# AEON Stores (Hong Kong) Co., Limited

# 永旺(香港)百貨有限公司

Stock Code : 984

# Annual Report 2011

# 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.

# Contents

# Corporate Information

## Board of Directors

### Executive Directors

LAM Man Tin *(Managing Director)*
CHAN Pui Man Christine
CHAN Suk Jing
SUZUKI Junichi

### Non-executive Directors

OKUNO Yoshinori *(Chairman)*
TSUJI Haruyoshi
KOMATSU Takashi

### Independent Non-executive Directors

LAM PEI Peggy
SHAM Sui Leung Daniel
CHENG Yin Ching Anna
SHAO Kung Chuen

## Company Secretary

CHAN Kwong Leung Eric

## Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

## Principal Bankers

Mizuho Corporate 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
26 Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

## Registered Office

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

## Head Office and Principal Place of Business

3rd Floor, Stanhope House
738 King's Road
Quarry Bay, Hong Kong
Tel: (852) 2565 3600
Fax: (852) 2563 8654

## Stock Code

984

## Website

www.jusco.com.hk

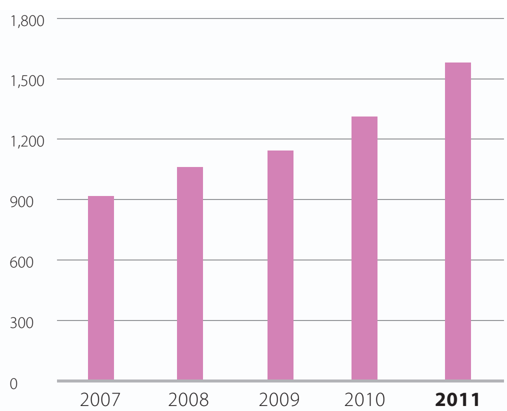
# Financial Highlights

## Revenue
(HK$ million)


## Profit Attributable to Owners of the Company
(HK$ million)


## Earnings and Dividends per Share
(HK cents)


## Equity Attributable to Owners of the Company
(HK$ million)



# Chairman's Statement

**Mr. OKUNO Yoshinori**
*Chairman*



During 2011, the global economy became increasingly volatile, a trend which was exacerbated during the second half of the year as the sovereign debt crises in Europe led to market fluctuations and shook the confidence of global consumers. The business of AEON Stores (Hong Kong) Co., Limited and its subsidiaries ("AEON Stores" or the "Group") are primarily based in Hong Kong and Southern China, which was relatively less affected by the turmoil. The Group was able to ride on the steady growth of the Hong Kong retail market in the first half of the year and tap the prosperous domestic consumption market in the PRC to generate a total revenue of HK$6,686.38 million (2010: HK$6,106.48 million). Profit attributable to owners of the Company reached HK$405.91 million (2010: HK$279.21 million). Revenue contribution from the PRC exceeded 50%, underscoring that market as an important revenue source and growth driver.

During the previous two decades, AEON Stores has established a solid business foundation in Hong Kong. Apart from enhancing the image of its "AEON" and "JUSCO" brands, in recent years we have diversified our business models with the aim to capture the opportunities by meeting the different needs of a wider range of consumers. We have been gratified by the overwhelming consumer response to our various business models, which has validated the success of our value proposition and the execution of our strategy.

To more fully realise the potential of the fast-growing retail market in China, we have set up our base in Southern China while rapidly extending our retail network to 20 stores. In the previous year, inflation and the rising uncertainties surrounding the global economy in the second half of the year have combined to slightly affect consumer sentiment; however, our good reputation and the strong support from Chinese customers boosted our business in the PRC to register encouraging growth during the year.

The EURO zone debt crisis has yet to be resolved, and the global impact of the resulting economic uncertainties will linger in the coming year. Against this unsettled economic backdrop, the growth of Hong Kong's economy is expected to slow down in 2012 which would also translate into reduced growth in the retail sector. However, opportunities can also be found in the worst of times. The Group may be able to secure better locations for its new stores, and obtain more favourable leasing terms, so there is also a good chance to consolidate for business expansion and thereby facilitate long-term growth. AEON Stores has in the past delivered stable performances under unfavourable economic conditions and even during recessions. We believe that with our track record of innovative business strategies, the Group should be able to achieve steadily growth in the long run.

On the other hand, it is generally understood that despite the modest restraints on controlling economic growth, the PRC remains one of the world's fastest-growing markets and possesses enormous potential; hence, will continue to be a key focus of AEON Co., Ltd in terms of future business development. The Group is committed to capture the market potential in Southern China, and to further enlarge our business coverage. In addition to accelerating the pace of new store openings in 2012, we are studying the feasibility of expanding our network beyond Guangdong Province to enhance our penetration across the country. At the same time, we intend to strengthen the promotion of our brand, TOPVALU, in the PRC by launching more customised merchandise in order to satisfy the needs of local consumers.

The year 2012 is an important milestone for us, because it marks the 25th anniversary of our entry into Hong Kong. Looking back, we have experienced the ebb and flow of the economic tide and grown with our customers in Hong Kong and the PRC. In the years to come, we will continue to fulfill our credo, "Everything we do, we do for our customers" by delivering more quality merchandise from every corner of the world, and responding quickly to the changing market demands, so as to always provide a pleasant shopping experience for the customers of Hong Kong and the PRC.

On behalf of the board, I would like to take this opportunity to thank the management team and staff for their dedication and contributions over the years. Working together, AEON Stores is well prepared to meet challenges and maximise opportunities as we march in step towards the next milestone.

**OKUNO Yoshinori**
*Chairman*

Hong Kong, 16 March 2012


# Management Discussion and Analysis

**Mr. LAM Man Tin**
*Managing Director*



## Financial Review

While the uncertainties of the European debt crises cast a shadow over the economy of Hong Kong and the PRC during the period under review, the consumption sentiment, especially in the PRC, remained strong. The Group continued to achieve growth with revenue increasing 9.5% to HK$6,686.4 million from HK$6,106.5 million last year, mainly attributed to the strong expansion of the PRC segment. Gross profit slightly improved from 33.3% to 33.6% mainly because last year's performance was affected by promotional sales resulting from store closures. Profit from the operations of core business thus rose 13.2% from HK$386.0 million in 2010 to HK$436.9 million. Profit attributable to owners of the Company rose by 45.4% to HK$405.9 million (2010: HK$279.2 million) further driven by the change in the fair value of an investment property in Hong Kong of HK$86.3 million.

During the period under review, the ratio of staff cost to revenue increased slightly from 10.5% to 10.6%, mainly due to the retention of manpower during the year despite the closure of stores in 2010. This ratio is expected to improve when more new stores are opened. The ratio of rental cost to revenue has dropped from 10.2% to 9.9% as the Group enjoys relatively favourable and stable rental terms.

As at 31 December 2011, the Group maintained a strong net cash position with a cash and bank balance of HK$2,178 million (2010: HK$2,168 million). Bank borrowings were further reduced to HK$25 million from HK$47 million due to ongoing repayment of debt. The borrowings were denominated in Renminbi bearing interest calculated with reference to the lending rate of the People's Bank of China. The Group continued to maintain a low gearing level with sufficient internal resources to finance future business expansion.

As at 31 December 2011, deposits of HK$26 million (2010: nil) and HK$25 million (2010: HK$12 million) were pledged as guarantees to banks for banking facilities and to landlords for rental deposits.

During the review period, capital expenditure for acquiring an investment property was HK$324 million. The property was acquired for setting up the Group's new headquarters and centralised distribution and food processing centre in 2013. Other capital expenditures mainly for new stores opening in Hong Kong and the PRC, amounted to HK$228 million. The Group intended 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 fluctuation in exchange rates.

## Business Review

### Hong Kong Operations

Hong Kong's economy demonstrated strong growth during the first half of the year in 2011, but consumers become more cautious with their spending during the second half because of the European debt crisis. Despite the weaker market sentiment and the closure of two stores in 2010, revenue from Hong Kong operations only decreased by 3.7% to HK$3,071.4 million (2010: HK$3,189.8 million), benefitting from the "Scheme $6,000" launched by the Hong Kong Government paying each permanent identity card holder HK$6,000 together with an encouraging sales performance during the festive seasons. With an enhanced operational efficiency, segment profit grew to HK$233.8 million from HK$232.3 million last year.

During the year, the Group embarked on a few strategic initiatives. A new store in Tsim Sha Tsui, Hong Kong, was opened to tap potential of the affluent population as well as tourists. The new business model has a unique brand image targeting customers seeking quality living and a trendy lifestyle. Meanwhile, the Group opened its first Kowloon flagship store, its second largest store in Hong Kong, at Lai Chi Kok in December 2011. Supplemented by a well developed transportation network, the new store offers diversified choices to customers at reasonable prices and provides a convenient, enjoyable one-stop shopping experience for customers in both Kowloon and the New Territories. The flagship store has been delivering an encouraging performance since its operation. Furthermore, the Group opened its first-ever store at an MTR station. Located at Tsing Yi MTR Station and connected to Maritime Square — one of the busiest MTR stations along the Tung Chung Line — the new store enjoys strong pedestrian flow. The Group also renamed all of its "JUSCO $10 PLAZA" shops to "JUSCO Living PLAZA" in October 2011 to unify brand image and to reflect an enriched merchandise mix to better cater for customers' needs.

As at 31 December 2011, the Group had 38 stores in densely populated residential and commercial districts in Hong Kong.

### PRC operations

While the global market has been adversely affected by the outbreak of the financial crisis among European countries, the PRC economy continued to achieve stable growth, providing a positive environment for the Group's operations in the PRC. The PRC consumer sentiment has been relatively weakened in the second half of 2011 brought about by the inflation in the PRC. Nonetheless, during the year, PRC operations reached a revenue of HK$3,615.0 million, increasing 23.9% from HK$2,916.7 million in 2010, mainly due to the satisfactory performance of existing stores and full year contributions from stores opened during 2010. Thanks to enhanced operational efficiency and economies of scale, segment profit rose by 32.2% from HK$153.7 million to HK$203.2 million. During the year under review, the Group opened two stores in Guangzhou in September and December respectively.

As at 31 December 2011, the Group operated 20 stores in south China.

## Prospects

### Hong Kong operations

Looking ahead, the local economy is expected to be inevitably affected by the uncertainties in the global economic condition, leading to conservative consumer sentiment in the territory. Inflationary pressure is also increasing. Despite the challenges ahead, the Group believes there are opportunities that may arise, in particular, the increase in rental is likely to slow down. With a strong cash position, the Group can secure better locations and leasing terms for new stores, which can effectively accelerate the business expansion. Therefore, the Group remains cautiously optimistic about its prospects in Hong Kong.

Short-term market fluctuations should not affect the Group's long-term development, and the Group will continue its expansion roadmap by opening another three stores in Tsuen Wan, Kowloon City and Causeway Bay in the coming year. In addition, the Tuen Mun store is to undergo renovation to enhance the store image. More outlets are expected to be open when suitable locations are identified. The capital expenditure involved is around HK$213 million.

**PRC operations**

The PRC is expected to remain one of the fastest growing economies and consumption markets in the world. The retail market in southern China should continue to expand, supported by the strong economic growth and Government policy directed at increasing personal disposable income and stimulating domestic consumption. The Group thus maintains a positive outlook towards its PRC operations.

Encouraged by support from local consumers and property developers planning to introduce quality retailers into their residential or commercial property projects, in the coming year, the Group will speed up its penetration in the PRC by opening 10 new stores in south China, as well as evaluate expanding the business beyond Guangdong Province. The capital expenditure for new store openings and store renovation is around HK$300 million. The Group is also aware of some potential challenges such as inflationary pressures and rising labour costs, and it will monitor the condition closely and implement measures to address these issues should they arise.

## Human Resources

As at 31 December 2011, the Group had approximately 7,600 full-time and 1,100 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices of the industry. Committed to delivering the highest standard of service to all its customers, the Group will continue to place efforts on enhancing the quality and skills of its staff by providing professional trainings and mentorship. It will also seek to create an environment where employees can grow and feel a sense of belonging and loyalty to the Group.

**LAM Man Tin**
*Managing Director*

Hong Kong, 16 March 2012


# Corporate Social Responsibility Report

The Group is a staunch supporter of corporate social responsibility, directing its energies towards protecting nature as well as providing resources to the underprivileged which feedback to the society through charity, environmental protection activities, education and volunteer activities.

## Charitable fund-raising

For the 20th consecutive year in Hong Kong, the Group has worked with World Vision to hold the "Used Book Recycling Campaign" to raise funds for the development of the Mainland China Education Projects and the construction of schools and teaching blocks through books collections and charity activities. As of 2011, more than 3.7 million books in total were received and more than HK$20 millions were raised respectively which aimed to benefit to students, teachers and children of Guangxi, Guizhou, Guangdong, Ningxia, Gansu, Diqing, Shaanxi, Sichuan and other areas. In addition, the Group has cooperated with the World Vision in Hong Kong to raise funds and received more than HK$500,000 in total to help the victims of Yunnan, Japan and Thailand who were suffered by earthquake and flood disaster.

