong and South China participated in WWF's Earth Hour. Signage and advertising light boxes as well as lighting in offices were switched off for one hour, arousing the public awareness about conservation of the earth's resources. Besides, the Group has supported Friends of the Earth's "Power Smart" campaign for the fifth year in a row, setting up game booths in Kowloon City Store, Tai Wo Hau Store, Lai Chi Kok Store and Tsuen Wan Store from May to June where customers played games and learned about energy saving tips. Moreover, in support of the PRC government's policy of eliminating incandescent light, Guangdong AEON has begun a campaign of distributing energy-saving lights to local customers whenever new stores open. The campaign aims to encourage the public to care for the environment and take action on energy saving. A total of 11,550 LED lights have been distributed through this campaign. In July, AEON South China led students in Chang'an to do a charity walk and organized a campaign to promote sustainable consumption in stores. During the week of the campaign, we promoted to the public about organic food and other green products that reduce environmental burden and lead to a low carbon lifestyle.

As a staunch supporter of environmental conservation, the Group has started to take part in food waste recycling in recent years. Apart from donating to the "Food Resources Recycling Centre" run by charity organization, the Group also works with a recycling factory who converts food waste to useful substances. Such programmes aim at promoting the concept of recycling and making the most of resources. In 2013, the Group has donated nearly 7,000 pieces of food items, which were close to expiry dates yet in good condition, and 39,775 kg of food waste for making into organic fish food.

Summary of activities	Result	2009	2010	2011	2012	2013
Used Book Recycling Program	No. of books collected ('000)	340	351	356	420	**340**
	Donation (HK$'000)	1,691	1,372	2,134	2,284	**1,571**
	No. of beneficiary teachers and students	3,034	1,171	2,100	1,600	**724**
Tree-planting	No. of trees planted	780	600	650	3,550	**1,200**
LED light distribution	No. of lights distributed	/	2,000	2,000	4,000	**3,550**
Tomato Club/AEON Cheers Club	No. of participants	/	428	730	212	**228**
	No. of activities	/	2	2	1	**0**
"Yellow Receipt" Campaign	Value of donated items (HK$'000)	/	/	/	5,968	**1,818**
	No. of beneficiary Organizations	/	/	/	82	**103**
	No. of receipts collected ('000)	/	/	/	369	**1,389**
"Low carbon" charity walk	No. of participants	/	/	/	/	**1,500**
	Distance	/	/	/	/	**10 km**

Note:

— "Yellow Receipt" Campaign was launched in August 2012, thus the figures in 2012 are not on a full-year basis.

— LED light distribution campaign was launched in 2010.

Brand Recognition

Throughout the years, the Group has maintained its commitment to delivering exceptional merchandise and services, standing by its motto, "Everything we do, we do for our customers"; at the same time, the Group is also actively embracing corporate social responsibility. Such devotion has gained recognition and encouragement from all walks of life.

In Hong Kong, the Group was awarded during 2013 the "10 Years Plus Caring Company" logo by the Hong Kong Council of Social Service, "Prime Award for Corporate Social Responsibility 2013" and "Prime Award for Eco Business 2013" by MetroBox Magazine, "Quality Life Award" and "Editor's Recommendation Award" by Lisa Magazine, "Smiling Award" by the Hong Kong Mystery Shoppers Association, "U-Green Award" by U-Magazine, "Green Plus Recognition Award" by the CLP Group, "Outstanding QTS Merchant Award" by the Quality Tourism Service Association and "Entrepreneur Green Enterprise Award" by Capital Magazine.

In Guangdong, the Group was awarded during 2013 "Top 10 Chain Operations Award", "Best Community Services of the Year" and "Outstanding Shop Award" (Central Plaza Store) by Guangdong Chain Operations Association, "Outstanding Performance in Trade and Retail Industry" (Zhongshan Junyue Plaza Store) by Zhongshan Shiqi Municipal Government, "Role-model Shop for Food Safety" (Nonglinxia Road Store) by Guangzhou Administration for Industry and Commerce, "Volunteer Service Award" and "Outstanding Partner" by Guangzhou Volunteer Union, "2012–2013 Business Integrity Award" by Guangzhou Economic and Trade Commission, "Community Service Certificate" (Foshan Oriental Plaza Store) by Nanhai Guicheng Volunteer Union and "2013 Charity Business of the Year Award" by Zhongshan Xiaolan Bohua Special School.

In South China, the Group was awarded during 2013 "A-Class Safety Operations in Futian District" (Zhongxin City Plaza Store) by Futian Administration of Work Safety, "Food Safety Management Award" (Coco Park Store) by Economy, Trade and Information Commission of Shenzhen Municipality, "Consumer Protection Award" (Huizhou Dongping Store) by Huizhou Consumer Council, "Community Service Award" by ZhengWeining Charity Foundation, "Typical Statistic Investigation Enterprise" by Ministry of Commerce of the PRC and "Top 50 Chain Operations in Shenzhen 2012" by Shenzhen Retail Business Association.

This recognition has acknowledged the Group's long-term efforts in fulfilling corporate social responsibility while providing quality services to customers.

Senior Management Profile

Executive Directors

Ms. CHAN Pui Man Christine

Ms. Chan (aged 62) was appointed as Executive Director in September 2009 and became the Managing Director in May 2012. She is also a director of AEON (China) Co., Ltd.. Ms. Chan joined the Company in 1998. She possesses extensive experience in the buying field as well as operations. Ms. Chan is a graduate of the State of Washington University with a bachelor's degree in Business Administration.

Mr. SUZUKI Junichi

Mr. Suzuki (aged 57) was appointed as Executive Director in March 2012 and became Deputy Managing Director in May 2012. He joined AEON Co. Ltd. ("AEON Co.") in 1980 and was a store manager before he was transferred to AEON (Thailand) Co., Ltd. in 1998 and became its director in charge of Administrations. In 2009, he was transferred to Beijing AEON Co., Ltd. and became deputy managing director. He joined the Company in July 2011. Mr. Suzuki graduated from the Kyoto Sangyou University with a bachelor's degree in Business Administration.

Mr. MIZUSHIMA Yoshiaki

Mr. Mizushima (aged 56) was appointed as Executive Director and Deputy Managing Director in March 2014 and is in charge of Buying and Operations Division of the Company. He joined AEON Co. in 1982 and became general manager of Buying Strategy Department in 2011 and general manager of Fashion Buying Division of Tokai Area. Mr. Mizushima graduated from the St. Andrew's University with a bachelor's degree in Business Administration.

Mr. CHAK Kam Yuen

Mr. Chak (aged 51) was appointed as Executive Director in March 2013 and is in charge of Administration Division of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 20 years of solid experience in retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration and Electronic Commerce.

Non-Executive Directors

Mr. OKUNO Yoshinori

Mr. Okuno (aged 50) was appointed as Non-executive Director in March 2011 and became the Chairman in May 2011. He is also a director and vice president of AEON (China) Co., Ltd., chairman of AEON Maxvalu (Guangzhou) Co., Ltd. and director of AEON Mall (Guangzhou) Co., Ltd.. He joined AEON Co. in 1993. Mr. Okuno graduated from Tsukuba University with a bachelor's degree in Science. He is also vice chairman of Guang Dong Chain Operations Association.

Mr. AGAWA Yutaka

Mr. Agawa (aged 57) was appointed as Non-executive Director in August 2012. He is also a director of AEON (China) Co., Ltd.. He joined AEON Co. in 1980 and was transferred to AEON Co. (M) Bhd. in 1990 as general manager. He was the former deputy managing director of AEON South China Co., Ltd., former Director of the Company and former managing director of Qingdao AEON Dongtai Co., Ltd.. Mr. Agawa graduated from Kansai University with a bachelor's degree in Sociology.

Ms. HABU Yuki

Ms. Habu (aged 46) was appointed as Non-executive Director in March 2014. She is the president of AEON (China) Co., Ltd.. She joined AEON Co. in 1991 and has been a director of AEON (China) Co., Ltd. and was the former managing director of Beijing AEON Co., Ltd.. Ms. Habu graduated from the Keio University with a bachelor's degree in Commerce.

Mr. YASUKAWA Kazuhiko

Mr. Yasukawa (aged 59) was appointed as Non-executive Director in March 2014. He is the general manager of group Buying Strategy Department of AEON Co. since 2009. He joined AEON Co. in 1978 and became executive general manager of Household Buying Division in 2007. Mr. Yasukawa graduated from the Kansai University with a bachelor's degree in Commerce.

Independent Non-Executive Directors

Mr. SHAM Sui Leung Daniel

Mr. Sham (aged 58) was appointed as Independent Non-executive Director in September 2004. He is an associate member of The Institute of Chartered Accountants in England and Wales and also a Certified Public Accountant of the HKICPA. He was a partner with Moores Rowland Mazars from 1988 to 2003. He was a committee member of the Expert Panel on Listing, the Expert Panel on Securities and the Accountants' Report Task Force of the HKICPA. Mr. Sham was also a committee member of the Disciplinary Panel of the HKICPA. A graduate from Leeds University in England, he holds a bachelor's degree in Economics. Mr. Sham is currently an independent non-executive director of Melco International Development Limited, which is listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Ms. CHENG Yin Ching Anna

Ms. Cheng (aged 44) was appointed as Independent Non-executive Director in June 2006 and she is a fellow member of the Association of Chartered Certified Accountants and also a Certified Public Accountant of the HKICPA. She is currently a director of Rosedale Hotel Group Limited.

Ms. CHAN Yi Jen Candi Anna

Ms. Chan (aged 52) was appointed as Independent Non-executive Director in May 2013. She is a practicing solicitor in Hong Kong for over 25 years and is a consultant of LCP Lawyers. Ms. Chan was respectively admitted as solicitor in Hong Kong in 1987, as solicitor in England & Wales in 1992 and as advocate and solicitor in Singapore in 1995. She is also a civil celebrant and accredited mediator. Ms. Chan graduated from the University of Hong Kong with a bachelor's degree in Laws (LL.B.). She is currently the Deputy Chairman of Rules with the Hong Kong Golf Association and Deputy Tournament Director of the Ladies Asian Golf Tour.

Ms. LO Miu Sheung Betty

Ms. Lo (aged 51) was appointed as Independent Non-executive Director in November 2013. She is a qualified solicitor in Hong Kong and has over 24 years of experience in general legal practice, with specialisation in conveyancing, commercial and probate laws. Ms. Lo has been in active practice since qualification and is currently a consultant of Messrs. K.C. Ho & Fong, Solicitors. She graduated from The University of Hong Kong with a bachelor's degree in Laws (LL.B.) in 1985. She also holds a Postgraduate Certificate in Laws (PCLL). She is currently an independent non-executive director of Eagle Legend Asia Limited and Sincere Watch (Hong Kong) Limited, which are companies listed on the main board of the Stock Exchange.

Senior Management

Mr. YEUNG Tze Shing

Mr. Yeung (aged 50) is the General Manager of Corporate Finance Division of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the HKICPA. He joined the Company in 1995. Mr. Yeung graduated from the Chinese University of Hong Kong with a bachelor's degree in Science.

Mr. LAU Chi Sum Sam

Mr. Lau (aged 47) is the General Manager of Buying Division of the Company. He joined the Company in 1992 and possesses extensive experience in retail operations and buying field.

Mr. SAKAMOTO Tsuyoshi

Mr. Sakamoto (aged 44) is the General Manager of Operations Division of the Company. He joined AEON Co. in 1994. He joined the Company in 2013. Mr. Sakamoto graduated from Kokushikan University with a bachelor's degree in Education.

Corporate Governance Report

Corporate Governance Practice

The Board of Directors (the "Board") of the Company is committed to maintaining high standards of corporate governance practices to promote the interests of the shareholders and enhance the shareholders' value. The Board reviews the corporate governance practices and procedures regularly with reference to latest development in corporate governance practices so as to ensure the Group is under the leadership of an effective Board and to meet interested parties' expectation and relevant regulatory requirements.

The Company has adopted the code provisions set out in the Corporate Governance Code (the "Code") in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") as its own code of corporate governance practice.

In the opinion of the Directors, the Company has complied throughout the year with the code provisions of the Code save as disclosed below.

Rule 3.10A of the Listing Rules provides that a listed issuer must appoint independent non-executive directors representing at least one-third of the board. Moreover, Rule 3.25 of the Listing Rules provides that a listed issuer must establish a remuneration committee chaired by an independent non-executive director. Subsequent to Dr. Shao Kung Chuen's resignation on 9 August 2013, the number of Independent Non-executive Directors fell below one-third of the Board members and there was a vacancy for chairman of the Remuneration Committee of the Company as required respectively by Rules 3.10A and 3.25 of the Listing Rules.

On 23 August 2013, the Board appointed Mr. Sham Sui Leung Daniel, an Independent Non-executive Director, as the chairman of the Remuneration Committee of the Company. Following Mr. Sham's appointment, the Company has complied with the requirements of Rule 3.25 of the Listing Rules.

On 8 November 2013, the Board appointed Ms. Lo Miu Sheung Betty as an Independent Non-executive Director. Following Ms. Lo's appointment, the Company has complied with Rules 3.10A and 3.11 of the Listing Rules.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors. Having made specific enquiry of all existing Directors, the Company confirms that they have fully complied with the required standard set out in the Model Code throughout the year.

Board of Directors

The Board currently comprises a total of 12 Directors, being 4 Executive Directors, 4 Non-executive Directors and 4 Independent Non-executive Directors. The number of Independent Non-executive Directors represents one-third of the Board as required by Rule 3.10A of the Listing Rules. The list of the Directors and their biographies are respectively set out on pages 11 to 13 of this annual report.

The Board is responsible for the leadership and control of the Company, oversees the Group's businesses, strategic decisions and performance, and reserves the key matters such as the declaration of interim dividend, recommendation of final dividend or other distributions for the approval of the Board. The Board has delegated the management functions and day-to-day operating responsibility to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director ("MD").

The Board has scheduled at least four meetings a year and meets as and when required. During the year, the Board held five meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. For all such meetings, at least 14 days' notice is given to all Directors. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. In addition to regular Board meetings, the Chairman of the Board met with the Non-executive Directors (including the Independent Non-executive Directors) without the presence of the Executive Directors.

Directors' attendance at Board meetings are set out as follows:

	Directors	**Number of attendance**
Executive Directors	Chan Pui Man Christine *(MD)*	5/5
	Junichi Suzuki *(Deputy MD)*	5/5
	Chan Suk Jing	5/5
	Chak Kam Yuen (Note 1)	3/3
Non-executive Directors	Yoshinori Okuno *(Chairman)*	4/5
	Haruyoshi Tsuji	3/5
	Yutaka Agawa	5/5
	Takashi Komatsu	5/5
Independent Non-executive Directors	Sham Sui Leung Daniel	5/5
	Cheng Yin Ching Anna	5/5
	Chan Yi Jen Candi Anna (Note 2)	2/2
	Lo Miu Sheung Betty (Note 3)	0/0
	Lam Pei Peggy (Note 4)	2/2
	Shao Kung Chuen (Note 5)	3/3

Notes:

1. Mr. Chak Kam Yuen was appointed as an Executive Director of the Company on 15 March 2013 and there have been 3 Board meetings held after his appointment.

2. Ms. Chan Yi Jen Candi Anna was appointed as an Independent Non-executive Director of the Company on 24 May 2013 and there have been 2 Board meetings held after her appointment.

3. Ms. Lo Miu Sheung Betty was appointed as an Independent Non-executive Director of the Company on 8 November 2013 and there was no Board meeting held after her appointment.

