Annual Report 2009

AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

Stock Code : 984

MISSION

AEON Co., Ltd. ("AEON Co.") is a Japanese retailing and services group with 154* subsidiaries. These companies are active in four major business sectors: General Merchandise Store ("GMS") and other retail outlets, specialty stores, shopping centre development, and financial services and amusement facilities.

AEON Co. operates not only in Japan, but also in the PRC and Asia. Its activities in different markets are guided at all times by its corporate credo "Everything we do, we do for our customers".

AEON Stores (Hong Kong) Co., Limited ("AEON Stores" or the "Company"), a member of AEON Co., established its first store in Hong Kong in 1987 and was listed on the Hong Kong Stock Exchange in 1994. AEON Stores now has over 40 outlets in Hong Kong and south China. AEON Stores is dedicated to providing its customers with a wide range of high quality daily necessities at reasonable prices, complemented by pleasant shopping experiences. In its quest for total customer satisfaction, AEON Stores has strived tirelessly to improve product safety and enhance shopping convenience and enjoyment.

AEON is founded on the basic customer-oriented principles of "The pursuit of peace through prosperity", "Respect human dignity and value personal relationships" and "Make continuous contributions to local communities". All staff members strictly follow the "AEON Code of Conduct" which aims to guarantee prompt response to customer needs and delivery of excellent services. The company prides itself in providing customers with services that constantly exceed their expectations.

* As at February 2009

CONTENTS

CORPORATE INFORMATION

Board of Directors

Executive Directors

LAM Man Tin *(Managing Director)*
CHAN Pui Man Christine
YONETA Yuji
FUJITA Kenji

Non-Executive Directors

TANAKA Akihito *(Chairman)*
TOYOSHIMA Masaaki
ISHII Kazumasa
ORIGUCHI Fumiaki

Independent Non-Executive Directors

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

Company Secretary

CHAN Kwong Leung Eric

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

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

Share Registrars

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

Registered Office

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

Head Office and Principal Place of Business

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

Stock Code

984

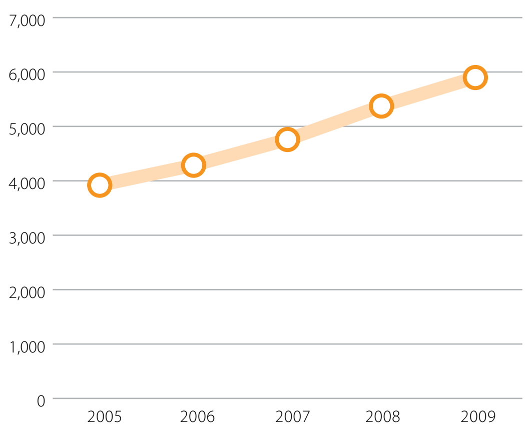
Website

www.jusco.com.hk

FINANCIAL HIGHLIGHTS

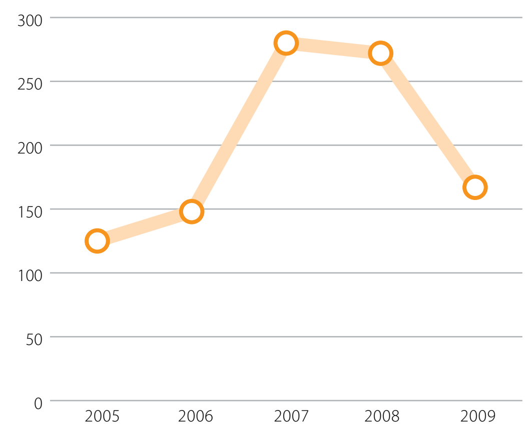
Revenue

(HK$million)



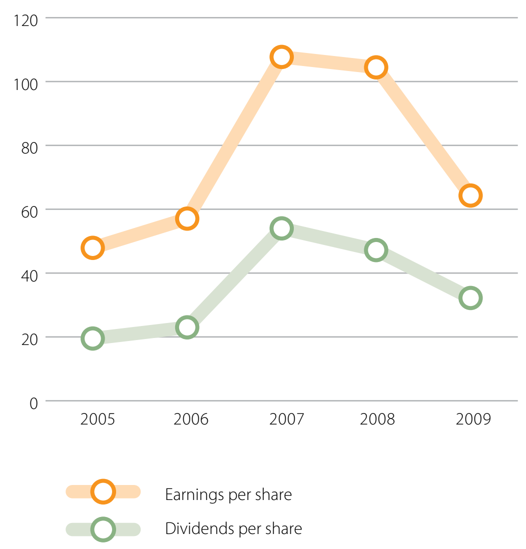
Profit Attributable to Shareholders

(HK$million)



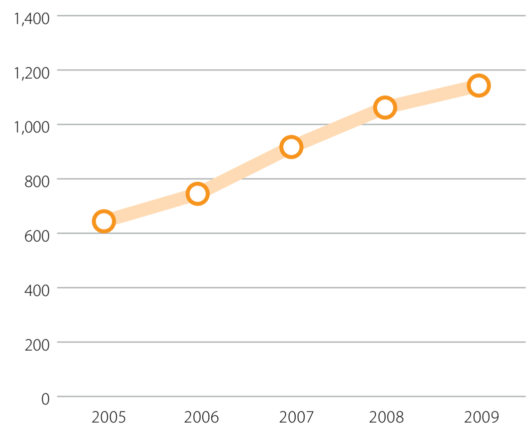
Earnings and Dividends per Share

(HK cents)



Shareholders' Equity

(HK$million)



CHAIRMAN'S STATEMENT

TANAKA Akihito
Chairman

In 2009, the global economy was still under the shadow of the financial crisis which started in the second half of 2008 and sent economies worldwide into the slump. The financial performance of the Company and its subsidiaries (collectively the "Group") during the year was inevitably affected. Against this backdrop, despite that revenue was up by 10% to HK$5,897.9 million (2008: HK$5,373.6 million), profit attributable to shareholders was down to HK$167.1 million (2008: HK$271.5 million). The decline was the result of rounds of sales promotion to encourage customer spending, less-than-satisfactory performance of the existing stores in the PRC and some of new PRC stores still in investment stage.

While the more well-developed economies were still struggling in the economic downturn during 2009, major emerging economies in Asia were showing strength and have become the force behind the global recovery. Among all the Asian economies, the PRC, benefiting from government efforts to stimulate domestic consumption, has been recovering most rapidly. Seeing abundant potential business opportunities in the region, AEON Co., the parent company of the Group, will step up penetration of the Asian market with a particular focus on the PRC. Boasting strong brand equity in China, the Group will further expand the business in south China to align with the strategic direction of its parent.

AEON Stores, embracing the credo of "Everything we do, we do for our customers", always takes local customer preferences and needs into consideration when speeding up expansion in the PRC and Hong Kong markets. In south China, the Group introduced new stores that agrees with the habit of local people and is apt in capturing growth potential bred by improving living standard of local communities. In Hong Kong, the Group enhanced the product mix of its stores to meet the different latest lifestyle trends embraced by Hong Kong people. The enriched business portfolio has not only facilitated the Group's expansion plan, but has also enhanced its reputation and recognition among customers. The Group will continue to replicate its successful experience and explore other new initiatives in the two markets so as to keep strengthening its foothold in them.

Looking ahead, with the global economy expected to continue to recover in 2010, the Group remains cautiously optimistic of the Hong Kong and PRC markets in the foreseeable future. In Hong Kong, although the outlook of the second half year is uncertain with governments anticipated to gradually withdraw the exceptional fiscal measures for bracing economies amid the global downturn, according to The Budget 2010–11 for Hong Kong publicised in February, the estimated GDP growth of the territory will keep picking up and reach 4% to 5% in 2010. And the employment situation is also expected to continue to improve. These factors working in complement will liven up consumption sentiment to the benefit of the local retail market.

Regarding the PRC economy, the IMF World Economic Outlook Update published in January 2010 expected a 10% growth year-on-year for GDP of the country in 2010, or a 1.3 percentage point more when compared with 2009. Backed by more than a decade of experience in retail business in south China and with expansion plans well-mapped out, the Group is confident of its business performance in south China in the long run. The solid track record of AEON Stores and its professional knowledge in operating business in south China are proofs of its capability to swiftly respond to changes in the economic environment, which is also what underscores its leadership in the sector.

On behalf of the board, I would like to take this opportunity to thank the management team and staff for their dedication and contribution that have made AEON Stores a successful retailer enjoying strong customer patronage. I am confident that, leveraging the rich retail expertise of our parent AEON Co. and committed to delivering the best services, the Group is well-positioned to maintain leadership in the retail markets in Hong Kong and south China in the years to come.

TANAKA Akihito
Chairman

Hong Kong, 19 March 2010

MANAGEMENT DISCUSSION & ANALYSIS

LAM Man Tin
Managing Director

Financial Review

The operating environment in 2009, particularly the first half year, remained challenging for the retail industry. The economy started to pick up in the second half year but has yet to fully recover from the downturn sparked by the global financial meltdown in late 2008. However, the Group managed to deliver satisfactory results building on its solid experience and strong foothold in the region. The Group's revenue grew by 10% to HK$5,897.9 million from HK$5,373.6 million in 2008 mainly attributable to the new stores added in Hong Kong and the PRC and the success of sales promotion efforts during the year. Gross profit margin dropped slightly to 33.1% (2008: 34.9%). With the PRC operations performed below expectation during the year, several new stores still in investment stage and impairment loss arising from certain refundable prepaid rental not being accepted in arbitration, profit attributable to shareholders for the year dropped by 38% to HK$167.1 million (2008: HK$271.5 million). Earnings per share of 2009 were 64.29 HK cents, against 104.44 HK cents in the previous year.

During the year under review, staff costs to revenue was down slightly from 10.9% to 10.3% thanks to effective cost control measures and improved efficiency in manpower deployment. Rental costs to revenue rose to 11.1% from 9.7%, if the one-off impairment loss of prepaid rental was excluded, the ratio would have been 10.8%.

As at 31 December 2009, the Group maintained a stable net cash position with cash and bank balance of HK$1,904 million, against HK$1,619 million at 31 December 2008. The Group had bank borrowings of HK$170 million (31 December 2008: HK$152 million). The borrowings were denominated in Renminbi bearing interest calculated with reference to the lending rate of the People's Bank of China. The Group strives to keep a low gearing ratio making sure it has sufficient resources to finance future business expansion.

The Group's bank deposits of HK$12 million (31 December 2008: HK$12 million) were pledged to banks for guarantee to landlords for rental deposits, and nil (31 December 2008: HK$4.6 million) for guarantee to suppliers for trade purchases.

Capital expenditure for the year amounted to HK$209 million, arising from renovation of existing stores as well as opening of new stores. The Group will continue to finance future capital expenditure by internal resources and short-term borrowings.

Though exchange rates continued to fluctuate, the Group was not materially affected by related movements as less than 5% of its total purchases was settled in foreign currencies.

Business Review

The global financial crisis that broke out since September 2008, has affected economies around the world. Governments have swiftly responded with series of economic stimulation policies to boost market demand and public confidence. As a result, economies and financial markets gradually stabilised towards the second half of the year, especially the PRC and Hong Kong markets. However, as consumer sentiment was slow to recover and people were concerned about job security in general, the retail industry was still weak and unstable in the year 2009.

Hong Kong Operations

As affected by the financial turmoil, the local economy suffered severe contraction in the first quarter of 2009. It stabilised in the second quarter and started to pick up gradually in the second half of the year. However, the real GDP for 2009 as a whole dropped by 2.7%[1] when compared with 2008, which indicated that the economy remained weak. With consumers cautious in spending, pressure was experienced by the retail market and the Group's operations. Despite that, with the launch of various kinds of sales promotions, the new stores added and renovated stores reopened during the year, the Group was able to record an increase in segmental revenue of 5% to HK$3,271.3 million from HK$3,107.8 million. The growth is particularly significant given that the JUSCO Tsuen Wan Store was renovated in the middle of the year with an enhanced product mix and ancillary facilities. Overall segmental result for the year of the Hong Kong operations grew by 7% to reach HK$265.9 million (2008: HK$249.2 million), this growth amid the weak economy demonstrated the Group's resilience in the adverse operating environment and the effectiveness of its effort in cost control and enhancing operational efficiency.

