AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

Stock Code : 984

ANNUAL REPORT 2007

MISSION

AEON Co., Ltd. ("AEON Co.") is a Japanese retailing and services group with 129* consolidated subsidiaries and affiliates. These companies are active in four business areas: General Merchandise Store ("GMS") operations, specialty store operations, shopping centre development operations, along with service and other operations.

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

AEON Stores (Hong Kong) Co., Limited ("AEON Stores"), a member of AEON Co., established its first store in Hong Kong in 1987 and was listed on the Hong Kong Stock Exchange in 1994. AEON Stores now operates six GMS, 13 independent JUSCO $10 Plaza, three independent supermarkets and two Bento Express (Japanese takeaway shop), a new business model introduced in 2007, in densely populated districts of Hong Kong. It also operates 11 GMS and one shopping centre in Guangdong Province, the PRC.

Whether in Hong Kong or the PRC, AEON Stores is dedicated to providing customers with a wide-range of high quality daily necessities at reasonable prices, and complemented by pleasant shopping experiences. Always seeking to improve customer safety as well as provide peace of mind shopping, convenience and enjoyment, such objectives are consistent with AEON Stores' ongoing quest for total customer satisfaction.

At the very heart of AEON's basic principles are "the pursuit of peace", "respect for humanity" and "contribution to local communities", all are customer-centric concerns. All staff members abide strictly by the "AEON Code of Conduct" which aims to guarantee delivery of excellent services and prompt response to customers' needs. Accordingly, great pride is taken in the ability to provide customers with services that constantly exceed their expectations.

* *As at February 2007*

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CORPORATE INFORMATION

Board of Directors

Executive Directors

LAM Man Tin (Managing Director)
FUKUMOTO Yutaka (Deputy Managing Director)
WONG Mun Yu
AGAWA Yutaka

Non-Executive Directors

TANAKA Akihito (Chairman)
TOYOSHIMA Masaaki
ISHII Kazumasa

Independent Non-Executive Directors

LAM PEI Peggy
SHAM Sui Leung Daniel
CHENG Yin Ching Anna

Company Secretary

HENG Kwoo Seng

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

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

Share Registrars

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

Registered Office

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

Head Office and Principal Place of Business

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

Stock Code

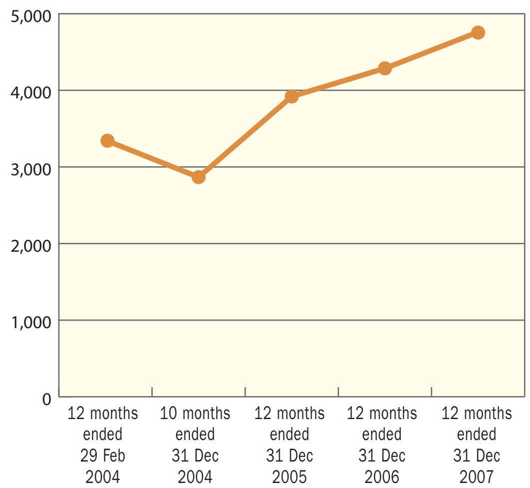
984

Distribution Network

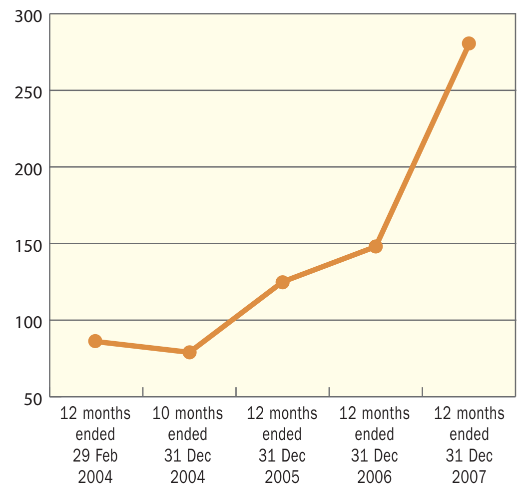
	Hong Kong		PRC		Total	
As at 31 December	**2007**	2006	**2007**	2006	**2007**	2006
GMS	**6**	7	**11**	9	**17**	16
Supermarket	**3**	2	**–**	–	**3**	2
$10 Plaza	**12**	11	**–**	–	**12**	11
Bento Express	**2**	–	**–**	–	**2**	–
Shopping Centre	**–**	–	**1**	–	**1**	–
Total	**23**	20	**12**	9	**35**	29

FINANCIAL HIGHLIGHTS

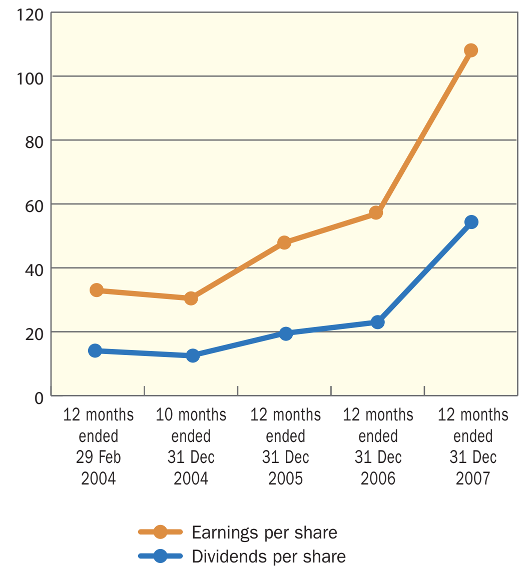
Revenue (HK$ million)



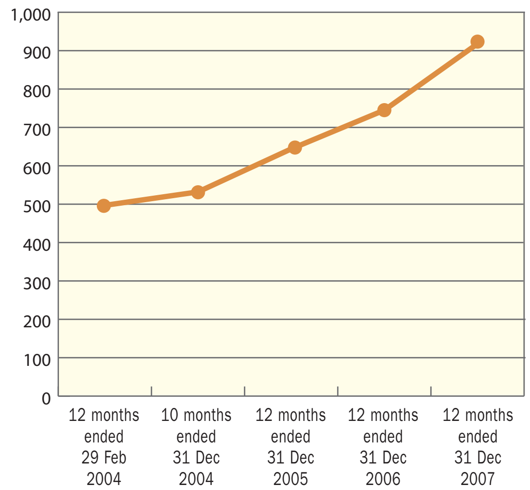
Profit attributable to equity holders of the Company (HK$ million)



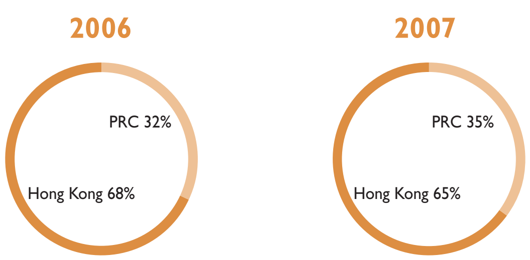
Earnings and dividends per share (HK cents)



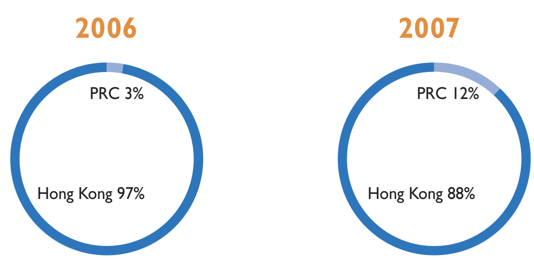
Equity attributable to equity holders of the Company (HK$ million)



Revenue by geographical segment



Geographical segment result



CHAIRMAN'S STATEMENT

Over the past two decades, AEON Stores has developed from an operator of solely GMS into an operator of various distinctive retail businesses.

TANAKA Akihito
Chairman

It is with great delight that I present to shareholders this 2007 annual report with record-breaking results. With the Hong Kong economy reviving and the PRC economy continuing to prosper, AEON Stores' revenue achieved a strong 11% growth to HK$4,760 million. The Group's profit attributable to shareholders reached an unprecedented high at HK$280 million, representing a leap of 89%. Such magnificent achievements not only allow us to reward our shareholders handsomely, but also make the most befitting gift to commemorate the Group's 20th anniversary.

Over the past two decades, AEON Stores has developed from an operator of solely GMS into an operator of various distinctive retail businesses. It has expanded its business model to include shopping centre, supermarket, $10 Plaza and Bento Express. Our approach echoes our credo "Everything we do, we do for our customers" and its success is clearly evidenced in our financial track records, which also reflected the vision, shrewd decisions, passion and diverse capabilities of the management of the Group.

To ensure customers' needs are served to perfection, we conduct continuous review of the environment in different markets. In the past year, with the help of findings of the review, we broadened boldly our business model and started our march towards new business horizons. The shopping centre operation and Bento Express are the two new business models we borrowed from our parent AEON Co. in 2007 to refine our business mix. AEON Shunde Shopping Centre houses a GMS and over 90 retail outlets, some of which are brand new to the domestic market. It is an ideal business model in the PRC particularly because this shopping centre provides more than 2,000 parking spaces, giving customers park and shop convenience. We have great confidence in this model taking the Group in big strides in the PRC market. The latter is a Japanese home-packed meal takeaway operation targeting office workers and students, which agrees with Hong Kong's busy lifestyle. This business model is mature and has won the trust of patrons with its quality and healthy eating proposition, thus detached from the Group's GMS and becomes a stand alone operation.

In the coming year, AEON Co. plans to step up penetration of overseas markets, particularly the China market. According to the National Bureau of Statistics of China, the total retail sales of consumer goods in Guangdong Province broke the RMB1,000 billion mark in 2007, a 16.2% rise against 2006. With three well-established subsidiaries in Guangdong Province, AEON Stores is poised to accelerate expansion of its business in the region to align with AEON Co.'s strategic direction. Drawing from the invaluable experience and knowledge of AEON Co., we will devise aggressive expansion strategies to grow our business in the region.

In January 2008, AEON Stores signed an agreement to acquire an additional 35% stake in Shenzhen AEON Friendship Co., Ltd. ("AEON Shenzhen") and gain full control of the company which operates five GMS in Shenzhen. The strategic move will allow the Group to enjoy optimum flexibility in capturing opportunities in the booming retail market in Shenzhen and its vicinity areas. In agreement with AEON Co.'s development blueprint, the acquisition will lead towards integration eventually of certain operational functions under the Group and strong synergies resulting that can benefit the Group as a whole.

In Hong Kong, we will continue to invest in all business models, proven and new, aiming for a stronger foundation for sustaining growth. AEON Co. will transfer its knowledge of operating in-door amusement centres to the Group to assist its exploration of the potential of replicating the business in Hong Kong.

The Group will continue to find suitable locations to open new stores while exploring different business opportunities. Boasting 20 years of retail experience, we will strive to enrich our business portfolio with new initiatives that can allow us to stand out and thrive in the competitive market.

I am honoured to be appointed as the Chairman of the Group in 2007 and entrusted with the responsibility of spearheading development and maintaining growth momentum of AEON Stores. On the strong foundation handed down to me and leveraging the rich retail expertise of our parent AEON Co., I will continue to lead the Board and the Group in capturing the retail markets in Hong Kong and south China in the years to come.

TANAKA Akihito
Chairman

Hong Kong, 28 March 2008

MANAGEMENT DISCUSSION & ANALYSIS

The Group had a successful year in 2007, which also marked its 20th anniversary in Hong Kong. The Group's revenue grew by 11% to HK$4,760 million.