4. Ms. Lam Pei Peggy retired as an Independent Non-executive Director of the Company on 24 May 2013.

5. Dr. Shao Kung Chuen resigned as an Independent Non-executive Director of the Company on 9 August 2013.

Board and committee minutes are recorded in appropriate detail and draft minutes are circulated to all Directors and committee members for comments before being approved by the Board and committees respectively at the next immediate meeting. All minutes are kept by the Company Secretary and are open for inspection by the Directors.

The Directors are entitled, upon the reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the Directors to assist the relevant Directors to discharge their duties.

The Company has received annual confirmations of independence from all existing Independent Non-executive Directors pursuant to Rule 3.13 of the Listing Rules and considers them to be independent. The Nomination Committee has assessed the independence of all the Independent Non-executive Directors in particular, Mr. Sham Sui Leung Daniel, who has served the Board for more than nine years. Mr. Sham Sui Leung Daniel does not have any management role in the Company and its subsidiaries since his appointment. He has expressed his willingness clearly to exercise independent judgement and has been giving objective views to the Company. There is no evidence that length of tenure is having any unfavourable influence on his independence. The Board is satisfied that, as well proven by the valuable independent judgement and advice given by Mr. Sham Sui Leung Daniel over the years, Mr. Sham Sui Leung Daniel has the required character, integrity, independence and experience to perform the role of an Independent Non-executive Director. The Board is not aware of any circumstances that might influence Mr. Sham Sui Leung Daniel in exercising his independent judgement and therefore believes he is still independent.

The Board members have no financial, business, family or other material/relevant relationship with each other. Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company.

The Company has not fixed the terms of appointment for all Directors but they are subject to retirement and being eligible, offer themselves for re-election at each annual general meeting of the Company.

The attendance of the Directors at the Annual General Meeting held on 24 May 2013 is as follows:

	Directors	Number of attendance
Executive Directors	Chan Pui Man Christine *(MD)*	1/1
	Junichi Suzuki *(Deputy MD)*	1/1
	Chan Suk Jing	1/1
	Chak Kam Yuen (Note 1)	1/1
Non-executive Directors	Yoshinori Okuno *(Chairman)*	0/0
	Haruyoshi Tsuji	0/0
	Yutaka Agawa	1/1
	Takashi Komatsu	1/1
Independent Non-executive Directors	Sham Sui Leung Daniel	1/1
	Cheng Yin Ching Anna	1/1
	Chan Yi Jen Candi Anna (Note 2)	0/0
	Lo Miu Sheung Betty (Note 3)	0/0
	Lam Pei Peggy (Note 4)	0/0
	Shao Kung Chuen (Note 5)	1/1

Notes:

1. Mr. Chak Kam Yuen was appointed as an Executive Director of the Company on 15 March 2013.
2. Ms. Chan Yi Jen Candi Anna was appointed as an Independent Non-executive Director of the Company at a meeting of the Board immediately held after the Annual General Meeting on 24 May 2013.
3. Ms. Lo Miu Sheung Betty was appointed as an Independent Non-executive Director of the Company on 8 November 2013.
4. Ms. Lam Pei Peggy retired as an Independent Non-executive Director of the Company on 24 May 2013.
5. Dr. Shao Kung Chuen resigned as an Independent Non-executive Director of the Company on 9 August 2013.

Code provision E.1.2 of the Code requires that the chairman of the board should attend the annual general meeting. Mr. Yoshinori Okuno, the Chairman of the Board, was unable to attend the annual general meeting of the Company held on 24 May 2013 due to his other business engagements.

Directors' Induction and Continuous Professional Development

The newly appointed Directors were given an induction after their appointment so as to ensure that they have appropriate understanding of the Group's business and of their duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Company provides regular updates on the business performance of the Group to the Directors. The Directors are continually updated on the latest development regarding the Listing Rules and other applicable statutory requirement to ensure compliance and upkeep of good corporate governance practices.

Directors are encouraged to participate in continuing professional development to develop and refresh their knowledge and skills. The Company has devised a training record in order to assist the Directors to record the training they have undertaken and they are asked to submit a signed training record to the Company on quarterly basis.

The Company has also arranged in-house trainings for Directors in the form of seminar during the year. The attendance of the Directors to the in-house training seminars throughout the year according to the records provided by the Directors is as follows:

	Directors	Directors' participation in trainings
Executive Directors	Chan Pui Man Christine *(MD)*	✓
	Junichi Suzuki *(Deputy MD)*	✓
	Chan Suk Jing	✓
	Chak Kam Yuen (Note 1)	✓
Non-executive Directors	Yoshinori Okuno *(Chairman)*	✓
	Haruyoshi Tsuji	✓
	Yutaka Agawa	✓
	Takashi Komatsu	✓
Independent Non-executive Directors	Sham Sui Leung Daniel	✓
	Cheng Yin Ching Anna	✓
	Chan Yi Jen Candi Anna (Note 2)	✓
	Lo Miu Sheung Betty (Note 3)	✓
	Lam Pei Peggy (Note 4)	—
	Shao Kung Chuen (Note 5)	—

Notes:

1. Mr. Chak Kam Yuen was appointed as an Executive Director of the Company on 15 March 2013.

2. Ms. Chan Yi Jen Candi Anna was appointed as an Independent Non-executive Director of the Company on 24 May 2013.

3. Ms. Lo Miu Sheung Betty was appointed as an Independent Non-executive Director of the Company on 8 November 2013.

4. Ms. Lam Pei Peggy retired as an Independent Non-executive Director of the Company on 24 May 2013.

5. Dr. Shao Kung Chuen resigned as an Independent Non-executive Director of the Company on 9 August 2013.

Chairman and Chief Executive

The Board considered that the duties of the MD were no difference from that required of a chief executive stipulated under the code provision A.2 of the Code. The management would regard that the term MD will have the same meaning as the chief executive of the Company.

The Chairman of the Board is a Non-executive Director, who is responsible for the leadership and effective running of the Board, and ensuring that all significant and key issues are discussed and where required, resolved by the Board timely and constructively.

The MD of the Board is delegated with the authority and responsibility to run the Group's business and day-to-day operation, and implement the Group's strategy with respect to the achievement of its business objectives with the assistance of the Executive Directors and senior management.

Nomination Committee

The Nomination Committee is responsible for reviewing the structure, size and composition (factors including but not limited to gender, age, cultural and educational background, professional qualification, 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. The Committee's authorities and duties are set out in written terms of reference.

In March 2013, on the recommendation of the Nomination Committee, the Board adopted the revised written terms of reference of the Nomination Committee and the measurable objectives on the Board diversity as addendum thereto. To tie in with the amendments in the Code effective from 1 September 2013, the terms of reference of the Nomination Committee were updated during the year, which are published on the websites of the Stock Exchange and the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, professional qualification, skills, knowledge and experience. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board.

Members of the Nomination Committee and the attendance of each member are set out as follows:

	Directors	Number of attendance
Non-executive Director	Yoshinori Okuno *(Chairman)*	4/5
Independent Non-executive Directors	Sham Sui Leung Daniel	5/5
	Cheng Yin Ching Anna (Note 1)	2/2
	Lam Pei Peggy (Note 2)	3/3
	Shao Kung Chuen (Note 3)	3/3

Notes:

1. Ms. Cheng Yin Ching Anna was appointed as a member of the Nomination Committee of the Company on 24 May 2013.

2. Prof. Lam Pei Peggy resigned as a member of the Nomination Committee of the Company on 24 May 2013.

3. Dr. Shao Kung Chuen resigned as a member of the Nomination Committee of the Company on 9 August 2013.

During 2013, the Nomination Committee performed the following duties:

— identified individuals suitably qualified to become board members and recommended the Board on the selection of individuals nominated for directorships;

— identified individuals suitably qualified to become senior management and recommended the Board on their appointment as senior management;

— assessed the independence of Independent Non-executive Directors;

— recommended the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the MD; and

— recommended the Board on the adoption of the revised terms of reference of the Nomination Committee and the measurable objectives on Board Diversity as addendum thereto.

Remuneration Committee

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the Directors and senior management. It will also make recommendations to the Board on the remuneration packages of all Directors and senior management. The Committee's authorities and duties are set out in written terms of reference. The terms of reference of the Remuneration Committee were updated during the year, which are published on the websites of the Stock Exchange and the Company.

Members of the Remuneration Committee and the attendance of each member are set out as follows:

	Directors	Number of attendance
Non-executive Director	Yoshinori Okuno	3/4
Independent Non-executive Directors	Sham Sui Leung Daniel *(Chairman)* (Note 1)	4/4
	Cheng Yin Ching Anna (Note 2)	2/2
	Lam Pei Peggy (Note 3)	2/2
	Shao Kung Chuen *(Former Chairman)* (Note 4)	2/2

Notes:

1. Mr. Sham Sui Leung Daniel was appointed as the chairman of the Remuneration Committee of the Company on 23 August 2013.

2. Ms. Cheng Yin Ching Anna was appointed as a member of the Remuneration Committee of the Company on 24 May 2013.

3. Prof. Lam Pei Peggy resigned as a member of the Remuneration Committee of the Company on 24 May 2013.

4. Dr. Shao Kung Chuen resigned as the chairman of the Remuneration Committee of the Company on 9 August 2013.

During 2013, the Remuneration Committee performed the following duties:

— reviewed the remuneration of all Directors (including the MD and the Deputy MD) and the senior management and recommended the Board to approve their remuneration;

— reviewed the proposal for the grant of the benefits under the Company's cash-settled share-based payment scheme to certain Directors and staff to reward their contributions to the Group and recommended the Board to approve the grant of these benefits; and

— recommended the Board on the adoption of the revised terms of reference of the Remuneration Committee.

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2013 are disclosed in the notes 12 and 13 to the consolidated financial statements.

Auditors' Remuneration

During the year under review, the remuneration paid and payable to the Company's auditor, Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	Fees paid/ payable HK$'000
Audit services — annual audit	5,343
Non-audit services:	
Review of interim results	749
Taxation services	4,789
Other services	308
	11,189

Audit Committee

The Audit Committee is responsible for ensuring the objectivity and credibility of the Group's financial reporting. The Committee's authority and duties are set out in written terms of reference. The terms of reference of the Audit Committee were updated during the year, which are published on the websites of the Stock Exchange and the Company.

The Audit Committee reviews the Group's financial statements, internal financial reports, and internal control systems. The Audit Committee meets at least twice a year with management and external auditor and reviews their reports.

Members of the Audit Committee and the attendance of each member are set out as follows:

	Directors	Number of attendance
Non-executive Director	Yoshinori Okuno	3/3
Independent Non-executive Directors	Sham Sui Leung Daniel *(Chairman)*	3/3
	Cheng Yin Ching Anna	3/3
	Chan Yi Jen Candi Anna (Note 1)	1/1
	Lo Miu Sheung Betty (Note 2)	0/0
	Lam Pei Peggy (Note 3)	2/2
	Shao Kung Chuen (Note 4)	0/0

Notes:

1. Ms. Chan Yi Jen Candi Anna was appointed as a member of the Audit Committee of the Company on 24 May 2013.

2. Ms. Lo Miu Sheung Betty was appointed as a member of the Audit Committee of the Company on 8 November 2013.

3. Prof. Lam Pei Peggy resigned as a member of the Audit Committee of the Company on 24 May 2013.

4. Dr. Shao Kung Chuen was appointed as a member of the Audit Committee of the Company on 24 May 2013 and resigned as a member of the Audit Committee of the Company on 9 August 2013.

During 2013, the Audit Committee performed the following duties:

— reviewed the audited financial statements for the year ended 31 December 2012 with a recommendation to the Board for approval;

— reviewed the un-audited financial statements for the six months ended 30 June 2013 with a recommendation to the Board for approval;

— reviewed various reports on internal control system covering financial, operational, procedural compliance and risk management functions;

— met the external auditor and reviewed their reports to the committee in respect of the audit of the annual results and review of interim results of the Company; and

— recommended the Board on the adoption of the revised terms of reference of the Audit Committee.

All members of the Audit Committee possess in-depth experience in their own profession. At least one of the committee members possesses appropriate professional qualifications in finance and accounting and meets the requirements of Rule 3.21 of the Listing Rules. No member of the Audit Committee is a former partner of the existing auditing firm of the Company during one year after he or she ceases to be a partner of the auditing firm.

Corporate Governance Function

The Board is also responsible for performing the corporate governance duties as set out below:

— to develop and review the Company's policies and practices on corporate governance;

— to review and monitor the training and continuous professional development of Directors and senior management;

— to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

— to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

— to review the Company's compliance with the Code and disclosure in the Corporate Governance Report.

Accountability and Audit

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2013 and for the year ended 31 December 2013, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

The reporting responsibilities of the Company's external auditors, Deloitte Touche Tohmatsu, are stated in the "Independent Auditor's Report" on pages 33 to 34 of this annual report.

Internal Controls

The Board has, through the Audit Committee, conducted interim and annual review of the effectiveness of the internal control system of the Group covering the financial, operational, procedural compliance and risk management functions.

Company Secretary

The Company's secretarial functions are outsourced to external service provider. Mr. Yeung Tze Shing, General Manager of Corporate Finance Division of the Company, is the primary contact person of the Company with the external service provider.

According to Rule 3.29 of the Listing Rule, Mr. Chan Kwong Leung Eric, the Company Secretary, has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2013.

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders

Extraordinary general meeting may be convened by the Directors on requisition of Shareholder(s) at least 5% of the total voting rights of all the Shareholders having a right to vote at general meetings of the Company pursuant to sections 566 to 568 of the Companies Ordinance (Chapter 622, Laws of Hong Kong) (the "Companies Ordinance"). The objects of the meeting must be stated in the requisition which must be signed by the requisitionist(s) and deposited at the registered office of the Company. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening an extraordinary general meeting.

Putting Forward Enquiries to the Board

Shareholders may send written enquiries to the Secretary of the Company who will direct the enquiries to the Board for handling. The contact details of the Secretary of the Company are as follows:

The Secretary of the Company
AEON Stores (Hong Kong) Co., Limited
7/F., D2 Place
9 Cheung Yee Street
Lai Chi Kok
Kowloon
Email: cs@aeonstores.com.hk
Tel: (852) 2565 3600
Fax: (852) 2563 8654

Putting Forward Proposals at the Annual General Meetings

Pursuant to section 615 of the Companies Ordinance, Shareholders representing at least 2.5% of the total voting rights of all Shareholders having a right to vote on the resolution at the annual general meeting to which requests relate; or at least 50 Shareholders who have a right to vote on the resolution at the annual general meeting to which the requests relate, may make requisition in writing for proposing resolution or business to be dealt with at the annual general meeting. Shareholders should follow the requirements and procedures as set out in section 615 of the Companies Ordinance for putting forward a proposal at an annual general meeting.

If a Shareholder of the Company intends to propose a person other than a Director of the Company for election as a Director of the Company at any general meeting, the Shareholder shall follow the "Procedures for Nominating Directors for Election from Shareholders", which can be found on the website of the Company.

Investor Relations

There is no significant change in the Company's constitutional documents during the year ended 31 December 2013.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2013.

Principal Activities

The Company and its subsidiaries are engaged in the operation of retail stores.

Subsidiaries

Details of the Company's subsidiaries as at 31 December 2013 are set out in note 19 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 35 to 36 of this annual report.

The Directors now recommend the payment of a final dividend of 12.9 HK cents per share to the shareholders on the register of members on 3 June 2014, amounting to HK$33,540,000 in aggregate.

Major Customers and Suppliers

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers respectively were less than 30 per cent of the Group's total sales and purchases for the year.

Fixed Assets

During the year, the Group has incurred approximately HK$195,963,000 on property, plant and equipment to renovate its stores and expand its operations.

