



AEON

AEON Stores (Hong Kong) Co., Limited
Stock Code: 984





Mission

AEON Co., Ltd. (“AEON Co.”) is a Japanese retailing and services group with 130* consolidated subsidiaries and 27 equity-method associated companies. 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.

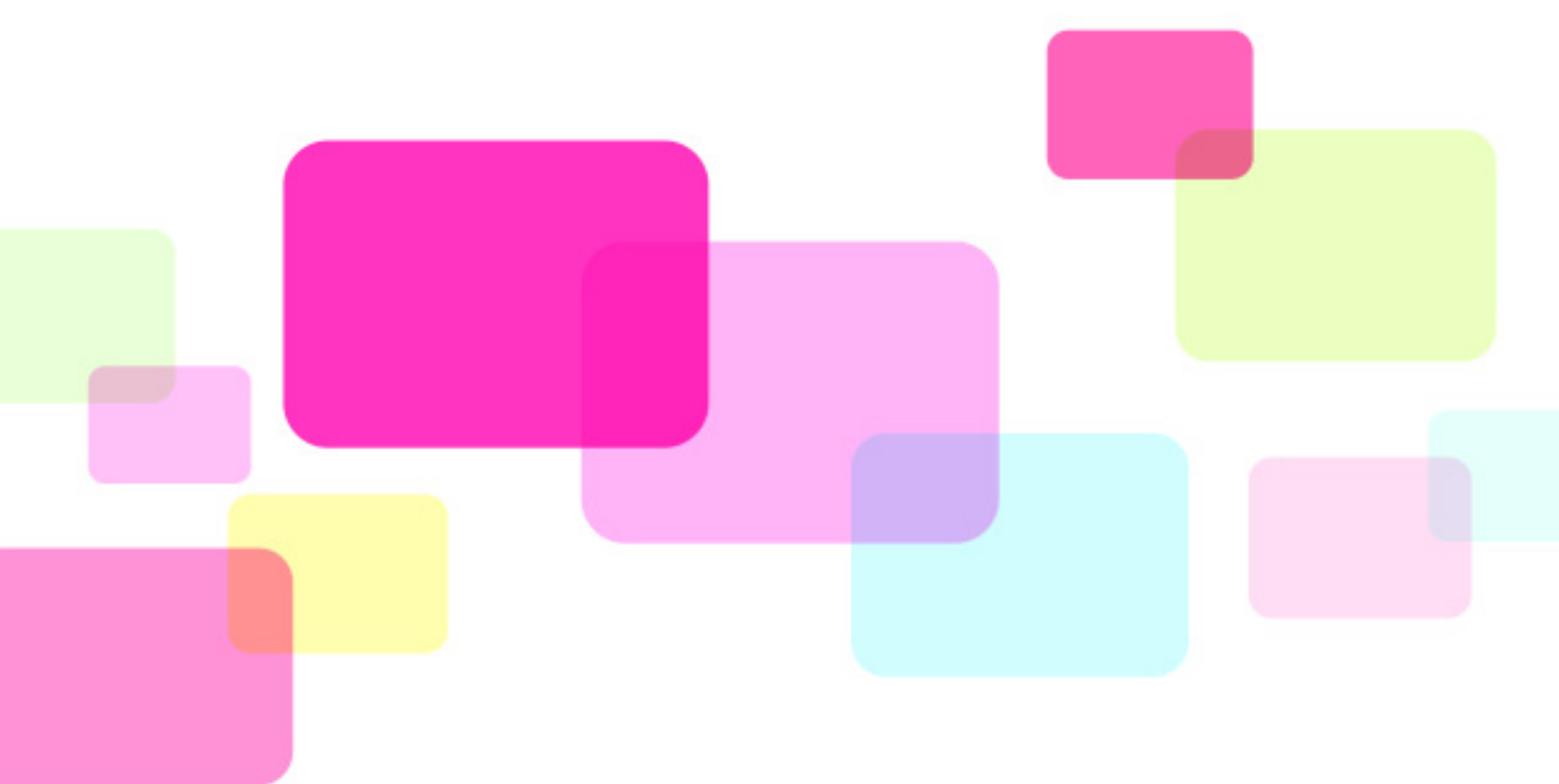
AEON Co. operates not only in Japan, but also in Southeast Asia, the PRC and North America. Its activities in different markets are guided at all times by its unwavering credo: “Everything we do, we do for our customers”.

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 seven GMS, 11 independent JUSCO \$10 Plaza and two independent supermarket facilities in densely populated districts of Hong Kong. It also operates nine 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 guarantee 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 2006



Contents

2	Corporate Information
3	Financial Highlights
5	Chairman's Statement
8	Management Discussion & Analysis
13	Senior Management Profile
17	Corporate Governance Report
22	Report of the Directors
29	Independent Auditor's Report
	Financial Statements
31	Consolidated Income Statement
32	Consolidated Balance Sheet
33	Balance Sheet
34	Consolidated Statement of Changes in Equity
35	Consolidated Cash Flow Statement
36	Notes to the Financial Statements
64	Five-Year Financial Summary

Corporate Information

Board of Directors

Executive Directors

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

Non-Executive Directors

TOKIWA Toshiji (*Chairman*)
 TANAKA Akihito
 YAMAGUCHI Tatsuichi
 MIYASHITA Naoyuki

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

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

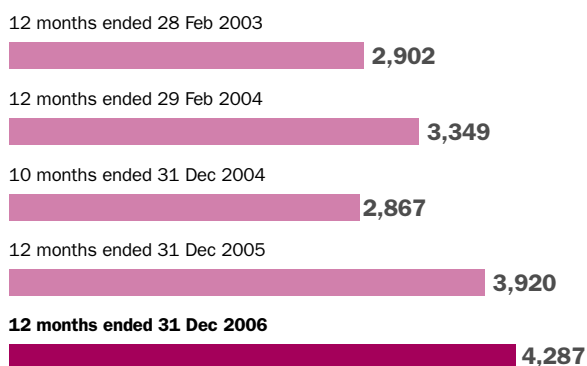
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Distribution Network

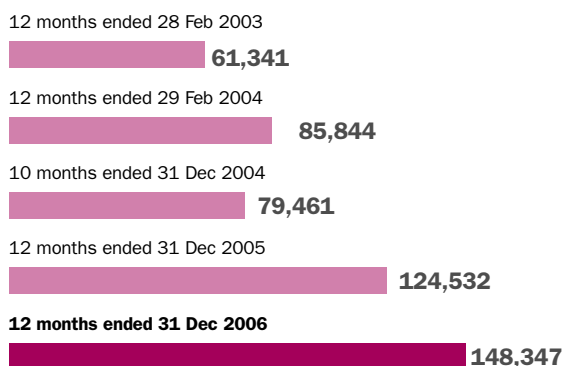
As at 31 December	GMS		Supermarket		\$10 Plaza		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Hong Kong	7	7	2	1	11	9	20	17
Guangdong Province	9	9	—	—	—	—	9	9
Total	16	16	2	1	11	9	29	26

Financial Highlights

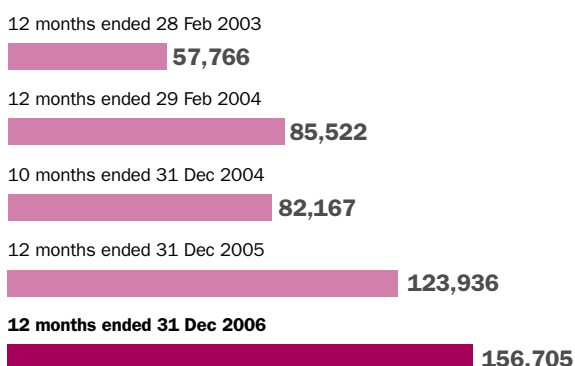
Revenue (HK\$ million)



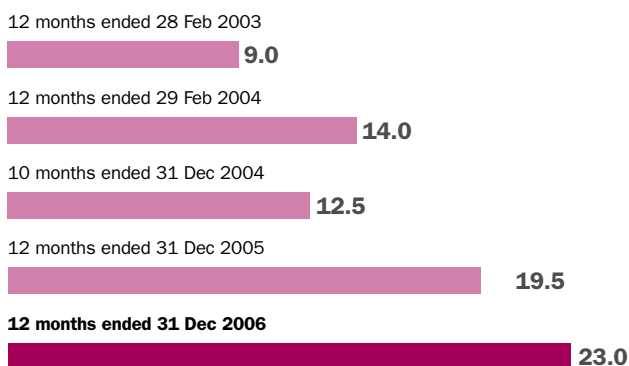
Profit Attributable to Equity Holders of the Parent (HK\$ '000)