During the year under review, the Group was active in expanding its sales distribution network. It opened five stores in Lai Chi Kok, Shatin, North Point, Ap Lei Chau and Tseung Kwan O, which have been well-received by customers. The new store in Tseung Kwan O, which marked the return of the Group to serving the district, in particular delivered satisfactory results riding on the strong relationship with residents built from before the Group withdrew from the district in 2007. JUSCO Tsuen Wan Store was renovated and re-opened in May with an enhanced shopping environment and specially selected collections of merchandise. Currently, the Group operates 32 independent outlets in densely populated residential districts in Hong Kong.

1 Census and Statistics Department, The Government of the Hong Kong SAR

Management Discussion & Analysis

PRC Operations

The economy in south China was also affected in the economic downturn and presented pressure on the Group's operations. With various domestic consumption stimulus packages implemented by the Chinese government, the country, especially the south China region, has been gradually recovering from impacts of the global financial crisis starting in fourth quarter of 2009. The Group recorded a 16% increase in revenue from the PRC market, rising from HK$2,265.8 million in 2008 to HK$2,626.6 million in 2009, mainly attributable to the additional sales contribution from new stores opened in Foshan, Shenzhen and Guangzhou and full year contribution from the Huizhou Store. However, with the performance of existing stores below expectation because of the slack economy, the new stores still in investment stage, and the impairment loss arising from the refundable prepaid rental of HK$13 million not being accepted in arbitration, the PRC operations recorded loss of HK$17.1 million (2009: profit of HK$95.9 million) for the year of 2009.

As at 31 December 2009, the Group had 14 stores operating in the south China region.

Prospects

Hong Kong Operations

The global economy is expected to continue recovering in 2010. At the Hong Kong government's effort in stabilising the financial sector, supporting enterprises and preserving employment, the local economy should gradually revive and return to positive annual growth. Riding on the strong and long-term relations with local communities, its established distribution network and well diversified business, the Group is set to capture the opportunities arising in the recovering retail market.

Although consumer sentiment is expected to improve, the Group remains cautiously optimistic about the outlook of its business and will continue to adopt active sales promotion to attract customers. In late February 2010, the Group closed the JUSCO Lok Fu Store that had been in operation for over 18 years and will relocate the store to MegaBox, an iconic family leisure destination, in Kowloon Bay. The new store, which will open mid-this year, will be the Group's largest store in Kowloon East where there are large populations of residents, workers and visitors. The Group will also continue to look for locations suitable for opening new stores so as to bring quality products and services to more customers.

Separately, the Group has been observing the trend of the local retail markets, and noticed the convenience of internet shopping that fitting the busy life of Hong Kong people.

Therefore, the Group actively embarks on providing online shopping services for customers. The Group sees huge potential in the virtual shopping platform for customers with busy schedules and wanting to save time in shopping. The Group will invest more resources in developing the related businesses. The Group will also explore new business models so as to speed up business expansion and suit the changing needs of customers.

PRC Operations

The economic stimulus measures promptly launched by the Chinese Government to counter the global economic downturn in 2008 have been yielding results and are expected to see domestic demand and consumption grow notably in the months ahead. The Group is positive about the outlook of the retail market in south China and to capture reviving demand in the region, it opened a store in Baiyun District, Guangzhou in January. The new store, with a total investment cost of approximately RMB29 million, is the first of AEON Stores located outside the hub of a city. It aims to raise the living standard of customers by providing large variety of quality merchandises as well as allow the Group to tap business opportunities bred by the huge consumption power in the district. One new store will be opened in south China in 2010. The Group will continue to increase retail outlets at suitable locations and plan to introduce independent supermarkets in the PRC so as to benefit from economies of scale.

The Group has demonstrated resilience during the challenging year in 2009 on its solid foothold and supported by an experienced management team working under the guidance of the motto to provide local communities with a unique and pleasant shopping experience. The Group will continue to offer tailored products and services that can satisfy the needs of different customers and in doing so take its retail operations to new heights.

Human Resources

As at 31 December 2009, the Group had approximately 6,900 full-time and 1,600 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices of the industry. Committed to delivering the highest standard of service to all its customers, the Group will continue to place efforts on enhancing the quality and skills of its staff by providing professional trainings and mentorship. It will also seek to create an environment where employees can grow and feel a sense of belonging and loyalty to the Group.

LAM Man Tin
Managing Director

Hong Kong, 19 March 2010

CORPORATE SOCIAL RESPONSIBILITY

AEON Stores has always placed much emphasis on its role within the community that it serves and which patronises its retail outlets. To fulfil our role as a good corporate citizen, our activities have primarily been directed at the conservation of nature and environmental protection together with empowerment to the disadvantaged. Over the past year, the Company's social efforts have made noteworthy advances within these two realms.

Conservation of nature and environmental protection

AEON Stores has always maintained a fruitful collaboration with organisations in Hong Kong dedicated to environmental protection and trees have always been central to the Company's conservation efforts. In 2009, the Company organised guided visits to the newly established tree and nature centres in Aberdeen and Ngong Ping. The Company launched a series of nature conservation and education programmes through sponsorship of 'Tree Lovers 2009', with The Conservancy Association. Guided eco-tours with introduction presented at key sites of interest in Fanling and Taipo, tree assessment training workshops, tree conservation seminars with guided tree walks in Kowloon Park, and tree plantings at Tai Lam Country Park have instilled knowledge of tree conservation as well as a greater appreciation of nature in thousands of students and the general public. The 'Adopt a Tree' effort, at JUSCO Kornhill Store, has served as the ideal platform for customers to bring the green concept to their homes.

AEON Stores has also engaged in efforts to reduce carbon dioxide emissions. The Company has supported 'Power Smart 2009', an energy-saving competition for companies and households organised by Friends of the Earth where participants propose solutions for a low-carbon lifestyle.

Empowerment of the disadvantaged

Over the years, AEON Stores has collaborated with World Vision Hong Kong to assist the needy. This year, more than 900 staff participated in the 'Skip-a-Meal' event to raise funds for 'Famine 30' — a campaign to benefit starving children around the world. Closer to home, the Company has also sponsored the 'Used Book Recycling Campaign', raising a total of HK$1.69 million, to help build a secondary school for the rural underprivileged in Shaanxi Province, China.

The Company has a long history of launching gift-giving programmes and donating resources to a variety of charity organisations both in Hong Kong and abroad. AEON Stores has also leveraged its strength as a communication platform with customers to support fund-raising campaigns and promote worthwhile charitable causes. Through our own efforts and collaborative endeavours, AEON Stores has played an integral role in bettering the lot of Hong Kong's disadvantaged.

CSR crossover

A three-way partnership between AEON Stores, Fu Hong Society, and Hong Kong Wetland Park borne fruit through a tree-planting session in the Park for the Society's mildly mentally retarded members. More than 300 participants enjoyed this one-day event. By both protecting nature and empowering the disadvantaged, this fun-filled activity epitomised AEON Stores' commitment to corporate social responsibility.

AWARDS AND ACCOLADES

AEON Stores' efforts and dedication do not go unnoticed in the community. Every year, the Group has earned recognition for its social responsibilities and branding initiatives. This year was no exception.

Social responsibility awards

This year, AEON Stores was lauded for its community service by the Hong Kong Council of Social Service and World Vision Hong Kong. For the eighth consecutive year, the Company was given a Caring Company award by the Hong Kong Council of Social Service, marking its enduring commitment to good corporate citizenship. The Company's dedication to environmental protection has gained kudos year after year and this is a trend that the Company will strive to sustain going forward through our activities. World Vision Hong Kong has honoured AEON Stores with the Award for Highest Number of Participants — Corporations Category in its 'Skip-a-Meal' event. With more than 900 employees taking part in the event, the Company was also cited as the 2nd Runner-up of the Top Fundraising Corporation.

Brand recognition accolades

On top of its social responsibilities, JUSCO, a major brand of the Group, has also been recognised in the marketplace as a popular, well-liked and trusted brand. The 'Take me Home' section of *Hong Kong Economic Times* cited the Company as 'The Best for Home Award' after JUSCO received more than 60,000 votes in a poll to determine Hong Kong's favourite household department store. With more than 40 brand names to choose from, voters selected JUSCO for its preferred products and superior service. Yahoo! Hong Kong honoured JUSCO with the 'Yahoo! Emotive Brands Award' as the Company was voted, through its web site, as the brand which most evokes customers' emotions. These accolades serve as proof positive of the Company's continuing initiatives to fulfil our mission of delivering superior service to satisfy our customers. Elsewhere, *Guangzhou Daily* has presented JUSCO with two awards: the '6th Hong Kong and Macau Merchants of Integrity Award' and 'My Favourite Top 10 Brands of Hong Kong'. More than 100,000 voters cast their ballots to select the winners of the awards, which speaks volumes about AEON Stores' popularity not only in Hong Kong but also in south China. AEON Stores was lauded by *LISA Magazine*, for dedicated customer service, with a 'Best Editor's Pick Award'.

Octopus awarded JUSCO the 'OCTOPUS Partners Award 2009 : Highest Usage Growth Award — Other Retail' for setting up self-service cashier counters to facilitate customer payment. These stations have enhanced the clients' shopping experience and have expedited store's daily operations.

SENIOR MANAGEMENT PROFILE

Executive Directors

Mr. LAM Man Tin

Mr. Lam (aged 51) was appointed as Executive Director in May 1999 and became the Managing Director in May 2006. Mr. Lam joined the Company in 1992 and has over 20 years of retail and service experiences. He graduated from The University of Hull in the United Kingdom with a master's degree in Strategic Marketing.

Ms. CHAN Pui Man Christine

Miss Chan (aged 58) was appointed as Executive Director in September 2009 and is the Director of the Buying Division of the Company. Ms. Chan joined the Company in 1998. She has over 20 years of experience in the buying field as well as operations. Ms. Chan is a graduate of the State of Washington University with a bachelor's degree in Business Administration.

Mr. YONETA Yuji

Mr. Yoneta (aged 44) was appointed as Executive Director in September 2009 and is the Director of Operations of the Company. Mr. Yoneta joined AEON Co. in 1988 and transferred to AEON Co. (M) Bhd. in 1999. He joined the Company in April 2009. He has over 20 years of experience in the buying field as well as operations. Mr. Yoneta is a graduate of the Kyoto Sangyo University with a bachelor's degree in Business Administration.

Mr. FUJITA Kenji

Mr. Fujita (aged 40) was appointed as Executive Director in March 2010 and is the Director of Administration. He joined AEON Co. in 1992 and transferred to AEON Co. (M) Bhd. in 1997. He has over 15 years of experience in administration and business development. He joined the Company in July 2009. Mr. Fujita graduated from Yamaguchi University with a bachelor's degree in Humanity. He also earned a master's degree in Business Administration from International University of Japan.

Non-executive Directors

Mr. TANAKA Akihito

Mr. Tanaka (aged 62) was appointed as Non-executive Director in June 2006 and became the Chairman in May 2007. He is also a Vice President and the CEO of China Operation of AEON Co. Joining AEON Co. in 1970, he was a Director of the Company from 1996 to 2003 and the Managing Director of the Company from 1997 to 1998. Mr. Tanaka graduated from Kansai University with a bachelor's degree in Journalism.

Mr. TOYOSHIMA Masaaki

Mr. Toyoshima (aged 58) was appointed as Non-executive Director in May 2007. He is also a Vice President of AEON Co. Mr. Toyoshima joined AEON Co. in 1974. Mr. Toyoshima is a graduate of Nihon University with a bachelor's degree in Economics.

Mr. ISHII Kazumasa

Mr. Ishii (aged 59) was appointed as Non-executive Director in May 2007. He is also the Assistant Chief Representative for China of AEON Co. He joined the Company in 1990 and moved to Guangdong Province of the PRC for the establishment of Guangdong JUSCO Teem Stores Co., Ltd. in 1995 and was appointed as the Managing Director of that subsidiary in the same year. He was the Managing Director of the Company from June 2002 to June 2005. He graduated from Doshisha University with a bachelor's degree in Commerce in 1974 and joined AEON Co. in the same year.

