Annual Report 2008

AEON

AEON Stores (Hong Kong) Co., Limited

永旺(香港)百貨有限公司

Stock Code : 984

Mission

AEON Co., Ltd. ("AEON Co.") is a Japanese retailing and services group with 169* group companies. These companies are active in four major business areas: General Merchandise Store ("GMS") and other retail stores, specialty stores, shopping centre development, and service and other business.

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 corporate credo "Everything we do, we do for our customers".

AEON Stores (Hong Kong) Co., Limited ("AEON Stores" or the "Company"), 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 has over 40 outlets in Hong Kong and south China. In Hong Kong, it operates six GMS, 15 independent JUSCO $10 Plaza, one JUSCO Living Plaza, three independent supermarkets and three Bento Express (Japanese take-away restaurant) in densely populated districts. In the PRC, it runs 11 GMS and two shopping centres in Guangdong Province.

AEON Stores is dedicated to providing customers with a wide range of high quality daily necessities at reasonable prices, complemented by pleasant shopping experiences. In its quest for total customer satisfaction, AEON Stores has been relentless in improving customer safety, promising shopping convenience and enjoyment.

AEON is founded on the basic customer-oriented principles of "the pursuit of peace through prosperity", "respect human dignity and value personal relationships" and "make continuous contribution to local communities". All its staff members strictly observe the "AEON Code of Conduct" which aim is to guarantee prompt response to customer needs and delivery of excellent services. The company prides itself in being able to provide customers with services that constantly exceed their expectation.

* As at February 2008

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Corporate Information

Board of Directors

Executive Directors

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

Non-Executive Directors

TANAKA Akihito (Chairman)
TOYOSHIMA Masaaki
ISHII Kazumasa
INOUE Susumu

Independent Non-Executive Directors

LAM PEI, Peggy
SHAM Sui Leung, Daniel
CHENG Yin Ching, Anna
SHAO Kung Chuen

Company Secretary

HENG Kwoo Seng

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Principal Bankers

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

Share Registrars

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

Registered Office

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

Head Office and Principal Place of Business

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

Stock Code

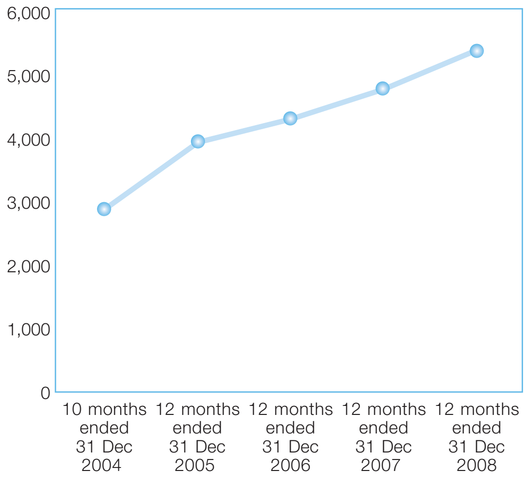
984

Distribution Network

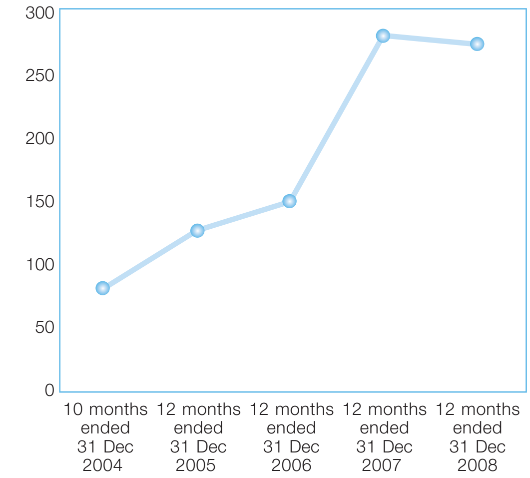
As at 31 December	Hong Kong		PRC		Total	
Category	**2008**	2007	**2008**	2007	**2008**	2007
GMS	**6**	6	**11**	11	**17**	17
Supermarket	**3**	3	**–**	–	**3**	3
$10 Plaza	**15**	12	**–**	–	**15**	12
Living Plaza	**1**	–	**–**	–	**1**	–
Bento Express	**3**	2	**–**	–	**3**	2
Shopping Centre	**–**	–	**2**	1	**2**	1
Total	**28**	23	**13**	12	**41**	35

Financial Highlights

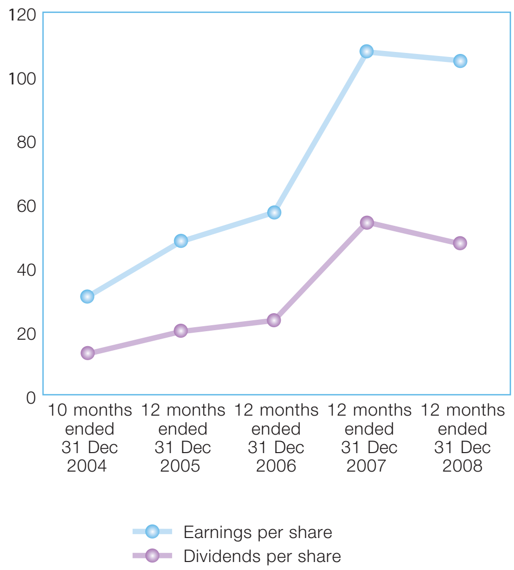
Revenue (HK$ million)



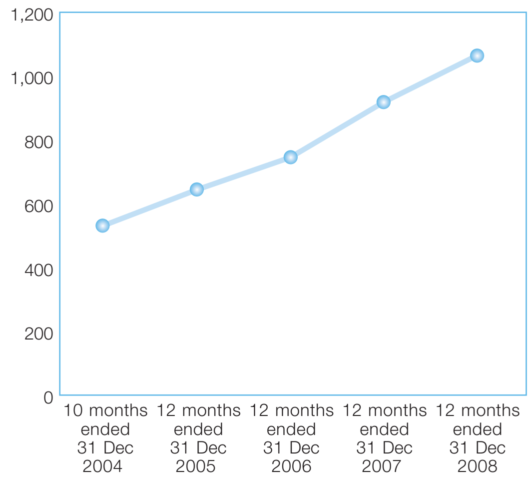
Profit Attributable to Shareholders (HK$ million)



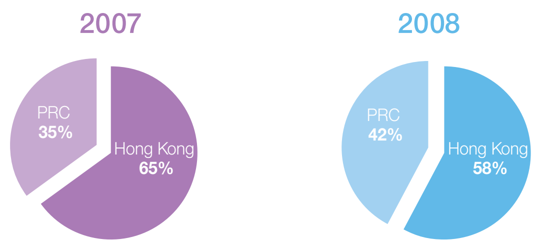
Earnings and Dividends per Share (HK cents)



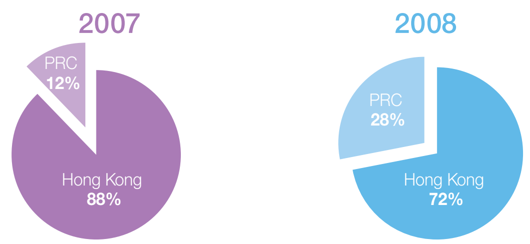
Shareholders' Equity (HK$ million)



Revenue by Geographical Segment



Geographical Segment Results



The Group is able to swiftly respond to changes in the economic environment, an ability that has buttressed its leadership in the sector.

TANAKA Akihito
Chairman

I am pleased to announce that AEON Stores (Hong Kong) Co., Limited and its subsidiaries ("AEON Stores" or the "Group") achieved a satisfactory performance in 2008. Although the financial tsunami has been affecting different sectors worldwide, the Group was able to increase its revenue by 13% to HK$5,376.6 million (2007: HK$4,759.9 million). Profit attributable to shareholders amounted to HK$273.0 million against HK$280.1 million in 2007. If the one-off royalty savings of HK$64 million was excluded from 2007, this year's attributable profit would have surged by 26%.

The retail markets in Hong Kong and the PRC were prosperous most of 2008 until the last quarter when the global economy felt prey to the financial tsunami and started to head for the worse. Industries and corporations have been feeling the pressure from the credit crunch and consumers have held back from spending. Against this backdrop, it is clear that the satisfactory results of AEON Stores for the year is exceptional and is a reflection of the Group's shrewd business strategies and operational acumen, and the support it has from its strong pool of talents in the retail industry.

Armed with local expertise and more than 20 years' retail industry experience, AEON Stores understands well how to satisfy local customer needs. Our credo of "Everything we do, we do for our customers" has guided our efforts to maintain service quality and underscored the steady growth of the Group through ups and downs in the market over the years. The Group is able to swiftly respond to changes in the economic environment, an ability that has buttressed its leadership in the sector. During the review year, the Group enriched its business portfolio, adding to it an indoor amusement centre MooRry Fantasy and a JUSCO Living Plaza, a new business model applicable in stores of smaller scale than a GMS to meet the specific needs of customers in different districts. The diversified business models are also crucial to helping the Group thrive in economic recession.

Although the PRC is not spared from the impact of the global economic downturn, the total consumption of consumer goods in Guangdong Province still recorded 20.5% growth in the first three quarters in 2008 year-on-year, according to the provincial government website. By opening its second shopping centre in the market in Huizhou during the year, AEON Stores was able to capture a good share of the market. The expansion also brought better economies of scale and boosted operational efficiency of the Group's business in the market which translated into handsome profit.

Looking ahead, AEON Stores is cautiously optimistic of the Hong Kong and PRC economies. Although the Hong Kong economy is likely to slow down further in the first half of 2009, a better outlook is expected for it in the second half year. In addition, an economic stimulus package was announced by the Central Government at the end of last year including initiatives to boost domestic consumption. The Group is hopeful of the positive impact of the stimulus package in bracing the PRC retail sector. We believe the current economic plight would lead to the ousting of financially weaker and less resilient industry peers and give the Group the opportunity to strengthen market leadership through prudent expansion of its business. In July 2008, Shenzhen AEON Co., Ltd. ("Shenzhen AEON"), which operates five GMS and one shopping centre, became a 100%-owned subsidiary of the Group and presented the Group with an ideal platform for capturing new opportunities in Shenzhen and surrounding areas. Backed by the more than a decade experience it has in operating retail business in south China, and benefiting from the synergies presented by the integration of the Shenzhen operation, the Group is confident of the prospects of its business in south China.

AEON Stores will continue to invest in all its business models, proven and new, aiming to build a stronger foundation for sustaining growth. The Group will keep looking for suitable locations to open new stores and explore different business opportunities at the same time. It will also carefully assess the business potential of each individual project to ensure maximum cost effectiveness and returns.

