銀泰百貨

# Intime Department Store (Group) Company Limited
# 銀泰百貨(集團)有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1833

2011
ANNUAL REPORT

INTIME 银泰

# Contents

# Corporate Profile

Intime Department Store (Group) Company Limited (the "Company") was incorporated in the Cayman Islands with limited liability on 8 November 2006. The Company and its subsidiaries (the "Group") are principally engaged in the operation and management of department stores in the People's Republic of China (the "PRC"). The shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 March 2007.

The Group commenced its department store business in 1998 when its first department store was established in Hangzhou, namely the Hangzhou Wulin store. After thirteen years of development, the Group has established a leading position in Zhejiang province and secured strategic footholds in Hubei province, Shaanxi province, Anhui province, Hebei province and Beijing. The Group holds equity interests in two domestically listed department store companies, namely Baida Group Co., Ltd. ("Baida") and Wuhan Department Store Group Co., Ltd. ("Wushang"). The Group also holds a 50% equity interest in Beijing Youyi Lufthansa Shopping City Co., Ltd. Beijing Lufthansa Centre. Currently, the Group operates and manages a total of 28 stores with a total gross floor area of 1,214,939 square meters, including 17 department stores located in the principal cities of Zhejiang province, 6 department stores located in Hubei province, 1 store located in Beijing, 1 store located in Anhui province, 1 store located in Hebei province and 2 stores located in Shaanxi province.

The Group adopts "Bring you a new lifestyle" as its motto and has traditionally targeted young and modern families as its major customers. The Group focuses on operating trendy department stores while also actively developing comprehensive shopping malls. The Group positions its merchandise in the medium to high-end market with a commitment to offer excellent shopping experiences. With increasing sales floor area under management, the Group is gradually broadening its range of merchandise and service offerings to include high-end to luxury retailing, as well as more comprehensive, richer shopping related amenities and services.

# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors:

SHEN Guojun *(Chairman)*
CHEN Xiaodong

### Non-Executive Directors:

XIN Xiangdong
LEE Ka Kit
LIU Dong

### Independent Non-Executive Directors:

SHI Chungui
YU Ning
CHOW Joseph

## REGISTERED OFFICE

P.O. Box 309GT
Ugland House
South Church Street, George Town
Grand Cayman
Cayman Islands

## HEAD OFFICE

6th Floor, Yintai Centre Tower C
2 Jianguomenwai Avenue
Beijing 100022
PRC
Tel: +86 10 65639300
Fax: +86 10 65688886
Email: info@intime.com.cn

## COMPANY SECRETARY

CHOW Hok Lim *FCCA, CPA*

## AUTHORIZED REPRESENTATIVES

CHEN Xiaodong
CHOW Hok Lim

## AUDIT COMMITTEE

CHOW Joseph *(Chairman)*
SHI Chungui
YU Ning

## REMUNERATION COMMITTEE

SHI Chungui *(Chairman)*
YU Ning
CHOW Joseph

## NOMINATION COMMITTEE

YU Ning *(Chairman)*
SHI Chungui
CHOW Joseph

## STRATEGIC DEVELOPMENT COMMITTEE

SHEN Guojun *(Chairman)*
XIN Xiangdong

## LEGAL ADVISERS AS TO HONG KONG LAW

Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1703, Tower II
Admiralty Centre
18 Harcourt Road
Hong Kong

# Corporate Information

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
George Town, Grand Cayman
Cayman Islands

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKERS

### Hong Kong

Bank of China (Hong Kong) Limited
JPMorgan Chase Bank N.A.

### PRC

Industrial and Commercial Bank of China
China Construction Bank
Agricultural Bank of China
Shanghai Pudong Development Bank

## AUDITORS

Ernst & Young
Certified Public Accountants

## STOCK CODE

1833

## COMPANY WEBSITE

www.intime.com.cn

# Financial Highlights

A summary of the results and assets, liabilities and equity of the Group for the last five financial years is set out below:

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2007# | 2008# (Restated) | 2009 | 2010 | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| **Operating Results** | | | | | |
| Revenue | 884,059 | 1,224,546 | 1,572,095 | 2,288,753 | **3,117,198** |
| Profit before income tax | 512,469 | 475,809 | 572,752 | 926,141 | **1,129,033** |
| Profit for the year | 374,856 | 362,649 | 449,367 | 701,339 | **858,168** |
| Profit attributable to: | | | | | |
| – Owners of the parent | 378,368 | 377,586 | 462,609 | 685,189 | **821,427** |
| – Non-controlling interests | (3,512) | (14,937) | (13,242) | 16,150 | **36,741** |
| Full year dividends per share (RMB) | 0.064 | 0.066 | 0.132 | 0.15 | **0.17** |
| Basic earnings per share (RMB) | 0.22 | 0.21 | 0.26 | 0.39 | **0.43** |
| Diluted earnings per share (RMB) | 0.22 | 0.21 | 0.26 | 0.36 | **0.42** |

| | 31 December | | | | |
|---|---|---|---|---|---|
| | 2007# | 2008# (Restated) | 2009 | 2010 | **2011** |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | ***RMB'000*** |
| **Assets and Liabilities** | | | | | |
| Total assets | 6,195,272 | 7,190,507 | 7,485,511 | 12,289,483 | **17,240,662** |
| Total liabilities | (2,152,106) | (3,481,960) | (3,591,858) | (6,574,449) | **(9,971,986)** |
| Total equity | 4,043,166 | 3,708,547 | 3,893,653 | 5,715,034 | **7,268,676** |
| – Owners' equity | 3,873,557 | 3,270,882 | 3,448,194 | 5,310,654 | **6,551,988** |
| – Non-controlling interests | 169,609 | 437,665 | 445,459 | 404,380 | **716,688** |

# The Group has adopted HK(IFRIC) – Int 13 Customer Loyalty Programmes ("Int 13") to prepare the consolidated financial statements for the year ended 31 December 2009 and has retrospectively restated comparatives of the consolidated financial statements for the year ended 31 December 2008 accordingly. The management of the Company is of the view that the adoption of Int 13 has no significant impact on the financial information for the year of 2007, therefore such financial information have not been restated.

# Chairman's Statement

2011 was another year of great performance. We have demonstrated we have the right strategy, the right team and the right store network to deliver consistent and sustained value for our shareholders. We have continued to perform strongly with total revenue up 36.2% to RMB3,117.2 million in 2011. The profit attributable to owners of the parent reached RMB821.4 million in 2011, representing an increase of 19.9% over the previous year. Basic earnings per share increased to RMB0.43. Our performance in 2011 once again demonstrated our ability to deliver substantial, sustained value for our shareholders.

In view of the Group's strong financial performance, the Board has proposed the payment of a final dividend of RMB0.07 per share for the year ended 31 December 2011, subject to approval by shareholders of the Company at the forthcoming annual general meeting. Together with the interim dividend of RMB0.10 per share, the full year dividend per share for 2011 will amount to RMB0.17 per share if approved at the forthcoming annual general meeting.

## MACROECONOMIC REVIEW

In 2011, the Chinese government was firm in implementing proactive fiscal policies and prudent monetary policies to sustain the country's growth momentum. In order to maintain stable and healthy economic development, China has implemented measures to boost domestic consumption in view of dwindling export demand. As a result, in 2011, the country's GDP achieved 9.2% growth to RMB47,156.4 billion, with total retail sales of consumer goods rising by 17.1% over the same period last year. The uptrend in retail sales was fueled by rising household income and increasing purchasing power among urban residents, with the country's per capita annual disposable income of urban residents increased by 14.1% to RMB21,810.

The economy of Zhejiang province, where the Group has achieved a leading market position, achieved a stable and healthy GDP growth rate of 9.0% in 2011. Retail consumption remained buoyant with the total retail sales of consumer goods in Zhejiang province rose by 17.4% to RMB1,193.1 billion in 2011. The growth was underpinned by increasing income of the growing middle-class population. The per capita disposable income of urban households in Zhejiang province increased by 13.0% to RMB30,900 in 2011. Zhejiang province has one of the highest retail sales of consumer goods and per capita annual disposable income of urban households in China.

The economy of Hubei province, where the Group currently operates six stores, continued to grow rapidly in 2011 with a GDP growth rate of 13.8%. The total retail sales of consumer goods in Hubei province rose strongly to RMB792.8 billion in 2011, representing an increase of 18%. The per capita disposable income of urban households in Hubei province also increased steadily by 14.4% to RMB18,374.

## AWARDS AND RECOGNITION

In 2011, the Group received various awards attesting to its brand name, such as the award of "Outstanding China Enterprise Awards – Outstanding Department Store Chain Enterprise" presented by Capital Magazine in June 2011. In March 2011, the Group was recognised as one of the "Top 100 China Chain Stores of 2010" (2010年中國連鎖百強) by China Chain Store and Franchise Association (中國連鎖經營協會). In August 2011, the Group was recognised as one of the "Top 500 Privately-Owned Enterprises in China of 2011" (2011年中國民營企業500強) by the China National Industry and Commerce Association (中華全國工商聯合會). In September 2011, the Group was further recognised as one of the "Top 500 Services Enterprises in China of 2011" (2011年中國服務企業500強) jointly by the China Trade Association (中國企業聯合會) and China Entrepreneur Association (中國企業家協會). Furthermore, in December 2011, the Group was awarded with the "2011 China Best Corporate Citizen Award" (2011年度中國最佳企業公民大獎), an award presented by 21st Century Business Herald (21世紀經濟報導) and 21st Century Business Review (21世紀商業評論).

On 17 May 2011, the Company was selected as a constituent stock of Morgan Stanley Capital International ("MSCI") China Indices under the MSCI Global Standard Indices, effective from market close on 31 May 2011. The Group believes that such inclusion will further enhance the Company's recognition in the international capital market.

## COMPANY DEVELOPMENT

Our performance in 2011 reflects the continued success of our business model. Our store development programme over the past year has seen 5 new stores opened, which increased gross floor area by 316,000 square meters to the current total gross floor area of 1,214,939 square meters. Not only did we strengthened our leadership position in Zhejiang province, but we also improved our competitive position in Hubei province and Shaanxi province and entered the new markets of Anhui province, Hebei province and Beijing where we believe will offer excellent growth prospects. Listening and responding to customers' needs is at the core of our business and we have continued to improve the shopping trip for them. This has underpinned the excellent progress we have made.

## STRENGTHEN SHAREHOLDER BASE

To strengthen the Company's shareholder base, in December 2011, the Company issued 76,669,653 new shares at HK$9.90 per share to the Government of Singapore Investment Corporation Private Limited, raising total net proceeds of approximately HK$749 million. The Company would use the net proceeds to fund the development and expansion of the department store network of the Group in the PRC.

# Chairman's Statement

## BOARD CHANGES

Strong management and governance are key components of our business model. In December 2011, we strengthened our Board by appointing Mr. Liu Dong as a non-executive director. Mr. Liu joined Government of Singapore Investment Corporation (Beijing) Co. Limited in 2007 and currently serves as a senior vice president, head of the Direct Investment Group, Asia (Greater China) of GIC Special Investments and head of the Funds and Co-Investments Group, Asia (Greater China) of GIC Special Investments. I believe his appointment will significantly strengthen the Board's expertise and experience.

## OUTLOOK

We enter 2012 in excellent shape and with strong growth momentum. We have a stronger business with a compelling vision, a sharper organisation and an increasingly effective performance culture. Against the backdrop of the continuing uncertainty in global economy, we are confident that our department store business is positioned to deliver continued growth in the short, medium and long term as consumption demand in the PRC is significant and is growing rapidly. Since regionalization occurs in the department store industry in the PRC, the Group will continue to consolidate its leading position in Zhejiang province and selectively establish competitive position in new markets and strive to become the leader of the markets to gradually establish a nation-wide leading department store chain through regional pre-dominance.

On behalf of the Board, I would like to express my deepest appreciation to the management and staff for their dedication and commitment, and to our business partners and customers for their continued support to the Group. I must pay tribute to you as a shareholder for believing in our vision and your continuing support to the Group and confidence in the Group's management. Thank you for your support and I know that, with your continued goodwill, Intime will go from strength to strength.

**Shen Guojun**
*Chairman*

# CEO's Statement

2011 has been an eventful year in which the Group has continued to develop along the path of successful business expansion and operational achievements. Total gross sales proceeds of the Group increased to RMB11,632.6 million, representing an increase of 33.0% compared with the same period last year. The Group's same store sales growth maintained at a high rate of 23.1%. Total revenue surged to RMB3,117.2 million, representing an increase of 36.2% compared with the same period last year. Profit attributable to owners of the parent was RMB821.4 million, representing an increase of 19.9% compared with the same period last year. Excluding the other gains resulted from acquisitions and disposals net of tax, profit from core business attributable to owners of the parent increased by 42.8% to RMB732.1 million.

## THE OPENING OF NEW STORES AND NETWORK EXPANSION

During the period under review, the Group continued to pursue its "regional pre-dominance" strategy to consolidate its leading position in Zhejiang province, further strengthened its competitive position in Hubei province and Shaanxi province, and entered the new markets of Anhui province, Hebei province and Beijing.

On 8 January 2012, Hefei Yintai Centre, the Group's first shopping centre in Anhui province, commenced operation. Hefei Yintai Centre is located at the core business district of Hefei, occupying a gross floor area of over 90,000 square meters. Hefei Yintai Centre has successfully incorporated various luxurious brands with well-known restaurants, high-end supermarket and stylish theatre, offering extraordinary shopping experience for Hefei's residents. The successful opening of Hefei Yintai Centre has established a solid foundation for the Group's further expansion and development in Anhui province.

On 24 December 2011, the Group further strengthened its market position in eastern Zhejiang by opening Cixi Intime City shopping mall. Cixi Intime City shopping mall has a total gross floor area of over 87,000 square meters and is being positioned as the leading fashion, entertaining and commercial centre in Cixi city.

On 31 December 2011, Xi'an Qujiang Intime City, the Group's second store in Xi'an city, commenced operation. Xi'an Qujiang Intime City is a modern living, shopping, leisure, and entertainment complex located in the southern district of Datang Qujiang with over 59,000 square meters. The opening of Xi'an Qujiang Intime City has further strengthened the competitive position of the Group in Xi'an city.

# CEO's Statement

Also, on 31 December 2011, the Group entered the Beijing market by opening Beijing Dahongmen store in Beijing Fengtai District. The store has a total gross floor area of 50,000 square meters and is positioned as an urban lifestyle center targeting family and young consumers in the neighbourhood vicinity. The opening of Beijing Dahongmen store plays a very critical role in establishing the market presence of the Group in Beijing.

On 10 September 2011, the Group acquired the operating assets and the lease of Tangshan Sanli department store in Hebei province and renamed it as Tangshan Xinhua Store. The store has a total gross floor area of approximately 30,000 square meters and is targeting mid to high-end retail market in Tangshan. Tangshan is the biggest city and the business center in Hebei province with immense business potential that is closely connected with Beijing and Tianjin, and is a key hub city that connects the northeastern region and the northern region of China. The Group will lease the adjacent second phrase project (i.e., the commercial area of the Expo Plaza) which is currently under development in order to establish the Group's first large-scale integrated department store of more than 100,000 square meters in Hebei province.

Currently, the Group operates and manages a total of 28 stores with a total gross floor area of 1,214,939 square meters, including 17 department stores located in the principal cities of Zhejiang province, 6 department stores located in Hubei province, 1 store located in Beijing, 1 store located in Anhui province, 1 store located in Hebei province and 2 stores located in Shaanxi province. All of the Group's stores are located in prime shopping locations of their respective cities, and as a result, we believe that our stores can continue to attract a high volume and wide spectrum of customers.

## ENHANCEMENT IN OPERATIONAL MANAGEMENT

During the year under review, better operating guidelines and measures have been implemented to effectively integrate the merchandise resources and to strengthen the merchandise management of the Group as a whole. In the 2011 Suppliers Conference, the Group further strengthened its established relationships and collaborations with the concessionaires and direct sales suppliers. The Group currently works with over 3,200 internationally and domestically renowned brands, and is in the process to form more collaborative partnership with some of the suppliers. Through these strategic partnerships, the Group could provide a better shopping experience for its customers through enhanced product mix and availability of latest fashion products.

The Group continued to hold promotional activities to draw existing and new customers into its stores, expanded its loyal customer base by promoting customer loyalty programme to new customers and by improving the quality and level of customer services to retain its existing customers. As at 31 December 2011, the Group had approximately 810,000 VIP customers, representing a year-on-year growth of 8.0%. Sales attributable to VIP customers contributed about 41% of the Group's total sales proceeds in 2011.

The Group continued its efforts to improve the operational efficiency of its existing stores and to strengthen the integration and nurturing of its new stores. During the year under review, the Group has further enhanced its management information system, and has been developing a more advanced automatic sales and expense management platform and inventory management system. These improved systems can help reduce the Group's management expense and increase the efficiency of working with suppliers.

## HUMAN RESOURCES DEVELOPMENT

In 2011, the Group continued with the rapid development of its corporate university, Intime Department Store University. Both the number of class participants and the total number of class hours have reached a record high in 2011. In addition, the Group continued with the university campus recruitment programs with a view to securing the best talents for the Group's business development.

## STRATEGIC BUSINESS DEVELOPMENT

In 2011, the Group continued with its "regional pre-dominance" strategy to further expand its store network in cities or regions where the Group has established a leadership position and to look for new sites in prime locations of cities with good growth prospects.

## ZHEJIANG

On 27 April 2011, the Group entered into an agreement with Zhejiang Juheng Real Estate Limited for a lease at Shaoxing Keqiao Juyin International Commercial Centre with a total gross floor area of approximately of 40,000 square meters. Shaoxing Keqiao Juyin International Commercial Centre is a large-scale business complex integrating hypermarket, department store, catering and entertainment facilities, with a total gross floor area of approximately 150,000 square meters. Entering the Shaoxing market was an important step in the Group's strategic plan of expanding its presence and enhancing its leadership position in Zhejiang province. Located at north-central part of Zhejiang province, Shaoxing is one of the 16 hub cities in the Yangtze River Delta. In 2010, Shaoxing city achieved a GDP of RMB278.3 billion, which represented a year-on-year rise of 11.0% and put the city at the fourth place in the province-wide economic ranking.

On 31 May 2011, Zhejiang Intime Department Store Co., Ltd. ("Zhejiang Intime"), a wholly-owned subsidiary of the Company, entered into a co-development agreement with Zhejiang Fuqiang Properties Co., Ltd. ("Zhejiang Fuqiang") and Hangzhou Intime Shopping Centre Co., Ltd. ("Hangzhou Intime"), pursuant to which Zhejiang Intime agreed to make available to Zhejiang Fuqiang and Hangzhou Intime an amount not exceeding RMB300 million for the construction and development of the department store property of the Chengxi Project. Zhejiang Fuqiang and Hangzhou Intime will pay a fee of 15% per annum to Zhejiang Intime in consideration of the fund provided by Zhejiang Intime. Zhejiang Intime is entitled to a preemptive right to purchase and a priority to lease certain units of the department store property of the Chengxi Project. Pursuant to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), Zhejiang Fuqiang and Hangzhou Intime are connected persons of the Company.

The Chengxi Project is located at a prime area in the west side of Hangzhou which is a developed and highly populated urban area, but without any major high-class shopping outlet. The Group has planned to open stores in the area for years, and the availability of such prime commercial property provides the Group with an attractive opportunity for such entry. If the Group exercises the preemptive right to purchase or the priority to lease under such co-development agreement, the Group will be able to fulfill its strategic goal of opening a store in the west side of Hangzhou, and further strengthen its position as the leading department store operator in Zhejiang province.

On 19 July 2011, the Group further strengthened its presence in Shaoxing market by signing an agreement with Xilinmen Group Shaoxing Jiaye Construction Development Co., Ltd. to operate a department store in the Silver Street Shopping Mall Project. The Silver Street Shopping Mall Project is situated at the northern part of Jiefang Road, the main urban district and the prime commercial avenue in Shaoxing city.

In December 2011, the Group entered into a cooperation agreement with Zhejiang Yaojiang Culture Square Investment & Development Co., Ltd. to lease a gross floor area of around 40,000 square meters at the Global Centre of West Lake Culture Square to establish a department store. Located at the north end of Wulin business district, the hub of the city's arteries, the project is adjacent to multiple top-ranked residences at the city centre of Hangzhou. The project is expected to open for business in 2012.

Also in December 2011, the Group entered into a cooperative agreement with Jia Heng Real Estate Co., Ltd. to lease the total area of approximately 40,000 square meters at Yueqing Nanhong Plaza Project to establish a department store. Yueqing city is in the southeast of Zhejiang province with a total population of about 1.2 million. It is a county level city in Wenzhou area with economic development activities second only to Wenzhou city in the area. This project enjoys convenient traffic and extremely superior geographic location. Upon completion of the project in 2014, it will mark the arrival of the era of shopping center in Yueqing city and will further strengthen the Group's dominating presence in Zhejiang province.

## INNER MONGOLIA

On 22 June 2011, the Group entered into an agreement with Baotou MCC Real Estate Co., Ltd. for a lease of total gross floor area of approximately of 70,000 square meters at the Times Square of Baotou, Inner Mongolia. The planned gross floor area of the entire project undertaken by Baotou MCC Real Estate Co., Ltd. is approximately 1.1 million square meters. Upon completion in late 2013, the project will become a super urban complex comprising multiple functions such as shopping centre, office buildings, residential buildings and starred hotels.

As the biggest city in the Inner Mongolia Autonomous Region, Baotou is hailed as one of the "Four Cities with the Fastest Economic Growth in North China". As at the end of 2010, Baotou had a population of 2.65 million, including 1.90 million urban populations, which made it one of the 23 big cities nationwide with an urban population of over 1 million. The per capita disposable income of urban resident of Baotou reached RMB25,862 in 2010, which ranked first among the prefecture level cities in Inner Mongolia. The Group's entry into Baotou marks one of its moves to tap into the northern market of China. The Group will leverage its various resources in Zhejiang and Beijing to accelerate its development in the northern regional markets adjacent to Beijing, including Inner Mongolia.

## GUANGXI

On 13 September 2011, the Group entered into an agreement with Joyous Triumph Inc. to acquire a 51% equity interest in its wholly-owned subsidiary and thus obtained control over the Liuzhou New Yindu Project. As a major regional hub city in Guangxi province, Liuzhou is the top-ranked city in Guangxi in terms of per capita income. Liuzhou New Yindu Project is located at downtown Liuzhou, facing Liujiang River to the north. The project has a gross floor area of around 70,000 square meters, including a department store of over 40,000 square meters. Through this project, the Group plans to establish its first department store in Guangxi province, which is expected to open for business in 2013.

## SHAANXI

On 19 September 2011, the Group acquired a 100% equity interest in Good Built Holdings Limited and thus acquired the property title of the shopping area of Annancheng Building with a gross floor area of around 60,000 square meters. Annancheng Building is located within the Xiaozhai Business District of Xi'an, which is the second biggest business district in the Xi'an. Annancheng Building is a commercial complex which is currently partially in operation. The Group plans to transform it into a comprehensive shopping mall which is expected to open for business in the second half of 2012. This project will become the Group's third store in the Xi'an city following the Xi'an Zhonglou store and the Xi'an Qujiang Intime City.

# CEO's Statement

## LISTED INVESTMENT

During the year of 2011, the Group further disposed part of its equity interest in Baida. As at 31 December 2011, the Group held a 2.08% equity interest in Baida. In addition, the Group had increased its equity interest in Wushang to 24.48% as at 31 December 2011. Such increase in equity interest in Wushang is consistent with the Group's strategy to expand its market presence and competitiveness in the Hubei market.

## STRATEGIES

Although the global economic recovery has been overshadowed by the continued concerns over the European sovereign debt crisis, the Group is confident in the promising outlook of the PRC department store industry with supportive government policy, rapid urbanization in the PRC and increasing disposable income among the urban population. Recently, in January 2012, PRC's Ministry of Commerce has reaffirmed the importance of expanding consumption growth and is targeting an average annual growth of about 15% in the total retail sales of consumer goods during the "12th Five-Year Plan" (2011-2015).

Going forward, the Group will continue to adhere to its "regional pre-dominance" strategies to develop itself into a leading national department store chain with dominating presence in various regions in China. The Group will continue to focus on improving the operations of the existing stores and make every effort to shorten the fostering period of those recently opened new stores. The Group will focus on operating trendy department stores while also actively developing multi-functional, lifestyle-driven shopping malls. The Group will strive to enhance the quality and efficiency of store operational management and put more efforts in regional expansion to achieve higher success rate in expansion. The Group's strategic projects in the few provincial cities were well-chosen and laid solid foundations for the Group's long term growth prospects. With its strong determination, commitment and thoroughly defined business plan, the Group is confident that it will continue to overcome challenges and extend its track record of achievements in 2012.

I would like to take this opportunity to express my sincere gratitude to the shareholders, all staff members, business partners and customers of the Group for their continuous support to the Group.

**Chen Xiaodong**
*CEO & President*

# Management Discussion and Analysis

## TOTAL GROSS SALES PROCEEDS AND REVENUE

For the year ended 31 December 2011, total gross sales proceeds of the Group (that is, the aggregate proceeds from direct sales, gross revenue from concessionaire sales, rental income and management fee income) was RMB11,632.6 million, representing an increase of 33.0% from RMB8,743.0 million in 2010. The growth was mainly driven by the same store sales growth of approximately 23.1% and the sales contribution of the newly acquired Hubei Suizhou New Century store which the Group acquired in January 2011. Among the total gross sales proceeds of the Group, total sales proceeds from concessionaire sales accounted for 88.4% (2010: 89.8%) and those derived from direct sales accounted for 9.8% (2010: 8.3%).

Sales proceeds from concessionaire sales increased by 31% to RMB10,279.0 million in the year of 2011. The commission rate of concessionaire sales was approximately 17.2% for the year of 2011, which is slightly lower than 17.8% recorded in the last year. Such decrease was mainly driven by the large increase in the sales of gold and high-end jewelries (sales proceeds from gold and high-end jewelries increased by 124.2% to RMB2,024.6 million in 2011), and the introduction of new merchandise sales in third-tier city retail markets, both of which carried higher sales volume but with lower commission rate. Excluding the sales from gold and high-end jewelries, supermarket and home appliance retailing business, the commission rate of concessionaire sales was approximately 19.4% for the year of 2011 (2010: 18.8%). The Group will conduct regular reviews on the performance of the suppliers and concessionaires, with the aim to enhance and strengthen the merchandize mix and provide better shopping choices to its customers.

In line with the Group's strategy to increase the proportion of direct sales and to improve the Group's overall profitability, total sales proceeds from direct sales increased by 57.0% to RMB1,137.3 million for the year of 2011. The increase in direct sales was also largely contributed by the incorporation of the supermarket and direct sales business of the Hubei Suizhou New Century store which the Group acquired in January 2011. Direct sales margin was approximately 16.6% for the year of 2011. Comparing with the margin of 20.0% recorded in 2010, such decrease was mainly due to the expansion of merchandise mix that contributed higher sales growth but with lower margin, such as the supermarket business of the newly acquired Hubei Suizhou New Century store. Excluding the sales from supermarket and home appliance retailing business, the direct sales margin was approximately 20.0% for the year of 2011 (2010: 20.7%).

Rental income increased to RMB193.9 million, representing an increase of 33.5% as compared to same period last year. The increase was mainly due to more effectively planning and usage of the leasing area.

# Management Discussion and Analysis

The Group's revenue for the year ended 31 December 2011 amounted to RMB3,117.2 million, representing a remarkable growth of 36.2% as compared to the same period last year. Such increase reflected the strong underlying growth trend of the retail consumption in Zhejiang province and Hubei province.

## OTHER INCOME AND GAINS

Other income of the Group amounted to RMB281.7 million, representing an increase of 49.4% as compared with RMB188.6 million in 2010. The increase was primarily due to significant increase in advertisement and promotion administration income.

Other gains of the Group amounted to RMB119.2 million for the year of 2011 (2010: RMB230.1 million), which mainly comprised of a gain of RMB64.3 million from the disposal of its equity interest in Baida and a gain of RMB61.7 million from transferring Baida, an associate held for sale, to available-for-sale investments.

## PURCHASES OF GOODS AND CHANGES IN INVENTORIES

The purchases of goods and changes in inventories represent the cost of the direct sales. In line with the growth of direct sales, the Group's cost of sales increased by 63.8% from RMB579.2 million in 2010 to RMB948.5 million in 2011.