Mr. ORIGUCHI Fumiaki

Mr. Origuchi (aged 47) was appointed as Non-executive Director in September 2009 and is the Managing Director of AEON South China Co., Limited, a wholly owned subsidiary of the Company. He joined AEON Co., Ltd. in 1986 and has over 20 years of experience in the buying field as well as operations. Mr. Origuchi is a graduate of the Kansai 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 81) was appointed as Independent Non-executive Director since 1994. She was the Chairman of the Wan Chai District Council from 1985 to 2003 and was a member of the Preparatory Committee for the Hong Kong Special Administrative Region. She is a former member of the Executive Committee of All China Women's Federation and the Founding Chairperson of Hong Kong Federation of Women. She has also served as a Hong Kong Affairs Advisor to the People's Republic of China, a member of the Legislative Council from 1988 to 1995 and a member of the Provisional Legislative Council of the Hong Kong Special Administrative Region and was previously a member of the Chinese People's Political Consultative Conference for 15 years. 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 Hong Kong Special Administrative Region ('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 54) 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 and Value Convergence Holdings Limited (resigned on 4 January 2010), both of which are listed on the Hong Kong Stock Exchange.

Ms. CHENG Yin Ching Anna

Ms. Cheng (aged 40) 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 Hong Kong Stock Exchange. She is currently the Chief Financial Officer of Peterson Holdings Company Limited.

Dr. SHAO Kung Chuen Daniel

Dr. Shao (aged 61) 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 HKSAR and also became the Overseas Economic Advisor for Dalian. He is the Senior Advisor of National Institute of Hospital Administration of China and the Honorary Consultant of Peking University Health Science Center in China since 1999. He has been appointed as the Committee Member of Main Committee and the Hong Kong/Japan Business Co-operation Committee of Hong Kong Trade Development Council since 1994. He has also been the member of Advisory Board of School of Continuing & Professional Studies of The Chinese University of Hong Kong since 1991. He was awarded the Bronze Bauhinia Star (B.B.S.) by the Government of HKSAR in 1999. He graduated from Ohio University, U.S.A. and also received The Honorary Doctor of Law Degree from the University in 1998.

Senior Management

Mr. CHAK Kam Yuen

Mr. Chak (aged 47) is the General Manager of Business Support & E-Business Development of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 20 years of solid experience in retail industry, specialising in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration and Electronic Commerce.

Mr. ENDO Takao

Mr. Endo (aged 49) is the General Manager of Specialty Division. He joined AEON Co. in 1984 and transferred to AEON Co. (M) Bhd. in 1994. He has been working for the Company since 1999. Mr. Endo graduated from Takasaki City University of Economics with a bachelor'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. The Company has adopted the code provisions set out in the Code of Corporate Governance Practices ("the Code") in Appendix 14 of the Listing Rules as its own code of corporate governance practice.

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

Directors' Securities Transactions

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

Board of Directors

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated the day-to-day responsibility to the Executive Directors and senior management who perform their duties under the leadership of the Managing Director.

The Board has scheduled at least four meetings a year and meets as and when required. During the year, the Board held six meetings. The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director may request inclusion of items in the agenda. For all such meetings, at least 14 days' notice is given to all Directors. Adequate and appropriate information are circulated normally three days in advance of Board meetings to the Directors. The attendance of the Directors at the Board meetings are as follows:

Directors' attendance at Board meetings

	Directors	Number of attendance
Executive Directors	Lam Man Tin *(Managing Director)*	6/6
	Yutaka Fukumoto *(Deputy Managing Director)* (Note 1)	5/6
	Wong Mun Yu	6/6
	Yutaka Agawa (Note 2)	3/6
	Chan Pui Man Christine (Note 3)	1/6
	Yuji Yoneta (Note 4)	1/6
Non-executive Directors	Akihito Tanaka *(Chairman)*	5/6
	Masaaki Toyoshima	3/6
	Kazumasa Ishii	5/6
	Susumu Inoue (Note 5)	4/6
	Fumiaki Origuchi (Note 6)	1/6
Independent Non-executive Directors	Lam Pei Peggy	5/6
	Sham Sui Leung Daniel	6/6
	Cheng Yin Ching Anna	6/6
	Shao Kung Chuen	4/6

Notes:

1. Mr. Yutaka Fukumoto resigned as the Deputy Managing Director and an Executive Director of the Company on 18 September 2009.

2. Mr. Yutaka Agawa resigned as an Executive Director of the Company on 22 May 2009.

3. Ms. Chan Pui Man Christine was appointed as an Executive Director of the Company on 18 September 2009 and there has been one board meeting held after her appointment.

4. Mr. Yuji Yoneta was appointed as an Executive Director of the Company on 18 September 2009 and there has been one board meeting held after his appointment.

5. Mr. Susumu Inoue resigned as a Non-executive Director of the Company on 18 September 2009.

6. Mr. Fumiaki Origuchi was appointed as a Non-executive Director of the Company on 18 September 2009 and there has been one board meeting held after his appointment.

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.

Corporate Governance Report

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

The Company has received annual confirmations of independence from all existing Independent Non-executive Directors and considers them to be independent.

The Board members have no financial, business, family or other material/relevant relationship with each other. Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of Directors and their respective biographies are set out on pages 12 and 13 of the annual report respectively.

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

Chairman and Chief Executive Officer

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

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

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

Remuneration Committee

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the Directors and senior management. The Committee's authorities and duties are set out in written terms of reference, which are posted on the Company's website.

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

	Directors	Number of attendance
Non-executive Directors	Akihito Tanaka *(Chairman)*	4/4
Independent Non-executive Directors	Lam Pei Peggy	3/4
	Sham Sui Leung Daniel	4/4

During 2009, the Remuneration Committee performed the following duties:

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

— reviewed the terms and conditions of the Company's cash-settled share-based payment scheme adopted in the year and recommended the Board to approve the benefits granted thereunder.

Nomination of Directors

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

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

Auditor's Remuneration

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

Services rendered	**Fees payable** HK$'000
Audit services:	
Annual Audit	3,493
Other	961
Non-audit services:	
Review of interim results	626
Taxation services	379
Other services	181
	5,640

Audit Committee

The Audit Committee is responsible for ensuring the objectivity and credibility of the Group's financial reporting. The Committee's authority and duties are set out in written terms of reference, which are posted on the Company's website.

The Audit Committee reviews the Group's financial statements, internal financial reports, and internal control systems. The Audit Committee meets at least twice a year with management and external auditors 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	Akihito Tanaka	3/3
Independent Non-executive Directors	Sham Sui Leung Daniel *(Chairman)*	3/3
	Lam Pei Peggy	3/3
	Cheng Yin Ching Anna	3/3

During 2009, the Audit Committee performed the following duties:

— reviewed the audited financial statements for the year ended 31 December 2008 with a recommendation to the Board for approval;

— reviewed the un-audited financial statements for the six months ended 30 June 2009 with a recommendation to the Board for approval;

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

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

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

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

Accountability

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2009 and for the year ended 31 December 2009, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

Internal Controls

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

DIRECTORS' REPORT

The Directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2009.

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 2009 are set out in note 18 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2009 are set out in the consolidated income statement on page 31.

An interim dividend of 9.6 HK cents per share amounting to HK$24,960,000 was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 22.6 HK cents per share to the shareholders on the register of members on 19 May 2010, amounting to HK$58,760,000, and the retention of the remaining profit for the year of HK$136,411,000.

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$209 million 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 of the Group and the Company are set out in note 17 to the consolidated financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2009 comprised the retained profits of HK$987,376,000 (2008: HK$844,753,000).

Directors' Report

Directors

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

Executive Directors

LAM Man Tin *(Managing Director)*	
Yutaka FUKUMOTO *(Deputing Managing Director)*	(resigned on 18 September 2009)
CHAN Pui Man Christine	(appointed on 18 September 2009)
Yuji YONETA	(appointed on 18 September 2009)
Kenji FUJITA	(appointed on 19 March 2010)
Yutaka AGAWA	(resigned on 22 May 2009)
WONG Mun Yu	(resigned on 19 March 2010)

Non-executive Directors

Akihito TANAKA *(Chairman)*	
Masaaki TOYOSHIMA	
Kazumasa ISHII	
Fumiaki ORIGUCHI	(appointed on 18 September 2009)
Susumu INOUE	(resigned on 18 September 2009)

Independent non-executive Directors

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

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

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

Directors' Service Contracts

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

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

As at 31 December 2009, 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
				%
LAM Man Tin	20,000	—	456,000	0.183
WONG Mun Yu	18,000	—	48,000	0.025
CHAN Pui Man Christine	6,000	—	20,000	0.010
Akihito TANAKA	50,000	—	—	0.019
Kazumasa ISHII	40,000	—	—	0.015
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
		%
Akihito TANAKA	15,300	0.0019
Masaaki TOYOSHIMA	9,300	0.0012
Kazumasa ISHII	9,000	0.0011
Yuji YONETA	800	0.0001

Directors' Report

(c) **Other associated corporations**

	Akihito TANAKA Number of shares held as personal interests	Approximate percentage of interests %
AEON Fantasy Co., Ltd.	3,801	0.021
AEON Thana Sinsap (Thailand) Plc.	20,000	0.008
AEON Mall Co., Ltd.	4,000	0.003
AEON Co. (M) Bhd.	200,000	0.057
Ryukyu JUSCO Co., Ltd.	100	0.018

(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 33 to the consolidated financial statements.

ii. As at 31 December 2009, certain Directors had interests in Stock Appreciation Rights granted under the Company's Stock Appreciation Rights Schemes as follows:

Name of Directors	Capacity	Number of underlying shares of the Company
LAM Man Tin	Beneficial owner	456,000
WONG Mun Yu	Beneficial owner	48,000
CHAN Pui Man Christine	Beneficial owner	20,000

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$	Exercise period	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2009
LAM Man Tin							
25.9.2009	15.236	1.6.2009 to 31.5.2015	—	54,000	—	—	54,000
	15.236	1.6.2010 to 31.5.2015	—	54,000	—	—	54,000
	15.236	1.6.2011 to 31.5.2015	—	72,000	—	—	72,000
	13.500	25.9.2010 to 24.9.2016	—	82,800	—	—	82,800
	13.500	25.9.2011 to 24.9.2016	—	82,800	—	—	82,800
	13.500	25.9.2012 to 24.9.2016	—	110,400	—	—	110,400
WONG Mun Yu							
25.9.2009	15.236	1.6.2009 to 31.5.2015	—	6,000	—	—	6,000
	15.236	1.6.2010 to 31.5.2015	—	6,000	—	—	6,000
	15.236	1.6.2011 to 31.5.2015	—	8,000	—	—	8,000
	13.500	25.9.2010 to 24.9.2016	—	8,400	—	—	8,400
	13.500	25.9.2011 to 24.9.2016	—	8,400	—	—	8,400
	13.500	25.9.2012 to 24.9.2016	—	11,200	—	—	11,200
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

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

Other than as disclosed above, as at 31 December 2009, 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 and Connected Transactions

During the year, the Group had the following material transactions with AEON Co., Ltd. and its subsidiaries, namely AEON Credit Service (Asia) Company Limited ("ACS"), AEON Fantasy Co., Limited ("AEON Fantasy"), AEON Information Services (Shenzhen) Co., Ltd. ("AIS") and subsidiaries of AIC Inc. and subsidiaries of Blue Grass Co., Ltd.. The Directors of the Company, Messrs. Akihito TANAKA, Masaaki TOYOSHIMA, Kazumasa ISHII and Yuji YONETA, have beneficial interests in AEON Co., Ltd.. Mr. Akihito TANAKA also has beneficial interests in AEON Fantasy. The Company had made purchases from First Regent Ltd., in which Mr. SHAO Kung Chuen, the Director of the Company, has a beneficial interest.

(i) The Group made purchases from subsidiaries of AIC Inc. and subsidiaries of Blue Grass Co., Ltd. amounting to a total of HK$150,807,000 and HK$1,573,000 respectively.

(ii) ACS and the Company have entered into a number of service agreements under which ACS pays to the Company a fixed monthly rental in respect of service counters, cash dispensing machines and cash repayment machines operated by ACS in the stores of the Company. The total amount of rental paid and payable by ACS for the year was HK$7,377,000.

(iii) Royalties payable to AEON Co., Ltd. for the year pursuant to the amended technical assistance agreement amounted to HK$34,475,000. Details of the royalty payable to AEON Co., Ltd. are set out in section headed "Connected Transactions".

(iv) The Company pays commissions of HK$10,713,000 to ACS for credit facilities provided by ACS to the customers. Details of the commission payable to ACS are set out in section headed "Connected Transactions".