Lastly, I thank my fellow board members for their guidance regarding the Group's pursuit of strategic development in the past year, the management for making sure growth strategies were effectively administered and staff for their diligence in delivering impressive services that have kept customers coming back, which is the ultimate reward for a retailer with the customers at heart. With our staff dedicated to achieving perfection, the Group has no doubt that it will be able to sustain growth of its business in the coming year and beyond.

TANAKA Akihito
Chairman

Hong Kong, 13 March 2009

Management Discussion & Analysis

2008 was an exceptionally challenging year as economic uncertainties rocked the world. Despite the difficult environment, the Group demonstrated resilience and achieved satisfactory performance.

LAM Man Tin
Managing Director

Financial Review

2008 was an exceptionally challenging year as economic uncertainties rocked the world. Despite the difficult environment, the Group demonstrated resilience and achieved satisfactory performance. The Group's revenue increased by 13% to HK$5,376.6 million (2007: HK$4,759.9 million), mainly attributed to the fast growth of its stores in the PRC. Gross profit margin increased slightly from 34.8% to 34.9%. Profit attributable to shareholders for the year was HK$273.0 million, representing a 3% drop from previous year's HK$280.1 million. If a one-off write back of royalty savings of HK$64 million in 2007 were excluded, the Group would have recorded a significant 26% surge in attributable profit this year. Earnings per share of 2008 were 104.98 HK cents, against 107.71 HK cents in the previous year.

During the year under review, staff costs to revenue remained unchanged at 10.9% while rental costs to revenue was down from 10.2% to 9.7% year-on-year.

As at 31 December 2008, the Group maintained a stable net cash position with cash and bank balance of HK$1,619 million (2007: HK$1,651 million). The Group had short-term bank borrowings of HK$152 million (2007: HK$100 million). The borrowings were denominated in Renminbi bearing interest at around 4.5%-5.8%. By preserving a low gearing level, the Group still has sufficient resources to finance future expansion initiatives.

The Group's bank deposits of HK$12 million (2007: HK$14 million) were pledged to banks for guarantee to landlords for rental deposits as well as suppliers for trade purchases respectively, whereas nil (2007: HK$64 million) for guarantee in favour of a bank borrowing.

In July 2008, the Group completed the acquisition of an additional 35% interest in the registered capital of Shenzhen AEON at an aggregate consideration of HK$107.9 million. Shenzhen AEON operates five GMS and one shopping centre in Shenzhen. The acquisition made Shenzhen AEON a 100%-owned subsidiary of the Group.

Other capital expenditure during the past 12 months amounted to HK$232 million, arising from the renovation of existing operations as well as the opening of new stores. The Group will continue to finance capital expenditures in the future by way of internal resources and short-term borrowings.

Though exchange rates continued to fluctuate, the Group was not materially affected by such movements as less than 5% of its total purchases were settled in foreign currencies.



Business Review

The global financial crisis, which became particularly apparent in September 2008, has severely affected the economic well-being of countries and territories around the world. Not immune to the negative influence of the downturn, the PRC and Hong Kong financial markets have experienced severe contractions, which in turn have directly eroded the confidence of the general public. With unemployment rates gradually creeping up and consumer sentiment on the wane, the retail industry duly entered a period of instability.

Hong Kong Operations

Indicative of a slowing down in economic growth towards the end of the year, Hong Kong's GDP declined by 2.5% year-on-year in real terms in the fourth quarter of 2008. Similarly, net output in the wholesale, retail and import and export trades, restaurants and hotels sector increased by a relatively modest 4.3% year-on-year in real terms in the third quarter of 2008, compared with 7.1% rise recorded in the second quarter. Despite increasingly sluggish consumer spending as fears over the global financial crisis intensified, the Group was still able to record an increase in revenue of 1% to HK$3,108.7 million (2007: HK$3,090.7 million) for the year. Such growth is significant when taking into consideration that JUSCO Kornhill Store was partially closed for three months for renovation work while one GMS in Tseung Kwan O ceased operation since June 2007. The overall segmental result of the Hong Kong business was HK$249.2 million, down 16% from HK$295.9 million. If the write-back of royalty savings of HK$64 million had been excluded, actual growth of 7% would have been achieved. This extraordinary performance during the economic turmoil attests to the Group's operational efficiency and acumen in catering for local customers' needs.

In the past year, the Group introduced more initiatives to enhance its business portfolio, specifically the MooRry Fantasy (an indoor amusement centre) and JUSCO Living Plaza, a new business model applicable for stores of around 7,000 sq. ft. to 15,000 sq. ft., a smaller area required than GMS. Apart from fitting easily into various densely populated districts, JUSCO Living Plaza allows for tailoring merchandise to meet the specific needs of customers in different districts.

During the year under review, the Group expanded its Hong Kong operations with the net increase of three JUSCO $10 Plaza, one Bento Express (Japanese take-away shop) and one JUSCO Living Plaza. Currently, the Group has six GMS, 15 independent JUSCO $10 Plaza, one JUSCO Living Plaza, three independent supermarkets and three Bento Express in operation in densely populated districts. The enlarged distribution network enabled the Group to maintain a strong presence in Hong Kong.

PRC Operations

The southern region of China continued to enjoy strong economic growth and a prosperous retail market. The strong sales performance of the stores, and the new shopping centre that opened in December in Huizhou, Guangdong Province, together contributed to robust performance of the Group in the PRC. Specifically, the Group recorded segmental revenue of HK$2,267.9 million, representing a year-on-year rise of 36% (2007: HK$1,669.2 million). Even more impressive, PRC segmental result for the year was HK$97.9 million, up by 154% over last year (2007: HK$38.5 million). Yet a further reason for the solid performance can be attributed to better economies of scale.

As at 31 December 2008, the Group operated 11 GMS and two shopping centres in south China. Since Shenzhen AEON became its 100%-owned subsidiary, the Group is thereby in a strong position from which to extend its geographical footprint.

Prospects

Hong Kong Operations

Though the local economy is expected to slowdown still further in the first half of 2009, the Group is hopeful that the market will stabilise for the second half year. The gloomy economy has not dampen the Group's enthusiasm for consolidating its presence in Hong Kong. Having established strong relations with the communities it serves, and by operating a well diversified business that sensibly addresses the needs and wants of local customers; the Group is well suited to confront the challenges ahead.

With the current economic climate expected to drive rental rates downward, the Group will prudently look for prospects to expand its operation. In the future, it expects to open one JUSCO Living Plaza in Lai Chi Kwok in the first half of 2009, and two independent supermarkets in Sha Tin and Tseung Kwan O in the second half of 2009 and early 2010 respectively. The Group will certainly look for more locations to establish retail outlets as opportunities develop.

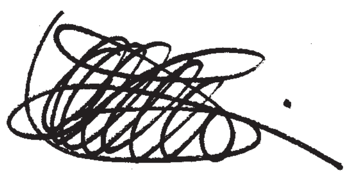
PRC Operations

While the PRC has not been able to avoid the grip of the global financial tsunami, it has not been as severely impacted by the downturn as nations in the West. With the Chinese Government continuing to institute economic policies designed to stimulate domestic consumption, the PRC looks set to be among the first to recover from the decline. Anticipating a turnaround towards the latter half of 2009, and taking into consideration the fairly good economic climate in south China, management intends to open a GMS in Foshan. The new store is scheduled for opening in the first half of 2009. Not ignoring other parts of the country a further GMS will be opened in Shenzhen within the year. This expanded network will enable the Group to further capitalise on economies of scale and expand the brand name in south China.

Despite a decline in economic health in Hong Kong and the PRC, the Group has proven its ability to still achieve growth amidst challenging conditions. Reflecting perceptiveness in addressing the changing needs of customers in both markets, management will continue to exercise this strength to drive the Group's retail operations forward.

Human Resources

As at 31 December 2008, the Group had approximately 6,200 full-time and 1,700 part-time employees in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices of the industry. Committed to delivering the highest standard of service to all its customers, the Group will continue to place efforts at enhancing the quality and skills of its staff. Concurrently, it will seek to create an environment where employees can grow and enjoy a sense of camaraderie as well as loyalty to the Group.



LAM Man Tin
Managing Director

Hong Kong, 13 March 2009

From opening its first store in Hong Kong in 1987, the Group has been committed to corporate social responsibility. As part of this commitment, management sought to contribute to society via corporate philanthropy and environmental protection.

CORPORATE PHILANTHROPY – WORKING TOGETHER TO HELP OTHERS

Caring Company Award

Dedicated to helping the needy, the Group attracted a wide range of assistance from various sectors. In February, the Group was again recognised by The Hong Kong Council of Social Services as a "Caring Company" for the sixth consecutive year.

Donation to Earthquake Relief Work in Sichuan

Quickly reacting to the Sichuan Earthquake of May, the Group once more demonstrated its goodwill by drawing from its own resources as well as donations from customers (donation boxes), staff ("Skip-A-Meal"), and business partners ("Hearty Flower Donation for Unveiling Ceremony of JUSCO Kornhill Store") towards earthquake relief, which eventually totalled HK$600,000.

Staff actively and whole-heartedly participated in the "Skip-A-Meal" event in which money saved was donated to World Vision Hong Kong. Subsequently, the Company was awarded the champion of the highest number of participants and raised over HK$50,000 – the second highest amount among participating corporations.

Drawing support from business partners, and using the reopening of JUSCO Kornhill Store after renovation as catalyst, over HK$150,000 was raised. In turn all the funds were given to World Vision Hong Kong for the rebuilding of schools in Sichuan.

Continuing its association with World Vision Hong Kong, the Group organised "Used Book Recycling Campaign" in July and August. Based on the theme of selling used books to help the needy in the territory by offering affordable used books for their purchase, the campaign collected over 285,000 such books and eventually raised over HK$2,100,000 for the school reconstruction project in Sichuan.

Donation from J CARD Revamp Programme

When the J CARD revamp programme was launched in 2007, the Group had committed to donating 2% of J CARD membership fees to Art in Hospital, Fu Hong Society and The Conservancy Association for supporting their community caring and nature conservation projects. From September 2007 to August 2008, the 12-month initiative donated in total over HK$240,000.

Wall Painting for MacLehose Medical Rehabilitation Centre

In May, the Group teamed up its staff with their family members and friends to take part in a wall painting initiative for patients of MacLehose Medical Rehabilitation Centre, organised by Art in Hospital. This again demonstrated the sincerity of staff members to offer a helping hand to the community whenever an opportunity arises.