LAM Man Tin
Managing Director

Financial Review

The Group had a successful year in 2007, which also marked its 20th anniversary in Hong Kong. The Group's revenue grew by 11% to HK$4,760 million (2006: HK$4,287 million), mainly driven by the rapid revenue growth of the stores in the PRC. Gross margin increased slightly from 34.7% to 34.8%. Profit attributable to shareholders for the year, including a one-off write back of royalty savings of HK$64 million, surged by 89% to the record high of HK$280 million (2006: HK$148 million). Earnings per share also surged by 89% to 107.71 HK cents (2006: 57.06 HK cents).

Staff costs to revenue ratio dropped from 11.3% to 10.9%, while rental costs to revenue ratio also dropped from 10.6% to 10.2%.

As at 31 December 2007, the Group maintained a net cash position with cash and bank balances of HK$1,651 million (2006: HK$1,541 million) and short-term bank loans of HK$100 million (2006: HK$60 million). The loans were denominated in Renminbi, bearing floating interest rates at 4.8% to 5.9% per annum.

The Group's bank deposits of HK$64 million (2006: nil) and HK$14 million (2006: nil) were pledged to banks for guarantee in favour of bank borrowings and guarantee to landlords for rental deposits.

Capital expenditures for the year were HK$155 million, mainly used in renovating existing stores and opening new stores, including a supermarket, three JUSCO $10 Plaza and two Bento Express in Hong Kong, as well as two new GMS and a shopping centre in the PRC.

The Group had sufficient financial resources and will continue to finance capital expenditures with internal resources and short-term bank borrowings.

Exchange rate fluctuation during the year had no material impact on the Group as less than 5% of its total purchases was settled in foreign currencies.

Business Review

Although stock markets in Asia in particular had been highly volatile in the second half of 2007, the flourishing PRC economy and stable economic growth in Hong Kong continued to benefit the Group's business. In Hong Kong, consumption sentiment has been improving with unemployment rate staying low and salary level rising and boost from a prosperous property market. In 2007, gross domestic product of the PRC grew rapidly and the annual per capita disposable income of urban households also recorded a 12.2%[1] year-on-year growth. With consumers having more to spend and more willing to spend, the retail industry thrived last year and is expected to continue to prosper.

[1] Source: National Bureau of Statistics of China

Hong Kong Operations

The Hong Kong economy on recovery translated into sustained consumption desire and in turn satisfactory performance of the Group. Notwithstanding the closure of JUSCO Tseung Kwan O Store in the first half year, revenue of the Hong Kong operations rose by 7% to HK$3,091 million (2006: HK$2,903 million). Hong Kong segment result surged by 72% to HK$296 million from HK$172 million last year. Less the one-off write-back of the royalty savings, Hong Kong operations still achieved a 35% growth to HK$232 million.

The Group speeded up expansion of its business in Hong Kong in the second half year. Encouraged by the success of the two JUSCO Supermarket in Kwun Tong and Lam Tin, the Group opened a third supermarket in August 2007. The about 31,000 sq. ft. new supermarket in Grand Waterfront Plaza is the largest supermarket of its kind in To Kwa Wan. Targeting mass consumers as well as middle-income families, the supermarket provides over 8,000 food and grocery items, over 40% of which are directly imported from Japan. The Group sees abundant opportunities for the new store as more new private housing estates are expected to be completed in the area for occupation in the next few years.

To meet the growing demand for healthy and delicious meals among Hong Kong consumers, the Group introduced a new business model – Bento Express – in Hong Kong and opened two shops during the year. “Bento” is a single-portion takeout or home-packed meal common in Japanese cuisine. Borrowing this concept from Japan, Bento Express provides “low cholesterol, low salt, low sugar and high fibre” healthy Japanese food and beverage takeaway service at affordable prices. The first shop was opened in September in Wanchai and the second in December in Mongkok, targeting office goers and students in those districts.

The Group also opened its 12th JUSCO $10 Plaza in December in Sai Wan, a densely populated residential area with many nuclear families on Hong Kong Island. The 5,200 sq. ft. shop carries over 8,000 products at HK$10 each. The new shop also offers more than 800 food items all directly imported from Japan and stocked weekly to ensure a variety of new choices for customers.

PRC Operations

Despite that macroeconomic austerity measures were implemented in the PRC in the first half year, the economy maintained strong growth momentum during the year. Regions in south China, in particular, grew in leaps and bounds, creating a strong retail market. Thanks to the satisfactory growth in sales of existing and new stores, revenue of the PRC operations climbed 21% to HK$1,669 million (2006: HK$1,384 million). PRC segment result also rose by more than 7 times to HK$39 million from HK$5 million last year.

In January 2007, the Group opened its first shopping centre AEON Shunde Shopping Centre in Shunde, Guangdong, marking a milestone in its development. The over 47,000 sq. m. shopping centre has an 18,500 sq. m. GMS and more than 90 retail outlets, and is equipped with 2,000 parking spaces to give customers the convenience of park and shop. It is within 10 minutes’ ride for 438,000 residents and near residential projects soon to be completed, meaning it has abundant business opportunities now and in the future.

| MANAGEMENT DISCUSSION & ANALYSIS |

During the year, the Group continued to expand its store network to capture the huge business potential in south China. In April 2007, the Group opened its fourth GMS in Shenzhen at Coco Park. Near the end of the year, the Group opened one more GMS in Nanshan, Shenzhen. With a floor area of 22,059 sq. m., the two-storey store accommodates about 35 specialty stores offering comprehensive choices to customers. Served by a well-established transportation network and with a neighbourhood population of over 165,000, the store expects to enjoy high customer flows.

20th Anniversary Activities

The Group commemorated its 20th anniversary in 2007, which was delightfully complemented by record breaking financial results. We expressed our sincere gratitude and shared our joy with shareholders, customers, business partners and staff at different occasions and through various activities. And for shareholders in particular, the Group declared payment of special dividend of 20 HK cents per share in September 2007 to show appreciation for their confidence in the Group.

For customers, the Group provided merchandise in special 20th anniversary packaging and specific types of merchandise in larger portion to reward patronage. To reward our patrons, the new J CARD was launched in September last year encompassing offer of more exclusive privileges to loyal customers. To thank business partners for their continual support over the years, the Group organised a gala dinner in June last year. Last but not least, to express our gratitude to our staff whose efforts have been critical to the success of our business, in addition to organising staff gatherings and different staff events, we also issued special discount card for their families. We are ready to brave new heights and share the Group's promising future together with all stakeholders.

Human Resources

As at 31 December 2007, the Group had about 4,900 full-time and 2,300 part-time employees in Hong Kong and the PRC. The Group remunerates employees with reference to their performance, experience and prevailing practices of the industry. A team of excellent employees is vital to the success of a corporation. Thus, the Group has in place a system of recruitment and internal training to make sure it has an effective workforce. By providing the necessary mechanisms for professional improvement and boosting competence of staff members at all levels, and creating a platform for sharing of knowledge and experience, the Group and its parent company, AEON Co. hope to create and amplify synergies that can benefit all the Group's different operations.

Prospects

Hong Kong Operations

The Hong Kong economy was reviving in the past year and is expected to keep moving steadily on the recovery path in the foreseeable future. While the general outlook is positive, there are specific factors that may adversely affect the retail industry including rising inflation rate and rental costs. Therefore, the Group remains cautiously optimistic about its operations in Hong Kong.

To meet the ever-changing needs of customers and the community, the Group will partially close JUSCO Kornhill Store for renovation from April 2008. The investment cost for the work is around HK$60 million and the renovated store is scheduled to re-open in the second half of 2008.

To expand its revenue source, the Group is exploring the opportunities to diversify into in-door amusement centre business. The Group will also continue to look for suitable locations to open more stores, speed up opening new JUSCO $10 Plaza and Bento Express especially, as well as explore other new opportunities to provide more comprehensive services and strengthen its retail network in Hong Kong.

PRC Operations

The macroeconomic austerity measures implemented in the PRC have not significantly hindered economic growth and the retail industry has continued to flourish. With an established brand name and providing excellent shopping experiences to customers, the Group believes its existing and new stores will continue to benefit from strong consumer demand for quality merchandise and services.

In 2008, the Group is going to open its second shopping centre in Guangdong. In East Lake Garden in Huizhou, the 66,000 sq. m. shopping centre will house a GMS, restaurants and a wide array of retailers and entertainment facilities and provide 1,700 parking spaces. The Group will attempt to replicate in this project the success it has running its first shopping centre in Shunde. It will take reference of local preferences, culture and habits to ensure its merchandise and services match specific customer needs. The project involves a total investment of around RMB82 million.

The Group will also open a new GMS in Foshan, Guangdong in the second half of 2008. It has earmarked about RMB33 million for the investment. It will bring the total number of GMS of the Group in the PRC to 12 and give the Group enhanced economies of scale.

As the Group is optimistic about the prospects of the retail market and its operation in Shenzhen, in January 2008, it signed an agreement to acquire the remaining 35% interests in the registered capital of AEON Shenzhen. Details of the agreement were given in the announcement of the Company dated 18 January 2008. The aggregate consideration of RMB94.5 million for the acquisition is to be paid in cash by the Group using internal resources. When the acquisition is completed, the Group will hold 100% stake in AEON Shenzhen, certain operational functions of which can be integrated with those of the Group to improve cost-effectiveness. The Group will also be able to achieve greater economies of scale and enjoy stronger bargaining power with suppliers. The acquisition is expected to bring strong synergies to the Group in the next few years.

The Group will strive to identify suitable locations for new stores and study the feasibility of introducing proven new business models in Hong Kong to south China to accelerate expansion of its business in that market.

LAM Man Tin
Managing Director

Hong Kong, 28 March 2008

MILESTONES

1987

Opened first GMS in Hong Kong at Kornhill Plaza — JUSCO Kornhill Store

1991

Launched JUSCO Mother Card

1992

Partnered with World Vision Hong Kong to hold inaugural "Used Book Recycling Campaign"

1993

Developed a new identity and logo with "S" and "C" interlocking, the "S" stands for "Store" and "Service" and the "C" stands for "Corporate", "Community", and "Customer". The new logo represents JUSCO's motto "Everything we do, we do for our customers"

1994

Listed on the Hong Kong Stock Exchange

1996

Set up Guangdong JUSCO Teem Stores Co., Ltd. first store in Guangdong — JUSCO Teem Plaza Store

Brought "TOPVALU", the private AEON Co. brand of products characterised by high quality at reasonable prices, from Japan to Hong Kong

1997

Joined the Agriculture, Fisheries and Conservation Department — "Community Tree Planting Scheme", with participation from employees and customers as part to the Group's 10th anniversary celebration

1998

Worked with AEON Credit Services Asia Co., Ltd., to set up the AEON Education and Environment Fund to promote environmental protection and cultural exchange in Hong Kong and China

1999

Put can and PET bottle recycling bins in all JUSCO outlets

2000

Launched the online department store — JUSCOCITY

Launched J CARD — JUSCO's first membership card

2002

Opened JUSCO's flagship $10 Plaza in Causeway Bay

AEON Shenzhen opened Shenzhen JUSCO City Plaza Store in Futian District, Shenzhen

2003

Granted the "Caring Company" logo by the Hong Kong Council of Social Service

AEON
AEON Stores (Hong Kong) Co., Limited
永旺(香港)百貨有限公司

Changed name to AEON Stores (Hong Kong) Co., Limited and strengthened relationship between AEON Stores and parent company

Held the "AEON Love and Care Campaign" to give customers the opportunity to donate to and support 60 social service projects

2004

Established AEON China Co., Ltd. in Shenzhen — the first wholly-owned subsidiary of the Group in China

Launched "Used Less Plastic Bag Campaign" to raise funds by selling reusable shopping bags for Green Power to promote environmental education in Hong Kong

2005

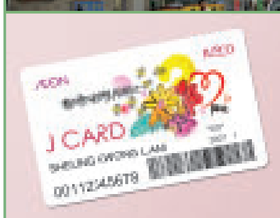
Opened first JUSCO Supermarket in Kwun Tong

2006

Launched "AEON Goes All Out Project" encouraging employees to provide volunteer services to serve the local community

2007

Opened first shopping centre in Shunde — AEON Shunde Shopping Centre



Launched all-new J CARD

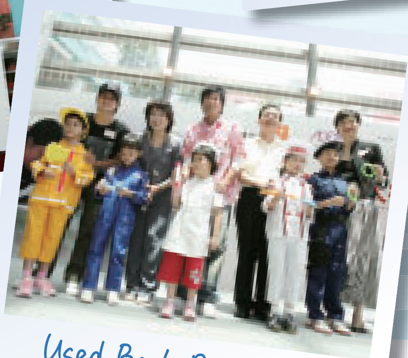
Opened first Bento Express in Wan Chai

CORPORATE SOCIAL RESPONSIBILITY

Over the years, apart from committed to providing unique shopping experiences to customers, the Group has also diligently honoured its responsibility to the society as a caring corporation. During the year, the Group continued to help the needy and also organised and supported various activities to promote environmental protection.