In China, the Group invited our customers to participate in the "Yellow Receipts" campaign. On the 11th of each month, our customers will receive an extra yellow sales receipt which is used to vote for the charitable organizations that our customers support. The Group will donate goods with value equivalent to 1% of the total sales amount of the yellow receipts voted to those organizations. In the year, 36 organizations were benefited through this event. In addition, the Group also participated in various activities and raised fund over RMB400,000 to help the victims in Sichuan and Gansu.

## Environmental Protection Activities

The Group encouraged our staff and customers to participate in environmental protection activities to arouse their awareness. Activities include ecological guided tours, beaches and streets cleaning, tree planting and tree caring programs were organised throughout the year. Energy-saving lights were distributed to our customers to promote energy saving concepts. The Group also launched educational programmes to kindergarten and primary school students to deliver environmental protection messages.



## Education

In China, the Group provided financial assistance to high school students, delivered books to countryside and donated money to schools.

The Group also made donations to Beijing University, Nankai University, Tsinghua University and Yat-sen University to award scholarships for outstanding undergraduates.

## Volunteer Activities

The Group arranged visits of elderly homes before festive days aiming to share the joy of the festive as well as showing care to the elderly.

## Brand Recognition

Throughout the years, the Group has maintained its commitment to delivering exceptional merchandise and services, and standing by its motto, "Everything we do, we do for our customers". Such devotion has gained recognition and encouragement from people from all walks of life. The group was awarded the "Best Editor's Pick Award", "The Best Home Award" by Take me Home, "China Post Top Brand 2011", "Quality Tourism Services Merchant Awards" by the Quality Tourism Services Association, "Prime Awards for Eco-Business" by MetroBox Magazine, "Yahoo! Emotive Brand Awards", "Green Enterprise Awards 2011" by Capital Weekly and "Prime Awards for Brand Excellence".

## Executive Directors

**Mr. LAM Man Tin**

Mr. Lam (aged 53) was appointed as Executive Director in May 1999 and became the Managing Director in May 2006. He is also a director of AEON (China) Co., Ltd.. Mr. Lam joined the Company in 1992 and has over 20 years of retail and service experiences. He graduated from The University of Hull in the United Kingdom with a master's degree in Strategic Marketing.

**Ms. CHAN Pui Man Christine**

Ms. Chan (aged 60) was appointed as Executive Director in September 2009 and is the Director of the Buying Division of the Company. Ms. Chan joined the Company in 1998. She has over 20 years of 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.

**Ms. CHAN Suk Jing**

Ms. Chan (aged 52) was appointed as Executive Director in March 2012 and is in charge of Licensee and Construction & Maintenance Division of the Company. Having joined the Company in 1995, Ms. Chan was the former operations assistant general manager in AEON South China Co., Ltd. and former Operations (GMS) Assistant General Manager of the Company. She now possesses over 20 years of experience in the retail industry.

**Mr. SUZUKI Junichi**

Mr. Suzuki (aged 55) was appointed as Executive Director in March 2012 and is in charge of the Administration and Finance Division of the Company. 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 Sangyo University with a bachelor's degree in Business Administration.

## Non-executive Directors

**Mr. OKUNO Yoshinori**

Mr. Okuno (aged 48) was appointed as Non-executive Director in March 2011 and became the Chairman in May 2011. He is a director and vice president of AEON (China) Co., Ltd. and he was appointed the managing director and is currently the chairman of Guangdong Jusco Teem Stores Co., Ltd., a non-wholly owned subsidiary of the Company. He joined AEON Co. in 1993. Mr. Okuno graduated from the University of Tsukuba with a bachelor's degree in Science.

**Mr. TSUJI Haruyoshi**

Mr. Tsuji (aged 56) was appointed as Non-executive Director in March 2011. He is the chairman and president of AEON (China) Co., Ltd. and he was the president of AEON Eaheart Co., Ltd.. He joined AEON Co. in 1978. Mr. Tsuji graduated from Kansai University with a bachelor's degree in Sociology.

**Mr. KOMATSU Takashi**

Mr. Komatsu (aged 53) was appointed as Non-executive Director in March 2011. He was appointed the managing director of AEON South China Co., Ltd., a wholly owned subsidiary of the Company. He joined AEON Co. in 1983. Mr. Komatsu is a graduate of the Ryukoku University with a bachelor's degree in Sociology.

## Independent Non-executive Directors

**Prof. LAM PEI Peggy, G.B.S., O.B.E., J.P.**

Prof. Lam (aged 83) was appointed as Independent Non-executive Director since 1994. She was the Chairman of the Wan Chai District Council from 1985 to 2003 and a member of the Preparatory Committee for the Hong Kong Special Administrative Region ('HKSAR'). She has also served as a Hong Kong Affairs Advisor to the People's Republic of China and was the members of the Chinese People's Political Consultative Conference for 15 years and the Executive Committee of All China Women's Federation. She was a member of the Legislative Council from 1988 to 1995 and a member of the Provisional Legislative Council of the HKSAR. She is the Founding Chairperson of Hong Kong Federation of Women. She was appointed as the Justice of Peace in 1981, and awarded the Member of the British Empire (M.B.E.) in 1985 and the Order of the British Empire (O.B.E.) in 1993 by the Queen of Elizabeth II, the Silver Bauhinia Star (S.B.S.) and the Gold Bauhinia Star (G.B.S.) by the Government of the HKSAR in 1998 and 2003 respectively.

Prof. Lam graduated from The University of Shanghai with a bachelor's degree in Arts. She received a Certificate in Family Planning from The University of Chicago and a Certificate in Public Health Administration from The University of Michigan, U.S.A. She was awarded as a Fellow in Family Planning by The American University in 1981 and Honorary Professor by University of Shanghai for Science and Technology in 2006. In 2009, she was also awarded an Honorary University Fellow by Hong Kong Baptist University.

**Mr. SHAM Sui Leung Daniel**

Mr. Sham (aged 56) 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 Stock Exchange of Hong Kong Limited.

**Ms. CHENG Yin Ching Anna**

Ms. Cheng (aged 42) was appointed as Independent Non-executive Director in June 2006 and she is a fellow of the Association of Chartered Certified Accountants and also a Certified Public Accountant of the HKICPA. From 1997 to 2004, she was the finance director of Rosedale Hotel Group Limited (now renamed as China Agri-Products Exchange Limited), a company listed on The Stock Exchange of Hong Kong Limited. She is currently the chief financial officer of Peterson Holdings Company Limited.

**Dr. SHAO Kung Chuen Daniel**

Dr. Shao (aged 63) was appointed as Independent Non-executive Director in May 2008. He is the managing director of Van Yu Trading Co. Ltd. and First Regent Ltd.. In January 2010, Dr. Shao joined the Central Policy Unit of the Government of the HKSAR and also became the Overseas Economic Advisor for Dalian. He is the Senior Advisor of National Institute of Hospital Administration of China and the Honorary Consultant of Peking University Health Science Center in China since 1999. He has been appointed as the Committee Member of Main Committee and the Hong Kong/Japan Business Co-operation Committee of Hong Kong Trade Development Council since 1994. He has also been the member of Advisory Board of School of Continuing & Professional Studies of The Chinese University of Hong Kong since 1991. He was awarded the Bronze Bauhinia Star (B.B.S.) by the Government of the HKSAR in 1999. He graduated from Ohio University, U.S.A. and also received The Honorary Doctor of Law Degree from the University in 1998.

## Senior Management

**Mr. CHAK Kam Yuen**

Mr. Chak (aged 49) is the General Manager of Business Support & E-Business Development 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.

**Mr. HIGUCHI Isao**

Mr. Higuchi (aged 51) is the General Manager of Specialty Store Division of the Company. He joined AEON Co. in 1984 and transferred to AEON Co. (M) Bhd. in 2008. He joined the Company in July 2011. Mr. Higuchi graduated from Rikkyo University of Economics with a bachelor's degree in Business Administration.

**Mr. YEUNG Tze Shing**

Mr. Yeung (aged 48) is the Assistant General Manager of Finance of the Company. He is a fellow 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.

## Corporate Governance Practice

The Board of Directors (the "Board") of the Company is committed to maintaining high standards of corporate governance. The Company has adopted the code provisions set out in the Code of Corporate Governance Practices (the "Code") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of corporate governance practice.

In the opinion of the Directors, the Company has complied throughout the year with the Code.

## 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 is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day 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. The attendance of the Directors at the Board meetings for the year ended 31 December 2011 are as follows:

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

| | Directors | Number of attendance |
|---|---|---|
| **Executive Directors** | Lam Man Tin *(MD)* | 5/5 |
| | Chan Pui Man Christine | 5/5 |
| | Yuji Yoneta | 5/5 |
| | Kenji Fujita (Note 1) | 2/5 |
| **Non-executive Directors** | Yoshinori Okuno *(Chairman)* (Notes 2 & 4) | 3/5 |
| | Haruyoshi Tsuji (Note 2) | 3/5 |
| | Akio Yoshida (Note 2) | 3/5 |
| | Takashi Komatsu (Note 2) | 3/5 |
| | Akihito Tanaka *(Former Chairman)* (Note 4) | 3/5 |
| | Jerome Thomas Black (Note 3) | 2/5 |
| | Kazumasa Ishii (Note 3) | 0/5 |
| | Fumiaki Origuchi (Note 3) | 1/5 |
| **Independent Non-executive Directors** | Lam Pei Peggy | 4/5 |
| | Sham Sui Leung Daniel | 5/5 |
| | Cheng Yin Ching Anna | 5/5 |
| | Shao Kung Chuen | 5/5 |

Notes:

1. Mr. Kenji Fujita resigned as an Executive Director of the Company on 18 March 2011.

2. Mr. Yoshinori Okuno, Mr. Haruyoshi Tsuji, Mr. Akio Yoshida and Mr. Takashi Komatsu were appointed as Non-executive Directors of the Company on 18 March 2011 and there have been three Board meetings held after their appointment.

3. Mr. Jerome Thomas Black, Mr. Kazumasa Ishii and Mr. Fumiaki Origuchi resigned as Non-executive Directors of the Company on 18 March 2011.

4. Mr. Akihito Tanaka resigned as a Non-executive Director and Chairman of the Company on 27 May 2011. Mr. Yoshinori Okuno was appointed as the Chairman of the Company with effect from 27 May 2011.

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 and considers them to be 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 list of Directors and their respective biographies are set out on pages 11 to 14 of the annual report respectively.

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.

## Chairman and Chief Executive Officer

The Board considered that the duties of the MD were no difference from that required of a chief executive officer 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 officer 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.

## 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. The Committee's authorities and duties are set out in written terms of reference, which are posted on the Company's website.

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

| | Directors | Number of attendance |
|---|---|---|
| **Non-executive Directors** | Yoshinori Okuno *(Chairman)* (Note 1) | 1/3 |
| | Akihito Tanaka *(Former Chairman)* (Note 2) | 2/3 |
| **Independent Non-executive Directors** | Lam Pei Peggy | 3/3 |
| | Sham Sui Leung Daniel | 3/3 |

Notes:

1. Mr. Yoshinori Okuno was appointed as the chairman and a member of the Remuneration Committee of the Company on 27 May 2011 and there have been one Remuneration Committee meeting held after his appointment.

2. Mr. Akihito Tanaka resigned as the chairman and a member of the Remuneration Committee of the Company on 27 May 2011.

During 2011, the Remuneration Committee performed the following duties:

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

— 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.

## Nomination of Directors

The Company has not established a Nomination Committee during the year. The duties and functions of the Nomination Committee recommended in the Code are performed by the Board collectively with no Director being involved in fixing his/her own terms of appointment and no Independent Non-executive Director being involved in assessing his/her own independence.

New Directors are sought mainly through internal promotions and referrals. In assessing whether a candidate is suitable for appointment as a Director, the Board will consider relevant factors including the independence, experience, skills, personal ethics, integrity and time commitment.

## 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<br>HK$'000 |
|---|---|
| Audit services — annual audit | 5,168 |
| Non-audit services: | |
| Review of interim results | 657 |
| Taxation services | 3,863 |
| Other services | 219 |
| | 9,907 |

## 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, which are posted on the Company's website.

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 Directors** | Yoshinori Okuno (Note 1) | 1/3 |
| | Akihito Tanaka (Note 2) | 1/3 |
| **Independent Non-executive Directors** | Sham Sui Leung Daniel *(Chairman)* | 3/3 |
| | Lam Pei Peggy | 3/3 |
| | Cheng Yin Ching Anna | 3/3 |

Notes:

1. Mr. Yoshinori Okuno was appointed as a member of the Audit Committee of the Company on 27 May 2011 and there have been two Audit Committee meetings held after his appointment.