GREEN PARTNER – RAISING PUBLIC CONCERN AND APPRECIATION FOR NATURE

Hong Kong Wetland Exploration Adventure

The Group cooperated with the Hong Kong Wetland Park and Agricultural, Fisheries and Conservation Department in organising the "AEON Stores – Hong Kong Wetland Exploration Adventure". The one-year programme, which drew over 1,000 children, promoted greater understanding of the wetlands as well as environmental protection education. In the second part of the programme, the Group even recruited over 280 customers to join the eco-tours and participate in a painting event which was conducted at the Hong Kong Wetland Park, as a means of combining art with appreciation for nature.

Tree for Life

In promoting tree conservation, the Group and The Conservancy Association co-organised the programme "Tree for Life" in summer last year. The programme includes activities such as a "Tree Ambassador Workshop", "Guided Tree Walk", "Interactive Tree Classroom", "Family Tree Collage Workshop" and "Tree Conservation Exhibition". Participants learnt more about the importance of trees to the environment and this green message was highlighted in the collages produced by participants, which were featured in the tree conservation exhibition. Through this project, the Group helped to educate the public about the importance of trees and environmental conservation.

Quarry Bay Tree Walk

In August, the Group subsequently conducted the "Quarry Bay Tree Walk" in which guided tours with customers were organised, again helping customers to know more about nature as well as the historical buildings of the district. The walk also enhanced customers' environmental awareness.

Wall Calendar Charity Sale

Echoing the environmental policy of AEON, the Group lends its full support to nature appreciation and education programmes in Hong Kong. The Group continued to organise a "Wall Calendar Charity Sale", netting over HK$310,000 which was donated to the "Tree Lovers" campaign of The Conservancy Association, in supporting of their tree-caring and education programmes for students and general public.

Senior Management Profile

Executive Directors

Mr. LAM Man Tin

Mr. Lam (aged 50) was appointed as Executive Director in May 1999 and became the Managing Director in May 2006. Mr. Lam joined the Company in 1992 and has over 20 years of retail and service experiences. 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 52) was appointed as Executive Director and the Deputy Managing Director in June 2006. He was the Managing Director of Guangdong JUSCO Teem Stores Co., Ltd. ("GDJ") 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 51) was appointed as Executive Director in May 1999 and is the Director of Accounts and Finance. Mr. Wong joined the Company in 1988. He is a fellow of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants (HKICPA).

Mr. AGAWA Yutaka

Mr. Agawa (aged 52) was appointed as Executive Director in May 2007 and is the Director of Buying Division of the Company. Mr. Agawa joined AEON Co. in 1980. He has over 25 years of experience in retail industry. Mr. Agawa graduated from Daito-Bunka University in Japan with a bachelor's degree in Arts.

Non-executive Directors

Mr. TANAKA Akihito

Mr. Tanaka (aged 61) was appointed as Non-executive Director in June 2006 and became the Chairman in May 2007. He is also a Vice President and the CEO of China Operation 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 Kansai University in Japan with a bachelor's degree in Journalism.

Mr. TOYOSHIMA Masaaki

Mr. Toyoshima (aged 57) was appointed as Non-executive Director in May 2007. He is also a Vice President of AEON Co. Mr. Toyoshima joined AEON Co. in 1974. Mr. Toyoshima is a graduate of Nihon University in Japan with a bachelor's degree in Economics.

Mr. ISHII Kazumasa

Mr. Ishii (aged 58) was appointed as Non-executive Director in May 2007. He is also the Assistant Chief Representative for China of AEON Co. He joined the Company in 1990 and moved to Guangdong Province of the PRC for the establishment of GDJ in 1995 and was appointed as the Managing Director of that subsidiary in the same year. He was the Managing Director of the Company from June 2002 to June 2005. He graduated from Doshisha University in Japan with a bachelor's degree in Commerce in 1974 and joined AEON Co. in the same year.

Mr. INOUE Susumu

Mr. Inoue (aged 58) is the Managing Director of AEON (China) Co., Ltd. ("AEON China"), a wholly owned subsidiary of the Company. He joined the Company in 1992 and moved to other group company of AEON Co. in 1998. He graduated from Hokkaido University in Japan with a bachelor's degree in Economics and Business Administration in 1974 and joined AEON Co. in the same year.

Independent Non-executive Directors

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

Prof. Lam (aged 80) was appointed as Independent Non-executive Director since 1994. She is a fellow of the Family Planning of American University, U.S.A.. She was the Chairman of the Wan Chai District Council from 1985 to 2003 and was a member of the Preparatory Committee for the Hong Kong Special Administrative Region. She is the founding Chairman of the Hong Kong Federation of Women. She has also served as a Hong Kong Affairs Advisor to the People's Republic of China, a member of the Legislative Council from 1988 to 1995 and a member of the Provisional Legislature of the Hong Kong Special Administrative Region and was previously a member of the Chinese People's Political Consultative Conference for 15 years. She was appointed as the Justice of Peace in 1981, and awarded the Member of the British Empire (M.B.E.) in 1985 and the Order of the British Empire (O.B.E.) in 1993 by the Queen, the Silver Bauhinia Star (S.B.S.) and the Gold Bauhinia Star (G.B.S.) by the Government of the Hong Kong Special Administrative Region in 1998 and 2003 respectively.

Prof. Lam graduated from The University of Shanghai with a bachelor's degree in Arts. She received a Certificate in Family Planning from The University of Chicago and a Certificate in Public Health Administration from The University of Michigan, U.S.A. She was also awarded Honorary Professor by The University of Shanghai for Science and Technology in 2006.

Mr. SHAM Sui Leung Daniel

Mr. Sham (aged 53) was appointed as Independent Non-executive Director in September 2004. He is an associate member of The Institute of Chartered Accountants in England and Wales and also a Certified Public Accountant of the 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. Mr. Sham is currently an independent non-executive director of Melco International Development Limited and Value Convergence Holdings Limited, both of which are listed on the Hong Kong Stock Exchange.

Ms. CHENG Yin Ching Anna

Ms. Cheng (aged 39) was appointed as Independent Non-executive Director in June 2006 and she is a fellow of the Association of Chartered Certified Accountants and also a Certified Public Accountant of the HKICPA. From 1997 to 2004, she was the Finance Director of Rosedale Hotel Group Limited (now renamed as China Agri-Products Exchange Limited), a company listed on the Hong Kong Stock Exchange. She is currently the Chief Financial Officer of Peterson Holdings Company Limited.

Independent Non-executive Directors

Dr. SHAO Kung Chuen

Dr. Shao (aged 60) was appointed as Independent Non-executive Director in May 2008. He is the Managing Director of Van Yu Trading Co. Ltd. and First Regent Ltd. He is the Senior Advisor of National Institute of Hospital Administration of China and the Honorary Consultant of Peking University Health Science Center in China since 1999. He has been appointed as the Committee Member of Main Committee and the Hong Kong/Japan Business Co-operation Committee of Hong Kong Trade Development Council since 1994. He is also the member of Advisory Board of School of Continuing & Professional Studies of The Chinese University of Hong Kong since 1991. He has been awarded the Bronze Bauhinia Star (B.B.S.) by the Government of the Hong Kong Special Administrative Region in 1999. He graduated from Ohio University, U.S.A. and also received The Honorary Doctor of Law Degree from the University in 1998.

Senior Management

Mr. CHAK Kam Yuen

Mr. Chak (aged 46) 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 retail industry, specifically in store management. Mr. Chak graduated from The Open University of Hong Kong with a master's degree in Business Administration.

Ms. CHAN Suk Jing

Ms. Chan (aged 49) is the Assistant General Manager of the General Merchandise Store of the Company. Having joined the Company in 1995, she possessed over 20 years of experience in retail industry.

Ms. CHAN Pui Man Christine

Ms. Chan (aged 57) is the Assistant General Manager of Buying Division of the Company. She joined the Company in 1998 and has over 20 years of experience in the buying field as well as operations. Ms. Chan graduated from the State of Washington University with a bachelor's degree in Business Administration.

Mr. ENDO Takao

Mr. Endo (aged 48) is the Assistant General Manager of Speciality Division ($10 Shop Project and Bento Express). He joined AEON Co. in 1984 and transferred to AEON Co. (M) Bhd. in 1994. He has been working for the Company since 1999. Mr. Endo graduated from Takasaki City University of Economics in Japan with a bachelor's degree in Business Administration.

Corporate Governance Practice

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

In the opinion of the Directors, the Company has complied throughout the year with the Code.

Directors' Securities Transactions

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

Board of Directors

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

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

Directors' attendance at board meetings

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

Notes:

1. Mr. Lam Man Tin was re-appointed as the Managing Director of the Company on 23 May 2008.

2. Mr. Yutaka Fukumoto was re-appointed as the Deputy Managing Director of the Company on 23 May 2008.

3. Mr. Akihito Tanaka was re-appointed as the Chairman of the Board of Directors of the Company on 23 May 2008.

4. Mr. Susumu Inoue was appointed as a Non-executive Director of the Company on 18 July 2008 and there have been 4 board meetings held upon and after his appointment.

5. Dr. Shao Kung Chuen was appointed as an Independent Non-executive Director of the Company on 23 May 2008 and there have been 5 board meetings held upon and after his 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 12 and 13 of the annual report respectively.

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

Chairman and Chief Executive Officer

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

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

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

Remuneration Committee

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

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

	Directors	Number of attendance
Non-executive Director	Akihito Tanaka (Chairman)	3/3
Independent Non-executive Directors	Lam Pei Peggy	2/3
	Sham Sui Leung Daniel	3/3

During 2008, the Remuneration Committee reviewed the remuneration of all Directors (including the Managing Director and the Deputy Managing Director) and the senior management and recommended the Board to approve their remuneration.

Nomination of Directors

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

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

Auditor's Remuneration

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

Services rendered	Fees payable HK$'000
Audit services – current year	4,084
– prior year	1,152
Non-audit services:	
Review of interim results	581
Taxation services	67
Other services	153
	6,037

Audit Committee

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

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

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

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

During 2008, the Audit Committee performed the following duties:

- reviewed the audited financial statements for the year ended 31 December 2007 with a recommendation to the Board for approval;
- reviewed the un-audited financial statements for the six months ended 30 June 2008 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 auditor and reviewed their reports to the committee in respect of the audit of the annual results and review of interim results of the Company; and
- met the management and reviewed their reports on connected transactions of the Company.

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

Accountability

The Directors are responsible for the preparation of the accounts of the Group for the relevant accounting periods under applicable statutory and regulatory requirements which give a true and fair view of the state of affairs, the results of operations and cash flows of the Group. In preparing the accounts for the six months ended 30 June 2008 and for the year ended 31 December 2008, the Directors have adopted suitable accounting policies and applied them consistently. The accounts for the reporting year have been prepared on a going concern basis.