CORPORATE PHILANTHROPY

Caring Company Award



Used Book Recycling Campaign

Wall Calendar Charity Sale

Caring Company Award

AEON Stores is committed to actively serving the community and helping the needy. In February 2007, it was recognised as the "Caring Company" from the Hong Kong Council of Social Service for the fifth consecutive year.

Used Book Recycling Campaign

In August, the Group organised the "Used Book Recycling Campaign" jointly with World Vision Hong Kong for the 16th year. More than 280,000 books were collected and over HK$$2,100,000 was raised for renovation of the Yongfeng Secondary School in Shaanxi, China. Selling used books is also conducive to environmental protection, a worthy cause supported by the Group. After the school is renovated, it will be renamed as Yongwang Secondary School.

Wall Calendar Charity Sale

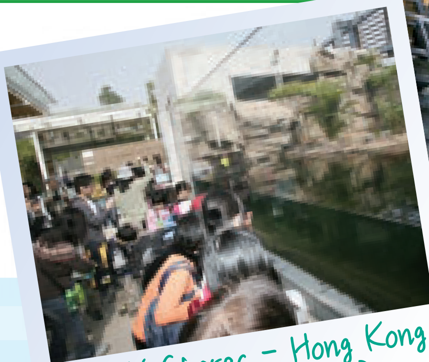
AEON Stores also continued the "Wall Calendar Charity Sale" in 2007, and the calendar this year was designed by the renowned Hong Kong artist Ah Chung (阿虫). The calendar sale raised proceeds of over HK$333,000 which were donated to three charitable organisations in Hong Kong.

Gift-giving Programme

Since its inception, the Group has been organising gift-giving programmes donating various resources, namely furniture, stationeries, food and even cash coupons etc. to families in need and charitable organisations. This is a long term commitment of the Group in advocating corporate philanthropic activities.

GREEN PARTNER


Hearty Flower Donation



AEON Stores – Hong Kong Wetland Exploration Adventure


Reusable Gift Bags



AEON Planting Seeds of Growth

Hearty Flower Donation

The Group organised its 20th Anniversary Unveiling Ceremony and Gala Dinner and raised fund through its Hearty Flower Donation for the "Tree for Life" programme of The Conservancy Association. The activities raised more than HK$143,000 for the children tree-education programme.

AEON Planting Seeds of Growth

The Group organised the tree planting programme "AEON Planting Seeds of Growth" in June. 400 staff and customers participated in the programme and planted 20,000 seedlings in the Tai Lam Country Park.

AEON Stores – Hong Kong Wetland Exploration Adventure

Cooperating with the Agriculture, Fisheries and Conservation Department and Hong Kong Wetland Park, the Group organised the "AEON Stores – Hong Kong Wetland Exploration Adventure". The year-long programme starting in December 2007 targets to take 1,000 Hong Kong children on half-day eco-tour in the Hong Kong Wetland Park to enhance their awareness of the need to protect the environment.

Reusable Gift Bags

The Group started a reusable gift bag programme in December 2007 to encourage simple gift-packaging. For every reusable gift bag a customer purchases, the Group will donate HK$0.5 to Friends of the Country Parks for its "Knowing Hong Kong's Native Trees – Guided Walk Programme".

SENIOR MANAGEMENT PROFILE

Executive Directors

Mr. LAM Man Tin
Mr. Lam (aged 49) was appointed as Executive Director in May 1999 and became the Managing Director in May 2006. Mr. Lam joined the Company in 1992 and has over 20 years of retail and service experience. He graduated from The University of Hull in the United Kingdom with a master's degree in Strategic Marketing.

Mr. FUKUMOTO Yutaka
Mr. Fukumoto (aged 51) was appointed as Executive Director and the Deputy Managing Director in June 2006. He was the Managing Director of Guangdong JUSCO Teem Stores Co., Ltd. from 2002 to 2003 and was the Leader of the Asia Business Strategy team of AEON Co. from September 2003 to May 2006. Mr. Fukumoto joined AEON Co. in 1979 and has over 10 years of experience in the PRC retail industry. He graduated from Osaka University in Japan with a bachelor's degree in Engineering.

Mr. WONG Mun Yu
Mr. Wong (aged 50) was appointed as Executive Director in May 1999 and is the Director of Accounts and Finance. Mr. Wong joined the Company in 1988. He is a fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. AGAWA Yutaka
Mr. Agawa (aged 51) was appointed as Executive Director in May 2007 and is the Director of Buying Division of the Company. He joined AEON Co. in 1980. He has over 25 years of experience in retail industry. Mr. Agawa graduated from Daito-Bunka University in Japan with a bachelor's degree in Arts.

Non-executive Directors

Mr. TANAKA Akihito
Mr. Tanaka (aged 60) was appointed as Non-executive Director in June 2006 and became the Chairman in May 2007. He is also the Chief Representative for China of AEON Co. Joining AEON Co. in 1970, he was a Director of the Company from 1996 to 2003 and the Managing Director of the Company from 1997 to 1998. Mr. Tanaka graduated from the Kansai University in Japan with a bachelor's degree in Journalism.

Mr. TOYOSHIMA Masaaki
Mr. Toyoshima (aged 56) was appointed as Non-executive Director in May 2007. He is also an Executive Vice President of AEON Co. He joined AEON Co. in 1974. Mr. Toyoshima is a graduate of the Nihon University in Japan with a bachelor's degree in Economics.

Mr. ISHII Kazumasa
Mr. Ishii (aged 57) was appointed as Non-executive Director in May 2007. He is also the Assistant Chief Representative for China of AEON Co. He joined the Company in 1990 and moved to Guangdong Province of the PRC for the establishment of Guangdong JUSCO Teem Stores Co., Ltd. in 1995 and was appointed as the Managing Director of that subsidiary in the same year. He was the Managing Director of the Company from June 2002 up to June 2005. He graduated from Doshisha University in Japan with a bachelor's degree in Commerce in 1974 and joined AEON Co. in the same year.

Independent Non-executive Directors

Prof. LAM PEI Peggy, G.B.S., S.B.S., O.B.E., J.P.
Prof. Lam (aged 79) was appointed as Independent Non-executive Director since 1994. She is a fellow of the Family Planning of American University, the United States of America. She was the Chairman of the Wan Chai District Council from 1985 to 2003 and was a member of the Preparatory Committee for the Hong Kong Special Administrative Region. She is the founding Chairman of the Hong Kong Federation of Women. She has also served as a Hong Kong Affairs Advisor to the People's Republic of China, a member of the Legislative Council from 1988 to 1995 and a member of the Provisional Legislature of the Hong Kong Special Administrative Region. She was previously a member of the 7th, 8th and 9th Chinese People's Political Consultative Conference. She was appointed as the Justice of Peace in 1981, and also awarded with the Order of the British Empire (O.B.E.) in 1993, the Silver Bauhinia Star (S.B.S.) and the Gold Bauhinia Star (G.B.S.) by the Government of the Hong Kong Special Administrative Region in 1998 and 2003 respectively.

Prof. Lam graduated from The University of Shanghai with a bachelor's degree in Arts. She received a certificate in family planning from The University of Chicago and a certificate in Public Health Administration from The University of Michigan in the United States of America. She was also awarded as Honorary Professor by University of Shanghai for Science and Technology in 2006.

Mr. SHAM Sui Leung Daniel
Mr. Sham (aged 52) was appointed as Independent Non-executive Director in September 2004. He is an associate member of The Institute of Chartered Accountants in England and Wales and also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants (HKICPA). He was a partner with Moores Rowland Mazars from 1988 to 2003. He was a committee member of the Expert Panel on Listing, the Expert Panel on Securities and the Accountants' Report Task Force of the HKICPA. Mr. Sham was also a committee member of the Disciplinary Panel of the HKICPA. A graduate from Leeds University in England, he holds a bachelor's degree in Economics.

Independent Non-executive Directors

Ms. CHENG Yin Ching Anna
Ms. Cheng (aged 38) was appointed as Independent Non-executive Director in June 2006 and she is a fellow of the Association of Chartered Certified Accountants and also a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. From 1997 to 2004, she was the Finance Director of Rosedale Hotel Group Limited (now renamed as China Velocity Group Limited), a company listed on the Hong Kong Stock Exchange. She is currently the Chief Financial Officer of Peterson Holdings Company Limited.

Senior Management

Mr. CHAK Kam Yuen
Mr. Chak (aged 45) is the General Manager of Operations of the Company. Since joining the Company in 1987, Mr. Chak has amassed over 20 years of solid experience in the retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration.

Ms. CHAN Suk Jing
Ms. Chan (aged 48) is the Assistant General Manager of the General Merchandise Store of the Company. Having joined the Company in 1995, she now possesses over 20 years of experience in the retail industry.

Ms. CHAN Pui Man Christine
Ms. Chan (aged 56) is the Assistant General Manager of Buying Division of the Company. She joined the Company in 1998 and has over 20 years of experience in the buying field as well as operations. Ms. Chan graduated from the State of Washington University with a bachelor's degree in Business Administration.

CORPORATE GOVERNANCE REPORT

Corporate Governance Practice

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

In the opinion of the Directors, the Company has complied throughout the year with the Code, save that in the interim review of the effectiveness of the system of internal control of the Group, the Directors identified a weakness in a subsidiary's reporting system which led to the late announcement of a tenancy agreement entered into between the subsidiary and the joint venture partner of that subsidiary. Under the Listing Rules, the tenancy agreement constituted a continuing connected transaction of the Company and should have been announced when it was entered into by the parties. The late announcement was caused by a change of management of the subsidiary in April 2006 and the new management had not notified the Company of the tenancy agreement when it was entered into in November 2006. Upon becoming aware of the execution of the tenancy agreement in June 2007, the Company took immediate steps to engage an independent financial adviser and valuer to review and opine on the terms of the tenancy agreement. In addition, the Company has stepped up its monitoring and reporting procedures by (i) carrying out discussions with the management of the subsidiary in question and other subsidiaries with a particular emphasis on the importance of adhering to the requirements stipulated in the Listing Rules; (ii) reviewing the internal reporting and compliance system within the Group; (iii) arranging for seminars and training sessions for management of the Group to ensure that they are up-to-date with the requirements stipulated in the Listing Rules; and (iv) requiring all subsidiaries involved in continuing connected transactions to report to the management on a regular basis. The Company will continuously monitor and review the connected transactions and will comply with the requirements set out in Chapter 14A of the Listing Rules.