## STAFF COSTS

The Group's staff costs increased by 42.4% from RMB300.7 million in 2010 to RMB428.3 million in 2011. The increase was primarily attributable to the inclusion of the staff costs for the newly opened stores in 2011. Staff costs as a percentage of total revenue of the Group for the year 2011 was 13.7%, which was slightly higher than 13.1% recorded in the year of 2010.

## DEPRECIATION AND AMORTIZATION

The Group's depreciation and amortization increased by 18.2% from RMB238.9 million in 2010 to RMB282.4 million in 2011. The increase was primarily attributable to the inclusion of depreciation and amortization costs for new stores opened in the year of 2011. Depreciation and amortization as a percentage of total revenue of the Group decreased from 10.4% in 2010 to 9.1% in 2011.

## OTHER OPERATING EXPENSES

Other operating expenses, which were mainly consisted of utility expenses, store rental expenses, advertising expenses, credit card charges, maintenance and repair expenses and other tax expenses, increased by 35.0% from RMB720.5 million in 2010 to RMB972.4 million in 2011. Other operating expenses as a percentage of total revenue of the Group were 31.2%, which was lower than the 31.5% recorded in the 2010, reflecting the improvement was made in the overall operating efficiency of the Group during the period under review.

## SHARE OF LOSSES OF A JOINTLY-CONTROLLED ENTITY

The share of losses of a jointly-controlled entity for the year ended 31 December 2011 amounted to RMB3.3 million, which was slightly higher than the losses of RMB1.7 million recorded in the year of 2010.

## SHARE OF PROFITS AND LOSSES OF ASSOCIATES

The share of net profits of associates for the year ended 31 December 2011 amounted to RMB226.6 million, representing an increase of 268.7% from RMB61.5 million recorded in the year of 2010. The increase was mainly due to share of profit from its 50% equity interest in Beijing Youyi Lufthansa Shopping City Co. Ltd. Beijing Lufthansa Centre, which the Group acquired in December 2010.

## FINANCE INCOME

For the year ended 31 December 2011, finance income of the Group amounted to RMB173.7 million, representing an increase of 120.8% from RMB78.7 million recorded in 2010. This was mainly due to the increase in interest income from loans and receivables.

## FINANCE COSTS

For the year ended 31 December 2011, finance cost of the Group amounted to RMB154.6 million, representing an increase of 92.0% from RMB80.5 million recorded in 2010. This was mainly due to the increase in average balance of bank loans as compared to the same period last year, the issuance of HK$ convertible bonds in October 2010 and the issuance of RMB guaranteed bonds in July 2011.

## INCOME TAX EXPENSE

The Group's income tax expense increased by 20.5% from RMB224.8 million in 2010 to RMB270.9 million in 2011. Effective tax rate of the Group was 24.0% in 2011, which decreased from the 24.3% recorded in 2010.

# Management Discussion and Analysis

## PROFIT FOR THE YEAR

As a result of the reasons mentioned above, profit for the year increased to RMB858.2 million in 2011, representing an increase of 22.4% from RMB701.3 million in 2010.

## PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

Profit attributable to owners of the parent increased to RMB821.4 million in 2011, representing an increase of 19.9% from RMB685.2 million in 2010.

## LIQUIDITY AND FINANCIAL RESOURCES

In July 2011, the Company issued RMB1,000 million guaranteed bonds due July 2014 with 4.65% interest per annum, raising net proceeds of approximately RMB992.4 million. The net proceeds are intended to be used by the Group to fund future expansions, general corporate development and repayment of existing debt obligations. The issuance of RMB guaranteed bonds issue has enhanced the Group's liquidity position.

The Group's cash and cash equivalents amounted to RMB1,779.3 million as at 31 December 2011, representing an increase of RMB456.7 million from the balance of RMB1,322.6 million as at 31 December 2010. For the year ended 31 December 2011, the Group's net cash inflow from operating activities amounted to RMB1,718.4 million (2010: net cash inflow of RMB1,449.1 million), the Group's net cash outflow from investing activities amounted to RMB2,924.4 million (2010: net cash outflow of RMB2,610.8 million), and the Group's net cash inflow from financing activities amounted to RMB1,667.8 million (2010: net cash inflow of RMB1,507.4 million).

As at 31 December 2011, the Group's borrowings, including bank and other borrowings, outstanding HK$ convertible bonds and RMB guaranteed bonds amounted to RMB4,070.7 million (31 December 2010: RMB2,817.9 million). The gearing ratio, calculated by total interest-bearing bank and other borrowings, convertible bonds and guaranteed bonds over the total assets of the Group, was increased to 23.6% as at 31 December 2011 (31 December 2010: 22.9%). The Group believes that the increased gearing ratio is still within a very healthy range.

## NET CURRENT LIABILITIES AND NET ASSETS

The net current liabilities of the Group as at 31 December 2011 amounted to RMB1,032.2 million, compared to RMB465.8 million as at 31 December 2010. Net assets of the Group as at 31 December 2011 amounted to RMB7,268.7 million, representing an increase of 27.2% from RMB5,715.0 million as at 31 December 2010.

## PLEDGE OF ASSETS

Certain buildings, investment properties, construction in progress, land use rights and properties under development with carrying amount of RMB3,184.6 million have been pledged to the Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, China CITIC Bank and Suizhou Rural Credit Union to obtain bank facilities in the amount of RMB4,183.6 million. The RMB guaranteed bonds are guaranteed by certain subsidiaries of the Group.

## FOREIGN EXCHANGE RISK

The operations of the Group are mainly carried out in the PRC with most transactions settled in RMB. Certain of the Group's cash and bank deposits are denominated in Hong Kong dollars. The convertible bonds are denominated in Hong Kong dollars. In addition, the Company pays dividend in Hong Kong dollars. Any significant exchange rate fluctuations of Hong Kong dollars against RMB may have financial impact on the Group. The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure. Nevertheless, the Group will from time to time review and adjust the Group's investment and financing strategies based on the RMB and Hong Kong dollars exchange rate movement.

## STAFF AND REMUNERATION POLICY

As at 31 December 2011, the total number of employees for the Group was 7,530. The Group strives to offer a good working environment, a diversified range of training programs as well as an attractive remuneration package to its employees. The Group endeavours to motivate its staff with performance based remuneration. On top of the basic salary, staff with outstanding performance will be rewarded by way of bonuses, share options, honorary awards or a combination of all the above to further align the interests of its employees and that of the Group, to attract talented individuals, and to create long term incentive for its staff.

## CONTINGENT LIABILITIES

Details of the contingent liabilities are set out in note 42 to the financial statements.

# Directors and Senior Management

## EXECUTIVE DIRECTORS

Mr. Shen Guojun, 49, was appointed as the Chairman and executive Director of the Company in November 2006, is responsible for major decision making of the Group and coordination and management of the Board in general. Mr. Shen is a National Committee Member of the Chinese People's Political Consultative Conference, the People's Republic of China. Mr. Shen has served as chairman of the board of directors of Intime International Holdings Limited since February 2006, and as chairman of Zhejiang Intime and Shanghai Intime since their establishment in 1997 and 2005, respectively. Also, Mr. Shen has in the past, during the period between 1998 and 2006, held indirect investments in department store businesses in Dalian, Chongqing and Shenyang. From June 2003 to June 2007, Mr. Shen also acted as an independent director of Shanghai Tongda Venture Capital Co. Ltd, which is listed on the Shanghai Stock Exchange. He has extensive experience in the department store industry, real estate industry and capital markets. Since December 1996, Mr. Shen has served as chairman of China Yintai Holdings Company Limited ("China Yintai"). From July 1988 to November 1996, he worked for China Construction Bank group in various management roles. Mr. Shen obtained a Master's degree in Economics from Zhongnan University of Finance and Economics.

Mr. Chen Xiaodong, 43, was appointed as executive Director of the Company in June 2011. Mr. Chen, who has been serving as the President and Chief Executive Officer of the Company since January 2009, is responsible for the overall management of the Group and leading the management team to implement strategies and objectives adopted by the Board. Mr. Chen joined the Company as Vice President in February 2007 and served as the Chief Operating Officer of the Company from July 2007 to January 2009. He has also served as a director of Wushang, a company listed on the Shenzhen Stock Exchange, since December 2010. Mr. Chen has extensive experience in the department store industry, financial management and capital markets. He held various managerial positions in both publicly listed and private companies prior to joining the Company. Notably, he was the Vice Chairman and President of Science City Development Public Co., Ltd, a company listed on the Shenzhen Stock Exchange, from October 2005 to November 2008, and a director of Baida, a company listed on the Shanghai Stock Exchange, from May 2008 to May 2011. He was also the Assistant General Manager of the Investment Management Department of China Everbright Holdings Company Limited, from May 2001 to August 2004. Mr. Chen obtained a Bachelor degree in Economics from Zhongshan University and a Master degree in Business Administration from Murdoch University, Australia.

## NON-EXECUTIVE DIRECTORS

Mr. Xin Xiangdong, 55, was appointed as a non-executive Director of the Company in February 2007. Mr. Xin has many years of experience in investment and capital markets. He has been a director and vice chairman of Zhejiang Insigma Technology (Group) Co., Ltd. since May 2005. From October 2004 to November 2008, he was the chairman of the Board of Science City Development Public Co., Ltd., which is listed on the Shenzhen Stock Exchange. From May 2001 to April 2004, Mr. Xin was the Vice General Manager of Minsheng Investment Credit Assurance Co., Ltd. and Shanghai Shenhua Holdings Co., Ltd. From June 2000 to May 2001, he was the Senior Vice General Manager of Beijing Langxin Information System Co., Ltd. Mr. Xin received his Master's degree in Economics from Huadong Normal University.

Mr. Lee Ka Kit, JP, 48, was appointed as a non-executive Director of the Company in January 2011. Mr. Lee is a National Committee Member of the Chinese People's Political Consultative Conference, the People's Republic of China. He was educated in the United Kingdom. Mr. Lee is an executive director and the vice chairman of Henderson Land Development Company Limited and Henderson Investment Limited as well as a director of The Hong Kong and China Gas Company Limited, all of which are companies listed on The Stock Exchange of Hong Kong Limited. He was appointed as a Justice of the Peace by the Government of the Hong Kong Special Administrative Region and awarded an Honorary University Fellowship by The University of Hong Kong in 2009.

Mr. Liu Dong, 47, was appointed as a non-executive Director of the Company in December 2011. Mr. Liu joined Government of Singapore Investment Corporation (Beijing) Co. Limited in 2007 and currently serves as a senior vice president, head of the Direct Investment Group, Asia (Greater China) of GIC Special Investments and head of the Funds and Co-Investments Group, Asia (Greater China) of GIC Special Investments. From 2003 to 2007, Mr. Liu worked at the China office of International Finance Corporation ("IFC") as a principal investment officer and deputy country manager. From 1998 to 2003, Mr. Liu worked at IFC's Washington office as a senior investment officer. Mr. Liu joined the World Bank Group under the Young Professional Program in Washington in 1994, and worked as an economist at the World Bank Group from 1995 to 1998. Mr. Liu received a Bachelor of Science degree and a Master of Science degree from Shanghai Jiao Tong University in 1986 and 1988, respectively, as well as a PhD degree from Wharton School, University of Pennsylvania in 1993.

# Directors and Senior Management

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Shi Chungui, 71, was appointed as an independent non-executive Director of the Company in May 2008. Mr. Shi is currently a non-executive director of Aluminum Corporation of China Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 02600) and an independent non-executive director of China National Materials Company Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 01893). Mr. Shi has intensive experience in accounting, government and business administration. Mr. Shi was previously the Vice Director of Commerce Bureau of Qinhuangdao City, Hebei Province; the Deputy Mayor and Standing Deputy Mayor of Qinhuangdao City, Hebei Province; the President of Hebei Branch of China Construction Bank, the President of Beijing Branch of China Construction Bank and the Deputy President of the Head Office of China Construction Bank; the Deputy President of China Cinda Asset Management Corporation and the Vice Chairman of Tianjin Pipe Co. Ltd. He graduated from the Finance Faculty of Dongbei University of Finance and Economics in 1964. Mr. Shi is a senior economist.

Mr. Yu Ning, 58, was appointed as an independent non-executive Director of the Company in June 2009. Mr. Yu is a member of the Chinese People's Political Consultative Conference. He is also an independent director of Bank of Beijing Co., Ltd. (Shanghai Stock Exchange Stock Code: 601169), an independent director of Sinolink Securities Co., Ltd. (Shanghai Stock Exchange Stock Code: 600109) and an independent director of United Mechanical and Electrical Co., Ltd. (Shenzhen Stock Exchange Stock Code: 000925). Mr. Yu was previously the President of All China Lawyers Association. Mr. Yu served as Deputy Director and Director of Central Disciplinary Inspection Commission of the Chinese Communist Party, practising lawyer at Beijing Times Highland Law Firm (currently Jurisino Law Group), part-time professor at Peking University and mentor of master postgraduates at the Law School of Tsinghua University. He was an independent director of Huaneng Power International, Inc (Hong Kong Stock Exchanges Stock Code: 902). He graduated from the law department of Peking University with a LLB degree in 1983 and obtained a LLM degree specializing in economic law from the law department of Peking University in 1996. He is a qualified PRC lawyer.

Mr. Chow Joseph, 48, was appointed as an independent non-executive Director of the Company in February 2007. Mr. Chow has accumulated ample experience and knowledge in formulating and monitoring investment strategies through his roles as chief financial officer of various companies and his senior managerial roles in various financial institutions' investment related functions. Mr. Chow was a managing director of Goldman Sachs (Asia) LLP from 2008 to 2009. Mr. Chow was the Chief Financial Officer of China Netcom (Holdings) Company Limited ("China Netcom") for three years from October 2001, director of strategic planning with Bombardier Capital Inc. ("Bombardier Capital"), and vice president of international operations with Citigroup. China Netcom is one of China's largest telecommunication service providers, and Mr. Chow participated in substantially all of its strategic decision making process during that period. Mr. Chow also headed China Netcom's strategic equity investment operations and was involved in investments in ten joint ventures by China Netcom. While he was the head of Bombardier Capital's strategic planning division, Mr. Chow oversaw its strategic planning and expansion. In his role as Vice President of Citi Capital, now part of Citigroup, Mr. Chow led his team to evaluate potential acquisition opportunities and executed over US$10 billion worth of mergers and acquisitions transactions in North America, Europe and Asia. While at Citigroup, Mr. Chow was also involved in monitoring the quality and performance of a US$12 billion international loan portfolio. Mr. Chow obtained a Bachelor of Arts degree in political science from Nanjing Institute of International Relations, and a Master of Business Administration from the University of Maryland at College Park.

## SENIOR MANAGEMENT

Mr. Ma Qihua, 48, Chief Operating Officer of the Group since February 2012 and Vice President of the Company since March 2008. He is responsible for merchandizing and products management, marketing and sales planning, operational management and the Group's business in northern region of Zhejiang province. Mr. Ma is a veteran of the department store industry. He started his career with Hangzhou Tower in 1989 and has worked as general manager at multiple divisions. Since 1999, he has worked as Deputy General Manager, Deputy Director and General Manager at various organizations including Intime Department Store, Hangzhou Hubin Commercial & Tourism Cultural District Agency and Hangzhou Hubin International. He graduated with a Master degree in Regional Economics from Zhejiang Normal University in 2000.

## Directors and Senior Management

Mr. Zou Minggui, 48, Vice President of the Company since October 2009. He is responsible for group purchase business and the Group's business in central region of Zhejiang province. Before joining the Company, he was an executive director of the Maoye International Holdings Limited (Stock Code: 848) ("Maoye") and was responsible for the overall operational management and business development in China. Mr. Zou has over ten years of experience in the retail industry, and has worked as the manager of the Finance Department of the Maoye Group, deputy general manager and general manager of the Maoye Group. He obtained a Master's degree in business administration from China Europe International Business School in 2007.

Mr. Yuan Fei, 41, Chief Financial Officer of the Company since November 2007 and Vice President of the Company since July 2007. He is responsible for the Group's financial management, legal and compliance, investor relationship and capital market transactions. Before joining the Company, he was Senior Vice President of Capital Markets at Panva Gas Holdings Ltd. (now renamed as Towngas China Company Limited, Stock Code: 1083) from 2004 to 2007, and before that, he has been working in multinational conglomerate and consulting companies in the U.S. for six years, specializing in strategy and corporate finance. He holds a Bachelor degree in Material Science from Tsinghua University and a MBA degree from Yale School of Management. He is also a CFA Charterholder.

Mr. Wang Liyong, 52, Vice President of the Company since July 2007. Mr. Wang is responsible for construction development of the Group. He joined Zhejiang Intime in 1997 and held the position of Deputy General Manager of Zhejiang Intime from 1997 to 2003. Mr. Wang graduated from Zhejiang Jiaotong College.

# Corporate Governance Report

The Company is committed to maintaining and promoting good corporate governance practices in order to fulfill its mission of creating value for and maximizing returns to the shareholders.

The Company has adopted the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Throughout the year ended 31 December 2011, the Company has complied with all code provisions of the Code.

## BOARD OF DIRECTORS

As at 31 December 2011, the Board comprised of eight Directors, including two executive Directors, namely Mr. Shen Guojun and Mr. Chen Xiaodong; three non-executive Directors, namely Mr. Xin Xiangdong, Mr. Lee Ka Kit and Mr. Liu Dong and three independent non-executive Directors, namely Mr. Shi Chungui, Mr. Yu Ning and Mr. Chow Joseph. Mr. Shen Guojun is the Chairman of the Board. Biographical details of the Directors are set out on pages 20 to 23 of this annual report. None of the members of the Board is related to one another. The composition of the Board is well balanced with each Director having sound knowledge, experience and expertise relevant to the business operations and development of the Group.

The Board is responsible for the overall management and control of the Company. Key responsibilities of the Board include formulation and approval of the Group's strategic directions and policies, evaluation of the Group's performance and supervision of management's performance and approval of material transactions. The Board delegates the authority and responsibility for implementing day-to-day operations and management of the Group's businesses to the Chief Executive Officer and the management.

To ensure a balance of power and authority, the roles of the Chairman and the Chief Executive Officer are segregated and performed by Mr. Shen Guojun and Mr. Chen Xiaodong, respectively. There is a clear distinction between the Chairman's responsibility for providing leadership for the Board and the Chief Executive Officer's responsibility for managing the business of the Group and leading the management team to implement strategies and objectives adopted by the Board.

Each of the non-executive Directors and independent non-executive Directors has entered into a service contract with the Company for a term of three years. The incumbent non-executive and independent non-executive Directors have extensive professional experience and have participated in the meetings of the Board in a highly conscientious and responsible manner. Independent non-executive Directors serve actively on Board committees to provide their independent and objective views, in particular, on issues of strategy, policy, performance, accountability, resources, key appointments and standards of conduct and to promote critical review and control. They play an important check-and-balance role to safeguard the interests of the Company and the shareholders as a whole.

## Corporate Governance Report

In compliance with Rule 3.10(1) of the Listing Rules, the Company has appointed three independent non-executive Directors. One of the independent non-executive Directors has the appropriate professional qualifications in accounting or relating financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Company has received annual confirmation of independence from the three independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the independent non-executive Directors are independent within the definition of the Listing Rules.

All Directors have full and timely access to all relevant information as well as the advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable rules and regulations are followed. The non-executive Directors and independent non-executive Directors may take independent professional advice at the Company's expense in carrying out their functions, upon making request to the chairman of the Board.

In accordance with the articles of association of the Company (the "Articles"), no less than one-third in number of the Directors shall retire from office by rotation at each annual general meeting of the Company and may offer themselves for re-election at the annual general meeting. Any new director appointed by the Board is subject to election by the shareholders at the first general meeting after his or her appointment.

Board meeting will be held at least four times a year with additional meetings convened as and when necessary to determine the overall strategic directions and objectives of the Group and approve interim and annual results and other significant matters. Before a Board meeting is convened, relevant documents will be sent to the Directors for their review pursuant to the Listing Rules and the Code.

During the year under review, the Board held 6 meetings and attendance of each Director at the meeting is set out below:

| **Board of Directors** | **No. of meetings attended/held** |
|---|---|
| **Executive Directors** | |
| Shen Guojun *(Chairman)* | 5/6 |
| Chen Xiaodong (appointed on 7 June 2011) | 5/5 *(note 2)* |
| Ching Siu Leung (retired on 7 June 2011) | 0/1 *(note 1)* |
| **Non-Executive Directors** | |
| Xin Xiangdong | 6/6 |
| Lee Ka Kit (appointed on 18 January 2011) | 5/6 |
| Liu Dong (appointed on 2 December 2011) | 1/1 *(note 3)* |
| Li Hui, David (retired on 7 June 2011) | 1/1 *(note 1)* |
| **Independent Non-executive Directors** | |
| Shi Chungui | 6/6 |
| Yu Ning | 6/6 |
| Chow Joseph | 4/6 |

Notes:

1. 1 Board meeting were held during the period from 1 January 2011 to 7 June 2011.

2. 5 Board meetings were held during the period from 8 June 2011 to 31 December 2011.

3. 1 Board meeting were held during the period from 2 December 2011 to 31 December 2011.

## AUDIT COMMITTEE

The Audit Committee currently comprises of three members, namely Mr. Shi Chungui, Mr. Yu Ning and Mr. Chow Joseph, all of whom are independent non-executive Directors. The Committee is chaired by Mr. Chow Joseph, an independent non-executive Director, who possesses the appropriate accounting and financial management expertise as required under Rule 3.10(2) of the Listing Rules. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

Under the terms of reference of the Audit Committee, the principal responsibilities of the Audit Committee include review of the Group's financial statements and the effectiveness of the internal control system. The Audit Committee also oversees the engagement of the external auditor and reviews its independence as well as the effectiveness of the audit process. The terms of reference of the Audit Committee are in compliance with Rule 3.21 of the Listing Rules and the Code.

The Audit Committee shall meet at least twice a year. During the year under review, there were 2 meetings held by the Audit Committee and the attendances are listed out below:

| Name of The Audit Committee Member | No. of meetings attended/held |
|---|---|
| Chow Joseph *(Chairman)* | 2/2 |
| Yu Ning | 2/2 |
| Shi Chungui (appointed on 7 June 2011) | 1/1 |
| Li Hui, David (retired on 7 June 2011) | 1/1 |

During the year under review, the Audit Committee had reviewed the Group's interim and annual results and the effectiveness of the internal control system. The Audit Committee also considered and reviewed the reports prepared by the external auditors relating to accounting and internal control issues and major findings in the course of audit.

## REMUNERATION COMMITTEE

The Remuneration Committee currently comprises of three members, namely Mr. Shi Chungui, Mr. Yu Ning and Mr. Chow Joseph, all of whom are independent non-executive Directors. The Committee is chaired by Mr. Shi Chungui, an independent non-executive Director.

The main duties of the Remuneration Committee include review of and recommendation to the Board on the remuneration policy and structure for Directors and senior management of the Group. The terms of reference of the Remuneration Committee are in compliance with the Code.

The Remuneration Committee shall meet at least once a year. During the year under review, the Remuneration Committee held 1 meeting and the attendances are listed below:

| Name of The Remuneration Committee Member | No. of meetings attended/held |
|---|---|
| Shi Chungui *(Chairman)* | 1/1 |
| Yu Ning | 1/1 |
| Chow Joseph (appointed on 7 June 2011) | 0/0 |
| Mr. Li Hui, David (retired on 7 June 2011) | 1/1 |

During the year under review, the Remuneration Committee had reviewed the remuneration packages for all the Directors and senior management, including the grant of options under the Share Option Scheme adopted by the Company.

The principal elements of the executive remuneration package include basic salary, allowances, discretionary bonus and share options. The emoluments received by every executive director and senior executive are based on time commitment and responsibilities to be undertaken, and are determined with reference to corporate and individual performance as well as remuneration benchmark in the industry and the prevailing market conditions. The primary goal of the remuneration policy on executive remuneration packages is to enable the Company to retain and maintain a stable, motivated and high caliber management team by linking their remuneration with performance as measured against corporate objectives.

The remuneration of non-executive Directors is subject to annual assessment and determined with reference to their qualifications, experience, level of involvement in the Company's affairs and the comparable remuneration standard in the market.

The emoluments of each Director for the year ended 31 December 2011 are set out in note 9 to the financial statements.

## NOMINATION COMMITTEE

The Nomination Committee currently comprises of three members, namely Mr. Shi Chungui, Mr. Yu Ning and Mr. Chow Joseph, all of whom are independent non-executive Directors. The Committee is chaired by Mr. Yu Ning, an independent non-executive Director.

The responsibilities of the Nomination Committee are to review the structure, size and composition, including the skills, knowledge and experiences of the Board and make recommendations to the Board regarding any proposed changes. The Nomination Committee is also responsible to identify and nominate suitable candidates qualified to become Board members and makes recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors if necessary, in particular, to identify and nominate candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result in the constitution of a stronger and more diverse Board. The terms of reference of the Nomination Committee are in compliance with the Code. In the selection process, the Nomination Committee makes reference to criteria including, inter alia, reputation for integrity, accomplishment and experience in the department store industry, professional and educational background, and commitment in respect of available time. A candidate to be appointed as an independent non-executive Director must also meet the independence requirement set out in Rule 3.13 of the Listing Rules.

The Nomination Committee shall meet at least once a year. During the year under review, the Nomination Committee held 1 meeting and the attendances are listed below:

| Name of The Nomination Committee Member | No. of meetings attended/held |
| --- | --- |
| Yu Ning *(Chairman)* (appointed on 7 June 2011) | 0/0 |
| Chow Joseph | 1/1 |
| Shi Chungui | 1/1 |
| Li Hui, David (*Ex-Chairman*, retired on 7 June 2011) | 1/1 |

During the year under review, the Nomination Committee recommended to the Board candidates suitably qualified to become Board members based on the above mentioned criteria adopted by the Company.

## STRATEGIC DEVELOPMENT COMMITTEE

The Strategic Development Committee currently comprises of two members, namely Mr. Shen Guojun, an executive Director, and Mr. Xin Xiangdong, a non-executive Director. The Committee is chaired by Mr. Shen Guojun, an executive Director.

The primary duty of the Strategic Development Committee is to develop and evaluate the effectiveness of the Company's strategic plans by reviewing and assessing proposals for consideration by the Board regarding:

(i) strategic development plans;

(ii) capital allocation plans;

(iii) organic expansion plans;

(iv) merger and acquisition plans; and

(v) significant investment and financing plans.

During the year under review, the Strategic Development Committee had frequently held meetings to discuss strategic development plans of the Company.

## RESPONSIBILITIES FOR ACCOUNTS

The Directors acknowledge their responsibilities for preparing the financial statements of the Group for the year ended 31 December 2011, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

## EXTERNAL AUDITORS

The Group's independent external auditors are Ernst & Young. The report of the auditors of the Company on their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 48 to 49.

For the year ended 31 December 2011, the remuneration paid by the Company to the external auditors for the performance of audit services was approximately RMB3,200,000. No non-audit service was provided by Ernst & Young for the year ended 31 December 2011.

The Audit Committee is responsible for making recommendations to the Board as to the appointment, reappointment and removal of the external auditors, which is subject to the approval by the Board of Directors and at the general meetings of the Company by its shareholders. Certain factors the Audit Committee will take account of when assessing the external auditors include the audit performance, quality, objectivity and independence of the auditors.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in the Appendix 10 to the Listing Rules as the code of conduct to regulate securities transactions by Directors of the Company. Having made specific enquiries of all Directors, all of them confirmed that they have complied with required standard set out in the Model Code throughout the year ended 31 December 2011.

The Company has also established written guidelines no less exacting terms than the Model Code for dealings in the Company's securities by relevant employees who are likely to be in possession of unpublished price-sensitive information of the Company or the Company's securities.

## INTERNAL CONTROL

The Board is responsible for maintaining sound and effective internal control systems for the Group in order to safeguard the Group's assets and shareholders' interests. Procedures have been designed for safeguarding assets against unauthorized use or disposition, ensuring the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensuring compliance of applicable laws, rules and regulations. The Internal Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Group's daily operations, is responsible for conducting regular audit on the major activities of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls and risk management functions are in place and functioning effectively.

During the year ended 31 December 2011, the Board, through the Audit Committee, reviewed the overall effectiveness of the Group's system of internal control over financial, operational and compliance issues, risk management process, information systems security and effectiveness of financial reporting and compliance with Listing Rules, and is satisfied that such systems are effective and adequate.