Internal Controls

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

The Directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 December 2008.

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 2008 are set out in note 18 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 26.

An interim dividend of 19.3 HK cents per share amounting to HK$50,180,000 was paid to the shareholders during the year.

The Directors recommend the payment of a final dividend of 27.9 HK cents per share to the shareholders on the register of members on 22 May 2009, amounting to HK$72,540,000, 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 has incurred approximately HK$232 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 17 to the financial statements.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2008 comprised the retained profits of HK$844,753,000 (2007: HK$720,557,000).

Directors

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

Executive Directors

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

Non-executive Directors

Akihito TANAKA (Chairman)
Masaaki TOYOSHIMA
Kazumasa ISHII
Susumu INOUE (appointed on 18 July 2008)

Independent Non-executive Directors

LAM PEI Peggy
SHAM Sui Leung Daniel
CHENG Yin Ching Anna
SHAO Kung Chuen (appointed on 23 May 2008)

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

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

Directors' Service Contracts

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

Directors' Interests in Shares

At 31 December 2008, 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	Number of ordinary shares held as family interests	Approximate percentage of interests in the issued share capital of the Company
			%
LAM Man Tin	20,000	-	0.008
Yutaka FUKUMOTO	70,000	-	0.027
WONG Mun Yu	18,000	-	0.007
Yutaka AGAWA	12,000	-	0.005
Akihito TANAKA	50,000	-	0.019
Kazumasa ISHII	40,000	-	0.015
LAM PEI Peggy	200,000	-	0.077
SHAO Kung Chuen	4,000	4,000	0.003

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

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

(c) Other associated corporations

	Akihito TANAKA	
	Number of shares	Approximate percentage of interests
		%
AEON Fantasy Co., Ltd.	3,801	0.021
AEON Thana Sinsap (Thailand) Plc.	20,000	0.008
AEON Mall Co., Ltd.	4,000	0.003
AEON Co. (M) Bhd.	400,000	0.110
Ryukyu JUSCO Co., Ltd.	100	0.018

All the shares held are personal interests.

Other than as disclosed above, at 31 December 2008, 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"), AEON Fantasy Co., Limited ("AEON Fantasy"), AEON Information Services (Shenzhen) Co., Ltd. ("AIS") and subsidiaries of AIC Inc. and subsidiaries of Blue Grass Co., Ltd.. The Directors of the Company, Messrs. Akihito TANAKA, Masaaki TOYOSHIMA and Kazumasa ISHII, have beneficial interests in AEON Co., Ltd.. Mr. Akihito TANAKA also has beneficial interests in AEON Fantasy. The Company had made purchases from First Regent Ltd., in which Mr. SHAO Kung Chuen, the Director of the Company, has a beneficial interest.

(i) The Group made purchases from subsidiaries of AIC Inc. and subsidiaries of Blue Grass Co., Ltd. amounting to a total of HK$150,140,000 and HK$930,000 respectively.

(ii) ACS and the Company have entered into a number of rental 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 rental paid and payable by ACS for the year was HK$7,100,000.

(iii) Royalties payable to AEON Co., Ltd. for the year pursuant to the amended technical assistance agreement amounted to HK$31,617,000. Details of the royalty payable to AEON Co., Ltd. are set out in section headed "Connected Transactions".

(iv) The Company pays commissions of HK$11,029,000 to ACS for credit facilities provided by ACS to the customers. Details of the commission payable to ACS are set out in section headed "Connected Transactions".

(v) The Company pays franchise fee, consumable expenses and purchase of machines at the aggregate amount of HK$2,356,000 to AEON Fantasy for running franchise business of in-door amusement centers. Details are set out in the section headed "Connected Transactions".

(vi) The subsidiaries registered in the People's Republic of China of the Company ("PRC AEON Stores") pay service fee of HK$246,000 to AIS which handles the AEON card applications, the issue of AEON cards and carrying out other card related business. On the other hand, AIS needs to pay rental fee of HK$43,000 to PRC AEON Stores for setting up the service counters in the stores of PRC AEON Stores. Details are set out in the section headed "Connected Transactions".

(vii) The Company made purchases from First Regent Ltd. amounting to a total of HK$665,000.

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.

Connected Transactions

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

(i) The subsidiary of the Company, Guangdong Jusco Teem Stores Co., Ltd. ("GDJ") and a related party of the Company, Guangdong Teem (Holdings) Limited ("Teem Holding") have entered into a tenancy agreement under which GDJ pays rent to Teem Holding. In accordance with the tenancy agreement, GDJ pays rental, management fees and utility expenses to Teem Holding and Teem Properties Management Limited ("Teem Properties") respectively for the year. GDJ was held as to 65% and 35% by the Company and Teemall Department Stores Holdings Limited ("Teem Department Stores") respectively. The premises, being the subject of the tenancy agreement, is owned by Teem Holding. Teem Department Stores and Teem Properties are the wholly-owned subsidiaries of Teem Holding. The total amount of rental, management fees and utility expenses paid and payable by GDJ for the year was HK$44,278,000. This amount does not exceed the cap amount of HK$47,500,000 as shown in the announcement of the Company dated 21 June 2007.

(ii) AEON Co., Ltd. and the Company have entered into agreements under which the Company pays royalties to AEON Co., Ltd. for the rights to use certain trade marks of AEON Co., Ltd. and the system of information and know-how. The total amount of royalties paid and payable by the Company for the year was HK$31,617,000. This amount does not exceed the cap amount of HK$47 million as shown in the announcement and the circular of the Company dated 12 December 2006 and 3 April 2007 respectively.

(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$11,029,000. This amount does not exceed the cap amount of HK$16,912,000 for the year as shown in the announcements of the Company dated 20 April 2005 and 16 April 2008.

(iv) AEON Fantasy and the Company have entered into an agreement under which AEON Fantasy granted the sole exclusive right and licence to the Company and its affiliates by AEON Fantasy to operate the franchise business of in-door amusement centers operated under and conducted under certain trade marks and trade names owned by or made available to AEON Fantasy using the distinctive business format and method developed and implemented by AEON Fantasy. The total amount of franchise fee, purchase prices of game machines, consumables and administrative costs provided by AEON Fantasy to the Company and its affiliates for the year was HK$2,356,000. This amount does not exceed the cap amount of HK$16,750,000 as shown in the announcement of the Company dated 4 July 2008.

(v) AIS, PRC AEON Stores and other subsidiaries of AEON Co., Ltd. have entered into outsourcing agreements under which the PRC AEON Stores pay service fee to AIS in respect of the services rendered to the PRC AEON Stores by AIS for handling the issue of AEON Cards and the sales application using AEON Cards within the PRC AEON Stores. AIS also pay a rental fee to the PRC AEON Stores for setting up service counters in the PRC AEON Stores to handle AEON Card, issue and sales applications. The aggregate amount payable by the PRC AEON Stores to AIS and by AIS to the PRC AEON Stores under the outsourcing agreements for the year was HK$289,000. The aggregate amounts do not exceed the cap amount of HK$18,900,000 as shown in the announcements of the Company dated 23 July 2008 and 22 December 2008.

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

The auditor of the Company has performed certain agreed upon procedures on the above continuing connected transactions for the year ended 31 December 2008 (the "Transactions") pursuant to Rule 14A.38 of the Listing Rules and reported their factual findings on these procedures to the Board of Directors and confirmed that the Transactions have been approved by the Board; based on the samples selected for the agreed upon procedures performed, the auditor found that the Transactions have been entered into in accordance with the relevant agreements governing the Transactions and have not exceeded the caps set out in the respective paragraphs above.

Appointment of Independent Non-executive Directors

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

Substantial Shareholders

At 31 December 2008, shareholders (other than Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO, or had otherwise notified the Company were as follows:

Name of substantial shareholders	Long Positions Number of ordinary shares	Approximate percentage of the issued share capital %
AEON Co., Ltd.	186,276,000 *(Note 1)*	71.64
Aberdeen Asset Management Plc and its Associates (together "the Aberdeen Group") on behalf of accounts managed by the Aberdeen Group	28,552,000 *(Note 2)*	10.98

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

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

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

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

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2008.

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$808,000.

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's public float as at 13 March 2009 was approximately 17.21% which was less than the percentage threshold required under Rule 8.08 of the Listing Rules. The Company is still in the process of considering steps to restore the public float to 25% in compliance with Rule 8.08 of the Listing Rules.

Auditor

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

On behalf of the Board

LAM Man Tin
Managing Director

Hong Kong, 13 March 2009

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 26 to 65, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

13 March 2009

Consolidated Income Statement For the year ended 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Revenue	5	**5,376,567**	4,759,947
Other income		**358,649**	316,421
Investment income	6	**40,200**	46,593
Purchases of goods and changes in inventories		**(3,498,040)**	(3,104,046)
Staff costs		**(586,501)**	(517,900)
Depreciation		**(121,079)**	(136,004)
Loss on disposal of property, plant and equipment		**(5,287)**	(829)
Impairment loss recognised in respect of property, plant and equipment	17	**(11,334)**	–
Pre-operating expenses	7	**(7,691)**	(6,338)
Royalty fee savings	8	**–**	64,080
Other expenses		**(1,158,179)**	(1,040,844)
Finance costs	9	**(6,254)**	(4,250)
Profit before taxation		**381,051**	376,830
Income tax expenses	10	**(74,528)**	(75,369)
Profit for the year	11	**306,523**	301,461
Attributable to:			
Equity holders of the Company		**272,955**	280,056
Minority interests		**33,568**	21,405
		306,523	301,461
Dividends	14	**117,780**	118,300
Earnings per share	15	**104.98 cents**	107.71 cents
Final dividend per share proposed after balance sheet date		**27.90 cents**	26.00 cents

Consolidated Balance Sheet At 31 December 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current Assets			
Goodwill	16	**94,838**	–
Property, plant and equipment	17	**444,062**	335,692
Available-for-sale investments	19	**15,425**	29,395
Callable deposits	20	**155,486**	–
Deferred tax assets	21	**13,508**	13,129
Rental deposits and prepayments		**137,455**	94,986
		860,774	473,202
Current Assets			
Inventories	22	**549,091**	412,173
Trade receivables	23	**20,345**	34,323
Other receivables, prepayments and deposits		**47,707**	31,499
Amounts due from fellow subsidiaries		**57,830**	51,645
Pledged bank deposits	32	**12,265**	78,523
Bank balances and cash		**1,618,932**	1,651,084
		2,306,170	2,259,247
Current Liabilities			
Trade payables	25	**1,062,598**	1,036,747
Other payables and accrued charges		**638,620**	497,131
Amounts due to fellow subsidiaries		**56,502**	30,837
Amount due to ultimate holding company		**31,692**	27,816
Bank borrowings	26	**151,946**	100,387
Income tax payable		**9,565**	25,445
Dividend payable		**448**	383
		1,951,371	1,718,746
Net Current Assets		**354,799**	540,501
Total Assets Less Current Liabilities		**1,215,573**	1,013,703
Capital and Reserves			
Share capital	28	**52,000**	52,000
Share premium and reserves		**1,011,962**	865,534
Equity attributable to equity holders of the Company		**1,063,962**	917,534
Minority interests		**93,362**	71,857
Total Equity		**1,157,324**	989,391
Non-current Liabilities			
Deposits received		**55,675**	24,312
Deferred tax liabilities	21	**2,574**	–
		58,249	24,312
		1,215,573	1,013,703