2. Mr. Akihito Tanaka resigned as a member of the Audit Committee of the Company on 27 May 2011.

During 2011, the Audit Committee performed the following duties:

— reviewed the audited financial statements for the year ended 31 December 2010 with a recommendation to the Board for approval;

— reviewed the un-audited financial statements for the six months ended 30 June 2011 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

— met the management and reviewed their reports on connected transactions of the Company.

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 ceases to be a partner of the auditing firm.

## Accountability

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 2011 and for the year ended 31 December 2011, 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.

## 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.

# Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2011.

## 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 2011 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 2011 are set out in the consolidated income statement on page 31.

An interim dividend of 25.5 HK cents per share amounting to HK$66,300,000 in aggregate was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 35.9 HK cents per share to the shareholders on the register of members on 25 May 2012, amounting to HK$93,340,000 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$228,143,000 on property, plant and equipment to renovate its stores and expand its operations.

During the year, the Group acquired an investment property for a cash consideration of HK$323,736,000. The property is held to earn rents and is classified and accounted for as an investment property under fair value model.

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 2011 comprised the retained profits of HK$1,257,353,000 (2010: HK$1,081,682,000).

## Directors

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

### Executive Directors

| | |
|---|---|
| LAM Man Tin *(Managing Director)* | |
| CHAN Pui Man Christine | |
| CHAN Suk Jing | (appointed on 16 March 2012) |
| Junichi SUZUKI | (appointed on 16 March 2012) |
| Yuji YONETA | (resigned on 16 March 2012) |
| Kenji FUJITA | (resigned on 18 March 2011) |

### Non-executive Directors

| | |
|---|---|
| Yoshinori OKUNO *(Chairman)* | (appointed on 18 March 2011) |
| Haruyoshi TSUJI | (appointed on 18 March 2011) |
| Akio YOSHIDA | (appointed on 18 March 2011 and resigned on 16 March 2012) |
| Takashi KOMATSU | (appointed on 18 March 2011) |
| Jerome Thomas BLACK | (resigned on 18 March 2011) |
| Kazumasa ISHII | (resigned on 18 March 2011) |
| Fumiaki ORIGUCHI | (resigned on 18 March 2011) |
| Akihito TANAKA | (resigned on 27 May 2011) |

### Independent Non-executive Directors

LAM PEI Peggy
SHAM Sui Leung Daniel
CHENG Yin Ching Anna
SHAO Kung Chuen

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 2011, 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) | % |
| LAM Man Tin | 20,000 | — | 748,000 | 0.295 |
| CHAN Pui Man Christine | 6,000 | — | 122,000 | 0.049 |
| LAM PEI Peggy | 200,000 | — | — | 0.077 |
| SHAO Kung Chuen | 4,000 | 4,000 | — | 0.003 |

Note: This column represents interests in Stock Appreciation Rights, details of which are set out in paragraph (c) 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 |
| Yuji YONETA | 800 | 0.00010 |
| Haruyoshi TSUJI | 3,109 | 0.00039 |
| Akio YOSHIDA | 5,718 | 0.00071 |
| Takashi KOMATSU | 2,000 | 0.00025 |

(c) **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 2011, 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 |
|---|---|---|
| LAM Man Tin | Beneficial owner | 748,000 |
| CHAN Pui Man Christine | Beneficial owner | 122,000 |

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 1.1.2011 | Granted during the year | Exercised during the year | Cancelled during the year | Forfeited during the year | Outstanding at 31.12.2011 |
| LAM Man Tin | | | | | | | | |
| 25.9.2009 | 15.236 | 1.6.2009 to 31.5.2015 | 54,000 | — | (54,000) | — | — | — |
| | 15.236 | 1.6.2010 to 31.5.2015 | 54,000 | — | (54,000) | — | — | — |
| | 15.236 | 1.6.2011 to 31.5.2015 | 72,000 | — | (72,000) | — | — | — |
| | 13.500 | 25.9.2010 to 24.9.2016 | 82,800 | — | — | — | — | 82,800 |
| | 13.500 | 25.9.2011 to 24.9.2016 | 82,800 | — | — | — | — | 82,800 |
| | 13.500 | 25.9.2012 to 24.9.2016 | 110,400 | — | — | — | — | 110,400 |
| 1.9.2010 | 14.260 | 1.9.2011 to 31.8.2017 | 84,600 | — | — | — | — | 84,600 |
| | 14.260 | 1.9.2012 to 31.8.2017 | 84,600 | — | — | — | — | 84,600 |
| | 14.260 | 1.9.2013 to 31.8.2017 | 112,800 | — | — | — | — | 112,800 |
| 1.9.2011 | 17.900 | 1.9.2012 to 31.8.2018 | — | 57,000 | — | — | — | 57,000 |
| | 17.900 | 1.9.2013 to 31.8.2018 | — | 57,000 | — | — | — | 57,000 |
| | 17.900 | 1.9.2014 to 31.8.2018 | — | 76,000 | — | — | — | 76,000 |
| 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 |

Notes:

1. The Closing Price on underlying shares on 24 September 2009, the date immediately before the date of grant on 25 September 2009 was HK$12.80.

2. The Closing Price on underlying shares on 31 August 2010, the date immediately before the date of grant on 1 September 2010 was HK$14.20.

3. The Closing Price on underlying shares on 31 August 2011, the date immediately before the date of grant on 1 September 2011 was HK$17.90.

Other than as disclosed above, at 31 December 2011, neither the Directors nor the chief executives in 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 and Connected Transactions

During the year, the Group had the following material transactions with AEON Co., Ltd. and its subsidiaries, namely AEON Credit Service (Asia) Company Limited ("ACS"), AEON Fantasy Co., Limited ("AEON Fantasy"), AEON Information Services (Shenzhen) Co., Ltd. ("AIS"), Beijing AEON Co., Ltd. ("BJA"), Qingdao Dongtai Jusco Co., Ltd. ("QDJ"), AEON Delight (Beijing) Co., Ltd. and its subsidiaries ("ADB"), and subsidiaries of AIC Inc.. The Directors of the Company, Messrs. Akihito TANAKA, Yoshinori OKUNO, Yuji YONETA, Haruyoshi TSUJI, Akio YOSHIDA, Takashi KOMATSU and Kazumasa ISHII, have beneficial interests in AEON Co., Ltd.. Mr. Akihito TANAKA also has beneficial interests in AEON Fantasy. The Company had made purchases from First Regent Ltd., in which Dr. SHAO Kung Chuen, the Director of the Company, has a beneficial interest.

(i) The Group made purchases from subsidiaries of AIC Inc. amounting to a total of HK$175,034,000.

(ii) ACS and the Company have entered into a number of service agreements under which ACS pays to the Company a fixed monthly rental in respect of service counters, cash dispensing machines and cash repayment machines operated by ACS in the stores of the Company. The total amount of rental paid and payable by ACS for the year was HK$7,453,000.

(iii) Royalties payable to AEON Co., Ltd. for the year pursuant to the amended technical assistance agreement amounted to HK$39,948,000. Details of the royalty payable to AEON Co., Ltd. are set out in section headed "Connected Transactions".

(iv) The Company pays commissions of HK$9,268,000 to ACS for credit facilities provided by ACS to the customers. Details of the commission payable to ACS are set out in section headed "Connected Transactions".

(v) The Company pays franchise fee, consumable expenses and purchase of machines at the aggregate amount of HK$292,000 to AEON Fantasy for running franchise business. Details are set out in the section headed "Connected Transactions".

(vi) The subsidiaries registered in the People's Republic of China of the Company ("PRC AEON Stores") pay service fee of HK$5,955,000 to AIS which handles the AEON card applications, the issue of AEON cards and carrying out other card related business. On the other hand, AIS needs to pay rental fees, electricity and telephone charges incurred and management fees of HK$2,895,000 to PRC AEON Stores for setting up the service counters in the stores of PRC AEON Stores. Details are set out in the section headed "Connected Transactions".

(vii) The Company made purchases from First Regent Ltd. amounting to a total of HK$67,000.

(viii) BJA pay service fee of HK$1,343,000 to PRC AEON Stores for the provision of information system services.

(ix) QDJ pay service fee of HK$607,000 and HK$1,865,000 to PRC AEON Stores for the provision of logistic services and information system services respectively.

(x) PRC AEON Stores pay service fee of HK$6,546,000 to ADB which provides cleaning and facilities maintenance services within the stores premises of PRC AEON Stores. Details are set out in the section headed "Connected Transactions".

Other than as disclosed above, 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 Jusco Teem Stores Co., Ltd. ("GDJ") and a related party of the Company, Guangdong Teem (Holdings) Limited ("Teem Holding") have entered into a tenancy agreement under which GDJ pays rent to Teem Holding. In accordance with the tenancy agreement, GDJ 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 GDJ 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. GDJ 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 GDJ for the year was RMB44,927,000. 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$39,948,000. This amount does not exceed the cap amount of HK$55,000,000 as shown in the announcement of the Company dated 16 April 2010.

(iii) 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 agreement has expired on 14 April 2011 and renewed for a term of three years effective from 15 April 2011 to 14 April 2014. The total amount of commission paid and payable by the Company for the period from 1 January 2011 to 14 April 2011 was HK$2,474,000 and HK$6,794,000 for the period from 15 April 2011 to 31 December 2011. These amount do not exceed the cap amount of HK$4,500,000 and HK$11,400,000 for the respective periods as shown in the announcements of the Company dated 16 April 2008 and 15 April 2011.

(iv) AEON Fantasy and the Company have entered into an agreement under which AEON Fantasy granted the sole exclusive right and licence to the Company and its affiliates by AEON Fantasy to operate the franchise business operated under and conducted under certain trade marks and trade names owned by or made available to AEON Fantasy using the distinctive business format and method developed and implemented by AEON Fantasy. The total amount of franchise fee, purchase prices of machines, consumables and administrative costs provided by AEON Fantasy to the Company and its affiliates for the period from 1 January 2011 to 29 June 2011 was HK$169,000. This amount does not exceed the cap amount of HK$16,750,000 for the same period as shown in the announcement of the Company dated 4 July 2008.

(v) 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 outsourcing agreement has expired on 20 July 2011 and renewed for another three years effective from 21 July 2011 to 20 July 2014.

The aggregated amount payable by the PRC AEON Stores to AIS and by AIS to the PRC AEON Stores under the outsourcing agreements for the period from 1 January 2011 to 20 July 2011 was HK$4,700,000. The aggregated amount does not exceed the cap amount of HK$23,100,000 for the same period as shown in the announcements of the Company dated 23 July 2008 and 22 December 2008.

For the period from 21 July 2011 to 31 December 2011, the amount payable by the PRC AEON Stores to AIS under the outsourcing agreement was RMB2,238,000 and the amount payable by AIS to the PRC AEON Stores for the same period was RMB1,272,000. These amounts do not exceed the cap amount of RMB5,355,000 and RMB4,908,000 respectively for the same period as shown in the announcement of the Company dated 30 August 2011.

(vi) ADB and the Company have entered into master services agreements under which PRC AEON Stores pay service fees to ADB 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 ADB group companies in the year was RMB5,451,000. This amount does not exceed the cap amount of RMB140,000,000 as shown in the announcement of the Company dated 30 March 2011.

Pursuant to the Listing Rules, the Independent Non-Executive Directors have 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 auditor of the Company has performed certain agreed upon procedures on the above continuing connected transactions for the year ended 31 December 2011 (the "Transactions") pursuant to Rule 14A.38 of the Listing Rules and reported their factual findings on these procedures to the Board of Directors and confirmed that the Transactions have been approved by the Board; based on the samples selected for the agreed upon procedures performed, the auditor found that the Transactions have been entered into in accordance with the relevant agreements governing the Transactions and have not exceeded the caps set out in the respective paragraphs above.

## 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 2011, 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 | 25,486,000 (Note 2) | 9.80 |
| Commonwealth Bank of Australia | 12,990,000 | 5.00 |

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 Service 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 45.28% 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 2011.

## 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$1,206,000.

## Emolument Policy

The emoluments of the Directors of the Company are decided by the Remuneration Committee, 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 2011.

