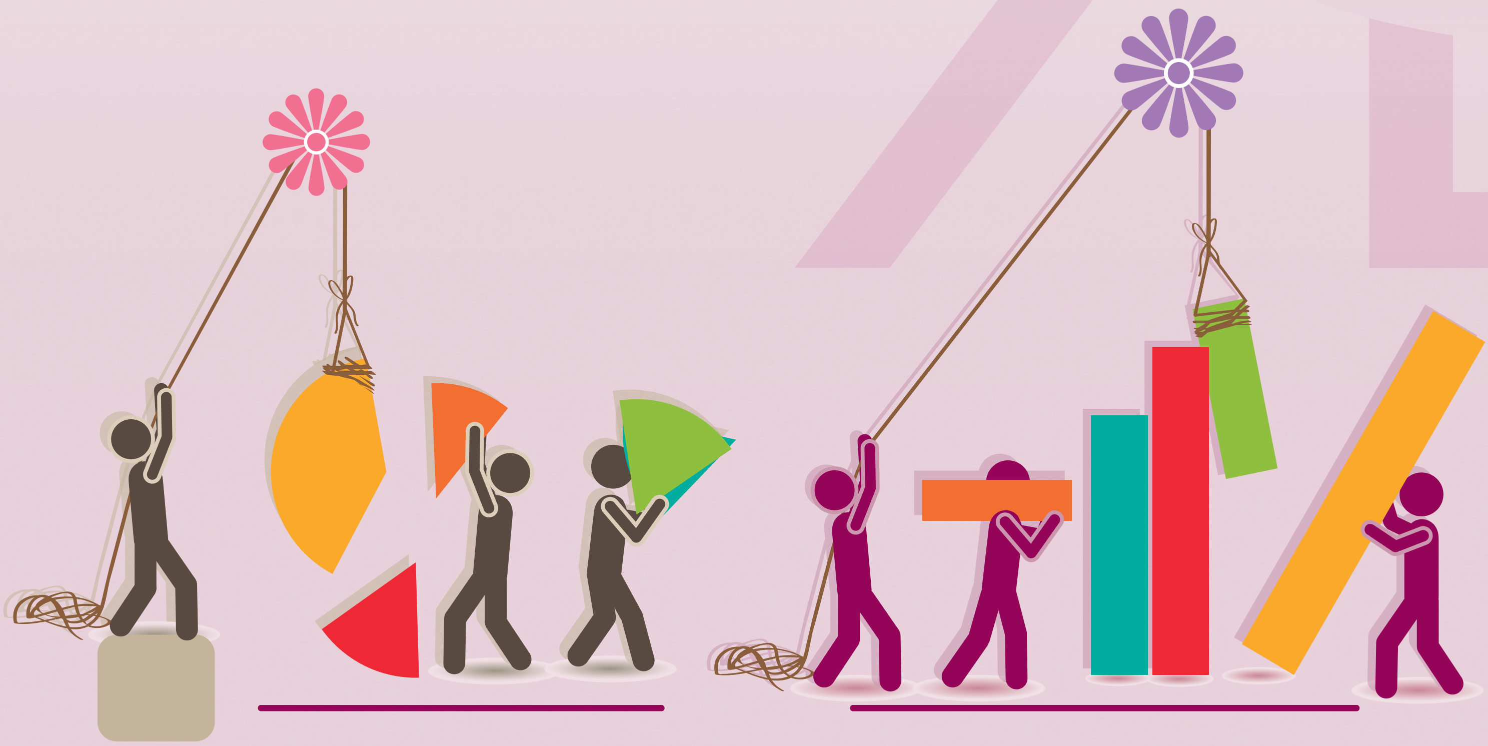
AEON Stores (Hong Kong) Co., Limited

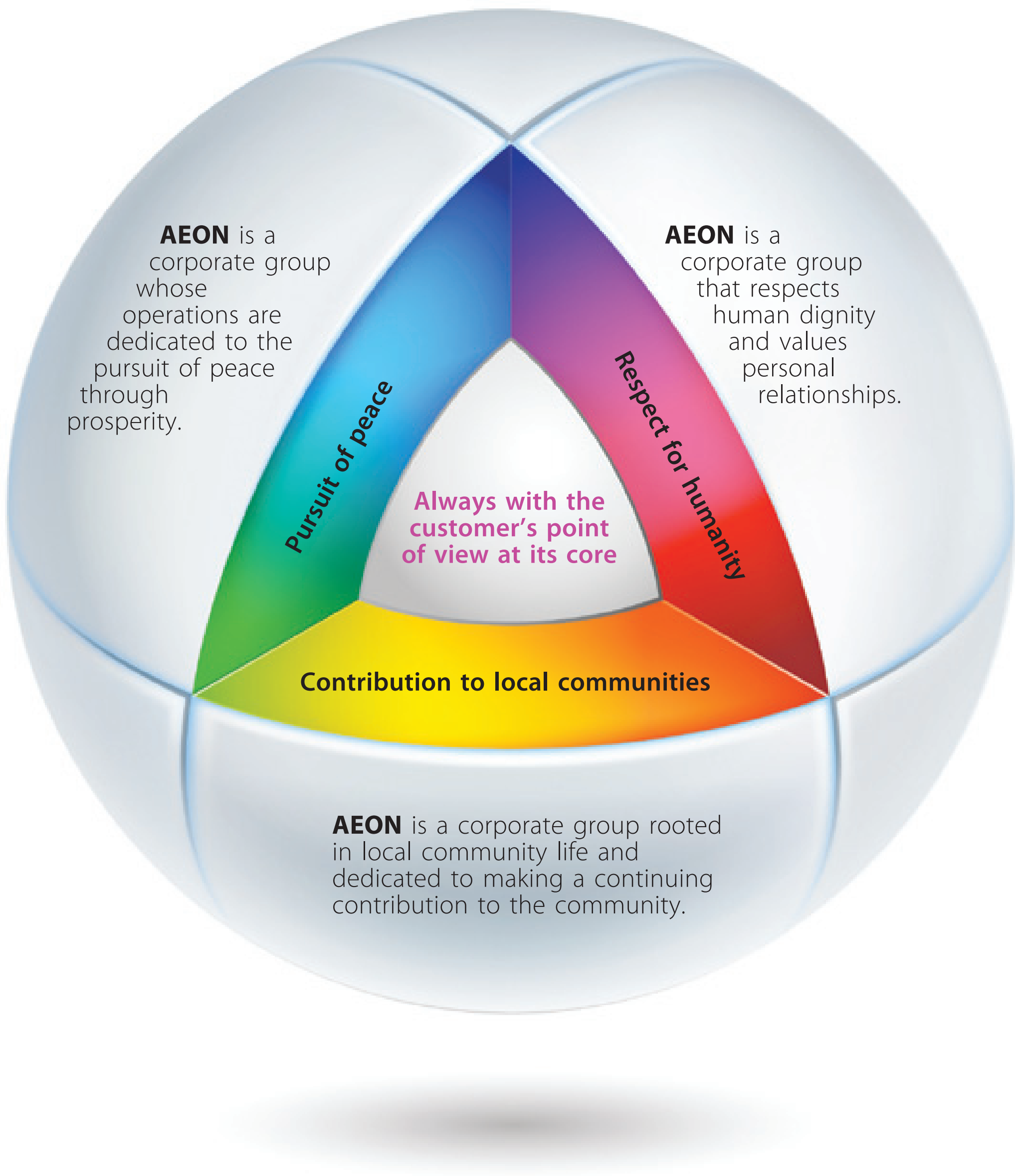
永旺(香港)百貨有限公司

Stock Code : 984



ANNUAL REPORT 2012

AEON Principle



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

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Corporate Information

Board of Directors

Executive Directors

CHAN Pui Man Christine *(Managing Director)*
SUZUKI Junichi *(Deputy Managing Director)*
CHAN Suk Jing
CHAK Kam Yuen

Non-executive Directors

OKUNO Yoshinori *(Chairman)*
TSUJI Haruyoshi
AGAWA Yutaka
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
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Registered Office

G-4th 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

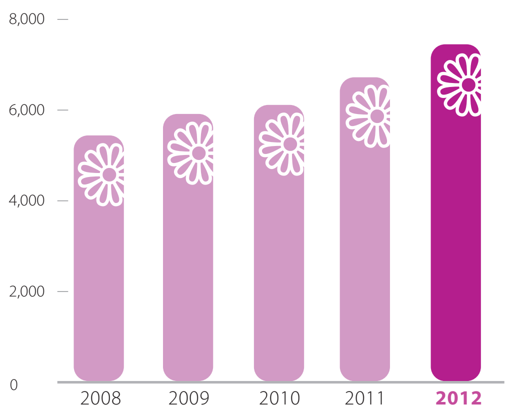
Website

www.aeonstores.com.hk

Financial Highlights

Revenue

(HK$ million)

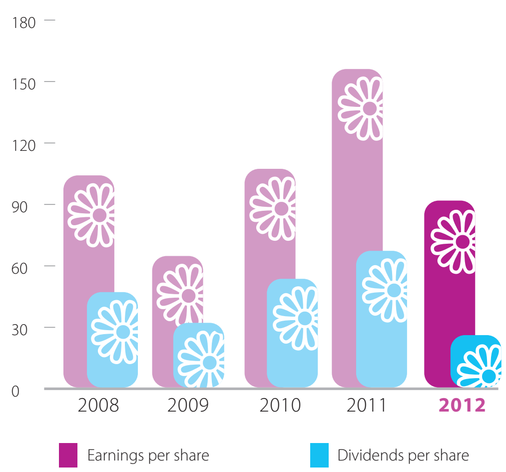


Profit Attributable to Owners of the Company

(HK$ million)

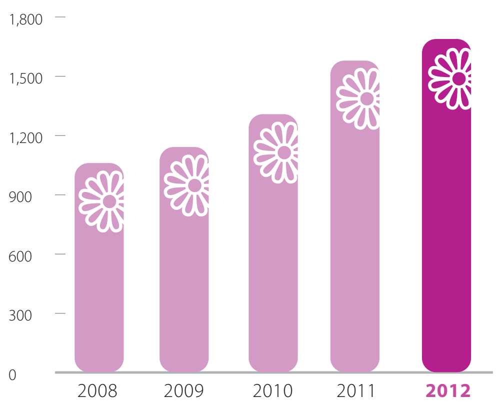
Earnings and Dividends per Share

(HK cents)



Equity Attributable to Owners of the Company

(HK$ million)



Chairman's Statement

Mr. OKUNO Yoshinori
Chairman

Over the years, AEON Stores (Hong Kong) Co., Limited and its subsidiaries ("AEON Stores" or the "Group") have remained committed to offering better merchandise and services to meet customers' demands. The Group delivers the standard of "greater customer satisfaction" through operating retail business in Hong Kong and south China, which has proven popular with local residents. In 2012, we marked yet another milestone celebrating the Group's 25th anniversary. The economy in Hong Kong and Mainland China is expected to continue its growth, yet the operating environment of the retail business will become more challenging. By closely monitoring market trends, the Group has kept pace with the expansion of the retail market by boosting the number of new stores opened and recruiting talent to complement future business expansion, while constructing the IT system required to support the larger scale of operations. These efforts are regarded as investment for continued future development. Thus, 2012 could be described as a year of reform for the Group.