The financial statements on pages 26 to 65 were approved and authorised for issue by the Board of Directors on 13 March 2009 and are signed on its behalf by:

LAM Man Tin
Director

Yutaka FUKUMOTO
Director

Balance Sheet At 31 December 2008

	Notes	**2008 HK$'000**	2007 HK$'000
Non-current Assets			
Property, plant and equipment	17	**131,557**	113,551
Investments in subsidiaries	18	**191,858**	64,936
Available-for-sale investments	19	**15,425**	29,395
Callable deposits	20	**155,486**	–
Deferred tax assets	21	**13,508**	13,129
Rental deposits and prepayments		**66,407**	47,277
		574,241	268,288
Current Assets			
Inventories	22	**328,196**	274,730
Trade receivables	23	**8,604**	23,770
Other receivables, prepayments and deposits		**27,380**	20,692
Amounts due from subsidiaries		**20,285**	17,138
Amounts due from fellow subsidiaries		**49,788**	50,921
Bank balances and cash		**904,192**	1,128,203
		1,338,445	1,515,454
Current Liabilities			
Trade payables	25	**595,248**	610,439
Other payables and accrued charges		**246,664**	233,385
Amounts due to fellow subsidiaries		**45,954**	28,800
Amount due to ultimate holding company		**32,558**	28,243
Income tax payable		**2,398**	8,375
Dividend payable		**448**	383
		923,270	909,625
Net Current Assets		**415,175**	605,829
Total Assets Less Current Liabilities		**989,416**	874,117
Capital and Reserves			
Share capital	28	**52,000**	52,000
Share premium and reserves	29	**919,404**	809,178
		971,404	861,178
Non-current Liabilities			
Deposits received		**15,438**	12,939
Deferred tax liabilities	21	**2,574**	–
		18,012	12,939
		989,416	874,117

LAM Man Tin
Director

Yutaka FUKUMOTO
Director

Consolidated Statement of Changes in Equity For the year ended 31 December 2008

	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	The People's Republic of China ("PRC") statutory reserves HK$'000	Non-distributable reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1 January 2007	52,000	63,158	20,907	6,803	2,879	2,587	597,090	745,424	49,089	794,513
Gain on fair value changes of available-for-sale investments	–	–	4,562	–	–	–	–	4,562	–	4,562
Exchange differences arising on translation of overseas operations	–	–	–	5,798	–	–	–	5,798	4,442	10,240
Income recognised directly in equity	–	–	4,562	5,798	–	–	–	10,360	4,442	14,802
Profit for the year	–	–	–	–	–	–	280,056	280,056	21,405	301,461
Transfer to income statement on disposal of available-for-sale investments	–	–	(6)	–	–	–	–	(6)	–	(6)
Total recognised income for the year	–	–	4,556	5,798	–	–	280,056	290,410	25,847	316,257
Transfer, net of minority interests share	–	–	–	–	1,143	–	(1,143)	–	–	–
Dividends	–	–	–	–	–	–	(118,300)	(118,300)	–	(118,300)
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	(3,079)	(3,079)
At 31 December 2007	52,000	63,158	25,463	12,601	4,022	2,587	757,703	917,534	71,857	989,391
Loss on fair value changes of available-for-sale investments	**–**	**–**	**(13,970)**	**–**	**–**	**–**	**–**	**(13,970)**	**–**	**(13,970)**
Exchange differences arising on translation of overseas operations	**–**	**–**	**–**	**5,223**	**–**	**–**	**–**	**5,223**	**5,077**	**10,300**
(Expenses) income recognised directly in equity	**–**	**–**	**(13,970)**	**5,223**	**–**	**–**	**–**	**(8,747)**	**5,077**	**(3,670)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**272,955**	**272,955**	**33,568**	**306,523**
Total recognised (expenses) income for the year	**–**	**–**	**(13,970)**	**5,223**	**–**	**–**	**272,955**	**264,208**	**38,645**	**302,853**
Contribution from minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**1,802**	**1,802**
Acquisition of additional interest in a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(13,081)**	**(13,081)**
Transfer, net of minority interests share	**–**	**–**	**–**	**–**	**2,073**	**15,802**	**(17,875)**	**–**	**–**	**–**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(117,780)**	**(117,780)**	**–**	**(117,780)**
Dividend paid to minority shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(5,861)**	**(5,861)**
At 31 December 2008	**52,000**	**63,158**	**11,493**	**17,824**	**6,095**	**18,389**	**895,003**	**1,063,962**	**93,362**	**1,157,324**

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 2008

	2008 HK$'000	2007 HK$'000
Operating Activities		
Profit before taxation	**381,051**	376,830
Adjustment for:		
Investment income	**(40,200)**	(46,593)
Finance costs	**6,254**	4,250
Depreciation	**121,079**	136,004
Loss on disposal of property, plant and equipment	**5,287**	829
Gain on disposals of available-for-sale investments	**–**	(6)
Impairment loss recognised in respect of property, plant and equipment	**11,334**	–
Write-down of inventories	**2,080**	–
Reversal of write-down of inventories	**–**	(1,114)
Operating cash flows before movements in working capital	**486,885**	470,200
Increase in inventories	**(130,506)**	(37,603)
Decrease in trade receivables	**14,630**	5,441
Increase in other receivables, prepayments and deposits	**(55,066)**	(2,111)
Increase in amounts due from fellow subsidiaries	**(5,759)**	(6,304)
Decrease in trade payables	**(489)**	(25,786)
Increase in deposits received, other payables and accrued charges	**150,454**	113,423
Increase in amounts due to fellow subsidiaries	**25,163**	5,734
Increase (decrease) in amount due to ultimate holding company	**3,876**	(99,697)
Cash generated from operations	**489,188**	423,297
Hong Kong Profits Tax paid	**(49,190)**	(41,074)
People's Republic of China income taxes paid	**(40,078)**	(17,905)
Interest paid	**(6,254)**	(4,250)
Interest on bank deposits and callable deposits received	**38,459**	45,928
Net Cash from Operating Activities	**432,125**	405,996
Investing Activities		
Acquisition of additional interest in a subsidiary	**(107,919)**	–
Increase in callable deposits	**(155,486)**	–
Decrease (increase) in pledged bank deposits	**71,110**	(78,523)
Dividends received from investments	**1,741**	665
Purchase of property, plant and equipment	**(226,139)**	(158,011)
Proceeds from disposal of property, plant and equipment	**270**	273
Proceeds from disposal of available-for-sale investments	**–**	29
Net Cash used in Investing Activities	**(416,423)**	(235,567)
Financing Activities		
Bank borrowings raised	**273,022**	278,067
Repayment of bank borrowings	**(227,666)**	(243,180)
Dividends paid	**(117,715)**	(118,153)
Dividends paid to minority shareholders	**(5,861)**	(3,079)
Contribution from minority shareholders	**1,802**	–
Net Cash used in Financing Activities	**(76,418)**	(86,345)
Net (Decrease) Increase in Cash and Cash Equivalents	**(60,716)**	84,084
Cash and Cash Equivalents at Beginning of the Year	**1,651,084**	1,540,766
Effect of Foreign Exchange Rate Changes	**28,564**	26,234
Cash and Cash Equivalents at End of the Year	**1,618,932**	1,651,084
Analysis of the Balances of Cash and Cash Equivalents		
Bank balances and cash	**1,618,932**	1,651,084

1. General

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

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

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

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

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

In the current year, the Group and the Company have applied, for the first time, the following amendments and new interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group and the Company for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

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

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[3]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[6]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009
3 Effective for annual periods beginning on or after 1 July 2009
4 Effective for annual periods beginning on or after 1 July 2008
5 Effective for annual periods beginning on or after 1 October 2008
6 Effective for transfer on or after 1 July 2009

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

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

The Directors of the Company have assessed the potential impact and believe that the application of HK(IFRIC) – Int 13 and the other standards, amendments and interpretations will not have material impact on the results and financial position of the Group and the Company.

3. Significant Accounting Policies

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

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

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 subsidiarys' 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.

Business combination

The acquisition of a business is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business combinations" are recognised at their fair values at the acquisition date.

3. Significant Accounting Policies – continued

Business combination – continued

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill arising on acquisitions on or after 1 January 2005

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Acquisition of additional interests in subsidiaries

On acquisition of an additional interest in a subsidiary, the difference between the consideration paid and the carrying amounts of the underlying assets and liabilities attributable to the additional interest in the subsidiary acquired is recognised as goodwill.

Investments in subsidiaries

Subsidiaries are entities controlled by the Company. Investments in subsidiaries are included in the Company's balance sheet at cost, less any accumulated impairment loss.

Revenue recognition

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

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

Rental received are recognised on a straight-line basis over the terms of the relevant rental agreements.

3. Significant Accounting Policies – continued

Revenue recognition – continued

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.

Property, plant and equipment

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

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

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

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

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

Leasing

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

The Group as lessee

Rental 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.

3. Significant Accounting Policies – continued

Financial instruments – continued

Financial assets

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

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Loans and receivables

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

Available-for-sale financial assets

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

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

Impairment of financial assets

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

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

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

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

3. Significant Accounting Policies – continued

Financial instruments – continued

Financial assets – continued

Impairment of financial assets – continued

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

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

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

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

Financial liabilities and equity

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

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

Financial liabilities

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

Equity instruments

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

3. Significant Accounting Policies – continued

Financial instruments – continued

Derecognition

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

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

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 on tangible assets

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

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

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items 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.

3. Significant Accounting Policies – continued

Retirement benefits schemes

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

Pre-operating expenses

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

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 items that are never taxable or deductible. The Group's liability for current tax is calculated using the tax rates that have been enacted or substantively enact by the balance sheet date.

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

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

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

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

4. Key Sources of Estimation Uncertainty and Critical Accounting Judgments

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

Key sources of estimation uncertainty

Income taxes

As at 31 December 2008, a deferred tax asset of HK$13,508,000 (2007: HK$13,129,000) in relation to accelerated accounting depreciation and other temporary differences has been recognised in the Group's balance sheet. The realisability 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 profit or loss for the period in which such a reversal takes place.