## 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

**LAM Man Tin**
*Managing Director*

Hong Kong, 16 March 2012

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 31 to 91, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, consolidated statement of 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 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
16 March 2012

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| Revenue | 5 | **6,686,387** | 6,106,485 |
| Other income | | **514,237** | 446,030 |
| Investment income | 7 | **30,774** | 21,474 |
| Purchases of goods and changes in inventories | | **(4,442,635)** | (4,074,759) |
| Staff costs | | **(705,518)** | (638,235) |
| Depreciation | | **(132,005)** | (118,958) |
| Gain on fair value change of an investment property | | **86,264** | — |
| Loss on disposal of property, plant and equipment | | **(291)** | (733) |
| Impairment loss recognised in respect of property, plant and equipment | 17 | **—** | (12,490) |
| Pre-operating expenses | 8 | **(27,215)** | (12,617) |
| Other expenses | | **(1,437,872)** | (1,308,768) |
| Finance costs | 9 | **(2,264)** | (5,852) |
| Profit before tax | | **569,862** | 401,577 |
| Income tax expense | 10 | **(115,457)** | (81,547) |
| Profit for the year | 11 | **454,405** | 320,030 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **405,918** | 279,218 |
| Non-controlling interests | | **48,487** | 40,812 |
| | | **454,405** | 320,030 |
| Earnings per share | 15 | **156.12 HK cents** | 107.39 HK cents |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

| | **2011** **HK$'000** | 2010 HK$'000 |
|---|---|---|
| Profit for the year | **454,405** | 320,030 |
| Other comprehensive income | | |
| Fair value loss on available-for-sale investments | **(3,166)** | (1,045) |
| Exchange differences arising on translation of foreign operations | **22,055** | 9,869 |
| Other comprehensive income for the year, net of income tax | **18,889** | 8,824 |
| Total comprehensive income for the year | **473,294** | 328,854 |
| Total comprehensive income attributable to: | | |
| Owners of the Company | **416,572** | 283,422 |
| Non-controlling interests | **56,722** | 45,432 |
| | **473,294** | 328,854 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

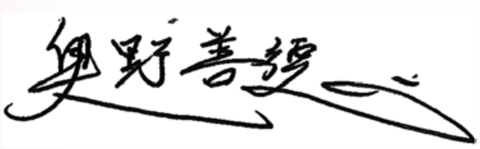
At 31 December 2011

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Goodwill | 16 | **94,838** | 94,838 |
| Property, plant and equipment | 17 | **607,773** | 494,847 |
| Investment property | 18 | **410,000** | — |
| Available-for-sale investments | 20 | **23,670** | 26,836 |
| Long term time deposit | 21 | **—** | 117,118 |
| Deferred tax assets | 22 | **30,092** | 25,800 |
| Rental deposits | | **132,440** | 109,086 |
| Deposit paid for acquisition of investment property | | **—** | 31,000 |
| Pledged bank deposits | 33 | **25,196** | — |
| | | **1,324,009** | 899,525 |
| **Current Assets** | | | |
| Inventories | 23 | **699,962** | 585,117 |
| Trade receivables | 24 | **33,403** | 21,003 |
| Other receivables, prepayments and deposits | | **144,552** | 63,163 |
| Amounts due from fellow subsidiaries | | **116,986** | 90,957 |
| Short term time deposit | 21 | **116,730** | — |
| Pledged bank deposits | 33 | **25,800** | 12,143 |
| Bank balances and cash | | **2,178,184** | 2,168,383 |
| | | **3,315,617** | 2,940,766 |
| **Current Liabilities** | | | |
| Trade payables | 26 | **1,400,591** | 1,212,876 |
| Other payables and accrued charges | | **1,203,668** | 929,562 |
| Amounts due to fellow subsidiaries | | **56,532** | 45,303 |
| Amount due to ultimate holding company | | **41,440** | 39,422 |
| Bank borrowings | 27 | **24,571** | 23,410 |
| Income tax payable | | **27,991** | 34,540 |
| Dividend payable | | **770** | 614 |
| | | **2,755,563** | 2,285,727 |
| **Net Current Assets** | | **560,054** | 655,039 |
| **Total Assets Less Current Liabilities** | | **1,884,063** | 1,554,564 |

At 31 December 2011

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | 29 | **52,000** | 52,000 |
| Share premium and reserves | | **1,526,777** | 1,258,665 |
| Equity attributable to owners of the Company | | **1,578,777** | 1,310,665 |
| Non-controlling interests | | **183,949** | 145,527 |
| **Total Equity** | | **1,762,726** | 1,456,192 |
| **Non-current Liabilities** | | | |
| Rental deposits received and other liabilities | | **105,541** | 71,407 |
| Deferred tax liabilities | 22 | **15,796** | 3,555 |
| Bank borrowings | 27 | **—** | 23,410 |
| | | **121,337** | 98,372 |
| | | **1,884,063** | 1,554,564 |

The consolidated financial statements on pages 31 to 91 were approved and authorised for issue by the Board of directors on 16 March 2012 and are signed on its behalf by:



**YOSHINORI OKUNO**
*Director*

**LAM MAN TIN**
*Director*

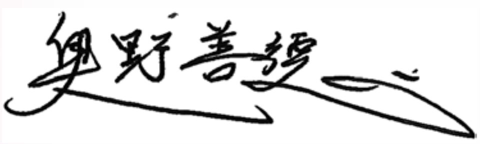
# COMPANY'S STATEMENT OF FINANCIAL POSITION

At 31 December 2011

| | NOTES | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|---|
| **Non-current Assets** | | | |
| Property, plant and equipment | 17 | **229,468** | 157,189 |
| Investment property | 18 | **410,000** | — |
| Investments in subsidiaries | 19 | **276,238** | 276,238 |
| Available-for-sale investments | 20 | **23,670** | 26,836 |
| Long term time deposit | 21 | **—** | 117,118 |
| Deferred tax assets | 22 | **—** | 8,735 |
| Rental deposits | | **91,290** | 67,500 |
| Deposit paid for acquisition of investment property | | **—** | 31,000 |
| | | **1,030,666** | 684,616 |
| **Current Assets** | | | |
| Inventories | 23 | **361,393** | 309,201 |
| Trade receivables | 24 | **18,872** | 8,874 |
| Other receivables, prepayments and deposits | | **42,173** | 31,336 |
| Amounts due from subsidiaries | | **16,291** | 14,285 |
| Amounts due from fellow subsidiaries | | **79,315** | 51,219 |
| Short term time deposit | 21 | **116,730** | — |
| Bank balances and cash | | **868,753** | 1,052,922 |
| | | **1,503,527** | 1,467,837 |
| **Current Liabilities** | | | |
| Trade payables | 26 | **635,025** | 544,466 |
| Other payables and accrued charges | | **325,930** | 259,759 |
| Amount due to ultimate holding company | | **42,104** | 39,717 |
| Amounts due to fellow subsidiaries | | **37,638** | 34,947 |
| Income tax payable | | **2,603** | 3,694 |
| Dividend payable | | **770** | 614 |
| | | **1,044,070** | 883,197 |
| **Net Current Assets** | | **459,457** | 584,640 |
| **Total Assets Less Current Liabilities** | | **1,490,123** | 1,269,256 |

At 31 December 2011

| | NOTES | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|---|
| **Capital and Reserves** | | | |
| Share capital | 29 | **52,000** | 52,000 |
| Share premium and reserves | 30 | **1,340,249** | 1,167,744 |
| | | **1,392,249** | 1,219,744 |
| **Non-current Liabilities** | | | |
| Rental deposits received and other liabilities | | **82,078** | 45,957 |
| Deferred tax liabilities | 22 | **15,796** | 3,555 |
| | | **97,874** | 49,512 |
| | | **1,490,123** | 1,269,256 |



**YOSHINORI OKUNO**
*Director*

**LAM MAN TIN**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Investment revaluation reserve HK$'000 | Translation reserve HK$'000 | The People's Republic of China (the "PRC") statutory reserves HK$'000 | Non-distributable reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1 January 2010 | 52,000 | 63,158 | 23,949 | 17,189 | 9,159 | 25,923 | 952,085 | 1,143,463 | 110,627 | 1,254,090 |
| Profit for the year | — | — | — | — | — | — | 279,218 | 279,218 | 40,812 | 320,030 |
| Other comprehensive income for the year | — | — | (1,045) | 5,249 | — | — | — | 4,204 | 4,620 | 8,824 |
| Total comprehensive income for the year | — | — | (1,045) | 5,249 | — | — | 279,218 | 283,422 | 45,432 | 328,854 |
| Transfer, net of non-controlling interests share | — | — | — | — | 2,525 | 8,811 | (11,336) | — | — | — |
| Dividends recognised as distribution | — | — | — | — | — | — | (116,220) | (116,220) | — | (116,220) |
| Dividends paid to non-controlling shareholders | — | — | — | — | — | — | — | — | (10,532) | (10,532) |
| At 31 December 2010 | 52,000 | 63,158 | 22,904 | 22,438 | 11,684 | 34,734 | 1,103,747 | 1,310,665 | 145,527 | 1,456,192 |
| Profit for the year | **—** | **—** | **—** | **—** | **—** | **—** | **405,918** | **405,918** | **48,487** | **454,405** |
| Other comprehensive income for the year | **—** | **—** | **(3,166)** | **13,820** | **—** | **—** | **—** | **10,654** | **8,235** | **18,889** |
| Total comprehensive income for the year | **—** | **—** | **(3,166)** | **13,820** | **—** | **—** | **405,918** | **416,572** | **56,722** | **473,294** |
| Transfer, net of non-controlling interests share | **—** | **—** | **—** | **—** | **6,781** | **22,286** | **(29,067)** | **—** | **—** | **—** |
| Dividends recognised as distribution | **—** | **—** | **—** | **—** | **—** | **—** | **(148,460)** | **(148,460)** | **—** | **(148,460)** |
| Dividends paid to non-controlling shareholders | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **—** | **(18,300)** | **(18,300)** |
| At 31 December 2011 | **52,000** | **63,158** | **19,738** | **36,258** | **18,465** | **57,020** | **1,332,138** | **1,578,777** | **183,949** | **1,762,726** |

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 2011

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Profit before tax | **569,862** | 401,577 |
| Adjustments for: | | |
| Investment income | **(30,774)** | (21,474) |
| Finance costs | **2,264** | 5,852 |
| Depreciation | **132,005** | 118,958 |
| Gain on fair value change of an investment property | **(86,264)** | — |
| Loss on disposal of property, plant and equipment | **291** | 733 |
| Impairment loss recognised in respect of property, plant and equipment | **—** | 12,490 |
| Write-down of inventories | **3,579** | 1,619 |
| Operating cash flows before movements in working capital | **590,963** | 519,755 |
| Increase in inventories | **(103,626)** | (19,765) |
| Increase in trade receivables | **(11,758)** | (1,155) |
| (Increase) decrease in other receivables, prepayments and deposits | **(99,470)** | 8,359 |
| Increase in amounts due from fellow subsidiaries | **(24,148)** | (24,543) |
| Increase (decrease) in trade payables | **153,102** | (33,116) |
| Increase in rental deposits received and other liabilities, other payables and accrued charges | **250,514** | 172,377 |
| Increase (decrease) in amounts due to fellow subsidiaries | **10,534** | (958) |
| Increase in amount due to ultimate holding company | **2,040** | 4,279 |
| Cash generated from operations | **768,151** | 625,233 |
| Hong Kong Profits Tax paid | **(41,591)** | (28,054) |
| People's Republic of China income taxes paid | **(72,718)** | (41,006) |
| Interest paid | **(2,264)** | (5,852) |
| Interest on bank deposits, callable time deposits and long term deposits received | **29,563** | 20,263 |
| **NET CASH FROM OPERATING ACTIVITIES** | **681,141** | 570,584 |

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| **INVESTING ACTIVITIES** | | |
| Decrease in callable time deposits | — | 77,641 |
| Withdrawal of pledged bank deposits | **12,609** | 743 |
| Placement of pledged bank deposits | **(49,997)** | — |
| Dividends received from investments | **1,211** | 1,211 |
| Purchase of property, plant and equipment | **(207,830)** | (137,199) |
| Proceeds from disposal of property, plant and equipment | **216** | 199 |
| Deposit paid for acquisition of investment property | — | (31,000) |
| Acquisition of an investment property | **(292,736)** | — |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(536,527)** | (88,405) |
| **FINANCING ACTIVITIES** | | |
| Bank borrowings raised | — | 91,458 |
| Repayment of bank borrowings | **(24,017)** | (217,213) |
| Dividends paid | **(148,304)** | (116,126) |
| Dividends paid to non-controlling shareholders | **(18,300)** | (10,532) |
| **NET CASH USED IN FINANCING ACTIVITIES** | **(190,621)** | (252,413) |
| **NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS** | **(46,007)** | 229,766 |
| **CASH AND CASH EQUIVALENTS AT 1 JANUARY** | **2,168,383** | 1,903,696 |
| Effect of Foreign Exchange Rate Changes | **55,808** | 34,921 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER,** represented by | **2,178,184** | 2,168,383 |
| Bank balances and cash | **2,178,184** | 2,168,383 |

## 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 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 Group is the operation of retail stores.