Directors' Securities Transactions

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

Board of Directors

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

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

Directors' attendance at board meetings

	Directors	Number of attendance
Executive Directors	Lam Man Tin *(Managing Director) (Note 1)*	7/7
	Yutaka Fukumoto *(Deputy Managing Director) (Note 2)*	6/7
	Wong Mun Yu	6/7
	Yutaka Agawa *(Note 3)*	3/7
Non-executive Directors	Toshiji Tokiwa *(Note 4)*	2/7
	Akihito Tanaka (Chairman) *(Note 5)*	7/7
	Masaaki Toyoshima *(Note 6)*	2/7
	Kazumasa Ishii *(Note 6)*	3/7
	Tatsuichi Yamaguchi *(Note 7)*	3/7
	Naoyuki Miyashita *(Note 7)*	4/7
Independent Non-executive Directors	Lam Pei Peggy	4/7
	Sham Sui Leung Daniel	7/7
	Cheng Yin Ching Anna	7/7

Notes:

1. Mr. Lam Man Tin was re-appointed as the Managing Director of the Company on 23 May 2007.

2. Mr. Yutaka Fukumoto was re-appointed as the Deputy Managing Director of the Company on 23 May 2007.

3. Mr. Yutaka Agawa was appointed as an Executive Director of the Company on 23 May 2007 and there have been three board meetings held after his appointment.

4. Mr. Toshiji Tokiwa resigned as a Non-executive Director and the Chairman of the Board of Directors of the Company on 23 May 2007.

5. Mr. Akihito Tanaka was appointed as the Chairman of the Board of Directors of the Company on 23 May 2007.

6. Mr. Masaaki Toyoshima and Mr. Kazumasa Ishii were appointed as the Non-executive Directors of the Company on 23 May 2007 and there have been three board meetings held after their appointment.

7. Mr. Tatsuichi Yamaguchi and Mr. Naoyuki Miyashita resigned as the Non-executive Directors of the Company on 23 May 2007.

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

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

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

The Board members have no financial, business, family or other material/relevant relationship with each other. Given the nature and business objectives of the Company, the Board has a balance of skill and experience appropriate for the requirements of the business of the Company. The list of Directors and their respective biographies are set out on pages 14 and 15 of the annual report respectively.

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

Chairman and Chief Executive Officer

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

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

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

Remuneration Committee

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

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

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

During 2007, the Remuneration Committee reviewed the remuneration of all Directors (including the Managing Director and the Deputy Managing Director) and the senior management and recommended the Board to approve their remuneration.

Nomination of Directors

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

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

Auditor's Remuneration

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

Services rendered	**Fees payable**
	HK$'000
Audit services	2,307
Non-audit services:	
Review of interim results	485
Taxation services	228
Other services	87
	3,107

Audit Committee

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

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

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

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

During 2007, the Audit Committee performed the following duties:

– reviewed the audited financial statements for the year ended 31 December 2006 with a recommendation to the Board for approval;

– reviewed the un-audited financial statements for the six months ended 30 June 2007 with a recommendation to the Board for approval;

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

– identified a weakness in a subsidiary's internal control system which led to the late reporting and announcement of a connected transaction;

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

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

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

Accountability

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2007 and for the year ended 31 December 2007, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

Internal Controls

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

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2007.

Principal Activities

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

Subsidiaries

Details of the Company's subsidiaries at 31 December 2007 are set out in note 17 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 29.

An interim dividend of 8.0 HK cents per share amounting to HK$20,800,000 and a special dividend of 20.0 HK cents per share amounting to HK$52,000,000 were paid to the shareholders during the year.

The Directors recommend the payment of a final dividend of 26.0 HK cents per share to the shareholders on the register of members on 23 May 2008, amounting to HK$67,600,000, and the retention of the remaining profit for the year.

Major Customers and Suppliers

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

Property, Plant and Equipment

During the year, the Group spent approximately HK$155 million on property, plant and equipment to renovate its stores and expand its operations. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 16 to the financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2007 comprised the retained profits of HK$720,557,000 (2006: HK$596,222,000).

| DIRECTORS' REPORT |

Directors

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

Executive Directors

LAM Man Tin *(Managing Director)*	
Yutaka FUKUMOTO *(Deputing Managing Director)*	
WONG Mun Yu	
Yutaka AGAWA	(appointed on 23 May 2007)

Non-executive Directors

Akihito TANAKA *(Chairman)*	
Masaaki TOYOSHIMA	(appointed on 23 May 2007)
Kazumasa ISHII	(appointed on 23 May 2007)
Toshiji TOKIWA	(resigned on 23 May 2007)
Tatsuichi YAMAGUCHI	(resigned on 23 May 2007)
Naoyuki MIYASHITA	(resigned on 23 May 2007)

Independent Non-executive Directors

LAM PEI Peggy
SHAM Sui Leung Daniel
CHENG Yin Ching Anna

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

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

Directors' Service Contracts

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

Directors' Interests in Shares

At 31 December 2007, the interests of the Directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) The Company

Name of Directors	Number of ordinary shares held as personal interest	Approximate percentage of interest in the issued share capital of the Company %
LAM Man Tin	20,000	0.008
Yutaka FUKUMOTO	70,000	0.027
WONG Mun Yu	18,000	0.007
Yutaka AGAWA	12,000	0.005
Akihito TANAKA	50,000	0.019
Kazumasa ISHII	40,000	0.015
LAM PEI Peggy	200,000	0.077

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

Name of Directors	Number of shares held as personal interests	Approximate percentage of interest %
Akihito TANAKA	13,900	0.0017
Masaaki TOYOSHIMA	9,300	0.0012
Kazumasa ISHII	9,000	0.0011

(c) Other associated corporations

	Akihito TANAKA	
	Number of shares	Approximate percentage of interest %
AEON Fantasy Co., Ltd.	3,801	0.021
AEON Thana Sinsap (Thailand) Plc.	20,000	0.008
Aeonmall Co., Ltd.	4,000	0.003
AEON Co. (M) Bhd.	200,000	0.110
Ryukyu JUSCO Co., Ltd.	100	0.018

All the shares held are personal interests.

Other than as disclosed above, at 31 December 2007, none of the Directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares and convertible bonds of the Company or any of its associated corporations.

Directors' Interests in Contracts of Significance and Connected Transactions

During the year, the Group had the following material transactions with AEON Co., Ltd. and its subsidiaries, namely AEON Credit Service (Asia) Company Limited ("ACS") and subsidiaries of AIC Inc.. The former and existing Directors of the Company, Messrs. Akihito TANAKA, Masaaki TOYOSHIMA, Kazumasa ISHII, Toshiji TOKIWA and Tatsuichi YAMAGUCHI, have beneficial interests in AEON Co., Ltd.

(i) The Group made purchases from subsidiaries of AIC Inc. amounting to a total of HK$85,247,000.

(ii) ACS and the Company have entered into a number of licence agreements under which ACS pays to the Company a fixed monthly rental in respect of service counters, cash dispensing machines and cash repayment machines operated by ACS in the stores of the Company. The total amount of rentals paid and payable by ACS for the year was HK$6,903,000.

(iii) Royalties payable to and royalty fee savings received from AEON Co., Ltd. for the year pursuant to the amended technical assistance agreement amounted to HK$28,193,000 and HK$64,080,000 respectively. Details of the royalties payable to AEON Co., Ltd. are set out in section headed "Connected Transactions".

(iv) The Company paid commissions of HK$12,748,000 to ACS for certain services rendered. Details of the commission payable to ACS are set out in section headed "Connected Transactions".

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

Connected Transactions

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

(i) AEON Co., Ltd. and the Company have entered into agreements under which the Company pays royalties to AEON Co., Ltd. for the rights to use certain trade marks of AEON Co., Ltd. and the system of information and know-how. The total amount of royalties paid and payable by the Company for the year was HK$28,193,000. This amount does not exceed the cap amount of HK$47 million as shown in the announcement of the Company dated 12 December 2006.

(ii) ACS and the Company have entered into agreements under which the Company pays commission to ACS in respect of certain purchases made by customers of the Company with the use of the Company's various co-brand cards and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company. The total amount of commission paid and payable by the Company for the year was HK$12,748,000. This amount does not exceed the cap amount of HK$20,900,000 as shown in the announcement of the Company dated 20 April 2005.

(iii) The subsidiary of the Company, Guangdong Jusco Teem Stores Co., Ltd. ("GDJ") and a related party of the Company, Guangdong Teem (Holdings) Limited ("Teem Holding") have entered into a tenancy agreement under which GDJ pays rent to Teem Holding. In accordance with the tenancy agreement, GDJ pays rental, management fees and utility expenses to Teem Holding and Teem Properties Management Limited ("Teem Properties") respectively for the year ended 31 December 2007. GDJ was held as to 65% and 35% by the Company and Teemall Department Stores Holdings Limited ("Teem Department Stores") respectively. The premises, being the subject of the tenancy agreement, is owned by Teem Holding. Teem Department Stores and Teem Properties are the wholly-owned subsidiaries of Teem Holding. The total amount of rental, management fees and utility expenses paid and payable by GDJ for the year was HK$42,509,000. This amount does not exceed the cap amount of HK$47,500,000 as shown in the announcement of the Company dated 21 June 2007.

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

The auditor of the Company has performed certain agreed upon procedures on the above continuing connected transactions for the year ended 31 December 2007 (the "Transactions") pursuant to Rule 14A.38 of the Listing Rules and reported their factual findings on these procedures to the Board of Directors and confirmed that the Transactions have been approved by the Board; based on the samples selected for the agreed upon procedures performed, the auditor found that the Transactions have been entered into in accordance with the relevant agreements governing the Transactions and have not exceeded the caps set out in the respective paragraphs above.

Appointment of Independent Non-Executive Directors

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

Substantial Shareholders

At 31 December 2007, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of ordinary shares	Approximate percentage of the issued share capital %
AEON Co., Ltd.	186,276,000 *(Note 1)*	71.64
Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	28,642,000 *(Note 2)*	11.02

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

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

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

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

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2007.

Arrangements to Purchase Shares or Debentures

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

Purchase, Sale or Redemption of Listed Securities

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

Donations

During the year, the Group made charitable and other donations amounting to HK$511,000.

Emolument Policy

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

Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the year.