## INVESTOR RELATIONS

The Group places high regard on investor relations and dedicates to promote effective communication with investors. This is done by using different channels to disseminate information and receive feedbacks in a timely, accurate and comprehensive manner.

During the year under review, the Group regularly participated in various investor conferences, meetings and teleconferences to exchange ideas with investors and respond to their enquiries. Briefings for analysts are arranged on a regular basis to provide information on the Group's final and interim results announcements and recent business developments. Besides providing extensive information about the Group to investors and analysts, these meetings also enable the senior management to understand investors' expectations and concerns.

To ensure all investors have equal and timely access to its information, the Group disseminates corporate information such as final and interim results announcements and press releases on its website www.intime.com.cn promptly and in compliance with the relevant requirements. Comprehensive information on the Group's background and its projects are also available on the corporate website.

Looking ahead, the Group will continue to provide adequate information disclosure and maintain a high standard of corporate governance. By doing so, this will help build up investors' confidence in the Group. The Group will also continue to pursue a proactive approach in investor relations, with the ultimate goal of enhancing shareholder value.

# Report of the Directors

The directors have pleasure in submitting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2011.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries are operations and management of department stores in the PRC. The activities of its principal subsidiaries, a jointly controlled entity and associates are shown on pages 121 to 132 of this annual report.

## RESULTS

The results of the Group for the year ended 31 December 2011 are set out in the consolidated income statement on page 50 of this annual report.

## PROPOSED FINAL DIVIDEND

During the year ended 31 December 2011, an interim dividend of RMB0.10 per share was paid to shareholders of the Company.

The Board has recommended the payment of a final dividend of RMB0.07 per share for the year ended 31 December 2011, subject to the approval of the shareholders of the Company at the forthcoming annual general meeting of the Company (the "AGM"). Upon approval of the shareholders at the AGM, the proposed final dividend will be paid to the shareholders of the Company whose names appeared on the register of members of the Company at close of business on 8 June 2012.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment during the year are set out in note 15 to the financial statements.

## SHARE CAPITAL

Details of the movements in share capital during the year are set out in note 38 to the financial statements.

# Report of the Directors

## RESERVES

As at 31 December 2011, distributable reserves of the Company included the Company's retained profits amounted to RMB25,784,000 (2010: RMB6,044,000) and the Company's share premium amounted to RMB4,243,253,000 (2010: RMB3,599,823,000). By passing an ordinary resolution of the Company, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Companies Law of the Cayman Islands. Details of the movements in reserves of the Company and the Group during the year are set out in note 39 to the financial statements and in the consolidated statement of changes in equity, respectively.

## CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to RMB1,160,240 (2010: RMB856,022).

## BANK AND OTHER BORROWINGS

Bank and other borrowings of the Group as at 31 December 2011 amounted to RMB1,486 million (31 December 2010: RMB1,200 million). Particulars of the borrowings are set out in note 35 to the financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association and the laws of the Cayman Islands do not impose any limitations on such rights.

## DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

### Executive Directors:

Mr. Shen Guojun *(Chairman)*
Mr. Chen Xiaodong (appointed on 7 June 2011)
Mr. Ching Siu Leung (retired on 7 June 2011)

### Non-executive Directors:

Mr. Xin Xiangdong
Mr. Lee Ka Kit, JP (appointed on 18 January 2011)
Mr. Liu Dong (appointed on 2 December 2011)
Mr. Li Hui, David (retired on 7 June 2011)

### Independent Non-executive Directors:

Mr. Shi Chungui
Mr. Yu Ning
Mr. Chow Joseph

In accordance with the Article 114 of Company's Articles of Association, Mr. Liu Dong, who was appointed by the Board as non-executive Director on 2 December 2011, will offer himself for re-election at the AGM.

In accordance with the Article 130 of Company's Articles of Association, Mr. Shen Guojun, Mr. Xin Xiangdong and Mr. Yu Ning shall retire from office by rotation and, being eligible, offer themselves for re-election at the AGM.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Biographies of Directors and senior management of the Group are set out on pages 20 to 24 of this annual report.

## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the AGM has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

## DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

Other than as disclosed under the "Continuing Connected Transactions" section below, no contracts of significance in relation to the Company's business to which the Company or its 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 under review or at any time during the year.

## CONTRACTS WITH CONTROLLING SHAREHOLDERS

Saved as disclosed under the "Continuing Connected Transactions" section below, no contract of significance in relation to the Company's business entered into between the Company or any of its subsidiaries and the controlling shareholders subsisted during the year ended 31 December 2011.

# Report of the Directors

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at 31 December 2011, save as disclosed below, none of the Directors or their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group:

China Yintai holds 50% equity interest in Beijing Intime Lotte Department Store Co., Ltd. ("Intime Lotte"). China Yintai is owned as to 75% by Beijing Guojun Investment Co., Ltd. ("Beijing Guojun"), and Beijing Guojun in turn is wholly beneficially owned by Mr. Shen Guojun, an executive Director and the Chairman of the Company. Details of this have transaction been set out in the announcement and the circular of the Company dated 3 July 2009 and 24 July 2009 respectively. Such interests in Intime Lotte, China Yintai and Beijing Guojun held by Mr. Shen Guojun were in compliance with a non-competition deed with Mr. Shen Guojun, Fortune Achieve Group Ltd., Glory Bess Limited and Intime International Holdings Limited, the details of which are set out in the section headed "Compliance with the Non-competition Deed" below.

## CONTINUING CONNECTED TRANSACTIONS

Continuing connected transactions disclosed in accordance with the Listing Rules are as follows:

### Lease of Office Premises from Beijing Yintai Properties Co., Ltd. ("Beijing Yintai")

On 31 January 2011, Beijing branch of Zhejiang Intime Department Store Co., Ltd. ("the Beijing branch of Zhejiang Intime"), which is part of Zhejiang Intime and not a separate legal person, entered into an office lease agreement ("New Lease Agreement") with Beijing Yintai, pursuant to which the Beijing branch of Zhejiang Intime will lease Units 601 and 602 on 6/F, Tower C, Beijing Yintai Centre, No. 2, Jianguomenwai Avenue, Chaoyang District, Beijing, PRC, with a floor area of 1,050.80 square meters from Beijing Yintai for a term of three years with effect from 1 December 2010 to 30 November 2013 at a monthly rental of RMB304,732.00 per month for use as office premises. Zhejiang Intime is an indirect wholly owned subsidiary of the Company. Mr. Shen Guojun, an executive Director and the Chairman of the Company, owns 82.5% equity interest in Beijing Yintai. Details of the New Lease Agreement are set out in the Company's announcement dated 31 January 2011. For the year ended 31 December 2011, the rental amount paid by the Beijing branch of Zhejiang Intime to Beijing Yintai amounted to RMB3,656,784.

### Co-development Agreement Relating to the Chengxi Project

On 31 May 2011, Zhejiang Intime, a wholly-owned subsidiary of the Company, entered into a co-development agreement ("Co-development Agreement") with Zhejiang Fuqiang and Hangzhou Intime, pursuant to which Zhejiang Intime agreed to make available to Zhejiang Fuqiang and Hangzhou Intime an amount not exceeding RMB300 million for the construction and development of the department store property of the Chengxi Project. Zhejiang Fuqiang and Hangzhou Intime will pay a fee of 15% per annum to Zhejiang Intime in consideration of the fund provided by Zhejiang Intime. Zhejiang Intime is entitled to a preemptive right to purchase and a priority to lease certain units of the department store property of the Chengxi Project. If the Group exercises the preemptive right to purchase or the priority to lease under such the Co-development Agreement, the Group will be able to fulfill its strategic goal of opening a store in the west side of Hangzhou, and further strengthen its position as the leading department store operator in Zhejiang province.

Mr. Shen Guojun owns the entire equity interest of Beijing Guojun, which owns 75% equity interest in China Yintai. China Yintai owns 70% and 72% equity interest in Zhejiang Fuqiang and Hangzhou Intime respectively. As Mr. Shen Guojun is an executive Director and chairman of the Company, pursuant to the Listing Rules, Zhejiang Fuqiang and Hangzhou Intime are connected persons of the Company. Accordingly, the transaction under the Co-Development Agreement constitutes financial assistance and continuing connected transaction of the Company under Chapter 14A of the Listing Rules. Details of the Co-development Agreement are set out in the Company's announcement dated 31 May 2011. As at 31 December 2011, the outstanding principal amount provided by Zhejiang Intime pursuant to the Co-Development Agreement plus the amount of capital utilization fee to be accrued under the Co-Development Agreement amounted to RMB301,375,000.

### Views of the independent non-executive Directors and the Auditors

The independent non-executive Directors of the Company have reviewed the above transactions and confirmed that the transactions have been entered into in the ordinary and usual course of business of the Company, are on normal commercial terms and in accordance with the relevant agreement and are fair and reasonable and in the interest of the shareholders of the Company as a whole.

Based on the work performed, the auditors of the Company have provided a letter and confirmed that the aforesaid continuing connected transactions (1) have been approved by the board of directors of the Company; (2) are in accordance with the pricing policies of the Group; (3) have been entered into in accordance with the terms of the relevant agreements governing the transaction; and (4) have not exceeded any of the annual caps as mentioned in the announcements of the Company dated 31 January 2011 and 31 May 2011.

# Report of the Directors

## Related Party Transactions

Details of the related party transactions undertaken in the normal course of business are provided under note 46 to the financial statements. None of these related party transactions constitutes a discloseable connected transaction as defined under the Listing Rules, except for those described in the section of "Continuing Connected Transactions", in respect of which the disclosure requirements in accordance with Chapter 14A of the Listing Rules have been complied with.

## RETIREMENT SCHEMES

Employees of the Group's subsidiaries in Mainland China are required to participate in defined contribution retirement schemes administered and operated by the local municipal government. Particulars of these retirement plans are set out in note 6 to the financial statements.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Scheme" below, at no time during the year was the Company and any of its subsidiaries a party to any arrangement to enable the Directors or chief executive or any of their spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules were as follows:

| Name of Directors/ Chief Executive Officer | Nature of Interest | Number and class of securities (1) | Approximate percentage of interest in such corporation |
|---|---|---|---|
| Mr. Shen Guojun | Interest of controlled corporations (2) | L662,014,015 | 33.21% |
| Mr. Lee Ka Kit | Beneficiary of a trust (3) | L147,664,835 | 7.41% |
| Mr. Chen Xiaodong | Beneficial owner (4) | L16,370,000 | 0.82% |

Notes:

(1) The Letter "L" denotes the person's long position in such Shares.

(2) Mr. Shen Guojun, an executive Director and the Chairman of the Board, is the beneficial owner of the entire share capital of Fortune Achieve Group Ltd., which in turn is the beneficial owner of the entire issued share capital of Glory Bless Limited, which in turn is the beneficial owner of the entire issued share capital of Intime International Holdings Limited, which holds 661,814,015 shares of the Company. Mr. Shen Guojun is a director of each of Fortune Achieve Group Ltd., Glory Bless Limited and Intime International Holdings Limited. Mr. Shen Guojun is also the beneficial owner of the entire share capital of East Jump Management Limited which holds 200,000 shares of the Company.

(3) Mr. Lee Ka Kit, a non-executive Director, is a beneficiary of a private trust which holds 147,664,835 shares of the Company as at 31 December 2011.

(4) Mr. Chen Xiaodong, an executive director and the Chief Executive Officer of the Company, held options in respect of a total of 16,370,000 shares of the Company as at 31 December 2011.

Save as disclosed above, as at 31 December 2011, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executive were deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register therein, or were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2011, so far as is known to any Director or chief executive of the Company, the persons (other than the Directors and the 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 and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, which were directly or indirectly, interested in 10% of more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group were as follows:

| Name of shareholders | Nature of Interest | Number and Class of Securities [1] | Approximate percentage of interest in such corporation |
|---|---|---|---|
| Fortune Achieve Group Ltd. | Interest of controlled corporation [2] | L661,814,015 | 33.20% |
| Glory Bless Limited | Interest of controlled corporation [2] | L661,814,015 | 33.20% |
| Intime International Holdings Limited | Beneficial Owner [2] | L661,814,015 | 33.20% |
| JPMorgan Chase & Co. | Interest of controlled corporation [3] | L283,430,096<br>S23,714,494<br>P34,640,040 | 14.22%<br>1.19%<br>1.74% |
| Government of Singapore Investment Corporation Pte Ltd. | Investment Manager | L186,484,141 | 9.35% |
| Comax Investment Limited | Beneficial Owner [4] | L147,664,835 | 7.41% |

| Name of shareholders | Nature of Interest | Number and Class of Securities (1) | Approximate percentage of interest in such corporation |
|---|---|---|---|
| Henderson Development Limited | Interest of controlled corporation (4) | L147,664,835 | 7.41% |
| Henderson Land Development Company Limited | Interest of controlled corporation (4) | L147,664,835 | 7.41% |
| Hopkins (Cayman) Limited | Interest of controlled corporation (4) | L147,664,835 | 7.41% |
| Lee Shau Kee | Interest of controlled corporation (4) | L147,664,835 | 7.41% |
| Riddick (Cayman) Limited | Trustee(5) | L147,664,835 | 7.41% |
| Rimmer (Cayman) Limited | Trustee(5) | L147,664,835 | 7.41% |

Notes:

1. The letter "L" denotes the person's long position in such shares of the Company; the letter "S" denotes the person's short position in such shares of the Company; the letter "P" denotes the person's lending pool in such shares of the Company.

2. Mr. Shen Guojun is the beneficial owner of the entire issued share capital of Fortune Achieve Group Ltd., which in turn is the beneficial owner of the entire issued share capital of Glory Bless Limited, which in turn is the beneficial owner of the entire issued share capital of Intime International Holdings Limited, which holds 661,814,015 shares of the Company. Mr. Shen Guojun is a director in each of Fortune Achieve Group Ltd., Glory Bless Limited and Intime International Holdings Limited.

3. JPMorgan Chase & Co. is interested in the shares of the Company via various entities which it directly or indirectly controls and has interests in the shares of the Company, including (i) JPMorgan Chase Bank, N.A. which is 100% controlled by JPMorgan Chase & Co.; (ii) JF Asset Management Limited, which is 100% controlled by JPMorgan Asset Management (Asia) Inc., which in turn is 100% controlled by JPMorgan Asset Management Holdings Inc., which in turn is 100% controlled by JPMorgan Chase & Co.; (iii) JPMorgan Asset Management (Taiwan) Limited, which in turn is 100% controlled by JPMorgan Asset Management (Asia) Inc.; (iv) JF International Management Inc., which is 100% controlled by JPMorgan Asset Management (Asia) Inc.; (v) JPMorgan Asset Management (Singapore) Limited, which is 100% controlled by JPMorgan Asset Management (Asia) Inc.; (vi) J.P. Morgan Securities Ltd., which was 98.95% controlled by J.P. Morgan Chase International Holdings, which in turn is 100% controlled by J.P. Morgan Chase (UK) Holdings Limited, which in turn is 100% controlled by J.P. Morgan Capital Holdings Limited, which in turn is 100% controlled by J.P. Morgan International Finance Limited, which in turn is 100% controlled by Bank One International Holdings Corporation, which in turn is 100% controlled by J.P. Morgan International Inc., which is 100% controlled by JPMorgan Chase Bank, N.A.; (vii) China International Fund Management Co. Ltd., which is

49% owned by JPMorgan Asset Management (UK) Limited, which in turn is 100% controlled by JPMorgan Asset Management Holdings (UK) Limited, which in turn is 100% controlled by JPMorgan Asset Management International Limited, which in turn is 100% controlled by JPMorgan Asset Management Holdings Inc.; (viii) J.P. Morgan Whitefriars Inc., which is 100% controlled by J.P. Morgan Overseas Capital Corporation, which is 100% controlled by J.P. Morgan International Finance Limited; (ix) JPMorgan Asset Management (UK) Limited, which is 100% controlled by JPMorgan Asset Management Holdings (UK) Limited; (x) JPMorgan Chase Bank, N.A. – London Branch, which is 100% controlled by JPMorgan Chase Bank, N.A.

4. Lee Shau Kee is the beneficial owner of the entire issued share capital of Hopkins (Cayman) Limited, which in turn is the beneficial owner of the entire issued share capital of Henderson Development Limited. Henderson Development Limited is the beneficial owner of 61.18% of the entire issued share capital of Henderson Land Development Company Limited, which in turn is the beneficial owner of the entire issued share capital of Jetrich Global Limited. Jetrich Global Limited is the beneficial owner of the entire issued share capital of Comax Investment Limited, which holds 147,664,835 shares of the Company. Therefore, each of Lee Shau Kee, Hopkins (Cayman) Limited, Henderson Development Limited and Henderson Land Development Company Limited is deemed to be interested in the shares held by Comax Investment Limited.

5. Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"), as trustees of respective discretionary trusts, hold units in a unit trust in which Hopkins (Cayman) Limited act as a trustee. Accordingly, Rimmer and Riddick are deemed to be interested in the shares held by Comax Investment Limited.

Save as disclosed above, as at 31 December 2011, so far is known to the Directors or the chief executive of the Company, no other person (not being a Director or chief executive of the Company) had any interests or short positions in the shares, underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO or, who were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

## SHARE OPTION SCHEME

Pursuant to the Company's share option scheme approved by the resolution of the Company's shareholders dated 24 February 2007, the Company may grant options (the "Options") to any employee, management member or director of the Company, or any of the Company's subsidiaries and third party service providers (the "Scheme"). The purpose of the Scheme is to attract skilled and experienced personnel, to incentivise them to remain within the Group and to give effect to the Group's customer-focused corporate culture, and to motivate them to strive for the Group's future development and expansion, by providing them with the opportunity to acquire equity interests in the Company. The amount payable on acceptance of an option is HK$1.00. Details of the Scheme were disclosed in the Company's prospectus dated 7 March 2007.

The Scheme will remain valid for a period of ten years commencing on 20 March 2007, after which no further share options will be granted but the provisions of the Scheme shall remain in full force and effect in other respects. Share options complying with the provisions of the Listing Rules which are granted during the duration of the Scheme and remain unexercised immediately prior to the end of the 10-year period shall continue to be exercisable in accordance with their terms of grant within the share option period for which share options are granted, notwithstanding the expiry of the Scheme. The maximum number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue as at the date of listing of shares of the Company (such 10% representing 180,000,000 shares), without prior approval from the Company's shareholders. No option may be granted to any one person such that the total number of shares issued and to be issued upon the exercise of the Options granted and to be granted to that person in any 12-month period up to the date of the latest grant exceeds 1% of the Company's issued share capital from time to time, unless the approval of our shareholders is obtained. Options granted to a substantial shareholder or an independent non-executive Director or any of their respective associates in the 12-month period in excess of 0.1% of the Company's issued share capital or with a value in excess of HK$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within the time limit specified in the offer letter. The period with which the Options must be exercised will be specified by the Company at the time of grant and must expire no later than 10 years from the date of grant of the Options (being the date on which the board makes a written offer of grant of the Options to the relevant proposed beneficiary) unless the Company obtains specified shareholder's approval in relation to such grant. The exercise price for the shares under the Share Option Scheme will not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of the grant; and (iii) the nominal value of a share of the Company.

# Report of the Directors

The movements in share options granted under the share option scheme adopted by the Company for the year ended 31 December 2011 are shown below:

| | | | Number of share options | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Name or category of participant | Date of Grant | Exercise Price per share *HK$* | As at 1 Jan 2011 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | As at 31 Dec 2011 | Exercise Period | Closing price immediately before the date of grant *HK$* | Weighted Average closing price immediately before the date of exercise *HK$* |
| **Director & Chief Executive Officer** | | | | | | | | | | | |
| Chen Xiaodong | 11/4/2008 | 5.64 | 600,000 | – | – | – | – | 600,000 | 12/4/2009-11/4/2014 | 5.60 | – |
| | 18/9/2008 | 3.56 | 900,000 | – | 300,000 | – | – | 600,000 | 19/9/2009-18/9/2014 | 3.20 | 12.79 |
| | 4/3/2009 | 1.88 | 1,500,000 | – | 300,000 | – | – | 1,200,000 | 5/3/2010-4/3/2015 | 1.83 | 12.31 |
| | 28/8/2009 | 6.63 | 9,000,000 | – | 30,000 | – | – | 8,970,000 | 29/8/2010-28/8/2015 | 5.15 | 13.54 |
| | 26/5/2010 | 6.49 | 3,000,000 | – | – | – | – | 3,000,000 | 27/5/2011-26/5/2016 | 6.24 | – |
| | 1/4/2011 | 10.77 | – | 2,000,000 | – | – | – | 2,000,000 | 2/4/2012-1/4/2017 | 10.56 | – |
| **Retired Director** [1] | | | | | | | | | | | |
| Ching Siu Leung | 21/3/2007 | 6.44 | 1,100,000 | – | 1,100,000 | – | – | – | 22/3/2009-21/3/2012 | 6.44 | 12.30 |

| Name or category of participant | Date of Grant | Exercise Price per share *HK$* | Number of share options: As at 1 Jan 2011 | Granted during the period | Exercised during the period | Lapsed during the period | Cancelled during the period | As at 31 Dec 2011 | Exercise Period | Closing price immediately before the date of grant *HK$* | Weighted Average closing price immediately before the date of exercise *HK$* |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Other employees in aggregate | 11/4/2008 | 5.64 | 5,640,500 | – | 1,256,000 | – | – | 4,384,500 | 12/4/2009-11/4/2014 | 5.60 | 12.89 |
| | 18/9/2008 | 3.56 | 5,653,000 | – | 858,000 | – | 500,000 | 4,295,000 | 19/9/2009-18/9/2014 | 3.20 | 12.48 |
| | 4/3/2009 | 1.88 | 11,788,000 | – | 2,474,500 | – | 620,000 | 8,693,500 | 5/3/2010-4/3/2015 | 1.83 | 12.63 |
| | 20/10/2009 | 5.50 | 1,000,000 | – | 250,000 | – | – | 750,000 | 21/10/2010-20/10/2015 | 5.35 | 13.34 |
| | 26/5/2010 | 6.49 | 16,410,000 | – | 697,500 | – | 437,500 | 15,275,000 | 27/5/2011-26/5/2016 | 6.24 | 13.16 |
| | 26/8/2010 | 9.00 | 1,600,000 | – | – | – | – | 1,600,000 | 27/8/2011-26/8/2016 | 8.93 | – |
| | 1/4/2011 | 10.77 | – | 16,312,000 | – | – | 396,000 | 15,916,000 | 2/4/2012-1/4/2017 | 10.56 | – |
| Total | | | 58,191,500 | 18,312,000 | 7,266,000 | – | 1,953,500 | 67,284,000 | | | |

Note:

(1) Mr. Ching Siu Leung retired as a Director on 7 June 2011.

## CONVERTIBLE BONDS

Details of the convertible bonds of the Company are set out in note 36 to the financial statements.

## GUARANTEED BONDS

Details of the guaranteed bonds of the Company are set out in note 37 to the financial statements.

## COMPLIANCE WITH THE NON-COMPETITION DEED

Each of Mr. Shen Guojun, Fortune Achieve Group Ltd., Glory Bless Limited and Intime International Holdings Limited (together, the "Covenantors") has confirmed to the Company of his/its compliance with the Non-competition Deed (as defined in the prospectus of the Company dated 7 March 2007). The independent non-executive Directors have reviewed the status of compliance and confirmed, based on the confirmations given by the Covenantors that all the undertakings under the Non-competition Deed have been complied with by the Covenantors.

Pursuant to the Non-competition Deed, Mr. Shen Guojun confirmed that, as of 31 December 2011, he has the following interests:

Mr. Shen Guojun owns the entire equity interest of Beijing Guojun, which owns 75% equity interest in China Yintai. China Yintai has a 50% interest in Huzhou Jialefu Commercial City Co., Ltd. ("Huzhou Jialefu"), which owns a commercial complex with a commercial floor area of approximately 48,000 sq.m. located at Huzhou, Zhejiang province ("Huzhou Complex"). The Huzhou Complex has been leased to independent third parties for operation of shopping arcade.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2011.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available and within the knowledge of the Directors at the latest practicable date prior to this annual report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 December 2011 and at any time up to date of this annual report.

## FIVE YEARS FINANCIAL SUMMARY

A summary of the results and the assets and liabilities of the Group for the last five financial years is set out on page 5 of this annual report.

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, the aggregate amount of purchases attributable to the Group's five largest suppliers represented less than 30% of the Group's total value of purchases, and the aggregate amount of sales attributable to the Group's five largest customers represented less than 30% of the Group's total value of sales.

## CORPORATE GOVERNANCE REPORT

Details of the Company's corporate governance practices are set out in the "Corporate Governance Report" of this annual report.

## EVENTS AFTER THE REPORTING PERIOD

Details of the events after the reporting period of the Group are set out in note 50 to the financial statements.

## AUDITORS

Ernst & Young, the Company's auditors, will retire at the AGM of the Company, and being eligible, offer themselves for re-appointment. A resolution will be proposed at the AGM to re-appoint Ernst & Young as auditors of the Company.