In the face of a rapidly changing market, we must continue to embrace "reform," "change" and "improvement" in order to offer even more fabulous choices of quality merchandise and services to enrich the life of our customers. To realise our vision, the Group unified the name of all its stores in Hong Kong and south China as "AEON" effective 1 March 2013. The move not only reinforces branding efforts, but also creates greater synergies in areas such as a global procurement network and management for business development in the future. While marching on to the next milestone, we are devoting our utmost efforts to realise our service principle "Striving to enhance customers' enjoyment" in order to achieve long-term sustainable growth and share the fruit of our success with all of our stakeholders.

In the Hong Kong market, we adopted flexible and innovative business models and actively expanded our store network in the past 25 years. Over the past few years, our strategy to open new stores in shopping malls has apparently boosted customer flow within these malls. This has attracted the attention of other shopping mall owners and has provided us with more opportunities to expedite our growth in the past few years. Thus, the Group's Hong Kong operations still managed to record an increase in revenue of nearly 15% during the year.

As for the PRC market, since the first store opened on the Mainland in 1995, the Group has to date already set up 27 retail outlets, and "JUSCO" has become a popular brand among families. During the year, the Group continued to grow steadily

JUSCO Transforms into AEON for a Brighter Future

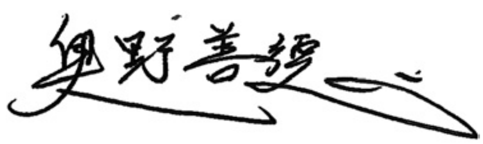
承接JUSCO成功故事，締造AEON豐盛未來

by increasing its penetration in major cities in south China, driving the sustained growth of its PRC business. We believe the expanding store network helps improve economies of scale and operational efficiency, hence generating a long-term return and greater shareholder value.

Last year, the Group boosted its business scale by opening several new stores in both Mainland China and Hong Kong. As at 31 December 2012, the Group's total revenue increased to HK$7,377.2 million (2011: HK$6,686.4 million). As a result of the investments made for long-term development mentioned above, profit attributable to owners of the Company adjusted to HK$238.9 million (2011: HK$405.9 million).

Looking at 2013, we have seen that economic performance of both Hong Kong and the PRC has become more stable, particularly in China where economic expansion has been driven by increasing urbanisation and rising personal consumption power, presenting immense growth potential when compared with other countries. Therefore, the management is maintaining a prudent attitude towards its business prospects while actively exploring scope for further development in south China. Capitalising on the solid foundation we have built in Hong Kong and south China, as well as our strong cash position, we are continuing to expand our business coverage by seeking suitable locations to open new stores, thereby consolidating our leading presence in the industry.

Last but not least, on behalf of the Board, I would like to thank our management and all staff for their hard work and dedicated contributions, which have made us one of the best retailers in the hearts of our customers in the first 25 years of our operations. AEON Stores resolves to work together and leverage the expertise and experience we have accumulated over the years to serve our customers to create a brighter future for "AEON".



OKUNO Yoshinori
Chairman

Hong Kong, 15 March 2013

Management Discussion and Analysis

Ms. Chan Pui Man Christine
Managing Director

Financial Review

In 2012, the global economy was only recovering slowly after the outbreak of European debt crises, thus negatively affecting consumer sentiment. Yet, the Group continued to achieve growth despite the adverse economic environment with revenue increasing 10.3% to HK$7,377.2 million from HK$6,686.4 million last year, mainly attributable to the continued expansion in both the Hong Kong and PRC markets. Gross profit margin slightly adjusted from 33.6% to 33.1% due to the increased share of food sales and rising costs over the period. Profit attributable to owners of the Company was recorded at HK$238.9 million (2011: HK$405.9 million) due to the increase in pre-operating expenses of new stores, impairment loss recognised in respect of property, plant and equipment, as well as a larger increment of operating expenses versus the rise of operating income. Excluding the change in the fair value of the investment property in both years, profit would have dropped by 56.5% to HK$138.9 million.

During the period under review, the ratio of staff cost to revenue increased from 10.6% to 12.3%, mainly because of the enhanced remuneration package for retaining competitive staff and the expansion of store network. The ratio of rental cost to revenue increased from 9.9% to 11.1% due to the opening of several stores in the second half of 2012.

As at 31 December 2012, the Group maintained a strong net cash position with cash and bank balance and short term time deposits of HK$2,241 million (2011: HK$2,295 million). Bank borrowings were all repaid as at the end of the year. The Group has sufficient internal resources to finance future business expansion.

As at 31 December 2012, deposits of HK$28.5 million (2011: HK$25.2 million) were pledged as guarantees to landlords for rental deposits. There is no deposit pledged as at 31 December 2012 (2011: HK$25.8 million) as a guarantee to any bank for banking facilities.

During the year under review, capital expenditure for opening new stores and store renovation in Hong Kong and the PRC amounted to HK$482 million. The Group intends to finance future capital expenditure by internal resources and short-term borrowings.

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

Business Review

Hong Kong Operations

Following the trend of 2011, recovery of the economy in Hong Kong further slowed down in 2012, and consumers remained cautious about spending due to the rising consumer prices throughout the year. Driven by the Group's strategic expansion and opening of new stores, revenue from Hong Kong operations increased by 14.8% to HK$3,525.2 million (2011: HK$3,071.4 million). Segment profit was adjusted to HK$136.7 million from HK$233.8 million last year due to rising costs, pre-operating expenses of certain new stores, impairment loss recognised in respect of property, plant and equipment of HK$38.7 million (2011: Nil), and the fact that contributions from

the newly opened stores, especially those opened in the second half of the year, have not yet been fully reflected in this fiscal year.

During the year, the Group continued implementing its expansion plan in Hong Kong according to schedule. Apart from the store that was opened in Kowloon City Plaza and the Tuen Mun Store that was reopened after renovation during the first half of the year, a new store in Causeway Bay also was opened in August aimed at capturing the opportunity from the growing consumer segment seeking a quality and trendy lifestyle. Seeing the growing residential and working population in Tsuen Wan, the Group opened two more stores in the district during the fourth quarter of the year — one at Tsuen Wan Skyline Plaza and the other at Panda Place in Tai Wo Hau — to grasp the business opportunity. To extend the network across the MTR system, the Group opened three more stores at the Tseung Kwan O station, Tai Wai station and Lohas Park station, all with a high pedestrian traffic flow.

As at 31 December 2012, the Group had 43 (2011: 38) stores in densely populated residential and commercial districts in Hong Kong.

PRC operations

The PRC market experienced an economic slowdown similar to that in the Hong Kong market. In additional to the unsatisfactory economic conditions, the operational environment was further deteriorated by the September issue. Nonetheless, the Group managed to maintain revenue growth of 6.6% to HK$3,852.0 million (2011: HK$3,615.0 million) during the year under review. Segment profit dropped to HK$17.4 million (2011: HK$203.2 million) due to the soaring operating costs, the pre-operating expenses of certain new stores, impairment loss recognised in respect of property, plant and equipment of HK$11.1 million (2011: Nil). The Group opened three stores in the second half of the year in addition to two in the first half.

As at 31 December 2012, the Group operated 25 (2011: 20) stores in south China.

Prospects

Hong Kong operations

The global economy is slowly recovering, yet the European debt crises remains unsettled and consumer sentiment all over the world may not improve significantly in the short run. Economic condition in Hong Kong would inevitably be dragged by the slowly-growing US economy. With quite a number of stores already opened in the past two years, the Group is focusing its efforts mainly on optimising the performance of these newly opened stores. Having said that, aiming for sustainable long-term growth, the Group is keeping a close eye on the market in order to capture opportunities that may arise. While the store at Kowloon City Plaza will be fully operational in the first half of 2013, the Group may open more stores when suitable locations are identified.

As for the investment property in Hong Kong, the Group has entered into a short-term lease with its single existing tenant. This enables the Group to have adequate time to plan for the establishment of its new headquarters and centralised distribution and processing facilities that will eventually be located there.

PRC operations

Despite the decelerating growth rate of the PRC economy in comparison with previous years, the PRC market still remains healthy with growth potential relative to other countries.

Therefore, the Group is prudently optimistic about its operations in south China, and will continue to expand its retail network there by adding five stores in Guangzhou, Shenzhen, Dongguan and Huizhou. The Group is actively exploring new initiatives to further expand in the PRC market. The Group is opening more stores to cater for the various needs of customers and is still exploring the opportunities to expand its business in Fujian Province though no commitment has been made for any specific project to date.

Human Resources

As at 31 December 2012, the Group had approximately 9,300 full-time and 1,400 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.

Creating Long-Term Value

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

CHAN Pui Man Christine
Managing Director

Hong Kong, 15 March 2013

Corporate Social Responsibility

In order to achieve the mission and vision of the Group, we dedicated ourselves not only to provide convenience to the community but also spare no effort towards corporate social responsibility, such as environmental protection, fund raising activities, education and community services.

Fundraising activities

Starting from year 1992, 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 2012, more than HK$25 millions were raised respectively which funded to build schools in Shanxi and Sichuan. The campaign also supports the education programs which took place in Guangxi, Guizhou, Guangdong, Ningxia, Gansu, Yunnan and Diqing.

Moreover, a fund-raising campaign named "Yellow Receipts" has launched in Hong Kong and other areas in China. In every 11th of the month, a receipt in yellow colour will be given to our customers after purchase with the total transaction amount printed on it. Customers are invited to vote for the beneficial NGOs that they would like support with the "Yellow Receipt". Goods in the amount of 1% of total receipt amount will be donated to the organizations by the Group. The first batch of the "Yellow Receipt" program has been finished on 11 January 2013 over HK$423 thousands fund has been raised for 11 NGOs.