Auditor

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

On behalf of the Board

LAM Man Tin
Managing Director

Hong Kong, 28 March 2008

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

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

We have audited the consolidated financial statements of AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 29 to 69, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing 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 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

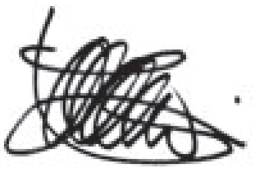
	Notes	2007 HK$'000	2006 HK$'000
Revenue	5	**4,759,947**	4,286,972
Other income		**316,415**	272,314
Investment income	6	**46,593**	33,197
Purchases of goods and changes in inventories		**(3,104,046)**	(2,800,919)
Staff costs		**(517,900)**	(485,718)
Depreciation		**(136,004)**	(132,247)
Loss on disposal of property, plant and equipment		**(829)**	(1,197)
Pre-operating expenses	7	**(6,338)**	(3,451)
Impairment loss reversed in respect of property, plant and equipment		**–**	8,967
Royalty fee savings	8	**64,080**	–
Gain on disposals of available-for-sale investments		**6**	–
Other expenses		**(1,040,844)**	(968,229)
Finance costs	9	**(4,250)**	(767)
Profit before taxation		**376,830**	208,922
Income tax expenses	10	**(75,369)**	(52,217)
Profit for the year	11	**301,461**	156,705
Attributable to:			
Equity holders of the Company		**280,056**	148,347
Minority interests		**21,405**	8,358
		301,461	156,705
Dividends	14	**118,300**	50,700
Earnings per share – basic	15	**107.71 cents**	57.06 cents
Final dividend per share proposed after balance sheet date		**26.00 cents**	17.50 cents

CONSOLIDATED BALANCE SHEET

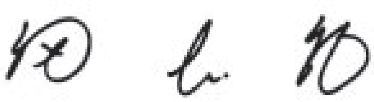
At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current Assets			
Property, plant and equipment	16	**335,692**	304,617
Available-for-sale investments	18	**29,395**	24,862
Deferred taxation	19	**13,129**	14,486
Rental deposits and prepayments		**94,986**	79,014
		473,202	422,979
Current Assets			
Inventories	20	**412,173**	367,282
Trade receivables	21	**34,323**	39,215
Other receivables, prepayments and deposits		**31,499**	41,310
Amounts due from fellow subsidiaries		**51,645**	45,159
Pledged bank deposits	30	**78,523**	–
Bank balances and cash		**1,651,084**	1,540,766
		2,259,247	2,033,732
Current Liabilities			
Trade payables	23	**1,036,747**	1,040,423
Other payables and accrued charges		**497,131**	378,096
Amounts due to fellow subsidiaries		**30,837**	24,754
Amount due to ultimate holding company		**27,816**	127,534
Bank borrowings	24	**100,387**	59,712
Income tax payable		**25,445**	9,359
Dividend payable		**383**	236
		1,718,746	1,640,114
Net Current Assets		**540,501**	393,618
Total Assets Less Current Liabilities		**1,013,703**	816,597
Capital and Reserves			
Share capital	26	**52,000**	52,000
Share premium and reserves		**865,534**	693,424
Equity attributable to equity holders of the Company		**917,534**	745,424
Minority interests		**71,857**	49,089
Total Equity		**989,391**	794,513
Non-current Liabilities			
Deposits received and accrued charges		**24,312**	22,084
		1,013,703	816,597

The financial statements on pages 29 to 69 were approved and authorised for issue by the Board of Directors on 28 March 2008 and are signed on its behalf by:



LAM Man Tin
Director



Yutaka FUKUMOTO
Director

BALANCE SHEET

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current Assets			
Property, plant and equipment	16	**113,551**	145,223
Investments in subsidiaries	17	**64,936**	71,360
Available-for-sale investments	18	**29,395**	24,862
Deferred taxation	19	**13,129**	14,486
Rental deposits and prepayments		**47,277**	38,051
		268,288	293,982
Current Assets			
Inventories	20	**274,730**	282,819
Trade receivables	21	**23,770**	31,715
Other receivables, prepayments and deposits		**20,692**	27,140
Amounts due from subsidiaries		**17,138**	55,400
Amount due from a fellow subsidiary		**50,921**	44,504
Bank balances and cash		**1,128,203**	1,128,963
		1,515,454	1,570,541
Current Liabilities			
Trade payables	23	**610,439**	737,932
Other payables and accrued charges		**233,385**	224,898
Amount due to a fellow subsidiary		**28,800**	22,113
Amount due to ultimate holding company		**28,243**	127,813
Income tax payable		**8,375**	4,649
Dividend payable		**383**	236
		909,625	1,117,641
Net Current Assets		**605,829**	452,900
Total Assets Less Current Liabilities		**874,117**	746,882
Capital and Reserves			
Share capital	26	**52,000**	52,000
Share premium and reserves	27	**809,178**	680,287
		861,178	732,287
Non-current Liabilities			
Deposits received and accrued charges		**12,939**	14,595
		874,117	746,882

LAM Man Tin
Director

Yutaka FUKUMOTO
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	The People's Republic of China ("PRC") statutory reserves HK$'000	Non-distributable reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2006	52,000	63,158	20,906	2,578	2,456	–	502,453	643,551	40,066	683,617
Gain on fair value changes of available-for-sale investments	–	–	1	–	–	–	–	1	–	1
Exchange differences– arising on translation of overseas operations	–	–	–	4,225	–	–	–	4,225	1,714	5,939
Income recognised directly in equity	–	–	1	4,225	–	–	–	4,226	1,714	5,940
Profit for the year	–	–	–	–	–	–	148,347	148,347	8,358	156,705
Total recognised income for the year	–	–	1	4,225	–	–	148,347	152,573	10,072	162,645
Transfer, net of minority interests share	–	–	–	–	423	2,587	(3,010)	–	–	–
Dividends	–	–	–	–	–	–	(50,700)	(50,700)	–	(50,700)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(1,049)	(1,049)
At 31 December 2006	52,000	63,158	20,907	6,803	2,879	2,587	597,090	745,424	49,089	794,513
Gain on fair value changes of available-for-sale investments	-	-	4,562	-	-	-	-	4,562	-	4,562
Exchange differences- arising on translation of overseas operations	-	-	-	5,798	-	-	-	5,798	4,442	10,240
Income recognised directly in equity	-	-	4,562	5,798	-	-	-	10,360	4,442	14,802
Profit for the year	-	-	-	-	-	-	280,056	280,056	21,405	301,461
Transfer to income statement on disposal of available-for-sale investments	-	-	(6)	-	-	-	-	(6)	-	(6)
Total recognised income for the year	-	-	4,556	5,798	-	-	280,056	290,410	25,847	316,257
Transfer, net of minority interests share	-	-	-	-	1,143	-	(1,143)	-	-	-
Dividends	-	-	-	-	-	-	(118,300)	(118,300)	-	(118,300)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(3,079)	(3,079)
At 31 December 2007	52,000	63,158	25,463	12,601	4,022	2,587	757,703	917,534	71,857	989,391

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

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

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 HK$'000	2006 HK$'000
Operating Activities		
Profit before taxation	**376,830**	208,922
Adjustment for:		
Investment income	**(46,593)**	(33,197)
Finance costs	**4,250**	767
Depreciation	**136,004**	132,247
Loss on disposal of property, plant and equipment	**829**	1,197
Gain on disposals of available-for-sale investments	**(6)**	–
Impairment loss reversed in respect of property, plant and equipment	**–**	(8,967)
Reversal of write-down of inventories	**(1,114)**	(10,133)
Operating cash flows before movements in working capital	**470,200**	290,836
(Increase)/decrease in inventories	**(37,603)**	29,301
Decrease/(increase) in trade receivables	**5,441**	(15,473)
Increase in other receivables, prepayments and deposits	**(2,111)**	(21,272)
Increase in amounts due from fellow subsidiaries	**(6,304)**	(2,576)
(Decrease)/increase in trade payables	**(25,786)**	233,166
Increase in deposits received, other payables and accrued charges	**113,423**	53,815
Increase in amounts due to fellow subsidiaries	**5,734**	14,088
(Decrease)/increase in amount due to ultimate holding company	**(99,697)**	43,036
Cash generated from operations	**423,297**	624,921
Hong Kong Profits Tax paid	**(41,074)**	(42,122)
People's Republic of China income taxes paid	**(17,905)**	(17,987)
Interest paid	**(4,250)**	(767)
Interest on bank deposits received	**45,928**	32,438
Net Cash from Operating Activities	**405,996**	596,483
Investing Activities		
Increase in pledged bank deposits	**(78,523)**	–
Dividends received from investments	**665**	759
Purchase of property, plant and equipment	**(158,011)**	(104,234)
Proceeds from disposal of property, plant and equipment	**273**	637
Proceeds from disposal of available-for-sale investments	**29**	–
Net Cash used in Investing Activities	**(235,567)**	(102,838)
Financing Activities		
Bank borrowings raised	**278,067**	59,712
Repayment of bank borrowings	**(243,180)**	(14,351)
Dividends paid	**(118,153)**	(50,633)
Dividends paid to minority shareholders	**(3,079)**	(1,049)
Net Cash used in Financing Activities	**(86,345)**	(6,321)
Net Increase in Cash and Cash Equivalents	**84,084**	487,324
Cash and Cash Equivalents at Beginning of the Year	**1,540,766**	1,042,294
Effect of Foreign Exchange Rate Changes	**26,234**	11,148
Cash and Cash Equivalents at End of the Year	**1,651,084**	1,540,766
Analysis of the Balances of Cash and Cash Equivalents		
Bank balances and cash	**1,651,084**	1,540,766

1. General

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

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

The principal activity of the Group is the operation of general merchandise stores.

The financial statements of the Company are presented in Hong Kong dollars. The Company's functional currency is Hong Kong dollars, while the functional currency of the subsidiaries registered in the People's Republic of China (the "PRC") is Renminbi.

2. Application of New and Revised Hong Kong Financial Reporting Standards

In the current year, the Group and the Company have applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Company's/Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment

The Group and the Company have applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. Application of New and Revised Hong Kong Financial Reporting Standards – continued

The Group and the Company have not early adopted the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Consolidations and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – INT 12	Service Concession Arrangements[4]
HK(IFRIC) – INT 13	Customer Loyalty Programmes[5]
HK(IFRIC) – INT 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The application of HK(IFRIC) – INT 13 will result in change to the revenue recognition policy of the Group and the Company for its customer loyalty programme. The customer privilege programmes operated for the benefit of its customers falls within the scope of HK(IFRIC) – INT 13. Under the customer privilege programmes, the customers are entitled to receive bonus points which can be used to redeem cash coupon. Presently, the Group and the Company has accounted for the customer privilege programmes by recognising the full consideration from sales as revenue and cost of bonus points as expenses. However, HK(IFRIC) – INT 13 requires that such transactions be accounted for as "multiple element revenue transactions" and that the consideration received in the initial sales transaction be allocated between the sales of goods and the cost of bonus points that are earned by the customers.

The Directors of the Company have assessed the potential impact and confirm that the application of the above standards, amendment or interpretations will not have material impact on the results and financial position of the Group and the Company.

3. Significant Accounting Policies

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

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Hong Kong Companies Ordinance. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any impairment loss.

Revenue recognition

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

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

Rentals received from licensees are recognised on a straight-line basis over the terms of the relevant licence agreements. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised as an expense on a straight-line basis over the lease term.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. Significant Accounting Policies – continued

Property, plant and equipment

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

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

Depreciation is provided to write off the cost or remaining net book values of property, plant and equipment, other than construction in progress, over the estimated useful lives after taking into account of their estimated residual value, using the straight-line method at the following rates:

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

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

Leasing

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

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

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

3. Significant Accounting Policies – continued

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

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

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

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

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

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

3. Significant Accounting Policies – continued

Impairment of financial assets – continued

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Other financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

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

3. Significant Accounting Policies – continued

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

Inventories

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

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits schemes

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

Pre-operating expenses

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

3. Significant Accounting Policies – continued

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

4. Key Sources of Estimation Uncertainty and Critical Accounting Judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Key sources of estimation uncertainty

Income taxes

As at 31 December 2007, a deferred tax asset of HK$13,129,000 (2006: HK$14,486,000) in relation to accelerated accounting depreciation and other temporary differences has been recognised in the Group's balance sheet. The reliability of the deferred tax asset mainly depends on whether taxable profit will be available against which the deductible temporary differences can be utilised. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

4. Key Sources of Estimation Uncertainty and Critical Accounting Judgments – continued

Key sources of estimation uncertainty – continued

Income taxes – continued

In addition, as at 31 December 2007, potential tax effect of HK$5,596,000 (2006: HK$8,277,000) in relation to unused tax losses of subsidiaries operating in other regions in the PRC has not been recognised in the Group's balance sheet. The realisability of the tax effect of tax losses mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

Net realisable value of inventories

Inventories are carried at the lower of cost and net realisable value. The cost of inventories is written down to net realisable value when there is objective evidence that the cost of inventories may not be recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. The cost of inventories may not also be recoverable if the estimated costs to be incurred to make the sale have increased. The amount written off to the profit or loss is the difference between the carrying value and net realisable value of the inventories.