Details of these and other movements during the year in the property, plant and equipment and the investment property of the Group and the Company are set out in notes 17 and 18 to the consolidated financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2013 comprised the retained profits of HK$1,515,973,000 (2012: HK$1,330,221,000).

Directors

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

CHAN Pui Man Christine *(Managing Director)*	
Junichi SUZUKI *(Deputy Managing Director)*	
Yoshiaki MIZUSHIMA *(Deputy Managing Director)*	Appointed on 21 March 2014
CHAK Kam Yuen	Appointed on 15 March 2013
CHAN Suk Jing	Resigned on 21 March 2014

Non-executive Directors

Yoshinori OKUNO *(Chairman)*	
Yutaka AGAWA	
Yuki HABU	Appointed on 21 March 2014
Kazuhiko YASUKAWA	Appointed on 21 March 2014
Haruyoshi TSUJI	Resigned on 21 March 2014
Takashi KOMATSU	Resigned on 21 March 2014

Independent Non-executive Directors

SHAM Sui Leung Daniel	
CHENG Yin Ching Anna	
CHAN Yi Jen Candi Anna	Appointed on 24 May 2013
LO Miu Sheung Betty	Appointed on 8 November 2013
LAM PEI Peggy	Retired on 24 May 2013
SHAO Kung Chuen	Resigned on 9 August 2013

In accordance with Articles 85 and 101 of the Company's Articles of Association, all Directors shall retire from office at the forthcoming annual general meeting and offer themselves for re-election.

The term of office for the Directors is the period up to their retirement in accordance with the above Articles.

Directors' Service Contracts

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

Directors' Interests in Shares and Cash-Settled Share-Based Payment Pursuant to the Company's Stock Appreciation Rights Schemes

As at 31 December 2013, the interests of the Directors in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) The Company

Name of Directors	Number of ordinary shares held as personal interests	Number of ordinary shares held as family interests	Number of underlying shares held as personal interests	Approximate aggregate percentage of interests in the issued share capital of the Company
			(Note)	%
CHAN Pui Man Christine	6,000	—	449,000	0.175
CHAN Suk Jing	—	—	96,100	0.037
CHAK Kam Yuen	—	—	131,000	0.050
Yutaka AGAWA	12,000	—	—	0.005

Note: This column represents interests in Stock Appreciation Rights, details of which are set out in paragraph (d) below.

(b) AEON Co., Ltd., the Company's ultimate holding company

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests
		%
Yoshinori OKUNO	300	0.00004
Junichi SUZUKI	4,000	0.00047
Haruyoshi TSUJI	3,109	0.00037
Yutaka AGAWA	19,017	0.00225
Takashi KOMATSU	2,000	0.00024

(c) Other associated corporations

Name of Directors	Associated corporation	Number of shares held as personal interests	Approximate percentage of interests %
Junichi SUZUKI	AEON Thana Sinsap (Thailand) Public Co., Ltd.	15,000	0.006
Yutaka AGAWA	AEON Co. (M) Bhd.	40,000	0.011

(d) Stock Appreciation Rights

i. The Stock Appreciation Rights of the Company are a form of cash settled equity derivative. Particulars of the Stock Appreciation Rights Schemes of the Company (including certain defined terms used below) are set out in the note 34 to the consolidated financial statements.

ii. As at 31 December 2013, certain Directors had interests in Stock Appreciation Rights granted under the Company's Stock Appreciation Rights Schemes as follows:

Name of Directors	Capacity	Number of underlying shares of the Company
CHAN Pui Man Christine	Beneficial owner	449,000
CHAN Suk Jing	Beneficial owner	96,100
CHAK Kam Yuen	Beneficial owner	131,000

iii. The particulars of Stock Appreciation Rights granted to the Directors and the movement during the year were as follows:

Name of Directors and date of grant	Exercise price HK$	Exercisable period	Number of underlying shares of the Company: Outstanding at 1.1.2013	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	Re-classified during the year	Outstanding at 31.12.2013
CHAN Pui Man Christine									
25.9.2009	13.500	25.9.2010 to 24.9.2016	6,000	—	—	—	—	—	6,000
	13.500	25.9.2011 to 24.9.2016	6,000	—	—	—	—	—	6,000
	13.500	25.9.2012 to 24.9.2016	8,000	—	—	—	—	—	8,000
1.9.2010	14.260	1.9.2011 to 31.8.2017	9,600	—	—	—	—	—	9,600
	14.260	1.9.2012 to 31.8.2017	9,600	—	—	—	—	—	9,600
	14.260	1.9.2013 to 31.8.2017	12,800	—	—	—	—	—	12,800
1.9.2011	17.900	1.9.2012 to 31.8.2018	21,000	—	—	—	—	—	21,000
	17.900	1.9.2013 to 31.8.2018	21,000	—	—	—	—	—	21,000
	17.900	1.9.2014 to 31.8.2018	28,000	—	—	—	—	—	28,000
31.8.2012	22.290	31.8.2013 to 30.8.2019	42,000	—	—	—	—	—	42,000
	22.290	31.8.2014 to 30.8.2019	42,000	—	—	—	—	—	42,000
	22.290	31.8.2015 to 30.8.2019	56,000	—	—	—	—	—	56,000
30.8.2013	13.636	30.8.2014 to 29.8.2020	—	56,100	—	—	—	—	56,100
	13.636	30.8.2015 to 29.8.2020	—	56,100	—	—	—	—	56,100
	13.636	30.8.2016 to 29.8.2020	—	74,800	—	—	—	—	74,800
CHAN Suk Jing									
1.9.2010	14.260	1.9.2013 to 31.8.2017	1,600	—	—	—	—	—	1,600
1.9.2011	17.900	1.9.2012 to 31.8.2018	6,000	—	—	—	—	—	6,000
	17.900	1.9.2013 to 31.8.2018	6,000	—	—	—	—	—	6,000
	17.900	1.9.2014 to 31.8.2018	8,000	—	—	—	—	—	8,000
31.8.2012	22.290	31.8.2013 to 30.8.2019	8,400	—	—	—	—	—	8,400
	22.290	31.8.2014 to 30.8.2019	8,400	—	—	—	—	—	8,400
	22.290	31.8.2015 to 30.8.2019	11,200	—	—	—	—	—	11,200
30.8.2013	13.636	30.8.2014 to 29.8.2020	—	13,950	—	—	—	—	13,950
	13.636	30.8.2015 to 29.8.2020	—	13,950	—	—	—	—	13,950
	13.636	30.8.2016 to 29.8.2020	—	18,600	—	—	—	—	18,600
CHAK Kam Yuen									
25.9.2009	15.236	1.6.2009 to 31.5.2015	—	—	—	—	—	4,800	4,800
	15.236	1.6.2010 to 31.5.2015	—	—	—	—	—	4,800	4,800
	15.236	1.6.2011 to 31.5.2015	—	—	—	—	—	6,400	6,400
	13.500	25.9.2010 to 24.9.2016	—	—	—	—	—	7,200	7,200
	13.500	25.9.2011 to 24.9.2016	—	—	—	—	—	7,200	7,200
	13.500	25.9.2012 to 24.9.2016	—	—	—	—	—	9,600	9,600
1.9.2010	14.260	1.9.2011 to 31.8.2017	—	—	—	—	—	7,800	7,800
	14.260	1.9.2012 to 31.8.2017	—	—	—	—	—	7,800	7,800
	14.260	1.9.2013 to 31.8.2017	—	—	—	—	—	10,400	10,400
1.9.2011	17.900	1.9.2012 to 31.8.2018	—	—	—	—	—	7,800	7,800
	17.900	1.9.2013 to 31.8.2018	—	—	—	—	—	7,800	7,800
	17.900	1.9.2014 to 31.8.2018	—	—	—	—	—	10,400	10,400
31.8.2012	22.290	31.8.2013 to 30.8.2019	—	—	—	—	—	3,300	3,300
	22.290	31.8.2014 to 30.8.2019	—	—	—	—	—	3,300	3,300
	22.290	31.8.2015 to 30.8.2019	—	—	—	—	—	4,400	4,400
30.8.2013	13.636	30.8.2014 to 29.8.2020	—	8,400	—	—	—	—	8,400
	13.636	30.8.2015 to 29.8.2020	—	8,400	—	—	—	—	8,400
	13.636	30.8.2016 to 29.8.2020	—	11,200	—	—	—	—	11,200

Note: The closing price on underlying shares on 29 August 2013, the date immediately before the date of grant on 30 August 2013 was HK$13.00.

Other than as disclosed above, at 31 December 2013, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

Directors' Interests in Contracts of Significance

Other than as disclosed under the "Connected Transactions" section below, no contracts of significance to which the Company, its subsidiaries, its ultimate holding company or any of its fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Connected Transactions

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), the Company discloses the following continuing connected transactions incurred during the year.

(i) The subsidiary of the Company, Guangdong Aeon Teem Stores Co., Ltd. ("GDA") and a related party of the Company, Guangdong Teem (Holdings) Limited ("Teem Holding") have entered into a tenancy agreement under which GDA pays rent to Teem Holding. In accordance with the tenancy agreement, GDA pays rental, management fees, utility expenses and usage charges and other fees in relation to any provisional showrooms, storage areas, other facilities and special equipment that GDA may from time to time choose to rent or employ to Teem Holding and Guangdong Teem Properties Management Limited ("Teem Properties") respectively for the year. GDA was held as to 65% and 35% by the Company and Guangdong Teemall Department Stores Holdings Limited ("Teem Department Stores") respectively. The premises, being the subject of the tenancy agreement, is owned by Teem Holding. Teem Department Stores and Teem Properties are the wholly-owned subsidiaries of Teem Holding. The total amount of rental, management fees, utility expenses and other charges paid and payable by GDA for the year was RMB51,773,000. This amount does not exceed the cap amount of RMB70,000,000 as shown in the announcement of the Company dated 9 June 2010.

(ii) AEON Co., Ltd. and the Company have entered into agreements under which the Company pays royalties to AEON Co., Ltd. for the rights to use certain trade marks of AEON Co., Ltd. and the system of information and know-how. The total amount of royalties paid and payable by the Company for the year was HK$47,892,000. This amount does not exceed the cap amount of HK$108,000,000 as shown in the announcement of the Company dated 28 December 2012.

(iii) AEON Credit Service (Asia) Company Limited ("ACS") and the Company have entered into agreements under which the Company pays commission to ACS in respect of certain purchases made by customers of the Company with the use of the Company's various co-brand cards and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company. The total amount of commission paid and payable by the Company for the year was HK$14,146,000. This amount does not exceed the cap amount of HK$16,000,000 as shown in the announcement of the Company dated and 15 April 2011.

(iv) AEON Information Services (Shenzhen) Co., Ltd. ("AIS"), PRC AEON Stores and other subsidiaries of AEON Co., Ltd. have entered into outsourcing agreements under which the PRC AEON Stores pay service fee to AIS in respect of the services rendered to the PRC AEON Stores by AIS for handling the issue of AEON Cards and the sales application using AEON Cards within the PRC AEON Stores. AIS also pays a fee to the PRC AEON Stores for setting up service counters in the PRC AEON Stores to handle AEON Cards, issue and sales applications. The amount payable by the PRC AEON Stores to AIS under the outsourcing agreement was RMB9,189,000 and the amount payable by AIS to the PRC AEON Stores for the same period was RMB339,000. These amounts do not exceed the cap amount of RMB20,000,000 and RMB11,000,000 respectively for the same period as shown in the announcement of the Company dated 26 July 2013.

(v) AEON Delight (China) Co., Ltd. and its subsidiaries ("ADC") and the Company have entered into master services agreements under which PRC AEON Stores pay service fees to ADC group companies in respect of comprehensive building/facilities maintenance service, cleaning and other services in relation to the operation of retail stores rendered to the PRC AEON Stores. The total amount of service fees paid and payable by the PRC AEON Stores to ADC group companies in the year was RMB56,799,000. This amount does not exceed the cap amount of RMB160,000,000 as shown in the announcement of the Company dated 6 June 2013.

Pursuant to the Listing Rules, the Independent Non-executive Directors had reviewed the above continuing connected transactions and confirmed that the transactions were entered into (i) in the ordinary and usual course of business of the Company; (ii) on normal commercial terms or on terms no less favorable to the Company than terms available from independent third parties; (iii) in accordance with each of the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and (iv) have not exceeded the relevant maximum amount capped in accordance with the announcements of the Company as mentioned above.

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 "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 of the Company has issued an unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Appointment of Independent Non-executive Directors

The Company has received, from each of the existing Independent Non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

Substantial Shareholders

At 31 December 2013, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of ordinary Shares held	Approximate percentage of the issued share capital %
AEON Co., Ltd.	186,276,000 (Note 1)	71.64
Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	25,011,500 (Note 2)	9.62

Note 1: These shares are held as to 177,500,000 shares by AEON Co., Ltd., 7,000,000 shares by AEON (U.S.A.), Inc., and 1,776,000 shares by ACS.

AEON (U.S.A.), Inc. is a wholly-owned subsidiary of AEON Co., Ltd. and AEON Co., Ltd. is deemed to be interested in the 7,000,000 shares owned by AEON (U.S.A.), Inc..

ACS is owned by AEON Co., Ltd., AEON Credit Holdings (Hong Kong) Co., Ltd. and the Company as to 55,990,000 shares representing 13.37%, 217,514,000 shares representing 51.94%, and 3,784,000 shares representing 0.90% respectively of the issued share capital of ACS.

By virtue of its ownership of 45.63% and 71.64% of the issued share capital of AEON Credit Service Co., Ltd. and the Company respectively, AEON Co., Ltd. is deemed to be interested in the 1,776,000 shares owned by ACS.

Note 2: These shares are held by Aberdeen Asset Management Plc and its associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group in the capacity of an investment manager.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2013.

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, its subsidiaries, its ultimate holding company, or any of its fellow subsidiaries, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Purchase, Sale or Redemption of Listed Securities

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Donations

During the year, the Group made charitable and other donations amounting to HK$1,762,000.

Emolument Policy

The emoluments of the Directors of the Company are recommended by the Remuneration Committee and approved by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

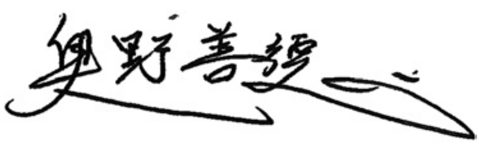
Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2013.