The consolidated financial statements of the Company 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")

In the current year, the Group and the Company have applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

| | |
|---|---|
| Amendments to HKFRSs | Improvements to HKFRSs issued in 2010 |
| HKAS 24 (as revised in 2009) | Related Party Disclosures |
| Amendments to HKAS 12 | Deferred tax: Recovery of Underlying Assets |
| Amendments to HKAS 32 | Classification of Rights Issues |
| Amendments to HK(IFRIC) — Int 14 | Prepayments of a Minimum Funding Requirement |
| HK(IFRIC) — Int 19 | Extinguishing Financial Liabilities with Equity Instruments |

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

### Amendments to HKAS 12

The amendments to HKAS 12 titled Deferred Tax: Recovery of Underlying Assets have been applied in advance of their effective date (annual periods beginning on or after 1 January 2012). Under the amendments, an investment property that are measured using the fair value model in accordance with HKAS 40 Investment Property is presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

The Group and the Company measure any deferred tax liability in respect of its investment property with reference to the tax liability that would arise if the property were disposed of at their carrying amounts at the end of the reporting period. As a result, the Group's and the Company's investment property that is acquired during the year and measured using the fair value model has been presumed to be recovered through sale for the purpose of measuring deferred taxes in respect of such property. The application of the amendments has resulted in the Group's and the Company's deferred tax liabilities being decreased by HK$14,233,000 as at 31 December 2011. In addition, the application has resulted in the Group's income tax expense for the year being decreased by HK$14,233,000, resulting in an increase in the Group's basic and diluted earnings per share by 5.47 HK cents for the year. The application of the amendments to HKAS 12 has had no impact on the reported profit or loss for prior years.

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

**New and revised HKFRSs issued but not yet effective**

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

| | |
|---|---|
| Amendments to HKFRS 7 | Disclosures — Transfers of Financial Assets[1] |
| Amendments to HKFRS 7 | Disclosures — Offsetting Financial Assets and Financial Liabilities[2] |
| HKFRS 9 and Amendments to HKFRS 7 | Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3] |
| HKFRS 9 | Financial Instruments[3] |
| HKFRS 10 | Consolidated Financial Statements[2] |
| HKFRS 11 | Joint Arrangements[2] |
| HKFRS 12 | Disclosure of Interests in Other Entities[2] |
| HKFRS 13 | Fair Value Measurement[2] |
| Amendments to HKAS 1 | Presentation of Items of Other Comprehensive Income[4] |
| HKAS 19 (as revised 2011) | Employee Benefits[2] |
| HKAS 27 (as revised 2011) | Separate Financial Statements[2] |
| HKAS 28 (as revised 2011) | Investments in Associates and Joint Ventures[2] |
| Amendments to HKAS 32 | Offsetting Financial Assets and Financial Liabilities[5] |
| HK(IFRIC) — Int 20 | Stripping Costs in the Production Phase of a Surface Mine[2] |

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 July 2012
5 Effective for annual periods beginning on or after 1 January 2014

*HKFRS 9 Financial Instruments*

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 "*Financial Instruments: Recognition and Measurement*" to be 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.

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

**New and revised HKFRSs issued but not yet effective — continued**

*HKFRS 9 Financial Instruments — continued*

- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's and the Company's financial statements for the annual period beginning 1 January 2015. Based on the consolidated statement of financial position of the Group as at 31 December 2011, 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 financial assets and financial liabilities.

*New and revised standards on consolidation, joint arrangements, associates and disclosures*

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards which are relevant to the Group are described below:

HKFRS 10 replaces the parts of HKAS 27 "*Consolidated and Separate Financial Statements*" that deal with consolidated financial statements and HK(SIC) — Int 12 "*Consolidation — Special Purpose Entities*" has been withdrawn upon the issuance of HKFRS 10. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. However, the application of these standards is not expected to have significant impact on amounts reported in the consolidated financial statements.

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

**New and revised HKFRSs issued but not yet effective — continued**

*HKFRS 13 Fair Value Measurement*

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires 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 in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements and the Company's statement of financial position for the annual period beginning 1 January 2013. However, the application of the standard is not expected to have significant impact on amounts reported in the consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements.

*Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income*

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. However, 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 to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The directors are in the process of considering the presentation of items of other comprehensive income. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied for the annual period beginning 1 January 2013.

Except as described above, the Directors anticipate that the application of the other new and revised HKFRSs will have no material impact on the 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. 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 and by the Hong Kong Companies Ordinance.

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, 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.

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 (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

*Allocation of total comprehensive income to non-controlling interests*

Total comprehensive income and expense of a subsidiary 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 (effective from 1 January 2010 onwards).

**Goodwill**

Goodwill arising on an acquisition of a business is carried at cost 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 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 whenever 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 the carrying amount of the unit, 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 in the consolidated income statement. An impairment loss recognised for goodwill is not reversed in subsequent periods.

## 3. Significant Accounting Policies — continued

### Goodwill — continued

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.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Deposits and instalments received from purchasers prior to meeting the above 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.

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.

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).

## 3. Significant Accounting Policies — continued

**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 |

The estimated useful lives, residual values 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.

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.

## 3. Significant Accounting Policies — continued

**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.

*The Group and the Company as lessee*

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 in the consolidated statement of financial position 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 as classified into loans and receivables and available-for-sale 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 financial asset 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 financial asset, 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***

*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 long term time deposit, trade receivables, other receivables, amounts due from fellow subsidiaries, short term time deposit, pledged bank 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).

*Available-for-sale financial assets*

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

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

*Impairment of financial assets*

Financial assets are assessed for indicators of impairment at the end of the 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 available-for sale 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.

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.

## 3. Significant Accounting Policies — continued

**Financial instruments — continued**

***Financial assets — continued***

*Impairment of financial assets — continued*

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 available-for-sale 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 losses 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.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss . Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in the investment revaluation reserve. For available-for-sale 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***

Financial liabilities 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, amounts due to fellow subsidiaries and bank borrowings 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 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 to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset 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 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 as income immediately.

## 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 recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 when the fair value was determined. 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) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, 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 interest 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

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 as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 differences 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.

For the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment Property", such properties are presumed to be recovered through sale. Such a presumption is rebutted when the investment property is depreciable and is held within a business model of the Group and the Company whose business 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 liabilities and deferred tax assets for such investment property 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.

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 expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. 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

In the application of the Group'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.

**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 2011, a deferred tax asset of HK$30,092,000 (2010: HK$25,800,000) and nil (2010: HK$8,735,000) in relation to accelerated accounting depreciation and other temporary differences has been recognised in the Group's consolidated statement of financial position and in the Company's statement of financial position respectively. 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 2011, 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$57,793,000 (2010: HK$98,488,000) 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.

*Net realisable value of inventories*

The Group's and the Company's inventories with carrying amount of HK$699,962,000 (2010: HK$585,117,000) and HK$361,393,000 (2010: HK$309,201,000) 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$3,579,000 (2010: HK$1,619,000) and HK$1,601,000 (2010: HK$1,619,000) 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.

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

**Key sources of estimation uncertainty — continued**

*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 2011, the carrying amount of goodwill is HK$94,838,000 (2010: 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 2011, the aggregate carrying amount of the Group's and the Company's building fixtures is HK$420,118,000 (2010: HK$365,773,000) and HK$177,815,000 (2010: HK$120,135,000) respectively. The Management conducted a review and determined that any indication of impairment by considering the recoverable amount of building fixtures based on the value in use. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the building fixtures and a suitable discount rate in order to calculate the present value of the asset. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the accumulated impairment loss of the Group's and the Company's building fixtures of HK$22,329,000 (2010: HK$25,100,000) is recognised.

*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.

*Valuation of the investment property*

Investment property with carrying amount of HK$410,000,000 (2010: Nil) is stated at fair value based on the valuation performed by an independent professional valuer. In determining the fair value, the valuer has made reference to market evidence of transaction prices for similar properties in the same locations and conditions. In relying on the valuation report of the professional valuer, the directors of the Company has 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 income statement.

## 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:

| | 2011 HK$'000 | 2010 HK$'000 |
|---|---|---|
| Direct sales | **5,766,163** | 5,258,915 |
| Income from concessionaire sales | **920,224** | 847,570 |
| Revenue | **6,686,387** | 6,106,485 |

## 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 retails 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 by reportable segment:

*For the year ended 31 December 2011*

| | Hong Kong HK$'000 | PRC HK$'000 | Total HK$'000 |
|---|---|---|---|
| Segment revenue — external | **3,071,373** | **3,615,014** | **6,686,387** |
| Segment profit | **233,764** | **203,164** | **436,928** |
| Gain on fair value change of an investment property | | | **86,264** |
| Rental income from an investment property | | | **18,160** |
| Investment income | | | **30,774** |
| Finance costs | | | **(2,264)** |
| Profit before tax | | | **569,862** |

## 6. Segment Information — continued

**Segment revenues and results — continued**

*For the year ended 31 December 2010*

| | Hong Kong HK$'000 | PRC HK$'000 | Total HK$'000 |
|---|---|---|---|
| Segment revenue — external | 3,189,823 | 2,916,662 | 6,106,485 |
| Segment profit | 232,260 | 153,695 | 385,955 |
| Investment income | | | 21,474 |
| Finance costs | | | (5,852) |
| Profit before tax | | | 401,577 |

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the profit earned by each segment without allocation of gain on fair value change of an investment property, 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 2011*

| | **Hong Kong HK$'000** | **PRC HK$'000** | **Segment total HK$'000** |
|---|---|---|---|
| Amounts included in the measure of segment profit or loss: | | | |
| Depreciation | **46,288** | **85,717** | **132,005** |
| Loss on disposal of property, plant and equipment | **32** | **259** | **291** |
| Write-down of inventories | **1,601** | **1,978** | **3,579** |

## 6. Segment Information — continued

### Other segment information — continued

*For the year ended 31 December 2010*

| | Hong Kong HK$'000 | PRC HK$'000 | Segment total HK$'000 |
|---|---|---|---|
| Amounts included in the measure of segment profit or loss: | | | |
| Depreciation | 47,990 | 70,968 | 118,958 |
| Loss on disposal of property, plant and equipment | 574 | 159 | 733 |
| Write-down of inventories | 1,619 | — | 1,619 |
| Impairment loss on property, plant and equipment recognised in profit or loss | 12,490 | — | 12,490 |

### 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:

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Hong Kong | **730,758** | 255,689 |
| PRC | **539,489** | 474,082 |
| | **1,270,247** | 729,771 |

## 7. Investment Income

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| Dividends from listed equity securities | **1,211** | 1,211 |
| Interest on bank deposits and callable deposits, short term time deposit and long term time deposit | **29,563** | 20,263 |
| | **30,774** | 21,474 |

## 8. Pre-Operating Expenses

The amounts represent the set up costs for new stores. Included in pre-operating expenses are staff costs of HK$16,762,000 (2010: HK$6,849,000).

## 9. Finance Costs

The finance costs represent the interest on bank borrowings wholly repayable within five years.

## 10. Income Tax Expense

| | **2011 HK$'000** | 2010 HK$'000 |
|---|---|---|
| The charges comprise: | | |
| Current tax | | |
| Hong Kong | **41,595** | 40,087 |
| Other regions in the PRC | **61,244** | 52,168 |
| | **102,839** | 92,255 |
| (Over)underprovision in prior years | | |
| Hong Kong | **(1,095)** | (157) |
| Other regions in the PRC | **4,065** | 2,868 |
| | **2,970** | 2,711 |
| | **105,809** | 94,966 |
| Deferred tax (Note 22) | | |
| Current year | **9,648** | (13,419) |
| Income tax expense for the year | **115,457** | 81,547 |

## 10. Income Tax Expense — continued

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.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Profit before tax | **569,862** | 401,577 |
| Taxation at the applicable rate of 16.5% (2010: 16.5%) | **94,027** | 66,260 |
| Tax effect of expenses not deductible for tax purpose | **7,158** | 10,115 |
| Tax effect of income not taxable for tax purpose | **(5,160)** | (8,232) |
| Tax effect of tax losses not recognised | **—** | 1,136 |
| Utilisation of tax losses previously not recognised | **(6,353)** | (1,854) |
| Withholding tax on undistributed earnings of subsidiaries (Note 22) | **6,777** | 2,517 |
| Effect of different tax rates of entities operating in the PRC | **16,089** | 11,844 |
| Underprovision in prior years | **2,970** | 2,711 |
| Others | **(51)** | (2,950) |
| Income tax expense | **115,457** | 81,547 |

## 11. Profit for the Year

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | | |
| — current year | **5,149** | 4,565 |
| — underprovision for prior year | **19** | 411 |
| | **5,168** | 4,976 |
| Cash settled share-based payments | **623** | 1,064 |
| Exchange loss (gain) | **579** | (4,402) |
| Operating lease rentals in respect of rented premises (included in other expenses) | | |
| — minimum lease payments | **593,691** | 576,126 |
| — contingent rent (Note) | **66,561** | 46,138 |
| | **660,252** | 622,264 |
| Retirement benefits scheme contributions, net of forfeited contributions of nil (2010: HK$19,567) | **59,239** | 45,115 |
| Royalties payable to the ultimate holding company | **39,948** | 35,883 |
| Rental income (included in other income) | | |
| — minimum lease payments | **(353,576)** | (289,259) |
| — contingent rent (Note) | **(34,760)** | (54,370) |
| | **(388,336)** | (343,629) |
| Rental income from an investment property, net of negligible outgoing | **(18,160)** | — |
| Write-down of inventories (included in purchase of goods and changes in inventories) | **3,579** | 1,619 |

