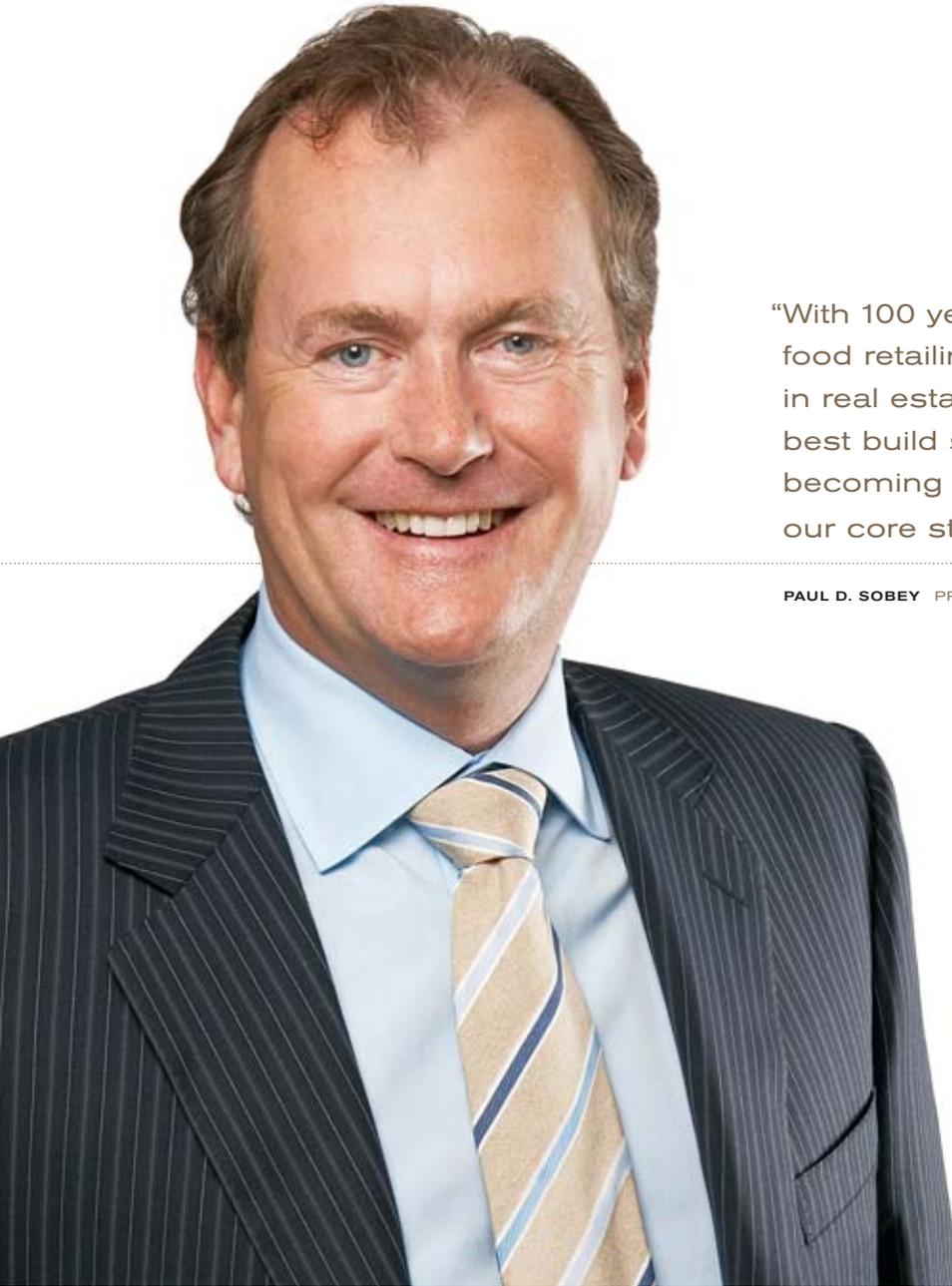


Clearly Focused



“With 100 years of experience in food retailing and over 40 years in real estate, we realized we could best build shareholder value by becoming even more focused on our core strengths.”