Critical accounting judgment

Prepaid rental

One of the subsidiaries of the Company located in other regions in the PRC has previously entered into a tenancy agreement with the landlord. Under the tenancy agreement, the monthly rental expense is based on the turnover of the store. The subsidiary needs to pay the pre-determined rental expense as stipulated in the agreement every month and subsequently concludes the turnover rent with the landlord. The excess of the payment of pre-determined rental expense over the amount based on the turnover is classified as prepaid rent and can be either utilised to offset the future rental or refunded to the subsidiary upon request. As at 31 December 2007, the prepaid rental of HK$26,766,000 (2006: HK$21,850,000) is included in "Rental deposits and prepayments" in the Group's balance sheet.

There is a dispute on the calculation basis of the rental between the subsidiary and the landlord and the case was passed for arbitration in the PRC. The management has made judgment and assessed the recoverability of this prepaid rental based on the current available objective evidence and considered that the amount will be recoverable. Where the final outcome of this matter is different from the estimation by the management, such amount will impact the profit or loss in the period in which such determination is made.

5. Turnover and Segment Information

Turnover represents the invoiced value of goods, net of discounts, sold to customers, and income from concessionaire sales during the year.

	2007 **HK$'000**	2006 HK$'000
Direct sales	**4,054,818**	3,680,621
Income from concessionaire sales	**705,129**	606,351
Revenue	**4,759,947**	4,286,972

Geographical segments

The Group's operations are located in Hong Kong and the PRC (other than Hong Kong). The locations of operations are the basis on which the Group reports its primary segment information.

Geographical segment information by location of assets and market is presented below:

For the year ended 31 December 2007

	Hong Kong HK$'000	**PRC** HK$'000	**Consolidated** HK$'000
Revenue	**3,090,709**	**1,669,238**	**4,759,947**
Segment result	**295,936**	**38,545**	**334,481**
Dividend income			**665**
Interest income			**45,928**
Gain on disposals of available-for-sale investments			**6**
Finance costs			**(4,250)**
Profit before taxation			**376,830**
Income tax expense			**(75,369)**
Profit for the year			**301,461**

5. Turnover and Segment Information – continued

Geographical segments – continued

At 31 December 2007

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
BALANCE SHEET			
ASSETS			
Segment assets	530,940	429,378	960,318
Unallocated corporate assets			1,772,131
Consolidated total assets			2,732,449
LIABILITIES			
Segment liabilities	913,837	703,006	1,616,843
Unallocated corporate liabilities			126,215
Consolidated total liabilities			1,743,058

For the year ended 31 December 2007

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
OTHER INFORMATION			
Capital expenditure	32,565	121,965	154,530
Depreciation	63,933	72,071	136,004
Loss on disposal of property, plant and equipment	196	633	829
Reversal of write-down of inventories	(1,114)	–	(1,114)
Royalty fee savings	(64,080)	–	(64,080)

For the year ended 31 December 2006

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
Revenue	2,903,314	1,383,658	4,286,972
Segment result	171,991	4,501	176,492
Dividend income			759
Interest income			32,438
Finance costs			(767)
Profit before taxation			208,922
Income tax expense			(52,217)
Profit for the year			156,705

5. Turnover and Segment Information – continued

Geographical segments – continued

At 31 December 2006

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
BALANCE SHEET			
ASSETS			
Segment assets	569,452	307,145	876,597
Unallocated corporate assets			1,580,114
Consolidated total assets			2,456,711
LIABILITIES			
Segment liabilities	1,127,354	465,537	1,592,891
Unallocated corporate liabilities			69,307
Consolidated total liabilities			1,662,198

For the year ended 31 December 2006

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
OTHER INFORMATION			
Capital expenditure	53,619	52,021	105,640
Depreciation	73,209	59,038	132,247
Loss on disposal of property, plant and equipment	430	767	1,197
Reversal of write-down of inventories	(10,133)	–	(10,133)
Impairment loss reversed in respect of property, plant and equipment	8,967	–	8,967

Business segments

No analysis for business segments has been presented by principal activities because the Group is solely engaged in the operation of general merchandise stores.

6. Investment Income

	2007 HK$'000	2006 HK$'000
Dividends from listed equity securities	**665**	759
Interest on bank deposits	**45,928**	32,438
	46,593	33,197

7. Pre-Operating Expenses

Included in pre-operating expenses were staff costs of HK$4,194,000 (2006: HK$2,372,000).

8. Royalty Fee Savings

On 12 December 2006, the Company entered into a conditional amendment agreement ("Amendment Agreement") with AEON Co., Ltd., the ultimate holding company, to amend the technical assistance agreement which was entered into on 31 December 1993 for the provision by AEON Co., Ltd. to the Company of technical assistance including the right to use certain trade marks of AEON Co., Ltd. and the system of information and know-how in consideration of an annual fee paid by the Company to AEON Co., Ltd. ("Technical Assistance Agreement"). Pursuant to the Amendment Agreement and in lieu of the calculation provisions in the Technical Assistance Agreement, the Group shall pay a royalty fee to AEON Co., Ltd. for each financial year in the amount of 0.4% (the "New Royalty Rate") of the audited consolidated Total of Revenue of the Company and its Affiliates as defined in the Amendment Agreement for the relevant financial year. The New Royalty Rate will be adopted retrospectively with effect from 1 January 2003.

Details of the above are set out in the circular issued by the Company on 3 January 2007. The resolution adopting the Amendment Agreement was duly approved by the shareholders of the Company (AEON Co., Ltd. and its affiliates having abstained from voting) and passed at the extraordinary general meeting held on 26 January 2007.

Under the Amendment Agreement, the New Royalty Rate is to be applied retrospectively with effect from 1 January 2003. This gives rise to royalty fee savings of HK$64,080,000, which is recognised in the consolidated income statement during the year. The royalty fee savings are computed based on the difference between the royalty fee incurred by the Company and its Affiliates from 1 January 2003 to 31 December 2006 pursuant to the Technical Assistance Agreement, and the royalty fee which would have been incurred by the Company and its Affiliates on the basis that the New Royalty Rate has been adopted during the corresponding years.

Another supplementary agreement ("Supplementary Agreement") was entered into between AEON Co., Ltd. and the Company to amend the definition of the Total of Revenue, and there is no effect on the royalty fee savings. Details are set out in the circular issued by the Company on 24 April 2007. The resolution of adopting the Supplementary Agreement was duly approved by the shareholders of the Company (AEON Co., Ltd. and its affiliates having abstained from voting) and passed at the extraordinary general meeting held on 23 May 2007.

9. Finance Costs

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

10. Income Tax Expenses

	2007 HK$'000	2006 HK$'000
The charges comprise:		
Current tax		
Hong Kong	44,800	36,730
Other regions in the PRC	26,595	15,034
	71,395	51,764
Underprovision in prior years		
Other regions in the PRC	2,617	3,314
	74,012	55,078
Deferred taxation (Note 19)		
Current year	1,357	(2,861)
Income tax expenses for the year	75,369	52,217

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

The PRC income tax is calculated at 15% and 33% of the estimated assessable profits of the subsidiaries.

On 16 March 2007, the National People's Congress of the PRC concluded that the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and has become effective since 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% with certain grandfathering provisions and preferential provisions. There is no effect in the calculation of current year income tax expenses and deferred tax assets as at 31 December 2007.

Income tax expenses for the year can be reconciled to profit before taxation per the consolidated income statement as follows:

	2007 HK$'000	2006 HK$'000
Profit before taxation	376,830	208,922
Taxation at the applicable rate of 17.5%	65,945	36,561
Tax effect of expenses that not deductible for tax purpose	4,752	4,767
Tax effect of income that not taxable for tax purpose	(17,381)	(6,664)
Tax effect of tax losses not recognised	8,273	8,423
Tax effect of utilisation of tax losses previously not recognised	(852)	(503)
Tax effect of utilisation of deductible temporary difference previously not recognised	(442)	(825)
Effect of different tax rates of entities operating in the PRC	12,089	7,062
Underprovision in prior years	2,617	3,314
Other	368	82
Income tax expenses	75,369	52,217

11. Profit for the Year

	2007 HK$'000	2006 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration	**2,307**	2,204
Exchange gain	**(4,086)**	(449)
Operating lease rentals in respect of rented premises		
– minimum lease payments	**457,149**	429,614
– contingent rent (Note)	**28,042**	25,665
	485,191	455,279
Retirement benefits schemes contributions, net of forfeited contributions of HK$252,000 (2006: HK$480,000)	**32,949**	29,289
Royalties payable to the ultimate holding company	**28,193**	43,901
Rentals received from licensees		
– minimum lease payments	**(225,928)**	(187,354)
– contingent rent (Note)	**(30,647)**	(44,348)
	(256,575)	(231,702)
Reversal of write-down of inventories	**(1,114)**	(10,133)

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

12. Directors' Emoluments

The emoluments paid or payable to each of the 13 (2006: 13) Directors were as follows:

For the year ended 31 December 2007

	LAM Man Tin HK$'000	Yutaka FUKUMOTO HK$'000	WONG Mun Yu HK$'000	Yutaka AGAWA HK$'000	Akihito TANAKA HK$'000	Masaaki TOYOSHIMA HK$'000	Kazumasa ISHII HK$'000	Toshiji TOKIWA HK$'000	Tatsuichi YAMAGUCHI HK$'000	Naoyuki MIYASHITA HK$'000	LAM PEI Peggy HK$'000	SHAM Sui Leung Daniel HK$'000	CHENG Yin Ching Anna HK$'000	Total HK$'000
2007														
Fees	200	-	60	-	286	73	73	140	62	-	170	170	120	1,354
Other emoluments														
Salaries and other benefits	1,829	1,585	1,297	1,379	-	-	-	-	-	692	-	-	-	6,782
Contributions to retirement benefits schemes	94	-	69	-	-	-	-	-	-	78	-	-	-	241
	2,123	1,585	1,426	1,379	286	73	73	140	62	770	170	170	120	8,377

For the year ended 31 December 2006

	LAM Man Tin HK$'000	Yutaka FUKUMOTO HK$'000	WONG Mun Yu HK$'000	Akihito TANAKA HK$'000	Kazumasa ISHII HK$'000	Toshiji TOKIWA HK$'000	Tatsuichi YAMAGUCHI HK$'000	Naoyuki MIYASHITA HK$'000	Motoya OKADA HK$'000	LAM PEI Peggy HK$'000	SHAM Sui Leung Daniel HK$'000	CHENG Yin Ching Anna HK$'000	SHAO You Bao HK$'000	Total HK$'000
2006														
Fees	147	–	60	99	–	360	160	–	67	170	170	70	50	1,353
Other emoluments														
Salaries and other benefits	1,589	734	1,298	–	1,062	–	–	1,945	–	–	–	–	–	6,628
Contributions to retirement benefits schemes	84	–	66	–	97	–	–	116	–	–	–	–	–	363
	1,820	734	1,424	99	1,159	360	160	2,061	67	170	170	70	50	8,344

No Directors waived any emoluments during each of the two years ended 31 December 2007 and 2006.