(v) The Company pays franchise fee, consumable expenses and purchase of machines at the aggregate amount of HK$3,684,000 to AEON Fantasy for running franchise business. Details are set out in the section headed "Connected Transactions".

(vi) The subsidiaries registered in the People's Republic of China of the Company ("PRC AEON Stores") pay service fee of HK$3,045,000 to AIS which handles the AEON card applications, the issue of AEON cards and carrying out other card related business. On the other hand, AIS needs to pay rental fee of HK$705,000 to PRC AEON Stores for setting up the service counters in the stores of PRC AEON Stores. Details are set out in the section headed "Connected Transactions".

(vii) The Company made purchases from First Regent Ltd. amounting to a total of HK$414,000. The Company also earn interest income and other income from First Regent Ltd. amounting to a total of HK$5,000 and HK$10,000 respectively.

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

Connected Transactions

Pursuant to Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 and utility expenses to Teem Holding and Teem Properties Management Limited ("Teem Properties") respectively for the year. GDJ was held as to 65% and 35% by the Company and 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 and utility expenses paid and payable by GDJ for the year was HK$45,828,000. This amount does not exceed the cap amount of HK$47,500,000 as shown in the announcement of the Company dated 21 June 2007.

(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$34,475,000. This amount does not exceed the cap amount of HK$47 million as shown in the announcement and the circular of the Company dated 12 December 2006 and 3 April 2007 respectively.

(iii) ACS and the Company have entered into agreements under which the Company pays commission to ACS in respect of certain purchases made by customers of the Company with the use of the Company's various co-brand cards and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company. The total amount of commission paid and payable by the Company for the year was HK$10,713,000. This amount does not exceed the cap amount of HK$15,300,000 for the year as shown in the announcement of the Company dated 16 April 2008.

(iv) AEON Fantasy and the Company have entered into an agreement under which AEON Fantasy granted the sole exclusive right and licence to the Company and its affiliates by AEON Fantasy to operate the franchise business operated under and conducted under certain trade marks and trade names owned by or made available to AEON Fantasy using the distinctive business format and method developed and implemented by AEON Fantasy. The total amount of franchise fee, purchase prices of machines, consumables and administrative costs provided by AEON Fantasy to the Company and its affiliates for the year was HK$3,684,000. This amount does not exceed the cap amount of HK$33,500,000 as shown in the announcement of the Company dated 4 July 2008.

(v) AIS, the subsidiaries of the Company ("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 pay a fee to the PRC AEON Stores for setting up service counters in the PRC AEON Stores to handle AEON Card, issue and sales applications. The aggregate amount payable by the PRC AEON Stores to AIS and by AIS to the PRC AEON Stores under the outsourcing agreements for the year was HK$3,750,000. The aggregate amounts do not exceed the cap amount of HK$42,000,000 as shown in the announcements of the Company dated 23 July 2008 and 22 December 2008.

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 2009 (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 2009, 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	25,998,000 (Note 2)	9.99
Commonwealth Bank of Australia	12,990,000	5.00

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

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

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

By virtue of its ownership of 45.28% and 71.64% of the issued share capital of AEON Credit Service Co., Ltd. and the Company respectively, AEON Co., Ltd. is deemed to be interested in the 1,776,000 shares owned by ACS.

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2009.

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$960,000.

Emolument Policy

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

Sufficiency of Public Float

The Company's public float was less than the percentage threshold required under Rule 8.08 of the Listing Rules throughout the year up to 27 October 2009. From 28 October 2009, the Company has restored its public float to over 25% in compliance with Rule 8.08 of the Listing Rules.

Auditor

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

On behalf of the Board

LAM Man Tin
Managing Director

Hong Kong, 19 March 2010

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 31 to 89, which comprise the consolidated and Company's statements of financial position as at 31 December 2009, 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 notes.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 as to 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 and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing

INDEPENDENT AUDITOR'S REPORT

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 2009 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
19 March 2010

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	NOTES	2009 HK$'000	2008 HK$'000 (Restated)
Revenue	5	**5,897,909**	5,373,626
Other income		**413,675**	358,649
Investment income	7	**25,785**	40,200
Purchases of goods and changes in inventories		**(3,947,340)**	(3,498,040)
Staff costs		**(606,972)**	(586,501)
Depreciation		**(147,715)**	(121,079)
Loss on disposal of property, plant and equipment		**(12,824)**	(5,287)
Impairment loss recognised in respect of property, plant and equipment	17	**(4,181)**	(11,334)
Pre-operating expenses	8	**(10,633)**	(7,691)
Other expenses		**(1,333,105)**	(1,157,310)
Finance costs	9	**(7,175)**	(6,254)
Profit before tax		**267,424**	378,979
Income tax expense	10	**(72,253)**	(74,528)
Profit for the year	11	**195,171**	304,451
Profit for the year attributable to:			
Owners of the Company		**167,148**	271,536
Minority interests		**28,023**	32,915
		195,171	304,451
Earnings per share	15	**64.29 cents**	104.44 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 **HK$'000**	2008 HK$'000 (Restated)
Profit for the year	**195,171**	304,451
Other comprehensive income		
Fair value gain (loss) on available-for-sale investments	**12,456**	(13,970)
Exchange differences arising on translation of foreign operations	**(777)**	10,222
Other comprehensive income for the year	**11,679**	(3,748)
Total comprehensive income for the year	**206,850**	300,703
Total comprehensive income attributable to:		
Owners of the Company	**179,043**	262,737
Minority interests	**27,807**	37,966
	206,850	300,703

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	31.12.2009 HK$'000	31.12.2008 HK$'000 (Restated)	1.1.2008 HK$'000 (Restated)
Non-current Assets				
Goodwill	16	**94,838**	94,838	—
Property, plant and equipment	17	**487,775**	444,062	335,692
Available-for-sale investments	19	**27,881**	15,425	29,395
Callable time deposits	20	**77,641**	155,486	—
Long term time deposits	20	**116,461**	—	—
Deferred tax assets	21	**11,739**	13,508	13,129
Rental deposits and prepayments		**85,975**	137,455	94,986
		902,310	860,774	473,202
Current Assets				
Inventories	22	**558,450**	549,091	412,173
Trade receivables	23	**19,443**	20,345	34,323
Other receivables, prepayments and deposits		**92,548**	47,707	31,499
Amounts due from fellow subsidiaries		**65,238**	57,830	51,645
Tax recoverable		**8,182**	—	—
Pledged bank deposits	32	**12,470**	12,265	78,523
Bank balances and cash		**1,903,696**	1,618,932	1,651,084
		2,660,027	2,306,170	2,259,247
Current Liabilities				
Trade payables	25	**1,224,119**	1,062,598	1,036,747
Other payables and accrued charges		**754,843**	641,649	498,010
Amounts due to fellow subsidiaries		**45,951**	56,502	30,837
Amount due to ultimate holding company		**35,156**	31,692	27,816
Bank borrowings	26	**124,432**	151,946	100,387
Income tax payable		**16,357**	9,565	25,445
Dividend payable		**520**	448	383
		2,201,378	1,954,400	1,719,625
Net Current Assets		**458,649**	351,770	539,622
Total Assets Less Current Liabilities		**1,360,959**	1,212,544	1,012,824

Consolidated Statement of Financial Position

At 31 December 2009

	NOTES	**31.12.2009 HK$'000**	31.12.2008 HK$'000 (Restated)	1.1.2008 HK$'000 (Restated)
Capital and Reserves				
Share capital	28	**52,000**	52,000	52,000
Share premium and reserves		**1,091,463**	1,009,920	864,963
Equity attributable to owners of the Company		**1,143,463**	1,061,920	916,963
Minority interests		**110,627**	92,375	71,549
Total Equity		**1,254,090**	1,154,295	988,512
Non-current Liabilities				
Rental deposits received		**58,708**	55,675	24,312
Deferred tax liabilities	21	**2,913**	2,574	—
Bank borrowings	26	**45,248**	—	—
		106,869	58,249	24,312
		1,360,959	1,212,544	1,012,824

The consolidated financial statements on pages 31 to 89 were approved and authorised for issue by the Board of directors on 19 March 2010 and are signed on its behalf by:

Akihito TANAKA
Director

LAM Man Tin
Director

STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	NOTES	31.12.2009 HK$'000	31.12.2008 HK$'000	1.1.2008 HK$'000
Non-current Assets				
Property, plant and equipment	17	**158,794**	131,557	113,551
Investments in subsidiaries	18	**212,129**	191,858	64,936
Available-for-sale investments	19	**27,881**	15,425	29,395
Callable time deposits	20	**77,641**	155,486	—
Long term time deposits	20	**116,461**	—	—
Deferred tax assets	21	**8,398**	13,508	13,129
Rental deposits		**43,173**	66,407	47,277
		644,477	574,241	268,288
Current Assets				
Inventories	22	**361,342**	328,196	274,730
Trade receivables	23	**7,984**	8,604	23,770
Other receivables, prepayments and deposits		**55,580**	27,380	20,692
Amounts due from subsidiaries		**9,709**	20,285	17,138
Amounts due from fellow subsidiaries		**41,640**	49,788	50,921
Tax recoverable		**8,182**	—	—
Bank balances and cash		**973,871**	904,192	1,128,203
		1,458,308	1,338,445	1,515,454
Current Liabilities				
Trade payables	25	**630,736**	595,248	610,439
Other payables and accrued charges		**238,467**	246,664	233,385
Amounts due to fellow subsidiaries		**39,524**	45,954	28,800
Amount due to ultimate holding company		**35,688**	32,558	28,243
Income tax payable		**—**	2,398	8,375
Dividend payable		**520**	448	383
		944,935	923,270	909,625
Net Current Assets		**513,373**	415,175	605,829
Total Assets Less Current Liabilities		**1,157,850**	989,416	874,117

Statement of Financial Position

At 31 December 2009

	NOTES	**31.12.2009 HK$'000**	31.12.2008 HK$'000	1.1.2008 HK$'000
Capital and Reserves				
Share capital	28	**52,000**	52,000	52,000
Share premium and reserves	29	**1,074,483**	919,404	809,178
		1,126,483	971,404	861,178
Non-current Liabilities				
Rental deposits received		**28,454**	15,438	12,939
Deferred tax liabilities	21	**2,913**	2,574	—
		31,367	18,012	12,939
		1,157,850	989,416	874,117

Akihito TANAKA
Director

LAM Man Tin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to owners of the Company									
	Share capital	Share premium	Investment revaluation reserve	Translation reserve	The People's Republic of China ("PRC") statutory reserves	Non-distributable reserve	Retained profits	Total	Minority interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2008 as originally stated	52,000	63,158	25,463	12,601	4,022	2,587	757,703	917,534	71,857	989,391
Effect of changes in accounting policies	—	—	—	(22)	—	—	(549)	(571)	(308)	(879)
At 1 January 2008 as restated	52,000	63,158	25,463	12,579	4,022	2,587	757,154	916,963	71,549	988,512
Profit for the year	—	—	—	—	—	—	271,536	271,536	32,915	304,451
Other comprehensive income for the year	—	—	(13,970)	5,171	—	—	—	(8,799)	5,051	(3,748)
Total comprehensive income for the year	—	—	(13,970)	5,171	—	—	271,536	262,737	37,966	300,703
Contribution from minority shareholders	—	—	—	—	—	—	—	—	1,802	1,802
Acquisition of additional interest in a subsidiary	—	—	—	—	—	—	—	—	(13,081)	(13,081)
Transfer, net of minority interests share	—	—	—	—	2,073	15,802	(17,875)	—	—	—
Dividends	—	—	—	—	—	—	(117,780)	(117,780)	—	(117,780)
Dividend paid to minority interests	—	—	—	—	—	—	—	—	(5,861)	(5,861)
At 31 December 2008 (as restated)	52,000	63,158	11,493	17,750	6,095	18,389	893,035	1,061,920	92,375	1,154,295
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**167,148**	**167,148**	**28,023**	**195,171**
Other comprehensive income for the year	**—**	**—**	**12,456**	**(561)**	**—**	**—**	**—**	**11,895**	**(216)**	**11,679**
Total comprehensive income for the year	**—**	**—**	**12,456**	**(561)**	**—**	**—**	**167,148**	**179,043**	**27,807**	**206,850**
Transfer, net of minority interests share	**—**	**—**	**—**	**—**	**3,064**	**7,534**	**(10,598)**	**—**	**—**	**—**
Dividends	**—**	**—**	**—**	**—**	**—**	**—**	**(97,500)**	**(97,500)**	**—**	**(97,500)**
Dividend paid to minority interests	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(9,555)**	**(9,555)**
At 31 December 2009	**52,000**	**63,158**	**23,949**	**17,189**	**9,159**	**25,923**	**952,085**	**1,143,463**	**110,627**	**1,254,090**