On behalf of the Board
**Shen Guojun**
*Chairman*

27 March 2012

# Independent Auditors' Report

ERNST & YOUNG

22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

**To the shareholders of Intime Department Store (Group) Company Limited**
*(Incorporated in the Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Intime Department Store (Group) Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 50 to 190, which comprise the consolidated and company statements of financial position as at 31 December 2011, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

## AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

# Independent Auditors' Report

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 auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

27 March 2012

# Consolidated Income Statement

Year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| **Revenue** | 5 | **3,117,198** | 2,288,753 |
| Other income and gains | 5 | **400,900** | 418,728 |
| Purchases of goods and changes in inventories | 6 | **(948,498)** | (579,202) |
| Staff costs | 6 | **(428,346)** | (300,702) |
| Depreciation and amortization | 6 | **(282,368)** | (238,934) |
| Other expenses | | **(972,356)** | (720,467) |
| Share of profits and losses of: | | | |
| Jointly-controlled entities | | **(3,258)** | (1,710) |
| Associates | | **226,589** | 61,461 |
| Finance income | 7 | **173,730** | 78,692 |
| Finance costs | 7 | **(154,558)** | (80,478) |
| **Profit before tax** | | **1,129,033** | 926,141 |
| Income tax expense | 8 | **(270,865)** | (224,802) |
| **Profit for the year** | | **858,168** | 701,339 |
| **Attributable to:** | | | |
| Owners of the parent | 11 | **821,427** | 685,189 |
| Non-controlling interests | | **36,741** | 16,150 |
| | | **858,168** | 701,339 |
| **Earnings per share attributable to ordinary equity holders of the parent (expressed in RMB per share)** | 13 | | |
| Basic | | | |
| – For profit for the year | | **0.43** | 0.39 |
| Diluted | | | |
| – For profit for the year | | **0.42** | 0.36 |

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

# Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

| | Notes | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|---|
| **Profit for the year** | | **858,168** | 701,339 |
| **Other comprehensive income** | | | |
| Available-for-sale investments: | | | |
| Change in fair value | | **(20,627)** | – |
| Reclassification adjustments for losses included in the consolidated income statement | | | |
| – impairment losses | 5 | **20,627** | – |
| Income tax effect | | **–** | – |
| | | **–** | – |
| Share of other comprehensive loss of associates | | **–** | (107) |
| Exchange differences on translation of foreign operations | | **41,354** | 7,729 |
| **Other comprehensive income for the year, net of tax** | | **41,354** | 7,622 |
| **Total comprehensive income for the year** | | **899,522** | 708,961 |
| **Attributable to:** | | | |
| Owners of the parent | 11 | **862,781** | 692,811 |
| Non-controlling interests | | **36,741** | 16,150 |
| | | **899,522** | 708,961 |

# Consolidated Statement of Financial Position

31 December 2011

| | Notes | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **3,073,972** | 1,819,236 |
| Investment properties | 16 | **1,726,188** | 1,235,299 |
| Prepaid land lease payments | 17 | **2,954,790** | 2,305,203 |
| Properties under development | 18 | **96,604** | 108,182 |
| Goodwill | 19 | **560,085** | 426,737 |
| Other intangible assets | 20 | **32,042** | 4,473 |
| Prepaid rental | 21 | **59,125** | 52,849 |
| Investment in a jointly-controlled entity | 23 | **293,729** | 302,699 |
| Interests in associates | 24 | **2,519,602** | 1,886,981 |
| Available-for-sale investments | 25 | **41,724** | – |
| Loans and receivables – third parties | 29 | **100,000** | 240,000 |
| Loans and receivables – related parties | 29 | **923,258** | 100,000 |
| Investment deposits | | **–** | 268,129 |
| Deferred tax assets | 26 | **110,119** | 48,233 |
| Total non-current assets | | **12,491,238** | 8,798,021 |
| CURRENT ASSETS | | | |
| Inventories | 27 | **294,485** | 155,749 |
| Properties under development | 18 | **713,569** | 172,513 |
| Prepayments, deposits and other receivables | 28 | **378,850** | 587,722 |
| Loans and receivables – third parties | 29 | **295,660** | 736,165 |
| Loans and receivables – related parties | 29 | **145,929** | 40,657 |
| Due from related parties | 46(c) | **662,417** | 145,865 |
| Trade receivables | 30 | **22,457** | 16,040 |
| Cash in transit | 31 | **132,314** | 95,711 |
| Restricted bank balances | 32 | **86,821** | 43,508 |
| Cash and cash equivalents | 32 | **1,779,253** | 1,322,602 |
| | | **4,511,755** | 3,316,532 |
| Assets of disposal group classified as held for sale | 14 | **237,669** | – |
| Associate held for sale | 24 | **–** | 174,930 |
| Total current assets | | **4,749,424** | 3,491,462 |
| CURRENT LIABILITIES | | | |
| Trade and bills payables | 33 | **1,669,945** | 1,206,251 |
| Other payables and accruals | 34 | **3,546,853** | 2,063,728 |
| Interest-bearing bank and other borrowings | 35 | **281,909** | 492,000 |
| Due to related parties | 46(e) | **17,410** | 15,474 |
| Tax payable | | **260,548** | 179,771 |
| | | **5,776,665** | 3,957,224 |
| Liabilities directly associated with the assets classified as held for sale | 14 | **4,931** | – |
| Total current liabilities | | **5,781,596** | 3,957,224 |
| NET CURRENT LIABILITIES | | **(1,032,172)** | (465,762) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **11,459,066** | 8,332,259 |

# Consolidated Statement of Financial Position

31 December 2011

| | Notes | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Convertible bonds | 36 | **1,591,678** | 1,617,947 |
| Guaranteed bonds due July 2014 | 37 | **993,470** | – |
| Interest-bearing bank and other borrowings | 35 | **1,203,682** | 708,000 |
| Deferred tax liabilities | 26 | **398,298** | 284,648 |
| Deferred subsidy income | | **3,262** | 6,630 |
| Total non-current liabilities | | **4,190,390** | 2,617,225 |
| NET ASSETS | | **7,268,676** | 5,715,034 |
| EQUITY | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 38 | **153** | 148 |
| Equity component of convertible bonds | 36 | **23,607** | 23,607 |
| Reserves | 39 | **6,388,686** | 5,191,423 |
| Proposed final dividend | 12 | **139,542** | 95,476 |
| | | **6,551,988** | 5,310,654 |
| **Non-controlling interests** | | **716,688** | 404,380 |
| Total equity | | **7,268,676** | 5,715,034 |

**Shen Guojun**
*Chairman*

**Chen Xiaodong**
*Executive Director*

# Consolidated Statement of Changes in Equity

Year ended 31 December 2011

| | | Attributable to owners of the parent | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Notes | Issued capital RMB'000 (note 38) | Share premium RMB'000 (note 38) | Capital redemption reserve RMB'000 | Capital reserve RMB'000 | Reserve for fair value changes of available-for-sale investments RMB'000 | Statutory reserves RMB'000 (note 39) | Retained profits RMB'000 | Exchange fluctuation reserve RMB'000 | Equity component of convertible bonds RMB'000 (note 36) | Share option reserve RMB'000 (note 40) | Proposed final dividend RMB'000 (note 12) | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
| At 1 January 2010 | | 137 | 2,230,876 | 4 | 368,661 | 532 | 152,039 | 720,328 | (110,158) | – | 29,738 | 56,037 | 3,448,194 | 445,459 | 3,893,653 |
| Profit for the year | | – | – | – | – | – | – | 685,189 | – | – | – | – | 685,189 | 16,150 | 701,339 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | | |
| Change in fair value of available-for-sale investments, net of tax | | – | – | – | – | (107) | – | – | – | – | – | – | (107) | – | (107) |
| Exchange differences on translation of foreign operations | | – | – | – | – | – | – | – | 7,729 | – | – | – | 7,729 | – | 7,729 |
| Total comprehensive income for the year | | – | – | – | – | (107) | – | 685,189 | 7,729 | – | – | – | 692,811 | 16,150 | 708,961 |
| Disposal of subsidiaries | | – | – | – | – | – | – | – | – | – | – | – | – | (57,229) | (57,229) |
| Issuance of shares | 38 | 10 | 1,320,397 | – | – | – | – | – | – | – | – | – | 1,320,407 | – | 1,320,407 |
| Issuance of convertible bonds | 36 | – | – | – | – | – | – | – | – | 23,607 | – | – | 23,607 | – | 23,607 |
| Final 2009 dividend declared | 12 | – | – | – | – | – | – | – | – | – | – | (56,037) | (56,037) | – | (56,037) |
| Exercise of share options | 40 | 1 | 48,550 | – | – | – | – | – | – | – | (10,149) | – | 38,402 | – | 38,402 |
| Transfer of share option reserve upon the forfeiture or expiry of share options | | – | – | – | – | – | – | 5,472 | – | – | (5,472) | – | – | – | – |
| Equity-settled share option arrangements | 40 | – | – | – | – | – | – | – | – | – | 18,810 | – | 18,810 | – | 18,810 |
| Interim 2010 dividend | 12 | – | – | – | – | – | – | (175,540) | – | – | – | – | (175,540) | – | (175,540) |
| Proposed final 2010 dividend | 12 | – | – | – | – | – | – | (95,476) | – | – | – | 95,476 | – | – | – |
| Transfer from retained profits | | – | – | – | – | – | 64,717 | (64,717) | – | – | – | – | – | – | – |
| At 31 December 2010 | | 148 | 3,599,823* | 4* | 368,661* | 425* | 216,756* | 1,075,256* | (102,429)* | 23,607 | 32,927* | 95,476 | 5,310,654 | 404,380 | 5,715,034 |

# Consolidated Statement of Changes in Equity

Year ended 31 December 2011

| | Notes | Attributable to owners of the parent | | | | | | | | | | | | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued capital RMB'000 (note 38) | Share premium RMB'000 (note 38) | Capital redemption reserve RMB'000 | Capital reserve RMB'000 | Reserve for fair value changes of available-for-sale investments RMB'000 | Statutory reserves RMB'000 (note 39) | Retained profits RMB'000 | Exchange fluctuation reserve RMB'000 | Equity component of convertible bonds RMB'000 (note 36) | Share option reserve RMB'000 (note 40) | Proposed final dividend RMB'000 (note 12) | Total RMB'000 | | |
| At 1 January 2011 | | 148 | 3,599,823* | 4* | 368,661* | 425* | 216,756* | 1,075,256* | (102,429)* | 23,607 | 32,927* | 95,476 | 5,310,654 | 404,380 | 5,715,034 |
| Profit for the year | | - | - | - | - | - | - | 821,427 | - | - | - | - | 821,427 | 36,741 | 858,168 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | | |
| Change in fair value of available-for-sale investments, net of tax | | - | - | - | - | 15,470 | - | - | - | - | - | - | 15,470 | - | 15,470 |
| Impairment losses of available-for-sale investments, net of tax | | - | - | - | - | (15,470) | - | - | - | - | - | - | (15,470) | - | (15,470) |
| Exchange differences on translation of foreign operations | | - | - | - | - | - | - | - | 41,354 | - | - | - | 41,354 | - | 41,354 |
| Total comprehensive income for the year | | - | - | - | - | - | - | 821,427 | 41,354 | - | - | - | 862,781 | 36,741 | 899,522 |
| Acquisition of subsidiaries | 41 | - | - | - | - | - | - | - | - | - | - | - | - | 185,567 | 185,567 |
| Issuance of shares | 38 | 4 | 610,475 | - | - | - | - | - | - | - | - | - | 610,479 | - | 610,479 |
| Exercise of share options | 40 | 1 | 32,955 | - | - | - | - | - | - | - | (8,222) | - | 24,734 | - | 24,734 |
| Transfer of share option reserve upon the forfeiture or expiry of share options | | - | - | - | - | - | - | 1,698 | - | - | (1,698) | - | - | - | - |
| Equity-settled share option arrangements | 40 | - | - | - | - | - | - | - | - | - | 32,693 | - | 32,693 | - | 32,693 |
| Final 2010 dividend declared | 12 | - | - | - | - | - | - | - | - | - | - | (95,476) | (95,476) | - | (95,476) |
| Dividend on shares issued for employee share options exercised after 31 December 2010 | | - | - | - | - | - | - | (2,344) | - | - | - | - | (2,344) | - | (2,344) |
| Interim 2011 dividend | 12 | - | - | - | - | - | - | (191,533) | - | - | - | - | (191,533) | - | (191,533) |
| Proposed final 2011 dividend | 12 | - | - | - | - | - | - | (139,542) | - | - | - | 139,542 | - | - | - |
| Contribution by a non-controlling shareholder | | - | - | - | - | - | - | - | - | - | - | - | - | 90,000 | 90,000 |
| Transfer from retained profits | | - | - | - | - | - | 82,317 | (82,317) | - | - | - | - | - | - | - |
| At 31 December 2011 | | 153 | 4,243,253* | 4* | 368,661* | 425* | 299,073* | 1,482,645* | (61,075)* | 23,607 | 55,700* | 139,542 | 6,551,988 | 716,688 | 7,268,676 |

* These reserve accounts comprise the consolidated reserves of RMB6,388,686,000 (2010: RMB5,191,423,000) in the consolidated statement of financial position.

# Consolidated Statement of Cash Flows

Year ended 31 December 2011

| | Notes | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| **Profit before tax** | | 1,129,033 | 926,141 |
| Adjustments for: | | | |
| Finance costs | 7 | 154,558 | 80,478 |
| Share of loss of a jointly-controlled entity | | 3,258 | 1,710 |
| Share of profits and losses of associates | | (226,589) | (61,461) |
| Finance income | 7 | (173,730) | (78,692) |
| Loss on disposal of items of property, plant and equipment | | 632 | 135 |
| Gain on disposal of subsidiaries | | – | (125,960) |
| Gain on disposal of shares of an associate held for sale | | (64,305) | (95,686) |
| Gain on transferring from an associate held for sale to available-for-sale investments | | (61,732) | – |
| Impairment of available-for-sale investments | | 20,627 | – |
| Gain on bargain purchase | | (14,710) | – |
| Equity-settled share option expense | 40 | 32,693 | 18,810 |
| Depreciation of property, plant and equipment | 15 | 197,406 | 172,469 |
| Depreciation of investment properties | 16 | 48,097 | 39,393 |
| Amortization of prepaid land lease payments | 15,17 | 34,970 | 25,311 |
| Amortization of other intangible assets | 20 | 1,895 | 1,761 |
| Amortization of prepaid rental | 21 | 7,138 | 18,194 |
| | | 1,089,241 | 922,603 |
| Increase in restricted cash | | (38,962) | (31,474) |
| (Increase)/decrease in prepayments, deposits and other receivables | | (86,020) | 2,026 |
| Increase in trade receivables | | (5,251) | (285) |
| Increase in cash in transit | | (36,603) | (47,324) |
| Increase in inventories | | (81,627) | (37,442) |
| Increase in properties under development | | (276,463) | – |
| Increase in trade and bills payables | | 402,134 | 111,693 |
| Increase in advances from customers | | 998,914 | 703,762 |
| Increase in amounts due from related parties | | (40,722) | (42,761) |
| Increase in amounts due to related parties | | 1,936 | 13,489 |
| Increase in other payables and accruals | | 184,233 | 88,374 |
| Cash generated from operations | | 2,110,810 | 1,682,661 |
| Interest paid | | (121,643) | (69,020) |
| Income tax paid | | (270,814) | (164,541) |
| Net cash flows from operating activities | | 1,718,353 | 1,449,100 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2011

| | Notes | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | 181,043 | 79,318 |
| Purchases of items of property, plant and equipment, investment properties | | (1,090,046) | (345,230) |
| Purchases of other intangible assets | | (29,023) | (2,348) |
| Acquisition of subsidiaries, net of cash acquired | 41 | (299,447) | (873,467) |
| Acquisition of a subsidiary not constituting a business combination, net of cash acquired | | (171,466) | – |
| Payment of consideration for purchasing of equity interests | | (248,710) | (177,115) |
| Capital injection to associates | 24 | (100,690) | – |
| Acquisition of prepaid land lease payments | 17 | (731,583) | (828,038) |
| Disposal of subsidiaries | | 106,000 | 438,107 |
| Proceeds from disposal of an associate held for sale | | 239,235 | 174,800 |
| Payment of investment deposits | | – | (268,129) |
| Establishment of associates | 24 | – | (60,600) |
| Acquisition of associates | 24 | (304,983) | (3,000) |
| Disposal of other intangible assets | | – | 40 |
| Loan to related parties | | (934,258) | – |
| Proceeds from disposal of property, plant and equipment | | 3,215 | 1,919 |
| Advances to third parties | | (47,144) | (177,698) |
| Repayment of advances from third parties | | 144,000 | 42,200 |
| Loans and receivables made to third parties | | (200,000) | (974,410) |
| Advances to related parties | | (551,799) | – |
| Repayment of loans and receivables from third parties | | 747,179 | – |
| Repayment of loans and receivables from related parties | | 34,095 | 360,859 |
| Dividend received from an associate | | 100,000 | – |
| Repayment of advances from related parties | | 95,111 | 2,033 |
| Advances received from third parties | | 33,601 | – |
| Government grant received | | 101,250 | – |
| Net cash flows used in investing activities | | (2,924,420) | (2,610,759) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from exercise of share options | | 24,734 | 38,402 |
| Capital contribution from a non-controlling shareholder | | 90,000 | – |
| Proceeds from issue of convertible bonds | 36 | – | 1,648,580 |
| Net proceeds from guaranteed bonds due July 2014 | 37 | 992,367 | – |
| Proceeds from interest-bearing bank and other borrowings | | 1,456,000 | 2,316,737 |
| Repayments of interest-bearing bank and other borrowings | | (1,216,409) | (2,264,737) |
| Dividends paid | | (289,353) | (231,577) |
| Proceeds from issue of shares | 38 | 610,479 | – |
| Net cash flows from financing activities | | 1,667,818 | 1,507,405 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 461,751 | 345,746 |
| Cash and cash equivalents at beginning of year | | 1,322,602 | 990,631 |
| Effect of foreign exchange rate changes, net | | (514) | (13,775) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | 1,783,839 | 1,322,602 |

# Consolidated Statement of Cash Flows

Year ended 31 December 2011

| | Notes | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|---|
| Analysis of balance of cash and cash equivalents | | | |
| Cash and bank balances | | **1,694,180** | 1,322,602 |
| Non-pledged time deposits with original maturity of less than three months when acquired | 32 | **85,073** | – |
| Cash and bank equivalents as stated in the statement of financial position | 32 | **1,779,253** | 1,322,602 |
| Cash and short term deposits attributable to the disposal group held for sale | 14 | **4,586** | – |
| Cash and cash equivalents as stated in the statement of cash flows | | **1,783,839** | 1,322,602 |

# Statement of Financial Position

31 December 2011

| | Notes | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Investments in subsidiaries | 22 | **1,119,284** | 909,284 |
| Due from subsidiaries | 22 | **6,849,678** | 5,193,618 |
| Total non-current assets | | **7,968,962** | 6,102,902 |
| CURRENT ASSETS | | | |
| Prepayments, deposits and other receivables | 28 | **1,090** | 1,104 |
| Cash and cash equivalents | 32 | **74,116** | 282,814 |
| Total current assets | | **75,206** | 283,918 |
| CURRENT LIABILITIES | | | |
| Other payables and accruals | 34 | **21,509** | 11,648 |
| NET CURRENT ASSETS | | **53,697** | 272,270 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **8,022,659** | 6,375,172 |
| NON-CURRENT LIABILITIES | | | |
| Convertible bonds | 36 | **1,591,678** | 1,617,947 |
| Guaranteed bonds due July 2014 | 37 | **993,470** | – |
| Due to subsidiaries | 22 | **68,049** | 156,392 |
| | | **2,653,197** | 1,774,339 |
| NET ASSETS | | **5,369,462** | 4,600,833 |
| EQUITY | | | |
| Issued capital | 38 | **153** | 148 |
| Equity component of convertible bonds | 36 | **23,607** | 23,607 |
| Reserves | 39 | **5,206,160** | 4,481,602 |
| Proposed final dividend | 12 | **139,542** | 95,476 |
| Total equity | | **5,369,462** | 4,600,833 |

**Shen Guojun**
*Chairman*

**Chen Xiaodong**
*Executive Director*

# Notes to Financial Statements

31 December 2011

## 1. CORPORATE INFORMATION

Intime Department Store (Group) Company Limited (the "Company") was incorporated in the Cayman Islands on 8 November 2006 as an exempted company with limited liability under the Cayman Islands Companies Law. The address of the Company's registered office is M&C Corporate Services Limited, P.O. Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands. The Company and its subsidiaries (together the "Group") are principally engaged in the operation and management of department stores in Mainland China.

The Company's shares were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 March 2007.

In the opinion of the directors, the ultimate holding company of the Company is Fortune Achieve Group Ltd., a company incorporated in West Samoa. The intermediate holding company of the Company is Intime International Holdings Limited ("Intime International"), a company incorporated in the Cayman Islands.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments, which have been measured at fair value. Disposal groups held for sale are stated at the lower of their carrying amounts and fair values less costs to sell as further explained in note 2.4. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise stated.

As at 31 December 2011, the Group had net current liabilities of approximately RMB1,032,172,000 (2010: RMB465,762,000). The directors believe that the Group has sufficient cash flows from the operations and currently available banking facilities to meet its liabilities as and when they fall due. Therefore, the financial statements are prepared on a going concern basis.

## 2.1 BASIS OF PREPARATION (CONTINUED)

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

The Group assesses whether the acquisition of a subsidiary constitutes a business combination. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. If the subsidiary acquired does not constitute a business, the Group accounts for the acquisition as an acquisition of asset.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

| | |
|---|---|
| HKFRS 1 Amendments | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* |
| HKAS 24 (Revised) | *Related Party Disclosures* |
| HKAS 32 Amendment | Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* |
| HK(IFRIC)-Int 14 Amendments | Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* |
| HK(IFRIC)-Int 19 | *Extinguishing Financial Liabilities with Equity Instruments* |
| *Improvements to HKFRSs 2010* | Amendments to a number of HKFRSs issued in May 2010 |

Other than as further explained below regarding the impact of HKAS 24 (Revised), and amendments to HKFRS 3, HKAS 1 and HKAS 27 included in Improvements to HKFRSs 2010, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these HKFRSs are as follows:

### (a) HKAS 24 (Revised) *Related Party Disclosures*

HKAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 46 to the consolidated financial statements.

## 2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) *Improvements to HKFRSs 2010* issued in May 2010 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments has had a significant financial impact on the financial position or performance of the Group. Details of the key amendments most applicable to the Group are as follows:

- HKFRS 3 *Business Combinations*: The amendment clarifies that the amendments to HKFRS 7, HKAS 32 and HKAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of HKFRS 3 (as revised in 2008).

  In addition, the amendment limits the scope of measurement choices for non-controlling interests. Only the components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the acquiree's are measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another HKFRS.

  The amendment also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

- HKAS 1 *Presentation of Financial Statements*: The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

- HKAS 27 *Consolidated and Separate Financial Statements*: The amendment clarifies that the consequential amendments from HKAS 27 (as revised in 2008) made to HKAS 21, HKAS 28 and HKAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if HKAS 27 is applied earlier.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| HKFRS 1 Amendment | Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1] |
| HKFRS 7 Amendments | Amendments to HKFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[4] |
| HKFRS 9 | *Financial Instruments*[6] |
| HKFRS 10 | *Consolidated Financial Statements*[4] |
| HKFRS 11 | *Joint Arrangement*[4] |
| HKFRS 12 | *Disclosure of Interests in Other Entities*[4] |
| HKFRS 13 | *Fair Value Measurement*[4] |
| HKAS 1 Amendments | Amendments to HKAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3] |
| HKAS 12 Amendments | Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2] |
| HKAS 19 (2011) | *Employee Benefits*[4] |
| HKAS 27 (2011) | *Separate Financial Statements*[4] |
| HKAS 28 (2011) | *Investments in Associates and Joint Ventures*[4] |
| HKAS 32 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5] |
| HK(IFRIC)-Int 20 | *Stripping Costs in the Production Phase of a Surface Mine*[4] |

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

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

Further information about those changes that are expected to significantly affect the Group is as follows:

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions") and incorporated in HKFRS 9 the current derecognition principles of financial instruments of HKAS 39. Most of the Additions were carried forward unchanged from HKAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of these Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgment to determine which entities are controlled, compared with the requirements in HKAS 27 and HK(SIC)-Int 12 *Consolidation – Special Purpose Entities*. HKFRS 10 replaces the portion of HKAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK(SIC)-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e., joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 *Consolidated and Separate Financial Statements*, HKAS 31 *Interests in Joint Ventures* and HKAS 28 *Investments in Associates*. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group expects to adopt HKFRS 13 prospectively from 1 January 2013.

Amendments to HKAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013.

### 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKAS 19 (2011) includes a number of amendments that range from fundamental changes to simple clarifications and re-wording. The revised standard introduces significant changes in the accounting for defined benefit pension plans including removing the choice to defer the recognition of actuarial gains and losses. Other changes include modifications to the timing of recognition for termination benefits, the classification of short-term employee benefits and disclosures of defined benefit plans. The Group expects to adopt HKAS 19 (2011) from 1 January 2013.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

#### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Joint ventures (continued)

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investment in the associates and is not individually tested for impairment.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

The Group discontinues the use of the equity method from the date when it ceases to have significant influence over an associate and accounts for the investment as available-for-sale investments. On loss of significant influence, the Group measures at fair value of the investment which the Group retains in the former associate. The Group recognises in profit or loss any difference between the fair value of any retained investment and any proceeds from disposing of the part interest in the associate and the carrying amount of the investment at the date when significant influence is lost.

### Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

### 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Business combinations and goodwill** (continued)

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Business combinations and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

### Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties, goodwill and non-current assets classified as held for sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization) had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person, (i) has control or joint control over the Group; (ii) has significant influence over the Group; or (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a); and
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Property, plant and equipment and depreciation (continued)

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognised such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

| | |
|---|---|
| Land and buildings | 2.375% to 4.75% |
| Decorations | 20% to 33.33% |
| Machinery | 9.5% to 19% |
| Vehicles | 7.92% to 19% |
| Furniture, fittings and equipment | 19% to 31.67% |
| Leasehold improvements | 20% to 33.33% |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at historical cost less accumulated depreciation and provision for any impairment in value. Depreciation is calculated on the straight-line basis over the expected useful life of 20 to 40 years.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Any gains or losses on the retirement on disposal of an investment property are recognised in the income statement in the year in which they arise.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its cost for accounting purposes. If an item of property, plant and equipment becomes an investment property because its use has changed, the carrying amount of this item at the date of transfer is recognised as the cost of an investment property for accounting purposes. Property being constructed or developed for future as an investment property is classified as an investment property.

### Properties under development

Properties under development are intended to be held for sale after completion. On completion, the properties are transferred to completed properties held for sale.

Properties under development are stated at the lower of cost and net realisable value and comprise land costs, construction costs, borrowing costs, professional fees and other costs directly attributable to such properties incurred during the development period.

Properties under development which are intended to be held for sale and expected to be completed within 12 months from the end of the reporting period are classified as current assets.

Properties under development which are intended to be held for sale and expected to be completed beyond 12 months from the end of the reporting period are classified as non-current assets.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than deferred tax assets and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

### Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of the acquisition. The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

### Leases agreement buyout

The lease agreement buyout represented the Group's payments to old tenant to buy out its lease agreement. The lease agreement buyout is stated at cost less any impairment losses and is amortised on a straight-line basis over the lease terms of 20 years.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to the income statement or capitalised as part of the cost of construction in progress, investment properties and properties under development on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, cash in transit, trade and other receivables, loans and receivables, amounts due from related parties and available-for-sale investments.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (continued)

*Subsequent measurement*

The measurement of financial liabilities depends on their classification as follows:

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Gains or losses on investments held for trading are recognised in the income statement. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interests earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under HKAS 39 are satisfied.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, Available-for-sale investments or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (continued)

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, when the cumulative gain or loss reclassified from the available-for-sale investment revaluation reserve to the income statement, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the income statement and removed from the available-for-sale investment revaluation reserve. Interest and dividends whilst holding the available-for-sale financial investments earned are reported as interest income and dividend income, respectively and are recognised in the income statement as other income in accordance with the policies set out for "Revenue recognition" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Investments and other financial assets (continued)

*Available-for-sale financial investments (continued)*

The Group evaluates whether the ability and intention to sell its available-for-sale investments in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the income statement.

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (continued)

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the income statement.

*Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is removed from other comprehensive income and recognised in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Impairment of financial assets (continued)

*Available-for-sale financial investments (continued)*

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement – is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement. Increases in their fair value after impairment are recognised directly in other comprehensive income.

### Financial liabilities

*Initial recognition and measurement*

Financial liabilities within the scope of HKAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, amounts due to related parties, interest-bearing loans and borrowings, convertible bonds and guaranteed bonds due July 2014.

*Subsequent measurement*

The subsequent measurement of financial liabilities depends on their classification as follows:

*Loans and borrowings*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Financial liabilities** (continued)

*Loans and borrowings (continued)*

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

*Financial guarantee contracts*

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

*Convertible bonds*

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

*Derecognition of financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

### Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

### Inventories

Inventories comprise merchandises purchased for resale and are stated at the lower of cost and net realisable value. Cost of merchandise is determined using the first-in, first-out method. The cost of merchandise comprises purchase cost of goods and other direct costs. Net realisable value is based on the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

### Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Provisions (continued)

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

### Deferred revenue

The Group operates a loyalty point programme, which allows customers to accumulate points when they purchase products in the Group's department stores. The points can then be redeemed for gifts and coupons, subject to a minimum number of points being obtained. The coupons are cash-equivalent when customers use them to purchase products of the Group.

Consideration received is allocated between the products sold and the points issued, with the consideration allocated to the points equal to their fair value. Fair value of the points is determined by applying statistical analyses. The fair value of the points issued is deferred and recognised as revenue when the points are redeemed.

### Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Income tax** (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value deducted from the carrying amount of the asset and released to the income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary assets and released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is measured at the fair value of the consideration received net of value-added tax, estimated returns, rebates and discounts, and after eliminating sales within the Group. Revenue is recognised as follows:

*(a) Sale of goods – retail*

Sales of goods are recognised when a group entity sells a product to the customers. Retail sales are usually in cash or by debit card or credit card.

*(b) Commission revenue*

Commission revenue from concessionaire sales is recognised upon the sale of goods by the relevant stores.

Customer loyalty award credits granted in sales of goods and concessionaire sales is accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (continued)

*(c) Operating lease rental income and display space leasing income*

These incomes are recognised on a time proportion basis over the terms of the respective leases.

*(d) Other service incomes*

Other service incomes including administration fee and credit card handling fee are recognised in the accounting period in which the services are rendered, by reference to the completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

*(e) Management fee income*

Management fee income from the operation of department stores is recognised when management services are rendered.

*(f) Promotion income*

Promotion income is recognised according to the underlying contract terms with concessionaires and as the service is provided in accordance herewith.

*(g) Sales of property income*

Revenue from the sale of properties in the ordinary course of business is recognised when all the following criteria are met:

- the significant risks and rewards of ownership of the properties are transferred to the purchasers;
- neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the cost incurred or to be incurred in respect of the transaction can be measured reliably.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Revenue recognition (continued)

#### *(g) Sales of property income (continued)*

The above criteria are met when construction of the relevant properties has been completed and the Group has obtained the project completion report issued by the relevant government authorities, the properties have been delivered to the purchasers, and the collectibility of related receivables is reasonably assured. Payments received on properties sold prior to the date of revenue recognition are included in the consolidated statement of financial position under current liabilities.

#### *(h) Interest income*

Interest income is recognised on a time proportion basis using the effective interest method.

#### *(i) Dividend income*

Dividend income is recognised when the right to receive payment has been established.

### Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by using an appropriate pricing model, further details of which are given in note 40 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Share-based payment transactions (continued)

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

### Other employee benefits

*Pension obligations*

The group companies operating in Mainland China participate in defined contribution retirement benefit plans organised by the relevant government authorities for its employees in Mainland China and contribute to these plans based on certain percentage of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The government authorities undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans.

The Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions to these plans are recognised as employee benefit expenses when incurred.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Other employee benefits (continued)

*Housing benefits*

Employees of the group companies operating in Mainland China participate in government-sponsored housing funds. The Group contributes to these funds based on certain percentages of the salaries of the employees on a monthly basis, up to a maximum fixed monetary amount, as stipulated by the relevant government authorities. The Group's liability in respect of these funds is limited to the contribution payable in each period. Contributions to the funds are expensed as incurred.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

### Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Foreign currencies (continued)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currency of the Company and certain subsidiaries is the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these companies are translated into the presentation currency of the Group (RMB) at the exchange rates ruling at the end of the reporting period, and their income statements are translated at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component of equity.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (continued)

*Associate*

The Group's management determines the classification of the Group's equity investments according to its ability to exercise control or influence on the investee companies. The respective accounting treatments under the Group's accounting policies are set out in note 2.4 above.

Certain equity investment in which the Group holds less than 20% of their voting power and over which the Group is able to exercise significant influence is classified by management as an investment in an associate. When determining whether the Group has significant influence over these companies, management takes into consideration whether:

(a) the Group has representative on the board of directors or an equivalent governing body of these companies;

(b) the Group can participate in the policy making processes of these companies, including participation in decision making such as dividends or other distributions;

(c) there are any material transactions between the Group and these companies;

(d) there are any interchange of managerial personnel between the Group and these companies;

(e) the Group provides any essential technical information to these companies; or

(f) there are any substantial or majority ownership by other investors which can significantly impair the Group's ability to exercise its influence over these companies.

Management reassesses the classification of each equity investment based on the above criteria at each reporting date or when there are events or changes in circumstances which affect the Group's ability to exercise control or influence over the investee companies.

*Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (continued)

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

### Estimation uncertainty

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was RMB560,085,000 (2010: RMB426,737,000). More details are given in note 19.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (continued)

*Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2011 was RMB37,912,000 (2010: RMB26,553,000). The amount of unrecognised tax losses in Mainland China at 31 December 2011 was RMB314,830,000 (2010: RMB186,432,000). Further details are contained in note 26 to the financial statements.

*Impairment of available-for-sale investments*

The Group classifies certain assets as available for sale and recognises movements of their fair values in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in the income statement. At 31 December 2011, impairment losses of RMB20,627,000 have been recognised for available-for-sale investments (2010: Nil). The carrying amount of available-for-sale investments was RMB41,724,000 (2010: Nil).

*Useful lives of property, plant and equipment*

The Group's management determines the estimated useful lives and the related depreciation charge for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charge in the future periods.

*Net realizable value of inventories*

Net realizable value of inventories is the estimated selling price in the ordinary course of business less estimated selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of changes in customer taste or competitor actions in response to severe consumer product industry cycles. Management reassesses these estimates at each reporting date.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (continued)

*Impairment of other receivables, loans and receivables and amounts due from related parties*

The Group's management estimates the provision for impairment of other receivables, loans and receivables and amounts due from related parties by assessing their recoverability based on credit history and the prevailing market conditions. This requires the use of estimates and judgements. Management reassesses the provision at each reporting date.

Provisions are applied to other receivables and amounts due from related parties where events or changes in circumstances indicate that the balances may not be collectible. Where the expectation is different from the original estimates, such difference will affect the carrying values of other receivables and amounts due from related parties and thus impairment charge in the period in which such estimates are changed.

*PRC land appreciation tax ("LAT")*

LAT in the PRC is levied at progressive rates ranging from 30% to 60% on the appreciation of land value being the proceeds from sale of properties less deductible expenditures including land costs, borrowing costs and other property development expenditures.

The subsidiaries of the Group engaging in the property development business in Mainland China are subject to LAT. However, the implementation of these taxes varies amongst various cities in Mainland China and the Group has not finalised its LAT returns with various tax authorities. Accordingly, significant judgement is required in determining the amount of land appreciation and its related taxes. The ultimate tax determination is uncertain during the ordinary course of business. The Group recognises these liabilities based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income statement and the provision for land appreciation taxes in the period in which such determination is made.

*Deferred revenue*

The amount of revenue attributable to the credit award earned by the customers of the Group's VIP programme is estimated based on the fair value of the credits awarded and the expected redemption rate. The expected redemption rate was estimated considering the number of the credits that will be available for redemption in the future after allowing for credits which are not expected to be redeemed.

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

### Judgements (continued)

*Income taxes*

The Group is primarily subject to income taxes in Mainland China. There are certain transactions and calculations for which the ultimate tax determination is uncertain. Where the final outcome of tax assessment is different from the carrying amounts of tax provision, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 4. SEGMENT INFORMATION

For management purposes, the Group has a single operating and reportable segment, that's the operation and management of department stores in Mainland China. All the Group's operations are carried out in Mainland China. All revenues from external customers are generated from business relating to the operation and management of department stores and no revenue from operations amounted to 10 percent or more of the Group's revenue was derived from sales to a single customer for the years ended 31 December 2011 and 2010. All non-current assets (excluded financial instruments and deferred tax assets) of the Group are located in Mainland China.

## 5. REVENUE, OTHER INCOME AND GAINS

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Sale of goods – direct sale | **1,137,322** | 724,196 |
| Commissions from concessionaire sales | **1,763,632** | 1,393,077 |
| Rental income | **193,933** | 145,275 |
| Rental income from investment properties | **110,312** | 82,049 |
| Sublease rental income | **70,561** | 55,600 |
| Contingent rental income | **13,060** | 7,626 |
| Management fee income from operation of department stores | **22,311** | 26,205 |
| | **3,117,198** | 2,288,753 |

## 5. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

The commissions from concessionaire sales are analyzed as follows:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Gross revenue from concessionaire sales | **10,279,041** | 7,847,363 |
| Commissions from concessionaire sales | **1,763,632** | 1,393,077 |

The direct sales and gross revenue from concessionaire sales are mainly settled in cash, debit card or credit card. The Group has no fixed credit policy.

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| **Other income** | | |
| Advertisement, promotion and administration income | **234,219** | 139,106 |
| Credit card handling income | **1,962** | 2,279 |
| Subsidy income | **18,251** | 17,316 |
| Others | **27,316** | 29,922 |
| | **281,748** | 188,623 |
| **Gains/(losses)** | | |
| Loss on disposal of items of property, plant and equipment | **(632)** | (135) |
| Gain on disposal of subsidiaries | **–** | 125,960 |
| Gain on disposal of shares of an associate held for sale | **64,305** | 95,686 |
| Gain on transferring an associate held for sale to available-for-sale investments | **61,732** | – |
| Gain on bargain purchase | **14,710** | – |
| Impairment of available-for-sale investments | **(20,627)** | – |
| Others | **(336)** | 8,594 |
| | **119,152** | 230,105 |
| | **400,900** | 418,728 |

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Purchases of goods and changes in inventories | **948,498** | 579,202 |
| Depreciation and amortization | **282,368** | 238,934 |
| Staff costs (including directors' remuneration (note 9)): | **428,346** | 300,702 |
| Wages, salaries and bonuses | **314,648** | 227,777 |
| Pension costs – defined contribution schemes (note (a)) | **50,328** | 35,039 |
| Welfare, medical and other benefits | **30,677** | 19,076 |
| Equity-settled share option expense (note 40) | **32,693** | 18,810 |
| Utility expenses | **137,944** | 119,212 |
| Store rental expenses | **369,698** | 299,913 |
| Credit card charges | **76,502** | 58,837 |
| Advertising expenses | **128,537** | 73,470 |
| Auditors' remuneration | **3,200** | 2,980 |
| Professional service charges | **16,534** | 8,089 |
| Other tax expenses | **81,769** | 53,724 |
| Direct operating expenses (including repairs and maintenance, but excluding depreciation and amortisation) arising on rental-earning investment properties | **40,015** | 28,672 |
| Rental income on investment properties less direct operating expenses of RMB40,015,000 (2010: RMB28,672,000) | **(70,297)** | (53,377) |

Note:

(a) Employees of the Group's subsidiaries in Mainland China are required to participate in defined contribution retirement schemes administered and operated by the local municipal government. The Group's subsidiaries in Mainland China contribute funds to the retirement schemes to fund the retirement benefits of the employees which are calculated on certain percentage of the average employee salary as agreed by the local municipal government. Such retirement schemes are responsible for the entire post-retirement benefit obligations payable to the retired employees. The Group has no further obligations for the actual payment of post-retirement benefits beyond the contributions.

## 7. FINANCE INCOME/FINANCE COSTS

An analysis of finance income and finance costs is as follows:

### Finance income

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Interest income from bank deposits | **11,460** | 7,720 |
| Interest income from loans and receivables | **143,143** | 50,448 |
| Interest income from a jointly-controlled entity | **6,473** | 1,186 |
| Interest income from associates | **6,887** | – |
| Other interest income | **5,767** | 19,338 |
| | **173,730** | 78,692 |

### Finance costs

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Interest expenses on bank loans wholly repayable within five years | **94,305** | 69,020 |
| Interest on convertible bonds | **79,552** | 14,478 |
| Interest on guaranteed bonds due July 2014 | **22,546** | – |
| Less: Interest capitalised | **(41,845)** | (3,020) |
| | **154,558** | 80,478 |

## 8. INCOME TAX

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Group: | | |
| Current income tax – Mainland China | **313,111** | 243,663 |
| Deferred taxation (note 26) | **(42,246)** | (18,861) |
| | **270,865** | 224,802 |

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Cayman Islands Companies Law and is exempted from the payment of the Cayman Islands income tax. The Company's wholly-owned subsidiaries North Hill Holdings Limited ("North Hill") and River Three Holdings Limited ("River Three") were incorporated in the British Virgin Islands (the "BVI") as exempted companies with limited liability under the Company Law of the BVI and are exempted from the payment of the BVI income tax. The Company's wholly-owned subsidiaries Intime Department Store (Hong Kong) Company Limited ("Intime HK") and South Line Holding (HK) Company Limited ("South Line HK") that are incorporated in Hong Kong are subject to Hong Kong profits tax at the rate of 16.5% (2010: 16.5%). The Company's subsidiaries Sin Cheng Holdings Pte Ltd. ("Sin Cheng") and Raffland Pte Ltd. ("Raffland") that are incorporated in Singapore are subject to Singapore Income tax at the rate of 17% (2010: 17%).

The subsidiaries established in Mainland China are subject to corporate income tax ("CIT") at the rate of 25% (2010: 25%), except for the head office of Intime Department Store Co., Ltd. ("head office of Shanghai Intime"), which is subject to CIT at the rate of 24% (2010: 22%). From 1 January 2008, the lower preferential tax rates enjoyed by head office of Shanghai Intime shall gradually be increased to the statutory tax rate within five years from the date on which the new CIT Law comes into effect. The existing tax rate of head office of Shanghai Intime of 24% will be increased to 25% in 2012.

## 8. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the country in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:

Group:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Profit before tax | **1,129,033** | 926,141 |
| Tax at the statutory tax rate of 25% (2010: 25%) | **282,258** | 231,535 |
| Lower tax rates for specific provinces or enacted by local authorities | **(11,162)** | (36,633) |
| Tax losses utilised from previous periods | **(9,166)** | (5,057) |
| Profits and losses attributable to associates and a jointly-controlled entity | **(55,833)** | (14,938) |
| Effect of withholding tax at 10% on the distributable profits of an associate | **17,377** | – |
| Income not subject to tax | **(3,678)** | (1,916) |
| Adjustments in respect of current tax of previous periods | **(2,523)** | 1,785 |
| Tax losses not recognised | **41,266** | 46,608 |
| Expenses not deductible for tax | **12,326** | 3,418 |
| Tax charge at the Group's effective rate | **270,865** | 224,802 |

The share of tax attributable to associates and a jointly-controlled entity amounting to RMB74,444,000 (2010: RMB19,917,000) is included in "Share of profits and losses of jointly-controlled entities and associates" on the face of the consolidated income statement.

## 9. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules of The Stock Exchange of Hong Kong Limited and Section 161 of the Hong Kong Companies Ordinance, is as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Fees | **486** | 510 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **5,286** | 3,466 |
| Equity-settled share option expense | **6,135** | 468 |
| | **11,421** | 3,934 |
| | **11,907** | 4,444 |

During the years, certain directors were granted share options in respect of their services to the Group, under the share option schemes of the Company, further details of which are set out in note 40 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

## 9. DIRECTORS' REMUNERATION (CONTINUED)

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Mr. SHI Chungui | **162** | 170 |
| Mr. YU Ning | **162** | 170 |
| Mr. CHOW Joseph | **162** | 170 |
| | **486** | 510 |

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

## 9. DIRECTORS' REMUNERATION (CONTINUED)

### (b) Executive directors and non-executive directors

| | Salaries, allowances and benefits in kind *RMB'000* | Equity-settled share option expense *RMB'000* | Total remuneration *RMB'000* |
|---|---|---|---|
| **2011** | | | |
| Executive directors: | | | |
| Mr. SHEN Guojun | 2,465 | – | 2,465 |
| Mr. CHEN Xiaodong | 2,179 | 6,064 | 8,243 |
| Mr. CHING Siu Leung | 203 | 71 | 274 |
| | 4,847 | 6,135 | 10,982 |
| Non-executive directors: | | | |
| Mr. LIU Dong | 34 | – | 34 |
| Mr. XIN Xiangdong | 405 | – | 405 |
| | 439 | – | 439 |
| | 5,286 | 6,135 | 11,421 |
| 2010 | | | |
| Executive directors: | | | |
| Mr. SHEN Guojun | 2,615 | – | 2,615 |
| Mr. CHING Siu Leung | 426 | 468 | 894 |
| | 3,041 | 468 | 3,509 |
| Non-executive directors: | | | |
| Mr. LI Hui | – | – | – |
| Mr. XIN Xiangdong | 425 | – | 425 |
| | 425 | – | 425 |
| | 3,466 | 468 | 3,934 |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2010: one director) director, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2010: four non-directors) non-directors, highest paid employees for the year are as follows:

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* |
| Salary, allowances and benefits in kind | **2,240** | 2,112 |
| Discretionary bonus | **2,659** | 3,528 |
| Contribution to retirement benefit plans | **217** | 262 |
| Equity-settled share option expense | **6,200** | 8,813 |
| | **11,316** | 14,715 |

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

| | Number of employees | |
|---|---|---|
| | **2011** | 2010 |
| Hong Kong dollars ("HK$") 2,000,001 to HK$ 2,500,000 | – | 1 |
| HK$ 2,500,001 to HK$ 3,000,000 | – | 2 |
| HK$ 3,000,001 to HK$ 3,500,000 | 3 | – |
| HK$ 4,000,001 to HK$ 4,500,000 | 1 | – |
| HK$ 9,500,001 to HK$ 10,000,000 | – | 1 |
| | 4 | 4 |

During the year, share options were granted to the above non-director, highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 40 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant, and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

## 11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB351,461,000 (2010 profit: RMB264,450,000) which has been dealt with in the financial statements of the Company (note 39).

## 12. DIVIDENDS

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Interim – RMB0.10 (2010: RMB0.10) per ordinary share | **191,533** | 175,540 |
| Proposed final – RMB0.07 (2010: RMB0.05) per ordinary share | **139,542** | 95,476 |
| | **331,075** | 271,016 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

All dividends declared for the year ended 31 December 2010 totalling RMB271,016,000 and an interim dividend of RMB191,533,000 had been paid prior to 31 December 2011.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary share of 1,923,768,767 (2010: 1,759,684,356) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on the convertible bonds. The weighted average number of ordinary shares used in the calculation is the weighted average number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

The calculations of basic and diluted earnings per share are based on:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculation | **821,427** | 685,189 |
| Interest on convertible bonds | **79,552** | 14,478 |
| Profit attributable to ordinary equity holders of the parent before interest on convertible bonds | **900,979** | 699,667 |

| | Number of shares 2011 | Number of shares 2010 |
|---|---|---|
| **Shares** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **1,923,768,767** | 1,759,684,356 |
| Effect of dilution – weighted average number of ordinary shares: | | |
| Share options | **23,921,951** | 20,403,901 |
| Convertible bonds | **148,281,131** | 145,830,203 |
| Weighted average number of ordinary shares used in the diluted earnings per share calculation | **2,095,971,849*** | 1,925,918,460 |

* Because the diluted earnings per share amount is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amounts are based on the profit for the year attributable to owners of the parent of RMB821,427,000, and the weighted average number of ordinary shares of 1,947,690,718 in issue during the year.

### 14. DISPOSAL GROUP HELD FOR SALE

On 26 December 2011, Shanghai Intime entered into an equity transfer agreement with Ningbo Mingji Property Co., Ltd. ("Ningbo Mingji"), to dispose its 51% equity interest in Cixi Intime Property Co., Ltd. ("Cixi Property"), a wholly-owned subsidiary of the Company, for a consideration of RMB102,000,000. As at 31 December 2011, the transaction was in progress and Cixi Property was classified as a disposal group held for sale.

The results of Cixi Property for the year are presented below:

| | 2011<br>*RMB'000* |
|---|---|
| Total expenses | (937) |
| Loss before tax | (937) |
| Income tax expenses | – |
| Loss for the year from the disposal group held for sale | (937) |

### 14. DISPOSAL GROUP HELD FOR SALE (CONTINUED)

The major classes of assets and liabilities of Cixi Property classified as held for sale as at 31 December are as follows:

| | Notes | 2011<br>*RMB'000* |
|---|---|---|
| Assets | | |
| Property, plant and equipment | 15 | 28,622 |
| Prepaid land lease payment | 17 | 51,148 |
| Properties under development | 18 | 139,002 |
| Deposits, prepayments and other receivables | | 14,311 |
| Cash and bank balances | | 4,586 |
| Assets classified as held for sale | | 237,669 |
| Liabilities | | |
| Other payables and accruals (note (i)) | | 4,931 |
| Liabilities directly associated with the assets classified as held for sale | | 4,931 |
| Net assets directly associated with the disposal group | | 232,738 |

Note:

(i) Zhejiang Intime Department Store Co., Ltd. ("Zhejiang Intime"), a wholly-owned subsidiary of the Company, provided loan amounting to RMB134,340,000 to Cixi Property and the loan had not been repaid by Cixi Property as at 31 December 2011. The loan was eliminated as at 31 December 2011 and not included in liabilities directly associated with the disposal group.

The net cash flows incurred by Cixi Property are as follows:

| | 2011<br>*RMB'000* |
|---|---|
| Operating activities | (98,362) |
| Investing activities | (30,673) |
| Financing activities | 115,478 |
| Net cash outflow | (13,557) |

## 15. PROPERTY, PLANT AND EQUIPMENT

### Group

| | Land and buildings RMB'000 | Decorations RMB'000 | Machinery RMB'000 | Vehicles RMB'000 | Furniture, fittings and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2010** | | | | | | | | |
| At 31 December 2009 and at 1 January 2010: | | | | | | | | |
| Cost | 979,756 | 149,731 | 117,408 | 14,022 | 50,337 | 371,385 | 70,622 | 1,753,261 |
| Accumulated depreciation | (150,032) | (41,841) | (58,623) | (5,749) | (17,554) | (134,741) | – | (408,540) |
| Net carrying amount | 829,724 | 107,890 | 58,785 | 8,273 | 32,783 | 236,644 | 70,622 | 1,344,721 |
| At 1 January 2010, net of accumulated deprecation | 829,724 | 107,890 | 58,785 | 8,273 | 32,783 | 236,644 | 70,622 | 1,344,721 |
| Additions | 68,255 | 11,702 | 5,195 | 7,490 | 9,634 | 73,881 | 185,537 | 361,694 |
| Acquisition of subsidiaries | – | – | 210 | 410 | 47 | – | 310,346 | 311,013 |
| Depreciation provided during the year | (51,395) | (32,868) | (7,000) | (3,200) | (9,718) | (68,288) | – | (172,469) |
| Transfer to investment properties (note 16) | (31,352) | – | 1,740 | – | – | – | – | (29,612) |
| Transfer from prepaid rental (note 21) | 46,733 | – | – | – | – | – | – | 46,733 |
| Disposal of subsidiaries | – | – | – | (284) | – | – | (40,506) | (40,790) |
| Disposals | – | – | (186) | (904) | (585) | (379) | – | (2,054) |
| At 31 December 2010, net of accumulated depreciation | 861,965 | 86,724 | 58,744 | 11,785 | 32,161 | 241,858 | 525,999 | 1,819,236 |
| At 31 December 2010: | | | | | | | | |
| Cost | 1,059,889 | 161,433 | 123,966 | 20,539 | 56,424 | 444,266 | 525,999 | 2,392,516 |
| Accumulated depreciation | (197,924) | (74,709) | (65,222) | (8,754) | (24,263) | (202,408) | – | (573,280) |
| Net carrying amount | 861,965 | 86,724 | 58,744 | 11,785 | 32,161 | 241,858 | 525,999 | 1,819,236 |

## 15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

### Group (continued)

| | Land and buildings RMB'000 | Decorations RMB'000 | Machinery RMB'000 | Vehicles RMB'000 | Furniture, fittings and equipment RMB'000 | Leasehold improvements RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| **31 December 2011** | | | | | | | | |
| At 31 December 2010 and at 1 January 2011: | | | | | | | | |
| Cost | 1,059,889 | 161,433 | 123,966 | 20,539 | 56,424 | 444,266 | 525,999 | 2,392,516 |
| Accumulated depreciation | (197,924) | (74,709) | (65,222) | (8,754) | (24,263) | (202,408) | – | (573,280) |
| Net carrying amount | 861,965 | 86,724 | 58,744 | 11,785 | 32,161 | 241,858 | 525,999 | 1,819,236 |
| At 1 January 2011, net of accumulated deprecation | 861,965 | 86,724 | 58,744 | 11,785 | 32,161 | 241,858 | 525,999 | 1,819,236 |
| Additions | 44,223 | 26,311 | 6,782 | 8,408 | 23,210 | 70,672 | 1,195,353 | 1,374,959 |
| Transfer | 792,829 | 182,308 | 32,519 | – | – | 84,479 | (1,092,135) | – |
| Acquisition of a subsidiary (note 41(a)) | 64,141 | – | 9,333 | 2,828 | 7,950 | – | 25,400 | 109,652 |
| Depreciation provided during the year | (49,793) | (36,036) | (13,366) | (5,196) | (12,569) | (80,446) | – | (197,406) |
| Transfer to assets held for sale (note 14) | – | – | – | (827) | – | – | (27,795) | (28,622) |
| Disposals | – | (161) | (238) | (576) | (1,862) | (1,010) | – | (3,847) |
| At 31 December 2011, net of accumulated depreciation | 1,713,365 | 259,146 | 93,774 | 16,422 | 48,890 | 315,553 | 626,822 | 3,073,972 |
| At 31 December 2011: | | | | | | | | |
| Cost | 1,961,082 | 368,165 | 170,632 | 29,087 | 82,801 | 596,933 | 626,822 | 3,835,522 |
| Accumulated depreciation | (247,717) | (109,019) | (76,858) | (12,665) | (33,911) | (281,380) | – | (761,550) |
| Net carrying amount | 1,713,365 | 259,146 | 93,774 | 16,422 | 48,890 | 315,553 | 626,822 | 3,073,972 |

### 15. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Amortisation of land lease payment of approximately RMB16,105,000 (2010: RMB12,854,000) during the construction period capitalised as part of the construction cost incurred in Cixi City, Haining City and Wenling City in Zhejiang Province and Liuzhou City in Guangxi Province was included in the above addition of construction in progress.

The Group pledged certain of its buildings and construction in progress to secure the Group's banking facilities (note 35(c)). The net carrying amounts of these pledged buildings and construction in progress as at 31 December 2011 were approximately RMB983,502,000 (2010: RMB470,854,000) and nil (2010: RMB206,033,000) respectively.

The application for the ownership certificates of certain buildings located in Xiantao City of Hubei Province, Hefei City of Anhui Province and Cixi City of Zhejiang Province, the PRC, with a carrying amount of RMB691,334,000 as at 31 December 2011 (2010: RMB236,033,000) is in process.

The Directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2011.

### 16. INVESTMENT PROPERTIES

**Group**

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Carrying amount at 1 January | **1,235,299** | 1,101,187 |
| Additions | **91,165** | 7,098 |
| Acquisition of subsidiaries (note 41) | **447,821** | 145,000 |
| Depreciation for the year | **(48,097)** | (39,393) |
| Transfer from owner-occupied property (note 15) | **–** | 29,612 |
| Transfer to prepaid land lease payments (note 17) | **–** | (8,205) |
| Carrying amount at 31 December | **1,726,188** | 1,235,299 |
| Fair value | **2,227,365** | 1,777,295 |

### 16. INVESTMENT PROPERTIES (CONTINUED)

The Group's investment properties principally comprise of buildings held for long term rental yields, which are located in Hangzhou City, Jiaxing City and Jinhua City of Zhejiang Province, and Shenyang City of Liaoning Province, the PRC and are held under the following lease terms:

| | *RMB'000* |
|---|---|
| Medium term leases | 818,961 |
| Short term leases | 907,227 |
| | 1,726,188 |

The above fair value of investment properties as at each reporting date for disclosure purpose is estimated by the Company's directors based on the discounted cash flow of estimated future rental income.

The Group pledged certain of its investment properties to secure the Group's banking facilities (note 35(c)). The carrying amount of these pledged investment properties as at 31 December 2011 was approximately RMB629,575,000 (2010: RMB488,196,000).

## 17. PREPAID LAND LEASE PAYMENTS

### Group

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Carrying amount at 1 January | **2,305,203** | 1,453,898 |
| Additions | **731,583** | 828,038 |
| Acquisition of a subsidiary (note 41) | **121,477** | 576,394 |
| Transfer to assets held for sale (note 14) | **(51,148)** | – |
| Transfer from investment properties (note 16) | **–** | 8,205 |
| Transfer to properties under development (note 18) | **–** | (90,271) |
| Disposal of subsidiaries | **–** | (432,896) |
| Government grant received (note(i)) | **(101,250)** | – |
| Amortization for the year | **(51,075)** | (38,165) |
| Carrying amount at 31 December | **2,954,790** | 2,305,203 |

Note:

(i) During the year, the Group received a subsidy of RMB101,250,000 in relation to the acquired land located in Haining City of Zhejiang Province. There was no unfulfilled condition or contingency relating to this grant as at 31 December 2011.

The Group's leasehold land is located in Hangzhou City, Haining City, Wenling City, Jinhua City and Cixi City of Zhejiang Province, Hefei City of Anhui Province, and Suizhou City, Wuhan City and Xiantao City of Hubei Province, and Liuzhou City of Guangxi Province, and Panzhihua City of Sichuan Province, the PRC, with lease periods from 32 to 50 years.

The transfer of the ownership certificates of the land located in Wenling City of Zhejiang Province, Suizhou City of Hubei Province, and Panzhihua City of Sichuan Province, the PRC, with a carrying amount of RMB902,794,000 at 31 December 2011 (31 December 2010: RMB828,038,000), is in progress.

The directors are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned leasehold land. The directors are also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2011.

### 17. PREPAID LAND LEASE PAYMENTS (CONTINUED)

Included in the amortization provided during the year was an amount of approximately RMB16,105,000 (2010: RMB12,854,000), which was capitalised as part of the construction cost of the stores in Cixi City, Haining City and Wenling City of Zhejiang Province, and Liuzhou City of Guangxi Province. Further details of capitalisation are included in note 15.

The Group pledged its prepaid land lease payments to secure the Group's banking facilities (note 35(c)). The carrying amounts of these pledged prepaid land lease payments as at 31 December 2011 was approximately RMB1,373,253,000 (2010: RMB1,196,001,000).

### 18. PROPERTIES UNDER DEVELOPMENT

**Group**

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| At beginning of year | **280,695** | – |
| Additions | **325,963** | 23,424 |
| Acquisition of a subsidiary (note 41) | **342,517** | 167,000 |
| Transfer from prepaid land lease payments (note 17) | **–** | 90,271 |
| Transfer to assets held-for-sale (note 14) | **(139,002)** | – |
| At end of year | **810,173** | 280,695 |
| Current assets | **713,569** | 172,513 |
| Non-current assets | **96,604** | 108,182 |
| | **810,173** | 280,695 |

The Group's properties under development were located in Mainland China.

