



Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2005.

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 2005 are set out in note 17 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2005 are set out in the consolidated income statement on page 32.

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 14.0 HK cents per share to the shareholders on the register of members on 19 May 2006, amounting to HK\$36,400,000, 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\$99 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 2005 comprised the retained profits of HK\$535,847,000 (2004: HK\$406,707,000).

DIRECTORS

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

Executive directors

Naoyuki MIYASHITA (*Managing Director*) (appointed on 21 June 2005)

WONG Mun Yu

LAM Man Tin

Kozo MURATA (resigned on 21 June 2005)

Non-executive directors

Toshiji TOKIWA (*Chairman*)

Motoya OKADA

Tatsuichi YAMAGUCHI

Kazumasa ISHII (redesignated from executive director on 21 June 2005)

Independent non-executive directors

SHAO You Bao (deceased on 12 March 2006)

LAM PEI Peggy

SHAM Sui Leung Daniel

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

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

DIRECTORS' SERVICE CONTRACTS

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



DIRECTORS' INTERESTS IN SHARES

At 31 December 2005, 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 %
WONG Mun Yu	18,000	0.007
LAM Man Tin	20,000	0.008
Motoya OKADA	100,000	0.038
Tatsuichi YAMAGUCHI	22,000	0.008
Kazumasa ISHII	40,000	0.015
SHAO You Bao	200,000	0.077
LAM PEI Peggy	200,000	0.077

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

Name of directors	Number of shares held			Approximate percentage of interest %
	Personal interests	Family interests	Total	
Toshiji TOKIWA	12,000	–	12,000	0.0017
Motoya OKADA (Note)	413,996	8,742	422,738	0.0583
Tatsuichi YAMAGUCHI	23,000	–	23,000	0.0030
Kazumasa ISHII	9,000	–	9,000	0.0012

Note:

The family interests of Mr. Motoya OKADA is held by his spouse.

DIRECTORS' INTERESTS IN SHARES (continued)

(c) Other associated corporations

	Toshiji TOKIWA		Motoya OKADA		SHAO You Bao	
	Approximate Number of shares	Approximate percentage of interest %	Approximate Number of shares	Approximate percentage of interest %	Approximate Number of shares	Approximate percentage of interest %
ACS Credit Management Co., Ltd.	10	0.083	30	0.250	–	–
AEON Credit Service (Asia) Company Limited	–	–	110,000	0.026	330,000	0.079
AEON Credit Service (M) Sdn. Bhd.	20,000	0.167	50,000	0.417	–	–
AEON Fantasy Co., Ltd.	–	–	26,620	0.211	–	–
AEON Forest Co., Ltd.	–	–	3,000	0.038	–	–
AEON Kyushu Co., Ltd.	–	–	2,400	0.015	–	–
AEON Techno Service Co., Ltd.	–	–	15,000	0.139	–	–
AEON Thana Sinsap (Thailand) Plc.	500,000	0.200	1,500,000	0.600	–	–
Aeonmall Co., Ltd.	–	–	2,400	0.004	–	–
Certo Co., Ltd.	–	–	2,000	0.030	–	–
AEON Co. (M) Bhd.	–	–	150,000	0.085	–	–
Laura Ashley Japan Co., Ltd.	–	–	10	0.119	–	–
Maxvalu Tohoku Co., Ltd.	–	–	6,000	0.050	–	–
Maxvalu Tokai Co., Ltd.	5,000	0.043	10,000	0.086	–	–
Reform Studio Co., Ltd.	–	–	5	0.208	–	–
Ryukyu JUSCO Co., Ltd.	–	–	500	0.089	–	–
The Talbots, Inc.	–	–	48,000	0.090	–	–
Zwei Co., Ltd.	1,000	0.026	4,000	0.103	–	–

All the shares held are personal interests.

Other than as disclosed above, at 31 December 2005, 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, Kozo MURATA, Toshiji TOKIWA, Motoya OKADA and Tatsuichi YAMAGUCHI, have beneficial interests in AEON Co., Ltd.. Messrs. Motoya OKADA and Dr. SHAO You Bao also have beneficial interests in ACS.

- (i) The Group made purchases from subsidiaries of AIC Inc. amounting to a total of approximately HK\$57,445,000.
- (ii) Royalties payable to AEON Co., Ltd. for the year pursuant to a technical assistance agreement amounted to approximately HK\$40,986,000.
- (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 AEON JUSCO Visa Card, the AEON JUSCO MasterCard, AEON JUSCO American Express Credit Card 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 approximately HK\$12,166,000. 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. In the opinion of the independent non-executive directors not having interest in ACS, these transactions or the terms of the respective agreements governing such transactions were entered into in the ordinary and usual course of the business of the Company on normal commercial terms and in accordance with the terms of the respective agreements and 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 approximately HK\$6,454,000.

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 Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2005, shareholders (other than directors or chief executives 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	14,926,000 (Note 3)	5.74

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% of the issued share capital of ACS.

By virtue of its ownership of 45.11% 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 investment manager.

3: These shares are held as to 13,926,000 shares by First State Investments (Hong Kong) Limited ("FSIHK") and 3,319,000 shares by First State Investment Management (UK) Limited ("FSIUK") of which shares 2,319,000 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 2005.

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 approximately HK\$1,568,000.

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



Naoyuki MIYASHITA
Managing Director

Hong Kong, 24 March 2006