Auditor

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board



OKUNO Yoshinori
Chairman

Hong Kong, 21 March 2014

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF AEON STORES (HONG KONG) CO., LIMITED
永旺(香港)百貨有限公司
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 101, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
21 March 2014

Consolidated Statement of Profit or Loss

For the year ended 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Revenue	5	**8,487,510**	7,377,228
Other income		**689,777**	614,948
Investment income	7	**24,790**	25,444
Purchases of goods and changes in inventories		**(5,753,905)**	(4,933,232)
Staff costs		**(1,008,192)**	(906,192)
Depreciation		**(196,598)**	(164,113)
Impairment loss recognised in respect of property, plant and equipment	17	**(125,370)**	(49,845)
Gain on fair value change of an investment property		**40,000**	100,000
Loss on disposal of property, plant and equipment		**(744)**	(1,749)
Pre-operating expenses	8	**(7,230)**	(80,596)
Other expenses		**(2,039,945)**	(1,682,792)
Finance costs	9	**(361)**	(863)
Profit before tax		**109,732**	298,238
Income tax expense	10	**(22,542)**	(47,393)
Profit for the year	11	**87,190**	250,845
Profit for the year attributable to:			
Owners of the Company		**107,074**	238,912
Non-controlling interests		**(19,884)**	11,933
		87,190	250,845
Earnings per share	15	**41.18 HK cents**	91.89 HK cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Profit for the year	**87,190**	250,845
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences arising on translation of foreign operations	**12,327**	6
Available-for-sale financial assets		
Fair value (loss)/gain on available-for-sale investments	**(2,074)**	8,384
Reclassification adjustment relating to disposal of an available-for-sale investment	**(1,264)**	—
	(3,338)	8,384
Other comprehensive income for the year, net of income tax	**8,989**	8,390
Total comprehensive income for the year	**96,179**	259,235
Total comprehensive (expense) income attributable to:		
Owners of the Company	**110,982**	247,277
Non-controlling interests	**(14,803)**	11,958
	96,179	259,235

Consolidated Statement of Financial Position

At 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Non-current Assets			
Goodwill	16	**94,838**	94,838
Property, plant and equipment	17	**759,211**	873,445
Investment property	18	**550,000**	510,000
Available-for-sale investments	20	**26,980**	32,054
Time deposits	21	**—**	1,535
Deferred tax assets	22	**52,634**	33,543
Rental deposits		**147,316**	151,751
Pledged bank deposits	23	**25,642**	28,496
		1,656,621	1,725,662
Current Assets			
Inventories	24	**811,952**	769,666
Trade receivables	25	**35,251**	37,344
Other receivables, prepayments and deposits		**210,871**	152,067
Amounts due from fellow subsidiaries		**138,476**	113,723
Time deposits	21	**378,704**	180,207
Pledged bank deposits	23	**18,948**	—
Income tax recoverable		**—**	16,378
Bank balances and cash		**1,966,217**	2,060,309
		3,560,419	3,329,694
Current Liabilities			
Trade payables	27	**1,469,222**	1,451,899
Other payables and accrued charges		**1,462,668**	1,417,257
Amount due to ultimate holding company		**49,622**	45,045
Amounts due to fellow subsidiaries		**86,910**	74,078
Obligation under a finance lease	28	**836**	800
Income tax payable		**26,245**	9,856
Dividend payable		**615**	867
		3,096,118	2,999,802
Net Current Assets		**464,301**	329,892
Total Assets Less Current Liabilities		**2,120,922**	2,055,554

At 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Capital and Reserves			
Share capital	30	**52,000**	52,000
Share premium and reserves		**1,723,760**	1,637,814
Equity attributable to owners of the Company		**1,775,760**	1,689,814
Non-controlling interests		**153,326**	173,296
Total Equity		**1,929,086**	1,863,110
Non-current Liabilities			
Rental deposits received and other liabilities		**177,575**	169,211
Obligation under a finance lease	28	**2,735**	3,409
Deferred tax liabilities	22	**11,526**	19,824
		191,836	192,444
		2,120,922	2,055,554

The consolidated financial statements on pages 35 to 101 were approved and authorised for issue by the board of directors on 21 March 2014 and are signed on its behalf by:

YOSHINORI OKUNO
Director

CHAN PUI MAN CHRISTINE
Director

Statement of Financial Position

At 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Non-current Assets			
Property, plant and equipment	17	**369,000**	437,577
Investment property	18	**550,000**	510,000
Investments in subsidiaries	19	**197,138**	197,138
Available-for-sale investments	20	**26,980**	32,054
Rental deposits		**90,992**	102,016
		1,234,110	1,278,785
Current Assets			
Inventories	24	**398,868**	388,038
Trade receivables	25	**19,591**	22,438
Other receivables, prepayments and deposits		**67,933**	46,861
Amounts due from subsidiaries		**20,062**	57,532
Amounts due from fellow subsidiaries		**84,995**	73,752
Time deposits	21	**155,294**	155,640
Income tax recoverable		**—**	16,378
Bank balances and cash		**951,676**	807,009
		1,698,419	1,567,648
Current Liabilities			
Trade payables	27	**648,910**	691,443
Other payables and accrued charges		**356,235**	433,252
Amount due to ultimate holding company		**49,622**	45,045
Amounts due to fellow subsidiaries		**44,019**	42,938
Income tax payable		**19,817**	—
Dividend payable		**615**	867
		1,119,218	1,213,545
Net Current Assets		**579,201**	354,103
Total Assets Less Current Liabilities		**1,813,311**	1,632,888

Statement of Financial Position

At 31 December 2013

	NOTES	2013 HK$'000	2012 HK$'000
Capital and Reserves			
Share capital	30	**52,000**	52,000
Share premium and reserves	31	**1,603,915**	1,421,501
		1,655,915	1,473,501
Non-current Liabilities			
Rental deposits received and other liabilities		**145,870**	139,563
Deferred tax liabilities	22	**11,526**	19,824
		157,396	159,387
		1,813,311	1,632,888

YOSHINORI OKUNO
Director

CHAN PUI MAN CHRISTINE
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	Attributable to owners of the Company									
	Share capital	Share premium	Investment revaluation reserve	Translation reserve	The People's Republic of China (the "PRC") statutory reserves	Non-distributable reserve	Retained profits	Total	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2012	52,000	63,158	19,738	36,258	18,465	57,020	1,332,138	1,578,777	183,949	1,762,726
Profit for the year	—	—	—	—	—	—	238,912	238,912	11,933	250,845
Other comprehensive income for the year	—	—	8,384	(19)	—	—	—	8,365	25	8,390
Total comprehensive income for the year	—	—	8,384	(19)	—	—	238,912	247,277	11,958	259,235
Transfer, net of non-controlling interests share	—	—	—	—	8,548	6,995	(15,543)	—	—	—
Dividends recognised as distribution (Note 14)	—	—	—	—	—	—	(136,240)	(136,240)	—	(136,240)
Dividends paid to non-controlling interests	—	—	—	—	—	—	—	—	(22,611)	(22,611)
At 31 December 2012	52,000	63,158	28,122	36,239	27,013	64,015	1,419,267	1,689,814	173,296	1,863,110
Profit (loss) for the year	**—**	**—**	**—**	**—**	**—**	**—**	**107,074**	**107,074**	**(19,884)**	**87,190**
Other comprehensive (expense) income for the year	**—**	**—**	**(3,338)**	**7,246**	**—**	**—**	**—**	**3,908**	**5,081**	**8,989**
Total comprehensive (expense) income for the year	**—**	**—**	**(3,338)**	**7,246**	**—**	**—**	**107,074**	**110,982**	**(14,803)**	**96,179**
Transfer, net of non-controlling interests share	**—**	**—**	**—**	**—**	**1,877**	**—**	**(1,877)**	**—**	**—**	**—**
Dividends recognised as distribution (Note 14)	**—**	**—**	**—**	**—**	**—**	**—**	**(25,220)**	**(25,220)**	**—**	**(25,220)**
Unclaimed dividends forfeited	**—**	**—**	**—**	**—**	**—**	**—**	**184**	**184**	**—**	**184**
Dividends paid to non-controlling interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,167)**	**(5,167)**
At 31 December 2013	**52,000**	**63,158**	**24,784**	**43,485**	**28,890**	**64,015**	**1,499,428**	**1,775,760**	**153,326**	**1,929,086**

PRC statutory reserves are reserves required by the relevant PRC laws applicable to the subsidiaries of the Company in the PRC.

Non-distributable reserve is the reserve arising from the capitalisation of retained profits as registered capital of a subsidiary in the PRC.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**109,732**	298,238
Adjustments for:		
Investment income	**(24,790)**	(25,444)
Finance costs	**361**	863
Depreciation of property, plant and equipment	**196,598**	164,113
Gain on fair value change of an investment property	**(40,000)**	(100,000)
Impairment loss recognised in respect of property, plant and equipment	**125,370**	49,845
Loss on disposal/written off of property, plant and equipment	**744**	1,749
Gain on disposal of an available-for-sale investment (reclassified from other comprehensive income upon disposal)	**(1,264)**	—
Write-down of inventories	**942**	5,267
Operating cash flows before movements in working capital	**367,693**	394,631
Increase in inventories	**(30,981)**	(74,878)
Increase in trade receivables	**2,362**	(3,943)
Increase in other receivables, prepayments and deposits	**(50,400)**	(28,346)
(Increase) decrease in amounts due from fellow subsidiaries	**(23,315)**	3,264
(Decrease) increase in trade payables	**(7,038)**	51,489
Increase in other payables and accrued charges	**74,978**	230,296
Increase in amount due to ultimate holding company	**4,577**	3,603
Increase in amounts due to fellow subsidiaries	**11,693**	17,506
Cash generated from operations	**349,569**	593,622
Hong Kong Profits Tax paid	**(4,345)**	(38,953)
PRC income taxes paid	**(11,747)**	(42,265)
Interest paid	**(361)**	(863)
Interest on bank deposits	**23,436**	24,119
NET CASH FROM OPERATING ACTIVITIES	**356,552**	535,660

	2013 HK$'000	2012 HK$'000
INVESTING ACTIVITIES		
Withdrawal of pledged bank deposits	—	25,703
Placement of pledged bank deposits	(14,970)	(3,292)
Dividends received from investments	1,354	1,325
Purchase of property, plant and equipment	(251,042)	(434,753)
Proceeds from disposal of property, plant and equipment	232	452
Proceeds from sale of available-for-sale investment	3,000	—
Placement of time deposits	(348,794)	(180,219)
Withdrawal of time deposits	155,640	116,730
NET CASH USED IN INVESTING ACTIVITIES	(454,580)	(474,054)
FINANCING ACTIVITIES		
Repayment of borrowings	—	(24,479)
Dividends paid	(25,288)	(136,143)
Dividends paid to non-controlling interest of a subsidiary	(5,167)	(22,611)
New obligation under a finance lease raised	—	4,361
Repayment of obligation under a finance lease	(758)	(168)
NET CASH USED IN FINANCING ACTIVITIES	(31,213)	(179,040)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(129,241)	(117,434)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	2,060,309	2,178,184
Effect of foreign exchange rate changes	35,149	(441)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by	1,966,217	2,060,309
Bank balances and cash	1,966,217	2,060,309

Notes to the Consolidated Financial Statements

For the year ended 31 December 2013

1. General

The Company is a public limited company incorporated in Hong Kong and its shares are listed on the Stock Exchange of Hong Kong Limited. Its parent and its ultimate parent is AEON Co., Ltd., incorporated and listed in Japan.

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The principal activity of the Company and its subsidiaries (the Group) is the operation of retail stores.

The consolidated financial statements are presented in Hong Kong dollars. The Company's functional currency is Hong Kong dollars, while the functional currency of the subsidiaries registered in the PRC is Renminbi.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

Application of new and revised HKFRSs

The Group and the Company have applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2012 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's and the Company's financial performance and position for the current and prior years and/or on the disclosure set out in the consolidated and the Company's financial statements.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") — continued

HKFRS 12 Disclosure of interests in other entities

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosure in the consolidated financial statements (please see note 19 for details).

HKFRS 13 Fair Value Measurement

The Group and the Company have applied HKFRS 13 for the first time in current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group and the Company have not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements and the Company's statement of financial position. Disclosure on fair value of the Group's available-for-sale investments and investment property are made in notes 20 and 18, respectively.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") — continued

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' and the 'income statement' is renamed as the 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as described above, the Directors anticipate that the application of the other new and revised HKFRSs in the current year has had no material impact on the Group's and the Company's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and revised HKFRSs issued but not effective

The Group and the Company has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[2]
HK(IFRIC) — Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") — continued

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's consolidated statement of financial position and the Company's statement of financial position as at 31 December 2013, the Directors anticipate that the application of HKFRS 9 is not expected to have a significant impact on the amounts reported in respect of the Group's and the Company's financial assets and financial liabilities.

The Directors anticipates that the application of the other new and revised standards, amendments and implementations would have no material impact on the Group's consolidated financial statements and the Company's statement of financial position.

3. Significant Accounting Policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. Significant Accounting Policies — continued

Basis of consolidation — continued

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in subsidiaries

Subsidiaries are entities controlled by the Company. Investments in subsidiaries are included in the Company's statement of financial position at cost, less any accumulated impairment loss.

3. Significant Accounting Policies — continued

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Deposits and instalments received from purchasers prior to meeting the criteria for revenue recognition are included in the consolidated statement of financial position under current liabilities.

Revenue from sales of goods is recognised when goods are delivered and title has passed.

Concessionaire income on sales of goods is recognised when the related goods are sold and is measured on a net basis, representing the excess of sales proceeds from goods delivered over the amount charged by the suppliers.

Sale of goods that result in award credits for customers, under the Group's customer privilege programmes, are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the award credits granted. The consideration allocated to the award credits is measured by reference to the fair value of the awards for which they could be redeemed. Such consideration is not recognised as revenue at the time of the initial sale transaction — but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Rentals received from licensees are recognised on a straight-line basis over the terms of the relevant licence agreements.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment are stated in the consolidated and Company's statements of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment, other than construction in progress, less their residual values over their estimated useful lives, using the straight-line method at the following rates:

Building fixtures	Over the expected useful lives of nine years or, where shorter, the term of the relevant lease
Furniture, fixtures and equipment	10%–25% per annum
Motor vehicles	20%–25% per annum

3. Significant Accounting Policies — continued

Property, plant and equipment — continued

The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Costs include professional fees in accordance with the Group's and Company's accounting policy. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Investment property

Investment property is property held to earn rentals and/or for capital appreciation.

Investment property is initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is measured at its fair value. Gain or loss arising from change in the fair value of investment property is included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the item is derecognised.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group and the Company as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant leases.

3. Significant Accounting Policies — continued

Leasing — continued

The Group and the Company as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are charged immediately to profit or loss.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's and the Company's financial assets are classified into loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial assets — continued

AFS financial assets

AFS financial assets are non-derivatives that are either designated or are not classified as financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments.

Equity securities held by the Group and the Company that are classified as AFS and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS financial assets at fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including pledged bank deposits, trade receivables, other receivables, amounts due from fellow subsidiaries, time deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivable where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial assets — continued

Impairment of financial assets — continued

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group or the Company after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial liabilities and equity instruments — continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities including trade payables, other payables, amount due to ultimate holding company and amounts due to fellow subsidiaries are subsequently measured at amortised cost, using the effective interest method.

Derecognition

The Group or the Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group or the Company derecognises financial liabilities when, and only when, the Group's or the Company's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

Inventories, which represent merchandise held for resale, are stated at the lower of cost and net realisable value and are computed using the retail price method.

3. Significant Accounting Policies — continued

Share-based payment transactions

Cash-settled share-based payment transactions

The Group operates a cash-settled share appreciation rights plan. The related cost of services received from the employees and the liability to pay for such services are measured at fair value of the liability. Fair value is established at the grant date and re-measured at each reporting date until the liability is settled.

The fair value of the liability at each reporting date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the cash-settled share appreciation rights that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of the cash-settled share appreciation rights expected to vest. The impact of the revision and remeasurement, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate. After the vesting date, changes in fair value of the liability is recognised in profit or loss until the liability is settled.

Impairment losses on tangible assets

At the end of the reporting period, the Group or the Company reviews the carrying amounts of its tangible assets within finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group or the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. Significant Accounting Policies — continued

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributable to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefits costs and termination benefits

Payments to the Group's defined contribution schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Pre-operating expenses

Expenses relating to the setting up of stores are charged directly to profit or loss when incurred.