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 2009

	2009 HK$'000	2008 HK$'000 (Restated)
OPERATING ACTIVITIES		
Profit before tax	**267,424**	378,979
Adjustments for:		
Investment income	**(25,785)**	(40,200)
Finance costs	**7,175**	6,254
Depreciation	**147,715**	121,079
Loss on disposal of property, plant and equipment	**12,824**	5,287
Impairment loss recognised in respect of property, plant and equipment	**4,181**	11,334
Write-down of inventories	**3,340**	2,080
Operating cash flows before movements in working capital	**416,874**	484,813
Increase in inventories	**(13,249)**	(130,506)
Decrease in trade receivables	**873**	14,630
Decrease (increase) in other receivables, prepayments and deposits	**6,422**	(55,066)
Increase in amounts due from fellow subsidiaries	**(7,414)**	(5,759)
Increase (decrease) in trade payables	**162,536**	(489)
Increase in rental deposits received, other payables and accrued charges	**114,936**	152,526
(Decrease) increase in amounts due to fellow subsidiaries	**(10,522)**	25,163
Decrease in amount due to ultimate holding company	**3,460**	3,876
Cash generated from operations	**673,916**	489,188
Hong Kong Profits Tax paid	**(47,776)**	(49,190)
People's Republic of China income taxes paid	**(23,746)**	(40,078)
Interest paid	**(7,175)**	(6,254)
Interest on bank deposits, callable time deposits and long term time deposits received	**24,574**	38,459
NET CASH FROM OPERATING ACTIVITIES	**619,793**	432,125
INVESTING ACTIVITIES		
Acquisition of additional interest in a subsidiary	**—**	(107,919)
Decrease (increase) in callable time deposits	**77,845**	(155,486)
Increase in long term time deposits	**(116,461)**	—
(Increase) decrease in pledged bank deposits	**(235)**	71,110
Dividends received from investments	**1,211**	1,741
Purchase of property, plant and equipment	**(206,865)**	(226,139)
Proceeds from disposal of property, plant and equipment	**106**	270
NET CASH USED IN INVESTING ACTIVITIES	**(244,399)**	(416,423)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 **HK$'000**	2008 HK$'000 (Restated)
FINANCING ACTIVITIES		
Bank borrowings raised	**829,590**	273,022
Repayment of bank borrowings	**(811,506)**	(227,666)
Dividends paid	**(97,428)**	(117,715)
Dividends paid to minority shareholders	**(9,555)**	(5,861)
Contribution from minority shareholders	**—**	1,802
NET CASH USED IN FINANCING ACTIVITIES	**(88,899)**	(76,418)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**286,495**	(60,716)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**1,618,932**	1,651,084
Effect of Foreign Exchange Rate Changes	**(1,731)**	28,564
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by	**1,903,696**	1,618,932
Bank balances and cash	**1,903,696**	1,618,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 People's Republic of China (the "PRC") is Renminbi.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")/ Changes in Accounting Policies

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

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) — Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) — Int 13	Customer Loyalty Programmes
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC) — Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of these new and revised HKFRSs has had no material effect on the consolidated financial statements of the Group and the Company for the current or prior accounting periods.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")/ Changes in Accounting Policies — continued

New and revised HKFRSs affecting presentation and disclosures only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

In addition, the adoption of HKAS 1 (Revised 2007) has resulted in a presentation of a third consolidated statement of financial position as at 1 January 2008 as the Group has applied accounting policies retrospectively upon the adoption HK(IFRIC) — Int 13 "Customer Loyalty Programmes" during the current financial year (see below).

Improving Disclosures about Financial Instruments (Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

New and revised HKFRSs affected the reported results and financial position

HK(IFRIC) — Int 13 "Customer Loyalty Programmes"

The adoption of HK(IFRIC) — Int 13 has resulted in a change to the Group's accounting policy for its customer loyalty programmes. The Group's customer loyalty programmes operated for the benefit of its customers falls within the scope of HK(IFRIC) — Int 13. Under the customer loyalty programmes, customers are entitled to receive bonus points that can be used to redeem cash coupon. In the past, the Group had accounted for the customer loyalty programmes by recognising the full consideration from retail sales as revenue and recognising the costs of bonus points as provisions and included in "other payables and accrued charges". However, HK(IFRIC) — Int 13 requires such transactions to be accounted for as "multiple element revenue transactions" and that the consideration received in the initial sale transaction should be allocated between the sales of retail goods and the value of bonus points that earned by the customers.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")/ Changes in Accounting Policies — continued

New and revised HKFRSs affected the reported results and financial position — continued

HK(IFRIC) — Int 13 "Customer Loyalty Programmes" — continued

This change in accounting policy has been applied retrospectively. The impact of this change in accounting policy as at 1 January 2008 is that the amount of provisions had been decreased by HK$3,873,000 and deferred revenue has been increased by HK$4,752,000, with the corresponding adjustments being recognised against opening retained earnings and the minority interests. The change has had no material tax impact. Revenue for the year ended 31 December 2009 has been decreased by HK$696,000 (2008: decreased by HK$2,941,000). Other expenses has been decreased by HK$36,000 (2008: decreased by HK$869,000). Profit for the year ended 31 December 2009 has therefore been decreased by HK$660,000 (2008: decreased by HK$2,072,000) as a result of the new policy. At 31 December 2009, revenue deferred in relation to the programmes amounts to HK$8,459,000 (31 December 2008: HK$7,770,000). The financial impact is set out below:

Summary of the effect of the above changes in accounting policies

THE GROUP

The effect of changes in accounting policies described above on the results for the current and prior years by line items presented in the consolidated income statement is as follows:

	2009 HK$'000	2008 HK$'000
Decrease in revenue	**(696)**	(2,941)
Decrease in other expenses	**36**	869
Decrease in profit for the year	**(660)**	(2,072)

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")/ Changes in Accounting Policies — continued

New and revised HKFRSs affected the reported results and financial position — continued

Summary of the effect of the above changes in accounting policies — continued

THE GROUP — continued

The effect of changes in accounting policies described above on the consolidated statement of financial position of the Group as at 31 December 2008 is as follows:

	As at 31.12.2008 (originally stated)	Adjustments	As at 31.12.2008 (restated)
	HK$'000	HK$'000	HK$'000
Other payable and accrued charges	638,620	3,029	641,649
Total effects on net assets	638,620	3,029	641,649
Retained profits	895,003	(1,968)	893,035
Minority interests	93,362	(987)	92,375
Translation reserves	17,824	(74)	17,750
Retained profits, total effects on equity	1,006,189	(3,029)	1,003,160

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")/ Changes in Accounting Policies — continued

New and revised HKFRSs affected the reported results and financial position — continued

Summary of the effect of the above changes in accounting policies — continued

THE GROUP — continued

The effect of changes in accounting policies described above on the consolidated statement of financial position of the Group as at 1 January 2008 is as follows:

	As at 1.1.2008 (originally stated) HK$'000	**Adjustments** HK$'000	**As at 1.1.2008 (restated)** HK$'000
Other payable and accrued charges	497,131	879	498,010
Total effects on net assets	497,131	879	498,010
Retained profits	757,703	(549)	757,154
Minority interests	71,857	(308)	71,549
Translation reserves	12,601	(22)	12,579
Retained profits, total effects on equity	842,161	(879)	841,282

The effect of changes in accounting policies described above on the Group's basic earnings per share for the current and prior year is as follows:

Impact on basic earnings per share

	2009 **HK cents**	2008 HK cents
Reported figures before adjustments	**64.50**	104.98
Adjustments arising from changes in accounting policies	**(0.21)**	(0.54)
Restated	**64.29**	104.44

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")/ Changes in Accounting Policies — continued

New and revised HKFRSs affected the reported results and financial position — continued

Summary of the effect of the above changes in accounting policies — continued

THE COMPANY

The adoption of HK(IFRIC) — Int 13 described above had no material effect on the results for the current and prior years and on the financial positions of the Company.

The Group has not early applied the following new or revised Standards, Amendments or Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[7]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[5]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[6]
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments[7]

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2011
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 January 2010
6 Effective for annual periods beginning on or after 1 January 2013
7 Effective for annual periods beginning on or after 1 July 2010

The application of HKFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

Notes to the Consolidated Financial Statements
For the year ended 31 December 2009

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")/ Changes in Accounting Policies — continued

New and revised HKFRSs affected the reported results and financial position — continued

Summary of the effect of the above changes in accounting policies — continued

THE COMPANY — continued

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors of the Company anticipate that the application of the other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

3. Significant Accounting Policies

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

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

Basis of consolidation

The consolidated financial statements incorporate the consolidated 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 on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiarys' equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. Significant Accounting Policies — continued

Business combinations

The acquisition of a business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

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

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. Significant Accounting Policies — continued

Acquisition of additional interests in subsidiaries

On acquisition of an additional interest in a subsidiary, the difference between the consideration paid and the carrying amounts of the underlying assets and liabilities attributable to the additional interest in the subsidiary acquired is recognised as goodwill.

Investments in subsidiaries

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

Revenue recognition

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

Deposits and instalments received from purchasers prior to meeting the above criteria on revenue recognition are included in the 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 supplier.

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

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

Interest income from a financial asset is 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.

3. Significant Accounting Policies — continued

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost or remaining net book values of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, 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

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. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) 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 as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. Significant Accounting Policies — continued

Financial instruments

Financial assets and financial liabilities are recognised in the 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 (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

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 are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. Significant Accounting Policies — continued

Financial assets — continued

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

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

- significant financial difficulty of the issuer or counterparty; or
- 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, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. Significant Accounting Policies — continued

Financial assets — continued

Impairment of financial assets — continued

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 in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

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 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 are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

3. Significant Accounting Policies — continued

Financial liabilities and equity — continued

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. 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 is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

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

Cash-settled share-based payment transactions

The Group operates a cash-settled share appreciation rights plan. The fair value of services received from the employees is determined by reference to the fair value of the share appreciation rights and is expensed on a straight-line basis over the vesting period, with a corresponding increase in liability (obligation to pay the share appreciation rights). Fair value of the liability is re-measured at each reporting date with any changes in fair value recognised in profit or loss for the period and derecognised until the liability is settled.

Impairment losses on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. Significant Accounting Policies — continued

Impairment losses on tangible assets — continued

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

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 each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) 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 (the translation reserve).

Retirement benefits costs

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

3. Significant Accounting Policies — continued

Pre-operating expenses

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary difference 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 and interests 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 rate (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. 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 deferred tax is also recognised in other comprehensive income or directly in equity respectively.

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

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

Key sources of estimation uncertainty

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

Income taxes

As at 31 December 2009, a deferred tax asset of HK$11,739,000 (31 December 2008: HK$13,508,000) in relation to accelerated accounting depreciation and other deductible temporary differences 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 2009, 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$104,517,000 (31 December 2008: HK$164,131,000) due to unpredictability of future profit streams. The realisability of the tax effect of tax losses mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future.

Net realisable value of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those 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 amount written off to the profit or loss is the difference between the carrying value and net realisable value of the inventories.

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

Key sources of estimation uncertainty — continued

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2009, the carrying amount of goodwill is HK$94,838,000 (31 December 2008: HK$94,838,000). Details of the recoverable amount calculation are disclosed in note 16.

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:

	2009 HK$'000	2008 HK$'000 (Restated)
Direct sales	**5,082,837**	4,598,214
Income from concessionaire sales	**815,072**	775,412
Revenue	**5,897,909**	5,373,626

6. Segment Information

The Group has adopted HKFRS 8 "Operating Segments" with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor Standard (HKAS 14 "Segment Reporting") required an entity to identify two sets of segments (business and geographical segments) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments by location of assets. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

6. Segment Information — continued

Information reported to the Group's chief operating decision maker (i.e. the executive director) for the purposes of resources allocation and assessment of performance is focused on the retails stores of the Group located in different locations. The reportable segments represented the aggregate of operating segments with similar economic characteristics and are identified by the chief operating decision maker as two separate reportable segments of Hong Kong and the PRC.