Environmental Protection

The Group has a deep commitment to protecting the environment. Numbers of environmental protection activities such as trees planting and tree caring programs and eco-paddy for wildlife have been organized last year. The Group also believes the importance of education, and launched educational programs to kindergarten and primary school students to deliver environmental protection messages.

Energy-saving lights and re-chargeable batteries with chargers were distributed to our customers to promote energy saving concept while the Group implemented energy-saving measures in stores and head office.

Community services

The Group cares about the people in needed in the community and participates in community services activities. The Group arranged visits of elderly homes and other organizations in festive season aiming to share the joy as well as showing care.

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 "U-Green Award" by U-magazine, "TVB Mothers' Choice 2012" by TVB Weekly, "Smiling Award" by Hong Kong Mystery Shoppers Association", "Prime Awards for ECO-Business 2012" by MetroBox Magazine, "Entrepreneur Green Enterprise Awards 2012" by Capital Magazine, "Quality Life Award 2012" and "Editors' Recommendation Awards 2011" by Lisa Magazine, "ECO Excellence Awards" by the Eco Association and "MTR shops 2012" by Mass Transit Railway.

Senior Management Profile

Executive Directors

Ms. CHAN Pui Man Christine

Ms. Chan (aged 61) was appointed as Executive Director in September 2009 and became the Managing Director in May 2012. She is also a director of AEON (China) Co., Ltd.. Ms. Chan joined the Company in 1998. She possesses extensive experience in the buying field as well as operations. Ms. Chan is a graduate of the State of Washington University with a bachelor's degree in Business Administration.

Mr. SUZUKI Junichi

Mr. Suzuki (aged 56) was appointed as Executive Director in March 2012 and became Deputy Managing Director in May 2012. He joined AEON Co. Ltd. ("AEON Co.") in 1980 and was a store manager before he was transferred to AEON (Thailand) Co., Ltd. in 1998 and became its director in charge of Administrations. In 2009, he was transferred to Beijing AEON Co., Ltd. and became deputy managing director. He joined the Company in July 2011. Mr. Suzuki graduated from the Kyoto Sangyou University with a bachelor's degree in Business Administration.

Ms. CHAN Suk Jing

Ms. Chan (aged 53) was appointed as Executive Director in March 2012 and is in charge of Operations 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 possesses extensive experience in retail operations and buying field.

Mr. CHAK Kam Yuen

Mr. Chak (aged 50) was appointed as Executive Director in March 2013 and is in charge of Administration Division of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 20 years of solid experience in retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration and Electronic Commerce.

Non-Executive Directors

Mr. OKUNO Yoshinori

Mr. Okuno (aged 49) was appointed as Non-executive Director in March 2011 and became the Chairman in May 2011. He is also a director and vice president of AEON (China) Co., Ltd., chairman of AEON Maxvalu (Guangzhou) Co., Ltd. and director of AEON Mall (Guangzhou) Co., Ltd.. He joined AEON Co. in 1993. Mr. Okuno graduated from Tsukuba University with a bachelor's degree in Science. He is also vice chairman of Guang Dong Chain Operations Association.

Mr. TSUJI Haruyoshi

Mr. Tsuji (aged 57) was appointed as Non-executive Director in March 2011. He is also the chairman and president of AEON (China) Co., Ltd. and a director of AEON Mall (Guangzhou) Co., Ltd.. He joined AEON Co. in 1978. Mr. Tsuji graduated from Kansai University with a bachelor's degree in Sociology.

Mr. AGAWA Yutaka

Mr. Agawa (age 56) was appointed as Non-executive Director in August 2012. He is also a director of AEON (China) Co., Ltd.. He joined AEON Co. in 1980 and was transferred to AEON Co. (M) Bhd. in 1990 as general manager. He was the former deputy managing director of AEON South China Co., Ltd., former Director of the Company and former managing director of Qingdao AEON Dongtai Co., Ltd.. Mr. Agawa graduated from Kansai University with a bachelor's degree in Sociology.

Mr. KOMATSU Takashi

Mr. Komatsu (aged 54) 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 84) 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 57) 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 43) 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 64) 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 up to 31 December 2012. He 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. HIGUCHI Isao

Mr. Higuchi (aged 52) is the General Manager of Business Development 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 49) is the General Manager of Finance Division 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.

Mr. LAU Chi Sum Sam

Mr. LAU (age 46) is the Assistant General Manager of Buying Division of the Company. He joined the Company in 1992 and possesses extensive experience in retail operations and buying field.

Mr. SIU Hung Fat Gary

Mr. Siu (age 49) is the Assistant General Manager of Operations Division of the Company. He joined the Company in 1994 and possesses extensive experience in retail operations and buying field. Mr. Siu graduated from the University of Leicester with a master's degree in Business Administration.

Corporate Governance Report

Corporate Governance Practice

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

The Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules (the "Listing Rules") was amended and revised as the Corporate Governance Code (the "Revised Code") which became effective on 1 April 2012. The Company has adopted the code provisions set out in the Code and the Revised Code (as and when they were/are in force) as its own code of corporate governance practice.

In the opinion of the Directors, the Company has complied throughout the year with the code provisions of the Code and the Revised Code as and when they were/are in force.

Directors' Securities Transactions

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

Board of Directors

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

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

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

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

	Directors	Number of attendance
Executive Directors	Chan Pui Man Christine *(MD)* (Note 1)	5/5
	Junichi Suzuki *(Deputy MD)* (Notes 1 & 2)	3/5
	Chan Suk Jing (Note 2)	3/5
	Lam Man Tin *(Former MD)* (Note 1)	3/5
	Yuji Yoneta (Note 3)	2/3
Non-executive Directors	Yoshinori Okuno *(Chairman)*	5/5
	Haruyoshi Tsuji	5/5
	Takashi Komatsu	5/5
	Yutaka Agawa (Note 4)	1/5
	Akio Yoshida (Note 3)	1/5
Independent Non-executive Directors	Lam Pei Peggy	3/5
	Sham Sui Leung Daniel	5/5
	Cheng Yin Ching Anna	5/5
	Shao Kung Chuen	5/5

Notes:

1. Mr. Lam Man Tin resigned as an Executive Director and Managing Director of the Company on 25 May 2012. Ms. Chan Pui Man Christine was appointed as Managing Director of the Company and Mr. Junichi Suzuki was appointed as Deputy Managing Director of the Company, both on 25 May 2012.

2. Mr. Junichi Suzuki and Ms. Chan Suk Jing were appointed as Executive Directors of the Company on 16 March 2012 and there have been 3 Board meetings held after their appointment.

3. Mr. Yuji Yoneta resigned as an Executive Director of the Company and Mr. Akio Yoshida resigned as a Non-executive Director of the Company, both on 16 Mach 2012.

4. Mr. Yutaka Agawa was appointed as a Non-executive Director of the Company on 24 August 2012.

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

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

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

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

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

The attendance of the Directors at the Annual General Meeting held on 25 May 2012 is as follows:

	Directors	Number of attendance
Executive Directors	Chan Pui Man Christine *(MD)*	1/1
	Junichi Suzuki *(Deputy MD)*	1/1
	Chan Suk Jing	1/1
	Lam Man Tin	1/1
	Yuji Yoneta (Note 1)	0/0
Non-executive Directors	Yoshinori Okuno *(Chairman)*	1/1
	Haruyoshi Tsuji	1/1
	Takashi Komatsu	1/1
	Yutaka Agawa (Note 2)	0/0
	Akio Yoshida (Note 3)	0/0
Independent Non-executive Directors	Lam Pei Peggy	1/1
	Sham Sui Leung Daniel	1/1
	Cheng Yin Ching Anna	1/1
	Shao Kung Chuen	1/1

Notes:

1. Mr. Yuji Yoneta resigned as an Executive Director of the Company on 16 Mach 2012.

2. Mr. Yutaka Agawa was appointed as a Non-executive Director of the Company on 24 August 2012.

3. Mr. Akio Yoshida resigned as a Non-executive Director of the Company on 16 Mach 2012.

Directors' Induction and Continuous Professional Development

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

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

The Company has also arranged in-house trainings for Directors in the form of seminar since the Revised Code became effective from 1 April 2012. The attendance of the Directors to the in-house training seminars since 1 April 2012 up to 31 December 2012 according to the records provided by the Directors is as follows:

		Directors' participation in trainings
Executive Directors	Chan Pui Man Christine *(MD)* (Note 2)	✓
	Junichi Suzuki *(Deputy MD)* (Note 3)	✓
	Chan Suk Jing (Note 2)	✓
	Lam Man Tin *(Former MD)* (Note 1)	✓
	Yuji Yoneta (Note 4)	—
Non-executive Directors	Yoshinori Okuno *(Chairman)*	✓
	Haruyoshi Tsuji	✓
	Takashi Komatsu	✓
	Yutaka Agawa	✓
	Akio Yoshida (Note 5)	—
Independent Non-executive Directors	Lam Pei Peggy	✓
	Sham Sui Leung Daniel	✓
	Cheng Yin Ching Anna	✓
	Shao Kung Chuen	✓

Notes:

1. Mr. Lam Man Tin resigned as an Executive Director and Managing Director of the Company on 25 May 2012.

2. Ms. Chan Pui Man Christine was appointed as Executive Director on 16 March 2012 and the Managing Director of the Company on 25 May 2012.

3. Mr. Junichi Suzuki was appointed as Executive Director on 16 March 2012 and the Deputy Managing Director of the Company on 25 May 2012.

4. Mr. Yuji Yoneta resigned as an Executive Director of the Company on 16 March 2012.

5. Mr. Akio Yoshida resigned as a Non-executive Director of the Company on 16 March 2012.

Chairman and Chief Executive

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

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

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

Nomination Committee

The Nomination Committee was established on 13 January 2012 with specific terms of reference in accordance with the Revised Code. The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. Before its establishment, the role and function of the Nomination Committee was performed by the Board. The Committee's authorities and duties are set out in written terms of reference, which are published on the websites of the Stock Exchange and the Company.

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

	Directors	Number of attendance
Non-executive Director	Yoshinori Okuno *(Chairman)*	3/3
Independent Non-executive Directors	Lam Pei Peggy	2/3
	Sham Sui Leung Daniel	3/3
	Shao Kung Chuen	3/3

During 2012, the Nomination Committee performed the following duties:

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

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

— assessed the independence of Independent Non-executive Directors; and

— recommended the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive.