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

Key sources of estimation uncertainty – continued

Income taxes – continued

In addition, as at 31 December 2008, potential tax effect of HK$1,650,000 (2007: HK$5,596,000) in relation to unused tax losses of subsidiaries operating in other regions in the PRC has not been recognised in the Group's balance sheet. The realisability of the tax effect of tax losses mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profit streams.

Net realisable value of inventories

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

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2008, the carrying amount of goodwill is HK$94,838,000.

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 2008, the prepaid rental of HK$33,380,000 (2007: HK$26,766,000) is included in "Rental deposits and prepayments" in the Group's balance sheet. There is a dispute on the calculation basis of the rental between the subsidiary and the landlord and the case was passed for arbitration in the PRC. The management has made judgment and assessed the recoverability of this prepaid rental based on the current available objective evidence and considered that the amount will be recoverable. Where the final outcome of this matter is different from the estimation by the management, such amount will impact the profit or loss in the period in which such determination is made.

5. Turnover and Segment Information

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

	2008 HK$'000	2007 HK$'000
Direct sales	**4,599,898**	4,054,818
Income from concessionaire sales	**776,669**	705,129
Revenue	**5,376,567**	4,759,947

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 is presented below:

For the year ended 31 December 2008

	Hong Kong HK$'000	**PRC HK$'000**	**Consolidated HK$'000**
Revenue	**3,108,704**	**2,267,863**	**5,376,567**
Segment result	**249,158**	**97,947**	**347,105**
Dividend income			**1,741**
Interest income			**38,459**
Finance costs			**(6,254)**
Profit before taxation			**381,051**
Income tax expenses			**(74,528)**
Profit for the year			**306,523**

5. Turnover and Segment Information – continued

At 31 December 2008

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
BALANCE SHEET			
ASSETS			
Segment assets	611,932	644,558	1,256,490
Unallocated corporate assets			1,910,454
Consolidated total assets			3,166,944
LIABILITIES			
Segment liabilities	935,862	909,225	1,845,087
Unallocated corporate liabilities			164,533
Consolidated total liabilities			2,009,620

For the year ended 31 December 2008

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
OTHER INFORMATION			
Capital expenditure	77,428	154,255	231,683
Depreciation	43,292	77,787	121,079
Loss on disposal of property, plant and equipment	4,752	535	5,287
Write-down of inventories	2,080	–	2,080
Impairment loss in respect of property, plant and equipment	11,334	–	11,334

5. Turnover and Segment Information – continued

For the year ended 31 December 2007

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

At 31 December 2007

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

5. Turnover and Segment Information – continued

For the year ended 31 December 2007

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

Business segments

No analysis for business segments has been presented by principal activities because the Group is engaged in the operation of general merchandise stores, concessionaire sales and related business.

6. Investment Income

	2008 **HK$'000**	2007 HK$'000
Dividends from listed equity securities	**1,741**	665
Interest on bank deposits and callable deposits	**38,459**	45,928
	40,200	46,593

7. Pre-operating Expenses

Included in pre-operating expenses were staff costs of HK$3,470,000 (2007: HK$4,194,000).

8. Royalty Fee Savings

The amounts represented the royalty fee savings received from AEON Co., Ltd., the ultimate holding company of the Company, in respect of revising the technical assistance agreement. The royalty rate was revised and applied retrospectively and it gave rise to the royalty fee savings. Details of the above were set out in the circular issued by the Company on 3 January 2007.

9. Finance Costs

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

10. Income Tax Expenses

	2008 HK$'000	2007 HK$'000
The charges comprise:		
Current tax		
Hong Kong	**44,106**	44,800
Other regions in the PRC	**29,100**	26,595
	73,206	71,395
(Over) underprovision in prior years		
Hong Kong	**(893)**	–
Other regions in the PRC	**20**	2,617
	(873)	2,617
	72,333	74,012
Deferred tax (note 21)		
Current year	**1,445**	1,357
Attributable to change in tax rate	**750**	–
Income tax expenses for the year	**74,528**	75,369

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/09. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. The PRC income tax is calculated at 18% or 25% (2007: 15% or 33%) of the estimated assessable profits of the subsidiaries.

On 16 March 2007, the National People's Congress of the PRC issued the PRC Corporate Income Tax Law (the "New Corporate Income Tax Law") was approved and had become effective since 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% with certain grandfathering provisions and preferential provisions. The PRC income tax rate for the current year has been changed in accordance with the New Corporate Income Tax Law. For those subsidiaries without preferential tax rates, the new tax rate for domestic and foreign enterprises is unified at 25% and will be effective from 1 January 2008 and for those subsidiaries enjoying a preferential tax rate, the new tax rate will increase from 15% over 5 years to 25% as a result of the grandfathering provisions.

10. Income Tax Expenses – continued

According to a joint circular of Ministry of Finance and State Administration of Taxation Cai Shui 2008 No.1, dividend distributed of the profits generated since 1 January 2008 shall be subject to PRC income tax and which held by the PRC entity pursuant to Articles 3 and 27 of the Enterprise Income Tax Law and Articles 91 of the Detailed Implementation Rules. Deferred tax liability in respect of the withholding tax on the undistributed earnings of subsidiaries during the year has been provided at the applicable tax rate.

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

	2008	2007
	HK$'000	HK$'000
Profit before taxation	**381,051**	376,830
Taxation at the applicable rate of 16.5% (2007: 17.5%)	**62,873**	65,945
Tax effect of expenses that are not deductible for tax purpose	**7,859**	4,752
Tax effect of income that are not taxable for tax purpose	**(10,040)**	(17,381)
Tax effect of tax losses not recognised	**3,956**	8,273
Tax effect of utilisation of tax losses previously not recognised	**(3,685)**	(852)
Tax effect of utilisation of deductible temporary difference previously not recognised	**(651)**	(442)
Withholding tax on undistributed earnings of subsidiaries (note 21)	**2,574**	–
Effect of different tax rates of entities operating in the PRC	**10,062**	12,089
(Over) underprovision in prior years	**(873)**	2,617
Effect of change in tax rate	**750**	–
Others	**1,703**	368
Income tax expenses	**74,528**	75,369

11. Profit for the Year

	2008 HK$'000	2007 HK$'000
Profit for the year has been arrived at after charging (crediting):		
Auditor's remuneration		
– current year	**4,084**	2,307
– underprovision for prior year	**1,152**	–
	5,236	2,307
Exchange loss (gain)	**5,987**	(4,086)
Operating lease rentals in respect of rented premises		
– minimum lease payments	**497,755**	457,149
– contingent rent (Note)	**22,626**	28,042
	520,381	485,191
Retirement benefits scheme contributions, net of forfeited contributions of HK$74,411 (2007: HK$252,000)	**35,799**	32,949
Royalties payable to the ultimate holding company	**31,617**	28,193
Rental income		
– minimum lease payments	**(251,912)**	(225,928)
– contingent rent (Note)	**(25,380)**	(30,647)
	(277,292)	(256,575)
Write-down of inventories	**2,080**	–
Reversal of write-down of inventories	**–**	(1,114)
Profit on disposals of available-for-sale investments	**–**	(6)

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

12. Directors' Emoluments

The emoluments paid or payable to each of the 12 (2007: 13) Directors were as follows:

For the year ended 31 December 2008

	LAM Man Tin HK$'000	Yutaka FUKUMOTO HK$'000	WONG Mun Yu HK$'000	Yutaka AGAWA HK$'000	Akihito TANAKA HK$'000	Masaaki TOYOSHIMA HK$'000	Kazumasa ISHII HK$'000	Susumu INOUE HK$'000	LAM PEI Peggy HK$'000	SHAM Sui Leung Daniel HK$'000	CHENG Yin Ching Anna HK$'000	SHAO Kung Chuen HK$'000	Total HK$'000
2008													
Fees	**200**	**–**	**60**	**–**	**360**	**120**	**120**	**–**	**170**	**170**	**120**	**92**	**1,412**
Other emoluments													
Salaries and other benefits	**2,236**	**1,726**	**1,536**	**1,863**	**–**	**–**	**–**	**727**	**–**	**–**	**–**	**–**	**8,088**
Contributions to retirement benefits schemes	**101**	**–**	**72**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**173**
	2,537	**1,726**	**1,668**	**1,863**	**360**	**120**	**120**	**727**	**170**	**170**	**120**	**92**	**9,673**

For the year ended 31 December 2007

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

No Directors waived any emoluments during each of the two years ended 31 December 2008 and 2007.

13. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, one (2007: two) was/were Director(s) of the Company whose emolument are included in the disclosures in note 12 above. The emoluments of the remaining four individuals (2007: three) were as follows:

	2008 **HK$'000**	2007 HK$'000
Salaries and other benefits	**6,466**	4,625
Performance based bonus	**1,167**	870
Contributions to retirement benefit schemes	**1,084**	554
	8,717	6,049

	No. of employees	
	2008	2007
Their emoluments were within the following bands:		
HK$1,500,001 to HK$2,000,000	**2**	1
HK$2,000,001 to HK$2,500,000	**2**	2

14. Dividends

	2008 **HK$'000**	2007 HK$'000
Final dividend paid for 2007 of 26.0 HK cents (2007: 17.5 HK cents for 2006) per ordinary share	**67,600**	45,500
Interim dividend paid for 2008 of 19.3 HK cents (2007: 8.0 HK cents) per ordinary share	**50,180**	20,800
Special dividend paid for 2007 of 20.0 HK cents per ordinary share	**–**	52,000
	117,780	118,300

The Board of Directors has recommended a final dividend of 27.9 HK cents per share (2007: 26.0 HK cents) to be paid on or before 18 June 2009, subject to shareholders' approval at the forthcoming annual general meeting on 22 May 2009.

15. Earnings Per Share

The calculation of earnings per share attributable to the equity holders of the Company is based on the Group's profit for the year attributable to the equity holders of the Company of HK$272,955,000 (2007: HK$280,056,000) and on 260,000,000 (2007: 260,000,000) ordinary shares in issue during the year.

16. Goodwill

	THE GROUP HK$'000
COST	
Arising from acquisition of additional interest in a subsidiary during the year	**94,838**
At 31 December 2008	**94,838**

During the year ended 31 December 2008, the Company has acquired additional 35% interest in Shenzhen AEON (as defined in note 18) which now becomes a wholly-owned subsidiary of the Company. The purchase consideration is HK$107,919,000.