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, two (2006: one) were directors of the Company whose emolument are included in the disclosures in note 12 above. The emoluments of the remaining three individuals (2006: four) were as follows:

	2007 HK$'000	2006 HK$'000
Salaries and other benefits	4,625	7,145
Performance based bonus	870	935
Contributions to retirement benefits schemes	554	672
	6,049	8,752

	No. of employees 2007	2006
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	2	3

14. Dividends

	2007 HK$'000	2006 HK$'000
Final dividend paid for 2006 of 17.5 HK cents (2005: 14.0 HK cents) per ordinary share	45,500	36,400
Interim dividend paid for 2007 of 8.0 HK cents (2006: 5.5 HK cents) per ordinary share	20,800	14,300
Special dividend paid for 2007 of 20.0 HK cents (2006: nil) per ordinary share	52,000	–
	118,300	50,700

The Board of Directors has recommended a final dividend of 26.0 HK cents per share (2006: 17.5 HK cents) to be paid on or before 18 June 2008, subject to shareholders' approval at the forthcoming annual general meeting on 23 May 2008. Together with the interim dividend of 8.0 HK cents (2006: 5.5 HK cents) per share and a special dividend of 20.0 HK cents (2006: nil) per share, this represented a total dividend of 54.0 HK cents (2006: 23.0 HK cents) per share for the year.

15. Earnings per Share

The calculation of earnings per share attributable to the equity holders of the Company is based on the Group's profit for the year attributable to the equity holders of the Company of HK$280,056,000 (2006: HK$148,347,000) and on 260,000,000 (2006: 260,000,000) ordinary shares in issue during the year.

There were no dilutive potential shares in both years.

16. Property, Plant and Equipment

	Building fixtures HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE GROUP					
COST					
At 1 January 2006	698,117	306,997	4,780	4,037	1,013,931
Exchange adjustments	10,175	3,732	153	164	14,224
Additions	13,653	21,876	314	69,797	105,640
Transfer	18,733	4,979	–	(23,712)	–
Disposals	(4,777)	(11,234)	(255)	–	(16,266)
At 31 December 2006	735,901	326,350	4,992	50,286	1,117,529
Exchange adjustments	**24,108**	**9,211**	**285**	**1,560**	**35,164**
Additions	**41,073**	**29,069**	**591**	**83,797**	**154,530**
Transfer	**105,038**	**30,357**	**100**	**(135,495)**	**–**
Disposals	**(84,406)**	**(27,865)**	**(1,051)**	**–**	**(113,322)**
At 31 December 2007	**821,714**	**367,122**	**4,917**	**148**	**1,193,901**
DEPRECIATION					
At 1 January 2006	470,153	223,158	3,007	–	696,318
Exchange adjustments	5,815	1,848	83	–	7,746
Provided for the year	100,430	31,137	680	–	132,247
Eliminated on disposals	(4,011)	(10,352)	(69)	–	(14,432)
Impairment loss reversed	(8,967)	–	–	–	(8,967)
At 31 December 2006	563,420	245,791	3,701	–	812,912
Exchange adjustments	**15,900**	**5,409**	**204**	**–**	**21,513**
Provided for the year	**99,797**	**35,523**	**684**	**–**	**136,004**
Eliminated on disposals	**(84,164)**	**(27,043)**	**(1,013)**	**–**	**(112,220)**
At 31 December 2007	**594,953**	**259,680**	**3,576**	**–**	**858,209**
CARRYING VALUES					
At 31 December 2007	**226,761**	**107,442**	**1,341**	**148**	**335,692**
At 31 December 2006	172,481	80,559	1,291	50,286	304,617

16. Property, Plant and Equipment – continued

	Building fixtures HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
THE COMPANY					
COST					
At 1 January 2006	450,102	209,354	985	–	660,441
Additions	12,564	18,462	–	22,593	53,619
Transfer	17,549	5,016	–	(22,565)	–
Disposals	(4,777)	(8,104)	–	–	(12,881)
At 31 December 2006	475,438	224,728	985	28	701,179
Additions	**15,907**	**8,254**	**225**	**8,179**	**32,565**
Transfer	**5,949**	**2,027**	**100**	**(8,076)**	**–**
Disposals	**(84,406)**	**(22,419)**	**(508)**	**–**	**(107,333)**
At 31 December 2007	**412,888**	**212,590**	**802**	**131**	**626,411**
DEPRECIATION					
At 1 January 2006	326,817	176,020	926	–	503,763
Provided for the year	59,502	13,660	47	–	73,209
Eliminated on disposals	(4,011)	(8,038)	–	–	(12,049)
Impairment loss reversed	(8,967)	–	–	–	(8,967)
At 31 December 2006	373,341	181,642	973	–	555,956
Provided for the year	**50,642**	**13,205**	**86**	**–**	**63,933**
Eliminated on disposals	**(84,164)**	**(22,357)**	**(508)**	**–**	**(107,029)**
At 31 December 2007	**339,819**	**172,490**	**551**	**–**	**512,860**
CARRYING VALUES					
At 31 December 2007	**73,069**	**40,100**	**251**	**131**	**113,551**
At 31 December 2006	102,097	43,086	12	28	145,223

During the year ended 31 December 2006, the Directors had reviewed the carrying values of property, plant and equipment and reversed an impairment loss on building fixtures of one of the stores in Hong Kong amounting to HK$8,967,000 which had been made in 2002 due to the improvement in the financial performance of that store. The recoverable amounts of the relevant building fixtures had been determined on the basis of their value in use and the discount rate in measuring the amounts of value in use is 5% per annum. The carrying amount of this asset was increased to the revised estimate of its recoverable amount, but the increased carrying amount did not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years.

17. Investments in Subsidiaries

	THE COMPANY 2007 HK$'000	2006 HK$'000
Unlisted investments, at cost	**112,460**	112,460
Less: impairment loss	**(47,524)**	(41,100)
	64,936	71,360

Particulars of the subsidiaries at 31 December 2007 are as follows:

Name	Form of business structure	Place of registration/ operation	Paid up registered/ ordinary share capital	Proportion of registered/ issued capital directly held by the Group	Principal activities
Guangdong Jusco Teem Stores Co., Ltd. ("GDJ")	Sino-foreign equity joint venture	PRC	RMB56,000,000	65%	General merchandise stores
Shenzhen Aeon Friendship Co., Ltd. ("AEON Shenzhen")	Sino-foreign equity joint venture	PRC	RMB55,000,000	65%	General merchandise stores
AEON (China) Co., Ltd.	Wholly owned foreign enterprise	PRC	RMB50,000,000	100%	General merchandise stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000	100%	Inactive

GDJ has entered into agreements with a PRC party who is the minority shareholder of GDJ, to operate department stores in the PRC. All transactions were carried out in the name of the PRC party. Under the agreements, GDJ is to bear the entire risks and liabilities of those department stores. After deducting a fixed annual amount of RMB400,000 equivalent to HK$410,000 (2006: RMB480,000 equivalent to HK$478,000) paid to the PRC party, which was recorded in income statement, the remaining profit of GDJ is shared by the Company and the PRC party in accordance to capital contribution ratio.

17. Investments in Subsidiaries – continued

At the balance sheet date, the aggregate amount of assets, liabilities and revenue recognised in the financial statements in relation to the above operations of two stores (2006: four stores) are as follows:

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Assets	**103,097**	230,405
Liabilities	**112,466**	229,451
Revenue	**249,997**	605,327

18. Available-for-Sale Investments

Available-for-sale investments comprise:

	THE GROUP AND THE COMPANY	
	2007	2006
	HK$'000	HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**27,245**	22,922
Debt securities:		
Unlisted club debenture at fair value	**2,150**	1,940
	29,395	24,862

The listed securities detailed above include an investment in a fellow subsidiary of HK$27,245,000 (2006: HK$22,893,000).

19. Deferred Taxation

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

	THE GROUP AND THE COMPANY		
	Accelerated accounting depreciation HK$'000	Other temporary differences HK$'000	Total HK$'000
At 1 January 2006	11,220	405	11,625
Credit (charge) to income statement	2,986	(125)	2,861
At 31 December 2006	14,206	280	14,486
(Charge) credit to income statement	**(1,417)**	**60**	**(1,357)**
At 31 December 2007	**12,789**	**340**	**13,129**

At the balance sheet date, the Group had unused tax losses of HK$154,763,000 (2006: HK$104,101,000) available for offset against future profits and temporary differences in respect of allowance for doubtful debts, accrued rental expenses and pre-operating expenses written off of HK$7,539,000 (2006: HK$9,876,000). A deferred tax asset has been recognised in respect of HK$1,943,000 (2006: HK$1,599,000) for such temporary differences. No deferred tax asset has been recognised in respect of all unused tax losses and the remaining temporary differences of HK$5,596,000 (2006: HK$8,277,000) due to the unpredictability of future profit streams for certain subsidiaries.

	THE GROUP	
	2007 HK$'000	2006 HK$'000
The tax losses above will expire as follows:		
31 December 2008	**6,600**	7,178
31 December 2009	**5,840**	9,042
31 December 2010	**42,550**	39,747
31 December 2011	**51,883**	48,134
31 December 2012	**47,890**	–
	154,763	104,101

The Company has no other significant unrecognised temporary difference at the balance sheet date.

20. Inventories

During the year, the Directors have considered the market performance and the expected net realisable value of the inventories. As a result, a reversal of write-down of inventories of HK$1,114,000 (2006: HK$10,133,000) has been recognised and included in "Purchases of goods and changes in inventories" in the current year.

21. Trade Receivables

The Group does not have a defined fixed credit policy as its major trade receivables arise from credit card sales.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within due dates	**32,071**	39,129	**23,770**	31,629
Overdue under 30 days	**1,433**	86	**–**	86
Overdue over 30 days	**819**	–	**–**	–
	34,323	39,215	**23,770**	31,715
Overdue but not impaired				
0 – 30 days	**1,433**	86	**–**	86
31 – 180 days	**819**	–	**–**	–
	2,252	86	**–**	86

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

Included in the Group's trade receivable balance are debtors with carrying amount of HK$2,252,000 (2006: HK$86,000) which are past due at the balance sheet date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

The aggregate sales attributable to the Group's five largest customers are less than 30 per cent of the Group's total sales for the year and there is no customer who represents more than 5% of the total balance of trade receivables.

22. Other Financial Assets

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

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

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and with credit term of 15 days (2006: 15 days).

Bank balances comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. Bank balances and pledged bank deposits carry interest at market rates which ranges from 0.25% to 5.20% (2006: 1.5% to 4%) per annum. Included in the Group's bank balances and cash of HK$191,700,000 (2006: HK$38,930,000) was denominated in United States dollars that is the currency other than the functional currencies of the respective group entities.

23. Trade Payables

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within due dates	**845,449**	923,196	**567,503**	705,596
Overdue under 30 days	**79,538**	64,803	**8,641**	8,000
Overdue over 30 days	**111,760**	52,424	**34,295**	24,336
	1,036,747	1,040,423	**610,439**	737,932

24. Bank Borrowings

THE GROUP

The bank borrowings represent unsecured short term bank borrowings denominated in Renminbi and interest bearing at floating rates. The average effective interest rate during the year is 5.40% (2006: 5.02%) per annum.

25. Other Financial Liabilities

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

The credit term for amounts due to fellow subsidiaries and ultimate holding company are 60-90 days (2006: 60-90 days). The amounts due are unsecured and non-interest bearing.