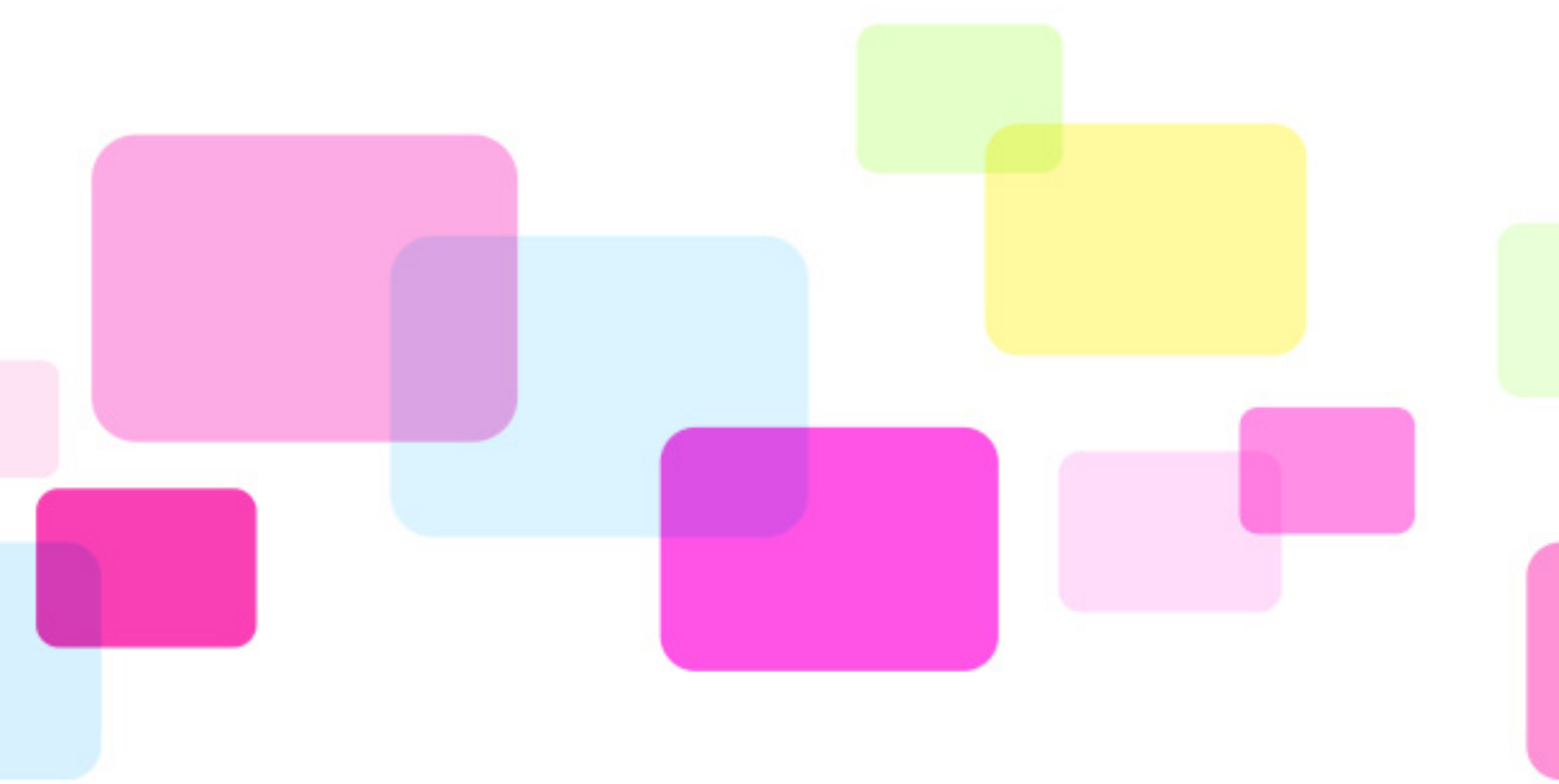
Profit for the Year (HK\$ '000)



Dividend per Share (HK cents)



	12 months ended 28 Feb 2003	12 months ended 29 Feb 2004	10 months ended 31 Dec 2004	12 months ended 31 Dec 2005	12 months ended 31 Dec 2006
Revenue (HK\$ million)	2,902	3,349	2,867	3,920	4,287
Profit for the year (HK\$'000)	57,766	85,522	82,167	123,936	156,705
Profit attributable to equity holders of the parent (HK\$'000)	61,341	85,844	79,461	124,532	148,347
Dividend per share (HK cents)	9.0	14.0	12.5	19.5	23.0
Turnover breakdown (%)					
Fashion	22	21	21	21	20
Food	30	33	34	35	38
Household	41	40	40	39	37
Catering	7	6	5	5	5
Total	100	100	100	100	100



Chairman's Statement

Chairman's Statement

2006 was a particularly auspicious year for us. Spurred by positive sentiment in the regional markets, particularly the vigour of China and Hong Kong, AEON Stores successfully rode the wave of consumer confidence that followed - raising the Group's stature immeasurably.



This solid performance is especially gratifying as we realise the most meaningful milestone thus far: the 20th anniversary of AEON Stores' operation in Hong Kong. Indeed, the progress made in the year that was offers a stark reminder of the startling transformation that the Group has undergone since its formative years. Originally operating a single store in the territory with a workforce of 200, the Group presently employs over 4,000 and has 30 outlets spanning across Hong Kong and southern China, making AEON Stores an intimate and inseparable part of many people's lives.

Entering the sector solely as an operator of General Merchandise Stores ("GMS"), we have since broadened our business model and indeed our horizons through an ongoing and meticulous review of the complex environment in which we operate. Accordingly, the Group currently includes the JUSCO \$10 Plaza and JUSCO Supermarket as intrinsic elements of its Hong Kong operations. What looks certain to be another milestone for the Group is the AEON Shunde Shopping Centre which was opened in January 2007, located in Guangdong Province. This latest initiative underlines our capacity for seamlessly adapting to regional market demands, and succeeding. Operating a shopping

centre that is tenanted not only by a GMS but also a diverse range of fashionable shops, the AEON Shunde Shopping Centre is truly an integral element of the city, if not its very heart. Consequently, we are bullish that such an extensive business infrastructure project will pave the way for our further penetration in the country. As of the latest results, annual revenue was about HK\$4.3 billion and this growth looks set to continue.

While highly motivated to capture opportunities in China, we have not reneged on our "Everything we do, we do for our customers" commitment. Remaining firmly entrenched in all our business pursuits, this philosophy is evident in the quality merchandise and services that we provide and extend to the warm shopping atmosphere that is synonymous with AEON Stores. Accordingly, as we seek to expand our scope of business still further, the Group will continue to abide by its pledge as it welcomes clients from diverse demographic backgrounds to the fold. Hence, such factors as regional preferences and consumption patterns are the very matrices from which specialised customer-centric strategies will arise and evolve. Consistent with this, all our staff members have continued to embrace the "AEON Code of Conduct" which ensures the delivery of

Chairman's Statement (Continued)

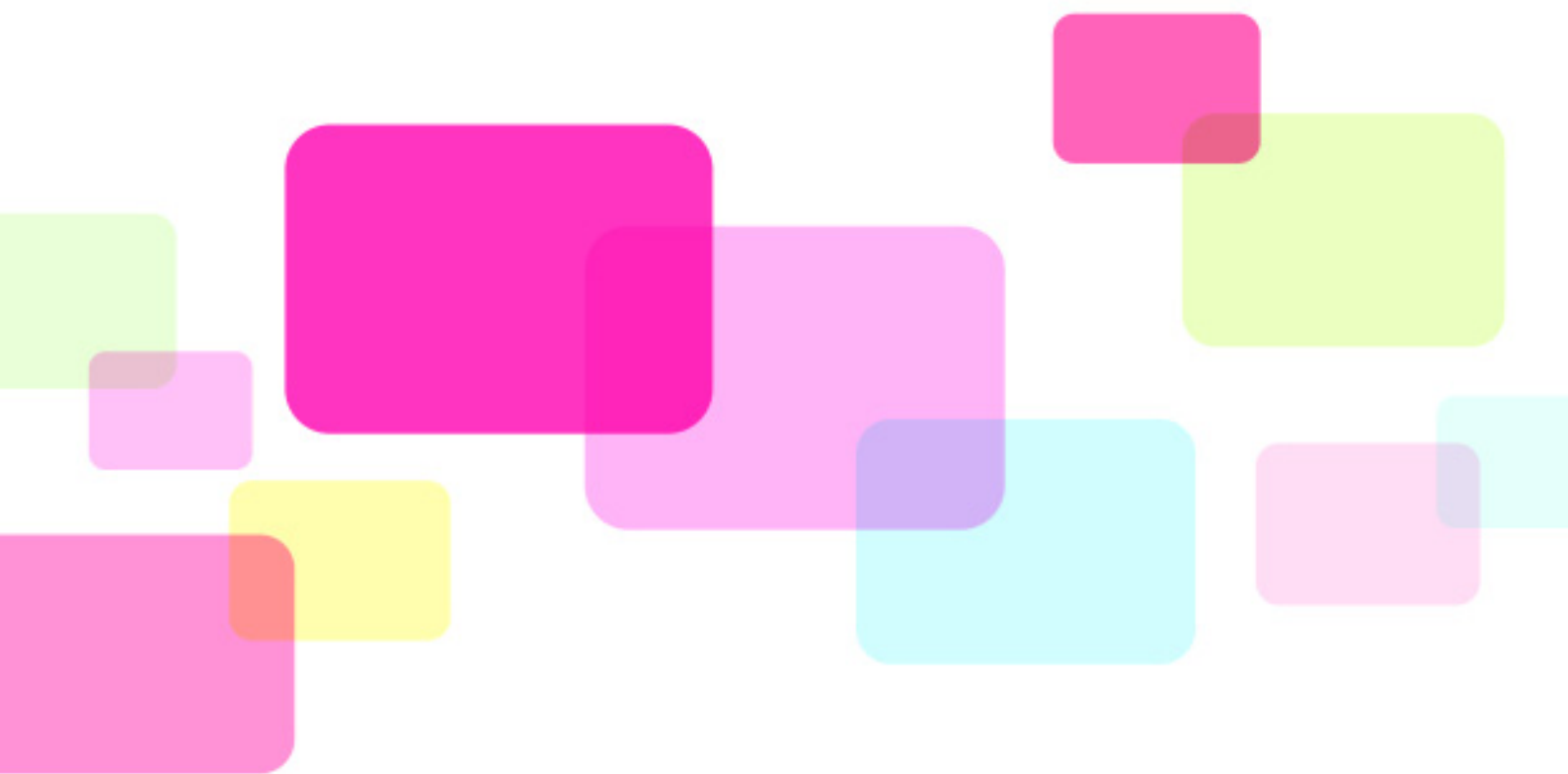
excellent services and prompt response to customers' needs. Having already established a solid reputation, sound branding, full breadth of merchandise and exceptional services, we are confident of our ability to chart a prosperous course forward.