The Group identifies the general merchandise stores business operated by Shenzhen AEON as the single cash generating unit ("CGU") and the goodwill of HK$94,838,000 is allocated to that CGU.

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a 5-year period, and discount rate of 9.2%. The cash flows beyond 5-year period are extrapolated using a zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development.

17. 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 2007	735,901	326,350	4,992	50,286	1,117,529
Exchange adjustments	24,108	9,211	285	1,560	35,164
Additions	41,073	29,069	591	83,797	154,530
Transfer	105,038	30,357	100	(135,495)	–
Disposals	(84,406)	(27,865)	(1,051)	–	(113,322)
At 31 December 2007	821,714	367,122	4,917	148	1,193,901
Exchange adjustments	**26,500**	**9,742**	**256**	**303**	**36,801**
Additions	**34,264**	**29,350**	**1,086**	**166,983**	**231,683**
Transfer	**121,066**	**17,909**	**112**	**(139,087)**	**–**
Disposals	**(70,532)**	**(7,165)**	**(1,218)**	**–**	**(78,915)**
At 31 December 2008	**933,012**	**416,958**	**5,153**	**28,347**	**1,383,470**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2007	563,420	245,791	3,701	–	812,912
Exchange adjustments	15,900	5,409	204	–	21,513
Provided for the year	99,797	35,523	684	–	136,004
Eliminated on disposals	(84,164)	(27,043)	(1,013)	–	(112,220)
At 31 December 2007	594,953	259,680	3,576	–	858,209
Exchange adjustments	**16,377**	**5,583**	**184**	**–**	**22,144**
Provided for the year	**82,747**	**37,728**	**604**	**–**	**121,079**
Eliminated on disposals	**(65,736)**	**(6,538)**	**(1,084)**	**–**	**(73,358)**
Impairment loss recognised	**11,334**	**–**	**–**	**–**	**11,334**
At 31 December 2008	**639,675**	**296,453**	**3,280**	**–**	**939,408**
CARRYING VALUES					
At 31 December 2008	**293,337**	**120,505**	**1,873**	**28,347**	**444,062**
At 31 December 2007	226,761	107,442	1,341	148	335,692

17. 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 2007	475,438	224,728	985	28	701,179
Additions	15,907	8,254	225	8,179	32,565
Transfer	5,949	2,027	100	(8,076)	–
Disposals	(84,406)	(22,419)	(508)	–	(107,333)
At 31 December 2007	412,888	212,590	802	131	626,411
Additions	**24,767**	**17,897**	**213**	**34,551**	**77,428**
Transfer	**27,797**	**5,259**	**112**	**(33,168)**	**–**
Disposals	**(70,532)**	**–**	**(478)**	**–**	**(71,010)**
At 31 December 2008	**394,920**	**235,746**	**649**	**1,514**	**632,829**
DEPRECIATION AND IMPAIRMENT					
At 1 January 2007	373,341	181,642	973	–	555,956
Provided for the year	50,642	13,205	86	–	63,933
Eliminated on disposals	(84,164)	(22,357)	(508)	–	(107,029)
At 31 December 2007	339,819	172,490	551	–	512,860
Provided for the year	**28,975**	**14,167**	**150**	**–**	**43,292**
Eliminated on disposals	**(65,736)**	**–**	**(478)**	**–**	**(66,214)**
Impairment loss recognised	**11,334**	**–**	**–**	**–**	**11,334**
At 31 December 2008	**314,392**	**186,657**	**223**	**–**	**501,272**
CARRYING VALUES					
At 31 December 2008	**80,528**	**49,089**	**426**	**1,514**	**131,557**
At 31 December 2007	73,069	40,100	251	131	113,551

During the year, the Directors conducted a review of the Group's building fixtures and determined that a number of those building fixtures were impaired, as the performance of some stores were below the budget. Accordingly, impairment loss of HK$11,334,000 has been recognised in respect of property, plant and equipment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amount of value in use was 5% in relation to property, plant and equipment.

18. Investments in Subsidiaries

	THE COMPANY	
	2008	2007
	HK$'000	HK$'000
Unlisted investments, at cost	**239,382**	112,460
Less: impairment loss	**(47,524)**	(47,524)
	191,858	64,936

Particulars of the subsidiaries at 31 December 2008 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	RMB80,800,000	65% (2007: 65%)	General merchandise stores
Shenzhen Aeon Co., Ltd. ("Shenzhen AEON")	Wholly-owned foreign enterprise	PRC	RMB73,600,000	100% (2007: 65%)	General merchandise stores
AEON (China) Co., Ltd.	Wholly-owned foreign enterprise	PRC	RMB50,000,000	100% (2007: 100%)	General merchandise stores
Jusco Stores (Hong Kong) Co., Limited	Incorporated	Hong Kong	HK$1,000	100% (2007: 100%)	Inactive

GDJ has entered into agreements with a PRC party who is the minority shareholder of GDJ, to operate department stores in the PRC. All transactions were carried out in the name of the PRC party. Under the agreements, GDJ will bear the entire risks and liabilities of those department stores in return for enjoying the benefits, rewards and also the cash flow generated from the operation of those department stores. After deducting a fixed annual amount of RMB200,000 equivalent to HK$224,000 (2007: RMB400,000 equivalent to HK$410,000) paid to the PRC party, which was recorded in income statement, the remaining profit of GDJ is shared by the Company and the PRC party in accordance to capital contribution ratio. From 1 January 2009, all transactions are carried out in the name of GDJ.

At the balance sheet date, the aggregate amount of assets, liabilities and revenue recognised in the financial statements in relation to the above operations of one store (2007: two stores) are as follows:

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Assets	**45,786**	103,097
Liabilities	**42,461**	112,466
Revenue	**159,891**	249,997

19. Available-for-sale Investments

Available-for-sale investments comprise:

	THE GROUP AND THE COMPANY 2008 HK$'000	2007 HK$'000
Equity securities:		
Listed shares in Hong Kong at fair value	**13,585**	27,245
Debt securities:		
Unlisted club debenture at fair value	**1,840**	2,150
	15,425	29,395

The listed securities detailed above relate to an investment in a fellow subsidiary of HK$13,585,000 (2007: HK$27,245,000).

20. Callable Deposits

Callable deposits (the "Deposits") represent principal protected 5 years United States dollars-denominated deposits, which carry predetermined interest rate. The average effective interest rate is 4.75% per annum. The bank (i.e. the issuer) which issues the Deposits has an option to early redeem the Deposits quarterly or semi-annually at the par value. The Group is entitled to interest payments due on the early redemption date. The early redemption option is considered to be closely related embedded derivative.

21. Deferred Tax

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

	THE GROUP AND THE COMPANY			
	Accelerated accounting depreciation HK$'000	**Other temporary differences HK$'000**	**Undistributed profits of subsidiaries HK$'000**	**Total HK$'000**
At 1 January 2007	14,206	280	–	14,486
(Charge) credit to income statement	(1,417)	60	–	(1,357)
At 31 December 2007	12,789	340	–	13,129
Credit (charge) to income statement	**1,106**	**23**	**(2,574)**	**(1,445)**
Effect of change in tax rate	**(731)**	**(19)**	**–**	**(750)**
At 31 December 2008	**13,164**	**344**	**(2,574)**	**10,934**

21. Deferred Tax – continued

The following is the analysis of the deferred tax balances for financial reporting purposes:

	THE GROUP AND THE COMPANY	
	2008	2007
	HK$'000	HK$'000
Deferred tax assets	**13,508**	13,129
Deferred tax liabilities	**(2,574)**	–
	10,934	13,129

At the balance sheet date, the Group had unused tax losses of HK$164,131,000 (2007: HK$154,763,000) available for offset against future profits, and other temporary differences of HK$3,735,000 (2007: HK$7,539,000). A deferred tax asset has been recognised in respect of HK$2,085,000 (2007: HK$1,943,000) for other temporary differences. No deferred tax asset has been recognised in respect of all unused tax losses and the remaining other temporary differences of HK$1,650,000 (2007: HK$5,596,000) due to the unpredictability of future profit streams for certain subsidiaries.

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
The tax losses above will expire as follows:		
31 December 2008	**–**	6,600
31 December 2009	**6,131**	5,840
31 December 2010	**43,794**	42,550
31 December 2011	**39,936**	51,883
31 December 2012	**50,276**	47,890
31 December 2013	**23,994**	–
	164,131	154,763

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

22. Inventories

During the year, the Directors have considered the market performance and the expected net realisable value of the inventories. As a result, write-down of inventories of HK$2,080,000 (2007: reversal of write-down of inventories of HK$1,114,000) has been recognised and included in "Purchases of goods and changes in inventories" in the current year.

23. 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within due dates	**20,345**	32,071	**8,604**	23,770
Overdue under 30 days	**–**	1,433	**–**	–
Overdue over 30 days	**–**	819	**–**	–
	20,345	34,323	**8,604**	23,770
Overdue but not impaired				
0 – 30 days	**–**	1,433	**–**	–
31 – 180 days	**–**	819	**–**	–
	–	2,252	**–**	–

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

Included in the Group's trade receivable balance as at 31 December 2007 were debtors with carrying amount of HK$2,252,000 which were past due as at 31 December 2007 for which the Group had not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable.

24. Other Financial Assets

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

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

The amounts due from fellow subsidiaries are unsecured, non-interest bearing and with credit term of 15 to 35 days (2007: 15 to 35 days).

Bank balances comprise cash held by the Group and short term bank deposits with an original maturity of three months or less. Bank balances carry interest at market rates which ranges from 0.01% to 4.42% (2007: 0.25% to 5.20%) per annum. Included in the Group's bank balances and cash of HK$474,234,000 (2007: HK$191,700,000) were denominated in United States dollars that is the currency other than the functional currencies of the respective group entities.

25. Trade Payables

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

	THE GROUP		THE COMPANY	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within due dates	**971,176**	845,449	**561,577**	567,503
Overdue under 30 days	**43,257**	79,538	**8,259**	8,641
Overdue over 30 days	**48,165**	111,760	**25,412**	34,295
	1,062,598	1,036,747	**595,248**	610,439

26. Bank Borrowings

THE GROUP

The bank borrowings represent unsecured short term bank borrowings denominated in Renminbi and interest bearing at floating rates. The average effective interest rate during the year is 5.40% (2007: 5.40%) per annum.

27. Other Financial Liabilities

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

The credit term for amounts due to fellow subsidiaries and ultimate holding company are 60-90 days (2007: 60-90 days). The amounts due are unsecured and non-interest bearing.