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 2009

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue — external	**3,271,292**	**2,626,617**	**5,897,909**
Segment profit (loss)	**265,923**	**(17,109)**	**248,814**
Dividend income			**1,211**
Interest income			**24,574**
Finance costs			**(7,175)**
Profit before tax			**267,424**

For the year ended 31 December 2008 (restated)

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Segment revenue — external	3,107,835	2,265,791	5,373,626
Segment profit	249,158	95,875	345,033
Dividend income			1,741
Interest income			38,459
Finance costs			(6,254)
Profit before tax			378,979

6. Segment Information — continued

Segment revenues and results — continued

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit/loss represents the profit earned by/loss incurred by each segment without allocation of dividend income, interest income and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Other segment information

For the year ended 31 December 2009

	Hong Kong HK$'000	**PRC HK$'000**	**Total HK$'000**
Amounts included in the measure of segment profit or loss:			
Depreciation	**45,658**	**102,057**	**147,715**
Loss on disposal of property, plant and equipment	**—**	**12,824**	**12,824**
Write-down of inventories	**3,340**	**—**	**3,340**
Impairment losses on property, plant and equipment recognised in profit or loss	**4,019**	**162**	**4,181**

For the year ended 31 December 2008

	Hong Kong HK$'000	PRC HK$'000	Total HK$'000
Amounts included in the measure of segment profit or loss:			
Depreciation	43,292	77,787	121,079
Loss on disposal of property, plant and equipment	4,752	535	5,287
Write-down of inventories	2,080	—	2,080
Impairment losses on property, plant and equipment recognised in profit or loss	11,334	—	11,334

Geographical information

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

	2009 HK$'000	2008 HK$'000
Hong Kong	**201,967**	197,964
PRC	**466,621**	478,391
	668,588	676,355

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. Investment Income

	2009 HK$'000	2008 HK$'000
Dividends from listed equity securities	**1,211**	1,741
Interest on bank deposits, callable time deposits and long term time deposits	**24,574**	38,459
	25,785	40,200

8. Pre-operating Expenses

The amounts represent the set up costs for new stores. Included in pre-operating expenses were staff costs of HK$6,849,000 (2008: HK$3,470,000).

9. Finance Costs

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

10. Income Tax Expense

	2009 HK$'000	2008 HK$'000
The charges comprise:		
Current tax		
Hong Kong	**37,439**	44,106
Other regions in the PRC	**33,300**	29,100
	70,739	73,206
(Over)underprovision in prior years		
Hong Kong	**646**	(893)
Other regions in the PRC	**(1,240)**	20
	(594)	(873)
	70,145	72,333
Deferred tax (Note 21)		
Current year	**2,108**	1,445
Attributable to a change in tax rate	**—**	750
Income tax expense for the year	**72,253**	74,528

10. Income Tax Expense — continued

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

The PRC income tax is calculated at 18%, 20% or 25% (2008: 18% or 25%) of the estimated assessable profits of the subsidiaries. On 16 March 2007, the National People's Congress of the PRC issued the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") that was approved and had become effective since 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% with certain grandfathering provisions and preferential provisions. The PRC income tax rate from 2008 onwards has been changed in accordance with the New Corporate Income Tax Law. For those subsidiaries without preferential tax rates, the new tax rate for domestic and foreign enterprises is unified at 25% and was effective from 1 January 2008 and for those subsidiaries enjoying a preferential tax rate, the new tax rate will increase from 15% over 5 years to 25% as a result of the grandfathering provisions.

According to a joint circular of Ministry of Finance and State Administration of Taxation Cai Shui 2008 No. 1, dividend distributed of the profits generated since 1 January 2008 shall be subject to PRC income tax and which held by the PRC entity pursuant to Articles 3 and 27 of the Enterprise Income Tax Law and Articles 91 of the Detailed Implementation Rules. Deferred tax liability in respect of the withholding tax on the undistributed earnings of subsidiaries during the year has been provided at the applicable tax rate.

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

	2009 HK$'000	2008 HK$'000 (Restated)
Profit before tax	**267,424**	378,979
Taxation at the applicable rate of 16.5% (2008: 16.5%)	**44,125**	62,532
Tax effect of expenses that are not deductible for tax purpose	**9,347**	8,200
Tax effect of income not taxable for tax purpose	**(7,758)**	(10,040)
Tax effect of tax losses not recognised	**13,958**	3,956
Utilisation of tax losses previously not recognised	**(289)**	(3,685)
Utilisation of deductible temporary difference previously not recognised	**(272)**	(651)
Withholding tax on undistributed earnings of subsidiaries (note 21)	**1,228**	2,574
Effect of different tax rates of entities operating in the PRC	**9,664**	10,062
Overprovision in prior years	**(594)**	(873)
Effect of change in tax rate	**—**	750
Others	**2,844**	1,703
Income tax expense	**72,253**	74,528

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. Profit for the Year

	2009 HK$'000	2008 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration		
— current year	**3,493**	4,084
— underprovision for prior year	**—**	1,152
	3,493	5,236
Cash-settled share-based payments	**1,810**	—
Exchange loss	**4,362**	5,987
Operating lease rentals in respect of rented premises (included in other expenses)		
— minimum lease payments	**604,287**	497,755
— contingent rent (Note)	**47,577**	22,626
	651,864	520,381
Retirement benefits scheme contributions, net of forfeited contributions of HK$19,567 (2008: HK$74,411)	**44,528**	35,799
Royalties payable to the ultimate holding company	**34,475**	31,617
Rental income (included in other income)		
— minimum lease payments	**(261,415)**	(251,912)
— contingent rent (Note)	**(61,037)**	(25,380)
	(322,452)	(277,292)
Write-down of inventories (included in purchases of goods and changes in inventories)	**3,340**	2,080

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 (2008: 12) Directors were as follows:

For the year ended 31 December 2009

	LAM Man Tin HK$'000	Yutaka FUKUMOTO HK$'000	WONG Mun Yu HK$'000	Yutaka AGAWA HK$'000	CHAN Pui Man Christine HK$'000	Yuji YONETA HK$'000	Akihito TANAKA HK$'000	Masaaki TOYOSHIMA HK$'000	Kazumasa ISHII HK$'000	Susumu INOUE HK$'000	Fumiaki ORIGUCHI HK$'000	LAM PEI Peggy HK$'000	SHAM Sui Leung Daniel HK$'000	CHENG Yin Ching Anna HK$'000	SHAO Kung Chuen HK$'000	Total HK$'000
2009																
Fees	200	—	60	—	17	—	360	120	120	—	—	170	170	120	150	1,487
Other emoluments																
Salaries and other benefits	2,120	1,174	1,402	734	240	426	—	—	—	1,472	354	—	—	—	—	7,922
Cash-settled share-based payments	1,424	—	148	—	74	—	—	—	—	—	—	—	—	—	—	1,646
Contributions to retirement benefits schemes	102	—	73	—	18	—	—	—	—	—	—	—	—	—	—	193
	3,846	1,174	1,683	734	349	426	360	120	120	1,472	354	170	170	120	150	11,248

For the year ended 31 December 2008

	LAM Man Tin HK$'000	Yutaka FUKUMOTO HK$'000	WONG Mun Yu HK$'000	Yutaka AGAWA HK$'000	CHAN Pui Man Christine HK$'000	Yuji YONETA HK$'000	Akihito TANAKA HK$'000	Masaaki TOYOSHIMA HK$'000	Kazumasa ISHII HK$'000	Susumu INOUE HK$'000	Fumiaki ORIGUCHI HK$'000	LAM PEI Peggy HK$'000	SHAM Sui Leung Daniel HK$'000	CHENG Yin Ching Anna HK$'000	SHAO Kung Chuen HK$'000	Total HK$'000
2008																
Fees	200	—	60	—	—	—	360	120	120	—	—	170	170	120	92	1,412
Other emoluments																
Salaries and other benefits	2,236	1,726	1,536	1,863	—	—	—	—	—	727	—	—	—	—	—	8,088
Contributions to retirement benefits schemes	101	—	72	—	—	—	—	—	—	—	—	—	—	—	—	173
	2,537	1,726	1,668	1,863	—	—	360	120	120	727	—	170	170	120	92	9,673

No Directors waived any emoluments during each of the two years ended 31 December 2009 and 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, one (2008: one) was Director of the Company whose emolument are included in the disclosures in note 12 above. The emoluments of the remaining four individuals (2008: four) were as follows:

	2009 HK$'000	2008 HK$'000
Salaries and other benefits	**6,867**	6,466
Performance based bonus	**770**	1,167
Contributions to retirement benefit schemes	**791**	1,084
	8,428	8,717

	2009 No. of employees	2008 No. of employees
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**2**	2
HK$2,000,001 to HK$2,500,000	**1**	2
HK$2,500,001 to HK$3,000,000	**1**	—

14. Dividends

	2009 HK$'000	2008 HK$'000
Final dividend paid for 2008 of 27.9 HK cents (2008: 26.0 HK cents for 2007) per ordinary share	**72,540**	67,600
Interim dividend paid for 2009 of 9.6 HK cents (2008: 19.3 HK cents) per ordinary share	**24,960**	50,180
	97,500	117,780

The Board of Directors has recommended a final dividend of 22.6 HK cents per share (2008: 27.9 HK cents) to be paid on or before 18 June 2010, subject to shareholders' approval at the forthcoming annual general meeting on 19 May 2010.

15. Earnings Per Share

The calculation of 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$167,148,000 (2008: restated HK$271,536,000) and on 260,000,000 (2008: 260,000,000) ordinary shares in issue during the year.

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

16. Goodwill

	HK$'000
COST	
At 31 December 2009 and 31 December 2008	94,838
At 1 January 2008	—

During the year ended 31 December 2008, the Company had acquired additional 35% interest in AEON South China (as defined in note 18) which becomes a wholly-owned subsidiary of the Company afterwards. The purchase consideration was HK$107,919,000.

The Group identifies the retail stores business operated by AEON South China as the single cash generating unit ("CGU") and the goodwill of HK$94,838,000 was allocated to that CGU.

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 ranged from 2% to 12% based on financial budgets approved by management covering a 5-year period, and discount rate of 5.4%. The cash flows beyond 5-year period are extrapolated using a zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the CGU.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 2008	821,714	367,122	4,917	148	1,193,901
Exchange adjustments	26,500	9,742	256	303	36,801
Additions	34,264	29,350	1,086	166,983	231,683
Transfer	121,066	17,909	112	(139,087)	—
Disposals	(70,532)	(7,165)	(1,218)	—	(78,915)
At 31 December 2008	933,012	416,958	5,153	28,347	1,383,470
Exchange adjustments	**(1,281)**	**(406)**	**(11)**	**(72)**	**(1,770)**
Additions	**44,632**	**28,967**	**477**	**135,199**	**209,275**
Transfer	**109,977**	**34,985**	**—**	**(144,962)**	**—**
Disposals	**(140,688)**	**(17,782)**	**(301)**	**—**	**(158,771)**
At 31 December 2009	**945,652**	**462,722**	**5,318**	**18,512**	**1,432,204**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2008	594,953	259,680	3,576	—	858,209
Exchange adjustments	16,377	5,583	184	—	22,144
Provided for the year	82,747	37,728	604	—	121,079
Impairment loss recognised in profit or loss	11,334	—	—	—	11,334
Eliminated on disposals	(65,736)	(6,538)	(1,084)	—	(73,358)
At 31 December 2008	639,675	296,453	3,280	—	939,408
Exchange adjustments	**(778)**	**(248)**	**(8)**	**—**	**(1,034)**
Provided for the year	**96,688**	**50,268**	**759**	**—**	**147,715**
Impairment loss recognised in profit or loss	**4,031**	**150**	**—**	**—**	**4,181**
Eliminated on disposals	**(130,860)**	**(14,680)**	**(301)**	**—**	**(145,841)**
At 31 December 2009	**608,756**	**331,943**	**3,730**	**—**	**944,429**
CARRYING VALUES					
At 31 December 2009	**336,896**	**130,779**	**1,588**	**18,512**	**487,775**
At 31 December 2008	293,337	120,505	1,873	28,347	444,062
At 1 January 2008	226,761	107,442	1,341	148	335,692