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 16 (2010: 14) Directors were as follows:

### For the year ended 31 December 2011

| | Lam Man Tin | Yoshinori Okuno | Wong Mun Yu | Haruyoshi Tsuji | Chan Pui Man Christine | Yuji Yoneta | Kenji Fujita | Akihito Tanaka | Jerome Thomas Black | Masaaki Toyoshima | Kazumasa Ishii | Akio Yoshida | Takashi Komatsu | Fumiaki Origuchi | Lam Pei Peggy | Sham Sui Leung, Daniel | Cheng Yin Ching, Anna | Shao Kung Chuen | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | | | | | | (Note a) | (Note a) | (Note a) | | (Note a) | | | (Note a) | | | | | |
| Fees | 220 | — | — | 111 | 70 | — | — | 161 | 30 | — | 30 | 111 | — | — | 190 | 190 | 140 | 170 | 1,423 |
| Other emoluments | | | | | | | | | | | | | | | | | | | |
| Salaries and other benefits | 1,594 | 2,056 | — | — | 947 | 1,896 | 461 | — | — | — | — | — | 1,333 | 383 | — | — | — | — | 8,670 |
| Performance based bonus | 790 | — | — | — | 268 | — | — | — | — | — | — | — | 254 | 64 | — | — | — | — | 1,376 |
| Cash-settled share-based payments | 782 | — | — | — | 288 | — | — | — | — | — | — | — | — | — | — | — | — | — | 1,070 |
| Contributions to retirement benefits schemes | 107 | 4 | — | — | 65 | — | — | — | — | — | — | — | — | — | — | — | — | — | 176 |
| Total | 3,493 | 2,060 | — | 111 | 1,638 | 1,896 | 461 | 161 | 30 | — | 30 | 111 | 1,587 | 447 | 190 | 190 | 140 | 170 | 12,715 |

### For the year ended 31 December 2010

| | Lam Man Tin | Yoshinori Okuno | Wong Mun Yu | Haruyoshi Tsuji | Chan Pui Man Christine | Yuji Yoneta | Kenji Fujita | Akihito Tanaka | Jerome Thomas Black | Masaaki Toyoshima | Kazumasa Ishii | Akio Yoshida | Takashi Komatsu | Fumiaki Origuchi | Lam Pei Peggy | Sham Sui Leung, Daniel | Cheng Yin Ching, Anna | Shao Kung Chuen | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fees | 220 | — | 13 | — | 70 | — | — | 400 | 68 | 73 | 140 | — | — | — | 190 | 190 | 140 | 170 | 1,674 |
| Other emoluments | | | | | | | | | | | | | | | | | | | |
| Salaries and other benefits | 1,521 | — | 298 | — | 899 | 1,936 | 1,617 | — | — | — | — | — | — | 1,993 | — | — | — | — | 8,264 |
| Performance based bonus | 632 | — | 323 | — | 202 | 41 | 20 | — | — | — | — | — | — | 261 | — | — | — | — | 1,479 |
| Cash-settled share-based payments | 1,171 | — | — | — | 133 | — | — | — | — | — | — | — | — | — | — | — | — | — | 1,304 |
| Contributions to retirement benefits schemes | 102 | — | 16 | — | 63 | — | — | — | — | — | — | — | — | — | — | — | — | — | 181 |
| Total | 3,646 | — | 650 | — | 1,367 | 1,977 | 1,637 | 400 | 68 | 73 | 140 | — | — | 2,254 | 190 | 190 | 140 | 170 | 12,902 |

Notes:

(a) Directors were resigned during the year ended 31 December 2011.

(b) No Directors waived any emoluments during each of the two years ended 31 December 2011 and 2010.

## 13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2010: two) were Directors of the Company whose emolument are included in the disclosures in note 12 above. The emoluments of the remaining three individuals (2010: three) were as follows:

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Salaries and other benefits | **6,258** | 8,078 |
| Performance based bonus | **429** | 418 |
| Contributions to retirement benefit schemes | **219** | 126 |
| | **6,906** | 8,622 |

| | 2011<br>No. of employees | 2010<br>No. of employees |
|---|---|---|
| Their emoluments were within the following bands: | | |
| HK$1,500,001 to HK$2,000,000 | **—** | — |
| HK$2,000,001 to HK$2,500,000 | **3** | 1 |
| HK$2,500,001 to HK$3,000,000 | **—** | — |
| HK$3,000,001 to HK$3,500,000 | **—** | 2 |

## 14. Dividends

| | 2011<br>HK$'000 | 2010<br>HK$'000 |
|---|---|---|
| Final dividend paid for 2010 of 31.6 HK cents (2010: 22.6 HK cents for 2009) per ordinary share | **82,160** | 58,760 |
| Interim dividend paid for 2011 of 25.5 HK cents (2010: 22.1 HK cents for 2010) per ordinary share | **66,300** | 57,460 |
| | **148,460** | 116,220 |

The Board of Directors has recommended a final dividend of 35.9 HK cents per share (2010: 31.6 HK cents to be paid on or before 20 June 2012, subject to shareholders' approval at the forthcoming annual general meeting on 25 May 2012.

## 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$405,918,000 (2010: HK$279,218,000) and on 260,000,000 (2010: 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

| | HK$'000 |
|---|---|
| COST | |
| At 1 January 2010, 31 December 2010 and 31 December 2011 | 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 each of the relevant retail stores business operated by AEON South China as the single cash generating unit ("CGU") to which the goodwill of HK$94,838,000 is allocated.

The recoverable amount of the CGUs have been determined based on a value in use calculation. That calculation uses cash flow projections with growth rates ranging from 0% to 10% based on financial budgets approved by management covering a 5-year period, and discount rate of 4.6%. The cash flows beyond 5-year period are extrapolated using a zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGUs' past performance and management's expectations for the market development. Management believe that any reasonable possible change in any of these assumptions would not cause the aggregate carrying amount of the CGUs to exceed the aggregate recoverable amount of the CGUs.

## 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 2010 | 945,652 | 462,722 | 5,318 | 18,512 | 1,432,204 |
| Exchange adjustments | 20,586 | 7,921 | 161 | 297 | 28,965 |
| Additions | 41,278 | 11,401 | 804 | 74,609 | 128,092 |
| Transfer | 67,287 | 20,706 | 676 | (88,669) | — |
| Disposals | (80,298) | (53,927) | (1,190) | — | (135,415) |
| At 31 December 2010 | 994,505 | 448,823 | 5,769 | 4,749 | 1,453,846 |
| Exchange adjustments | **32,182** | **12,403** | **264** | **1,230** | **46,079** |
| Additions | **50,435** | **35,668** | **1,359** | **140,681** | **228,143** |
| Transfer | **76,900** | **15,432** | **—** | **(92,332)** | **—** |
| Disposals | **(4,917)** | **(10,007)** | **(257)** | **—** | **(15,181)** |
| At 31 December 2011 | **1,149,105** | **502,319** | **7,135** | **54,328** | **1,712,887** |
| DEPRECIATION AND IMPAIRMENT | | | | | |
| At 1 January 2010 | 608,756 | 331,943 | 3,730 | — | 944,429 |
| Exchange adjustments | 12,491 | 4,999 | 115 | — | 17,605 |
| Provided for the year | 75,293 | 42,952 | 713 | — | 118,958 |
| Impairment loss recognised in profit or loss | 12,490 | — | — | — | 12,490 |
| Eliminated on disposals | (80,298) | (53,211) | (974) | — | (134,483) |
| At 31 December 2010 | 628,732 | 326,683 | 3,584 | — | 958,999 |
| Exchange adjustments | **20,342** | **8,268** | **174** | **—** | **28,784** |
| Provided for the year | **84,787** | **46,492** | **726** | **—** | **132,005** |
| Eliminated on disposals | **(4,874)** | **(9,543)** | **(257)** | **—** | **(14,674)** |
| At 31 December 2011 | **728,987** | **371,900** | **4,227** | **—** | **1,105,114** |
| CARRYING VALUES | | | | | |
| At 31 December 2011 | **420,118** | **130,419** | **2,908** | **54,328** | **607,773** |
| At 31 December 2010 | 365,773 | 122,140 | 2,185 | 4,749 | 494,847 |

## 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 2010 | 391,905 | 247,411 | 649 | 470 | 640,435 |
| Additions | 39,563 | 6,556 | 804 | 12,690 | 59,613 |
| Transfer | 12,111 | 665 | 150 | (12,926) | — |
| Disposals | (80,298) | (47,649) | (649) | — | (128,596) |
| At 31 December 2010 | 363,281 | 206,983 | 954 | 234 | 571,452 |
| Additions | **32,508** | **16,843** | **—** | **69,248** | **118,599** |
| Transfer | **57,627** | **6,853** | **—** | **(64,480)** | **—** |
| Disposals | **(4,843)** | **(26)** | **—** | **—** | **(4,869)** |
| At 31 December 2011 | **448,573** | **230,653** | **954** | **5,002** | **685,182** |
| DEPRECIATION AND IMPAIRMENT | | | | | |
| At 1 January 2010 | 278,413 | 202,842 | 386 | — | 481,641 |
| Provided for the year | 32,539 | 15,222 | 229 | — | 47,990 |
| Eliminated on disposals | (80,296) | (47,129) | (433) | — | (127,858) |
| Impairment loss recognised in profit or loss | 12,490 | — | — | — | 12,490 |
| At 31 December 2010 | 243,146 | 170,935 | 182 | — | 414,263 |
| Provided for the year | **32,437** | **13,615** | **236** | **—** | **46,288** |
| Eliminated on disposals | **(4,825)** | **(12)** | **—** | **—** | **(4,837)** |
| At 31 December 2011 | **270,758** | **184,538** | **418** | **—** | **455,714** |
| CARRYING VALUES | | | | | |
| At 31 December 2011 | **177,815** | **46,115** | **536** | **5,002** | **229,468** |
| At 31 December 2010 | 120,135 | 36,048 | 772 | 234 | 157,189 |

## 17. Property, Plant and Equipment — continued

During the year ended 31 December 2011, the Directors conducted a review of the Group's building fixtures and determined that any building fixtures are impaired when the performance of some stores were below the budget. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. 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 with growth rates ranging from 0% to 5%, and at a discount rate of 5%. 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, no further impairment loss in respect of property, plant and equipment of the Group and the Company has been recognised in profit or loss.

Same estimation basis was used by the Directors to determine the recoverable amounts of the relevant assets for the year ended 31 December 2010 and HK$12,490,000 impairment loss was recognised in the profit or loss accordingly.

As at 31 December 2011, accumulated impairment loss on property, plant and equipment of the Group and the Company is HK$22,329,000 (2010: HK$25,100,000).

## 18. Investment Property

**The Group and The Company**

| | HK$'000 |
|---|---|
| FAIR VALUE | |
| At 1 January 2010 and 1 January 2011 | — |
| Addition | 323,736 |
| Net increase in fair value recognised in profit or loss | 86,264 |
| At 31 December 2011 | 410,000 |

During the year, the Group and the Company acquired a property in Hong Kong from an independent third party for a consideration of HK$323,736,000, of which HK$31,000,000 was paid as deposit during the year ended 31 December 2010. The property is held under operating leases to earn rentals and is classified and accounted for as an investment property using fair value model.

The fair value of the Group's and the Company's investment property at 31 December 2011 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. The valuation was arrived at by reference to recent transaction prices for similar properties in the same location and conditions.

## 19. Investments in Subsidiaries

| | THE COMPANY | |
|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 |
| Unlisted investments, at cost | **347,962** | 347,962 |
| Less: impairment loss | **(71,724)** | (71,724) |
| | **276,238** | 276,238 |

During the year, the Directors reviewed the carrying values of the investments in subsidiaries. The recoverable amount of the investments in subsidiaries is estimated by Directors based on the expected future cash flows to be generated from the operation of those subsidiaries. As at 31 December 2011, impairment loss of HK$71,724,000 (2010: HK$71,724,000) had been recognised.

Particulars of the subsidiaries at 31 December 2011 are as follows:

| Name | Form of business structure | Place of registration/ operation | Paid up registered/ ordinary share capital | Proportion of registered/issued capital directly held by the Group | Principal activities |
|---|---|---|---|---|---|
| Guangdong Jusco Teem Stores Co., Ltd. ("GDJ") | Sino-foreign equity joint venture | PRC | RMB136,400,000 (2010: RMB104,800,000) | 65% (2010: 65%) | Retail stores |
| AEON South China Co.,Ltd. ("AEON South China") | Wholly-owned foreign enterprise | PRC | RMB212,800,000 (2010: RMB212,800,000) | 100% (2010: 100%) | Retail stores |
| Jusco Stores (Hong Kong) Co., Limited | Incorporated | Hong Kong | HK$1,000 (2010: HK$1,000) | 100% (2010: 100%) | Inactive |

## 20. Available-For-Sale Investments

Available-for-sale investments comprise:

| | THE GROUP AND THE COMPANY | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Equity securities: | | |
| Listed shares in Hong Kong at fair value | **21,380** | 24,596 |
| Debt securities: | | |
| Unlisted club debenture at fair value | **2,290** | 2,240 |
| | **23,670** | 26,836 |

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$21,380,000 (2010: HK$24,596,000).