28. Share Capital

	THE GROUP AND THE COMPANY 2008 & 2007 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

29. 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 2007	63,158	20,907	596,222	680,287
Gain on fair value changes of available-for-sale investments recognised directly in equity	–	4,562	–	4,562
Profit for the year	–	–	242,635	242,635
Transfer to income statement on disposals of available-for-sale investments	–	(6)	–	(6)
Total recognised income for the year	–	4,556	242,635	247,191
Dividends	–	–	(118,300)	(118,300)
At 31 December 2007	63,158	25,463	720,557	809,178
Loss on fair value changes of available-for-sale investments recognised directly in equity	**–**	**(13,970)**	**–**	**(13,970)**
Profit for the year	**–**	**–**	**241,976**	**241,976**
Total recognised (expenses) income for the year	**–**	**(13,970)**	**241,976**	**228,006**
Dividends	**–**	**–**	**(117,780)**	**(117,780)**
At 31 December 2008	**63,158**	**11,493**	**844,753**	**919,404**

30. Capital Commitments

	THE GROUP		THE COMPANY	
	2008 HK$'000	2007 HK$'000	**2008 HK$'000**	2007 HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**14,108**	378	**–**	229
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**81,254**	160,501	**41,000**	392

31. 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**603,487**	481,387	**349,234**	315,715
In the second to fifth year inclusive	**1,440,863**	1,234,742	**703,159**	635,779
Over five years	**903,589**	567,254	**252,750**	2,477
	2,947,939	2,283,383	**1,305,143**	953,971

In addition to the above, over 90% (2007: over 90%) of the leases of the Group and over 80% (2007: over 80%) of the leases of the Company are subject to contingent rents based on a fixed percentage of the annual gross turnover and receipts in excess of the minimum lease payments.

Operating lease payments represent rental payable by the Group for its stores and staff quarters. Leases of stores are negotiated for terms ranging from one to over five 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	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**211,740**	146,212	**141,145**	89,440
In the second to fifth year inclusive	**172,653**	96,735	**60,712**	17,734
Over five years	**21,643**	18,497	**–**	–
	406,036	261,444	**201,857**	107,174

The leases are negotiated for terms ranging from one to over five 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.

32. Pledged Bank Deposits

As at 31 December 2008, the Group's bank deposits of HK$7.7 million (2007: HK$14.1 million) and HK$4.6 million (2007: HK$0.3 million) were pledged to banks for guarantee to landlords for rental deposits as well as suppliers for trade purchases respectively, whereas nil (2007: HK$64.1 million) for guarantee in favour of a bank borrowing.

33. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year amounting to HK$9,116,000 (2007: HK$11,132,000) are charged to the income statement for the year. The contributions represent contributions payable to the MPF Schemes by the Company in accordance with government regulations. In addition to the mandatory contributions, the contributions also include voluntary contributions at rates specified in the rules of the MPF 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 amounting to HK$5,491,000 (2007: HK$5,595,000) charged to the income statement represent contributions payable to the funds by the Company at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Company are reduced by the amount of forfeited contributions.

The employees employed in the PRC subsidiaries are members of the state-managed retirement benefits schemes operated by the PRC government. The PRC subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes. Contributions paid or payable for these retirement benefits schemes for the year are HK$21,193,000 (2007: HK$16,222,000).

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefits schemes and which are available to reduce the contributions payable in the future years was HK$93,500 (2007: HK$20,000).

34. Capital Risk Management

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

The capital structure of the Group consists of debt, which includes the bank borrowings as disclosed in note 26 and total equity, as disclosed in consolidated statement of changes in equity.

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

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

35. Financial Instruments

(a) Categories of financial instruments

	THE GROUP	
	2008	2007
	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**2,028,593**	1,935,652
Available-for-sale financial assets	**15,425**	29,395
Financial liabilities at amortised cost	**1,997,481**	1,717,613

	THE COMPANY	
	2008	2007
	HK$'000	HK$'000
Loans and receivables (including cash and cash equivalents)	**1,212,521**	1,284,143
Available-for-sale financial assets	**15,425**	29,395
Financial liabilities at amortised cost	**936,310**	914,189

(b) Financial risk management objectives

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

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

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

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

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

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

35. Financial Instruments – continued

(c) Foreign currency risk management

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

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

THE GROUP

	Assets		Liabilities	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong dollars	**4,018**	708	**–**	–
United States dollars	**629,720**	191,711	**3,102**	3,921
Japanese Yen	**106**	560	**21,279**	43,706
Renminbi	**20,236**	17,108	**–**	–

THE COMPANY

	Assets		Liabilities	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
United States dollars	**629,720**	191,711	**3,102**	3,921
Japanese Yen	**106**	129	**21,279**	43,706
Renminbi	**20,285**	17,108	**–**	–

35. Financial Instruments – continued

(c) Foreign currency risk management – continued

Foreign currency sensitivity

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

THE GROUP

	2008 Increase (decrease) in foreign exchange rates %	**2008** Effect on profit (loss) HK$'000	2007 Increase (decrease) in foreign exchange rates %	2007 Effect on profit (loss) HK$'000
United States dollars	**1%**	**6,266**	1%	1,878
	(1%)	**(6,266)**	(1%)	(1,878)
Japanese Yen	**10%**	**(2,117)**	10%	(4,315)
	(10%)	**2,117**	(10%)	4,315
Renminbi	**10%**	**2,024**	10%	1,711
	(10%)	**(2,024)**	(10%)	(1,711)

THE COMPANY

	2008 Increase (decrease) in foreign exchange rates %	**2008** Effect on profit (loss) HK$'000	2007 Increase (decrease) in foreign exchange rates %	2007 Effect on profit (loss) HK$'000
United States dollars	**1%**	**6,266**	1%	1,878
	(1%)	**(6,266)**	(1%)	(1,878)
Japanese Yen	**10%**	**(2,117)**	10%	(4,358)
	(10%)	**2,117**	(10%)	4,358
Renminbi	**10%**	**2,024**	10%	1,711
	(10%)	**(2,024)**	(10%)	(1,711)

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

The stated changes represent the management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the group entities' profit or loss measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is preformed on the same basis for 2007.

35. Financial Instruments – continued

(d) Interest rate risk management

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

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

Interest rate sensitivity

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

If interest rates had been 2% higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2008 would decrease/increase by HK$3,039,000 (2007: decrease/increase by HK$2,007,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

(e) Other price risk

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

Equity price sensitivity

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. The measure of price sensitivity is based on the actual observed historical changes of one-year interval to estimate the 1-day historical volatility. The use of a 1-day holding period assumes that the positions can be unwound in one trading day. If the equity price of the available-for-sale investments had been 8% (2007: 4%) higher/lower while all other variables were held constant, the investment revaluation reserve would increase/decrease by HK$440,000 (2007: increase/decrease by HK$345,000) for the Group, principally as a result of the changes in fair value of available-for-sale shares.

(f) Credit risk management

The credit risk represents the trade receivables and amount due from fellow subsidiaries. Credit risk for the trade receivable is limited as the Group's revenue is generated mainly from cash and credit card sales. Where transactions are conducted other than on a cash basis, the Group practices stringent credit review.

The credit terms for the amount due from fellow subsidiaries are made in accordance to the relevant agreements and there are no significant overdue debts as at the balance sheet date.

The Group has no significant concentrations of credit risk and trade receivables represent mainly credit card receivable from individual owned stores.

The credit risk on callable and bank deposits is less because the Directors consider that the counterparties are financially sound.

35. Financial Instruments – continued

(g) Liquidity risk management

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

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

THE GROUP

	Weighted average effective interest rate %	6 months or less HK$'000	6-12 months HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows amount HK$'000
2008						
Non-interest bearing	**–**	**1,745,363**	**22,611**	**76,421**	**1,140**	**1,845,535**
Variable interest rate instruments	**5.4**	**156,049**	**–**	**–**	**–**	**156,049**
		1,901,412	**22,611**	**76,421**	**1,140**	**2,001,584**
2007						
Non-interest bearing	–	1,574,861	18,053	21,706	2,606	1,617,226
Variable interest rate instruments	5.4	102,856	–	–	–	102,856
		1,677,717	18,053	21,706	2,606	1,720,082

THE COMPANY

	6 months or less HK$'000	6-12 months HK$'000	1-2 years HK$'000	2-5 years HK$'000	Total undiscounted cash flows amount HK$'000
2008					
Non-interest bearing	**898,261**	**22,611**	**15,187**	**251**	**936,310**
2007					
Non-interest bearing	880,771	20,479	10,333	2,606	914,189

35. Financial Instruments – continued

(h) Fair value of financial instruments

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; and
- the fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.

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

36. Related Party Transactions

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

THE GROUP

Capacity	**Nature of transaction**	**2008 HK$'000**	2007 HK$'000
Fellow subsidiaries	Franchise fee, consumable expenses and purchase of machines for in-door amusement centers	**2,356**	–
	Dividend income	**1,741**	662
	Commission for credit facilities provided to the customers	**11,029**	12,748
	Purchase of goods	**151,070**	85,247
	Rental income	**7,143**	6,903
	Outsourcing service fee	**246**	–
Ultimate holding company	Royalty expenses	**31,617**	28,193
	Royalty fee savings	**–**	64,080
Minority shareholders of the subsidiaries	Rental expenses, management fees and utility expenses	**44,278**	42,509
Related company	Purchases of goods	**665**	–

One of the Directors of the Company has a beneficial interest in the related company.

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:

THE GROUP

	2008 HK$'000	2007 HK$'000
Amounts due from minority shareholders of the subsidiaries	**5,530**	5,227

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.

Financial Summary

THE GROUP

	For the period from 1 March 2004 to 31 December 2004 HK$'000	For the year ended 31 December 2005 HK$'000	31 December 2006 HK$'000	31 December 2007 HK$'000	**31 December 2008 HK$'000**
RESULTS					
Revenue	2,866,571	3,919,741	4,286,972	4,759,947	**5,376,567**
Profit before taxation	106,597	163,729	208,922	376,830	**381,051**
Income tax expense	(24,430)	(39,793)	(52,217)	(75,369)	**(74,528)**
Profit for the year	82,167	123,936	156,705	301,461	**306,523**

	At 31 December 2004 HK$'000	31 December 2005 HK$'000	31 December 2006 HK$'000	31 December 2007 HK$'000	**31 December 2008 HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,664,264	1,943,954	2,456,711	2,732,449	**3,166,944**
Total liabilities	(1,091,361)	(1,260,337)	(1,662,198)	(1,743,058)	**(2,009,620)**
	572,903	683,617	794,513	989,391	**1,157,324**
Equity attributable to:					
Equity holders of the Company	532,221	643,551	745,424	917,534	**1,063,962**
Minority interests	40,682	40,066	49,089	71,857	**93,362**
	572,903	683,617	794,513	989,391	**1,157,324**