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 2008	412,888	212,590	802	131	626,411
Additions	24,767	17,897	213	34,551	77,428
Transfer	27,797	5,259	112	(33,168)	—
Disposals	(70,532)	—	(478)	—	(71,010)
At 31 December 2008	394,920	235,746	649	1,514	632,829
Additions	**43,080**	**10,392**	**—**	**23,442**	**76,914**
Transfer	**23,213**	**1,273**	**—**	**(24,486)**	**—**
Disposals	**(69,308)**	**—**	**—**	**—**	**(69,308)**
At 31 December 2009	**391,905**	**247,411**	**649**	**470**	**640,435**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2008	339,819	172,490	551	—	512,860
Provided for the year	28,975	14,167	150	—	43,292
Impairment loss recognised in profit or loss	11,334	—	—	—	11,334
Eliminated on disposals	(65,736)	—	(478)	—	(66,214)
At 31 December 2008	314,392	186,657	223	—	501,272
Provided for the year	**29,310**	**16,185**	**163**	**—**	**45,658**
Eliminated on disposals	**(69,308)**	**—**	**—**	**—**	**(69,308)**
Impairment loss recognised in profit or loss	**4,019**	**—**	**—**	**—**	**4,019**
At 31 December 2009	**278,413**	**202,842**	**386**	**—**	**481,641**
CARRYING VALUES					
At 31 December 2009	**113,492**	**44,569**	**263**	**470**	**158,794**
At 31 December 2008	80,528	49,089	426	1,514	131,557
At 1 January 2008	73,069	40,100	251	131	113,551

During the year, the directors conducted a review of the Group's building fixtures and determined that a number of those building fixtures were impaired, as the performance of some stores were below the budget. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. Accordingly, an impairment loss of HK$4,181,000 (2008: HK$11,334,000) and HK$4,019,000 (2008: HK$11,334,000) has been recognised in respect of property, plant and equipment of the Group and the Company respectively. The discount rate in measuring the amount of value in use was 5% in relation to property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

18. Investments in Subsidiaries

	THE COMPANY		
	31.12.2009 HK$'000	31.12.2008 HK$'000	1.1.2008 HK$'000
Unlisted investments, at cost	**283,853**	239,382	112,460
Less: impairment loss	**(71,724)**	(47,524)	(47,524)
	212,129	191,858	64,936

During the year, the directors reviewed the carrying values of the investments in subsidiaries. The recoverable amount of the investments in subsidiaries is estimated by directors based on the expected future cash flows to be generated from the operation of those subsidiaries. As at 31 December 2009, impairment loss of HK$71,724,000 (31 December 2008: HK$47,524,000) had been recognised.

Particulars of the subsidiaries at 31 December 2009 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	RMB80,800,000	65% (2008: 65%)	Retail stores
AEON South China Co., Ltd. (formerly known as Shenzhen Aeon Co., Ltd.) ("AEON South China")	Wholly-owned foreign enterprise	PRC	RMB162,800,000	100% (2008: 100%)	Retail stores
AEON (China) Co., Ltd. ("AEON China")	Wholly-owned foreign enterprise	PRC	RMB50,000,000	0% (2008: 100%)	Retail stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000	100% (2008: 100%)	Inactive

During the year, AEON China has merged into Shenzhen Aeon Co., Ltd. as a single entity. Shenzhen Aeon Co., Ltd. has then changed its name to AEON South China Co., Ltd. The merge has been approved by Shenzhen Bureau of Trade and Industry in September 2009. Upon the completion of the merger, the financial information of AEON China has been fully incorporated into AEON South China and there is no financial impact to the consolidated financial statements.

19. Available-for-sale Investments

Available-for-sale investments comprise:

	THE GROUP AND THE COMPANY		
	31.12.2009	31.12.2008	1.1.2008
	HK$'000	HK$'000	HK$'000
Equity securities:			
Listed shares in Hong Kong at fair value	**25,731**	13,585	27,245
Debt securities:			
Unlisted club debenture at fair value	**2,150**	1,840	2,150
	27,881	15,425	29,395

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$25,731,000 (2008: HK$13,585,000).

20. Callable Time Deposits and Long Term Time Deposits

Callable time deposits (the "Deposits") represent principal protected 5 years United States dollars-denominated deposits, which carry predetermined fixed interest rates. The maturity date of the deposits is 24 April 2013. The average effective interest rate is 4.75% (2008: 4.75%) per annum. The bank (i.e. the issuer) which issues the Deposits has an option to early redeem the Deposits quarterly or semi-annually at par value. The Company is entitled to interest payments due on the early redemption date. The early redemption option is considered to be closely related embedded derivative.

One of the deposits amounting to HK$77,845,000 has been early redeemed during the year.

Long term time deposits represent 3 years United States dollars-denominated time deposit due on 20 April 2012 which carry predetermined fixed interest rate. The effective interest rate is 4% per annum.

21. 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 depreciation HK$'000	Other temporary differences HK$'000	Undistributed profits of subsidiaries HK$'000	Total HK$'000
At 1 January 2008	12,789	340	—	13,129
Credit (charge) to income statement	1,106	23	(2,574)	(1,445)
Effect of change in tax rate	(731)	(19)	—	(750)
At 31 December 2008	**13,164**	**344**	**(2,574)**	**10,934**
Credit (charge) to income statement	**(5,114)**	**3,345**	**(1,228)**	**(2,997)**
Withholding tax paid on distributed profits of subsidiaries during the year and credited to income statement	**—**	**—**	**889**	**889**
At 31 December 2009	**8,050**	**3,689**	**(2,913)**	**8,826**

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

	THE GROUP		
	31.12.2009 HK$'000	31.12.2008 HK$'000	1.1.2008 HK$'000
Deferred tax assets	**11,739**	13,508	13,129
Deferred tax liabilities	**(2,913)**	(2,574)	—
	8,826	10,934	13,129

At the end of the reporting period, the Group had unused tax losses of HK$104,517,000 (31 December 2008: HK$164,131,000) available for offset against future profits, and other temporary differences of HK$15,475,000 (31 December 2008: HK$3,735,000). A deferred tax asset has been recognised in respect of HK$15,475,000 (31 December 2008: HK$2,085,000) for other temporary differences. No deferred tax asset has been recognised in respect of all unused tax losses and the remaining other temporary differences of HK$Nil (31 December 2008: HK$1,650,000) due to the unpredictability of future profit streams for certain subsidiaries.

21. Deferred Taxation — continued

	THE GROUP	
	2009 **HK$'000**	2008 HK$'000
The tax losses above will expire as follows:		
31 December 2009	**—**	6,131
31 December 2010	**19,848**	43,794
31 December 2011	**—**	39,936
31 December 2012	**—**	50,276
31 December 2013	**—**	23,994
31 December 2014	**84,669**	—
	104,517	164,131

Included in the unused tax losses of HK$164,131,000 as at 31 December 2008, there were tax losses of HK$142,723,000 which were incurred by AEON China in prior years. Such tax losses cannot be transferred to AEON South China upon the merger in September 2009 (see note 18) and were therefore not able to be used for offsetting future profits.

	THE COMPANY			
	Accelerated accounting depreciation HK$'000	**Other temporary differences** HK$'000	**Undistributed profits of subsidiaries** HK$'000	**Total** HK$'000
At 1 January 2008	12,789	340	—	13,129
Credit (charge) to income statement	1,106	23	(2,574)	(1,445)
Effect of change in tax rate	(731)	(19)	—	(750)
At 31 December 2008	13,164	344	(2,574)	10,934
Credit (charge) to income statement	**(5,114)**	**4**	**(1,228)**	**(6,338)**
Withholding tax paid on distributed profits of subsidiaries during the year	**—**	**—**	**889**	**889**
At 31 December 2009	**8,050**	**348**	**(2,913)**	**5,485**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

21. Deferred Taxation — continued

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

	THE COMPANY		
	31.12.2009 HK$'000	31.12.2008 HK$'000	1.1.2008 HK$'000
Deferred tax assets	**8,398**	13,508	13,129
Deferred tax liabilities	**(2,913)**	(2,574)	—
	5,485	10,934	13,129

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

22. Inventories

During the year, the Directors have considered the market performance and the expected net realisable value of the inventories. As a result, write-down of inventories of HK$3,340,000 (2008: HK$2,080,000) has been recognised and included in "Purchases of goods and changes in inventories" in the current year.

23. Trade Receivables

The Group does 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 receivable presented based on the invoice date at the reporting date.

	THE GROUP			THE COMPANY		
	31.12.2009 HK$'000	31.12.2008 HK$'000	1.1.2008 HK$'000	**31.12.2009 HK$'000**	31.12.2008 HK$'000	1.1.2008 HK$'000
Within 30 days	**19,443**	20,345	32,071	**7,984**	8,604	23,770
Over 30 days	**—**	—	2,252	**—**	—	—
	19,443	20,345	34,323	**7,984**	8,604	23,770
Overdue but not impaired						
0–30 days	**—**	—	1,433	**—**	—	—
31–180 days	**—**	—	819	**—**	—	—
	—	—	2,252	**—**	—	—

23. Trade Receivables — continued

The Group'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 arise 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 2009 and 2008, the Group does not have any trade receivable balance that were past due.

24. Other Assets

Other assets include other receivables, amounts due from subsidiaries and fellow subsidiaries, pledged bank deposits and bank balances.

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and with credit term of 15 to 35 days (31 December 2008: 15 to 35 days).

Bank balances comprise cash held by the Group 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 4.41% (31 December 2008: 0.01% to 4.42%) per annum. Included in the Group's bank balances and cash of HK$140,156,000 (31 December 2008: HK$474,234,000) were denominated in United States dollars that is the currency other than the functional currencies of the respective group entities.

25. 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		
	31.12.2009 HK$'000	31.12.2008 HK$'000	1.1.2008 HK$'000	**31.12.2009 HK$'000**	31.12.2008 HK$'000	1.1.2008 HK$'000
0–60 days	**1,041,589**	971,176	845,449	**608,603**	561,577	567,503
61–90 days	**96,983**	43,257	79,538	**6,758**	8,259	8,641
Over 90 days	**85,547**	48,165	111,760	**15,375**	25,412	34,295
	1,224,119	1,062,598	1,036,747	**630,736**	595,248	610,439

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

26. Bank Borrowings

THE GROUP

	31.12.2009 HK$'000	31.12.2008 HK$'000	1.1.2008 HK$'000
Bank loans — unsecured	**169,680**	151,946	100,387
The maturity profile of the bank borrowings is as follows:			
Within one year	**124,432**	151,946	100,387
More than one year, but not exceeding three years	**45,248**	—	—
	169,680	151,946	100,387
Less: Amount due within one year shown under current liabilities	**(124,432)**	(151,946)	(100,387)
Amount due after one year	**45,248**	—	—

The bank borrowings are denominated in Renminbi which carry interest at floating rates and are repayable within three years. The average effective interest rate during the year is 4.7% (2008: 5.40%) per annum.

27. Other Liabilities

Other liabilities include other payables and accrued charges, amounts due to fellow subsidiaries and ultimate holding company.

Included in 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$8,459,000 (31 December 2008: HK$7,770,000) and HK$306,898,000 (31 December 2008: HK$269,954,000) respectively.

The credit term for amounts due to fellow subsidiaries and ultimate holding company are 60 to 90 days (2008: 60 to 90 days). The amounts due are unsecured and non-interest bearing.

28. Share Capital

	2009 & 2008 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

29. 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 2008	63,158	25,463	720,557	809,178
Loss on fair value changes of available-for-sale investments recognised directly in other comprehensive income	—	(13,970)	—	(13,970)
Profit for the year	—	—	241,976	241,976
Total comprehensive income for the year	—	(13,970)	241,976	228,006
Dividends	—	—	(117,780)	(117,780)
At 31 December 2008	63,158	11,493	844,753	919,404
Gain on fair value changes of available-for-sale investments recognised directly in other comprehensive income	**—**	**12,456**	**—**	**12,456**
Profit for the year	**—**	**—**	**240,123**	**240,123**
Total comprehensive income for the year	**—**	**12,456**	**240,123**	**252,579**
Dividends	**—**	**—**	**(97,500)**	**(97,500)**
At 31 December 2009	**63,158**	**23,949**	**987,376**	**1,074,483**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

30. Capital Commitments

	THE GROUP		THE COMPANY	
	2009 **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**7,963**	14,108	**—**	—
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**200**	81,254	**200**	41,000

31. 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	
	2009 **HK$'000**	2008 HK$'000	**2009** **HK$'000**	2008 HK$'000
Within one year	**505,399**	603,487	**270,093**	349,234
In the second to fifth year inclusive	**1,466,547**	1,440,863	**533,959**	703,159
Over five years	**1,109,402**	903,589	**157,460**	252,750
	3,081,348	2,947,939	**961,512**	1,305,143

In addition to the above, over 90% (2008: over 90%) of the leases of the Group and over 80% (2008: 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.