Enthused by two decades of balanced growth, we will continue to explore and capture fresh business opportunities. Based on this mandate, we will channel still greater energies and resources on expanding our network across southern China; introducing well proven business models that include the GMS, JUSCO \$10 Plaza, JUSCO Supermarket and AEON Shopping Centre, thus fully capitalising on the country's burgeoning retail market. Ahead of such objectives, I, on behalf of the Board of Directors, would like to extend my sincerest gratitude to our dynamic and resourceful workforce whom through their professionalism and diligence has helped AEON Stores achieve steady progress over the year, and undoubtedly in the years to come. I would like to also thank my fellow board members for their invaluable advice, guidance and commitment. Through their unwavering drive for perfection, the objectives that we have envisaged will unquestionably be realised. As always, the Group will work as a cohesive force, committed to elevating AEON Stores to new heights and delivering greater returns for our shareholders.



TOKIWA Toshiji
Chairman

Hong Kong, 3 April 2007



Management Discussion & Analysis

Management Discussion & Analysis



Summary of Results

For the year ended 31 December 2006, the Group's revenue grew by 9% to HK\$4,287 million (2005: HK\$3,920 million). Profit attributable to shareholders and earnings per share rose by 19% to HK\$148 million (2005: HK\$125 million) and 57.06 HK cents (2005: 47.90 HK cents) respectively.

Dividends

The Board of Directors has recommended a final dividend of 17.5 HK cents per share (2005: 14.0 HK cents) which will be payable on or before 18 June 2007, subject to shareholders' approval at the forthcoming annual general meeting to be held on 23 May 2007. Together with the interim dividend of 5.5 HK cents (2005: 5.5 HK cents), the total dividend for the year will amount to 23.0 HK cents (2005: 19.5 HK cents) per share.

Financial Review

Revenue increased by 9% to HK\$4,287 million largely driven by the sales growth of our stores in the PRC. Gross margin was slightly down from 35.3% to 34.7% as the food segment of the Group's business was enlarged. The opening of additional independent supermarkets also placed a greater emphasis on the food sector, hence affecting gross margin as well. The Group's net profit attributable to shareholders for the year rose by 19% to HK\$148 million.

Staff costs to revenue ratio dipped slightly from 11.4% to 11.3% while rental costs to revenue ratio increased from 9.8% to 10.6%.

As at 31 December 2006, the Group maintained a net cash position with bank balances and cash of HK\$1,541 million (2005: HK\$1,042 million) and short-term bank loans of HK\$60 million (2005: HK\$14 million). The loans were denominated in Renminbi, bearing interest at 5.02% per annum.

Capital expenditures during the year amounted to HK\$106 million, mainly used for the renovation of existing stores, opening of an independent supermarket, three JUSCO \$10 Plaza as well as a shopping centre in the PRC.

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

Exchange rate fluctuations had no material impact on the Group as less than 5% of its total purchases were settled in foreign currencies.

Management Discussion & Analysis (Continued)

Business Review

Strong retail market sentiment in the PRC and steady growth in Hong Kong provided a positive backdrop for the Group's business. During the year under review, the Hong Kong economy made noticeable improvements and the unemployment rate declined continuously. Encouraged by a general increase in disposable income and a prosperous stock market, consumers were more willing to spend, particularly on quality merchandise, which boosted growth of the retail sector. The PRC retail market also benefited from the favourable macroeconomic environment as consumer confidence surged during the year.

Hong Kong Operations

2006 is a year which presented favourable conditions for the retail industry; hence, Hong Kong operations recorded increased revenue of 5% to HK\$2,903 million (2005: HK\$2,770 million), while the profit grew by 16% to HK\$195 million (2005: HK\$168 million).

To replicate the success of the first JUSCO Supermarket in apm, Kwun Tong, the Group opened its second independent supermarket at the Kai Tin Shopping Centre in Lam Tin in September 2006. The roughly 31,000 sq. ft. JUSCO Supermarket adopts the theme: "Fun for the Whole Family", and features a mix of quality merchandise imported from Japan along with diverse commodities under the Group's TOPVALU private brand. As one of the largest supermarkets in Lam Tin, the JUSCO Supermarket will help satisfy the needs of residents of a highly populated district.

In the second half of the year, the Group opened three more JUSCO \$10 Plaza outlets, increasing the total number of stores to 11. Following the Fanling and Shamshuipo outlets opened in August and September, the Group opened its Kowloon JUSCO \$10 Plaza flagship store in December. Located in Mongkok, one of the busiest and most exciting districts in Hong Kong, the store comprises of commercial, residential and entertainment elements. Moreover, a brand new "J Valor Corner" was set up to provide premium value products that are priced from HK\$15 to HK\$200, thus offering more choices for customers with greater means and are interested in more



than "value-for-money" goods and services. This is in keeping with the Group's development strategy to broadening its product mix.

To keep pace with the changing needs of customers and the community, the Group partially closed the Whampoa Store for renovation work in April 2006. Embracing the "Healthy Living" concept, the store now boasts an enlarged Supermarket, Fashion Section, and Household and Furniture Section; hence an ideal shopping destination for nuclear families in the district.

PRC Operations

In 2006, the PRC operations recorded revenue totalling HK\$1,384 million (2005: HK\$1,150 million), up 20%, and was mainly attributed to the growth of existing stores operating in a burgeoning retail sector.

As the retail industry in southern China continued to prosper, most of the stores operated by the Group in Guangdong Province duly recorded satisfactory sales performance. With the Dragon Hill Store operated for a full financial year, it too contributed to PRC sales. However, there were some stores that remained in an investment stage of development, consequently taking greater time to adapt to local residents' tastes and needs, hence affecting profit contributions. In addition, costs arising from the operation of AEON (China) Co., Ltd. ("AEON China"), which is currently in a developmental stage, was also incurred. Of

Management Discussion & Analysis (Continued)

further note, opening of the shopping mall in Shunde under AEON China was postponed until January 2007 due to construction delays. In all, the PRC operations generated a profit of HK\$14 million (2005: HK\$5 million loss).

Achievements and Corporate Social Responsibility

Throughout the year, AEON Stores remained committed to further enhancing the quality of merchandise and services it provides and to fulfilling the motto: “Everything we do, we do for our customers”. Such an endeavour duly gained recognition and support from the public. Also in 2006, the Group secured “The Third Hong Kong and Macau Merchants of Integrity Award” under the “Department Stores and Gifts” category for the third consecutive year and was named “My Favourite Top Ten Brands of Hong Kong” as well. Both awards were organised by the Guangzhou Daily.

As an extension of its commitment to the public, AEON Stores played an active role in community services, helping the underprivileged. Reflecting this, the Group earned the “Caring Company Award” for the fifth straight year. During the period under review, the Group jointly organised the “Used Book Recycling Campaign” with World Vision Hong Kong – its fifteenth year of involvement. The activity led to the collection of 280,000 books and the raising of HK\$1,530,000 which will go towards educating and training disabled children in Ningxia Province, China. Moreover, the Group coordinated a year-long “Corporate Volunteer Campaign”. Staff members assisted the community groups by way of personal visits, serving the elderly, children’s homes, disabled and new immigrants and hosting celebratory events.

AEON Stores is also committed to being a model of good corporate citizenship, continuing to run the “Wall Calendar Charity Sale”. With regards to the calendar sale, all proceeds raised were subsequently donated to five charitable organisations in the territory.

Human Resources

As at 31 December 2006, the Group employed about 4,100 full-time and 2,800 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices in the industry.

A team of excellent employees is vital to the success of a corporation. The Group fully understands the importance of staff training, and are committed to providing the very best. The Group will continue to invest in human resources in order to boost service quality and staff knowledge. By providing the necessary mechanisms for upgrading the professionalism and competence of staff members of all levels, and creating a platform for knowledge exchanges and experience sharing, synergy among the Group and its parent company, AEON Co. will therefore be amplified.

Prospects

Hong Kong Operations

With an improving unemployment rate, rising salary levels and healthy inflation, Hong Kong’s economy appears to be on the way back to steady growth. Holding a more optimistic view towards the economy, consumers tend to enhance their quality of life through the purchase of quality merchandise. These factors will thereby facilitate continuous growth of the retail sector in Hong Kong. Taking into account that there may be other factors affecting the economy including adjustments in the financial markets, the Group is cautiously optimistic about its Hong Kong operations for the near future.

The steady progress achieved in 2006 has added to the positive spirit of the Group as it celebrates its 20th anniversary in Hong Kong in 2007. Following the success of the first two JUSCO Supermarket outlets, a third supermarket is scheduled to open in Tokwawan by mid-2007. Located in the Grand Waterfront Plaza, the roughly 31,000 sq. ft. supermarket will be the largest of its kind in the district and will be fully capable of catering to the daily needs of customers. Leveraging the Group’s strengths in operating “Japanese Supermarket”, it will feature high quality merchandise at reasonable prices, thus satisfying the customers’ needs.

