

# Report of the Directors

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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)

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### 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**

<b>Name of directors</b>	<b>Number of ordinary shares held as personal interests</b>	<b>Approximate percentage of the issued share capital of the Company</b>
		%
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**

<b>Name of directors</b>	<b>Number of ordinary shares held as personal interests</b>	<b>Approximate percentage of interest</b>
		%
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**

	<b>Toshiji TOKIWA</b>		<b>Akihito TANAKA</b>	
	<b>Number of shares</b>	<b>Approximate percentage of interest %</b>	<b>Number of shares</b>	<b>Approximate percentage of interest %</b>
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)

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### 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)

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### **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