PAUL D. SOBEJ PRESIDENT AND CEO, EMPIRE COMPANY LIMITED

\$13.3 Billion
REVENUE FOR 2007



BUILDING ALREADY STRONG RELATIONSHIPS

Our legacy of creating value decade after decade is based on investing in businesses we know and understand – food and related real estate – guided by strong management supported by dedicated employees.

This year, the leadership team at Empire had an important decision to make: Given our financial capacity to make a major transaction, should we diversify our business further or focus even more tightly on our core businesses – food retail and related real estate? During the year, management and the Board of Directors undertook a comprehensive strategic review of our businesses, thoroughly analyzing our potential growth opportunities and capabilities. We came to realize that with 100 years of experience in food retailing and over 40 years in real estate, we could best build shareholder value by becoming even more focused on our core strengths.

Accordingly, Empire announced in the fourth quarter of fiscal 2007 its intent to privatize Sobeys. This transaction made sense for many reasons. Most importantly, we were convinced it was in our best interest – and in the best interests of our shareholders – to acquire the 28 percent of Sobeys shares not already owned by Empire. This transaction, which was completed subsequent to fiscal year-end, was immediately accretive to our earnings and resulted in Sobeys becoming a wholly-owned subsidiary of Empire.

The privatization of Sobeys reflects our complete confidence in its food-focused strategy to build shareholder value. While Sobeys' day-to-day operations are unaffected by the transaction, Empire's 100 percent ownership of the business will allow Sobeys' management to concentrate squarely on their business operations. Ultimately, food retail is a business that the leadership team of Empire also knows and understands well. We feel comfortable in the industry, despite its competitiveness, and will provide Sobeys the support it needs to continue to make progress towards achieving its goals.

At the same time, 100 percent ownership of Sobeys by Empire will strengthen the already solid relationship between our core businesses of food retail and related real estate, which we believe will result in ongoing financial benefits. For decades we have benefited from an intimate relationship between food retail and real estate development as evidenced by our proven food-anchored shopping plaza presence throughout Atlantic Canada and now into Ontario. We see significant opportunity to expand our food-anchored shopping plaza model further into Central Canada and into Western Canada. Having 100 percent ownership of both Sobeys and ECL Properties serves as a solid platform for future growth in food-anchored shopping plaza development across Canada.

The privatization of Sobeys reflects our complete confidence in its food-focused strategy to build shareholder value.

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DONALD CLOW (LEFT) AND FRANK SOBEY (RIGHT) OF OUR REAL ESTATE BUSINESS WITH CRAIG GILPIN OF SOBEYS ONTARIO.



The announced Sobeys transaction was our most significant event of fiscal 2007, but it was by no means the only one. Our real estate division recorded another solid year. In its first full year of operations as a public company, Crombie REIT delivered outstanding performance that has translated into a more than 49 percent total investment return since the initial public offering in March 2006 to the end of fiscal 2007. As well, our residential real estate operations, through Genstar Development Partnership, enjoyed an unprecedented year with record earnings. These achievements represent the culmination of efforts that Empire management has made over the past few years to grow value across our business lines.

FINANCIAL HIGHLIGHTS

Empire posted solid results in fiscal 2007. Revenues grew by 2.3 percent to \$13.37 billion while operating earnings increased to a record \$204.4 million, equivalent to \$3.10 per share. Dividends paid to common shareholders increased by 7.1 percent to \$0.60 per annum while book value per share grew by 8.7 percent. Subsequent to fiscal year-end, coinciding with the release of our fourth quarter results on June 28, 2007, we were pleased to announce a 10 percent increase in the Empire dividend to \$0.66 annually. This marks the twelfth consecutive year of dividend increases. The capital markets have long recognized both the soundness of our operating strategies and the strength of our businesses as evidenced by a compound average annual total return to shareholders of 19.8 percent over the last 10 years.

SOBEYS

Sobeys reached a major milestone in 2007, celebrating 100 years in food retailing. This momentous occasion has presented the opportunity to reflect on the entrepreneurial spirit that has sustained and renewed this business for a century. At the same time, it has given us pause to reflect on Sobeys' future within the Empire fold. While Sobeys will remain a standalone, limited entity, we believe that the leadership team at Empire, with its experience in food, is exceptionally well positioned to guide Sobeys' ongoing progress.