Management Discussion & Analysis (Continued)

The Group will continue its efforts to offer a diverse range of high quality products to consumers. Towards this goal is the “TOPVALU” private brand which covers a broad spectrum of goods ranging from food to clothing and will be featured prominently in stores.

As an extension of its commitment to patrons, the Group will search for suitable locations to open more new stores, especially JUSCO \$10 Plaza and JUSCO Supermarket which are more flexible in space requirements. To provide more comprehensive services and further strengthen its presence in Hong Kong, when opportunities arise, the Group will also consider opening stores operated under new business models so as to expand its sales network.

PRC Operations

Notwithstanding macroeconomic measures, the Chinese economy maintained its remarkable growth. China's GDP continued to improve as did total retail sales of consumer goods. Under an improving economic environment, consumers were more motivated to shop, not only for daily necessities, but also for quality products and services. This duly opened exciting business prospects for the Group.

With the renowned “JUSCO” brand and solid experience of AEON Co. in the PRC, the Group is well equipped to extend its business interests exponentially. To provide an innovative shopping experience to customers, AEON Shunde Shopping Centre, which has a GMS under AEON China, started operations in January 2007. Occupying over 47,000 sq. m., the Centre represents the first complex of its kind to be opened by the Group. The 18,500 sq. m. GMS is the focus of the Centre, offering a pleasurable one-stop leisure shopping experience. Among the attractions that visitors can look forward to is the presence of several retailers that are in Shunde for the first time. Indeed, 40 per cent of the 93 retail outlets present are new to the city. The Group is confident that the Centre will become an important landmark for the region and will further enhance JUSCO's brand status in southern China.



Apart from setting up the first shopping centre in Shunde, the Group will introduce the first ever independent supermarket and one additional GMS in Shenzhen in April and late 2007 respectively, thus capturing vast market opportunities available in the region.

While committed to uncovering new prospects, the Group will continue its efforts to respond promptly to the needs and concerns of customers, thus providing excellent products and services that exceed all expectations.

LAM Man Tin
Managing Director

Hong Kong, 3 April 2007



Senior Management Profile

Senior Management Profile

Executive Directors

Mr. LAM Man Tin

Mr. Lam (aged 48) has been the Managing Director of the Company since May 2006. He was previously the Director of the Company's South China Business Development Division. Mr. Lam joined the Company in 1992 and has over 20 years of retail and services 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 50) is the Deputy Managing Director of the Company. 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 49) is the Director of Accounts and Finance and has been with the Company since 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.

Non-executive Directors

Mr. TOKIWA Toshiji

Mr. Tokiwa (aged 67) is the Chairman of the Company, having joined AEON Co. in 1999. Mr. Tokiwa previously served as Senior Managing Director of the Dai-ichi Kangyo Bank in Japan from May 1995 to June 1996. He graduated from Keio University in Japan with a bachelor's degree in Law.

Mr. TANAKA Akihito

Mr. Tanaka (aged 59) is the Executive Vice President 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. YAMAGUCHI Tatsuichi

Mr. Yamaguchi (aged 61) is a Director of the Company. He joined AEON Co. in 1969. Mr. Yamaguchi is a graduate of the Meiji University in Japan and holds a bachelor's degree in Business Administration.

Mr. MIYASHITA Naoyuki

Mr. Miyashita (aged 54) is the Managing Director of AEON China. He was the Managing Director of the Company from June 2005 to May 2006 and was also the Managing Director of Qingdao AEON Dongtai Co., Ltd. and Guangdong JUSCO Teem Stores Co., Ltd. Mr. Miyashita has 9 years of experience in the PRC retail industry and has been with AEON Co. since 1975. He graduated from Kyoto Sangyo University in Japan with a bachelor's degree in Business Administration.

Senior Management Profile (Continued)

Independent Non-executive Directors

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

Mrs. Lam (aged 78) has been a Director of the Company since 1994. Mrs. Lam 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. Mrs. Lam 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. Mrs. Lam was 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.

She 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 51) has been a Director of the Company since 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.

Ms. CHENG Yin Ching, Anna

Ms. Cheng (aged 37) 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 Profile (Continued)

Senior Management

Mr. AGAWA Yutaka

Mr. Agawa (aged 50) is the General Manager of Buying Division of the Company and AEON China. He joined AEON Co. in 1980. He has over 25 years of experience in retail industry. Mr. Agawa graduated from Daito-Bunka University with a bachelor's degree in Arts.

Mr. CHAK Kam Yuen

Mr. Chak (aged 44) 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.

Mr. SASAKI Masahiro

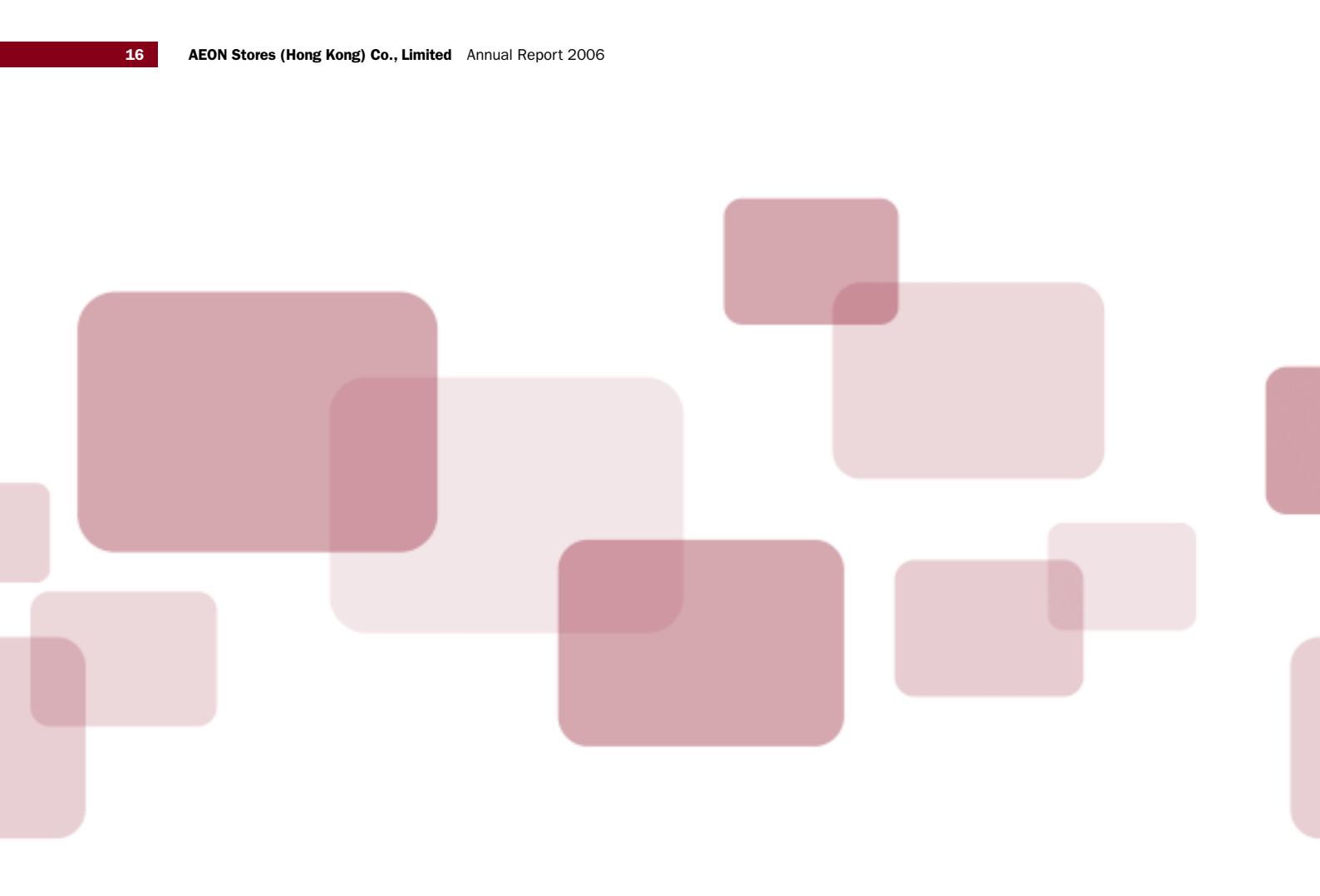
Mr. Sasaki (aged 40) is the General Manager of Administration of the Company. He joined AEON Co. in 1989 and the Company in 2005. Mr. Sasaki has solid experience in human resources and training. A graduate from Josai University in Japan, Mr. Sasaki earned a Bachelor of Arts degree, majoring in Economics and Business Administration.

Ms. CHAN Suk Jing

Ms. Chan (aged 47) 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 55) is the Assistant General Manager of the 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
Report of the Directors
Independent Auditor's Report

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 on 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 with the Code throughout the year.