## 18. PROPERTIES UNDER DEVELOPMENT (CONTINUED)

The carrying amounts of the properties under development situated on the leasehold land in Mainland China are as follows:

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Leases of over 50 years | 450,170 | 157,536 |
| Leases of between 20 and 50 years | 360,003 | 123,159 |
| | 810,173 | 280,695 |

The Group pledged certain of its properties under development to secure the Group's banking facilities (note 35(c)). The carrying amount of these pledged properties under development as at 31 December 2011 was RMB198,304,000 (2010: RMB172,513,000).

## 19. GOODWILL

### Group

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Cost at 1 January | 426,737 | 327,377 |
| Acquisition of a subsidiary (note 41) | 133,348 | 154,769 |
| Disposal of subsidiaries | – | (55,409) |
| Cost and net carrying amount at 31 December | 560,085 | 426,737 |

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the relevant department stores from which the goodwill was resulted. These individual department stores are treated as a cash-generating unit for impairment testing:

## 19. GOODWILL (CONTINUED)

### Impairment testing of goodwill (continued)

*Department store cash-generating unit*

The recoverable amount of the department store cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 15% and cash flows beyond the five-year period are extrapolated using a growth rate of 3% which is the same as the long term average growth rate of the department store industry.

The carrying amount of goodwill fully allocated to cash-generating unit of operation of department stores is:

| | **2011** | 2010 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Carrying amount of goodwill | **560,085** | 426,737 |

Key assumptions were used in the value in use calculation of the department store cash-generating unit for 31 December 2011. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted income – The basis used to determine the value assigned to income is the average income achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates – The discount rate used is after tax and reflects specific risks relating to the relevant unit.

## 20. OTHER INTANGIBLE ASSETS

### Group

| | Computer software *RMB'000* | Lease agreement buyout *RMB'000* | Total *RMB'000* |
|---|---|---|---|
| **31 December 2011** | | | |
| Cost at 1 January 2011, net of accumulated amortization | **4,473** | **–** | **4,473** |
| Additions | **1,023** | **28,000** | **29,023** |
| Acquisition of a subsidiary (note 41) | **441** | **–** | **441** |
| Amortization provided during the year | **(1,545)** | **(350)** | **(1,895)** |
| At 31 December 2011 | **4,392** | **27,650** | **32,042** |
| At 31 December 2011: | | | |
| Cost | **10,407** | **28,000** | **38,407** |
| Accumulated amortization | **(6,015)** | **(350)** | **(6,365)** |
| Net carrying amount | **4,392** | **27,650** | **32,042** |
| **31 December 2010** | | | |
| Cost at 1 January 2010, net of accumulated amortization | 3,902 | – | 3,902 |
| Additions | 2,348 | – | 2,348 |
| Acquisition of subsidiaries | 33 | – | 33 |
| Disposal | (40) | – | (40) |
| Disposal of subsidiaries | (9) | – | (9) |
| Amortization provided during the year | (1,761) | – | (1,761) |
| At 31 December 2010 | 4,473 | – | 4,473 |
| At 31 December 2010: | | | |
| Cost | 8,963 | – | 8,963 |
| Accumulated amortization | (4,490) | – | (4,490) |
| Net carrying amount | 4,473 | – | 4,473 |

## 21. PREPAID RENTAL

### Group

| | RMB'000 |
|---|---|
| **31 December 2011** | |
| Carrying amount at 1 January 2011, | **57,516** |
| Acquisition of a subsidiary (note 41) | **6,200** |
| Addition | **13,437** |
| Recognised during the year | **(7,138)** |
| At 31 December 2011 | **70,015** |
| Less: Current portion | **(10,890)** |
| Non-current portion of prepaid rental | **59,125** |
| **31 December 2010** | |
| Carrying amount at 1 January 2010, | 122,443 |
| Recognised during the year | (18,194) |
| Transfer to owner-occupied property (note 15) | (46,733) |
| At 31 December 2010 | 57,516 |
| Less: Current portion | (4,667) |
| Non-current portion of prepaid rental | 52,849 |

## 22. INVESTMENTS IN SUBSIDIARIES

### Company

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| Unlisted shares, at cost | **1,119,284** | 909,284 |

The amounts due from and to subsidiaries included in the Company's non-current assets and non-current liabilities of RMB6,849,678,000 (2010: RMB5,193,618,000) and RMB68,049,000 (2010: RMB156,392,000), respectively, are unsecured and interest-free, and have no fixed repayment terms. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and kind of legal entity | Nominal value of issued ordinary/ registered and share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| North Hill | BVI, limited liability company | United States dollars ("US$") 1 | 100% | – | Investment holding |
| River Three | BVI, limited liability company | US$1 | 100% | – | Investment holding and trademark management |
| Hangzhou Intime North Hill Enterprise Management Co., Ltd. | Mainland China, wholly-foreign-owned enterprise ("WFOE") | US$55,000,000 | – | 100% | Investment holding |
| Zhejiang Intime | Mainland China, WFOE | RMB800,000,000 | – | 100% | Operation and management of department stores and investment holding |
| Shanghai Intime | Mainland China, WFOE | RMB300,000,000 | – | 100% | Operation and management of department stores and investment holding |

## 22. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and kind of legal entity | Nominal value of issued ordinary/ registered and share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Zhejiang Wenzhou Intime Department Store Co., Ltd. | Mainland China, limited liability company | RMB30,000,000 | – | 100% | Operation and management of department stores |
| Hangzhou Intime Outlets Commercial Development Co., Ltd. ("Hangzhou Intime Outlets") | Mainland China, limited liability company | RMB20,000,000 | – | 100% | Investment holding |
| Zhejiang Intime Department Store (Jinhua) Co., Ltd. | Mainland China, limited liability company | RMB30,000,000 | – | 100% | Operation and management of department stores |
| Jiaxing Intime Meiwan Xintiandi Investment and Management Co., Ltd. ("Jiaxing Meiwan") | Mainland China, limited liability company | RMB400,000,000 | – | 60% | Investment and business management and property leasing |
| Intime Department Store (Ningbo Yinzhou) Co., Ltd. | Mainland China, limited liability company | RMB20,000,000 | – | 100% | Operation and management of department stores |
| Zhejiang Zhelian Investment and Management Co., Ltd. | Mainland China, limited liability company | RMB10,000,000 | – | 50%* | Investment holding and property development |
| Hangzhou Yinxi Intime Department Store Co., Ltd. | Mainland China, limited liability company | RMB36,000,000 | – | 50%* | Operation and management of department stores |
| Ezhou Intime Department Store & Trade Company Limited | Mainland China, limited liability company | RMB10,000,000 | – | 100% | Operation and management of department stores |

## 22. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and kind of legal entity | Nominal value of issued ordinary/ registered and share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Hubei Intime Department Store Co., Ltd. | Mainland China, limited liability company | RMB90,000,000 | – | 100% | Operation and management of department stores |
| Hangzhou Linping Intime Shopping Center Co., Ltd. | Mainland China, limited liability company | RMB10,000,000 | – | 100% | Operation and management of department stores |
| Jinhua Intime Shopping Center Co., Ltd. | Mainland China, limited liability company | RMB30,000,000 | – | 100% | Operation and management of department stores |
| Shenyang North Intime Real Estate Co., Ltd. | Mainland China, limited liability company | RMB6,800,000 | – | 100% | Lease of real estate and equipment; property management |
| Xi'an Central Intime Commercial Management Co., Ltd. | Mainland China, limited liability company | RMB30,000,000 | – | 60% | Operation and management of department stores |
| Yiwu Intime Department Store Co., Ltd. | Mainland China, limited liability company | RMB15,000,000 | – | 52% | Operation and management of department stores |
| Hubei Intime Xiantao Shangcheng Building Co., Ltd. | Mainland China, limited liability company | RMB36,925,000 | – | 65.8% | Operation and management of department stores |
| Intime Department Store (Hong Kong) Company Limited ("Intime HK") | Hong Kong, limited liability company | HK$1,000,000 | 100% | – | Investment holding |

## 22. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and kind of legal entity | Nominal value of issued ordinary/ registered and share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Zhejiang Intime Investment Co., Ltd. ("Zhejiang Intime Investment") | Mainland China, WFOE | RMB630,000,000 | – | 100% | Investment holding |
| Fuyang Intime Department Store Co., Ltd. | Mainland China, limited liability company | RMB10,000,000 | – | 100% | Operation and management of department stores |
| Anhui Province Huaqiao Hotel Company Limited ("Anhui Huaqiao Hotel") | Mainland China, limited liability company | RMB260,000,000 | – | 100% | Property development |
| Cixi Intime Commercial Management Co., Ltd. | Mainland China, limited liability company | RMB150,600,000 | – | 100% | Property development |
| Sin Cheng | Singapore, private limited company | Singapore dollars ("SG$") 1,200,000 | – | 100% | Investment and business management |
| Hubei Wuluo Innovation Park Development Co., Ltd. ("Hubei Wuluo") | Mainland China, limited liability company | RMB60,000,000 | – | 100% | Property development |
| Hangzhou Intime Century Department Store Co., Ltd. | Mainland China, WFOE | US$20,000,000 | – | 100% | Operation and management of department stores |
| Intime Department Store (Ningbo Haishu) Co., Ltd. | Mainland China, limited liability company | RMB50,000,000 | – | 100% | Operation and management of department stores |
| Intime Department Store (Ningbo Jiangdong) Co., Ltd. | Mainland China, limited liability company | RMB50,000,000 | – | 100% | Operation and management of department stores |

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## 22. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and kind of legal entity | Nominal value of issued ordinary/ registered and share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Zhoushan Intime Department Store Co., Ltd. | Mainland China, limited liability company | RMB10,000,000 | – | 100% | Operation and management of department stores |
| Hubei New Century Shopping Center Co., Ltd. ("Hubei New Century") | Mainland China, limited liability company | RMB10,000,000 | – | 85% | Operation and management of department stores |
| Raffland Pte. Ltd.# | Singapore, private limited company | SG$33,246,499 | – | 51% | Investment holding |
| Liuzhou New Real Estate Development Company Limited # | Mainland China, WFOE | US$49,000,000 | – | 51% | Property development |
| South Line Holding (HK) Company Limited ("South Line HK") | Hong Kong, limited liability company | HK$10,000 | – | 100% | Investment holding |
| Xi'an Southline Zhuque Investment Company ("Xi'an South Line") | Mainland China, limited liability company | HK$81,000,000 | – | 100% | Lease of real estate and equipment; property management |
| Anhui Intime Commercial Co., Ltd. | Mainland China, limited liability company | RMB30,000,000 | – | 100% | Operation and management of department stores |
| Tangshan Intime Department Store Co., Ltd. | Mainland China, limited liability company | RMB10,000,000 | – | 100% | Operation and management of department stores |

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## 22. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

| Name | Place of incorporation/ registration and kind of legal entity | Nominal value of issued ordinary/ registered and share capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Wenling Intime Shopping Mall Development Co., Ltd. | Mainland China, limited liability company | RMB300,000,000 | 70% | – | Property development |
| Haining Intime Property Co., Ltd. | Mainland China, WFOE | US$150,000,000 | – | 100% | Property development |
| Panzhihua Taiyue Property Co., Ltd. | Mainland China, limited liability company | RMB20,000,000 | – | 100% | Property development |

* These companies are accounted for as subsidiaries of the Group as the Group is able to control their financial and operating policies.

\# These subsidiaries were acquired by the Group during the year ended 31 December 2011 with a total consideration of USD26,545,000 (RMB171,795,000 equivalently). Since the subsidiaries acquired does not constitute a business, the Company accounted for the acquisition as an acquisition of asset. The carrying amounts of cash and cash equivalents, properties under development, property, plant and equipment, other net current liabilities and the non-controlling interest as at the acquisition date amounted to RMB329,000, RMB49,500,000, RMB329,905,000, RMB42,881,000 and RMB165,058,000 respectively.

Details of the business combinations of Group during the year are included in note 41 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

## 23. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

### Group

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Share of net assets | 157,210 | 166,180 |
| Goodwill on acquisition | 136,519 | 136,519 |
| | 293,729 | 302,699 |

The movements of the investment in a jointly-controlled entity during years 2011 and 2010 are as follows:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| At 1 January | 302,699 | 304,409 |
| Share of losses | (3,258) | (1,710) |
| Unrealised profit and loss resulting from the transaction with the Group | (5,712) | – |
| At 31 December | 293,729 | 302,699 |

Particulars of the jointly-controlled entity are as follows:

| | | | Percentage of | | | |
|---|---|---|---|---|---|---|
| Name | Registered share capital | Place of registration | Ownership interest | Voting power | Profit sharing | Principal activities |
| Hangzhou Xin Hubin Commercial Development Co., Ltd. ("Xin Hubin") | RMB80,000,000 | Mainland China | 50 | 50 | 50 | Property development; wholesale and retailing |

## 23. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (CONTINUED)

The investment in the jointly-controlled entity is held through a wholly-owned subsidiary of the Company.

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Share of the jointly-controlled entity's assets and liabilities: | | |
| Current assets | **2,900** | 2,576 |
| Non-current assets | **1,016,956** | 925,887 |
| Current liabilities | **359,913** | 103,463 |
| Non-current liabilities | **502,733** | 658,820 |
| Net assets | **157,210** | 166,180 |

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Share of the jointly-controlled entity's results: | | |
| Total expenses | **(3,258)** | (1,710) |
| Tax | **–** | – |
| Loss after tax | **(3,258)** | (1,710) |

## 24. INTERESTS IN ASSOCIATES

### Group

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Unlisted: | | |
| Share of net assets | 698,973 | 326,977 |
| Goodwill on acquisition | 972,791 | 972,791 |
| | 1,671,764 | 1,299,768 |
| Loans to an associate | 11,000 | – |
| | 1,682,764 | 1,299,768 |
| Listed in Mainland China: | | |
| Share of net assets | 702,248 | 878,197 |
| Goodwill on acquisition | 134,590 | 178,280 |
| | 836,838 | 1,056,477 |
| Disposal of shares in an associate | – | (294,334) |
| Transfer to an associate held for sale | – | (174,930) |
| | 836,838 | 587,213 |
| | 2,519,602 | 1,886,981 |
| Market value of listed shares | 1,893,891 | 2,110,011 |

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## 24. INTERESTS IN ASSOCIATES (CONTINUED)

The movements of the investments in associates during the years 2011 and 2010 are as follows:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| At 1 January | **1,886,981** | 769,452 |
| Share of profits and losses | **226,589** | 61,461 |
| Transfer to an associate held for sale | **–** | (174,930) |
| Acquisition of associates (note (a)) | **154,873** | 1,249,619 |
| Gain on bargain purchase (note (a)) | **14,710** | – |
| Capital injection to associates (note (b)) | **100,690** | – |
| Acquisition of additional shares of associates (note (c)) | **170,110** | – |
| Establishment of associates | **–** | 60,600 |
| Disposal of shares of an associate | **–** | (79,114) |
| Unrealised profit and loss resulting from the transaction with the Group | **(7,641)** | – |
| Share of other comprehensive loss of associates | **–** | (107) |
| Loans to an associate | **11,000** | – |
| Exchange realignment | **(37,710)** | – |
| At 31 December | **2,519,602** | 1,886,981 |

## 24. INTERESTS IN ASSOCIATES (CONTINUED)

Notes:

(a) In January 2011, Anhui Huaqiao Hotel, entered into i) an agreement with Anhui Zheshang Investment Group Co., Ltd. ("Anhui Zheshang"), to further acquire a 20% equity interest in Anhui Hualun Gangwan Culture Investment Co., Ltd. ("Anhui Hualun") at a consideration of RMB95,770,000; ii) an agreement with Anhui Xinhua Distribution Group Holding Co., Ltd. to acquire an 8% equity interest in Anhui Hualun at a consideration of RMB38,303,000;

On 10 November 2010, Hangzhou Intime Outlets entered into agreement with Zhejiang Zhongda Real Estate Group Co., Ltd. ("Zhejiang Zhongda") to acquire a 40% equity interest in Hangzhou Zhongda Shengma Property Co., Ltd. ("Zhongda Shengma") at a consideration of RMB20,800,000. The transaction was completed in November 2011.

(b) During the year, the paid-in capital of Zhejiang Intime Electronic Commerce Co., Ltd., ("Zhejiang Intime Electronic Commerce") increased from RMB40,000,000 to RMB127,890,000. The Group contributed additional capital of RMB23,290,000 proportionate to its shareholding in Zhejiang Intime Electronic Commerce.

During the year, the paid-in capital of Anhui Hualun increased from RMB20,000,000 to RMB200,000,000. The Group contributed additional capital of RMB77,400,000 proportionate to its shareholding in Anhui Hualun.

(c) In 2011, the Group purchased 9,452,705 (1.86%) shares in Wuhan Department Store Group Co., Ltd., at a total consideration of RMB170,110,000.

## 24. INTERESTS IN ASSOCIATES (CONTINUED)

Particulars of the associates are as follows:

| Name | Particulars of issued shares held | Registered and share capital | Place of registration | Percentage of ownership interest attributable to the Group | Principal activities |
|---|---|---|---|---|---|
| Wuhan Department Store Group Co., Ltd. | 124,189,570 ordinary shares of RMB1 each | N/A | Mainland China | 24.48% | Operation and management of supermarkets and department stores |
| Xi'an Qujiang Intime | N/A | RMB175,000,000 | Mainland China | 28.571% | Property development |
| Zhejiang Intime Electronic Commerce | N/A | RMB127,890,000 | Mainland China | 26.5% | Operation and management of on-line shopping mall |
| Anhui Hualun | N/A | RMB200,000,000 | Mainland China | 43% | Operation and management of department stores and property development |
| Beijing Youyi Lufthansa Shopping City Co. Ltd. Beijing Lufthansa Centre ("Beijing Youyi Lufthansa") | N/A | RMB60,000,000 | Mainland China | 50% | Operation and management of department stores |
| Zhongda Shengma | N/A | RMB50,000,000 | Mainland China | 40% | Property development |

The investments in associates are held through wholly-owned subsidiaries of the Company.

The percentages of voting rights and profit sharing of these associates are the same with the percentages of ownership interests.

### 24. INTERESTS IN ASSOCIATES (CONTINUED)

The following table illustrates the summarised financial information of the Group's associates.

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Assets | **15,127,314** | 10,553,165 |
| Liabilities | **11,407,929** | 7,762,040 |
| Gross revenue from concessionaire sales and other revenues | **14,317,637** | 11,341,204 |
| Profit | **629,523** | 292,444 |

### 25. AVAILABLE-FOR-SALE INVESTMENTS

**Group**

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Listed equity investments, at fair value: | | |
| Mainland China | **41,724** | – |

There was a significant decline in the market value of certain listed equity investments during the year. The directors consider that such a decline indicates that the listed equity investments have been impaired and an impairment loss of RMB20,627,000 (2010: Nil), which included a reclassification from other comprehensive income of RMB20,627,000 (2010: Nil), has been recognised in the income statement for the year.

### 25. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

The movements of the available-for-sale investments during the years 2011 and 2010 are as follows:

**Group**

| | 2011 | 2010 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| At beginning of year | – | – |
| Transfer from an associate held for sale (note (a)) | 62,351 | – |
| Impairment charged to the income statement | (20,627) | – |
| At end of year | 41,724 | – |

Note:

(a) In 2011, due to the loss of significant influence over Baida Group Co., Ltd. ("Baida") by the Group, the investment in Baida was transferred from an associate held for sale to available-for-sale investments.

## 26. DEFERRED TAX

### Group

The movements in deferred tax assets and liabilities during the year are as follows:

### Deferred tax assets

| | Accruals | Government subsidy | Losses available for offsetting against future taxable profits | Others | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2010 | 17,521 | – | 13,394 | – | 30,915 |
| Recognised in the income statement (note 8) | 4,159 | – | 13,159 | – | 17,318 |
| At 31 December 2010 | 21,680 | – | 26,553 | – | 48,233 |
| At 1 January 2011 | 21,680 | – | 26,553 | – | 48,233 |
| Recognised in the income statement (note 8) | 16,205 | 25,313 | 11,359 | 3,338 | 56,215 |
| Acquisition of a subsidiary (note 41) | – | – | – | 5,671 | 5,671 |
| At 31 December 2011 | 37,885 | 25,313 | 37,912 | 9,009 | 110,119 |

## 26. DEFERRED TAX (CONTINUED)

### Deferred tax liabilities

| | Available-for-sale investments | Fair value adjustments arising from acquisition of subsidiaries | Withholding tax at 10% on the distributable profits of Group's PRC subsidiary and associate | Temporary difference of gain arising from disposal of shares in an associate | Others | Total |
|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| At 1 January 2010 | – | 207,942 | 5,357 | 6,153 | – | 219,452 |
| Transfer to tax payable during the year | – | – | (5,357) | – | – | (5,357) |
| Acquisition of subsidiaries | – | 91,957 | 29,879 | – | – | 121,836 |
| Disposal of subsidiaries | – | (49,740) | – | – | – | (49,740) |
| Recognised in the income statement (note 8) | – | (5,708) | – | 4,165 | – | (1,543) |
| At 31 December 2010 | – | 244,451 | 29,879 | 10,318 | – | 284,648 |
| Acquisition of subsidiaries (note 41) | – | 110,772 | – | – | – | 110,772 |
| Transfer to tax payable during the year | – | – | (10,000) | – | – | (10,000) |
| Exchange realignment | – | – | (1,091) | – | – | (1,091) |
| Recognised in the income statement (note 8) | 10,211 | (7,672) | 17,377 | (10,318) | 4,371 | 13,969 |
| At 31 December 2011 | 10,211 | 347,551 | 36,165 | – | 4,371 | 398,298 |

The Group has tax losses arising in Mainland China of RMB314,830,000 (2010: RMB186,432,000) that will expire in one to five years for offsetting against future taxable profits for which no deferred tax assets have been recognised, as they have arisen in subsidiaries that have been loss-making for some time and it is uncertain that taxable profits will be available against which the tax losses can be utilised.

## 26. DEFERRED TAX (CONTINUED)

### Deferred tax liabilities (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiaries, jointly-controlled entity and associates established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2011, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities arising from the withholding tax have not been recognised totalled approximately RMB2,293,137,000 at 31 December 2011 (2010: RMB1,502,752,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 27. INVENTORIES

### Group

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Store merchandises, at cost or net realisable value | 293,130 | 154,629 |
| Low value consumables | 1,355 | 1,120 |
| | 294,485 | 155,749 |

## 28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Receivable from disposal of a loan made to a subsidiary | – | 27,606 | – | – |
| Receivable from disposal of a subsidiary | – | 78,394 | – | – |
| Rental deposits | 81,800 | 37,800 | – | – |
| Prepaid rental | 10,890 | 4,667 | – | – |
| Advances to suppliers | 12,237 | 55,440 | – | – |
| Advances to third parties | 100,842 | 197,698 | – | – |
| Dividend receivable from an associate | – | 100,000 | – | – |
| Prepaid tax | 43,681 | – | – | – |
| Prepayments | 43,536 | – | – | – |
| Others | 85,864 | 86,117 | 1,090 | 1,104 |
| | 378,850 | 587,722 | 1,090 | 1,104 |

Note:

None of the above assets is either past due or impaired. The financial assets included in the above balances related to receivables for which there was no recent history of default.

## 29. LOANS AND RECEIVABLES

### Group

During the year, the Group granted interest-bearing loans to the following parties:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| **Third parties** | | |
| Principal | 387,231 | 974,410 |
| Interest receivable | 8,429 | 1,755 |
| | 395,660 | 976,165 |
| Less: non – current portion | (100,000) | (240,000) |
| | 295,660 | 736,165 |
| **Related parties** | | |
| Principal: | | |
| Beijing Intime Lotte Department Store Co., Ltd. ("Intime Lotte") | – | 19,095 |
| China Yintai Holding Co., Ltd. ("China Yintai") (note (ii)) | 100,000 | 115,000 |
| Zhejiang Intime Electronic Commerce (note (iii)) | 51,720 | – |
| Xi'an Qujiang Intime (note (iv)) | 200,000 | – |
| Hangzhou Intime Shopping Centre Co., Ltd. ("Hangzhou Intime") (note (v)) | 300,000 | – |
| Zhongda Shengma (note (vi)) | 411,538 | – |
| | 1,063,258 | 134,095 |
| Interest receivable: | | |
| Intime Lotte | – | 3,507 |
| China Yintai (note (ii)) | 3,367 | – |
| Hangzhou Intime (note (v)) | 1,375 | – |
| Zhongda Shengma (note (vi)) | 1,187 | 3,055 |
| | 5,929 | 6,562 |
| | 1,069,187 | 140,657 |
| Less: non – current portion | (923,258) | (100,000) |
| | 145,929 | 40,657 |

## 29. LOANS AND RECEIVABLES (CONTINUED)

Notes:

(i) During the year, the Group granted entrusted loans to certain third parties with a principal amount of RMB387,231,000 (2010: RMB974,410,000) which bear interest rates ranging from 10% to 20% per annum with maturity periods of one to two years. All the loans were secured by pledges of the equity interests of certain subsidiaries of the borrowers or guaranteed.

(ii) Pursuant to the equity transfer agreement with China Yintai signed in July 2009, the Group disposed shareholder's loan of RMB145,000,000 made to Intime Lotte to China Yintai for a consideration of RMB145,000,000. The consideration owed by China Yintai was payable in four installments: RMB15,000,000 in year 2009; RMB15,000,000 and RMB15,000,000 within years 2010 and 2011 respectively and RMB100,000,000 within three years since 17 September 2009 (effective date of the transfer). The outstanding balance bears interest at the prevailing market rates and interest is paid annually. As at 31 December 2011, the third installment of RMB15,000,000 has been paid by China Yintai.

(iii) Pursuant to loan agreements between Zhejiang Intime Electronic Commerce and the Group, the Group provided interest-free shareholder's loans with a total amount of RMB62,720,000 to Zhejiang Intime Electronic Commerce for a period of three years. The fair value of the loan was RMB51,720,000 and the loan was affiliated with options provided to the Group to convert its amount of loans into the paid-in capital of Zhejiang Intime Electronic Commerce. The loan was guaranteed by the controlling shareholder of Zhejiang Intime Electronic Commerce.

(iv) Pursuant to a loan agreement among Xi'an Qujiang Intime, the controlling shareholder of Xi'an Qujiang Intime and the Group, the Group provided an interest-free shareholder's loan amounting to RMB200,000,000 to Xi'an Qujiang Intime for a period of 36 months. Subject to the approval from the local State-owned Assets Supervision and Administration Commission ("SASAC"), the Group will acquire 71.429% equity interest of Xi'an Qujiang Intime from the controlling shareholder. The Group will receive 20% of the principal as compensation if the acquisition was not completed due to the default of the controlling shareholder.

(v) Pursuant to a co-development agreement between Hangzhou Intime, Zhejiang Fuqiang Properties Co., Ltd. ("Zhejiang Fuqiang") and the Group, the Group provided loans to Hangzhou Intime with an amount of RMB300,000,000 for the construction and development of the department store property in the west of Hangzhou City with an annual fee of 15% and due on January 2013. Intime International provided guarantee to secure due performance of the obligations of Zhejiang Fuqiang and Hangzhou Intime under the co-development agreement.

(vi) Pursuant to a loan agreement between Zhongda Shengma and the Group, the Group provided loans to Zhongda Shengma with an amount of RMB411,538,000 for a period of 24 months for the construction and development of the department store property with an annual interest of 10%. The loan was guaranteed by the controlling shareholder of Zhongda Shengma.

## 30. TRADE RECEIVABLES

### Group

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Trade receivables | 22,457 | 16,040 |
| Impairment | – | – |
| | 22,457 | 16,040 |

Trade receivables as at the respective reporting dates were denominated in RMB, and were aged within 60 days.

The trade receivables are neither past due or impaired.

## 31. CASH IN TRANSIT

### Group

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Cash in transit | 132,314 | 95,711 |

Cash in transit represents the sales proceeds settled by debit cards or credit cards, which have yet to be credited by the banks to the Group.