3. Significant Accounting Policies — continued

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group or the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

Taxation — continued

In the application of the Group's or the Company's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Critical judgment in applying accounting policies

The following is the critical judgment, apart from those involving estimations (see below), that the Directors have made in the process of applying the Group's or the Company accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation on investment properties

For the purposes of measuring deferred tax liability arising from an investment property that is measured using the fair value model, the Directors have reviewed the Group's investment property portfolios and concluded that the Group's investment property is not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. Therefore, in measuring the Group's or the Company's deferred taxation on investment property, the Directors have determined that the presumption that the carrying amount of investment property measured using the fair value model is recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment property as the Group is not subject to any income taxes on disposal of its investment property.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Income taxes

As at 31 December 2013, a deferred tax asset of HK$33,628,000 (2012: HK$33,543,000) in relation to temporary differences arising from provision for staff costs and other expenses has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether taxable profit will be available against which the deductible temporary differences can be utilised. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the profit or loss for the period in which such a reversal takes place.

In addition, as at 31 December 2013, no deferred tax asset has been recognised in the Group's consolidated statement of financial position in relation to unused tax losses of subsidiaries operating in other regions in the PRC of HK$86,750,000 (2012: HK$56,496,000) due to unpredictability of future profit streams. The realisability of the tax effect of tax losses mainly depends on whether sufficient profits or taxable temporary differences will be available in the future.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty — continued

Key sources of estimation uncertainty — continued

Net realisable value of inventories

The Group's and the Company's inventories with carrying amount of HK$811,952,000 (2012: HK$769,666,000) and HK$398,868,000 (2012: HK$388,038,000), respectively are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value for certain items when there is objective evidence that the cost of inventories may not be recoverable for those items. The cost of inventories may not be recoverable if certain items of inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The Group and the Company have written down inventories of HK$942,000 (2012: HK$5,267,000) and HK$436,000 (2012: HK$3,918,000) respectively, which is the difference between the carrying value and net realisable value of the items of affected inventories, to the profit or loss for the year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of goodwill is HK$94,838,000 (2012: HK$94,838,000). Details of the recoverable amount calculation are disclosed in note 16.

Impairment of property, plant and equipment

As at 31 December 2013, the aggregate carrying amount of the Group's and the Company's building fixtures and furniture, fixtures and equipment is HK$725,602,000 (2012: HK$829,199,000) and HK$366,817,000 (2012: HK$430,366,000) respectively.

The Management conducted an impairment review of certain cash-generating units ("CGU") of the Group and the Company when there is objective evidence of impairment loss by considering the recoverable amount of the relevant CGUs. The Management identify individual store as a CGU for purpose of impairment assessment on property, plant and equipment. The amount of the impairment loss is measured as the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is higher of value in use and fair value less costs to sell. Value in use is the estimated future cash flows discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the CGU. Where the actual future cash flows or fair value less costs to sell are less or more than expected, or unfavourable changes in facts and circumstances which result in downward revision of the estimated future cash flows for the purpose of determining the value in use, further impairment loss or reversal of impairment loss may arise.

As at 31 December 2013, the accumulated impairment loss of the Group's and the Company's building fixtures and furniture, fixtures and equipment of HK$185,447,000 (2012: HK$71,899,000) and HK$73,016,000 (2012: HK$60,808,000), respectively, is recognised. Details about impairment losses provided during the year are set out in note 17.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty — continued

Key sources of estimation uncertainty — continued

Estimation of useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment. The estimated useful lives are based on the periods the property, plant and equipment are expected to be available for use, including the expiry of any related leases. When the actual useful lives of property, plant and equipment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods. As at 31 December 2013, the carrying amount of the Group's and the Company's property, plant and equipment is HK$759,211,000 (2012: HK$873,445,000) and HK$369,000,000 (2012: HK$437,577,000) respectively.

Valuation of the investment property

Investment property with carrying amount of HK$550,000,000 (2012: HK$510,000,000) is stated at fair value based on the valuation performed by an independent professional valuer. In relying on the valuation report of the professional valuer, the directors of the Company have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the investment property and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income. Basis of valuation are set out in note 18.

5. Revenue

Revenue represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the year. An analysis of the Group's revenue for the year is as follows:

	2013 **HK$'000**	2012 HK$'000
Direct sales	**7,515,082**	6,413,148
Income from concessionaire sales	**972,428**	964,080
	8,487,510	7,377,228

6. Segment Information

Information reported to the Group's chief operating decision makers (i.e. the executive directors) for the purposes of resource allocation and assessment of performance is focused on the retail stores of the Group located in different locations. The reportable segments represented the aggregate of operating segments with similar economic characteristics. The chief operating decision makers identify Hong Kong and the PRC as the two reportable segments.

Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment:

For the year ended 31 December 2013

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue — external	**3,983,350**	**4,504,160**	**8,487,510**
Segment profit (loss)	**182,580**	**(158,306)**	**24,274**
Gain on fair value change of an investment property			**40,000**
Gain on disposal of an available-for-sale investment (reclassified from other comprehensive income upon disposal)			**1,264**
Rental income from an investment property			**19,765**
Investment income			**24,790**
Finance costs			**(361)**
Profit before tax			**109,732**

For the year ended 31 December 2012

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue — external	3,525,214	3,852,014	7,377,228
Segment profit	136,698	17,444	154,142
Gain on fair value change of an investment property			100,000
Rental income from an investment property			19,515
Investment income			25,444
Finance costs			(863)
Profit before tax			298,238

6. Segment Information — continued

Segment revenues and results — continued

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned (loss incurred) by each segment without allocation of gain on fair value change of an investment property, gain on disposal of an available-for-sale investment (reclassified from other comprehensive income upon disposal), rental income from an investment property, investment income and finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

Other segment information

For the year ended 31 December 2013

	Hong Kong HK$'000	**PRC HK$'000**	**Segment total HK$'000**
Amounts included in the measure of segment profit or loss:			
Depreciation	**83,203**	**113,395**	**196,598**
Impairment loss recognised in respect of property, plant and equipment	**24,000**	**101,370**	**125,370**
Loss on disposal of property, plant and equipment	**613**	**131**	**744**
Write-down of inventories	**436**	**506**	**942**

For the year ended 31 December 2012

	Hong Kong HK$'000	PRC HK$'000	Segment total HK$'000
Amounts included in the measure of segment profit or loss:			
Depreciation	66,659	97,454	164,113
Impairment loss recognised in respect of property, plant and equipment	38,754	11,091	49,845
Loss on disposal of property, plant and equipment	1,568	181	1,749
Write-down of inventories	3,918	1,349	5,267

6. Segment Information — continued

Geographical information

The information of the group's non-current assets by geographical location of assets other than available-for-sale investments, long term time deposit and deferred tax assets are set out below:

	2013 HK$'000	2012 HK$'000
Hong Kong	**1,009,992**	1,049,593
PRC	**567,015**	608,937
	1,577,007	1,658,530

7. Investment Income

	2013 HK$'000	2012 HK$'000
Dividends from listed equity securities	**1,354**	1,325
Interest on bank deposits	**23,436**	24,119
	24,790	25,444

8. Pre-Operating Expenses

The amounts represent the set up costs for new stores. Included in pre-operating expenses are staff costs of HK$6,248,000 (2012: HK$29,412,000).

9. Finance Costs

	2013 HK$'000	2012 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**—**	764
Finance leases	**361**	99
	361	863

10. Income Tax Expense

	2013 **HK$'000**	2012 HK$'000
The charges (credits) comprise:		
Current tax		
Hong Kong	**40,540**	22,572
Other regions in the PRC	**8,431**	24,530
	48,971	47,102
(Over)underprovision in prior years		
Hong Kong	**—**	(2,600)
Other regions in the PRC	**(365)**	84
	(365)	(2,516)
	48,606	44,586
Deferred tax (Note 22)		
Current year	**(26,064)**	2,807
Income tax expense for the year	**22,542**	47,393

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred tax liability in respect of the withholding tax on the undistributed earnings of subsidiaries during the year has been provided at the applicable tax rate.

10. Income Tax Expense — continued

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2013 HK$'000	2012 HK$'000
Profit before tax	**109,732**	298,238
Taxation at the applicable rate of 16.5% (2012: 16.5%)	**18,106**	49,209
Tax effect of expenses not deductible for tax purpose	**19,110**	13,657
Tax effect of income not taxable for tax purpose	**(16,200)**	(21,320)
Tax effect of tax losses not recognised	**7,147**	22
Withholding tax on undistributed earnings of a subsidiary (Note 22)	**—**	737
Reversal of withholding tax on undistributed earning of a subsidiary (Note 22)	**(3,128)**	—
Effect of different tax rates of entities operating in the PRC	**(2,760)**	7,152
Overprovision in prior years	**(365)**	(2,516)
Others	**632**	452
Income tax expense	**22,542**	47,393

11. Profit for the Year

	2013 HK$'000	2012 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**5,343**	5,109
Cash settled share-based payments	**483**	1,432
Exchange gain, net	**(10,458)**	(1,877)
Operating lease rentals in respect of rented premises (included in other expenses)		
— minimum lease payments	**923,294**	776,810
— contingent rent (Note)	**58,258**	45,024
	981,552	821,834
Retirement benefits scheme contributions, net of forfeited contributions of HK$Nil (2012: HK$72,000)	**100,420**	83,910
Royalties payable to the ultimate holding company	**47,696**	43,462
Rental income (included in other income)		
— minimum lease payments	**(503,008)**	(441,181)
— contingent rent (Note)	**(48,912)**	(46,569)
	(551,920)	(487,750)
Rental income from an investment property, net of negligible outgoing (included in other income)	**(19,765)**	(19,515)
Write-down of inventories (included in purchase of goods and changes in inventories)	**942**	5,267

Note: Contingent rent is calculated based on the excess of a percentage of turnover of the relevant operation that occupied the premises over the minimum lease payments as stated in the relevant rental agreements.

12. Directors' Emoluments

The emoluments paid or payable to each of the 14 (2012: 14) Directors and the chief executive were as follows:

For the year ended 31 December 2013

	Lam Man Tin HK$'000 (Notes b and c)	Yoshinori Okuno HK$'000	Haruyoshi Tsuji HK$'000	Chan Pui Man Christine HK$'000 (Note c)	Yuji Yoneta HK$'000 (Note b)	Chak Kam Yuen HK$'000	Chan Yi Jen, Candi Anna HK$'000	Lo Miu Sheung, Betty HK$'000	Akio Yoshida HK$'000 (Note b)	Takashi Komatsu HK$'000	Lam Pei Peggy HK$'000 (Note a)	Sham Sui Leung, Daniel HK$'000	Cheng Yin Ching, Anna HK$'000	Shao Kung Chuen HK$'000 (Note a)	Junichi Suzuki HK$'000	Chan Suk Jing HK$'000	Yutaka Agawa HK$'000	Total HK$'000
Fees	–	–	140	220	–	45	85	21	–	–	75	190	190	115	–	70	140	1,291
Other emoluments																		
Salaries and other benefits	–	3,148	–	1,375	–	723	–	–	–	1,631	–	–	–	–	1,691	962	–	9,530
Performance based bonus (Note e)	–	–	–	434	–	–	–	–	–	297	–	–	–	–	–	130	–	861
Cash-settled share-based payments	–	–	–	542	–	81	–	–	–	–	–	–	–	–	–	135	–	758
Contributions to retirement benefits schemes	–	76	–	93	–	53	–	–	–	45	–	–	–	–	–	65	–	332
Total	–	3,224	140	2,664	–	902	85	21	–	1,973	75	190	190	115	1,691	1,362	140	12,772

For the year ended 31 December 2012

	Lam Man Tin HK$'000	Yoshinori Okuno HK$'000	Haruyoshi Tsuji HK$'000	Chan Pui Man Christine HK$'000	Yuji Yoneta HK$'000	Chak Kam Yuen HK$'000	Chan Yi Jen, Candi Anna HK$'000	Lo Miu Sheung, Betty HK$'000	Akio Yoshida HK$'000	Takashi Komatsu HK$'000	Lam Pei Peggy HK$'000	Sham Sui Leung, Daniel HK$'000	Cheng Yin Ching, Anna HK$'000	Shao Kung Chuen HK$'000	Junichi Suzuki HK$'000	Chan Suk Jing HK$'000	Yutaka Agawa HK$'000	Total HK$'000
Fees	88	–	140	161	–	–	–	–	29	–	190	190	140	170	–	56	50	1,214
Other emoluments																		
Salaries and other benefits	729	3,786	–	1,194	299	–	–	–	–	2,213	–	–	–	–	1,520	733	–	10,474
Performance based bonus (Note e)	647	990	–	233	–	–	–	–	–	384	–	–	–	–	–	–	–	2,254
Cash-settled share-based payments	–	–	–	670	–	–	–	–	–	–	–	–	–	–	–	134	–	804
Contributions to retirement benefits schemes	45	72	–	83	–	–	–	–	–	36	–	–	–	–	–	54	–	290
Total	1,509	4,848	140	2,341	299	–	–	–	29	2,633	190	190	140	170	1,520	977	50	15,036

Notes:

(a) Directors resigned during the year ended 31 December 2013.

(b) Directors resigned during the year ended 31 December 2012.

(c) Ms. Chan Pui Man Christine is the Managing Director ("MD") of the Company. The Board of Directors considered that the duties of the MD were of no difference from that of a chief executive officer stipulated under Provision A. 2 of the Code of Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange. The management would regard that the term MD will have the same meaning as the chief executive officer of the Company. For the year ended 31 December 2012, Mr. Lam Man Tin (who resigned during the year ended 31 December 2012) and Ms. Chan were MDs of the Company. The remuneration of Ms. Chan and Mr. Lam for their services rendered as the MDs was HK$2,180,000 and HK$1,425,000, respectively for the year ended 31 December 2012.

(d) No Directors and chief executive waived any emoluments during each of the two years ended 31 December 2013 and 2012.

(e) The performance based bonus is determined by reference to the individual performance of the directors. It is reviewed by the Remuneration Committee and approved by the Board of Directors.

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2012: three) were Directors and a chief executive of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two individuals (2012: two) were as follows:

	2013 **HK$'000**	2012 HK$'000
Salaries and other benefits	**3,510**	3,953
Performance based bonus	**372**	442
Contributions to retirement benefit schemes	**46**	73
	3,928	4,468

	2013 **No. of employees**	2012 No. of employees
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**2**	—
HK$2,000,001 to HK$2,500,000	**—**	2

Other than the emoluments of Directors (including a chief executive) and two (2012: two) senior management individuals of the Group disclosed in note 12 and above, the emoluments of the remaining senior management of the Group were within the following bands:

	2013 **No. of employees**	2012 No. of employees
HK$500,001 to HK$1,000,000	**3**	4
HK$1,000,001 to HK$1,500,000	**2**	2

14. Dividends

	2013 HK$'000	2012 HK$'000
Final dividend paid for 2012 of 9.7 HK cents (2012: 35.9 HK cents for 2011) per ordinary share	**25,220**	93,340
Interim dividend paid for 2013 of Nil HK cents (2012: 16.5 HK cents for 2012) per ordinary share	—	42,900
	25,220	136,240

The Board of Directors has recommended a final dividend of 12.9 HK cents per share (2012: 9.7 HK cents) to be paid on or before 18 June 2014, subject to shareholders' approval at the forthcoming annual general meeting on 22 May 2014.

15. Earnings Per Share

The calculation of basic earnings per share attributable to the owners of the Company is based on the Group's profit for the year attributable to owners of the Company of HK$107,064,000 (2012: HK$238,912,000) and on 260,000,000 (2012: 260,000,000) ordinary shares in issue during the year.

No diluted earnings per share have been presented as there are no potential ordinary shares in issue for both years.