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 other 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 (<i>Managing Director</i>) (<i>Note 1</i>)	7/7
	Yutaka Fukumoto (<i>Deputy Managing Director</i>) (<i>Note 2</i>)	3/7
	Wong Mun Yu	7/7
Non-executive Directors	Toshiji Tokiwa (<i>Chairman</i>)	6/7
	Akihito Tanaka (<i>Note 3</i>)	2/7
	Tatsuichi Yamaguchi	6/7
	Naoyuki Miyashita (<i>Note 4</i>)	7/7
	Motoya Okada (<i>Note 5</i>)	0/7
	Kazumasa Ishii (<i>Note 5</i>)	4/7
Independent Non-executive Directors	Shao You Bao (<i>Note 6</i>)	1/7
	Lam Pei Peggy	6/7
	Sham Sui Leung Daniel	7/7
	Cheng Yin Ching Anna (<i>Note 7</i>)	3/7

Corporate Governance Report (Continued)

Notes:

1. Mr. Lam Man Tin was appointed as the Managing Director of the Company on 19 May 2006.
2. Mr. Yutaka Fukumoto was appointed as the Deputy Managing Director of the Company on 2 June 2006 and there have been three board meetings held after his appointment.
3. Mr. Akihito Tanaka was appointed as a Non-executive Director of the Company on 2 June 2006 and there have been three board meetings held after his appointment.
4. Mr. Naoyuki Miyashita resigned as the Managing Director and was appointed as a Non-executive Director of the Company on 19 May 2006.
5. Mr. Motoya Okada and Mr. Kazumasa Ishii resigned as Non-executive Directors on 2 June 2006.
6. Dr. Shao You Bao passed away on 12 March 2006.
7. Ms. Cheng Yin Ching Anna was appointed as an Independent Non-executive Director of the Company on 2 June 2006 and there have been three board meetings held after her appointment.

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

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 13 to 14 of this annual report respectively.

The Company has not fixed the terms of appointment for all directors but they are subject to retirement and are entitled to re-election at each annual general meeting of the Company.

Corporate Governance Report (Continued)

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	Tatsuichi Yamaguchi (<i>Chairman</i>) (<i>Note 1</i>)	3/4
	Akihito Tanaka (<i>Chairman</i>) (<i>Note 1</i>)	0/4
Independent Non-executive Directors	Shao You Bao (<i>Note 2</i>)	0/4
	Lam Pei Peggy	4/4
	Sham Sui Leung Daniel (<i>Note 2</i>)	3/4

Notes:

1. Mr. Akihito Tanaka was appointed to replace Mr. Tatsuichi Yamaguchi as a member and the Chairman of the Committee on 2 June 2006 and there has been one committee meeting held after his appointment.
2. Mr. Sham Sui Leung Daniel was appointed as a member of the Committee on 24 March 2006 to replace Dr. Shao You Bao, who passed away on 12 March 2006 and there have been three committee meetings held after his appointment.

During 2006, the Remuneration Committee reviewed the remuneration of the Executive Directors (including the Managing Director and the Deputy Managing Director) and the senior management and recommended the Board to approve their remuneration.

Corporate Governance Report (Continued)

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.

Auditors' Remuneration

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

Services rendered	Fees payable HK\$'000
Audit services	2,204
Non-audit services:	
Review of interim results	541
Taxation services	540
Audit of occupational retirement scheme	18
Other services	6
	3,309

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

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

	Directors	Number of attendance
Non-executive Directors	Akihito Tanaka (Note 1)	0/2
	Tatsuichi Yamaguchi (Note 1)	1/2
Independent Non-executive Directors	Shao You Bao (Note 2)	0/2
	Sham Sui Leung Daniel (Chairman) (Note 2)	2/2
	Lam Pei Peggy	2/2
	Cheng Yin Ching Anna (Note 3)	1/2

Corporate Governance Report (Continued)

Notes:

1. Mr. Akihito Tanaka was appointed as a member of the Committee on 2 June 2006 to replace Mr. Tatsuichi Yamaguchi and there has been one committee meeting held after his appointment.
2. Mr. Sham Sui Leung Daniel was appointed as the Chairman of the Committee on 24 March 2006 to replace Dr. Shao You Bao, who passed away on 12 March 2006.
3. Ms. Cheng Yin Ching Anna was appointed as a member of the Committee on 2 June 2006 and there has been one committee meeting held after her appointment.

During 2006, the Audit Committee performed the following duties:

- reviewed the audited financial statements for the year ended 31 December 2005 with a recommendation to the Board for approval;
- reviewed the un-audited financial statements for the six months ended 30 June 2006 with a recommendation to the Board for approval;
- reviewed various reports on internal control system covering financial, operational, procedural compliance and risk management functions;
- met the external auditors 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.

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 cashflows of the Group. In preparing the accounts for the six months ended 30 June 2006 and for the year ended 31 December 2006, 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.

Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2006.

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 2006 are set out in note 17 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 31.

An interim dividend of 5.5 HK cents per share amounting to HK\$14,300,000 was paid to the shareholders during the year.

The directors recommend the payment of a final dividend of 17.5 HK cents per share to the shareholders on the register of members on 23 May 2007, amounting to HK\$45,500,000, 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\$106 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 2006 comprised the retained profits of HK\$596,222,000 (2005: HK\$518,207,000).

Report of the Directors (Continued)

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 (*Deputy Managing Director*) (appointed on 2 June 2006)

WONG Mun Yu

Non-executive directors

Toshiji TOKIWA (*Chairman*)

Tatsuichi YAMAGUCHI

Naoyuki MIYASHITA (redesignated from executive director on 19 May 2006)

Akihito TANAKA (appointed on 2 June 2006)

Motoya OKADA (resigned on 2 June 2006)

Kazumasa ISHII (resigned on 2 June 2006)

Independent non-executive directors

LAM PEI Peggy

SHAM Sui Leung Daniel

CHENG Yin Ching Anna (appointed on 2 June 2006)

SHAO You Bao (deceased on 12 March 2006)

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.

Report of the Directors (Continued)

Directors' Interests in Shares

At 31 December 2006, 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 interests	Approximate percentage of 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
Akihito TANAKA	50,000	0.019
Tatsuichi YAMAGUCHI	22,000	0.008
LAM PEI Peggy	200,000	0.077

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

Name of directors	Number of ordinary shares held as personal interests	Approximate percentage of interest %
Toshiji TOKIWA	17,700	0.0024
Akihito TANAKA	13,900	0.0019
Tatsuichi YAMAGUCHI	24,000	0.0033

Report of the Directors (Continued)

Directors' Interests in Shares (continued)**(c) Other associated corporations**

	Toshiji TOKIWA		Akihito TANAKA	
	Number of shares	Approximate percentage of interest %	Number of shares	Approximate percentage of interest %
ACS Credit Management Co., Ltd.	10	0.083	–	–
AEON Credit Service (M) Sdn. Bhd.	20,000	0.167	–	–
AEON Fantasy Co., Ltd.	–	–	3,194	0.021
AEON Thana Sinsap (Thailand) Plc.	500,000	0.200	20,000	0.008
Aeonmall Co., Ltd.	–	–	2,000	0.003
AEON Co. (M) Bhd.	–	–	300,000	0.170
Maxvalu Tokai Co., Ltd.	7,500	0.043	–	–
Ryukyu JUSCO Co., Ltd.	–	–	100	0.018
Zwei Co., Ltd.	1,000	0.026	–	–

All the shares held are personal interests.

Other than as disclosed above, at 31 December 2006, 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. Kazumasa ISHII, Toshiji TOKIWA, Motoya OKADA, Akihito TANAKA and Tatsuichi YAMAGUCHI, have beneficial interests in AEON Co., Ltd. The former directors, Messrs. Motoya OKADA and Dr. SHAO You Bao, have beneficial interests in ACS.

- (i) The Group made purchases from subsidiaries of AIC Inc. amounting to a total of HK\$67,453,000.
- (ii) Royalties payable to AEON Co., Ltd. for the year pursuant to a technical assistance agreement amounted to HK\$43,901,000. Changes on the technical assistance agreement and details are set out in note 32 to the financial statements.

Report of the Directors (Continued)

Directors' Interests in Contracts of Significance and Connected Transactions *(continued)*

- (iii) ACS and the Company have entered into agreements under which the Company pays commission to ACS in respect of certain purchases made by customers of the Company with the use of the Company's various co-brand cards and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company.

The total amount of commission paid and payable by the Company for the year was HK\$11,787,000. 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. Pursuant to Rule 14A.38 of the Rules Governing the Listing Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), the board of directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions in respect of this commission of the Group. The auditors have reported their factual findings on these procedures to the board of directors. The independent non-executive directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Company in the ordinary and usual course of its business, on normal commercial terms or on terms no less favorable than terms available from independent third parties, and in accordance with the terms of the agreement governing such transactions that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

- (iv) 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\$6,700,000.

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.

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.

Report of the Directors (Continued)

Substantial Shareholders

At 31 December 2006, 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 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	23,410,000 (Note 2)	9.00
Commonwealth Bank of Australia	13,088,000 (Note 3)	5.03

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.

- 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.
- 3: These shares are held as to 11,838,000 shares by First State Investments (Hong Kong) Limited ("FSIHK") and 2,746,000 shares by First State Investment Management (UK) Limited ("FSIUK") of which shares 1,496,000 shares are jointly held by FSIHK and FSIUK, in their capacity of investment managers. Both FSIHK and FSIUK are indirect wholly owned subsidiaries of Commonwealth Bank of Australia.

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 2006.

Report of the Directors (Continued)

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\$478,000.

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.

Auditors

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

On behalf of the Board



LAM Man Tin

Managing Director

Hong Kong, 3 April 2007

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 31 to 63, which comprise the consolidated and Company balance sheets as at 31 December 2006, 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.

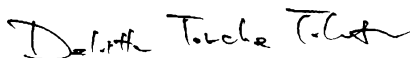
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, 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.

