AEON STORES (HONG KONG) CO., LIMITED
永旺(香港)百貨有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 984)

2005 ANNUAL RESULTS

The Board of Directors of AEON Stores (Hong Kong) Co., Limited (the "Company") is pleased to announce the audited results of the Company and its subsidiaries (the "Group" or "AEON") for the year ended 31 December 2005 together with comparative figures for the ten months ended 31 December 2004 as follows:

CONSOLIDATED INCOME STATEMENT

	NOTES	**1.1.2005 to 31.12.2005** *(Note 1)* *HK$'000*	1.3.2004 to 31.12.2004 *HK$'000*
Turnover		**5,503,393**	3,981,000
Other income		**246,422**	176,935
Investment income		**16,122**	2,488
Purchases of goods		**(4,131,670)**	(3,181,991)
Changes in inventories		**13,529**	241,901
Staff costs		**(448,762)**	(352,240)
Depreciation		**(125,378)**	(98,954)
Loss on disposal of property, plant and equipment		**(2,159)**	(2,330)
Pre-operating expenses		**(2,642)**	(4,136)
Other expenses		**(904,899)**	(656,067)
Finance costs		**(227)**	(9)
Profit before taxation		**163,729**	106,597
Income tax expenses	*4*	**(39,793)**	(24,430)
Profit for the year/period		**123,936**	82,167
Attributable to:			
Equity holders of the parent		**124,532**	79,461
Minority interests		**(596)**	2,706
		123,936	82,167
Dividends	*5*		
– final		**36,400**	22,100
– interim		**14,300**	10,400
		50,700	32,500
Earnings per share – basic	*6*	**47.90 cents**	30.56 cents

CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2005

	2005	2004
	HK$'000	*HK$'000*
Non-current Assets		
Property, plant and equipment	**317,613**	342,660
Available-for-sale investments	**24,861**	–
Investment securities	**–**	3,936
Deferred taxation	**11,625**	10,922
Rental deposits and prepayments	**78,756**	76,108
	432,855	433,626
Current Assets		
Inventories	**383,051**	384,075
Trade receivables	**23,413**	16,302
Other receivables, prepayments and deposits	**19,772**	16,728
Amounts due from fellow subsidiaries	**42,569**	37,515
Bank balances and cash	**1,042,294**	776,018
	1,511,099	1,230,638
Current Liabilities		
Trade payables	**796,116**	709,949
Other payables and accrued charges	**318,781**	271,332
Amounts due to fellow subsidiaries	**10,636**	10,553
Amount due to ultimate holding company	**84,512**	61,678
Bank borrowings	**14,351**	–
Income tax payable	**14,220**	9,705
Dividend payable	**169**	142
	1,238,785	1,063,359
Net Current Assets	**272,314**	167,279
	705,169	600,905
Capital and Reserves		
Share capital	**52,000**	52,000
Share premium and reserves	**591,551**	480,221
Equity attributable to equity holders of the parent	**643,551**	532,221
Minority interests	**40,066**	40,682
Total Equity	**683,617**	572,903
Non-current Liabilities		
Deposits received and accrued charges	**21,552**	28,002
	705,169	600,905

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements for the current period cover the twelve months period ended 31 December 2005. Due to the change of financial year end date in prior period, the corresponding amounts shown for the consolidated income statement, consolidated statement of changes in equity, consolidated cash flows statement and related notes covered a ten months period from 1 March 2004 to 31 December 2004 and therefore may not be comparable with amounts shown for the current year.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the income statement, balance sheet and the statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Financial Instruments

In the current year, the Group has applied HKAS 32 "Financial instruments: Disclosure and presentation" and HKAS 39 "Financial instruments: Recognition and measurement". HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the financial statements of the Group. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

Up to 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 (SSAP 24). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group classifies and measures its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair value recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group reclassified/designated its debt and equity securities (previously carried at cost less impairment) as available-for-sale investments in accordance with the requirements of HKAS 39. An adjustment of HK$17,640,000 to the previous carrying amounts of these debt and equity securities at 1 January 2005 has been made to the Group's investment revaluation reserve.

The effects of the changes in the accounting policies described above did not have other significant effect on the results for the current and prior period.