16. Goodwill

	2013 HK$'000
COST	
At 1 January 2012, 31 December 2012 and 31 December 2013	**94,838**

The amount represents goodwill arising from the acquisition of an additional 35% interest in AEON South China (as defined in note 19) in 2008. AEON South China became a wholly-owned subsidiary of the Company afterwards.

The Group identifies the relevant retail stores business operated by AEON South China as the single CGU with synergy effect to which the goodwill of HK$94,838,000 is allocated.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections with growth rates ranging from 0% to 4% based on financial budgets approved by management covering a 5-year period, and discount rate of 10%. The cash flows beyond 5-year period are extrapolated using a zero growth rate. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU past performance and management's expectations for the market development. Management believe that the aggregate recoverable amount of the CGU exceed the aggregate carrying amount of the CGU. Accordingly, no impairment loss was recognised in the consolidated statement of profit or loss and other comprehensive income.

17. Property, Plant and Equipment

	Building fixtures HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP					
COST					
At 1 January 2012	1,149,105	502,319	7,135	54,328	1,712,887
Exchange adjustments	257	158	1	(63)	353
Additions	209,805	97,635	1,466	172,791	481,697
Transfer	148,998	37,040	—	(186,038)	—
Disposals/written off	(52,087)	(29,986)	(627)	—	(82,700)
At 31 December 2012	1,456,078	607,166	7,975	41,018	2,112,237
Exchange adjustments	**27,292**	**10,766**	**232**	**964**	**39,254**
Additions	**95,977**	**44,770**	**805**	**54,411**	**195,963**
Transfer	**58,539**	**7,107**	**283**	**(65,929)**	**—**
Disposals/written off	**(20,982)**	**(35,051)**	**(274)**	**—**	**(56,307)**
At 31 December 2013	**1,616,904**	**634,758**	**9,021**	**30,464**	**2,291,147**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2012	728,987	371,900	4,227	—	1,105,114
Exchange adjustments	171	46	2	—	219
Provided for the year	108,626	54,341	1,146	—	164,113
Eliminated on disposals/written off	(50,608)	(29,263)	(628)	—	(80,499)
Impairment losses recognised	49,524	321	—	—	49,845
At 31 December 2012	836,700	397,345	4,747	—	1,238,792
Exchange adjustments	**19,224**	**7,143**	**140**	**—**	**26,507**
Provided for the year	**129,460**	**65,876**	**1,262**	**—**	**196,598**
Eliminated on disposals/written off	**(20,750)**	**(34,308)**	**(273)**	**—**	**(55,331)**
Impairment losses recognised	**124,213**	**1,157**	**—**	**—**	**125,370**
At 31 December 2013	**1,088,847**	**437,213**	**5,876**	**—**	**1,531,936**
CARRYING VALUES					
At 31 December 2013	**528,057**	**197,545**	**3,145**	**30,464**	**759,211**
At 31 December 2012	619,378	209,821	3,228	41,018	873,445

As at 31 December 2013, the carrying values of furniture, fixture and equipment of the Group included an amount of approximately HK$3,789,000 (2012: HK$4,158,000) in respect of assets held under a finance lease.

17. Property, Plant and Equipment — continued

	Building fixtures HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE COMPANY					
COST					
At 1 January 2012	448,573	230,653	954	5,002	685,182
Additions	179,322	53,049	—	82,719	315,090
Transfer	70,705	10,103	—	(80,808)	—
Disposals/written off	(51,353)	(16,811)	—	—	(68,164)
At 31 December 2012	647,247	276,994	954	6,913	932,108
Additions	**20,177**	**15,726**	**—**	**3,368**	**39,271**
Transfer	**6,283**	**1,875**	**—**	**(8,158)**	**—**
Disposals/written off	**(20,021)**	**(28,415)**	**—**	**—**	**(48,436)**
At 31 December 2013	**653,686**	**266,180**	**954**	**2,123**	**922,943**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2012	270,758	184,538	418	—	455,714
Provided for the year	48,033	18,388	238	—	66,659
Eliminated on disposals/written off	(50,375)	(16,221)	—	—	(66,596)
Impairment losses recognised	38,754	—	—	—	38,754
At 31 December 2012	307,170	186,705	656	—	494,531
Provided for the year	**57,815**	**25,150**	**238**	**—**	**83,203**
Eliminated on disposals/written off	**(19,873)**	**(27,918)**	**—**	**—**	**(47,791)**
Impairment losses recognised	**24,000**	**—**	**—**	**—**	**24,000**
At 31 December 2013	**369,112**	**183,937**	**894**	**—**	**553,943**
CARRYING VALUES					
At 31 December 2013	**284,574**	**82,243**	**60**	**2,123**	**369,000**
At 31 December 2012	340,077	90,289	298	6,913	437,577

17. Property, Plant and Equipment — continued

Certain stores of the Group and the Company have been experiencing recurring losses or performing below budget. The Management considered there were impairment indicators and hence conducted impairment assessment on the relevant stores, which constitutes individual CGU for the purpose of impairment assessment. The recoverable amounts of the relevant assets have been determined on the basis of value in use of the stores to which the relevant assets belong to. The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years, together with an extension period to the end of the relevant leases of the building fixtures with zero growth rate, and at a discount rate of 7% or 10%. Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the market development. Accordingly, an impairment loss of HK$125,370,000 (2012: HK$49,845,000) and HK$24,000,000 (2012: HK$38,754,000) has been recognised in respect of property, plant and equipment of the Group and the Company respectively, which have been allocated to the building fixtures and furniture, fixtures and equipment of property, plant and equipment.

As at 31 December 2013, accumulated impairment loss on property, plant and equipment of the Group and the Company is HK$185,447,000 (2012: HK$71,899,000) and HK$73,016,000 (2012: HK$60,808,000), respectively.

18. Investment Property

THE GROUP AND THE COMPANY

	Medium-term lease investment property in Hong Kong HK$'000
FAIR VALUE	
At 1 January 2012	410,000
Unrealised gain on property revaluation recognised in profit or loss	100,000
At 31 December 2012	510,000
Unrealised gain on property revaluation recognised in profit or loss	40,000
At 31 December 2013	550,000

The fair value of the Group's and the Company's investment property at 31 December 2013 and 2012 has been arrived at on the basis of valuation carried out on that date by Savills Valuation and Professional Services Limited, an independent qualified professional valuer not connected with the Group and the Company. Savills Valuation and Professional Services Limited is a member of Institute of Valuers.

18. Investment Property — continued

The fair value of the investment property was determined based on the income capitalisation approach, where the market rentals of all lettable units of the properties are assessed and discounted at the market yield expected by investors for this type of property. The market rentals are assessed by reference to the rentals achieved in the lettable units of the properties as well as other lettings of similar properties in the neighborhood. The discount rate is determined by reference to the yields derived from analysing the sales transactions of similar commercial properties in Hong Kong and adjusted to take into account the market expectation from property investors to reflect factors specific to the Group's and the Company's investment property. There has been no change from the valuation technique used in the prior year.

The major inputs used in the fair value measurement of the Group's and the Company's investment property at 31 December 2013 are as follows:

• Fair value hierarchy	Level 3
• Valuation technique(s) and key input(s)	Income capitalisation approach with monthly market rent and capitalisation rate as the key inputs.
• Significant unobservable input(s)	(i) Monthly market rent, taking into account location, headroom, loading capacity, age and condition, of approximately HK$6 per sq.ft which is on gross floor area basis; and (ii) Capitalisation rate of 3.75%.
• Relationship of unobservable inputs to fair value	The higher the fair value, when (i) the higher the monthly market rent; or (ii) the lower the capitalisation rate.
• Sensitivity	When all the other variables were held constant, the fair value of the Group's and the Company's investment property would (i) increase/decrease by HK$28,000,000 if the market rent to the valuation model is 5% higher/lower; or (ii) decrease by HK$30,000,000/increase by HK$40,000,000, if the capitalisation rate to the valuation model is 25 basis points higher/lower.

19. Investments in Subsidiaries

	THE COMPANY	
	2013	2012
	HK$'000	HK$'000
Unlisted investments, at cost	**347,962**	347,962
Less: impairment loss	**(150,824)**	(150,824)
	197,138	197,138

A subsidiary of the Company has been experiencing recurring losses and performing below budget. The Directors considered that there were impairment indicators and hence conducted impairment assessment on the investment in the relevant subsidiary. The amount of impairment is measured as the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is higher of value in use and fair value less costs to sell. Value in use is the estimated future cash flows discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the subsidiary. The recoverable amount of the relevant subsidiary is estimated by Directors based on the expected future cash flows to be generated from the operation of the subsidiary. That calculation uses cash flow projections with financial budgets approved by management covering a 5-year period, and discount rate of 10%. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgets sales and gross margin, such estimation is based on the subsidiary's past performance and management's expectation for the market development. Accordingly, an impairment of HK$Nil (2012:HK$79,100,000) had been recognised to the profit or loss. As at 31 December 2013, accumulated impairment loss of HK$150,824,000 (2012: HK$150,824,000) had been recognised.

Particulars of the Group's subsidiaries at the end of each reporting period are as follows:

Name	Form of business structure	Place of registration or Operation/principal place of business	Paid up registered/ ordinary share capital	Proportion of ownership interest directly held by the Company	Proportion of voting power held by the Company	Proportion of ownership interest held by a non-controlling interest	Proportion of voting power held by a non-controlling interest	(Loss) profit allocated to a non-controlling interests		Accumulated non-controlling interests		Principal activities
				2013 & 2012	2013 & 2012	2013 & 2012	2013 & 2012	2013	2012	2013	2012	
Guangdong AEON Teem Co., Ltd. ("Guangdong AEON")	Sino-foreign equity joint venture	PRC	RMB146,070,000 (2012: RMB146,070,000)	65%	66%	35%	34%	(19,884)	11,933	153,326	173,296	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB212,800,000 (2012: RMB212,800,000)	100%	100%	—	—	N/A	N/A	N/A	N/A	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2012: HK$1,000)	100%	100%	—	—	N/A	N/A	N/A	N/A	Inactive

19. Investments in Subsidiaries — continued

Summarised financial information in respect of Guangdong AEON that has a material non-controlling interest is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	2013 **HK$'000**	2012 HK$'000
Current assets	**1,551,446**	1,489,300
Non-current assets	**280,646**	336,266
Current liabilities	**1,371,698**	1,309,510
Non-current liabilities	**14,163**	13,075
Equity attributable to owners of the Company	**292,905**	329,685
Non-controlling interest	**153,326**	173,296

19. Investments in Subsidiaries — continued

	Year ended 2013 HK$'000	2012 HK$'000
Revenue	**3,211,205**	2,712,054
Expenses	**3,268,016**	2,677,960
(Loss) profit for the year	**(56,811)**	34,094
(Loss) profit attributable to owners of the Company	**(36,927)**	22,161
(Loss) profit attributable to a non-controlling interest	**(19,884)**	11,933
(Loss) profit for the year	**(56,811)**	34,094
Other comprehensive income attributable to owners of the Company	**3,908**	8,365
Other comprehensive income attributable to a non-controlling interests	**5,081**	25
Other comprehensive income for the year	**8,989**	8,390
Total comprehensive income attributable to owners of the Company	**110,982**	247,277
Total comprehensive (expense) income attributable to a non-controlling interests	**(14,803)**	11,958
Total comprehensive income for the year	**96,179**	259,235
Dividends paid to a non-controlling interest	**5,167**	22,611
Net cash inflow from operating activities	**38,918**	144,980
Net cash outflow from investing activities	**(249,544)**	(145,132)
Net cash outflow from financing activities	**(14,583)**	(64,373)
Net cash outflow	**(225,209)**	(64,525)

20. Available-for-Sale Investments

Available-for-sale investments comprise:

	THE GROUP AND THE COMPANY	
	2013	2012
	HK$'000	HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**26,980**	29,704
Unlisted club debenture at fair value (note)	**—**	2,350
	26,980	32,054

The fair value of the investments in equity securities have been determined by reference to bid prices quoted in an active market.

The listed securities detailed above represent an investment in a fellow subsidiary of HK$26,980,000 (2012: HK$29,704,400).

Note: During the year, the unlisted club debenture carried at fair value is disposed of at a consideration of HK$3,000,000. Accordingly, a revaluation gain of approximately HK$1,264,000 is reclassified from other comprehensive income to profit or loss (included in other income) upon disposal for the year.

21. Time Deposits

At 31 December 2012, time deposits represent Renminbi-denominated time deposits amounting to HK$26,102,000 and United States dollar-denominated time deposits amounting to HK$155,640,000 with an original maturity of three months or more to five years. The average effective interest rate is 3.0% per annum.

22. Deferred Taxation

The following are the major deferred tax assets and liabilities recognised and movements thereon during the current and prior reporting periods:

	THE GROUP				
	Accelerated (tax) accounting depreciation	**Provision for staff costs and other expenses**	**Other temporary differences**	**Undistributed profits of subsidiaries**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2012	(7,519)	30,092	356	(8,633)	14,296
(Charge) credit to profit or loss	(5,682)	3,451	161	(737)	(2,807)
Withholding tax paid on distributed profits of subsidiaries during the year	—	—	—	2,230	2,230
At 31 December 2012	(13,201)	33,543	517	(7,140)	13,719
Exchange adjustments	**289**	**1,036**	**—**	**—**	**1,325**
Credit/(charge) to profit or loss	**23,770**	**(951)**	**117**	**3,128**	**26,064**
At 31 December 2013	**10,858**	**33,628**	**634**	**(4,012)**	**41,108**

The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Deferred tax assets	**52,634**	33,543
Deferred tax liabilities	**(11,526)**	(19,824)
	41,108	13,719

At the end of the reporting period, the Group had unused tax losses of HK$86,750,000 (2012: HK$56,496,000) available for offset against future profits, and other temporary differences of HK$211,176,000 (2012: HK$136,917,000). A deferred tax asset has been recognised in respect of HK$211,176,000 (2012: HK$136,917,000) for other temporary differences. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams for the relevant subsidiaries.

22. Deferred Taxation — continued

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
The tax losses above will expire as follows:		
31 December 2014	**56,082**	56,364
31 December 2017	**—**	132
31 December 2018	**30,668**	—
	86,750	56,496

	THE COMPANY			
	Accelerated (tax) accounting depreciation	**Other temporary differences**	**Undistributed profits of subsidiaries**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2012	(7,519)	356	(8,633)	(15,796)
(Charge) credit to profit or loss	(5,682)	161	(737)	(6,258)
Withholding tax paid on distributed profits of subsidiaries during the year	—	—	2,230	2,230
At 31 December 2012	(13,201)	517	(7,140)	(19,824)
Credit to profit or loss	**5,053**	**117**	**3,128**	**8,298**
At 31 December 2013	**(8,148)**	**634**	**(4,012)**	**(11,526)**

The Company has no other significant unrecognised temporary difference at the end of the reporting period.

23. Pledged Bank Deposits

	2013		2012	
	Non-current	**Current**	Non-current	Current
	HK$'000	**HK$'000**	HK$'000	HK$'000
Bank deposits were pledged for the following purpose:				
As guarantee to:				
— landlords for rental deposits	**25,642**	**3,746**	28,496	—
As requirement by the relevant PRC regulatory body for cash received from prepaid value cards sold	**—**	**15,202**	—	—
	25,642	**18,948**	28,496	—

24. Inventories

During the year, the Directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Group and the Company have written-down inventories of HK$942,000 (2012: HK$5,267,000) and HK$436,000 (2012: HK$3,918,000), respectively and included in "Purchases of goods and changes in inventories".