## 21. Time Deposit

Time deposit represents 3 years United States dollar-denominated time deposit due on 20 April 2012 which carries a predetermined fixed interest rate. The effective interest rate is 4% 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 accounting (tax) depreciation** | **Provision for staff costs** | **Other temporary differences** | **Undistributed profits of subsidiaries** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2010 | 8,050 | 3,341 | 348 | (2,913) | 8,826 |
| Credit (charge) to income statement | 312 | 13,724 | 25 | (2,517) | 11,544 |
| Withholding tax paid on distributed profits of subsidiaries during the year | — | — | — | 1,875 | 1,875 |
| At 31 December 2010 | **8,362** | **17,065** | **373** | **(3,555)** | **22,245** |
| (Charge) credit to income statement | **(15,881)** | **13,027** | **(17)** | **(6,777)** | **(9,648)** |
| Withholding tax paid on distributed profits of subsidiaries during the year | **—** | **—** | **—** | **1,699** | **1,699** |
| At 31 December 2011 | **(7,519)** | **30,092** | **356** | **(8,633)** | **14,296** |

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

| | THE GROUP | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Deferred tax assets | **30,092** | 25,800 |
| Deferred tax liabilities | **(15,796)** | (3,555) |
| | **14,296** | 22,245 |

## 22. Deferred Taxation — continued

At the end of the reporting period, the Group had unused tax losses of HK$57,793,000 (2010: HK$98,488,000) available for offset against future profits, and other temporary differences of HK$119,868,000 (2010: HK$70,523,000). A deferred tax asset has been recognised in respect of HK$119,868,000 (2010: HK$70,523,000) 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.

| | THE GROUP | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| The tax losses above will expire as follows: | | |
| 31 December 2011 | **—** | 9,494 |
| 31 December 2012 | **—** | 9,302 |
| 31 December 2013 | **—** | 72,809 |
| 31 December 2014 | **57,793** | 6,883 |
| | **57,793** | 98,488 |

| | THE COMPANY | | | |
|---|---|---|---|---|
| | **Accelerated accounting (tax) depreciation** | **Other temporary differences** | **Undistributed profits of subsidiaries** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| At 1 January 2010 | 8,050 | 348 | (2,913) | 5,485 |
| Credit (charge) to income statement | 312 | 25 | (2,517) | (2,180) |
| Withholding tax paid on distributed profits of subsidiaries during the year | — | — | 1,875 | 1,875 |
| At 31 December 2010 | **8,362** | **373** | **(3,555)** | **5,180** |
| Charge to income statement | **(15,881)** | **(17)** | **(6,777)** | **(22,675)** |
| Withholding tax paid on distributed profits of subsidiaries during the year | **—** | **—** | **1,699** | **1,699** |
| At 31 December 2011 | **(7,519)** | **356** | **(8,633)** | **(15,796)** |

## 22. Deferred Taxation — continued

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

| | THE COMPANY | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Deferred tax assets | **—** | 8,735 |
| Deferred tax liabilities | **(15,796)** | (3,555) |
| | **(15,796)** | 5,180 |

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

## 23. 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$3,579,000 (2010: HK$1,619,000) and HK$1,601,000 (2010: HK$1,619,000), respectively and included in "Purchases of goods and changes in inventories".

## 24. 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 reporting date.

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within 30 days | **33,403** | 21,003 | **18,872** | 8,874 |

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 2011 and 2010, the Group and the Company do not have any trade receivable balance that were past due.

## 25. Other Assets

The Group's and the Company's other assets include other receivables, 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 (2010: 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 0.92% (2010: 0.01% to 0.48%) 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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Hong Kong dollars | **1,869** | 12,084 | **—** | — |
| United States dollars | **123,376** | 167,660 | **123,376** | 167,660 |
| Japanese Yen | **19,205** | 593 | **19,205** | 593 |
| Renminbi | **70,715** | 26,454 | **70,715** | 26,454 |

## 26. 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 | |
|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| 0–60 days | **1,296,799** | 1,110,217 | **611,729** | 522,085 |
| 61–90 days | **64,720** | 86,763 | **11,656** | 6,485 |
| Over 90 days | **39,072** | 15,896 | **11,640** | 15,896 |
| | **1,400,591** | 1,212,876 | **635,025** | 544,466 |

The average credit period on the purchases of goods is 60 days (2010: 60 days).

## 27. Bank Borrowings

| | THE GROUP | |
|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 |
| Bank loans | | |
| — secured | **24,571** | — |
| — unsecured | **—** | 46,820 |
| | **24,571** | 46,820 |
| Carrying amount repayable*: | | |
| Within one year | **24,571** | 23,410 |
| More than one year, but not exceeding three years | **—** | 23,410 |
| | **24,571** | 46,820 |
| Less: Amount due within one year shown under current liabilities | **(24,571)** | (23,410) |
| Amount due after one year | **—** | 23,410 |

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

The bank borrowings are denominated in Renminbi which carry interest at floating rates and are repayable within three years. The average effective interest rate during the year is 6.4% (2010: 6.3%) per annum.

## 28. 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$9,606,000 (2010: HK$7,855,000) and HK$528,449,000 (2010: HK$398,723,000) 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 (2010: 60 to 90 days). The amounts are aged within 60 days based on the invoice date at the end of respective reporting period.

## 29. SHARE CAPITAL

| | **2011 & 2010 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** |

## 30. 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 2010 | 63,158 | 23,949 | 987,376 | 1,074,483 |
| Loss on fair value changes of available-for-sale investments recognised directly in equity | — | (1,045) | — | (1,045) |
| Profit for the year | — | — | 210,526 | 210,526 |
| Total comprehensive income for the year | — | (1,045) | 210,526 | 209,481 |
| Dividends | — | — | (116,220) | (116,220) |
| At 31 December 2010 | 63,158 | 22,904 | 1,081,682 | 1,167,744 |
| Loss on fair value changes of available-for-sale investments recognised directly in equity | **—** | **(3,166)** | **—** | **(3,166)** |
| Profit for the year | **—** | **—** | **324,131** | **324,131** |
| Total comprehensive income for the year | **—** | **(3,166)** | **324,131** | **320,965** |
| Dividends | **—** | **—** | **(148,460)** | **(148,460)** |
| At 31 December 2011 | **63,158** | **19,738** | **1,257,353** | **1,340,249** |

## 31. Capital Commitments

| | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 | **2011** **HK$'000** | 2010 HK$'000 |
| Capital expenditure contracted for but not provided in the consolidated and the Company's financial statements | | | | |
| — in respect of acquisition of property, plant and equipment | **30,662** | 144,343 | **—** | 91,850 |
| — in respect of acquisition of investment property | **—** | 292,175 | **—** | 292,175 |
| | **30,662** | 436,518 | **—** | 384,025 |
| Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for | **251,917** | 91,850 | **204,800** | 91,850 |

## 32. 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 | |
|---|---|---|---|---|
| | **2011** **HK$'000** | 2010 HK$'000 | **2011** **HK$'000** | 2010 HK$'000 |
| Within one year | **625,319** | 552,182 | **392,397** | 316,930 |
| In the second to fifth year inclusive | **2,538,008** | 2,317,875 | **1,484,298** | 1,372,566 |
| Over five years | **2,410,049** | 1,966,318 | **1,501,843** | 1,102,155 |
| | **5,573,376** | 4,836,375 | **3,378,538** | 2,791,651 |

In addition to the above, over 90% (2010: over 90%) of the leases of the Group and over 80% (2010: 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.

## 32. Operating Leases — continued

**The Group and the Company as lessee: — continued**

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 fifteen 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 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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **302,270** | 232,012 | **146,430** | 109,711 |
| In the second to fifth year inclusive | **311,279** | 208,066 | **88,659** | 28,569 |
| Over five years | **13,832** | 8,831 | **1,338** | — |
| | **627,381** | 448,909 | **236,427** | 138,280 |

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.

## 33. Pledged Bank Deposits

As at 31 December 2011, HK$25.8 million of the Group's bank deposits (2010: nil) were pledged for its bank borrowings.

Another HK$25.2 million (2010: HK$12.1 million) were pledged to banks for guarantee to landlords for rental deposits. Such bank deposits as at 31 December 2011 which are expected to be realised more than twelve months after the end of the reporting periods are classified as non-current.

## 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 2011

| | | | | Number of underlying SARs | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Date of grant | Exercise price HK$ | Vesting period | Exercisable period | Outstanding at 1.1.2011 | Granted during the year | Exercised during the year | Cancelled during the year | Forfeited during the year | Outstanding at 31.12.2011 |
| **Directors:** | | | | | | | | | |
| 25.9.2009 | 15.236 | 1.6.2008 to 31.5.2009 | 1.6.2009 to 31.5.2015 | 54,000 | — | (54,000) | — | — | — |
| | 15.236 | 1.6.2008 to 31.5.2010 | 1.6.2010 to 31.5.2015 | 54,000 | — | (54,000) | — | — | — |
| | 15.236 | 1.6.2008 to 31.5.2011 | 1.6.2011 to 31.5.2015 | 72,000 | — | (72,000) | — | — | — |
| | 13.500 | 25.9.2009 to 24.9.2010 | 25.9.2010 to 24.9.2016 | 88,800 | — | — | — | — | 88,800 |
| | 13.500 | 25.9.2009 to 24.9.2011 | 25.9.2011 to 24.9.2016 | 88,800 | — | — | — | — | 88,800 |
| | 13.500 | 25.9.2009 to 24.9.2012 | 25.9.2012 to 24.9.2016 | 118,400 | — | — | — | — | 118,400 |
| 1.9.2010 | 14.260 | 1.9.2010 to 31.8.2011 | 1.9.2011 to 31.8.2017 | 94,200 | — | — | — | — | 94,200 |
| | 14.260 | 1.9.2010 to 31.8.2012 | 1.9.2012 to 31.8.2017 | 94,200 | — | — | — | — | 94,200 |
| | 14.260 | 1.9.2010 to 31.8.2013 | 1.9.2013 to 31.8.2017 | 125,600 | — | — | — | — | 125,600 |
| 1.9.2011 | 17.900 | 1.9.2011 to 31.8.2012 | 1.9.2012 to 31.8.2018 | — | 78,000 | — | — | — | 78,000 |
| | 17.900 | 1.9.2011 to 31.8.2013 | 1.9.2013 to 31.8.2018 | — | 78,000 | — | — | — | 78,000 |
| | 17.900 | 1.9.2011 to 31.8.2014 | 1.9.2014 to 31.8.2018 | — | 104,000 | — | — | — | 104,000 |
| **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 | — | — | — | — | 10,200 |
| | 13.500 | 25.9.2009 to 24.9.2011 | 25.9.2011 to 24.9.2016 | 10,200 | — | — | — | — | 10,200 |
| | 13.500 | 25.9.2009 to 24.9.2012 | 25.9.2012 to 24.9.2016 | 13,600 | — | — | — | — | 13,600 |
| 1.9.2010 | 14.260 | 1.9.2010 to 31.8.2011 | 1.9.2011 to 31.8.2017 | 12,000 | — | — | — | — | 12,000 |
| | 14.260 | 1.9.2010 to 31.8.2012 | 1.9.2012 to 31.8.2017 | 12,000 | — | — | — | — | 12,000 |
| | 14.260 | 1.9.2010 to 31.8.2013 | 1.9.2013 to 31.8.2017 | 16,000 | — | — | — | — | 16,000 |
| 1.9.2011 | 17.900 | 1.9.2011 to 31.8.2012 | 1.9.2012 to 31.8.2018 | — | 22,200 | — | — | — | 22,200 |
| | 17.900 | 1.9.2011 to 31.8.2013 | 1.9.2013 to 31.8.2018 | — | 22,200 | — | — | — | 22,200 |
| | 17.900 | 1.9.2011 to 31.8.2014 | 1.9.2014 to 31.8.2018 | — | 29,600 | — | — | — | 29,600 |
| | | | | 880,000 | 334,000 | (180,000) | — | — | 1,034,000 |