Remuneration Committee

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the Directors and senior management. It will also make recommendations to the Board on the remuneration packages of all Directors and senior management. The Committee's authorities and duties are set out in written terms of reference. To tie in with the amendments in the Revised Code effective from 1 April 2012, the terms of reference of the Remuneration Committee were updated during the year, which are published on the websites of the Stock Exchange and the Company.

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

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

Notes:

1. Mr. Yoshinori Okuno resigned as the chairman and became member of the Remuneration Committee of the Company on 13 January 2012.

2. Dr. Shao Kung Chuen was appointed as the chairman of the Remuneration Committee of the Company on 13 January 2012.

During 2012, the Remuneration Committee performed the following duties:

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

Details of the remuneration paid to Directors and members of senior management by band for the year ended 31 December 2012 are disclosed in notes 12 and 13 to the consolidated financial statements.

Auditors' Remuneration

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

Services rendered	Fees paid/payable HK$'000
Audit services — annual audit	5,109
Non-audit services:	
Review of interim results	755
Taxation services	1,681
Other services	323
	7,868

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. To tie in with the amendments in the Revised Code effective from 1 April 2012, the terms of reference of the Audit Committee were updated during the year, which are published on the websites of the Stock Exchange and the Company.

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

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

	Directors	Number of attendance
Non-executive Directors	Yoshinori Okuno	2/2
Independent Non-executive Directors	Sham Sui Leung Daniel *(Chairman)*	2/2
	Lam Pei Peggy	1/2
	Cheng Yin Ching Anna	2/2

During 2012, the Audit Committee performed the following duties:

— reviewed the audited financial statements for the year ended 31 December 2011 with a recommendation to the Board for approval;

— reviewed the un-audited financial statements for the six months ended 30 June 2012 with a recommendation to the Board for approval;

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

— 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.

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.

Corporate Governance Function

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

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

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

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

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

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

Accountability and Audit

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2012 and for the year ended 31 December 2012, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

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

Internal Controls

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

Company Secretary

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

According to the newly introduced Rule 3.29 of the Listing Rules, Mr. Chan Kwong Leung Eric, the Company Secretary, has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2012.

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders

Extraordinary general meeting may be convened by the Directors on requisition of Shareholder(s) holding not less than one-twentieth of the paid-up capital of the Company or by such Shareholder(s) who made the requisition (as the case may be) pursuant to section 113 of the Companies Ordinary (Chapter 32, Laws of Hong Kong) (the "Companies Ordinance"). The objects of the meeting must be stated in the requisition which must be signed by the requisitionist(s) and deposited at the registered office of the Company. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening an extraordinary general meeting.

Putting Forward Enquiries to the Board

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

The Secretary of the Company
AEON Stores (Hong Kong) Co., Limited
3rd Floor, Stanhope House
738 King's Road
Quarry Bay, Hong Kong
Email: cs@aeonstores.com.hk
Tel: (852) 2565 3600
Fax: (852) 2563 8654

Putting Forward Proposals at the General Meetings

Pursuant to section 115A of the Companies Ordinance, Shareholders representing not less than one-fortieth of the total voting rights of all Shareholders; or not less than 50 Shareholders holding shares in the Company on which there has been paid up an average sum, per Shareholder, of not less than HK$2,000, may make requisition in writing for proposing resolution or business to be dealt with at the next general meeting. Shareholders should follow the requirements and procedures as set out in section 115A of the Companies Ordinance for putting forward a proposal at a general meeting.

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

Investor Relations

There is no significant change in the Company's constitutional documents during the year ended 31 December 2012.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2012.

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 2012 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 2012 are set out in the consolidated income statement on page 35 of this annual report.

An interim dividend of 16.5 HK cents per share amounting to HK$42,900,000 in aggregate was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 9.7 HK cents per share to the shareholders on the register of members on 3 June 2013, amounting to HK$25,220,000 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$481,697,000 on property, plant and equipment to renovate its stores and expand its operations.

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

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2012 comprised the retained profits of HK$1,330,221,000 (2011: HK$1,257,353,000).

Directors

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

Executive Directors

CHAN Pui Man Christine *(Managing Director)*	Appointed as Managing Director on 25 May 2012
Junichi SUZUKI *(Deputy Managing Director)*	Appointed as Executive Director on 16 March 2012 and appointed as Deputy Managing Director on 25 May 2012
CHAN Suk Jing	Appointed on 16 March 2012
CHAK Kam Yuen	Appointed on 15 March 2013
LAM Man Tin	Resigned as Executive Director and Managing Director on 25 May 2012
Yuji YONETA	Resigned on 16 March 2012

Non-executive Directors

Yoshinori OKUNO *(Chairman)*	
Haruyoshi TSUJI	
Yutaka AGAWA	Appointed on 24 August 2012
Takashi KOMATSU	
Akio YOSHIDA	Resigned on 16 March 2012

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, except Prof. Lam Pei Peggy, offer themselves for re-election.

Prof. Lam Pei Peggy, an Independent Non-executive Director having served the Board since 1994, has informed the Company that she will not offer herself for re-election at the forthcoming annual general meeting.

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 2012, 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 (Note)	Approximate aggregate percentage of interests in the issued share capital of the Company %
CHAN Pui Man Christine	6,000	—	262,000	0.103
CHAN Suk Jing	—	—	49,600	0.019
Yutaka AGAWA	12,000	—	—	0.005
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 (d) below.

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

Name of Directors	Number of shares held as personal interests	Approximate percentage of interests %
Yoshinori OKUNO	300	0.00004
Junichi SUZUKI	4,000	0.00050
Haruyoshi TSUJI	3,109	0.00039
Yutaka AGAWA	19,017	0.00238
Takashi KOMATSU	2,000	0.00025

(c) **Other associated corporations**

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

(d) **Stock Appreciation Rights**

i. The Stock Appreciation Rights of the Company are a form of cash settled equity derivative. Particulars of the Stock Appreciation Rights Schemes of the Company (including certain defined terms used below) are set out in note 35 to the consolidated financial statements.

ii. As at 31 December 2012, certain Directors had interests in Stock Appreciation Rights granted under the Company's Stock Appreciation Rights Schemes as follows:

Name of Directors	Capacity	Number of underlying shares of the Company
CHAN Pui Man Christine	Beneficial owner	262,000
CHAN Suk Jing	Beneficial owner	49,600

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

			Number of underlying shares of the Company						
Name of Directors and date of grant	Exercise price HK$	Exercisable period	Outstanding at 1.1.2012	Granted during the year	Exercised during the year	Cancelled during the year	Forfeited during the year	Re-classified during the year	Outstanding at 31.12.2012
LAM Man Tin									
25.9.2009	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
31.8.2012	22.290	31.8.2013 to 30.8.2019	—	42,000	—	—	—	—	42,000
	22.290	31.8.2014 to 30.8.2019	—	42,000	—	—	—	—	42,000
	22.290	31.8.2015 to 30.8.2019	—	56,000	—	—	—	—	56,000
CHAN Suk Jing									
25.9.2009	13.500	25.9.2010 to 24.9.2016	—	—	(3,000)	—	—	3,000	—
	13.500	25.9.2011 to 24.9.2016	—	—	(3,000)	—	—	3,000	—
	13.500	25.9.2012 to 24.9.2016	—	—	(4,000)	—	—	4,000	—
1.9.2010	14.260	1.9.2011 to 31.8.2017	—	—	(1,200)	—	—	1,200	—
	14.260	1.9.2012 to 31.8.2017	—	—	(1,200)	—	—	1,200	—
	14.260	1.9.2013 to 31.8.2017	—	—	—	—	—	1,600	1,600
1.9.2011	17.900	1.9.2012 to 31.8.2018	—	—	—	—	—	6,000	6,000
	17.900	1.9.2013 to 31.8.2018	—	—	—	—	—	6,000	6,000
	17.900	1.9.2014 to 31.8.2018	—	—	—	—	—	8,000	8,000
31.8.2012	22.290	31.8.2013 to 30.8.2019	—	8,400	—	—	—	—	8,400
	22.290	31.8.2014 to 30.8.2019	—	8,400	—	—	—	—	8,400
	22.290	31.8.2015 to 30.8.2019	—	11,200	—	—	—	—	11,200

Notes:

1. The closing price on underlying shares on 30 August 2012, the date immediately before the date of grant on 31 August 2012 was HK$21.90.

2. The weighted average closing price of the underlying shares immediately before the dates of exercise was HK$22.01.

Other than as disclosed above, at 31 December 2012, neither the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of PART XV of the SFO).

Directors' Interests in Contracts of Significance

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

Connected Transactions

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

(i) The subsidiary of the Company, Guangdong 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 RMB46,671,000. 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$43,462,000. 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) AEON Credit Service (Asia) Company Limited ("ACS") and the Company have entered into agreements under which the Company pays commission to ACS in respect of certain purchases made by customers of the Company with the use of the Company's various co-brand cards and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company. The total amount of commission paid and payable by the Company for the year was HK$11,427,000. This amount does not exceed the cap amount of HK$16,000,000 as shown in the announcement of the Company dated and 15 April 2011.

(iv) AEON Information Services (Shenzhen) Co., Ltd. ("AIS"), PRC AEON Stores and other subsidiaries of AEON Co., Ltd. have entered into outsourcing agreements under which the PRC AEON Stores pay service fee to AIS in respect of the services rendered to the PRC AEON Stores by AIS for handling the issue of AEON Cards and the sales application using AEON Cards within the PRC AEON Stores. AIS also pays a fee to the PRC AEON Stores for setting up service counters in the PRC AEON Stores to handle AEON Cards, issue and sales applications. The outsourcing agreement, which was renewed in 2011, was amended on 13 April 2012 to amend certain service fees payable to AIS.

For the period from 1 January 2012 to 12 April 2012, the amount payable by the PRC AEON Stores to AIS under the outsourcing agreement was RMB1,408,000 and the amount payable by AIS to the PRC AEON Stores for the same period was RMB798,000. These amounts do not exceed the cap amount of RMB3,400,000 and RMB3,117,000 respectively for the same period as shown in the announcement of the Company dated 30 August 2011.

For the period from 13 April 2012 to 31 December 2012, the amount payable by the PRC AEON Stores to AIS under the outsourcing agreement was RMB4,490,000 and the amount payable by AIS to the PRC AEON Stores for the same period was RMB140,000. These amounts do not exceed the cap amount of RMB12,900,000 and RMB7,883,000 respectively for the same period as shown in the announcement of the Company dated 13 April 2012.