26. Share Capital

	2007 & 2006 HK$'000
Authorised:	
350,000,000 ordinary shares of HK$0.20 each	70,000
Issued and fully paid:	
260,000,000 ordinary shares of HK$0.20 each	52,000

27. Share Premium and Reserves

	Share premium HK$'000	**Investment revaluation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
THE COMPANY				
At 1 January 2006	63,158	20,906	518,207	602,271
Gain on fair value changes of available-for-sale investments recognised directly in equity	–	1	–	1
Profit for the year	–	–	128,715	128,715
Total recognised income for the year	–	1	128,715	128,716
Dividends	–	–	(50,700)	(50,700)
At 31 December 2006	63,158	20,907	596,222	680,287
Gain on fair value changes of available-for-sale investments recognised directly in equity	**–**	**4,562**	**–**	**4,562**
Profit for the year	**–**	**–**	**242,635**	**242,635**
Transfer to income statement on disposals of available-for-sale investments	**–**	**(6)**	**–**	**(6)**
Total recognised income for the year	**–**	**4,556**	**242,635**	**247,191**
Dividends	**–**	**–**	**(118,300)**	**(118,300)**
At 31 December 2007	**63,158**	**25,463**	**720,557**	**809,178**

28. Capital Commitments

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**378**	22,463	**229**	–
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**160,501**	–	**392**	–

29. Operating Lease Arrangements

The Group and the Company as lessee:

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

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**481,387**	393,386	**315,715**	266,247
In the second to fifth year inclusive	**1,234,742**	1,224,909	**635,779**	596,798
Over five years	**567,254**	341,212	**2,477**	15,976
	2,283,383	1,959,507	**953,971**	879,021

In addition to the above, thirty-two (2006: twenty-eight) of the leases of the Group and twenty (2006: nineteen) of the leases of the Company are subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease payments.

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

29. Operating Lease Arrangements – continued

The Group and the Company as lessor:

At the balance sheet date, the Group and the Company had contracted with licensees for floor areas in the stores for the following future minimum lease payments under non-cancellable operating leases for each of the following period:

	THE GROUP		THE COMPANY	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**146,212**	126,692	**89,440**	105,128
In the second to fifth year inclusive	**96,735**	58,255	**17,734**	35,127
Over five years	**18,497**	6,883	**–**	807
	261,444	191,830	**107,174**	141,062

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

30. Pledged Bank Deposits

As at 31 December 2007, the Group's bank deposits of HK$64.1 million (2006: nil), HK$14.1 million (2006: nil) and HK$0.3 million (2006: nil) were pledged to banks which provide bank guarantee in favour of bank borrowings, guarantee in favour of landlords for rental deposits, and guarantee to suppliers for trade purchase respectively.

31. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK$11,132,000 (2006: HK$8,767,000) are charged to the income statement for the year. The contributions represent contributions payable to the MPF Schemes by the Company in accordance with government regulations. In addition to the mandatory contributions, the contributions also include voluntary contributions at rates specified in the rules of the MPF Schemes for certain employees who make voluntary contributions.

The Company also operates a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The contributions amounting to HK$5,595,000 (2006: HK$5,521,000) charged to the income statement represent contributions payable to the funds by the Company at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

31. Retirement Benefits Schemes – continued

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes. Contributions paid or payable for these retirement benefits schemes for the year are HK$16,222,000 (2006: HK$15,001,000).

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefits schemes and which are available to reduce the contributions payable in the future years was HK$20,000 (2006: HK$31,000).

32. Capital Risk Management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the bank borrowings as disclosed in note 24, bank balances and cash, and total equity, as disclosed in consolidated statement of changes in equity.

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

There are no changes on the Group's approach to capital management during the year.

33. Financial Instruments

(a) Categories of financial instruments

	THE GROUP	
	2007	2006
	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**1,935,652**	1,740,296
Available-for-sale financial assets	**29,395**	24,862
Financial liabilities at amortised cost	**1,717,613**	1,652,839

	THE COMPANY	
	2007	2006
	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**1,284,143**	1,323,098
Available-for-sale financial assets	**29,395**	24,862
Financial liabilities at amortised cost	**914,189**	1,127,587

(b) Financial risk management objectives

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

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

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

33. Financial Instruments – continued

(b) Financial risk management objectives – continued

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

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

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

(c) Foreign currency risk management

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

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

THE GROUP

	Assets		Liabilities	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**708**	4,188	**–**	–
United States dollars	**191,711**	38,933	**3,921**	3,230
Japanese Yen	**560**	2,274	**43,706**	142,475
Renminbi	**17,108**	55,373	**–**	–

33. Financial Instruments – continued

(c) Foreign currency risk management – continued

THE COMPANY

	Assets		Liabilities	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars	**191,711**	38,933	**3,921**	3,230
Japanese Yen	**129**	1,899	**43,706**	142,475
Renminbi	**17,108**	55,373	**–**	–

Foreign currency sensitivity

The following table indicates the approximate change in the Group's and the Company's profit or loss in response to reasonably possible changes in the foreign exchange rates to which the Group and the Company have significant exposure at the balance sheet date.

THE GROUP

	2007		2006	
	Increase (decrease) in foreign exchange rates	**Effect on profit or (loss)**	Increase (decrease) in foreign exchange rates	Effect on profit or (loss)
	%	**HK$'000**	%	HK$'000
United States dollars	**1%**	**1,878**	4%	1,428
	(1%)	**(1,878)**	(4%)	(1,428)
Japanese Yen	**10%**	**(4,315)**	6%	(8,412)
	(10%)	**4,315**	(6%)	8,412
Renminbi	**10%**	**1,711**	4%	2,215
	(10%)	**(1,711)**	(4%)	(2,215)

33. Financial Instruments – continued

(c) Foreign currency risk management – continued

THE COMPANY

	2007		2006	
	Increase (decrease) in foreign exchange rates %	Effect on profit or (loss) HK$'000	Increase (decrease) in foreign exchange rates %	Effect on profit or (loss) HK$'000
United States dollars	1%	1,878	4%	1,428
	(1%)	(1,878)	(4%)	(1,428)
Japanese Yen	10%	(4,358)	6%	(8,435)
	(10%)	4,358	(6%)	8,435
Renminbi	10%	1,711	4%	2,215
	(10%)	(1,711)	(4%)	(2,215)

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

The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is preformed on the same basis for 2006.

(d) Interest rate risk management

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

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

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period in the case of instruments that have floating rates. 2% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rate.

If interest rates had been 2% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2007 would decrease/increase by HK$2,007,000 (2006: decrease/increase by HK$1,194,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

33. Financial Instruments – continued

(e) Other price risks

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

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The measure of price sensitivity is based on the actual observed historical changes of one-year interval to estimate the 1-day historical volatility. The use of a 1-day holding period assumes that the positions can be unwound in one trading day. If the equity price of the available-for-sale investments had been 4% (2006: 7%) higher/lower while all other variables were held constant, the investment revaluation reserve would increase/decrease by HK$345,000 (2006: increase/decrease by HK$267,000) for the Group, principally as a result of the changes in fair value of available-for-sale shares.

The Group's sensitivity to equity prices has not changed significantly from the prior year.

(f) Credit risk management

The credit risk with respect to the trade receivables is limited as the Group's revenue is generated mainly from cash and credit card sales. Where transactions are conducted other than on a cash basis, the Group practises stringent credit review. The Group has no significant concentrations of credit risk and trade receivables represent mainly credit card receivables from individual owned stores.

The credit risk on bank deposits is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies or state-owned banks in the PRC.

(g) Liquidity risk management

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

Liquidity risk tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

33. Financial Instruments – continued

(g) Liquidity risk management – continued

THE GROUP

	Weighted average effective interest rate %	6 months or less HK$'000	6-12 months HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows amount HK$'000
2007						
Non-interest bearing	–	1,574,861	18,053	21,706	2,606	1,617,226
Variable interest rate instruments	5.4	102,856	–	–	–	102,856
		1,677,717	18,053	21,706	2,606	1,720,082

	Weighted average effective interest rate %	6 months or less HK$'000	6-12 months HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows amount HK$'000
2006						
Non-interest bearing	–	1,526,436	44,607	16,100	5,984	1,593,127
Variable interest rate instruments	5.02	60,933	–	–	–	60,933
		1,587,369	44,607	16,100	5,984	1,654,060

THE COMPANY

	6 months or less HK$'000	6-12 months HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows amount HK$'000
2007					
Non-interest bearing	880,771	20,479	10,333	2,606	914,189

	6 months or less HK$'000	6-12 months HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows amount HK$'000
2006					
Non-interest bearing	1,096,036	16,956	9,460	5,135	1,127,587

33. Financial Instruments – continued

(h) Fair value of financial instruments

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

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices; and

- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

34. Related Party Transactions

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

THE GROUP

Capacity	Nature of transaction	2007 HK$'000	2006 HK$'000
Fellow subsidiaries	Dividend income	662	757
	Commission expenses	12,748	11,787
	Purchase of goods	85,247	67,453
	Rental income from licensees	6,903	6,700
Ultimate holding company	Royalty expenses	28,193	43,901
	Royalty fee savings	64,080	–
Minority shareholders of the subsidiaries	Rental expenses, management fees and utility expenses	42,509	33,711

Outstanding balances at the balance sheet date arising from the above transactions with related parties were set out in the balance sheets except for the following balance, which is included in other receivables, prepayments and deposits:

	THE GROUP	
	2007 HK$'000	2006 HK$'000
Amounts due from minority shareholders of the subsidiaries	5,227	4,827

Compensation of key management personnel

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

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

35. Post Balance Sheet Event

On 18 January 2008, the Company entered into a conditional agreement ("S&P Agreement") with Shenzhen Friendship Trading Center Limited ("Friendship") and Shenzhen Centralcon City Plaza Limited ("Centralcon") pursuant to which the Company has conditionally agreed to acquire from Friendship and Centralcon their equity interests, which represent 35% of the entire registered capital of AEON Shenzhen, at an aggregate consideration of RMB94.5 million.

The proposed acquisition by the Company of the 35% equity interests in AEON Shenzhen held by Friendship and Centralcon is subject to the independent shareholders' approval at the extraordinary general meeting. The Company has applied to the Stock Exchange for a waiver from the requirement under the Listing Rules for the Company to hold an extraordinary general meeting to seek independent shareholders' approval in respect of the S&P Agreement and the transactions contemplated thereunder. The Stock Exchange has granted such a waiver to the Company.

According to the terms and conditions of the S&P Agreement, completion of the S&P Agreement shall be conditional upon:

(a) Friendship and Centralcon having agreed to transfer all ownership, rights and benefits attributable to their respective paid up registered capital in AEON Shenzhen and having signed all necessary documents in relation to the transfer of the relevant interests in AEON Shenzhen; and

(b) the Company having obtained all the necessary approval(s) or consent(s) from all relevant authorities in the PRC for the transactions contemplated under the S&P Agreement.

Details of the above are set out in the circular issued by the Company on 6 February 2008.

As the S&P Agreements has not been effected at the date the Board of Directors approved the financial statements, it would be impractical for the Company to disclose the amount of each class of assets, liabilities and contingent liabilities that would be acquired or any goodwill that would be aroused from the acquisition.

FINANCIAL SUMMARY

THE GROUP

	For the year ended 29 February 2004 HK$'000	For the period from 1 March 2004 to 31 December 2004 HK$'000	For the year ended 31 December 2005 HK$'000	For the year ended 31 December 2006 HK$'000	For the year ended **31 December 2007 HK$'000**
RESULTS					
Revenue	3,348,868	2,866,571	3,919,741	4,286,972	**4,759,947**
Profit before taxation	111,011	106,597	163,729	208,922	**376,830**
Income tax expense	(25,489)	(24,430)	(39,793)	(52,217)	**(75,369)**
Profit for the year	85,522	82,167	123,936	156,705	**301,461**

	At 29 February 2004 HK$'000	At 31 December 2004 HK$'000	At 31 December 2005 HK$'000	At 31 December 2006 HK$'000	At **31 December 2007 HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,702,371	1,664,264	1,943,954	2,456,711	**2,732,449**
Total liabilities	(1,167,244)	(1,091,361)	(1,260,337)	(1,662,198)	**(1,743,058)**
	535,127	572,903	683,617	794,513	**989,391**
Equity attributable to:					
Equity holders of the Company	497,105	532,221	643,551	745,424	**917,534**
Minority interests	38,022	40,682	40,066	49,089	**71,857**
	535,127	572,903	683,617	794,513	**989,391**