## 32. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Cash and bank balances | **1,781,001** | 1,366,110 | **49,795** | 282,814 |
| Time deposits | **85,073** | – | **24,321** | – |
| | **1,866,074** | 1,366,110 | **74,116** | 282,814 |
| Less: Restricted bank balances | **(86,821)** | (43,508) | **–** | – |
| Cash and cash equivalents | **1,779,253** | 1,322,602 | **74,116** | 282,814 |

At 31 December 2011 and 2010, the cash at banks and on hand were denominated in the following currencies:

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| RMB | **1,744,763** | 1,067,516 | **661** | – |
| US$ | **6,111** | 55 | **–** | – |
| HK$ | **115,188** | 298,486 | **73,455** | 282,814 |
| SG$ | **12** | 53 | **–** | – |
| | **1,866,074** | 1,366,110 | **74,116** | 282,814 |

At the end of the reporting period, the cash and bank balances of the Group denominated in US$, HK$ and SG$ amounted to RMB6,111,000, RMB115,188,000 and RMB12,000 (2010: RMB55,000, RMB298,486,000 and RMB53,000), respectively. The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

## 32. CASH AND CASH EQUIVALENTS AND RESTRICTED BANK BALANCES (CONTINUED)

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default. Time deposits amounted to RMB45,073,000 earn interests at fixed rates from 0.93% to 3.1%. Time deposits amounted to RMB40,000,000 earn interests at a floating rate.

## 33. TRADE AND BILLS PAYABLES

### Group

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the payment due date, is as follows:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Within 1 month | **1,085,768** | 754,226 |
| 1 to 2 months | **513,974** | 365,530 |
| 2 to 3 months | **50,588** | 59,090 |
| over 3 months | **19,615** | 27,405 |
| | **1,669,945** | 1,206,251 |

Trade and bills payables as at the end of each reporting period were denominated in RMB.

## 34. OTHER PAYABLES AND ACCRUALS

| | Group | | Company | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Payables for purchase of property, plant and equipment and properties under development | 237,444 | 171,404 | – | – |
| Advances from customers | 1,357,786 | 834,823 | – | – |
| Advances from pre-sale of properties under development | 620,972 | 145,021 | – | – |
| Advances from a non-controlling shareholder of a subsidiary (note (i)) | 172,298 | – | – | – |
| Advances from third parties (note (i)) | 137,766 | – | – | – |
| Other liabilities to local government | 21,446 | 21,446 | – | – |
| Other tax payables | 312,184 | 199,095 | 67 | 11,589 |
| Bonus and welfare payables | 98,278 | 63,116 | – | – |
| Deposits received from suppliers/concessionaires | 139,764 | 91,187 | – | – |
| Deposits received from building contractors | 8,249 | 9,000 | – | – |
| Accruals | 260,213 | 157,140 | – | – |
| Accrued interest | 21,442 | – | 21,442 | – |
| Payables for purchase of equity interests | 33,703 | 249,743 | – | – |
| Payables for purchase of a shareholder's loan in respect of acquisition of a subsidiary | – | 19,818 | – | – |
| Deferred revenue | 35,235 | 28,276 | – | – |
| Deferred government subsidy | 3,325 | 3,798 | – | – |
| Payables to ex-shareholders of a subsidiary | – | 14,492 | – | – |
| Others | 86,748 | 55,369 | – | 59 |
| | 3,546,853 | 2,063,728 | 21,509 | 11,648 |

Note:

(i) The advances from a non-controlling shareholder of a subsidiary and third parties are interest-free and have no fixed repayment terms.

## 35. INTEREST-BEARING BANK AND OTHER BORROWINGS

### Group

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Effective/ contractual interest rate (%) | Maturity | *RMB'000* | Effective/ contractual interest rate (%) | Maturity | *RMB'000* |
| **Current:** | | | | | | |
| Bank loans – unsecured | 6.888 | 2012 | 50,000 | 4.455-5.56 | 2011 | 289,000 |
| Bank loans – secured (a) | 5.31-6.89 | 2012 | 40,000 | 5.31 | 2011 | 78,000 |
| Current portion of long term bank loans – secured (a) | 5.40-7.59 | 2012 | 152,909 | 5.94 | 2011 | 125,000 |
| Current portion of long term bank loans – unsecured | 6.650 | 2012 | 39,000 | – | – | – |
| | | | 281,909 | | | 492,000 |
| **Non-current:** | | | | | | |
| Secured bank loans (a) | 5.346-7.755 | 2013-2016 | 978,182 | 5.184-6.556 | 2012-2015 | 645,000 |
| Unsecured bank loans | 6.65 | 2013 | 25,500 | 5.85 | 2012-2013 | 63,000 |
| Secured other loans (b) | 7.68 | 2014 | 200,000 | – | – | – |
| | | | 1,203,682 | | | 708,000 |
| Convertible bonds (note 36) | Weighted average of 5.13 | 2013 | 1,591,678 | Weighted average of 5.13 | 2013 | 1,617,947 |
| Guaranteed bonds due July 2014 (note 37) | Weighted average of 4.93 | 2014 | 993,470 | – | – | – |
| | | | 3,788,830 | | | 2,325,947 |
| | | | 4,070,739 | | | 2,817,947 |

## 35. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Analysed into: | | |
| Within one year or on demand | **281,909** | 492,000 |
| In the second year | **1,745,360** | 190,000 |
| In the third to fifth years, inclusive | **2,043,470** | 2,135,947 |
| | **4,070,739** | 2,817,947 |

Notes:

(a) Secured bank and other loans of RMB1,361,091,000 as at 31 December 2011 were secured by certain of the Group's buildings, construction in progress, investment properties, prepaid land lease payments and properties under development, the total carrying amount of which at 31 December 2011 was RMB3,184,634,000 (2010: RMB2,533,597,000) (notes 15, 16, 17 and 18).

(b) Secured bank loans of RMB10,000,000 as at 31 December 2011 were guaranteed by a non-controlling shareholder of the Group's subsidiary.

(c) The Group has the following undrawn banking facilities:

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| At floating rate: | | |
| Expiring within 1 year | **1,534,959** | – |
| Expiring within 2 to 4 years, inclusive | **988,000** | 1,886,050 |
| Expiring after 5 years | **299,500** | 370,000 |
| | **2,822,459** | 2,256,050 |

The Group's banking facilities were secured by certain buildings (note 15), construction in progress (note 15), investment properties (note 16), prepaid land lease payments (note 17) and properties under development of the Group (note 18).

## 35. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

### Company

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | Effective interest rate (%) | Maturity | *RMB'000* | Effective interest rate (%) | Maturity | *RMB'000* |
| **Non-current:** | | | | | | |
| Convertible bonds (note 36) | Weighted average of 5.13 | 2013 | 1,591,678 | Weighted average of 5.13 | 2013 | 1,617,947 |
| Guaranteed bonds due July 2014 (note 37) | Weighted average of 4.93 | 2014 | 993,470 | – | – | – |

## 36. CONVERTIBLE BONDS

On 27 October 2010, the Company issued 1.75% convertible bonds with a nominal value of HK$1,941,000,000. There was no movement in these convertible bonds during the year. The bonds are convertible at an option of the bondholders into ordinary shares on or after 7 December 2010 up to 20 October 2013 at a conversion price of HK$13.31 per share. The bonds are redeemable at the option of the bondholders at 100% of its principal amount together with interest accrued and unpaid to such date on 20 October 2013. The bonds are redeemable at the option of the Company at any time prior to 20 October 2013 in whole, but not in part, of the convertible bonds for the time being outstanding at their principal amount together with interest accrued to the date fixed for redemption provided that prior to the date of notice of such redemption at least 90% in principal amount of the convertible bonds originally issued has already been converted, redeemed or purchased and cancelled. The bonds carry interest at a rate of 1.75% per annum, which is payable half-yearly in arrears on 27 April and 27 October.

Since 17 October 2011, the conversion price was adjusted to HK$13.09 per share due to the payment of 2010 final dividend and 2011 interim dividend (note 12).

The fair value of the liability component was estimated at the issuance date using an equivalent market interest rate for a similar bond without a conversion option. The residual amount is assigned as the equity component and is included in shareholders' equity.

### 36. CONVERTIBLE BONDS (CONTINUED)

The convertible bonds issued during the year have been split as to the liability and equity components as follows:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Nominal value of convertible bonds issued during 2010 | **1,673,685** | 1,673,685 |
| Equity component | **(23,607)** | (23,607) |
| Direct transaction costs attributable to the liability component | **(25,105)** | (25,105) |
| | **1,624,973** | 1,624,973 |
| Liability component at the issuance date | **1,624,973** | 1,624,973 |
| Interest expense | **94,030** | 14,478 |
| Exchange realignment | **(99,278)** | (21,504) |
| Interest paid | **(28,047)** | – |
| Liability component at 31 December (note 35) | **1,591,678** | 1,617,947 |

### 37. GUARANTEED BONDS DUE JULY 2014

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Guaranteed bonds due July 2014, listed | | |
| Non-current | **993,470** | – |

On 27 October 2011, the Company issued the guaranteed bonds due July 2014 ("GB2014") in an aggregate principal amount of RMB1,000,000,000. The guaranteed bonds due July 2014 were admitted to the Official List of the Hong Kong Exchange Securities Trading Limited. The GB2014 are due on 19 July 2014 and bear interest at a rate of 4.65% per annum. Interest is payable semi-annually in arrears on 19 January and 19 July of each year, commencing on 19 January 2012.

The obligations of the Company under the GB2014 are guaranteed by certain subsidiaries of the Group.

## 38. SHARE CAPITAL

| | Authorized | | |
|---|---|---|---|
| | *Number of shares* | *US$* | *RMB* |
| At 31 December 2011 and 2010 | 5,000,000,000 | 50,000 | 393,500 |

| | Issued and fully paid up | | |
|---|---|---|---|
| | *Number of shares* | *US$* | *RMB* |
| As at 31 December 2010 | 1,909,527,335 | 19,095 | 148 |
| Share options exercised (i) | 7,266,000 | 72 | 1 |
| Issue of shares (ii) | 76,669,653 | 767 | 4 |
| As at 31 December 2011 | 1,993,462,988 | 19,934 | 153 |

During the year, the movements in share capital were as follows:

(i) The subscription rights attaching to 7,266,000 share options were exercised at subscription prices of HK$3.56, HK$5.64, HK$1.88, HK$5.50, HK$6.44, HK$6.49 and HK$6.63 per share (note 40), resulting in the issue of 7,266,000 shares of US$0.00001 each for a total cash consideration, before expenses, of HK$29,700,655 (RMB24,734,000 equivalent). An amount of RMB8,222,000 was transferred from the share option reserve to the share premium account upon the exercise of the share options.

(ii) On 15 November 2011, the Company issued 76,669,653 shares to Government of Singapore Investment Corporation Private Limited for HK$9.90 per share.

## 38. SHARE CAPITAL (CONTINUED)

A summary of the transactions during the year with reference to the above movements in the Company's issued share capital is as follows:

| | Number of shares | Issued capital US$ | Share premium *RMB'000* |
|---|---|---|---|
| At 1 January 2010 | 1,751,164,000 | 17,512 | 2,230,876 |
| Share options exercised | 10,698,500 | 107 | 48,550 |
| Issue of shares | 147,664,835 | 1,476 | 1,320,397 |
| At 31 December 2010 and 1 January 2011 | 1,909,527,335 | 19,095 | 3,599,823 |
| Share options exercised | 7,266,000 | 72 | 32,955 |
| Issue of shares | 76,669,653 | 767 | 610,475 |
| At 31 December 2011 | 1,993,462,988 | 19,934 | 4,243,253 |

### Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 40 to the financial statements.

## 39. RESERVES

### Group

*(i) Statutory reserves*

Prior to their conversion into wholly-owned-foreign enterprises in 2006, the subsidiaries of the Company established in the PRC shall appropriate 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory reserve fund account in accordance with the PRC Company Law and their articles of association. When the balance of such reserve fund reaches 50% of the share capital of each entity, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years' losses or to increase capital after proper approval. However, such statutory reserve fund must be maintained at a minimum of 25% of share capital after usage, except for offsetting prior years' losses.

## 39. RESERVES (CONTINUED)

### Group (continued)

#### *(i) Statutory reserves (continued)*

In addition to the above, these subsidiaries are also required to appropriate 5% to 10% of their annual statutory net profit (after offsetting any prior years' losses) to the statutory welfare fund to be utilised for employees' common welfare in accordance with the PRC Company Law and the subsidiaries' articles of association.

Upon conversion of the Group's PRC subsidiaries into wholly-foreign-owned enterprises in 2006, these subsidiaries are no longer required to appropriate the net profit to the statutory reserve fund and the statutory welfare fund. Pursuant to the relevant PRC Law and the revised articles of association of these subsidiaries, they are required to appropriate 10% of their statutory net profit to the enterprise expansion fund. The enterprise expansion fund can only be used to increase the capital of group companies or to expand their production operations upon approval by the relevant authority.

## 39. RESERVES (CONTINUED)

### Group (continued)

*(ii) Exchange fluctuation reserve*

The exchange fluctuation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

### Company

| | Share premium RMB'000 | Equity component of convertible bonds RMB'000 | Capital redemption reserve RMB'000 | Contributed surplus RMB'000 | Retained profits RMB'000 | Exchange fluctuation reserve RMB'000 | Share option reserve RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|---|
| At 31 December 2009 | 2,230,876 | – | 4 | 908,303 | 7,138 | (77,984) | 29,738 | 3,098,075 |
| Total comprehensive income for the year | – | – | – | – | 264,450 | 12,485 | – | 276,935 |
| Issue of shares | 1,320,397 | – | – | – | – | – | – | 1,320,397 |
| Issuance of convertible bonds | – | 23,607 | – | – | – | – | – | 23,607 |
| Equity-settled share option arrangements (note 40) | – | – | – | – | – | – | 18,810 | 18,810 |
| Transfer of share option reserve upon the forfeiture or expiry of share options | – | – | – | – | 5,472 | – | (5,472) | – |
| Exercise of share options | 48,550 | – | – | – | – | – | (10,149) | 38,401 |
| Interim 2010 dividend | – | – | – | – | (175,540) | – | – | (175,540) |
| Proposed final 2010 dividend | – | – | – | – | (95,476) | – | – | (95,476) |
| At 31 December 2010 | 3,599,823 | 23,607 | 4 | 908,303 | 6,044 | (65,499) | 32,927 | 4,505,209 |
| Total comprehensive income for the year | – | – | – | – | 351,461 | 38,615 | – | 390,076 |
| Issue of shares | 610,475 | – | – | – | – | – | – | 610,475 |
| Equity-settled share option arrangements (note 40) | – | – | – | – | – | – | 32,693 | 32,693 |
| Transfer of share option reserve upon the forfeiture or expiry of share options | – | – | – | – | 1,698 | – | (1,698) | – |
| Divided on shares issued for employee have options exercised after 31 December 2010 | – | – | – | – | (2,344) | – | – | (2,344) |
| Exercise of share options | 32,955 | – | – | – | – | – | (8,222) | 24,733 |
| Interim 2011 dividend | – | – | – | – | (191,533) | – | – | (191,533) |
| Proposed final 2011 dividend | – | – | – | – | (139,542) | – | – | (139,542) |
| At 31 December 2011 | 4,243,253 | 23,607 | 4 | 908,303 | 25,784 | (26,884) | 55,700 | 5,229,767 |

## 40. SHARE OPTION SCHEME

The share option scheme (the "Scheme") was approved pursuant to a resolution passed by the Company's shareholders at an extraordinary general meeting held on 24 February 2007. According to this share option scheme, the directors may invite the Group's employees, senior management, directors and other eligible participants to take up share options of the Company. The amount payable for each share to be subscribed for under an option upon exercise shall be determined and will be determined according to the highest of (i) the average official closing price of the shares on the Stock Exchange for the five trading days immediately preceding the relevant offer date, (ii) the official closing price of the shares on the Stock Exchange on the relevant offer date and (iii) the nominal value of the shares. Options granted become vested after a certain period. An option may be exercised in accordance with the terms of the share option scheme any time during a period to be notified by the board to each grantee or to be resolved by the board at the time of grant.

The maximum number of shares in respect of which options may be granted under the share option scheme when aggregated with the maximum number of shares in respect of which options over shares or other securities may be granted by the Group under any other scheme shall not exceed 10% of the issued share capital as at the date of listing of the shares of the Company (representing 180,000,000 shares). Options lapsed in accordance with the terms of the option scheme shall not be counted for the purpose of calculating the 10% limit. Any further grant of share options in excess of this limit is subject to the approval of the Company's shareholders.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

## 40. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding under the Scheme during the year:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Weighted average exercise price | Number of options | Weighted average exercise price | Number of options |
| | *HK$ per share* | *'000* | *HK$ per share* | *'000* |
| At 1 January | 5.20 | 58,192 | 4.29 | 49,076 |
| Granted during the year | 10.77 | 18,312 | 6.68 | 21,050 |
| Forfeited during the year | 5.14 | (1,954) | 2.11 | (686) |
| Exercised during the year | 4.09 | (7,266) | 4.13 | (10,698) |
| Expired during the year | – | – | 6.44 | (550) |
| At 31 December | 6.84 | 67,284 | 5.20 | 58,192 |

The weighted average share price at the date of exercise for share options exercised during the year was HK$12.84 per share (2010: HK$8.92 per share).

The exercise prices and exercise periods of the share options outstanding as at the reporting date are as follows:

**2011**

| Number of options | Exercise price | Exercise period |
|---|---|---|
| *'000* | *HK$ per share* | |
| 4,895 | 3.56 | 19 September 2009 to 18 September 2014 |
| 4,984 | 5.64 | 12 April 2009 to 11 April 2014 |
| 9,894 | 1.88 | 5 March 2010 to 4 March 2015 |
| 8,970 | 6.63 | 29 August 2010 to 28 August 2015 |
| 750 | 5.50 | 21 October 2010 to 20 October 2015 |
| 18,275 | 6.49 | 27 May 2011 to 26 May 2016 |
| 1,600 | 9.00 | 27 August 2011 to 26 August 2016 |
| 17,916 | 10.77 | 2 April 2012 to 1 April 2017 |
| 67,284 | | |

## 40. SHARE OPTION SCHEME (CONTINUED)

2010

| Number of options '000 | Exercise price HK$ per share | Exercise period |
|---|---|---|
| 1,100 | 6.44 | 22 March 2010 to 21 March 2012 |
| 6,509 | 3.56 | 19 September 2009 to 18 September 2014 |
| 6,285 | 5.64 | 12 April 2009 to 11 April 2014 |
| 13,288 | 1.88 | 5 March 2010 to 4 March 2015 |
| 9,000 | 6.63 | 29 August 2010 to 28 August 2015 |
| 1,000 | 5.50 | 21 October 2010 to 20 October 2015 |
| 19,410 | 6.49 | 27 May 2011 to 26 May 2016 |
| 1,600 | 9.00 | 27 August 2011 to 26 August 2016 |
| 58,192 | | |

The fair value of the options granted during the year was approximately RMB49,496,000 (2010: RMB34,615,000), of which the Group recognised a share option expense of RMB13,267,000 (2010: RMB7,252,000) during the year ended 31 December 2011. The Group recognised a total share option expenses of RMB32,693,000 (2010: RMB18,810,000) for the year ended 31 December 2011 (note 6).

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

| | 2011 | 2010 |
|---|---|---|
| Dividend yield (%) | **1.7%** | 2.09% – 2.99% |
| Expected volatility (%) | **47.55% – 48.26%** | 49.47% – 50.85% |
| Risk-free interest rate (%) | **0.877% – 1.9950%** | 0.929% – 1.393% |
| Expected life of options (year) | **3 – 6** | 3 – 6 |
| Weighted average exercise price (HK$) | **10.77** | 6.68 |

The volatility measured at the standard deviation of expected share price returns is based on statistical analyses of comparable listed companies in the same industry.

## 40. SHARE OPTION SCHEME (CONTINUED)

In September 2008, the Company cancelled certain options previously granted to certain senior management with the exercise price significantly higher than the current fair market value, and concurrently re-granted the same number of options at the current fair market value. The vesting of the replacement option started from the date of re-grant, and all other terms remain the same as the original option. The cancellation and re-grant are intended to provide incentives for these senior management. In accordance with HKFRS 2 Share-based Payment, cancellation of an award accompanied by the concurrent grant of a replacement award shall be accounted for as a modification of the terms of the cancelled award. Therefore, incremental compensation cost shall be measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date.

The total compensation cost measured at the date of cancellation and replacement shall be the portion of the grant-date fair value of the original award for which the requisite service is expected to be rendered (or has already been rendered) at that date plus the incremental cost resulting from the cancellation and replacement. The Company will continue to recognise an expense for the original grant date fair value of the modified award over its original vesting period and recognise an expense for the incremental cost over its modified vesting period.

The 7,266,000 share options exercised during the year resulted in the issue of 7,266,000 ordinary shares of the Company and new share capital of RMB1,000 and share premium of RMB32,955,000 (before issue expenses), as further detailed in note 38 to the financial statements.

At the end of reporting date, the Company had 67,284,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 67,284,000 additional ordinary shares of the Company and additional share capital of approximately RMB4,239 and share premium of approximately RMB369,100,000 (before issue expenses).

At the date of approval of these financial statements, the Company had 66,971,500 share options outstanding under the Scheme, which represented approximately 3.36% of the Company's shares in issue as at that date.

## 41. BUSINESS COMBINATIONS

During the year, the Group made the following acquisitions:

(a) On 15 November 2010, Zhejiang Intime Investment entered into an equity transfer agreement with certain individuals to acquire a 84.5% equity interest in Hubei New Century at an aggregate consideration of approximately RMB248,100,000. In addition, on 28 December 2010, Zhejiang Intime Investment entered into an equity transfer agreement with Hubei Xingtai Nonggongmao Co., Ltd. to acquire a 0.5% equity interest in Hubei New Century at a consideration of approximately RMB1,468,000. Hubei New Century was the general retail operator in Suizhou City, Hubei Province. The acquisition was made as part of the Group's strategy to strengthen its market position in Hubei Province. The transaction was completed in January 2011.

The Group has elected to measure the non-controlling interest in Hubei New Century at the non-controlling interest's proportionate share of Hubei New Century's identifiable net assets.

## 41. BUSINESS COMBINATIONS (CONTINUED)

(a) (continued)

The fair values of the identifiable assets and liabilities of Hubei New Century as at the date of acquisition were as follows:

| | Notes | Fair value recognised on acquisition *RMB'000* |
|---|---|---|
| Property, plant and equipment | 15 | 109,652 |
| Investment property | 16 | 22,400 |
| Prepaid land lease payments | 17 | 121,477 |
| Properties under development | 18 | 342,517 |
| Other intangible assets | 20 | 441 |
| Prepaid rental | 21 | 6,200 |
| Deferred tax assets | 26 | 5,671 |
| Trade receivables | | 1,166 |
| Prepayments, deposits and other receivables | | 12,281 |
| Inventories | | 57,109 |
| Cash and cash equivalents | | 74,265 |
| Restricted cash | | 4,351 |
| Interest-bearing bank borrowings | | (46,000) |
| Trade and bill payables | | (61,250) |
| Other payables and accruals | | (435,218) |
| Tax payable | | (28,480) |
| Deferred tax liabilities | 26 | (49,853) |
| Total identifiable net assets at fair value | | 136,729 |
| Non-controlling interest | | (20,509) |
| Identifiable net assets at fair value acquired | | 116,220 |
| Goodwill on acquisition | 19 | 133,348 |
| Satisfied by cash | | 249,568 |

## 41. BUSINESS COMBINATIONS (CONTINUED)

(a) (continued)

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB1,166,000 and RMB12,281,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB1,166,000 and RMB12,281,000, respectively.

The transaction costs incurred for this transaction have been expensed and are included in other expenses in the consolidated income statement.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | *RMB'000* |
|---|---|
| Cash consideration paid | (249,568) |
| Cash and cash equivalents acquired | 74,265 |
| Net outflow of cash and cash equivalents included in cash flows used in investing activities | (175,303) |

Since the acquisition, Hubei New Century contributed RMB279,048,000 to the Group's turnover and RMB20,669,000 to the consolidated profit for the year ended 31 December 2011.

As the combination took place at the beginning of the year, the revenue and the profit of the Group for the year were the same as now presented.

(b) On 19 September 2011, Intime HK entered into an equity transfer agreement with Good Built Holdings Limited ("Good Built") to purchase a 100% equity interest in South Line HK, a wholly-owned subsidiary of Good Built, at a total consideration of RMB149,654,000. South Line HK had a wholly owned subsidiary Xi'an South Line. The acquisition was made as part of the Group's strategy to strengthen its market position in Shaanxi Province.

The transaction was completed in November 2011.

## 41. BUSINESS COMBINATIONS (CONTINUED)

(b) (continued)

The fair values of the identifiable assets and liabilities of South Line HK as at the date of acquisition were as follows:

| | Notes | Fair value recognised on acquisition *RMB'000* |
|---|---|---|
| Investment property | 16 | 425,421 |
| Prepayments, deposits and other receivables | | 36,351 |
| Cash and bank balances | | 3,019 |
| Interest-bearing other borrowings | | (155,000) |
| Trade and bill payables | | (310) |
| Other payables and accruals | | (98,908) |
| Deferred tax liabilities | 26 | (60,919) |
| Identifiable net assets at fair value acquired | | 149,654 |
| Satisfied by cash | | 149,654 |

The fair values of the other receivables as at the date of acquisition amounted to RMB36,351,000. The gross contractual amounts of other receivables was RMB36,351,000.

The transaction costs incurred for this transaction have been expensed and are included in other expenses in the consolidated income statement.

## 41. BUSINESS COMBINATIONS (CONTINUED)

(b) (continued)

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

| | RMB'000 |
|---|---|
| Cash consideration paid | (149,654) |
| Cash and cash equivalents acquired | 3,019 |
| Net outflow of cash and cash equivalents included in cash flows used in investing activities | (146,635) |
| Cash consideration paid for settlement of an ex-shareholder's advance and other borrowing included in cash flows used in investing activities | (225,638) |
| | (372,273) |

Since the acquisition, South Line HK contributed RMB1,476,000 to the Group's turnover and a net loss of RMB4,179,000 to the consolidated profit for the year ended 31 December 2011.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB3,127,251,000 and RMB849,363,000, respectively.

## 42. CONTINGENT LIABILITIES

(1) On 8 November 2007, Jiaxing Investment Management Company Limited ("Jiaxing Intime") and Shanghai Intime entered into a joint venture contract with Jiaxing City Culture Mingcheng Investment Group Company ("Jiaxing Culture"), a third party, to establish a joint venture company, Jiaxing Meiwan.

Jiaxing Meiwan has registered capital of RMB400,000,000. Jiaxing Intime and Shanghai Intime each contributed RMB120,000,000 in cash, which in aggregate represented a 60% equity interest in Jiaxing Meiwan. Jiaxing Culture contributed RMB160,000,000 by way of transferring title of a property with total gross floor area of approximately 20,000 square meters (the "Injected Property") into Jiaxing Meiwan, which represented 40% of equity interest in the joint venture.

Pursuant to the joint venture contract, upon the liquidation of Jiaxing Meiwan or Jiaxing Culture transferred the 40% equity interest it held in Jiaxing Meiwan, Jiaxing Intime and Shanghai Intime shall guarantee a return to Jiaxing Culture the difference between RMB160,000,000 and the market value of the Injected Property at the time of transfer of the 40% equity interest held by Jiaxing Culture, but in any event, the market value to be used to determine such payment shall not be less than RMB9,000/square meter in respect of the Injected Property.

(2) The Group provided guarantees in respect of the mortgage facilities granted by certain banks to the purchasers of the Group's pre-sale properties amounting to RMB265,177,000 (2010: Nil). Pursuant to the terms of the guarantee arrangements, in case of default on mortgage payments by the purchasers, the Group is responsible to repay the outstanding mortgage loans together with any accrued interest and penalty owed by the defaulted purchasers to the banks. The Group is then entitled to take over the legal titles of the related properties. The Group's guarantee periods commence from the dates of grant of the relevant mortgage loans and end after the execution of individual purchasers' collateral agreements.

The Group did not incur any losses during the financial period in respect of the guarantees provided for mortgage facilities granted to purchasers of the Group's pre-sale properties. The Directors consider that in case of default on payments, the net realisable value of the related properties can cover the repayment of the outstanding mortgage loans together with any accrued interest and penalty, and therefore no provision has been made in connection with the guarantees.

## 43. PLEDGE OF ASSETS

Details of the Group's bank loans and facilities, which are secured by the assets of the Group, are included in notes 15, 16, 17 and 18.