(v) AEON Delight (Beijing) Co., Ltd. and its subsidiaries ("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 RMB29,995,000. 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 2012 (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 2012, 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

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

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

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

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

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2012.

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$1,098,000.

Emolument Policy

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year ended 31 December 2012.

Auditor

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

On behalf of the Board

OKUNO Yoshinori
Chairman

Hong Kong, 15 March 2013

Deloitte.
德勤

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

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 35 to 95, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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
15 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Revenue	5	**7,377,228**	6,686,387
Other income		**614,948**	514,237
Investment income	7	**25,444**	30,774
Purchases of goods and changes in inventories		**(4,933,232)**	(4,442,635)
Staff costs		**(906,192)**	(705,518)
Depreciation		**(164,113)**	(132,005)
Impairment loss recognised in respect of property, plant and equipment	17	**(49,845)**	—
Gain on fair value change of an investment property		**100,000**	86,264
Loss on disposal of property, plant and equipment		**(1,749)**	(291)
Pre-operating expenses	8	**(80,596)**	(27,215)
Other expenses		**(1,682,792)**	(1,437,872)
Finance costs	9	**(863)**	(2,264)
Profit before tax		**298,238**	569,862
Income tax expense	10	**(47,393)**	(115,457)
Profit for the year	11	**250,845**	454,405
Profit for the year attributable to:			
Owners of the Company		**238,912**	405,918
Non-controlling interests		**11,933**	48,487
		250,845	454,405
Earnings per share	15	**91.89 HK cents**	156.12 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
Profit for the year	**250,845**	454,405
Other comprehensive income		
Fair value gain (loss) on available-for-sale investments	**8,384**	(3,166)
Exchange differences arising on translation of foreign operations	**6**	22,055
Other comprehensive income for the year, net of income tax	**8,390**	18,889
Total comprehensive income for the year	**259,235**	473,294
Total comprehensive income attributable to:		
Owners of the Company	**247,277**	416,572
Non-controlling interests	**11,958**	56,722
	259,235	473,294

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current Assets			
Goodwill	16	**94,838**	94,838
Property, plant and equipment	17	**873,445**	607,773
Investment property	18	**510,000**	410,000
Available-for-sale investments	20	**32,054**	23,670
Time deposits	21	**1,535**	—
Deferred tax assets	22	**33,543**	30,092
Rental deposits		**151,751**	132,440
Pledged bank deposits	23	**28,496**	25,196
		1,725,662	1,324,009
Current Assets			
Inventories	24	**769,666**	699,962
Trade receivables	25	**37,344**	33,403
Other receivables, prepayments and deposits		**152,067**	144,552
Amounts due from fellow subsidiaries		**113,723**	116,986
Time deposits	21	**180,207**	116,730
Pledged bank deposits	23	**—**	25,800
Income tax recoverable		**16,378**	—
Bank balances and cash		**2,060,309**	2,178,184
		3,329,694	3,315,617
Current Liabilities			
Trade payables	27	**1,451,899**	1,400,591
Other payables and accrued charges		**1,417,257**	1,203,668
Amount due to ultimate holding company		**45,045**	41,440
Amounts due to fellow subsidiaries		**74,078**	56,532
Bank borrowings	28	**—**	24,571
Obligation under a finance lease	29	**800**	—
Income tax payable		**9,856**	27,991
Dividend payable		**867**	770
		2,999,802	2,755,563
Net Current Assets		**329,892**	560,054
Total Assets Less Current Liabilities		**2,055,554**	1,884,063

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Capital and Reserves			
Share capital	31	**52,000**	52,000
Share premium and reserves		**1,637,814**	1,526,777
Equity attributable to owners of the Company		**1,689,814**	1,578,777
Non-controlling interests		**173,296**	183,949
Total Equity		**1,863,110**	1,762,726
Non-current Liabilities			
Rental deposits received and other liabilities		**169,211**	105,541
Obligation under a finance lease	29	**3,409**	—
Deferred tax liabilities	22	**19,824**	15,796
		192,444	121,337
		2,055,554	1,884,063

The consolidated financial statements on pages 35 to 95 were approved and authorised for issue by the Board of directors on 15 March 2013 and are signed on its behalf by:

YOSHINORI OKUNO
Director

CHAN PUI MAN CHRISTINE
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Non-current Assets			
Property, plant and equipment	17	**437,577**	229,468
Investment property	18	**510,000**	410,000
Investments in subsidiaries	19	**197,138**	276,238
Available-for-sale investments	20	**32,054**	23,670
Rental deposits		**102,016**	91,290
		1,278,785	1,030,666
Current Assets			
Inventories	24	**388,038**	361,393
Trade receivables	25	**22,438**	18,872
Other receivables, prepayments and deposits		**46,861**	42,173
Amounts due from subsidiaries		**57,532**	16,291
Amounts due from fellow subsidiaries		**73,752**	79,315
Time deposits	21	**155,640**	116,730
Income tax recoverable		**16,378**	—
Bank balances and cash		**807,009**	868,753
		1,567,648	1,503,527
Current Liabilities			
Trade payables	27	**691,443**	635,025
Other payables and accrued charges		**433,252**	325,930
Amount due to ultimate holding company		**45,045**	42,104
Amounts due to fellow subsidiaries		**42,938**	37,638
Income tax payable		**—**	2,603
Dividend payable		**867**	770
		1,213,545	1,044,070
Net Current Assets		**354,103**	459,457
Total Assets Less Current Liabilities		**1,632,888**	1,490,123

STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 HK$'000	2011 HK$'000
Capital and Reserves			
Share capital	31	**52,000**	52,000
Share premium and reserves	32	**1,421,501**	1,340,249
		1,473,501	1,392,249
Non-current Liabilities			
Rental deposits received and other liabilities		**139,563**	82,078
Deferred tax liabilities	22	**19,824**	15,796
		159,387	97,874
		1,632,888	1,490,123

奥野善彦

YOSHINORI OKUNO
Director

Christine Chan

CHAN PUI MAN CHRISTINE
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	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 2011	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 (Note 14)	—	—	—	—	—	—	(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
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**238,912**	**238,912**	**11,933**	**250,845**
Other comprehensive income for the year	**—**	**—**	**8,384**	**(19)**	**—**	**—**	**—**	**8,365**	**25**	**8,390**
Total comprehensive income for the year	**—**	**—**	**8,384**	**(19)**	**—**	**—**	**238,912**	**247,277**	**11,958**	**259,235**
Transfer, net of non-controlling interests share	**—**	**—**	**—**	**—**	**8,548**	**6,995**	**(15,543)**	**—**	**—**	**—**
Dividends recognised as distribution (Note 14)	**—**	**—**	**—**	**—**	**—**	**—**	**(136,240)**	**(136,240)**	**—**	**(136,240)**
Dividends paid to non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(22,611)**	**(22,611)**
At 31 December 2012	**52,000**	**63,158**	**28,122**	**36,239**	**27,013**	**64,015**	**1,419,267**	**1,689,814**	**173,296**	**1,863,110**

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 2012

	2012 HK$'000	2011 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**298,238**	569,862
Adjustments for:		
Investment income	**(25,444)**	(30,774)
Finance costs	**863**	2,264
Depreciation	**164,113**	132,005
Gain on fair value change of an investment property	**(100,000)**	(86,264)
Impairment loss recognised in respect of property, plant and equipment	**49,845**	—
Loss on disposal/written off of property, plant and equipment	**1,749**	291
Write-down of inventories	**5,267**	3,579
Operating cash flows before movements in working capital	**394,631**	590,963
Increase in inventories	**(74,878)**	(103,626)
Increase in trade receivables	**(3,943)**	(11,758)
Increase in other receivables, prepayments and deposits	**(28,346)**	(99,470)
Decrease (increase) in amounts due from fellow subsidiaries	**3,264**	(24,148)
Increase in trade payables	**51,489**	153,102
Increase in other payables and accrued charges	**230,296**	250,514
Increase in amount due to ultimate holding company	**3,603**	2,040
Increase in amounts due to fellow subsidiaries	**17,506**	10,534
Cash generated from operations	**593,622**	768,151
Hong Kong Profits Tax paid	**(38,953)**	(41,591)
PRC income taxes paid	**(42,265)**	(72,718)
Interest paid	**(863)**	(2,264)
Interest on bank deposits	**24,119**	29,563
NET CASH FROM OPERATING ACTIVITIES	**535,660**	681,141

For the year ended 31 December 2012

	2012 HK$'000	2011 HK$'000
INVESTING ACTIVITIES		
Withdrawal of pledged bank deposits	**25,703**	12,609
Placement of pledged bank deposits	**(3,292)**	(49,997)
Dividends received from investments	**1,325**	1,211
Purchase of property, plant and equipment	**(434,753)**	(207,830)
Proceeds from disposal of property, plant and equipment	**452**	216
Acquisition of an investment property	**—**	(292,736)
Placement of time deposits	**(180,219)**	—
Withdrawal of time deposits	**116,730**	—
NET CASH USED IN INVESTING ACTIVITIES	**(474,054)**	(536,527)
FINANCING ACTIVITIES		
Repayment of bank borrowings	**(24,479)**	(24,017)
Dividends paid	**(136,143)**	(148,304)
Dividends paid to non-controlling shareholders	**(22,611)**	(18,300)
New obligation under a finance lease raised	**4,361**	—
Repayment of obligation under a finance lease	**(168)**	—
NET CASH USED IN FINANCING ACTIVITIES	**(179,040)**	(190,621)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(117,434)**	(46,007)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**2,178,184**	2,168,383
Effect of Foreign Exchange Rate Changes	**(441)**	55,808
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by	**2,060,309**	2,178,184
Bank balances and cash	**2,060,309**	2,178,184

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2012

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 Amendments to HKFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The application of the amendments to HKFRS in the current year has had no material impact on the Group's and the Company's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

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 HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC) — Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

[1] Effective for annual periods beginning on or after 1 January 2013.
[2] Effective for annual periods beginning on or after 1 January 2014.
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 July 2012.

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 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:

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

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

The 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 2012, the Directors anticipate that the application of HKFRS 9 is not expected to have a significant impact on the amounts reported in respect of the Group's and the Company's financial assets and financial liabilities.

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. HK(SIC) — Int 12 *Consolidation — Special Purpose Entities* will be withdrawn upon the issuance date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, 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.