Independent Auditor's Report (Continued)

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 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

3 April 2007

Consolidated Income Statement

For the year ended 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Revenue	6	4,286,972	3,919,741
Other income		272,314	246,422
Investment income	7	33,197	16,122
Purchases of goods and changes in inventories		(2,800,919)	(2,534,489)
Staff costs		(485,718)	(448,762)
Depreciation		(132,247)	(125,378)
Loss on disposal of property, plant and equipment		(1,197)	(2,159)
Pre-operating expenses	8	(3,451)	(2,642)
Impairment loss reversed in respect of property, plant and equipment		8,967	–
Other expenses		(968,229)	(904,899)
Finance costs	9	(767)	(227)
Profit before taxation		208,922	163,729
Income tax expenses	10	(52,217)	(39,793)
Profit for the year	11	156,705	123,936
Attributable to:			
Equity holders of the parent		148,347	124,532
Minority interests		8,358	(596)
		156,705	123,936
Dividends	14	50,700	36,400
Earnings per share – basic	15	57.06 cents	47.90 cents

Consolidated Balance Sheet

At 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current Assets			
Property, plant and equipment	16	304,617	317,613
Available-for-sale investments	18	24,862	24,861
Deferred taxation	19	14,486	11,625
Rental deposits and prepayments		79,014	78,756
		422,979	432,855
Current Assets			
Inventories	20	367,282	383,051
Trade receivables	21	39,215	23,413
Other receivables, prepayments and deposits		41,310	19,772
Amounts due from fellow subsidiaries		45,159	42,569
Bank balances and cash		1,540,766	1,042,294
		2,033,732	1,511,099
Current Liabilities			
Trade payables	23	1,040,423	796,116
Other payables and accrued charges		378,096	318,781
Amounts due to fellow subsidiaries		24,754	10,636
Amount due to ultimate holding company		127,534	84,512
Bank borrowings	24	59,712	14,351
Income tax payable		9,359	14,220
Dividend payable		236	169
		1,640,114	1,238,785
Net Current Assets		393,618	272,314
Total Assets Less Current Liabilities		816,597	705,169
Capital and Reserves			
Share capital	26	52,000	52,000
Share premium and reserves		693,424	591,551
Equity attributable to equity holders of the parent		745,424	643,551
Minority interests		49,089	40,066
Total Equity		794,513	683,617
Non-current Liabilities			
Deposits received and accrued charges		22,084	21,552
		816,597	705,169

The financial statements on pages 31 to 63 were approved and authorised for issue by the Board of Directors on 3 April 2007 and are signed on its behalf by:



LAM Man Tin
Director



Yutaka FUKUMOTO
Director

Balance Sheet

At 31 December 2006

	Notes	2006 HK\$'000	2005 HK\$'000
Non-current Assets			
Property, plant and equipment	16	145,223	156,678
Investments in subsidiaries	17	71,360	93,249
Available-for-sale investments	18	24,862	24,861
Deferred taxation	19	14,486	11,625
Rental deposits and prepayments		38,051	45,156
		293,982	331,569
Current Assets			
Inventories	20	282,819	298,583
Trade receivables	21	31,715	15,240
Other receivables, prepayments and deposits		27,140	6,322
Amounts due from subsidiaries		55,400	34,453
Amount due from a fellow subsidiary		44,504	42,219
Bank balances and cash		1,128,963	767,739
		1,570,541	1,164,556
Current Liabilities			
Trade payables	23	737,932	519,259
Other payables and accrued charges		224,898	202,665
Amount due to a fellow subsidiary		22,113	9,878
Amount due to ultimate holding company		127,813	84,850
Income tax payable		4,649	10,041
Dividend payable		236	169
		1,117,641	826,862
Net Current Assets			
		452,900	337,694
Total Assets Less Current Liabilities			
		746,882	669,263
Capital and Reserves			
Share capital	26	52,000	52,000
Share premium and reserves	27	680,287	602,271
		732,287	654,271
Non-current Liabilities			
Deposits received and accrued charges		14,595	14,992
		746,882	669,263



LAM Man Tin
Director



Yutaka FUKUMOTO
Director

Consolidated Statement of Changes In Equity

For the year ended 31 December 2006

	Attributable to equity holders of the parent									
	Share capital	Share premium	Investment revaluation reserve	Translation reserve	The People's Republic of China ("PRC") statutory reserves	Non-distributable reserve	Retained profits	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	52,000	63,158	17,640	286	2,048	-	414,729	549,861	40,682	590,543
Gain on fair value changes of available-for-sale investments	-	-	3,266	-	-	-	-	3,266	-	3,266
Exchange differences arising on translation of overseas operations	-	-	-	2,292	-	-	-	2,292	989	3,281
Income recognised directly in equity	-	-	3,266	2,292	-	-	-	5,558	989	6,547
Profit (loss) for the year	-	-	-	-	-	-	124,532	124,532	(596)	123,936
Total recognised income for the year	-	-	3,266	2,292	-	-	124,532	130,090	393	130,483
Transfer, net of minority interests share	-	-	-	-	408	-	(408)	-	-	-
Dividends	-	-	-	-	-	-	(36,400)	(36,400)	-	(36,400)
Dividend paid to minority shareholders	-	-	-	-	-	-	-	-	(1,009)	(1,009)
At 31 December 2005	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

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 2006

	2006 HK\$'000	2005 HK\$'000
Operating Activities		
Profit before taxation	208,922	163,729
Adjustment for:		
Investment income	(33,197)	(16,122)
Finance costs	767	227
Depreciation	132,247	125,378
Loss on disposal of property, plant and equipment	1,197	2,159
Impairment loss reversed in respect of property, plant and equipment	(8,967)	–
(Reversal of) write-down of inventories	(10,133)	14,553
Operating cash flows before movements in working capital	290,836	289,924
Decrease (increase) in inventories	29,301	(12,002)
Increase in trade receivables	(15,473)	(6,988)
Increase in other receivables, prepayments and deposits	(21,272)	(4,793)
Increase in amounts due from fellow subsidiaries	(2,576)	(5,054)
Increase in trade payables	233,166	80,781
Increase in deposits received, other payables and accrued charges	53,815	40,595
Increase in amounts due to fellow subsidiaries	14,088	83
Increase in amount due to ultimate holding company	43,036	22,834
Cash generated from operations	624,921	405,380
Hong Kong Profits Tax paid	(42,122)	(29,391)
People's Republic of China income taxes paid	(17,987)	(6,642)
Interest paid	(767)	(227)
Interest received	32,438	15,477
Net Cash from Operating Activities	596,483	384,597
Investing Activities		
Dividends received from investments	759	645
Purchase of property, plant and equipment	(104,234)	(101,003)
Proceeds from disposal of property, plant and equipment	637	131
Net Cash used in Investing Activities	(102,838)	(100,227)
Financing Activities		
Bank borrowings raised	59,712	14,351
Repayment of bank borrowings	(14,351)	–
Dividends paid	(50,633)	(36,373)
Dividends paid to minority shareholders	(1,049)	(1,009)
Net Cash used in Financing Activities	(6,321)	(23,031)
Net Increase in Cash and Cash Equivalents	487,324	261,339
Cash and Cash Equivalents at Beginning of the Year	1,042,294	776,018
Effect of Foreign Exchange Rate Changes	11,148	4,937
Cash and Cash Equivalents at End of the Year	1,540,766	1,042,294
Analysis of the Balances of Cash and Cash Equivalents		
Bank balances and cash	1,540,766	1,042,294

Notes to the Financial Statements

For the year ended 31 December 2006

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. 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 activities of the Group are 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 Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company is still not yet in the position to reasonably estimate the impact that may arise on the Group's results and financial position from the application of these standard, amendment or interpretations.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial instruments: Disclosures ¹
HKFRS 8	Operating Segments ⁷
HK(IFRIC) – INT 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC) – INT 8	Scope of HKFRS 2 ³
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ⁴
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁵
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions ⁶
HK(IFRIC) – INT 12	Service Concession Arrangements ⁸

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

⁶ Effective for annual periods beginning on or after 1 March 2007.

⁷ Effective for annual periods beginning on or after 1 January 2009.

⁸ Effective for annual periods beginning on or after 1 January 2008.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

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.

Sales of goods are recognised when goods are delivered and title has passed. Concessionaire sales is presented on a net basis.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

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 represents 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.

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

3. Significant Accounting Policies (continued)

Financial instruments (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and deposits, bank balances, and amounts due from subsidiaries and fellow subsidiaries) are carried at amortised cost using the effective interest method, less any impairment losses. An appropriate 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

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 or 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. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. 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.

Other financial liabilities

Other financial liabilities (including trade payables, other payables and accrued charges, bank borrowings, amounts due to fellow subsidiaries and ultimate holding company, and dividend payable) 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.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

3. Significant Accounting Policies (continued)

Inventories

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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.

The pension costs charged in the profit or loss represent the contributions payable in respect of the current year to the Group's defined contribution schemes.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

3. Significant Accounting Policies (continued)

Pre-operating expenses

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes 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 on substantively enacted 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 base 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.

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 Judgment

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. The resulting accounting estimates will, by definition, seldom equal to 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 2006, a deferred tax asset of HK\$14,486,000 (2005: HK\$11,625,000) 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

4. Key Sources of Estimation Uncertainty and Critical Accounting Judgment *(continued)*

Key sources of Estimation uncertainty *(continued)*

Income taxes (continued)

In addition, as at 31 December 2006, a deferred tax asset of HK\$8,277,000 (2005: HK\$13,269,000) 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 deferred tax asset 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.

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 2006, the prepaid rental of 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 rent 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. Financial Instruments

a. Financial risk management objectives and policies

The Group's major financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

5. Financial Instruments *(continued)*

a. Financial risk management objectives and policies *(continued)*

Credit risk (continued)

The Group's credit risk is primarily attributable to trade receivables, other receivables and amounts due from fellow subsidiaries. In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

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.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Market risk

Currency risk

Certain of the Group's purchases are denominated in foreign currencies. 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.