25. Trade Receivables

The Group and the Company do not have a defined fixed credit policy as its major trade receivables arise from credit card sales.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period, which approximated the respective revenue recognition dates.

	THE GROUP		**THE COMPANY**	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**35,251**	37,344	**19,591**	22,438

25. Trade Receivables — continued

The Group's and the Company's revenue is generated mainly from cash and credit card sales. The average credit period on credit cards sales is 10 days. The balance of trade receivables within due dates mainly represents trade receivables arising from credit card sales. No default of settlement is expected by reference to past experience. Usually, there are no significant overdue debtors at the end of reporting period. Trade receivables on overdue debtors are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience, if any.

As at 31 December 2013 and 2012, the Group and the Company do not have any trade receivable balance that were past due.

26. Other Assets

The Group's and the Company's other assets include other receivables, prepayments and deposits, amounts due from subsidiaries and fellow subsidiaries, pledged bank deposits and bank balances.

The amounts due from subsidiaries are trade-related, unsecured and interest free. The amounts are aged within 30 days based on the invoice date at end of respective reporting periods.

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (2012: 15 to 35 days). The amounts are aged within 35 days based on the invoice date and not yet due at the end of the respective reporting periods.

Bank balances comprise cash held by the Group and the Company and short term bank deposits with an original maturity of three months or less. Bank balances carry interest at market rates which range from 0.01% to 5.50% (2012: 0.01% to 5.50%) per annum.

The Group's and the Company's bank balances and cash that are denominated in currencies other than the functional currencies of the respective group entities and the Company are set out below:

	THE GROUP		**THE COMPANY**	
	2013 **HK$'000**	2012 HK$'000	**2013** **HK$'000**	2012 HK$'000
Hong Kong dollars	**243**	282	**—**	—
United States dollars	**172,963**	24,748	**172,963**	24,748
Japanese Yen	**2,171**	4,362	**2,171**	4,362
Renminbi	**166,522**	93,763	**166,522**	93,763

27. Trade Payables

The following is an aged analysis of trade payables presented based on the invoice date at the reporting date.

	THE GROUP		THE COMPANY	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
0–60 days	**1,228,223**	1,206,831	**549,586**	587,287
61–90 days	**106,112**	103,571	**67,074**	81,193
Over 90 days	**134,887**	141,497	**32,250**	22,963
	1,469,222	1,451,899	**648,910**	691,443

The average credit period on the purchases of goods is 60 days (2012: 60 days).

28. Obligation Under a Finance Lease

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease				
Within one year	**1,129**	1,095	**836**	800
In more than one year but not more than two years	**1,129**	1,095	**916**	810
In more than two years but not more than five years	**1,977**	3,013	**1,819**	2,599
	4,235	5,203	**3,571**	4,209
Less: Future finance charges	**(665)**	(994)		
Present value of a lease obligation	**3,570**	4,209		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(836)**	(800)
Amount due for settlement after 12 months			**2,735**	3,409

The obligations under a finance lease is denominated in Renminbi which carries interest at fixed rate of 9.2% (2012: 9.2%) per annum and is repayable within five years.

29. Other Financial Liabilities

The Group's and the Company's other financial liabilities include other payables and accrued charges, amounts due to fellow subsidiaries and ultimate holding company.

Included in the Group's other payables and accrued charges, there is deferred revenue in relation to customer loyalty programmes and monies received from customers in relation to prepaid store-valued cards of HK$15,856,000 (2012: HK$11,681,000) and HK$647,068,000 (2012: HK$527,067,000) respectively.

The amounts due to fellow subsidiaries and ultimate holding company are trade-related, unsecured, interest free and with credit term of 60 to 90 days (2012: 60 to 90 days). The amounts are aged within 60 days based on the invoice date at the end of respective reporting period.

30. Share Capital

	2013 & 2012 **HK$'000**
Authorised:	
350,000,000 ordinary shares of HK$0.20 each	**70,000**
Issued and fully paid:	
260,000,000 ordinary shares of HK$0.20 each	**52,000**

31. Share Premium and Reserves

	Share premium HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000
THE COMPANY				
At 1 January 2012	63,158	19,738	1,257,353	1,340,249
Gain on fair value changes of available-for-sale investments recognised directly in equity	—	8,384	—	8,384
Profit for the year	—	—	209,108	209,108
Total comprehensive income for the year	—	8,384	209,108	217,492
Dividends	—	—	(136,240)	(136,240)
At 31 December 2012	63,158	28,122	1,330,221	1,421,501
Loss on fair value changes of available-for-sale investments recognised directly in equity	**—**	**(2,074)**	**—**	**(2,074)**
Reclassified to profit or loss upon disposal of available-for-sale investment	**—**	**(1,264)**	**—**	**(1,264)**
Profit for the year	**—**	**—**	**210,788**	**210,788**
Total comprehensive income for the year	**—**	**(3,338)**	**210,788**	**207,450**
Dividends	**—**	**—**	**(25,220)**	**(25,220)**
Unclaimed dividend forfeited	**—**	**—**	**184**	**184**
At 31 December 2013	**63,158**	**24,784**	**1,515,973**	**1,603,915**

32. Capital Commitments

	THE GROUP		THE COMPANY	
	2013 HK$'000	2012 HK$'000	**2013 HK$'000**	2012 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated and the Company's financial statements	**25,278**	33,028	**1,145**	—
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for in the consolidated and the Company's financial statements	**51,276**	45,197	**23,712**	20,000

33. Operating Leases

The Group and the Company as lessee:

At the end of the reporting period, the Group and the Company had commitments for future minimum lease payments in respect of rented premises under non-cancellable operating leases, which fall due as follows:

	THE GROUP		THE COMPANY	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**848,913**	785,984	**476,291**	457,284
In the second to fifth year inclusive	**2,544,352**	2,432,787	**1,462,153**	1,514,531
Over five years	**1,292,998**	2,007,836	**1,011,918**	1,356,988
	4,686,263	5,226,607	**2,950,362**	3,328,803

In addition to the above, (i) over 90% (2012: over 90%) of the leases of the Group and over 80% (2012: over 80%) of the leases of the Company are subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease payments; and (ii) the Group is also subject to a maximum lease commitment of a sum of approximately HK$8,460,000 (2012: HK$10,309,000) to a landlord which is a third party under the circumstance of early termination of lease agreements between the landlord and certain related companies covering a lease period of five years starting from 2012.

Operating lease payments represent rentals payable by the Group and the Company for its stores and staff quarters. Leases of stores are negotiated for terms ranging from one to fourteen years and rentals are fixed for one to three years. Leases of staff quarters are negotiated for terms ranging from one to two years and rentals are fixed for one to two years.

The Group and the Company as lessor:

At the end of the reporting period, the Group and the Company had contracted with a tenant for its investment property and with licensees for floor areas in the stores for the following future minimum lease payments under non-cancellable operating leases for each of the following period:

	THE GROUP		THE COMPANY	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**420,628**	414,749	**173,690**	192,682
In the second to fifth year inclusive	**551,118**	413,206	**67,958**	134,808
Over five years	**32,483**	38,790	**—**	—
	1,004,229	866,745	**241,648**	327,490

33. Operating Leases — continued

The Group and the Company as lessor: — continued

The leases are negotiated for terms ranging from one to fifteen years. In addition to the minimum lease payments, the Group and the Company are entitled to receive contingent rent based on a fixed percentage of turnover of the licensees in excess of the minimum lease payments as stated in the relevant rental agreements.

34. Cash-Settled Share-Based Payment Transactions

The Company's cash-settled share-based payment scheme was adopted for the primary purpose of providing incentives to Directors and eligible employees. The Company issued to eligible persons under the scheme share appreciation rights (the "SARs") that require the Company to pay the intrinsic value of the SARs to the employee at the date of exercise.

Details of the SARs are as follows:

For the year ended 31 December 2013

				Number of underlying SARs					
Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1.1.2013	Granted during the year	Exercised during the year	Forfeited during the year	Reclassified during the year	Outstanding at 31.12.2013
Directors									
25.9.2009	15.236	1.6.2008 to 31.5.2009	1.6.2009 to 31.5.2015	—	—	—	—	4,800	4,800
	15.236	1.6.2008 to 31.5.2010	1.6.2010 to 31.5.2015	—	—	—	—	4,800	4,800
	15.236	1.6.2008 to 31.5.2011	1.6.2011 to 31.5.2015	—	—	—	—	6,400	6,400
	13.500	25.9.2009 to 24.9.2010	25.9.2010 to 24.9.2016	6,000	—	—	—	7,200	13,200
	13.500	25.9.2009 to 24.9.2011	25.9.2011 to 24.9.2016	6,000	—	—	—	7,200	13,200
	13.500	25.9.2009 to 24.9.2012	25.9.2012 to 24.9.2016	8,000	—	—	—	9,600	17,600
1.9.2010	14.260	1.9.2010 to 31.8.2011	1.9.2011 to 31.8.2017	9,600	—	—	—	7,800	17,400
	14.260	1.9.2010 to 31.8.2012	1.9.2012 to 31.8.2017	9,600	—	—	—	7,800	17,400
	14.260	1.9.2010 to 31.8.2013	1.9.2013 to 31.8.2017	14,400	—	—	—	10,400	24,800
1.9.2011	17.900	1.9.2011 to 31.8.2012	1.9.2012 to 31.8.2018	27,000	—	—	—	7,800	34,800
	17.900	1.9.2011 to 31.8.2013	1.9.2013 to 31.8.2018	27,000	—	—	—	7,800	34,800
	17.900	1.9.2011 to 31.8.2014	1.9.2014 to 31.8.2018	36,000	—	—	—	10,400	46,400
31.8.2012	22.290	31.8.2012 to 30.8.2013	31.8.2013 to 30.8.2019	50,400	—	—	—	3,300	53,700
	22.290	31.8.2012 to 30.8.2014	31.8.2014 to 30.8.2019	50,400	—	—	—	3,300	53,700
	22.290	31.8.2012 to 30.8.2015	31.8.2015 to 30.8.2019	67,200	—	—	—	4,400	71,600
30.8.2013	13.636	30.8.2013 to 29.8.2014	30.8.2014 to 29.8.2020	—	78,450	—	—	—	78,450
	13.636	30.8.2013 to 29.8.2015	30.8.2015 to 29.8.2020	—	78,450	—	—	—	78,450
	13.636	30.8.2013 to 29.8.2016	30.8.2016 to 29.8.2020	—	104,600	—	—	—	104,600

34. Cash-Settled Share-Based Payment Transactions — continued

For the year ended 31 December 2013 — continued

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Outstanding at 1.1.2013	Granted during the year	Exercised during the year	Forfeited during the year	Reclassified during the year	Outstanding at 31.12.2013
				Number of underlying SARs					
Employees									
25.9.2009	15.236	1.6.2008 to 31.5.2009	1.6.2009 to 31.5.2015	**4,800**	**—**	**—**	**—**	**(4,800)**	**—**
	15.236	1.6.2008 to 31.5.2010	1.6.2010 to 31.5.2015	**4,800**	**—**	**—**	**—**	**(4,800)**	**—**
	15.236	1.6.2008 to 31.5.2011	1.6.2011 to 31.5.2015	**6,400**	**—**	**—**	**—**	**(6,400)**	**—**
	13.500	25.9.2009 to 24.9.2010	25.9.2010 to 24.9.2016	**7,200**	**—**	**—**	**—**	**(7,200)**	**—**
	13.500	25.9.2009 to 24.9.2011	25.9.2011 to 24.9.2016	**7,200**	**—**	**—**	**—**	**(7,200)**	**—**
	13.500	25.9.2009 to 24.9.2012	25.9.2012 to 24.9.2016	**9,600**	**—**	**—**	**—**	**(9,600)**	**—**
1.9.2010	14.260	1.9.2010 to 31.8.2011	1.9.2011 to 31.8.2017	**9,000**	**—**	**—**	**—**	**(7,800)**	**1,200**
	14.260	1.9.2010 to 31.8.2012	1.9.2012 to 31.8.2017	**9,000**	**—**	**—**	**—**	**(7,800)**	**1,200**
	14.260	1.9.2010 to 31.8.2013	1.9.2013 to 31.8.2017	**13,600**	**—**	**—**	**—**	**(10,400)**	**3,200**
1.9.2011	17.900	1.9.2011 to 31.8.2012	1.9.2012 to 31.8.2018	**11,400**	**—**	**—**	**—**	**(7,800)**	**3,600**
	17.900	1.9.2011 to 31.8.2013	1.9.2013 to 31.8.2018	**15,000**	**—**	**—**	**—**	**(7,800)**	**7,200**
	17.900	1.9.2011 to 31.8.2014	1.9.2014 to 31.8.2018	**20,000**	**—**	**—**	**—**	**(10,400)**	**9,600**
31.8.2012	22.290	31.8.2012 to 30.8.2013	31.8.2013 to 30.8.2019	**8,400**	**—**	**—**	**—**	**(3,300)**	**5,100**
	22.290	31.8.2012 to 30.8.2014	31.8.2014 to 30.8.2019	**8,400**	**—**	**—**	**—**	**(3,300)**	**5,100**
	22.290	31.8.2012 to 30.8.2015	31.8.2015 to 30.8.2019	**11,200**	**—**	**—**	**—**	**(4,400)**	**6,800**
30.8.2013	13.636	30.8.2013 to 29.8.2014	30.8.2014 to 29.8.2020	**—**	**7,800**	**—**	**—**	**—**	**7,800**
	13.636	30.8.2013 to 29.8.2015	30.8.2015 to 29.8.2020	**—**	**7,800**	**—**	**—**	**—**	**7,800**
	13.636	30.8.2013 to 29.8.2016	30.8.2016 to 29.8.2020	**—**	**10,400**	**—**	**—**	**—**	**10,400**
				457,600	**287,500**	**—**	**—**	**—**	**745,100**