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

New and revised standards on consolidation, joint arrangements, associates and disclosures — continued

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.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first 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. The application of amendments to HKFRS 10 and HKFRS 11 is not expected to have significant impact on amounts reported in the consolidated financial statements and the Company's financial statement. The Directors anticipated that the application of amendment to HKFRS 12 may result in more disclosure being made in the future.

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 Company's and the consolidated financial statements but may result in more extensive disclosures in the Company's and the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'.

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. 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 do not change the option to present items of other comprehensive income either before tax or net of tax.

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

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income — continued

The amendments to HKAS 1 are effective for the Group for annual period beginning on 1 January 2013. 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.

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 and the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis except for investment property and certain financial instruments, which are measured at fair values, 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.

3. Significant Accounting Policies — continued

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.

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 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.

3. Significant Accounting Policies — continued

Revenue recognition — continued

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).

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

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

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

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

3. Significant Accounting Policies — continued

Investment property

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

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

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

Leasing

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

The Group and the Company as lessor

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

The Group and the Company as lessee

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

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

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

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

Financial instruments

Financial assets and financial liabilities are recognised 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.

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial assets

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

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

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, pledged bank deposits, trade receivables, other receivables, amounts due from fellow subsidiaries, time deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment of financial assets below).

Available-for-sale financial assets ("AFS")

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.

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

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

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial assets — continued

Impairment of financial assets

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

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

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

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

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

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

When an 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.

3. Significant Accounting Policies — continued

Financial instruments — continued

Financial liabilities and equity instruments

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

Equity instruments

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

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, 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.

3. Significant Accounting Policies — continued

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.

Share-based payment transactions

Cash-settled share-based payment transactions

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

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

Impairment losses on tangible assets

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

Recoverable amount is the higher of fair value less costs 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 (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised 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 before tax' 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.

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.

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

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Critical judgment in applying accounting policies

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

Deferred taxation on investment properties

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

Key sources of estimation uncertainty

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

Income taxes

As at 31 December 2012, a deferred tax asset of HK$33,543,000 (2011: HK$30,092,000) in relation to temporary differences arising from provision for staff costs has been recognised in the Group's consolidated statement of financial position. The realisability of the deferred tax asset mainly depends on whether taxable profit will be available against which the deductible temporary differences can be utilised. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the profit or loss for the period in which such a reversal takes place.

In addition, as at 31 December 2012, 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$56,496,000 (2011: HK$57,793,000) due to unpredictability of future profit streams. The realisability of the tax effect of tax losses mainly depends on whether sufficient profits or taxable temporary differences will be available in the future.

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

Key sources of estimation uncertainty — continued

Net realisable value of inventories

The Group's and the Company's inventories with carrying amount of HK$769,666,000 (2011: HK$699,962,000) and HK$388,038,000 (2011: HK$361,393,000), 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$5,267,000 (2011: HK$3,579,000) and HK$3,918,000 (2011: HK$1,601,000) respectively, which is the difference between the carrying value and net realisable value of the items of affected inventories, to the profit or loss for the year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of goodwill is HK$94,838,000 (2011: 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 2012, the aggregate carrying amount of the Group's and the Company's building fixtures and furniture, fixtures and equipment is HK$829,199,000 (2011: HK$550,537,000) and HK$430,366,000 (2011: HK$223,930,000) respectively.

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

As at 31 December 2012, the accumulated impairment loss of the Group's and the Company's building fixtures and furniture, fixtures and equipment of HK$71,899,000 (2011: HK$22,329,000) and HK$60,808,000 (2011: HK$22,329,000), respectively, is recognised. Details about impairment losses provided during the year are set out in note 17.

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

Key sources of estimation uncertainty — continued

Estimation of useful lives of property, plant and equipment

Management estimates the useful lives of property, plant and equipment. The estimated useful lives are based on the periods the property, plant and equipment are expected to be available for use, including the expiry of any related leases. When the actual useful lives of property, plant and equipment are different from their estimated useful lives, such difference will impact the depreciation charges and the amounts of assets written down for future periods. As at 31 December 2012, the carrying amount of the Group's and the Company's property, plant and equipment is HK$873,445,000 (2011: HK$607,773,000) and HK$437,577,000 (2011: HK$229,468,000) respectively.

Valuation of the investment property

Investment property with carrying amount of HK$510,000,000 (2011: HK$410,000,000) 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 have exercised their judgement and are satisfied that the assumptions used in the valuation are reflective of the current market conditions. Changes to these assumptions would result in changes in the fair values of the investment property and the corresponding adjustments to the amount of gain or loss reported in the consolidated 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:

	2012 **HK$'000**	2011 HK$'000
Direct sales	**6,413,148**	5,766,163
Income from concessionaire sales	**964,080**	920,224
	7,377,228	6,686,387

6. Segment Information

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

Segment revenues and results

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

For the year ended 31 December 2012

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

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

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.

6. Segment Information — continued

Other segment information

For the year ended 31 December 2012

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

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

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:

	2012 HK$'000	2011 HK$'000
Hong Kong	**1,049,593**	730,758
PRC	**608,937**	539,489
	1,658,530	1,270,247

7. Investment Income

	2012 HK$'000	2011 HK$'000
Dividends from listed equity securities	**1,325**	1,211
Interest on bank deposits	**24,119**	29,563
	25,444	30,774

8. Pre-Operating Expenses

The amounts represent the set up costs for new stores. Included in pre-operating expenses are staff costs of HK$29,412,000 (2011: HK$16,762,000).

9. Finance Costs

	2012 HK$'000	2011 HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	**764**	2,264
Finance leases	**99**	—
	863	2,264

10. Income Tax Expense

	2012 HK$'000	2011 HK$'000
The charges comprise:		
Current tax		
Hong Kong	22,572	41,595
Other regions in the PRC	24,530	61,244
	47,102	102,839
(Over)underprovision in prior years		
Hong Kong	(2,600)	(1,095)
Other regions in the PRC	84	4,065
	(2,516)	2,970
	44,586	105,809
Deferred tax (Note 22)		
Current year	2,807	9,648
Income tax expense for the year	47,393	115,457

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

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

10. Income Tax Expense — continued

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

	2012 HK$'000	2011 HK$'000
Profit before tax	**298,238**	569,862
Taxation at the applicable rate of 16.5% (2011: 16.5%)	**49,209**	94,027
Tax effect of expenses not deductible for tax purpose	**13,657**	7,158
Tax effect of income not taxable for tax purpose	**(21,320)**	(5,160)
Tax effect of tax losses not recognised	**22**	—
Utilisation of tax losses previously not recognised	**—**	(6,353)
Withholding tax on undistributed earnings of subsidiaries (Note 22)	**737**	6,777
Effect of different tax rates of entities operating in the PRC	**7,152**	16,089
(Over)underprovision in prior years	**(2,516)**	2,970
Others	**452**	(51)
Income tax expense	**47,393**	115,457

11. Profit for the Year

	2012 HK$'000	2011 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration		
— current year	**5,109**	5,149
— underprovision for prior year	**—**	19
	5,109	5,168
Cash settled share-based payments	**1,432**	623
Exchange (gain) loss, net	**(1,877)**	579
Operating lease rentals in respect of rented premises (included in other expenses)		
— minimum lease payments	**776,810**	593,691
— contingent rent (Note)	**45,024**	66,561
	821,834	660,252
Retirement benefits scheme contributions, net of forfeited contributions of HK$72,000 (2011: nil)	**83,910**	59,239
Royalties payable to the ultimate holding company	**43,462**	39,948
Rental income (included in other income)		
— minimum lease payments	**(441,181)**	(353,576)
— contingent rent (Note)	**(46,569)**	(34,760)
	(487,750)	(388,336)
Rental income from an investment property, net of negligible outgoing (included in other income)	**(19,515)**	(18,160)
Write-down of inventories (included in purchase of goods and changes in inventories)	**5,267**	3,579

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 15 (2011: 16) Directors and the chief executive were as follows:

For the year ended 31 December 2012

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

For the year ended 31 December 2011

	Lam Man Tin	Yoshinori Okuno	Haruyoshi Tsuji	Chan Pui Man Christine	Yuji Yoneta	Kenji Fujita	Akihito Tanaka	Jerome Thomas Black	Kazumasa Ishii	Akio Yoshida	Takashi Komatsu	Fumiaki Origuchi	Lam Pei Peggy	Sham Sui Leung, Daniel	Cheng Yin Ching, Anna	Shao Kung Chuen	Junichi Suzuki	Chan Suk Jing	Agawa Yutaka	Total
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 (Note e)	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

Notes:

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

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

(c) Ms. Chan Pui Man Christine and Mr. Lam Man Tin (who resigned during the year) are Managing Directors ("MD") of the Company. The Board of Directors considered that the duties of the MD were of no difference from that of a chief executive officer stipulated under Provision A. 2 of the Code of Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange. The management would regard that the term MD will have the same meaning as the chief executive officer of the Company. The remuneration of Ms. Chan and Mr. Lam for their services rendered as the MDs is HK$2,180,000 and HK$1,425,000, respectively for the year ended 31 December 2012 (2011: the remuneration of Mr. Lam was HK$3,723,000).

(d) No Directors and chief executive waived any emoluments during each of the two years ended 31 December 2012 and 2011.

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

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, three (2011: two) were Directors and a chief executive of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining two individuals (2011: three) were as follows:

	2012 HK$'000	2011 HK$'000
Salaries and other benefits	**3,953**	6,258
Performance based bonus	**442**	429
Contributions to retirement benefit schemes	**73**	219
	4,468	6,906

	2012 No. of employees	2011 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	**2**	3

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

	2012 No. of employees	2011 No. of employees
HK$1 to HK$500,000	**—**	1
HK$500,001 to HK$1,000,000	**4**	3
HK$1,000,001 to HK$1,500,000	**2**	3
HK$1,500,001 to HK$2,000,000	**—**	—

14. Dividends

	2012 HK$'000	2011 HK$'000
Final dividend paid for 2011 of 35.9 HK cents (2011: 31.6 HK cents for 2010) per ordinary share	**93,340**	82,160
Interim dividend paid for 2012 of 16.5 HK cents (2011: 25.5 HK cents for 2011) per ordinary share	**42,900**	66,300
	136,240	148,460

The Board of Directors has recommended a final dividend of 9.7 HK cents per share (2011: 35.9 HK cents) to be paid on or before 19 June 2013, subject to shareholders' approval at the forthcoming annual general meeting on 24 May 2013.