Sobeys achieved \$13.0 billion in sales and \$173.4 million in net earnings in fiscal 2007. Sobeys' strategy of differentiating itself from the competition through an unwavering focus on food and a sheer determination to "out-food", "out-fresh", "out-service" and "out-market" the competition is resonating with the Canadian food consumer as evidenced by Sobeys' continued industry-leading same-store sales growth.

Within a food retail marketplace that remained fiercely competitive in 2007, Sobeys continued to make significant capital expenditures to renovate, expand and build its store network while bringing as many individual stores as possible to the same high operating standard. Sobeys acquired Achille de la Chevrotière Ltée, a regional Québec food retailer, to boost its position in the Québec market; rolled out two exciting product lines under its *Compliments* private label; continued to implement an enterprise-wide information platform; and announced plans to build an automated distribution centre to support Sobeys' growth in Ontario.



WITH MUCH MORE IN STORE

Building shareholder value rests firmly on meeting customer needs, from the meal ideas in our industry-leading *Inspired* magazine to our strong pharmacy offering, both in-store and at our standalone Lawtons Drug Stores.

2007 witnessed the establishment of wholly-owned ECL Developments as our commercial property development company.

REAL ESTATE

This was Crombie REIT's first full year of operations after its creation by Empire in fiscal 2006, and we were very pleased by the results. Empire continues to hold a 48.1 percent ownership interest in Crombie REIT, which generated a 35 percent total investment return in fiscal 2007 reflecting its solid operating and financial performance. Our interest in Crombie REIT represents a sizeable portion of our involvement in commercial real estate.

The year also witnessed the establishment of wholly-owned ECL Developments as our commercial property development company which will work closely with Sobeys on food-anchored shopping plaza development. Our 100 percent ownership of Sobeys will allow Empire to more fully exploit this development pipeline by taking advantage of favourable tenancy arrangements and other potential benefits. Once developed, these properties will first be offered for sale to Crombie REIT with capital generated being redeployed into further property development.

The focus of our real estate business in the future will therefore be primarily on the development and sale of food-anchored shopping plazas rather than continued ownership of these properties. We are pursuing a strategy of aggressive yet disciplined growth, and have expanded our real estate management team to ensure our success. In particular, I would like to acknowledge Donald Clow who joined Empire this year as President of ECL Developments, bringing a wealth of talent and experience in the property development business as we ramp up our activities in commercial real estate development.

Empire shareholders also benefited from Empire's interest in Genstar. Driven by the continued strength of the residential real estate market, particularly in Calgary and Edmonton, Alberta, Genstar contributed record earnings to Empire in fiscal 2007. While results were unusually robust, we expect activity in Genstar's markets to remain

relatively strong into the first half of fiscal 2008. Wajax Income Fund also generated solid performance in fiscal 2007, contributing equity earnings of \$20.2 million, a 23.9 percent increase over the prior year. Wajax Income Fund is a leading Canadian distributor and service support provider of mobile equipment, industrial components and power systems.

ACKNOWLEDGMENTS

The knowledge and experience of our Board, corporate management and management in our core businesses place Empire in an especially strong position to allocate capital in an effective and prudent manner. Empire provides financial strength and liquidity, as well as enhanced risk control measures and oversight to our businesses, not only ensuring that they operate effectively and efficiently, but enhancing their ability to create value for shareholders.

Fiscal 2007 has brought clarity to our priorities while reinforcing our determination and ability to continue to deliver long-term value for our shareholders. I would also like to acknowledge and offer my gratitude to our employees across all of our business lines for another year of excellent performance. It is through the hard work and enthusiasm of our employees, hand-in-hand with the leadership provided by our management team and the Board, that Empire has been able to deliver and sustain long-term value to our shareholders and to the communities that we serve. We are confident that our strategies, particularly the decision to privatize Sobeys, will bring us continued success and profitable growth in the years ahead.



Paul D. Sobey
President and CEO,
Empire Company Limited
June 28, 2007