## 44. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties (note 16) and subleases its leased assets under operating lease arrangements for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2011, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Within one year | 144,630 | 115,330 |
| In the second to fifth years, inclusive | 428,813 | 356,125 |
| After five years | 315,233 | 331,475 |
| | 888,676 | 802,930 |

The amounts above include future minimum sublease payments expected to be received under non-cancellable subleases amounting to RMB243,072,000 (2010: RMB221,856,000) as at 31 December 2011.

### (b) As lessee

The Group leases certain of its stores and office premises under non-cancellable operating lease agreements.

## 44. OPERATING LEASE ARRANGEMENTS (CONTINUED)

### (b) As lessee (continued)

At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Within one year | **282,231** | 220,816 |
| In the second to fifth years, inclusive | **1,796,981** | 1,370,093 |
| After five years | **5,526,064** | 4,133,998 |
| | **7,605,276** | 5,724,907 |

## 45. COMMITMENTS

In addition to the operating lease commitments detailed in note 44(b) above, the Group had the following capital commitments at the reporting date:

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Contracted, but not provided for: | | |
| Land and buildings | **577,052** | 638,869 |
| Leasehold improvements | **258,927** | 4,250 |
| Shareholder's loan | **–** | 239,688 |
| | **835,979** | 882,807 |
| Authorised, but not contracted for: | | |
| Land and buildings | **1,028,317** | 474,000 |
| Leasehold improvements | **120,000** | 67,700 |
| | **1,148,317** | 541,700 |
| | **1,984,296** | 1,424,507 |

## 45. COMMITMENTS (CONTINUED)

In addition, the Group's share of a jointly-controlled entity's own capital commitments, which are not included in the above, is as follows:

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Contracted, but not provided for | 74,053 | 68,929 |
| Authorised, but not contracted for | 90,000 | 100,000 |
| | 164,053 | 168,929 |

## 46. RELATED PARTY TRANSACTIONS

### (a) Name and relationship of related parties

| Name | Relationship |
|---|---|
| Mr. Shen Guojun | Shareholder of the Company |
| Intime International | Shareholder of the Company |
| Beijing Yintai Properties Co., Ltd. ("Beijing Yintai") | Controlled by Mr. Shen Guojun |
| China Yintai Holding Co., Ltd. ("China Yintai") | Controlled by Mr. Shen Guojun |
| Beijing Guojun Investment Co., Ltd. ("Beijing Guojun") | Controlled by Mr. Shen Guojun |
| Metro Land Corporation Land ("Metro Land") | 24.83% of its shares were held by China Yintai |
| Zhongda Shengma | Associate of the Group |
| Anhui Hualun | Associate of the Group |
| Zhejiang Intime Electronic Commerce | Associate of the Group |
| Xi'an Qujiang Intime | Associate of the Group |
| Beijing Youyi Lufthansa | Associate of the Group |
| Xin Hubin | Jointly-controlled entity of the Group |
| Intime Lotte | Jointly-controlled entity of China Yintai |
| Hangzhou Hubin International Commercial Development Co., Ltd. ("Hubin International") | Jointly-controlled entity of Beijing Guojun |
| Beijing Metro Land Property Co., Ltd. ("Beijing Metro Land Property") | Subsidiary of Metro Land |

# Notes to Financial Statements

31 December 2011

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (a) Name and relationship of related parties (continued)

| Name | Relationship |
|---|---|
| Ningbo Hualian Property Development Co., Ltd. ("Ningbo Hualian Property") | Subsidiary of Metro Land |
| Ningbo Yintai Property Management Co., Ltd. ("Ningbo Yintai Property Management") | Subsidiary of Metro Land |
| Hangzhou Intime Shopping Centre Co., Ltd. ("Hangzhou Intime") | Subsidiary of China Yintai |
| Zhejiang Fuqiang Properties Co., Ltd. ("Zhejiang Fuqiang") | Subsidiary of China Yintai |
| Beijing Youyi Commercial Service Co., Ltd. ("Beijing Youyi") | Controlling shareholder of an associate |
| Baida Group Co., Ltd. ("Baida") | Associate of the Group before 20 May 2011 |

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with related parties

The following transactions were carried out with related parties:

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Renal expense and management fee expenses: | | |
| Beijing Yintai (note (i)) | 3,660 | 3,632 |
| Metro Land (note (ii)) | 47,509 | 46,479 |
| | 51,169 | 50,111 |
| Advances to related parties: | | |
| Anhui Hualun (note (iii)) | 282,652 | 3,075 |
| Zhejiang Intime Electronic Commerce | 72,900 | 22,211 |
| Xin Hubin (note (iv)) | 196,247 | – |
| | 551,799 | 25,286 |
| Repayment of advances from jointly-controlled entities: | | |
| Zhejiang Intime Electronic Commerce | 95,111 | – |
| Xin Hubin | – | 2,033 |
| | 95,111 | 2,033 |
| Loans and receivables made to related parties: | | |
| Xi'an Qujiang Intime (note 29) | 200,000 | – |
| Hangzhou Intime (note 29) | 300,000 | – |
| Zhejiang Intime Electronic Commerce (note 29) | 62,720 | – |
| Zhongda Shengma (note 29) | 371,538 | – |
| | 934,258 | – |
| Repayment of loans and receivables from related parties: | | |
| Intime Lotte | 22,928 | 48,699 |
| China Yintai | 21,677 | 18,451 |
| Hangzhou Intime | 24,802 | – |
| Zhongda Shengma | 35,551 | – |
| Beijing Guojun | – | 316,287 |
| | 104,958 | 383,437 |
| Management fees from related parties: | | |
| Baida (note (v)) | 15,914 | 26,205 |
| Beijing Youyi | 6,398 | – |
| | 22,312 | 26,205 |

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with related parties (continued)

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Purchases of subsidiaries from related parties: | | |
| China Yintai | – | 82,082 |
| Beijing Guojun | – | 41,956 |
| Metro Land | – | 15,230 |
| Ningbo Hualian Property | – | 1,692 |
| | – | 140,960 |

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with related parties (continued)

| | 2011 RMB'000 | 2010 RMB'000 |
|---|---|---|
| Interest income from related parties: | | |
| Intime Lotte | 326 | 2,790 |
| Beijing Guojun | – | 12,447 |
| China Yintai | 6,989 | 6,090 |
| Xin Hubin | 6,473 | 1,130 |
| Hangzhou Intime | 26,177 | – |
| Zhongda Shengma | 36,616 | – |
| Zhejiang Intime Electronic Commerce | 3,900 | – |
| Anhui Hualun | 6,887 | – |
| | 87,368 | 22,457 |
| Customer payments to related parties by the Group's prepaid cards (net-off the payments made by related parties' prepaid card used): | | |
| Baida | 100,029 | 143,254 |
| Zhejiang Intime Electronic Commerce | 5,302 | – |
| Intime Lotte | 6,251 | 3,444 |
| | 111,582 | 146,698 |
| Payments of rental deposits: | | |
| Beijing Metro Land Property | 2,000 | 4,000 |
| Beijing Yintai | – | 1,816 |
| Metro Land | 20 | – |
| Ningbo Hualian Property | – | 70 |
| | 2,020 | 5,886 |

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with related parties (continued)

| | 2011 *RMB'000* | 2010 *RMB'000* |
|---|---|---|
| Payment of utility expenses on behalf of related parties: | | |
| Ningbo Yintai Property Management | **4,053** | 2,752 |
| Ningbo Hualian Property | **49** | 32 |
| | **4,102** | 2,784 |
| Sales to a related party: | | |
| Zhejiang Intime Electronic Commerce (note (vi)) | **54,793** | – |
| Guarantees provided by a related party | | |
| Intime International (note 29(v)) | **301,375** | – |

Notes:

(i) In 2008, Zhejiang Intime entered into an agreement with Beijing Yintai, to lease certain floors of an office building for its operation and renewed the agreement on 25 June 2010. As Zhejiang Intime changed areas of the building to lease, both parties signed a new agreement on 30 November 2010 and the monthly rental expense increased to RMB305,000 started from January 2011.

(ii) Pursuant to an agreement between Shanghai Intime and Metro Land signed on 31 March 2005 and a supplementary agreement dated on 18 January 2010, Shanghai Intime leased certain floors of a building from Metro Land for its operations and subleased back to Metro Land certain areas in year 2009. Metro land ceased to lease areas from Shanghai Intime since January 2010.

(iii) The Group provided advances amounting to RMB282,652,000 to Anhui Hualun at one-year benchmark interest rate with no fixed repayment term.

(iv) The Group provided Xin Hubin advances amounting to RMB196,247,000 at one-year benchmark interest rate with no fixed repayment term.

(v) Zhejiang Intime entered into a management agreement (the "Management Agreement") with Baida on 30 January 2008. Pursuant to the Management Agreement, Zhejiang Intime is entrusted to manage the department store operations of certain subsidiaries and branches (the "Operating Entities") of Baida for a period of 20 years starting from 1 March 2008 to 28 February 2028 (the "Management Periods"). The Management Agreement has been approved at the shareholders' meeting of Baida on 28 February 2008.

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with related parties (continued)

Notes: (continued)

(v) (continued)
On 5 July 2010, Zhejiang Intime signed a supplemental agreement with Baida in relation to the Management Agreement to increase an additional area under management.

According to the Management Agreement and the supplemental agreement, Zhejiang Intime is entitled to an annual management fee computed on the basis stipulated in the Management Agreement. During year 2010, Zhejiang Intime recognised management fee income of RMB26,205,000 from managing the operation of the Operating Entities of Baida. In 2011, the Group recognised the management fee of RMB11,934,000 for the period from 1 January 2011 to 20 May 2011.

(vi) In 2011, Intime HK sold goods to Zhejiang Intime Electronic Commerce for overseas procurements.

### (c) Due from related parties

The Group had the following significant balances due from related parties at the reporting date:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Due from related parties: | | |
| Hubin International | – | 658 |
| Metro Land (note (i)) | 6,520 | 6,500 |
| Baida | – | 8,884 |
| Xin Hubin | 294,087 | 91,367 |
| Ningbo Hualian Property | 106 | 102 |
| Ningbo Yintai Property Management | 3,365 | 2,752 |
| Beijing Metro Land Property (note (ii)) | 6,000 | 4,000 |
| Beijing Yintai (note (iii)) | 1,816 | 1,816 |
| Anhui Hualun | 285,727 | 3,075 |
| Beijing Youyi Lufthansa | – | 4,500 |
| Zhejiang Intime Electronic Commerce | 54,793 | 22,211 |
| Beijing Youyi | 10,003 | – |
| | 662,417 | 145,865 |

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (c) Due from related parties (continued)

Notes:

(i) The amount due from Metro Land represents a deposit of RMB6,500,000 in connection with a lease agreement between Shanghai Intime and Metro Land entered into on 31 March 2005 and a supplementary agreement signed on 18 January 2010.

(ii) The amount due from Beijing Metro Land Property represents a deposit of RMB6,000,000 in connection with a lease agreement between Zhejiang Intime and Beijing Metro Land Property entered into on 18 January 2010.

(iii) The amount due from Beijing Yintai represents a deposit of RMB1,816,000 in connection with a renewal lease agreement between Zhejiang Intime and Beijing Yintai entered into on 30 November 2010.

Except for the balance due from Zhejiang Intime Electronic Commerce that is dominated in HK$, the amounts due from related parties are denominated in RMB, which are unsecured and interest-free, have no predetermined terms of repayment.

### (d) Loans and interest receivable from related parties

| | **2011**<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Intime Lotte (note 29) | **–** | 22,602 |
| China Yintai (note 29) | **103,367** | 118,055 |
| Xi'an Qujiang Intime (note 29) | **200,000** | – |
| Hangzhou Intime (note 29) | **301,375** | – |
| Zhejiang Intime Electronic Commerce (note 29) | **51,720** | – |
| Zhongda Shengma (note 29) | **412,725** | – |
| | **1,069,187** | 140,657 |

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (e) Due to related parties

The Group had the following significant balances due to related parties:

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Due to related parties: | | |
| Metro Land (note (b)(ii)) | **14,909** | 13,579 |
| Beijing Yintai | **–** | 303 |
| Zhejiang Intime Electronic Commerce | **997** | – |
| Intime Lotte | **1,504** | 1,592 |
| | **17,410** | 15,474 |

All amounts due to related parties are denominated in RMB, which are unsecured, interest-free and payable on demand.

### (f) Commitments with related parties

(i) On 31 March 2005, Shanghai Intime entered into a twenty-year agreement ending 31 December 2024, with Metro Land, to lease certain floors of a building for its operation. The total amount of total lease for the year is included in note 46(b)(ii). The Group expects total minimum lease payment to be approximately RMB338,000,000 from year 2012 to 2024.

(ii) On 18 January 2010, Zhejiang Intime entered into a twenty-year agreement ending 31 January 2032, with Beijing Metro Land Property, to lease a building for its operation. The total amount of total lease for the year and the rental deposit is included in note 46(c)(ii). The Group expects total minimum lease payment to be approximately RMB919,827,000 from year 2012 to 2032.

(iii) Pursuant to a loan agreement between Zhejiang Intime Electronic Commerce and the Group, the Group will provide an interest-free shareholder's loan with an amount of RMB9,390,000 to Zhejiang Intime Electronic Commerce for a period of three years in 2012. The loan will be guaranteed by the controlling shareholder of Zhejiang Intime Electronic Commerce.

## 46. RELATED PARTY TRANSACTIONS (CONTINUED)

### (g) Key management compensation

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Salaries, allowances and other benefits | **3,554** | 4,429 |
| Discretionary bonuses | **4,952** | 4,940 |
| Contributions to a retirement plan | **350** | 373 |
| Equity-settled share option expense | **13,626** | 10,774 |
| | **22,482** | 20,516 |

Further details of directors' emoluments are included in note 9 to the financial statements.

## 47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each category of financial instruments as at the reporting date are as follows:

### Group

**2011**

*Financial assets*

| | Loans and receivables | Available-for-sale investments | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Available-for-sale investments | – | 41,724 | 41,724 |
| Financial assets included in prepayments, deposits and other receivables | 255,144 | – | 255,144 |
| Trade receivables | 22,457 | – | 22,457 |
| Loans and receivables | 1,464,847 | – | 1,464,847 |
| Due from related parties | 662,417 | – | 662,417 |
| Cash in transit | 132,314 | – | 132,314 |
| Restricted bank balances | 86,821 | – | 86,821 |
| Cash and cash equivalents | 1,779,253 | – | 1,779,253 |
| | 4,403,253 | 41,724 | 4,444,977 |

## 47. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each category of financial instruments as at the reporting date are as follows: (continued)

### Group

*Financial liabilities*

| | Financial liabilities at amortised cost<br>*RMB'000* |
|---|---|
| Trade and bills payables | 1,669,945 |
| Financial liabilities included in other payables and accruals | 784,840 |
| Due to related parties | 17,410 |
| Interest-bearing bank and other borrowings | 1,485,591 |
| Convertible bonds | 1,591,678 |
| Guaranteed bonds due July 2014 | 993,470 |
| | 6,542,934 |

### Group

**2010**

*Financial assets*

| | Loans and receivables<br>*RMB'000* | Available-for-sale investments<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|
| Financial assets included in prepayments, deposits and other receivables | 522,894 | – | 522,894 |
| Trade receivables | 16,040 | – | 16,040 |
| Loans and receivables | 1,116,822 | – | 1,116,822 |
| Due from related parties | 145,865 | – | 145,865 |
| Cash in transit | 95,711 | – | 95,711 |
| Restricted cash balances | 43,508 | – | 43,508 |
| Cash and cash equivalents | 1,322,602 | – | 1,322,602 |
| | 3,263,442 | – | 3,263,442 |

## 47. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each category of financial instruments as at the reporting date are as follows: (continued)

### Group (continued)

*Financial liabilities*

| | Financial liabilities at amortised cost |
|---|---|
| | *RMB'000* |
| Trade and bills payables | 1,206,251 |
| Financial liabilities included in other payables and accruals | 790,072 |
| Due to related parties | 15,474 |
| Interest-bearing bank borrowings | 1,200,000 |
| Convertible bonds | 1,617,947 |
| | 4,829,744 |

### Company

**2011**

*Financial assets*

| | Loans and receivables |
|---|---|
| | *RMB'000* |
| Financial assets included in prepayments, deposits and other receivables | 1,090 |
| Due from subsidiaries | 6,849,678 |
| Cash and cash equivalents | 74,116 |
| | 6,924,884 |

## 47. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each category of financial instruments as at the reporting date are as follows: (continued)

**Company** (continued)

*Financial liabilities*

| | **Financial liabilities at amortised cost** *RMB'000* |
|---|---|
| Financial liabilities included in other payables and accruals | 21,509 |
| Due to subsidiaries | 68,049 |
| Convertible bonds | 1,591,678 |
| Guaranteed bonds due July 2014 | 993,470 |
| | 2,674,706 |

**2010**

*Financial assets*

| | **Loans and receivables** *RMB'000* |
|---|---|
| Financial assets included in prepayments, deposits and other receivables | 1,104 |
| Due from subsidiaries | 5,193,618 |
| Cash and cash equivalents | 282,814 |
| | 5,477,536 |

*Financial liabilities*

| | **Financial liabilities at amortised cost** *RMB'000* |
|---|---|
| Financial liabilities included in other payables and accruals | 11,648 |
| Due to subsidiaries | 156,392 |
| Convertible bonds | 1,617,947 |
| | 1,785,987 |

## 48. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

### Group

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Financial assets** | | | | |
| Cash and cash equivalents | **1,779,253** | 1,322,602 | **1,779,253** | 1,322,602 |
| Restricted bank balances | **86,821** | 43,508 | **86,821** | 43,508 |
| Cash in transit | **132,314** | 95,711 | **132,314** | 95,711 |
| Due from related parties | **662,417** | 145,865 | **662,417** | 145,865 |
| Loans and receivables | **1,464,847** | 1,116,822 | **1,464,847** | 1,116,822 |
| Trade receivables | **22,457** | 16,040 | **22,457** | 16,040 |
| Financial assets included in prepayments, deposits and other receivables | **255,144** | 522,894 | **255,144** | 522,894 |
| Available-for-sale investments | **41,724** | – | **41,724** | – |
| | **4,444,977** | 3,263,442 | **4,444,977** | 3,263,442 |

## 48. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

### Group

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Financial liabilities** | | | | |
| Trade and bills payables | **1,669,945** | 1,206,251 | **1,669,945** | 1,206,251 |
| Financial liabilities included in other payables and accruals | **784,840** | 790,072 | **784,840** | 790,072 |
| Due to related parties | **17,410** | 15,474 | **17,410** | 15,474 |
| Interest-bearing bank and other borrowings | **1,485,591** | 1,200,000 | **1,485,591** | 1,200,000 |
| Convertible bonds | **1,591,678** | 1,617,947 | **1,591,678** | 1,617,947 |
| Guaranteed bonds due July 2014 | **993,470** | – | **993,470** | – |
| | **6,542,934** | 4,829,744 | **6,542,934** | 4,829,744 |

## 48. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

### Company

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| **Financial assets** | | | | |
| Cash and cash equivalents | **74,116** | 282,814 | **74,116** | 282,814 |
| Due from subsidiaries | **6,849,678** | 5,193,618 | **6,849,678** | 5,193,618 |
| Financial assets included in prepayments, deposits and other receivables | **1,090** | 1,104 | **1,090** | 1,104 |
| | **6,924,884** | 5,477,536 | **6,924,884** | 5,477,536 |
| **Financial liabilities** | | | | |
| Other payables and accruals | **21,509** | 11,648 | **21,509** | 11,648 |
| Due to subsidiaries | **68,049** | 156,392 | **68,049** | 156,392 |
| Convertible bonds | **1,591,678** | 1,617,947 | **1,591,678** | 1,617,947 |
| Guaranteed bonds due July 2014 | **993,470** | – | **993,470** | – |
| | **2,674,706** | 1,785,987 | **2,674,706** | 1,785,987 |

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, cash in transit, due from related parties, loans and receivables, trade receivables, financial assets including prepayments, deposits and other receivables, available-for-sale investments, interest-bearing bank and other borrowings, amounts due to related parties, financial liabilities included in other payables and accruals and trade and bills payables approximate to their carrying amounts largely due to the short term maturities of these instruments.

## 48. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

The fair values of the loans to third parties and related parties, interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The fair value of the liability portion of the convertible bonds and guaranteed bonds due July 2014 is estimated using an equivalent market interest rate for a similar bond.

The fair values of listed equity investments are based on quoted market prices.

### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

## 48. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

### Fair value hierarchy (continued)

*Assets measured at fair value:*

**Group**

*As at 31 December 2011*

| | **Level 1** |
|---|---|
| | *RMB'000* |
| Available-for-sale investments | |
| – equity investments | 41,724 |

*As at 31 December 2010*

| | **Level 1** |
|---|---|
| | *RMB'000* |
| Available-for-sale investments | |
| – equity investments | – |

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans and cash. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The policies for managing each of these risks are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Interest rate risk

The Group has no significant interest-bearing assets other than cash at banks (note 32) and loans and receivables (note 29).

The Group's interest rate risk arises from its borrowings, details of which are set out in note 35. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in Renminbi interest rate, with all other variables held constant, of the Group's profit before tax (through the impact of floating rate borrowings) during the year.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

| Group | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax |
|---|---|---|
| | | *RMB'000* |
| 31 December 2011 | | |
| RMB | 100 | (11,355) |
| RMB | (100) | 11,355 |
| 31 December 2010 | | |
| RMB | 100 | (7,030) |
| RMB | (100) | 7,030 |

### Foreign currency risk

During the year ended 31 December 2011, the Group has cash at banks denominated in foreign currencies, and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HK$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

During the year ended 31 December 2011, the Company issued guaranteed bonds due July 2014 denominated in RMB, and is exposed to foreign exchange risk arising from HK$ since the functional currency of the Company was HK$. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Foreign currency risk (continued)

Details of the Group's guaranteed bonds due July 2014 and cash and cash equivalents denominated in foreign currencies as at 31 December 2011 and 2010 are disclosed in note 37 and note 32.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the HK$ exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities)

| Group | Increase/ (decrease) in HK$ rate | Increase/ (decrease) in profit before tax |
|---|---|---|
| | *%* | *RMB'000* |
| 2011 | | |
| If the Hong Kong dollar weakens against the RMB | 2 | (9,871) |
| If the Hong Kong dollar strengthens against the RMB | (2) | 9,871 |
| 2010 | | |
| If the Hong Kong dollar weakens against the RMB | 2 | – |
| If the Hong Kong dollar strengthens against the RMB | (2) | – |

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign currency exposure.

### Credit risk

The Group has no significant concentrations of credit risk of trade receivables. Sales to retail customers are made in cash or via major credit cards trade. The Group has policies that limit the amount of credit exposure to any financial institution.

The Group has significant concentrations of credit risk of other receivables and loans and receivables, which are mostly amounts due from related parties and third parties with a maximum exposure equal to the carrying amounts. Management of the Group is of the view that the recoverability issue for the rest amounts due from related parties and third parties is small, because the Group believes that the related parties and third parties have the repayment capability and the Group has agreed with the related parties and third parties about future plans of repayment.

The Group has arranged bank financing for certain purchasers of its property under development and has provided guarantees to secure the obligations of such purchasers for repayments. Detail disclosures of these guarantees are made in note 42.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk

Prudent liquidity risk management implies sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group's treasury function aims to maintain flexibility in funding by keeping committed credit lines available. In addition, the directors believe that the Group has sufficient cash flows from the operations and current available banking facilities to meet its liabilities as and when they fall due.

The maturity profile of the Group's financial liabilities as at the reporting date, based on the contractual undiscounted payments, was as follows:

### Group

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Less than 6 months | 6 to less than 12 months | 1 to 2 years | Over 2 years | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest-bearing bank and other borrowings | – | 143,923 | 276,295 | 279,131 | 1,039,558 | 1,738,907 |
| Trade and bills payables | – | 1,669,945 | – | – | – | 1,669,945 |
| Other payables and accruals | 240,064 | 214,085 | 330,691 | – | – | 784,840 |
| Due to related parties | – | 2,501 | 14,909 | – | – | 17,410 |
| Convertible bonds | – | 13,769 | 13,769 | 1,712,782 | – | 1,740,320 |
| Guaranteed bonds due July 2014 | – | 23,250 | 23,250 | 46,500 | 1,046,500 | 1,139,500 |
| Guarantees given to banks in connection with mortgage facilities granted to purchasers of the Group's properties under development | – | 265,177 | – | – | – | 265,177 |
| | 240,064 | 2,332,650 | 658,914 | 2,038,413 | 2,086,058 | 7,356,099 |

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk (continued)

### Group

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Less than 6 months | 6 to less than 12 months | 1 to 2 years | Over 2 years | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Interest-bearing bank borrowings | – | 441,701 | 98,966 | 225,896 | 571,807 | 1,338,370 |
| Trade and bills payables | – | 1,206,251 | – | – | – | 1,206,251 |
| Other payables and accruals | 45,234 | 205,406 | 539,432 | – | – | 790,072 |
| Due to related parties | – | 4,080 | 11,394 | – | – | 15,474 |
| Convertible bonds | – | 14,452 | 14,452 | 28,904 | 1,797,777 | 1,855,585 |
| | 45,234 | 1,871,890 | 664,244 | 254,800 | 2,369,584 | 5,205,752 |

### Company

| | 2011 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Less than 6 months | 6 to less than 12 months | 1 to 2 years | Over 2 years | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other payables and accruals | – | 21,509 | – | – | – | 21,509 |
| Due to subsidiaries | – | – | – | 68,049 | – | 68,049 |
| Convertible bonds | – | 13,769 | 13,769 | 1,712,782 | – | 1,740,320 |
| Guaranteed bonds due July 2014 | – | 23,250 | 23,250 | 46,500 | 1,046,500 | 1,139,500 |
| | – | 58,528 | 37,019 | 1,827,331 | 1,046,500 | 2,969,378 |

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Liquidity risk (continued)

### Company

| | 2010 | | | | | |
|---|---|---|---|---|---|---|
| | On demand | Less than 6 months | 6 to less than 12 months | 1 to 2 years | Over 2 years | Total |
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Other payables and accruals | – | 11,648 | – | – | – | 11,648 |
| Due to subsidiaries | 156,392 | – | – | – | – | 156,392 |
| Convertible bonds | – | 14,452 | 14,452 | 28,904 | 1,797,777 | 1,855,585 |
| | 156,392 | 26,100 | 14,452 | 28,904 | 1,797,777 | 2,023,625 |

### Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2011 and 2010.

## 49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

### Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by the total adjusted capital plus net debt. The net debt includes interest-bearing bank and other borrowings, amounts due to the related parties, trade and bills payables, and other payables and accruals, and guaranteed bonds due July 2014, less cash and cash equivalents and restricted cash balances. Capital includes convertible bonds and equity attributable to owners of the parent less the net unrealised gains reserve. The gearing ratios as at the reporting dates were as follows:

### Group

| | 2011<br>*RMB'000* | 2010<br>*RMB'000* |
|---|---|---|
| Interest-bearing bank and other borrowings | **1,485,591** | 1,200,000 |
| Due to related parties (note 46(e)) | **17,410** | 15,474 |
| Trade and bills payables | **1,669,945** | 1,206,251 |
| Other payables and accruals (note 34) | **3,546,853** | 2,063,728 |
| Guaranteed bonds due July 2014 | **993,470** | – |
| Less: Cash and cash equivalents | **(1,779,253)** | (1,322,602) |
| Less: Restricted cash balances | **(86,821)** | (43,508) |
| Net debt | **5,847,195** | 3,119,343 |
| Convertible bonds | **1,591,678** | 1,617,947 |
| Equity attributable to owners of the parent | **6,551,988** | 5,310,654 |
| Net unrealised gains reserve | **(425)** | (425) |
| Total adjusted capital | **8,143,241** | 6,928,176 |
| Total capital and net debt | **13,990,436** | 10,047,519 |
| Gearing ratio | **42%** | 31% |

## 50. EVENTS AFTER THE REPORTING PERIOD

In January 2012, Shanghai Intime and Intime Department Store (Ningbo Yinzhou) Co., Ltd. ("Yinzhou Intime"), wholly-owned subsidiaries of the Company, entered into an equity transfer agreement with Ningbo Mingji, to dispose its 49% equity interest in Cixi Property for a consideration of RMB98,000,000.

## 51. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 27 March 2012.