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$238,912,000 (2011: HK$405,918,000) and on 260,000,000 (2011: 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

	2012 HK$'000
COST	
At 1 January 2011, 31 December 2011 and 31 December 2012	**94,838**

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

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

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

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 2011	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
Exchange adjustments	**257**	**158**	**1**	**(63)**	**353**
Additions	**209,805**	**97,635**	**1,466**	**172,791**	**481,697**
Transfer	**148,998**	**37,040**	**—**	**(186,038)**	**—**
Disposals/written off	**(52,087)**	**(29,986)**	**(627)**	**—**	**(82,700)**
At 31 December 2012	**1,456,078**	**607,166**	**7,975**	**41,018**	**2,112,237**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	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
Exchange adjustments	**171**	**46**	**2**	**—**	**219**
Provided for the year	**108,626**	**54,341**	**1,146**	**—**	**164,113**
Eliminated on disposals/written off	**(50,608)**	**(29,263)**	**(628)**	**—**	**(80,499)**
Impairment losses recognised	**49,524**	**321**	**—**	**—**	**49,845**
At 31 December 2012	**836,700**	**397,345**	**4,747**	**—**	**1,238,792**
CARRYING VALUES					
At 31 December 2012	**619,378**	**209,821**	**3,228**	**41,018**	**873,445**
At 31 December 2011	420,118	130,419	2,908	54,328	607,773

As at 31 December 2012, the carrying values of furniture, fixture and equipment of the Group included an amount of HK$4,158,000 (2011: HK$nil) in respect of assets held under a finance lease.

17. Property, Plant and Equipment — continued

	Building fixtures HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE COMPANY					
COST					
At 1 January 2011	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
Additions	**179,322**	**53,049**	**—**	**82,719**	**315,090**
Transfer	**70,705**	**10,103**	**—**	**(80,808)**	**—**
Disposals/written off	**(51,353)**	**(16,811)**	**—**	**—**	**(68,164)**
At 31 December 2012	**647,247**	**276,994**	**954**	**6,913**	**932,108**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2011	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
Provided for the year	**48,033**	**18,388**	**238**	**—**	**66,659**
Eliminated on disposals/written off	**(50,375)**	**(16,221)**	**—**	**—**	**(66,596)**
Impairment losses recognised	**38,754**	**—**	**—**	**—**	**38,754**
At 31 December 2012	**307,170**	**186,705**	**656**	**—**	**494,531**
CARRYING VALUES					
At 31 December 2012	**340,077**	**90,289**	**298**	**6,913**	**437,577**
At 31 December 2011	177,815	46,115	536	5,002	229,468

17. Property, Plant and Equipment — continued

Certain stores of the Group and the Company have been experiencing recurring losses or performing below budget. The Management considered there were impairment indicators and hence conducted impairment assessment on the relevant stores, which constitutes individual CGU for the purpose of impairment assessment. The recoverable amounts of the relevant assets have been determined on the basis of value in use of the stores to which the relevant assets belong to. The value in use calculations use cash flow projections based on the latest financial budgets approved by the Company's management covering a period of 5 years with growth rates ranging from 0% to 5%, and at a discount rate of 7% and 10%. Cash flow projections during the budget period were based on the expected gross margins during the budget period and the budgeted margins have been determined based on past performance and management's expectations for the market development. Accordingly, an impairment loss of HK$49,845,000 (2011: HK$nil) and HK$38,754,000 (2011: HK$nil) has been recognised in respect of property, plant and equipment of the Group and the Company respectively, which have been allocated to the respective classes of property, plant and equipment on a pro-rata basis based on the relative carrying amounts.

As at 31 December 2012, accumulated impairment loss on property, plant and equipment of the Group and the Company is HK$71,899,000 (2011: HK$22,329,000) and HK$60,808,000 (2011: HK$22,329,000), respectively.

18. Investment Property

The Group and the Company

	Medium-term lease investment property in Hong Kong HK$'000
FAIR VALUE	
At 1 January 2011	—
Addition	323,736
Net increase in fair value recognised in profit or loss	86,264
At 31 December 2011	410,000
Net increase in fair value recognised in profit or loss	100,000
At 31 December 2012	510,000

The fair value of the Group's and the Company's investment property at 31 December 2012 has been arrived at on the basis of valuation carried out on that date by Savills Valuation and Professional Services Limited, an independent qualified professional valuer not connected with the Group and the Company. Savills Valuation and Professional Services Limited is a member of Institute of Valuers. 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	
	2012	2011
	HK$'000	HK$'000
Unlisted investments, at cost	**347,962**	347,962
Less: impairment loss	**(150,824)**	(71,724)
	197,138	276,238

A subsidiary of the Company has been experiencing recurring losses and performing below budget. The Directors considered that there were impairment indicators and hence conducted impairment assessment on the investment in the relevant subsidiary. The amount of impairment is measured as the difference between the asset's carrying amount and its recoverable amount. The recoverable amount is higher of value in use and fair value less costs to sell. Value in use is the estimated future cash flows discounted to their present value using an appropriate discount rate that reflects current market assessments of the time value of money and the risks specific to the subsidiary. The recoverable amount of the relevant subsidiary is estimated by Directors based on the expected future cash flows to be generated from the operation of the subsidiary. That calculation uses cash flow projections with financial budgets approved by management covering a 5-year period, and discount rate of 10%. Other key assumptions for the value in use calculations related to the estimation of cash inflows/outflows which include budgets sales and gross margin, such estimation is based on the subsidiary's past performance and management's expectation for the market development. Accordingly, an impairment of HK$79,100,000 (2011:HK$nil) had been recognised to the profit or loss. As at 31 December 2012, accumulated impairment loss of HK$150,824,000 (2011: HK$71,724,000) had been recognised.

Particulars of the subsidiaries at 31 December 2012 and 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	RMB146,070,000 (2011: RMB136,400,000)	65%	Retail stores
AEON South China Co., Ltd. ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB212,800,000 (2011: RMB212,800,000)	100%	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000 (2011: HK$1,000)	100%	Inactive

20. Available-For-Sale Investments

Available-for-sale investments comprise:

	THE GROUP AND THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**29,704**	21,380
Unlisted club debenture at fair value	**2,350**	2,290
	32,054	23,670

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$29,704,400 (2011: HK$21,380,000).

21. Time Deposits

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

At 31 December 2011, time deposit represented 3 years United States dollar-denominated time deposit due on 20 April 2012 which carried 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 2011	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
(Charge) credit to income statement	**(5,682)**	**3,451**	**161**	**(737)**	**(2,807)**
Withholding tax paid on distributed profits of subsidiaries during the year	**—**	**—**	**—**	**2,230**	**2,230**
At 31 December 2012	**(13,201)**	**33,543**	**517**	**(7,140)**	**13,719**

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

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Deferred tax assets	**33,543**	30,092
Deferred tax liabilities	**(19,824)**	(15,796)
	13,719	14,296

At the end of the reporting period, the Group had unused tax losses of HK$56,496,000 (2011: HK$57,793,000) available for offset against future profits, and other temporary differences of HK$136,917,000 (2011: HK$119,868,000). A deferred tax asset has been recognised in respect of HK$136,917,000 (2011: HK$119,868,000) for other temporary differences. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams for the relevant subsidiaries.

22. Deferred Taxation — continued

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
The tax losses above will expire as follows:		
31 December 2014	**56,364**	57,793
31 December 2017	**132**	—
	56,496	57,793

	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 2011	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)
(Charge) credit to income statement	**(5,682)**	**161**	**(737)**	**(6,258)**
Withholding tax paid on distributed profits of subsidiaries during the year	**—**	**—**	**2,230**	**2,230**
At 31 December 2012	**(13,201)**	**517**	**(7,140)**	**(19,824)**

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

23. Pledged Bank Deposits

As at 31 December 2012, HK$28.5 million (2011: HK$25.2 million) were pledged to banks for guarantee to landlords for rental deposits. Such bank deposits as at 31 December 2012 which are expected to be realised more than twelve months after the end of the reporting periods are classified as non-current.

Another HK$25.8 million of the Group's bank deposits were pledged for its bank borrowings as at 31 December 2011.

24. Inventories

During the year, the Directors have considered the market performance and the expected net realisable value of the inventories. As a result, the Group and the Company have written-down inventories of HK$5,267,000 (2011: HK$3,579,000) and HK$3,918,000 (2011: HK$1,601,000), respectively and included in "Purchases of goods and changes in inventories".

25. Trade Receivables

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

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

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within 30 days	**37,344**	33,403	**22,438**	18,872

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 2012 and 2011, the Group and the Company do not have any trade receivable balance that were past due.

26. Other Assets

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

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

The amounts due from fellow subsidiaries are trade-related, unsecured, interest free and with credit term of 15 to 35 days (2011: 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 3.60% (2011: 0.01% to 0.92%) 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**282**	1,869	**—**	—
United States dollars	**24,748**	123,376	**24,748**	123,376
Japanese Yen	**4,362**	19,205	**4,362**	19,205
Renminbi	**93,763**	70,715	**93,763**	70,715

27. Trade Payables

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

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
0–60 days	**1,206,831**	1,296,799	**587,287**	611,729
61–90 days	**103,571**	64,720	**81,193**	11,656
Over 90 days	**141,497**	39,072	**22,963**	11,640
	1,451,899	1,400,591	**691,443**	635,025

The average credit period on the purchases of goods is 60 days (2011: 60 days).

28. Bank Borrowings

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Bank loans	**—**	24,571
Carrying amount repayable*:		
Within one year	**—**	24,571
Less: Amount due within one year shown under current liabilities	**—**	(24,571)
Amount due after one year	**—**	—

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

The bank borrowings were denominated in Renminbi which carried interest at floating rates and were repayable within three years. The average effective interest rate during the year ended 31 December 2011 was 6.4% per annum. The bank borrowings were fully repaid during the year.

29. Obligation Under a Finance Lease

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts payable under a finance lease				
Within one year	**1,095**	—	**800**	—
In more than one year but not more than two years	**1,095**	—	**810**	—
In more than two years but not more than five years	**3,013**	—	**2,599**	—
	5,203	—	**4,209**	—
Less: Future finance charges	**(994)**	—		
Present value of a lease obligation	**4,209**	—		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(800)**	—
Amount due for settlement after 12 months			**3,409**	—

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

30. 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$11,681,000 (2011: HK$9,606,000) and HK$527,067,000 (2011: HK$528,449,000) 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 (2011: 60 to 90 days). The amounts are aged within 60 days based on the invoice date at the end of respective reporting period.