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

### For the year ended 31 December 2010

| Date of grant | Exercise price HK$ | Vesting period | Exercisable period | Number of underlying SARs: Outstanding at 1.1.2010 | Granted during the year | Exercised during the year | Cancelled during the year | Forfeited during the year | Outstanding at 31.12.2010 |
|---|---|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | | | |
| 25.9.2009 | 15.236 | 1.6.2008 to 31.5.2009 | 1.6.2009 to 31.5.2015 | 60,000 | — | — | — | (6,000) | 54,000 |
| | 15.236 | 1.6.2008 to 31.5.2010 | 1.6.2010 to 31.5.2015 | 60,000 | — | — | — | (6,000) | 54,000 |
| | 15.236 | 1.6.2008 to 31.5.2011 | 1.6.2011 to 31.5.2015 | 80,000 | — | — | — | (8,000) | 72,000 |
| | 13.500 | 25.9.2009 to 24.9.2010 | 25.9.2010 to 24.9.2016 | 97,200 | — | — | — | (8,400) | 88,800 |
| | 13.500 | 25.9.2009 to 24.9.2011 | 25.9.2011 to 24.9.2016 | 97,200 | — | — | — | (8,400) | 88,800 |
| | 13.500 | 25.9.2009 to 24.9.2012 | 25.9.2012 to 24.9.2016 | 129,600 | — | — | — | (11,200) | 118,400 |
| 1.9.2010 | 14.260 | 1.9.2010 to 31.8.2011 | 1.9.2011 to 31.8.2017 | — | 94,200 | — | — | — | 94,200 |
| | 14.260 | 1.9.2010 to 31.8.2012 | 1.9.2012 to 31.8.2017 | — | 94,200 | — | — | — | 94,200 |
| | 14.260 | 1.9.2010 to 31.8.2013 | 1.9.2013 to 31.8.2017 | — | 125,600 | — | — | — | 125,600 |
| **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 | — | — | — | — | 10,200 |
| | 13.500 | 25.9.2009 to 24.9.2011 | 25.9.2011 to 24.9.2016 | 10,200 | — | — | — | — | 10,200 |
| | 13.500 | 25.9.2009 to 24.9.2012 | 25.9.2012 to 24.9.2016 | 13,600 | — | — | — | — | 13,600 |
| 1.9.2010 | 14.260 | 1.9.2010 to 31.8.2011 | 1.9.2011 to 31.8.2017 | — | 12,000 | — | — | — | 12,000 |
| | 14.260 | 1.9.2010 to 31.8.2012 | 1.9.2012 to 31.8.2017 | — | 12,000 | — | — | — | 12,000 |
| | 14.260 | 1.9.2010 to 31.8.2013 | 1.9.2013 to 31.8.2017 | — | 16,000 | — | — | — | 16,000 |
| | | | | 574,000 | 354,000 | — | — | (48,000) | 880,000 |

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 2.5% to 3% as referenced to the past dividend yields
- Number of steps 100 nodes
- Exercise multiple 2.2 times

At 31 December 2011, the Group has recorded liabilities of HK$3,497,000 (31 December 2010: HK$2,874,000), which is included in other payables and accrued charges. At 31 December 2011, the total intrinsic value of the vested SARs was HK$1,285,000 (2010: HK$316,000).

## 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$8,509,000 (2010: HK$9,191,000) are charged to the consolidated income statement 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$4,939,000 (2010: HK$4,997,000) charged to the consolidated income statement 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$45,791,000 (2010: HK$30,908,000).

## 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 stakeholders through the optimisation of the debt and equity balance. The Group's and the Company's overall strategy remains unchanged from the prior year.

The capital structure of the Group and the Company consists of debt, which includes the bank borrowings as disclosed in note 27, 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Loans and receivables (including cash and cash equivalents) | **2,576,704** | 2,412,014 |
| Available-for-sale financial assets | **23,670** | 26,836 |
| Financial liabilities at amortised cost | **2,030,868** | 1,749,461 |

| | THE COMPANY | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Loans and receivables (including cash and cash equivalents) | **1,101,116** | 1,246,307 |
| Available-for-sale financial assets | **23,670** | 26,836 |
| Financial liabilities at amortised cost | **1,026,740** | 850,929 |

### (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. Management manages and monitors these risk exposures to ensure that appropriate measures are implemented in 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.

## 37. Financial Instruments — continued

### (b) Financial risk management objectives and policies — continued

The Group's audit committee overseas 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 2011.

### (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.

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 | |
|---|---|---|---|---|
| | **2011<br>HK$'000** | 2010<br>HK$'000 | **2011<br>HK$'000** | 2010<br>HK$'000 |
| Hong Kong dollars | **1,869** | 12,084 | **—** | — |
| United States dollars | **240,106** | 284,778 | **4,327** | 3,903 |
| Japanese Yen | **19,205** | 593 | **20,086** | 23,095 |
| Renminbi | **70,715** | 26,454 | **—** | — |

## 37. Financial Instruments — continued

### (c) Foreign currency risk management — continued

*The Company*

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| United States dollars | **240,106** | 284,778 | **4,327** | 3,903 |
| Japanese Yen | **19,205** | 593 | **20,086** | 23,095 |
| Renminbi | **70,715** | 26,454 | **—** | — |

***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*

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Increase (decrease) in foreign exchange rates %** | **Increase (decrease) in profit before tax HK$'000** | Increase (decrease) in foreign exchange rates % | Increase (decrease) in profit before tax HK$'000 |
| Hong Kong | **1%** | **19** | 1% | 121 |
| | **(1%)** | **(19)** | (1%) | (121) |
| United States dollars | **1%** | **2,358** | 1% | 2,809 |
| | **(1%)** | **(2,358)** | (1%) | (2,809) |
| Japanese Yen | **10%** | **(88)** | 10% | (2,250) |
| | **(10%)** | **88** | (10%) | 2,250 |
| Renminbi | **10%** | **7,072** | 10% | 2,645 |
| | **(10%)** | **(7,072)** | (10%) | (2,645) |

## 37. Financial Instruments — continued

### (c) Foreign currency risk management — continued

***Foreign currency sensitivity — continued***

*The Company*

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **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%** | **2,358** | 1% | 2,809 |
| | **(1%)** | **(2,358)** | (1%) | (2,809) |
| Japanese Yen | **10%** | **(88)** | 10% | (2,250) |
| | **(10%)** | **88** | (10%) | 2,250 |
| Renminbi | **10%** | **7,072** | 10% | 2,645 |
| | **(10%)** | **(7,072)** | (10%) | (2,645) |

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 2010.

### (d) Interest rate risk management

The Group is exposed to cash flow interest rate risk as the Group's bank balances and bank borrowings and the Company's bank balances are subject to floating interest rate. All of the Group's bank borrowings bear interests at floating rates and will mature within one year (2010: within two years). 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's exposures to interest rates and financial liabilities are detailed in the liquidity risk management section of this note.

## 37. Financial Instruments — continued

### (d) Interest rate risk management — continued

*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.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. 20 basis points increase or decrease represents management's assessment of the possible change in interest rate.

If interest rates had been 20 basis points higher/lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2011 would decrease/increase by HK$491,000 (2010: decrease/increase by HK$936,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial liabilities as the year end exposure does not reflect the exposure during the year.

### (e) Other price risk

The Group and the Company are exposed to equity price risks arising from 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 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 8% (2010: 8%) higher/lower while all other variables were held constant, the investment revaluation reserve would increase/decrease by HK$323,000 (2010: increase/decrease by HK$234,000) for the Group and the Company, principally as a result of the changes in fair value of available-for-sale shares.

### (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.

## 37. Financial Instruments — continued

### (f) Credit risk management — continued

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 callable and 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 non-derivative 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 | Total undiscounted cash flows amount | Carrying amount |
|---|---|---|---|---|---|---|
| | % | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **2011** | | | | | | |
| Non-interest bearing | **—** | **2,006,297** | **—** | **—** | **2,006,297** | **2,006,297** |
| Variable interest rate instruments | **6.17** | **12,665** | **13,044** | **—** | **25,709** | **24,571** |
| | | **2,018,962** | **13,044** | **—** | **2,032,006** | **2,030,868** |
| **2010** | | | | | | |
| Non-interest bearing | — | 1,624,942 | 77,699 | — | 1,702,641 | 1,702,641 |
| Variable interest rate instruments | 6.20 | 13,149 | 12,788 | 24,854 | 50,791 | 46,820 |
| | | 1,638,091 | 90,487 | 24,854 | 1,753,432 | 1,749,461 |

*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 |
| **2011** | | | | | | |
| Non-interest bearing | **—** | **1,026,740** | **—** | **—** | **1,026,740** | **1,026,740** |
| **2010** | | | | | | |
| Non-interest bearing | — | 838,958 | 11,971 | — | 850,929 | 850,929 |

### (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.

## 37. Financial Instruments — continued

### (h) Fair value of financial instruments — continued

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.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | **2011** | | | |
|---|---|---|---|---|
| | **Level 1<br>HK$'000** | **Level 2<br>HK$'000** | **Level 3<br>HK$'000** | **Total<br>HK$'000** |
| Available-for-sale financial assets | | | | |
| Listed equity securities | **21,380** | **—** | **—** | **21,380** |
| Unlisted club debenture | **—** | **2,290** | **—** | **2,290** |
| Total | **21,380** | **2,290** | **—** | **23,670** |

| | 2010 | | | |
|---|---|---|---|---|
| | Level 1<br>HK$'000 | Level 2<br>HK$'000 | Level 3<br>HK$'000 | Total<br>HK$'000 |
| Available-for-sale financial assets | | | | |
| Listed equity securities | 24,596 | — | — | 24,596 |
| Unlisted club debenture | — | 2,240 | — | 2,240 |
| Total | 24,596 | 2,240 | — | 26,836 |

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:

| | | THE GROUP | | THE COMPANY | |
|---|---|---|---|---|---|
| **Capacity** | **Nature of transaction** | **2011 HK$'000** | 2010 HK$'000 | **2011 HK$'000** | 2010 HK$'000 |
| Fellow subsidiaries | Commission for credit facilities provided to the customers | **9,268** | 10,551 | **9,268** | 10,551 |
| | Franchise fee, consumable expenses and purchase of machines | **292** | 1,201 | **292** | 1,201 |
| | Other expenses | **—** | 118 | **—** | — |
| | Other income | **518** | 463 | **349** | 305 |
| | Outsourcing service expenses | **5,955** | 4,987 | **—** | — |
| | Purchase of goods | **175,034** | 152,331 | **111,558** | 115,956 |
| | Recharge of administrative expenses | **791** | 1,818 | **—** | — |
| | Reimbursement income of administrative expenses | **5,664** | 4,683 | **—** | — |
| | Rental expense | **280** | — | **280** | — |
| | Rental income | **7,986** | 7,791 | **7,453** | 7,305 |
| | Service fee income | **—** | 1,380 | **—** | — |
| | Service fee expense | **6,675** | — | **—** | — |
| Subsidiaries | Dividend income | **—** | — | **33,986** | 19,560 |
| | Management fee income | **—** | — | **3,306** | 3,959 |
| | Royalty income | **—** | — | **21,666** | 17,356 |
| | Supply chain management service fee | **—** | — | **584** | 1,049 |
| Ultimate holding company | Royalty expenses | **39,948** | 35,883 | **39,948** | 35,883 |
| Non-controlling shareholders of the subsidiaries* | Advertising expenses | **2,132** | 2,655 | **—** | — |
| | Rental expenses, management fees and utility expenses | **51,819** | 48,589 | **—** | — |

* Non-controlling shareholders have significant influence to 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 | |
|---|---|---|
| | **2011** | 2010 |
| | **HK$'000** | HK$'000 |
| Amounts due from non-controlling shareholders of the subsidiaries | **6,795** | 5,778 |

**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 | | | | |
|---|---|---|---|---|---|
| | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | **2011**<br>**HK$'000** |
| RESULTS | | | | | |
| Revenue | 4,759,403 | 5,373,626 | 5,897,909 | 6,106,485 | **6,686,387** |
| Profit before tax | 375,985 | 378,979 | 267,424 | 401,577 | **569,862** |
| Income tax expense | (75,369) | (74,528) | (72,253) | (81,547) | **(115,457)** |
| Profit for the year | 300,616 | 304,451 | 195,171 | 320,030 | **454,405** |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2007<br>HK$'000 | 2008<br>HK$'000 | 2009<br>HK$'000 | 2010<br>HK$'000 | **2011**<br>**HK$'000** |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 2,732,449 | 3,166,944 | 3,562,337 | 3,840,291 | **4,639,626** |
| Total liabilities | (1,743,937) | (2,012,649) | (2,308,247) | (2,384,099) | **(2,876,900)** |
| | 988,512 | 1,154,295 | 1,254,090 | 1,456,192 | **1,762,726** |
| Equity attributable to: | | | | | |
| Owners of the Company | 916,963 | 1,061,920 | 1,143,463 | 1,310,665 | **1,578,777** |
| Non-controlling interests | 71,549 | 92,375 | 110,627 | 145,527 | **183,949** |
| | 988,512 | 1,154,295 | 1,254,090 | 1,456,192 | **1,762,726** |