Cash flow interest rate risk

The Group has exposures to cash flow interest rate risk as its bank borrowings is subject to floating interest rate. Currently, interest rate risk is not hedged. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure.

Price risk

The Group's available-for-sale investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to the price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

5. Financial Instruments (continued)

b. Fair value

The fair value 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 bid prices and ask prices respectively; 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 their fair values.

6. 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.

	2006 HK\$'000	2005 HK\$'000
Income from concessionaire sales	606,351	569,082
Direct sales	3,680,621	3,350,659
Revenue	4,286,972	3,919,741

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 2006

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Revenue	2,903,314	1,383,658	4,286,972
Segment result	195,007	13,923	208,930
Dividend income			759
Finance costs			(767)
Profit before taxation			208,922
Income tax expenses			(52,217)
Profit for the year			156,705

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

6. 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	1,698,415	719,227	2,417,642
Unallocated corporate assets			39,348
Consolidated total assets			2,456,990
LIABILITIES			
Segment liabilities	1,127,354	465,816	1,593,170
Bank borrowings	–	59,712	59,712
Unallocated corporate liabilities			9,595
Consolidated total liabilities			1,662,477

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

6. Turnover and Segment Information (continued)**Geographical segments** (continued)

For the year ended 31 December 2005

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Revenue	2,769,886	1,149,855	3,919,741
Segment result	168,216	(4,905)	163,311
Dividend income			645
Finance costs			(227)
Profit before taxation			163,729
Income tax expenses			(39,793)
Profit for the year			123,936
At 31 December 2005			
	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
BALANCE SHEET			
ASSETS			
Segment assets	1,331,937	575,531	1,907,468
Unallocated corporate assets			36,486
Consolidated total assets			1,943,954
LIABILITIES			
Segment liabilities	831,816	399,731	1,231,547
Bank borrowings	–	14,351	14,351
Unallocated corporate liabilities			14,439
Consolidated total liabilities			1,260,337

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

6. Turnover and Segment Information *(continued)*

Geographical segments *(continued)*

For the year ended 31 December 2005

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
OTHER INFORMATION			
Capital expenditure	46,950	51,992	98,942
Depreciation	68,778	56,600	125,378
Loss on disposal of property, plant and equipment	1,819	340	2,159
Write-down of inventories	14,553	–	14,553

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.

7. Investment Income

	2006 HK\$'000	2005 HK\$'000
Dividends from listed equity securities	759	645
Interest on bank deposits	32,438	15,477
	33,197	16,122

8. Pre-operating Expenses

Included in pre-operating expenses were staff costs of HK\$2,372,000 (2005: HK\$1,883,000).

9. Finance Costs

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

10. Income Tax Expenses

	2006 HK\$'000	2005 HK\$'000
The charges comprise:		
Current tax		
Hong Kong	36,730	32,516
Other regions in the PRC	15,034	8,212
	51,764	40,728
Under(over) provision in prior years		
Hong Kong	–	(522)
Other regions in the PRC	3,314	290
	3,314	(232)
	55,078	40,496
Deferred tax (Note 19)		
Current year	(2,861)	(703)
Income tax expenses for the year	52,217	39,793

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

PRC income tax is calculated at 33% of the estimated assessable profit of the subsidiaries.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

10. Income Tax Expenses (continued)

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

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	208,922	163,729
Taxation at the applicable rate of 17.5%	36,561	28,653
Tax effect of expenses that are not deductible for tax purpose	4,767	2,646
Tax effect of income that are not taxable for tax purpose	(6,664)	(2,428)
Tax effect of tax losses not recognised	8,423	7,346
Tax effect of utilisation of tax losses previously not recognised	(503)	–
Tax effect of deductible temporary difference not recognised	–	364
Tax effect of utilisation of deductible temporary difference previously not recognised	(825)	(452)
Effect of different tax rates of entities operating in the PRC	7,062	3,857
Under(over) provision in prior years	3,314	(232)
Other	82	39
Income tax expenses	52,217	39,793

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

11. Profit for the Year

	2006	2005
	HK\$'000	HK\$'000
Profit for the year has been arrived at after charging (crediting):		
Auditors' remuneration	2,204	2,171
Exchange gain	(449)	(1,280)
Operating lease rentals in respect of Rented premises		
– minimum lease payments	429,614	356,039
– contingent rent (<i>Note</i>)	25,665	28,247
	455,279	384,286
Retirement benefits scheme contributions, net of forfeited contributions of HK\$480,000 (2005: HK\$567,000)	29,289	22,048
Royalties payable to the ultimate holding company	43,901	40,986
Rentals received from licensees		
– minimum lease payments	(187,354)	(169,343)
– contingent rent (<i>Note</i>)	(44,348)	(46,414)
	(231,702)	(215,757)
(Reversal of) write-down of inventories*	(10,133)	14,553

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.

* Inventories written down in prior years were sold in current year and the write-down of inventories has been reversed due to an increase in net realisable value.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

12. Directors' Emoluments

The emoluments paid or payable to each of the 13 (2005: 11) directors were as follows:

For the year ended 31 December 2006

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

For the year ended 31 December 2005

	LAM Man Tin	WONG Mun Yu	Toshiji TOKIWA	Tatsuichi YAMAGUCHI	Naoyuki MIYASHITA	Motoya OKADA	Kazumasa ISHII	LAM PEI Peggy	SHAM Sui Leung Daniel	SHAO You Bao	Kozo MURATA	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Fees		60	60	360	170	-	160	-	170	120	210	-	1,310
Other emoluments													
Salaries and other benefits		1,366	1,182	-	-	1,992	-	2,224	-	-	-	1,663	8,427
Contributions to retirement benefits schemes		74	64	-	-	-	-	-	-	-	-	-	138
		1,500	1,306	360	170	1,992	160	2,224	170	120	210	1,663	9,875

No directors waived any emoluments during each of the two years ended 31 December 2006.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, one (2005: two) was director of the Company whose emolument is included in the disclosures in note 12 above. The emoluments of the remaining four individuals (2005: three) were as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	7,145	5,458
Performance based bonus	935	880
Contributions to retirement benefit schemes	672	113
	8,752	6,451
	No. of employees	
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	3	2

14. Dividends

	2006 HK\$'000	2005 HK\$'000
Final dividend paid for 2005 of 14.0 HK cents (2004: 8.5 HK cents) per ordinary share	36,400	22,100
Interim dividend paid for 2006 of 5.5 HK cents (2005: 5.5 HK cents) per ordinary share	14,300	14,300
	50,700	36,400

The final dividend of 17.5 HK cents per ordinary share has been proposed by the directors and is subject to approval by the Company's shareholders in general meeting.

15. Earnings per Share

The calculation of earnings per share attributable to the equity holders of the parent is based on the Group's profit for the year attributable to the equity holders of the parent of HK\$148,347,000 (2005: HK\$124,532,000) and on 260,000,000 (2005: 260,000,000) ordinary shares in issue during the year.

There were no dilutive potential shares in both years.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

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 2005	680,978	270,585	4,241	725	956,529
Exchange adjustments	4,887	1,747	74	4	6,712
Additions	9,480	16,878	814	71,770	98,942
Transfer	47,315	21,147	–	(68,462)	–
Disposals	(44,543)	(3,360)	(349)	–	(48,252)
At 31 December 2005	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
DEPRECIATION					
At 1 January 2005	417,458	193,832	2,579	–	613,869
Exchange adjustments	2,326	667	40	–	3,033
Provided for the year	93,321	31,355	702	–	125,378
Eliminated on disposals	(42,952)	(2,696)	(314)	–	(45,962)
At 31 December 2005	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
CARRYING VALUES					
At 31 December 2006	172,481	80,559	1,291	50,286	304,617
At 31 December 2005	227,964	83,839	1,773	4,037	317,613

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

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 2005	465,340	193,504	985	551	660,380
Additions	4,450	13,256	–	29,244	46,950
Transfer	24,855	4,940	–	(29,795)	–
Disposals	(44,543)	(2,346)	–	–	(46,889)
At 31 December 2005	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
DEPRECIATION					
At 1 January 2005	314,805	164,394	805	–	480,004
Provided for the year	54,964	13,693	121	–	68,778
Eliminated on disposals	(42,952)	(2,067)	–	–	(45,019)
At 31 December 2005	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
CARRYING VALUES					
At 31 December 2006	102,097	43,086	12	28	145,223
At 31 December 2005	123,285	33,334	59	–	156,678

During the year, 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 have 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 is increased to the revised estimate of its recoverable amount, but 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

17. Investments in Subsidiaries

	THE COMPANY	
	2006	2005
	HK\$'000	HK\$'000
Unlisted investments, at cost	112,460	93,249
Less: impairment loss	(41,100)	–
	71,360	93,249

Particulars of the subsidiaries at 31 December 2006 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.	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 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. GDJ will be entitled to 100% of the net profit after deducting a fixed annual amount paid to the PRC party.