31. Share Capital

	2012 & 2011 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**

32. 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 2011	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
Gain on fair value changes of available-for-sale investments recognised directly in equity	**—**	**8,384**	**—**	**8,384**
Profit for the year	**—**	**—**	**209,108**	**209,108**
Total comprehensive income for the year	**—**	**8,384**	**209,108**	**217,492**
Dividends	**—**	**—**	**(136,240)**	**(136,240)**
At 31 December 2012	**63,158**	**28,122**	**1,330,221**	**1,421,501**

33. Capital Commitments

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**33,028**	30,662	**—**	—
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for in the consolidated and the Company's financial statements	**45,197**	251,917	**20,000**	204,800

34. 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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**785,984**	625,319	**457,284**	392,397
In the second to fifth year inclusive	**2,432,787**	2,538,008	**1,514,531**	1,484,298
Over five years	**2,007,836**	2,410,049	**1,356,988**	1,501,843
	5,226,607	5,573,376	**3,328,803**	3,378,538

In addition to the above, (i) over 90% (2011: over 90%) of the leases of the Group and over 80% (2011: over 80%) of the leases of the Company are subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease payments; and (ii) the Group is also subject to a maximum lease commitment of a sum of approximately HK$10,309,000 (2011: HK$nil) to a landlord which is a third party under the circumstance of early termination of lease agreements between the landlord and certain related companies covering a lease period of five years starting from 2012.

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

34. Operating Leases — continued

The Group and the Company as lessor:

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

	THE GROUP		THE COMPANY	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**414,749**	302,270	**192,682**	146,430
In the second to fifth year inclusive	**413,206**	311,279	**134,808**	88,659
Over five years	**38,790**	13,832	**—**	1,338
	866,745	627,381	**327,490**	236,427

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.

35. 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 2012

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

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

For the year ended 31 December 2011

Date of grant	Exercise price HK$	Vesting period	Exercisable period	Number of underlying SARs: Outstanding at 1.1.2011	Granted during the year	Exercised 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

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 2.7% to 3% as referenced to the past dividend yields
- Number of steps 100 nodes
- Exercise multiple 2.2 times

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

At 31 December 2012, the Group has recorded liabilities of HK$2,053,000 (31 December 2011: HK$3,497,000), which is included in other payables and accrued charges. At 31 December 2012, the total intrinsic value of the vested SARs was HK$833,000 (2011: HK$1,285,000).

During the year ended 31 December 2012, 252,400 share options were forfeited prior to the vesting as a result of the resignation of employees and reversal of share-based payment expenses HK$1,140,000 was recognised. No share option was forfeited in 2011.

36. 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$12,991,000 (2011: HK$8,509,000) 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$5,479,000 (2011: HK$4,939,000) 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$65,440,000 (2011: HK$45,791,000).

37. 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 (note 28) and obligation under a finance lease (note 29), 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.

38. Financial Instruments

(a) Categories of financial instruments

	THE GROUP	
	2012	2011
	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**2,513,657**	2,576,704
Available-for-sale financial assets	**32,054**	23,670
Financial liabilities at amortised cost	**2,234,074**	2,030,868

	THE COMPANY	
	2012	2011
	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**1,125,725**	1,101,116
Available-for-sale financial assets	**32,054**	23,670
Financial liabilities at amortised cost	**1,197,230**	1,026,740

(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.

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

38. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

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 2012.

(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	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**282**	1,869	**42,387**	—
United States dollars	**180,388**	240,106	**9,808**	4,327
Japanese Yen	**4,362**	19,205	**14,544**	20,086
Renminbi	**93,763**	70,715	**—**	—

THE COMPANY

	Assets		Liabilities	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars	**180,388**	240,106	**9,808**	4,327
Japanese Yen	**4,362**	19,205	**14,544**	20,086
Renminbi	**93,763**	70,715	**—**	—

38. Financial Instruments — continued

(c) Foreign currency risk management — continued

Foreign currency sensitivity

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

THE GROUP

	2012		2011	
	Increase (decrease) in foreign exchange rates	**Increase (decrease) in profit before tax**	Increase (decrease) in foreign exchange rates	Increase (decrease) in profit before tax
	%	**HK$'000**	%	HK$'000
Hong Kong dollars	**1%**	**(421)**	1%	19
	(1%)	**421**	(1%)	(19)
United States dollars	**1%**	**1,706**	1%	2,358
	(1%)	**(1,706)**	(1%)	(2,358)
Japanese Yen	**10%**	**(1,018)**	10%	(88)
	(10%)	**1,018**	(10%)	88
Renminbi	**10%**	**9,376**	10%	7,072
	(10%)	**(9,376)**	(10%)	(7,072)

38. Financial Instruments — continued

(c) Foreign currency risk management — continued

Foreign currency sensitivity — continued

THE COMPANY

	2012 Increase (decrease) in foreign exchange rates %	**Increase (decrease) in profit before tax HK$'000**	2011 Increase (decrease) in foreign exchange rates %	Increase (decrease) in profit before tax HK$'000
United States dollars	**1%**	**1,706**	1%	2,358
	(1%)	**(1,706)**	(1%)	(2,358)
Japanese Yen	**10%**	**(1,018)**	10%	(88)
	(10%)	**1,018**	(10%)	88
Renminbi	**10%**	**9,376**	10%	7,072
	(10%)	**(9,376)**	(10%)	(7,072)

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 2011.

38. Financial Instruments — continued

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk as the Group's bank balances and bank borrowings and the Company's bank balances are subject to floating interest rate. As at 31 December 2011, all of the Group's bank borrowings borne interests at floating rates and would mature within one year. The Group and the Company analyse its interest rate exposure on a dynamic basis, but the Group and the Company did not use floating-to-fixed interest rate swaps in managing its cash flow interest rate risk. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate obligation under a finance lease (note 29). The management will take appropriate measures to manage interest rate exposure of interest rate fluctuates significantly. The management considers the fair value interest rate risk to the Group is low.

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

Interest rate sensitivity

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

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. This was 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.

38. Financial Instruments — continued

(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 in respect of AFS equity investments at the reporting date. The measure of price sensitivity is based on the actual observed historical changes of one-year interval to estimate the 1-day historical volatility. The use of a 1-day holding period assumes that the positions can be unwound in one trading day. If the equity price of the available-for-sale investments had been 7% (2011: 8%) higher/lower while all other variables were held constant, the investment revaluation reserve would increase/decrease by HK$167,000 (2011: increase/decrease by HK$323,000) for the Group and the Company, principally as a result of the changes in fair value of AFS equity investments.

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

(f) Credit risk management

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

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

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

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

(g) Liquidity risk management

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

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

38. Financial Instruments — continued

(g) Liquidity risk management — continued

THE GROUP

	Weighted average effective interest rate	6 months or less	6–12 months	>1–<2 years	>2–<5 years	Total undiscounted cash flows amount	Carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2012							
Non-interest bearing	**—**	**2,234,074**	**—**	**—**	**—**	**2,234,074**	**2,234,074**
Obligation under a finance lease	**9.20**	**548**	**547**	**1,095**	**3,013**	**5,203**	**4,209**
		2,234,622	**547**	**1,095**	**3,013**	**2,239,277**	**2,238,283**
2011							
Non-interest bearing	—	2,006,297	—	—	—	2,006,297	2,006,297
Bank borrowings at variable interest rate	6.17	12,665	13,044	—	—	25,709	24,571
		2,018,962	13,044	—	—	2,032,006	2,030,868

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
2012						
Non-interest bearing	**—**	**1,197,230**	**—**	**—**	**1,197,230**	**1,197,230**
2011						
Non-interest bearing	—	1,026,740	—	—	1,026,740	1,026,740

(h) Fair value of financial instruments

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

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

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

38. Financial Instruments — continued

(h) Fair value of financial instruments — continued

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).

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

	2011			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'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

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

39. Related Party Transactions

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

Capacity	Nature of transaction	THE GROUP 2012 HK$'000	THE GROUP 2011 HK$'000	THE COMPANY 2012 HK$'000	THE COMPANY 2011 HK$'000
Fellow subsidiaries	Commission for credit facilities provided to the customers	**11,427**	9,268	**11,427**	9,268
	Franchise fee, consumable expenses and purchase of machines	**157**	292	**157**	292
	Other income	**985**	518	**548**	349
	Outsourcing service expenses	**7,219**	5,955	**—**	—
	Purchase of goods	**252,076**	175,034	**148,756**	111,558
	Recharge of administrative expenses	**570**	791	**—**	—
	Reimbursement income of administrative expenses	**4,066**	5,664	**—**	—
	Rental expense	**90**	280	**90**	280
	Rental income	**11,722**	7,986	**9,914**	7,453
	Sales of goods	**2,100**	—	**600**	—
	Service fee expense	**36,713**	6,675	**—**	—
Subsidiaries	Dividend income	**—**	—	**41,992**	33,986
	Management fee income	**—**	—	**4,283**	3,306
	Royalty income	**—**	—	**22,786**	21,666
	Supply chain management service fee	**—**	—	**619**	584
Ultimate holding company	Royalty expenses	**43,462**	39,948	**43,462**	39,948
Non-controlling shareholders of the subsidiaries*	Advertising expenses	**2,826**	2,132	**—**	—
	Rental expenses, management fees and utility expenses	**54,327**	51,819	**—**	—

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

39. 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	
	2012	2011
	HK$'000	HK$'000
Amounts due from non-controlling shareholders of the subsidiaries (included in other receivables, prepayments and deposits)	**6,956**	6,795

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				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
RESULTS					
Revenue	5,373,626	5,897,909	6,106,485	6,686,387	**7,377,228**
Profit before tax	378,979	267,424	401,577	569,862	**298,238**
Income tax expense	(74,528)	(72,253)	(81,547)	(115,457)	**(47,393)**
Profit for the year	304,451	195,171	320,030	454,405	**250,845**

	At 31 December				
	2008 HK$'000	2009 HK$'000	2010 HK$'000	2011 HK$'000	**2012** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	3,166,944	3,562,337	3,840,291	4,639,626	**5,055,356**
Total liabilities	(2,012,649)	(2,308,247)	(2,384,099)	(2,876,900)	**(3,192,246)**
	1,154,295	1,254,090	1,456,192	1,762,726	**1,863,110**
Equity attributable to:					
Owners of the Company	1,061,920	1,143,463	1,310,665	1,578,777	**1,689,814**
Non-controlling interests	92,375	110,627	145,527	183,949	**173,296**
	1,154,295	1,254,090	1,456,192	1,762,726	**1,863,110**