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

31. 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 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	
	2009 HK$'000	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Within one year	**189,545**	211,740	**103,715**	141,145
In the second to fifth year inclusive	**171,855**	172,653	**30,139**	60,712
Over five years	**8,946**	21,643	**—**	—
	370,346	406,036	**133,854**	201,857

The leases are negotiated for terms ranging from one to over five 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.

32. Pledged Bank Deposits

As at 31 December 2009, the Group's bank deposits of HK$12.5 million (31 December 2008: HK$7.7 million) were pledged to banks for guarantee to landlords for rental deposits, where nil (31 December 2008: HK$4.6 million) for guarantee to suppliers for trade purchases respectively.

33. 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:

				Number of underlying SARs				
Date of grant	Exercise price HK$	Vesting period	Exercise period	Outstanding at 1.1.2009	Granted during the year	Exercised during the year	Cancelled during the year	Outstanding at 31.12.2009
Directors								
25.9.2009	15.236	1.6.2008 to 31.5.2009	1.6.2009 to 31.5.2015	—	60,000	—	—	60,000
	15.236	1.6.2008 to 31.5.2010	1.6.2010 to 31.5.2015	—	60,000	—	—	60,000
	15.236	1.6.2008 to 31.5.2011	1.6.2011 to 31.5.2015	—	80,000	—	—	80,000
	13.500	25.9.2009 to 24.9.2010	25.9.2010 to 24.9.2016	—	97,200	—	—	97,200
	13.500	25.9.2009 to 24.9.2011	25.9.2011 to 24.9.2016	—	97,200	—	—	97,200
	13.500	25.9.2009 to 24.9.2012	25.9.2012 to 24.9.2016	—	129,600	—	—	129,600
Employees								
25.9.2009	15.236	1.6.2008 to 31.5.2009	1.6.2009 to 31.5.2015	—	4,800	—	—	4,800
	15.236	1.6.2008 to 31.5.2010	1.6.2010 to 31.5.2015	—	4,800	—	—	4,800
	15.236	1.6.2008 to 31.5.2011	1.6.2011 to 31.5.2015	—	6,400	—	—	6,400
	13.500	25.9.2009 to 24.9.2010	25.9.2010 to 24.9.2016	—	10,200	—	—	10,200
	13.500	25.9.2009 to 24.9.2011	25.9.2011 to 24.9.2016	—	10,200	—	—	10,200
	13.500	25.9.2009 to 24.9.2012	25.9.2012 to 24.9.2016	—	13,600	—	—	13,600
				—	574,000	—	—	574,000

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

At 31 December 2009, the Group has recorded liabilities of HK$1,810,000 (31 December 2008: Nil), which is included in other payables and accrued charges. At 31 December 2009, the total intrinsic value of the vested SARs was HK$Nil.

34. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK$8,700,000 (2008: HK$9,116,000) 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$5,302,000 (2008: HK$5,491,000) 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$30,526,000 (2008: HK$21,193,000).

35. Capital Risk Management

The Group manages its capital to ensure that entities in the Group 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 overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the bank borrowings as disclosed in note 26, and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earning.

The Directors of the Company 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 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

36. Financial Instruments

(a) Categories of financial instruments

	THE GROUP		
	31.12.2009	31.12.2008	1.1.2008
	HK$'000	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**2,224,002**	1,923,287	1,867,433
Available-for-sale financial assets	**27,881**	15,425	29,395
Financial liabilities at amortised cost	**1,859,725**	1,935,566	1,700,831

	THE COMPANY		
	31.12.2009	31.12.2008	1.1.2008
	HK$'000	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**1,230,760**	1,144,882	1,236,867
Available-for-sale financial assets	**27,881**	15,425	29,395
Financial liabilities at amortised cost	**892,109**	914,397	908,489

(b) Financial risk management objectives and policies

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

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Group's activities. The Group, 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 through internal risk reports which analyses 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.

36. Financial Instruments — continued

(b) Financial risk management objectives and policies — continued

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

The Group does 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 exposure to market risks or the manner in which it manages and measures the risks.

(c) Foreign currency risk management

Certain of the Group's purchases are denominated in foreign currencies other than the functional currencies of the operations to which they relate. They expose the Group to foreign currency risk and the Group 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:

	Assets		Liabilities	
	31.12.2009 HK$'000	31.12.2008 HK$'000	**31.12.2009 HK$'000**	31.12.2008 HK$'000
THE GROUP				
Hong Kong dollars	**433**	4,018	**—**	—
United States dollars	**334,258**	629,720	**4,527**	3,102
Japanese Yen	**50,719**	106	**22,125**	21,279
Renminbi	**7,211**	20,236	**—**	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

36. Financial Instruments — continued

(c) Foreign currency risk management — continued

	Assets		Liabilities	
	31.12.2009 HK$'000	31.12.2008 HK$'000	**31.12.2009 HK$'000**	31.12.2008 HK$'000
THE COMPANY				
United States dollars	**334,258**	629,720	**4,527**	3,102
Japanese Yen	**50,719**	106	**22,125**	21,279
Renminbi	**7,211**	20,285	**—**	—

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 Company have significant exposure at the end of the reporting periods.

	2009		2008	
	Increase (decrease) in foreign exchange rates %	**Effect on profit (loss) before tax HK$'000**	Increase (decrease) in foreign exchange rates %	Effect on profit (loss) before tax HK$'000
THE GROUP				
United States dollars	**1%**	**3,297**	1%	6,266
	(1%)	**(3,297)**	(1%)	(6,266)
Japanese Yen	**10%**	**2,859**	10%	(2,117)
	(10%)	**(2,859)**	(10%)	2,117
Renminbi	**10%**	**721**	10%	2,024
	(10%)	**(721)**	(10%)	(2,024)

36. Financial Instruments — continued

(c) Foreign currency risk management — continued

Foreign currency sensitivity — continued

	2009 Increase (decrease) in foreign exchange rates %	2009 Effect on profit (loss) before tax HK$'000	2008 Increase (decrease) in foreign exchange rates %	2008 Effect on profit (loss) before tax HK$'000
THE COMPANY				
United States dollars	**1%**	**3,297**	1%	6,266
	(1%)	**(3,297)**	(1%)	(6,266)
Japanese Yen	**10%**	**2,859**	10%	(2,117)
	(10%)	**(2,859)**	(10%)	2,117
Renminbi	**10%**	**721**	10%	2,024
	(10%)	**(721)**	(10%)	(2,024)

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 2008.

(d) Interest rate risk management

The Group is exposed to cash flow interest rate risk as its bank borrowings are subject to floating interest rate. All bank borrowings bear interests at floating rates and will mature within three years (2008: within one year). The Group analyses its interest rate exposure on a dynamic basis, but the Group did not use floating-to-fixed interest rate swaps in managing its cash flow interest rate risk. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

36. Financial Instruments — continued

(d) Interest rate risk management — continued

Interest rate sensitivity

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. 2% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

If interest rates had been 2% higher/lower and all other variables were held constant, the Group's profit before tax for the year ended 31 December 2009 would decrease/increase by HK$3,394,000 (2008: decrease/increase by HK$3,039,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

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

(e) Other price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The measure of price sensitivity is based on the actual observed historical changes of one-year interval to estimate the 1-day historical volatility. The use of a 1-day holding period assumes that the positions can be unwound in one trading day. If the equity price of the available-for-sale investments had been 8% (2008: 8%) higher/lower while all other variables were held constant, the investment revaluation reserve would increase/decrease by HK$276,000 (2008: increase/decrease by HK$440,000) for the Group, principally as a result of the changes in fair value of available-for-sale investments.

36. Financial Instruments — continued

(f) Credit risk management

The credit risk represents the trade receivables and amount due from fellow subsidiaries. Credit risk for the trade receivable is limited as the Group's revenue is 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 balance sheet date.

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

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

(g) Liquidity risk management

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

36. 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
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009						
Non-derivatives financial liabilities						
Non-interest bearing	**—**	**1,599,186**	**64,457**	**26,402**	**—**	**1,690,045**
Variable interest rate instruments	**4.7**	**115,816**	**12,824**	**24,273**	**23,174**	**176,087**
		1,715,002	**77,281**	**50,675**	**23,174**	**1,866,132**
2008						
Non-derivatives financial liabilities						
Non-interest bearing	—	1,745,363	22,611	15,646	—	1,783,620
Variable interest rate instruments	5.4	156,049	—	—	—	156,049
		1,901,412	22,611	15,646	—	1,939,669

THE COMPANY

	6 months or less	6–12 months	1–2 years	2–5 years	Total undiscounted cash flows amount
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2009					
Non-derivatives financial liabilities					
Non-interest bearing	**875,069**	**17,040**	**—**	**—**	**892,109**
2008					
Non-derivatives financial liabilities					
Non-interest bearing	898,261	16,136	—	—	914,397

36. Financial Instruments — continued

(h) Fair value of financial instruments

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

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

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

Fair value measurements recognised in the statement of financial position

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

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

	31/12/2009			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Available-for-sale financial assets				
Listed equity securities	**25,731**	**—**	**—**	**25,731**
Unlisted club debenture	**—**	**2,150**	**—**	**2,150**
Total	**25,731**	**2,150**	**—**	**27,881**

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

37. Related Party Transactions

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

		THE GROUP		THE COMPANY	
Capacity	**Nature of transaction**	**2009 HK$'000**	2008 HK$'000	**2009 HK$'000**	2008 HK$'000
Fellow subsidiaries	Franchise fee, consumable expenses and purchase of machines	**3,684**	2,356	**3,684**	2,356
	Dividend income	**1,211**	1,741	**1,211**	1,741
	Interest income	**65**	—	**65**	—
	Commission for credit facilities provided to the customers	**10,713**	11,029	**10,713**	11,029
	Purchase of goods	**152,380**	151,070	**126,195**	126,896
	Rental income	**8,082**	7,143	**7,377**	7,100
	Outsourcing service fee	**3,045**	246	**—**	—
	Other income	**364**	—	**165**	—
Subsidiaries	Royalty income	**—**	—	**28,049**	15,230
	Management fee income	**—**	—	**3,494**	5,747
	Dividend income	**—**	—	**17,744**	10,855
Ultimate holding company	Royalty expenses	**34,475**	31,617	**34,475**	31,617
Minority shareholders of the subsidiaries	Rental expenses, management fees and utility expenses	**49,962**	44,278	**—**	—
	Advertising expenses	**1,108**	—	**—**	—
Related company (Note)	Purchase of goods	**414**	665	**414**	665
	Interest income	**5**	—	**5**	—
	Other income	**10**	—	**10**	—

Note: One of the Directors of the Company has a beneficial interest in the related company.

37. 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

	31.12.2009 HK$'000	31.12.2008 HK$'000
Amounts due from minority shareholders of the subsidiaries	**5,621**	5,530

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				
	2005 HK$'000 (restated)	2006 HK$'000 (restated)	2007 HK$'000 (restated)	2008 HK$'000 (restated)	**2009** **HK$'000**
RESULTS					
Revenue	3,918,999	4,286,477	4,759,403	5,373,626	**5,897,909**
Profit before tax	163,729	208,922	375,985	378,979	**267,424**
Income tax expense	(39,793)	(52,217)	(75,369)	(74,528)	**(72,253)**
Profit for the year	123,936	156,705	300,616	304,451	**195,171**

	At 31 December				
	2005 HK$'000 (restated)	2006 HK$'000 (restated)	2007 HK$'000 (restated)	2008 HK$'000 (restated)	**2009** **HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,943,954	2,456,711	2,732,449	3,166,944	**3,562,337**
Total liabilities	(1,260,337)	(1,662,198)	(1,743,937)	(2,012,649)	**(2,308,247)**
	683,617	794,513	988,512	1,154,295	**1,254,090**
Equity attributable to:					
Equity holders of the Company	643,551	745,424	916,963	1,061,920	**1,143,463**
Minority interests	40,066	49,089	71,549	92,375	**110,627**
	683,617	794,513	988,512	1,154,295	**1,254,090**