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

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
Assets	230,405	173,936
Liabilities	229,451	165,662
Revenue	605,327	505,747

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

18. Available-for-sale Investments

Available-for-sale investments comprise:

	THE GROUP AND THE COMPANY	
	2006	2005
	HK\$'000	HK\$'000
Equity securities:		
Listed shares in Hong Kong at fair value	22,922	22,921
Debt securities:		
Unlisted club debenture at fair value	1,940	1,940
	24,862	24,861

The listed securities detailed above include an investment in a fellow subsidiary of HK\$22,893,000 (2005: 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	Other temporary differences	Total
	HK\$'000	HK\$'000	HK\$'000
At 1 January 2005	10,617	305	10,922
Credit to income statement for the year	603	100	703
At 31 December 2005	11,220	405	11,625
Credit (charge) to income statement for the year	2,986	(125)	2,861
At 31 December 2006	14,206	280	14,486

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

19. Deferred Taxation (continued)

At the balance sheet date, the Group has unused tax losses of HK\$104,101,000 (2005: HK\$56,567,000) 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\$9,876,000 (2005: HK\$15,585,000). A deferred tax asset has been recognised in respect of HK\$1,599,000 (2005: HK\$2,316,000) for such temporary differences. No deferred tax asset has been recognised in respect of the unused tax losses and the remaining temporary differences of HK\$8,277,000 (2005: HK\$13,269,000) due to the unpredictability of future profit streams for certain subsidiaries.

	THE GROUP	
	2006	2005
	HK\$'000	HK\$'000
The tax losses above will expire as follows:		
31 December 2007	–	2,795
31 December 2008	7,178	10,331
31 December 2009	9,042	5,232
31 December 2010	39,747	38,209
31 December 2011	48,134	–
	104,101	56,567

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\$10,133,000 (2005: write-down of HK\$14,553,000) 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	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within due dates	39,129	23,413	31,629	15,240
Overdue under 30 days	86	–	86	–
	39,215	23,413	31,715	15,240

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

22. Other Financial Assets

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

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

Bank balances comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. Bank balances carry interest at market rates which range from 1.5% to 4% per annum.

23. Trade Payables

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

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within due dates	923,196	694,151	705,596	493,648
Overdue under 30 days	64,803	57,595	8,000	4,553
Overdue over 30 days	52,424	44,370	24,336	21,058
	1,040,423	796,116	737,932	519,259

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 5.02% (2005: 5.22%) per annum.

25. Other Financial Liabilities

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

The amounts due to fellow subsidiaries and ultimate holding company are aged within due dates, unsecured, non-interest bearing and are repayable on demand.

26. Share Capital

	2006 & 2005 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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

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 2005	63,158	17,640	406,707	487,505
Gain on fair value changes of available-for-sale investments recognised directly in equity	–	3,266	–	3,266
Profit for the year	–	–	147,900	147,900
Dividends	–	–	(36,400)	(36,400)
At 31 December 2005	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
Dividends	–	–	(50,700)	(50,700)
At 31 December 2006	63,158	20,907	596,222	680,287

28. Capital Commitments

	THE GROUP		THE COMPANY	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	22,463	4,559	–	–
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	–	57,402	–	–

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	393,386	395,199	266,247	308,199
In the second to fifth year inclusive	1,224,909	1,003,000	596,798	684,668
Over five years	341,212	410,772	15,976	72,346
	1,959,507	1,808,971	879,021	1,065,213

In addition to the above, twenty-eight (2005: twenty-three) of the leases of the Group and nineteen (2005: sixteen) of the leases of the Company are each 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.

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	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	126,692	112,954	105,128	96,633
In the second to fifth year inclusive	58,255	51,062	35,127	34,662
Over five years	6,883	3,765	807	–
	191,830	167,781	141,062	131,295

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

30. Retirement Benefit 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 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 Scheme for certain employees who make voluntary contributions.

The Company also operates a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The contributions 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.

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 benefit 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.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefit schemes and which are available to reduce the contributions payable in the future years was HK\$31,000 (2005: HK\$36,000).

31. Related Party Transactions

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

Capacity	Nature of transaction	2006 HK\$'000	2005 HK\$'000
Fellow subsidiaries	Commission expenses	11,787	12,166
	Purchase of goods	67,453	57,445
	Rental income from licensees	6,700	6,454
Ultimate holding company	Royalty expenses	43,901	40,986
Minority shareholders of the subsidiaries	Rental expenses and management fees	33,711	37,083

During the year, the Group received dividend income amounting to HK\$757,000 (2005: HK\$643,000) from a fellow subsidiary.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

31. Related Party Transactions (continued)

In addition to the above, the Group has donated HK\$Nil (2005: HK\$1,012,000) to AEON Education and Environment Fund Limited (“the Fund”) of which the Company is a member of the Fund. The Fund is a company limited by guarantee and not having a share capital, established in co-operation with AEON Credit Service (Asia) Company Limited, a fellow subsidiary of the Company, on 18 February 1998. The objective of the Fund is to promote environmental protection, cultural exchange and education in the Hong Kong Special Administrative Region and other parts of the PRC.

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

	2006 HK\$'000	2005 HK\$'000
Amounts due from minority shareholders of the subsidiaries	4,827	7,731

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.

32. Post Balance Sheet Event

On 12 December 2006, the board of directors announced that the Company entered into the 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 and know-how in consideration of an annual fee paid by the Company to AEON Co., Ltd. (“Technical Assistance Agreement”). The Amendment Agreement is subject to the approval of independent shareholders of the Company. Pursuant to Rule 14A.35(2) of the Listing Rules, the Company has re-set the cap of HK\$47 million as the maximum aggregate annual value of the fees and expenses payable by the Company to AEON Co., Ltd. under the Technical Assistance Agreement as amended by the Amendment Agreement for each of the three years ending 31 December 2009. The substantive amendments to the Technical Assistance Agreement relate to:

- (i) changes in the rights granted to the Company to use the trade marks owned by the AEON Co., Ltd.;
- (ii) changes in the terms of AEON Co., Ltd.'s undertaking under the Technical Assistance Agreement not to compete with the Company;
- (iii) changes in the duration of the Technical Assistance Agreement; and

Notes to the Financial Statements (Continued)

For the year ended 31 December 2006

32. Post Balance Sheet Event *(continued)*

- (iv) changes in the basis for calculating the fee payable by the Company to the AEON Co., Ltd. under the Technical Assistance Agreement.

Under the existing Technical Assistance Agreement, for each financial year of the Company, the Company shall pay to AEON Co., Ltd. an annual fee equal to the aggregate of: (a) 2% of the revenue of Kornhill Store of the Company in that financial year; and (b) a fixed charge at the rate of HK\$14 per square feet of the floor area of each of the stores (except Kornhill Store) operated by the Group within Hong Kong and/or Macau and/or the Guangdong Province of the PRC, in each case pro rated to the number of days on which such stores has commenced business. Pursuant to the Amendment Agreement and in lieu of the aforesaid calculation provisions in the existing 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 as defined in the Amendment Agreement of the Group 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 resolutions of adopting the Amendment Agreement and the cap of HK\$47 million in relation to the continuing connected transactions for each of the three years ending 31 December 2009 were duly approved by independent shareholders of the Company (i.e. AEON Co., Ltd. and its affiliates are abstained from voting) and passed on the extraordinary general meeting held on 26 January 2007.

It is expected that there will be a saving of royalty fee of HK\$13.3 million, HK\$13.6 million, HK\$18.1 million and HK\$19.0 million for each of the four years ended 31 December 2006. As the resolution was passed subsequent to 31 December 2006, the saving of royalty fee is considered as a non-adjusting event.

Pursuant to a supplementary agreement signed between the Company and AEON Co., Ltd. dated 2 April 2007, it was agreed that the calculation of the royalty fee payable to AEON Co., Ltd. under the Amendment Agreement was based on the total of revenue which included the consolidated direct sales, consolidated sales of the respective concessionaire, and licensee fees and other rentals received by the Group for the relevant financial year. The supplementary agreement was subject to the approval by the independent shareholders of the Company. Details of this amendment would be set out in the circular of the Company subsequent to the date of this report. It is expected there will be no effect on the saving of the royalty fee mentioned in above.

33. Comparative Figures

Income from concessionaire sales is presented net of gross sales made under such arrangement and amounts paid/payable to concessionaires so as to conform better presentation, and the current accounting practice.

Accordingly, revenue and purchases of goods for the year ended 31 December 2005 has decreased from HK\$5,503,393,000 to HK\$3,919,741,000 and from HK\$4,118,141,000 to HK\$2,534,489,000 respectively.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended		For the period from		For the year ended	
	28 February 2003 HK\$'000 (restated)	29 February 2004 HK\$'000	1 March 2004 to 31 December 2004 HK\$'000	31 December 2005 HK\$'000	31 December 2006 HK\$'000	31 December 2006 HK\$'000
RESULTS						
Revenue	2,901,864	3,348,868	2,866,571	3,919,741		4,286,972
Profit before taxation	83,039	111,011	106,597	163,729		208,922
Income tax expenses	(25,273)	(25,489)	(24,430)	(39,793)		(52,217)
Profit for the year	57,766	85,522	82,167	123,936		156,705
ASSETS AND LIABILITIES						
Total assets	1,305,098	1,702,371	1,664,264	1,943,954		2,456,990
Total liabilities	(830,102)	(1,167,244)	(1,091,361)	(1,260,337)		(1,662,477)
	474,996	535,127	572,903	683,617		794,513
Equity attributable to:						
Equity holders of the parent	436,492	497,105	532,221	643,551		745,424
Minority interests	38,504	38,022	40,682	40,066		49,089
	474,996	535,127	572,903	683,617		794,513

Note: The results for the year ended 28 February 2003 and the summary of assets and liabilities for the Group as at 28 February 2003 have been extracted from the Company's annual reports after restatement to reflect the effect of the prior period adjustments on adoption of Statement of Standard Accounting Practice 12 (Revised) issued by the HKICPA.

The results for each of the two years ended 29 February 2004 and the period from 1 March 2004 to 31 December 2004 and the summary of assets and liabilities for the Group as at 28 February 2003 and 29 February 2004 and 31 December 2004 have not been adjusted for the adoption of new HKFRSs issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005.