34. Cash-Settled Share-Based Payment Transactions — continued

For the year ended 31 December 2012

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Number of underlying SARs: Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Forfeited during the year	Reclassified during the year	Outstanding at 31.12.2012
Directors									
25.9.2009	13.500	25.9.2009 to 24.9.2010	25.9.2010 to 24.9.2016	88,800	—	(85,800)	—	3,000	6,000
	13.500	25.9.2009 to 24.9.2011	25.9.2011 to 24.9.2016	88,800	—	(85,800)	—	3,000	6,000
	13.500	25.9.2009 to 24.9.2012	25.9.2012 to 24.9.2016	118,400	—	(4,000)	—	(106,400)	8,000
1.9.2010	14.260	1.9.2010 to 31.8.2011	1.9.2011 to 31.8.2017	94,200	—	(85,800)	—	1,200	9,600
	14.260	1.9.2010 to 31.8.2012	1.9.2012 to 31.8.2017	94,200	—	(1,200)	—	(83,400)	9,600
	14.260	1.9.2010 to 31.8.2013	1.9.2013 to 31.8.2017	125,600	—	—	—	(111,200)	14,400
1.9.2011	17.900	1.9.2011 to 31.8.2012	1.9.2012 to 31.8.2018	78,000	—	—	—	(51,000)	27,000
	17.900	1.9.2011 to 31.8.2013	1.9.2013 to 31.8.2018	78,000	—	—	—	(51,000)	27,000
	17.900	1.9.2011 to 31.8.2014	1.9.2014 to 31.8.2018	104,000	—	—	—	(68,000)	36,000
31.8.2012	22.290	31.8.2012 to 30.8.2013	31.8.2013 to 30.8.2019	—	50,400	—	—	—	50,400
	22.290	31.8.2012 to 30.8.2014	31.8.2014 to 30.8.2019	—	50,400	—	—	—	50,400
	22.290	31.8.2012 to 30.8.2015	31.8.2015 to 30.8.2019	—	67,200	—	—	—	67,200
Employees									
25.9.2009	15.236	1.6.2008 to 31.5.2009	1.6.2009 to 31.5.2015	4,800	—	—	—	—	4,800
	15.236	1.6.2008 to 31.5.2010	1.6.2010 to 31.5.2015	4,800	—	—	—	—	4,800
	15.236	1.6.2008 to 31.5.2011	1.6.2011 to 31.5.2015	6,400	—	—	—	—	6,400
	13.500	25.9.2009 to 24.9.2010	25.9.2010 to 24.9.2016	10,200	—	—	—	(3,000)	7,200
	13.500	25.9.2009 to 24.9.2011	25.9.2011 to 24.9.2016	10,200	—	—	—	(3,000)	7,200
	13.500	25.9.2009 to 24.9.2012	25.9.2012 to 24.9.2016	13,600	—	(110,400)	—	106,400	9,600
1.9.2010	14.260	1.9.2010 to 31.8.2011	1.9.2011 to 31.8.2017	12,000	—	(1,800)	—	(1,200)	9,000
	14.260	1.9.2010 to 31.8.2012	1.9.2012 to 31.8.2017	12,000	—	(86,400)	—	83,400	9,000
	14.260	1.9.2010 to 31.8.2013	1.9.2013 to 31.8.2017	16,000	—	—	(113,600)	111,200	13,600
1.9.2011	17.900	1.9.2011 to 31.8.2012	1.9.2012 to 31.8.2018	22,200	—	(61,800)	—	51,000	11,400
	17.900	1.9.2011 to 31.8.2013	1.9.2013 to 31.8.2018	22,200	—	—	(58,200)	51,000	15,000
	17.900	1.9.2011 to 31.8.2014	1.9.2014 to 31.8.2018	29,600	—	—	(77,600)	68,000	20,000
31.8.2012	22.290	31.8.2012 to 30.8.2013	31.8.2013 to 30.8.2019	—	9,300	—	(900)	—	8,400
	22.290	31.8.2012 to 30.8.2014	31.8.2014 to 30.8.2019	—	9,300	—	(900)	—	8,400
	22.290	31.8.2012 to 30.8.2015	31.8.2015 to 30.8.2019	—	12,400	—	(1,200)	—	11,200
				1,034,000	199,000	(523,000)	(252,400)	—	457,600

34. Cash-Settled Share-Based Payment Transactions — continued

The fair value of the SARs is determined using the Binomial model based on the following assumptions:

- Risk free interest rate based on the Hong Kong government bond with maturity matches with the contractual term of the SARs
- Expected volatility based on the historical share price movement of the Company over the period that consistent with the remaining contractual life of the SARs
- Dividend yield of 2% to 2.75% as referenced to the past dividend yields
- Number of steps 100 nodes
- Exercise multiple 2.2 times

At 31 December 2013, the Group has recorded liabilities of HK$769,000 (31 December 2012: HK$2,053,000), which is included in other payables and accrued charges. At 31 December 2013, the total intrinsic value of the vested SARs was HK$nil (2012: HK$833,000).

During the year ended 31 December 2012, 252,400 share options were forfeited prior to the vesting as a result of the resignation of employees and reversal of share-based payment expenses of HK$1,140,000 which was recognised in profit or loss.

35. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK$16,558,000 (2012: HK$12,991,000) are charged to the consolidated statement of profit or loss for the year. The contributions represent contributions payable to the MPF Schemes by the Company in accordance with government regulations. In addition to the mandatory contributions, the contributions also include voluntary contributions at rates specified in the rules of the MPF Scheme for certain employees who make voluntary contributions.

The Company also operates a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The contributions amounting to HK$4,405,000 (2012: HK$5,479,000) charged to the consolidated statement of profit or loss represent contributions payable to the funds by the Company at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes. Contributions paid or payable for these retirement benefits schemes for the year are HK$79,457,000 (2012: HK$65,440,000).

36. Capital Risk Management

The Group and the Company manage its capital to ensure that entities in the Group and the Company will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from prior year.

The capital structure of the Group and the Company consists of debt, which includes the Group's obligation under a finance lease (note 28), equity attributable to owners of the Group and the Company, comprising issued share capital, reserves and retained earning.

The Group's and Company's management review the capital structure on a regular basis. As a part of this review, the Directors consider the cost of capital and the risks associated with the issued share capital. Based on recommendations of the Directors, the Group and the Company will balance its overall capital structure through the payment of dividends, as well as the issue of new debt or the redemption of existing debt.

37. Financial Instruments

(a) Categories of financial instruments

	THE GROUP	
	2013	2012
	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**2,643,861**	2,513,657
Available-for-sale financial assets	**26,980**	32,054
Financial liabilities at amortised cost	**2,198,319**	2,234,074

	THE COMPANY	
	2013	2012
	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**1,221,076**	1,125,725
Available-for-sale financial assets	**26,980**	32,054
Financial liabilities at amortised cost	**1,078,325**	1,197,230

37. Financial Instruments — continued

(b) Financial risk management objectives and policies

The Directors have overall responsibility for the establishment and oversight of the Group's and the Company's risk management framework. The management manages and monitors these risk exposures to ensure that appropriate measures are implemented on a timely and effective manner.

The Group's and the Company's risk management policies are established to identify and analyse the risks faced by the Group and the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Group's and the Company's activities. The Group and the Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Directors monitors and manages the financial risks relating to the operations of the Group and the Company through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The Group's audit committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The Group and the Company do not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

There has been no change to the Group's and the Company's exposure to market risks or the manner in which it manages and measures the risks in 2013.

(c) Foreign currency risk management

Certain of the Group's and the Company's purchases are denominated in foreign currencies other than the functional currencies of the operations to which they relate. They expose the Group and the Company to foreign currency risk and the Group and the Company currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

37. Financial Instruments — continued

(c) Foreign currency risk management — continued

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date is as follows:

THE GROUP

	Assets		Liabilities	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**243**	282	**36,649**	42,387
United States dollars	**172,963**	180,388	**5,631**	9,808
Japanese Yen	**2,171**	4,362	**17,103**	14,544
Renminbi	**166,522**	93,763	**—**	—

THE COMPANY

	Assets		Liabilities	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars	**172,963**	180,388	**5,631**	9,808
Japanese Yen	**2,171**	4,362	**17,103**	14,544
Renminbi	**166,522**	93,763	**—**	—

37. Financial Instruments — continued

(c) Foreign currency risk management — continued

Foreign currency sensitivity

The following table indicates the approximate change in the Group's and Company's profit for the year in response to reasonably possible changes in the foreign exchange rates to which the Group and the Company have significant exposure at the end of the reporting periods.

THE GROUP

	2013		2012	
	Increase (decrease) in foreign exchange rates	**Increase (decrease) in profit before tax**	Increase (decrease) in foreign exchange rates	Increase (decrease) in profit before tax
	%	**HK$'000**	%	HK$'000
Hong Kong	**1%**	**(369)**	1%	(421)
	(1%)	**369**	(1%)	421
United States dollars	**1%**	**1,786**	1%	1,706
	(1%)	**(1,786)**	(1%)	(1,706)
Japanese Yen	**10%**	**(1,927)**	10%	(1,018)
	(10%)	**1,927**	(10%)	1,018
Renminbi	**10%**	**16,652**	10%	9,376
	(10%)	**(16,652)**	(10%)	(9,376)

37. Financial Instruments — continued

(c) Foreign currency risk management — continued

Foreign currency sensitivity — continued

THE COMPANY

	2013		2012	
	Increase (decrease) in foreign exchange rates	**Increase (decrease) in profit before tax**	Increase (decrease) in foreign exchange rates	Increase (decrease) in profit before tax
	%	**HK$'000**	%	HK$'000
United States dollars	**1%**	**786**	1%	1,706
	(1%)	**(786)**	(1%)	(1,706)
Japanese Yen	**10%**	**(1,927)**	10%	(1,018)
	(10%)	**1,927**	(10%)	1,018
Renminbi	**10%**	**16,652**	10%	9,376
	(10%)	**(16,652)**	(10%)	(9,376)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities' exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables remain constant.

The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is preformed on the same basis for 2012.

37. Financial Instruments — continued

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk as the Group's bank balances and the Company's bank balances are subject to floating interest rate. The Group and the Company analyse its interest rate exposure on a dynamic basis, but the Group and the Company did not use floating-to-fixed interest rate swaps in managing its cash flow interest rate risk. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate obligation under a finance lease (note 28). The management will take appropriate measures to manage interest rate exposure if interest rate fluctuates significantly. The management considers the fair value interest rate risk to the Group is low.

The Group's and the Company's exposure to interest rates and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity

Sensitivity analysis on bank balances is not presented as the management considers that the Group's and the Company's exposure to interest rate fluctuation is insignificant.

(e) Other price risk

The Group and the Company are exposed to equity price risks through its equity investments. Equity investments are held for strategic rather than trading purposes. The Group and the Company do not actively trade these investments. The management will monitor the price movements and take appropriate actions when it is required.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks in respect of AFS equity investments at the reporting date. The measure of price sensitivity is based on the actual observed historical changes of one-year interval to estimate the 1-day historical volatility. The use of a 1-day holding period assumes that the positions can be unwound in one trading day. If the equity price of the available-for-sale investments had been 6% (2012: 7%) higher/lower while all other variables were held constant, the investment revaluation reserve would increase/decrease by approximately HK$144,000 (2012: increase/decrease by approximately HK$167,000) for the Group and the Company, principally as a result of the changes in fair value of AFS equity investments.

Sensitivity analysis on AFS debt investments is not presented as the management considers the exposure to equity price risks in respect of AFS debt investments is minimal.

37. Financial Instruments — continued

(f) Credit risk management

The credit risk represents the trade receivables and amount due from fellow subsidiaries. Credit risk for the trade receivable is limited as the Group's and the Company's revenue are generated mainly from cash and credit card sales. Where transactions are conducted other than on a cash basis, the Group practices stringent credit review.

The credit term for the amount due from fellow subsidiaries are made in accordance with the relevant agreements and there are no significant overdue debts as at the end of the reporting period.

The Group and the Company have no significant concentrations of credit risk and trade receivables represent mainly credit card receivable from individual owned stores.

The credit risk on bank deposits is less because the Directors consider that the counterparties are financially sound.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Directors, which has built an appropriate liquidity risk management framework for the management of the Group's and the Company's short, medium and long-term funding and liquidity management requirements. The Group and the Company manage liquidity risk by maintaining adequate reserves, working capital and banking facilities.

The following tables detail the Group's and the Company's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

37. Financial Instruments — continued

(g) Liquidity risk management — continued

THE GROUP

	Weighted average effective interest rate	6 months or less	6–12 months	>1–<2 years	>2–<5 years	Total undiscounted cash flows amount	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2013							
Non-interest bearing	—	**2,198,319**	**—**	**—**	**—**	**2,198,319**	**2,198,319**
Obligation under a finance lease	9.20	**565**	**564**	**1,129**	**1,977**	**4,235**	**3,570**
		2,198,884	**564**	**1,129**	**1,977**	**2,202,554**	**2,201,889**
2012							
Non-interest bearing	—	2,234,074	—	—	—	2,234,074	2,234,074
Obligation under a finance lease	9.20	548	547	1,095	3,013	5,203	4,209
		2,234,622	547	1,095	3,013	2,239,277	2,238,283

THE COMPANY

	Weighted average effective interest rate	6 months or less	6–12 months	>1–<2 years	Total undiscounted cash flows amount	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2013						
Non-interest bearing	—	**1,078,325**	**—**	**—**	**1,078,325**	**1,078,325**
2012						
Non-interest bearing	—	1,197,230	—	—	1,197,230	1,197,230

37. Financial Instruments — continued

(h) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's and the Company's financial statements approximate to their fair values.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	2013			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Available-for-sale financial assets				
Listed equity securities	**26,980**	**—**	**—**	**26,980**

	2012			
	Level 1	Level 2	Level 3	Total
	HK$'000	HK$'000	HK$'000	HK$'000
Available-for-sale financial assets				
Listed equity securities	29,704	—	—	29,704
Unlisted club debenture	—	2,350	—	2,350
Total	29,704	2,350	—	32,054

There were no transfers between Level 1 and 2 in the current and last year.

38. Related Party Transactions

During the year, the Group and the Company entered into the following transactions with related parties:

Capacity	Nature of transaction	THE GROUP 2013 HK$'000	THE GROUP 2012 HK$'000	THE COMPANY 2013 HK$'000	THE COMPANY 2012 HK$'000
Fellow subsidiaries	Commission for credit facilities provided to the customers	**14,146**	11,427	**14,146**	11,427
	Franchise fee, consumable expenses and purchase of machines	**319**	157	**319**	157
	Other income	**1,186**	985	**603**	548
	Outsourcing service expenses	**11,463**	7,219	**—**	—
	Purchase of goods	**278,172**	252,076	**170,611**	148,756
	Recharge of administrative expenses	**45**	570	**—**	—
	Reimbursement income of administrative expenses	**4,760**	4,066	**—**	—
	Rental expense	**—**	90	**—**	90
	Rental income	**15,301**	11,722	**12,588**	9,914
	Sales of goods	**432**	2,100	**—**	600
	Service fee expense	**71,746**	36,713	**8,031**	—
	Consultancy fee	**338**	—	**63**	—
Subsidiaries	Dividend income	**—**	—	**9,626**	41,992
	Management fee income	**—**	—	**5,976**	4,283
	Royalty income	**—**	—	**25,375**	22,786
	Supply chain management service fee	**—**	—	**—**	619
Ultimate holding company	Royalty expenses	**47,696**	43,462	**47,696**	43,462
Non-controlling shareholders of the subsidiaries*	Advertising expenses	**3,665**	2,826	**—**	—
	Rental expenses, management fees and utility expenses	**60,686**	54,327	**—**	—

* Non-controlling shareholders have significant influence over the subsidiaries.

38. Related Party Transactions — continued

Outstanding balances as at the end of reporting periods arising from the above transactions with related parties were as set out in the statements of financial position except for the following balance, which is included in other receivables, prepayments and deposits:

THE GROUP

	2013	2012
	HK$'000	HK$'000
Amounts due from non-controlling shareholders of the subsidiaries (included in other receivables, prepayments and deposits)	**6,720**	6,956

Compensation of key management personnel

The Group's key management personnel are all Directors, details of their remuneration are disclosed in note 12.

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.

Financial Summary

The Group

	For the year ended 31 December				
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000	**2013** **HK$'000**
RESULTS					
Revenue	5,897,909	6,106,485	6,686,387	7,377,228	**8,487,510**
Profit before tax	267,424	401,577	569,862	298,238	**109,732**
Income tax expense	(72,253)	(81,547)	(115,457)	(47,393)	**(22,542)**
Profit for the year	195,171	320,030	454,405	250,845	**87,190**

	At 31 December				
	2009 HK$'000	2010 HK$'000	2011 HK$'000	2012 HK$'000	**2013** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	3,562,337	3,840,291	4,639,626	5,055,356	**5,217,040**
Total liabilities	(2,308,247)	(2,384,099)	(2,876,900)	(3,192,246)	**(3,287,954)**
	1,254,090	1,456,192	1,762,726	1,863,110	**1,929,086**
Equity attributable to:					
Owners of the Company	1,143,463	1,310,665	1,578,777	1,689,814	**1,775,760**
Non-controlling interests	110,627	145,527	183,949	173,296	**153,326**
	1,254,090	1,456,192	1,762,726	1,863,110	**1,929,086**