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company is in the process of assessing the potential impact of these new HKFRSs and so far concluded that the application of these HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] *Effective for annual periods beginning on or after 1 January 2007.*
[2] *Effective for annual periods beginning on or after 1 January 2006.*
[3] *Effective for annual periods beginning on or after 1 December 2005.*
[4] *Effective for annual periods beginning on or after 1 March 2006.*

3. SEGMENT INFORMATION

Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China ("PRC") other than Hong Kong. The locations of operations are the basis on which the Group reports its primary segment information.

Geographical segment information by location of assets and market is presented below:

For the year ended 31 December 2005

	Hong Kong *HK$'000*	**PRC** *HK$'000*	**Consolidated** *HK$'000*
TURNOVER	**3,835,970**	**1,667,423**	**5,503,393**
RESULT			
Profit (loss) before taxation	**168,844**	**(5,115)**	**163,729**
Income tax expenses			**(39,793)**
Profit for the year			**123,936**

For the period from 1 March 2004 to 31 December 2004

	Hong Kong *HK$'000*	PRC *HK$'000*	Consolidated *HK$'000*
TURNOVER	2,878,006	1,102,994	3,981,000
RESULT			
Profit before taxation	93,200	13,397	106,597
Income tax expenses			(24,430)
Profit for the period			82,167

Business segments

No analysis for business segments has been presented by principal activities because the Group is solely engaged in the operation of general merchandise stores.

4. INCOME TAX EXPENSES

	1.1.2005 to 31.12.2005 ***HK$'000***	1.3.2004 to 31.12.2004 *HK$'000*
The charge comprises:		
Current year/period		
Hong Kong	**32,516**	22,500
Other regions in the PRC	**8,212**	4,247
	40,728	26,747
(Over)underprovision in prior periods/years		
Hong Kong	**(522)**	–
Other regions in the PRC	**290**	(521)
	(232)	(521)
	40,496	26,226
Deferred tax credit		
Current year/period	**(703)**	(1,796)
Income tax expenses for the year/period	**39,793**	24,430

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

PRC income tax is calculated at the rate prevailing in the relevant jurisdictions.

5. DIVIDENDS

The Board of Directors has recommended a final dividend of 14 HK cents per share (10 months ended 31.12.2004: 8.5 HK cents) to be paid on or before 19 June 2006, subject to shareholders' approval at the forthcoming annual general meeting to be held on 19 May 2006. Together with the interim dividend of 5.5 HK cents (10 months ended 31.12.2004: 4 HK cents) distributed in October 2005, this represented a total dividend of 19.5 HK cents (10 months ended 31.12.2004: 12.5 HK cents) per share for the year.

6. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's profit attributable to the equity holders of the parent of HK$124,532,000 (1.3.2004 to 31.12.2004: HK$79,461,000) and on 260,000,000 (1.3.2004 to 31.12.2004: 260,000,000) ordinary shares in issue during the year/period.

There were no dilutive potential shares in the year/period.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 16 May 2006 to 19 May 2006 (both days inclusive), during which period no share transfers will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates, must be lodged for registration with the Company's share registrars, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 15 May 2006.

FINANCIAL REVIEW

Turnover of the Group increased 38% to HK$5,503 million, which was mainly attributable to the satisfactory sales of existing stores together with the newly opened stores. Gross margin slightly decreased from 26.1% to 25.2% as the Group enlarged its food sector that poses a lower margin in response to the changing customer needs.

Staff costs to turnover ratio dropped from 8.8% to 8.2% while rental costs to turnover ratio also decreased from 7.9% to 7.0%.

Profit attributable to shareholders and earnings per share increased 57% to HK$125 million (10 months ended 31 December 2004: HK$79 million) and 47.9 HK cents (10 months ended 31 December 2004: 30.56 HK cents) respectively.

At the year end, the Group maintained a net cash position with cash and bank balances of HK$1,042 million (31 December 2004: HK$776 million) and short-term bank loans of HK$14 million (31 December 2004: Nil). The loans were denominated in Renminbi bearing interest at 4.7% per annum.

Capital expenditure during the year amounted to HK$99 million, mainly incurred for the renovation of existing stores, opening of an independent supermarket, two independent JUSCO $10 Plaza and a GMS.

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

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

BUSINESS REVIEW

The reviving property market and increasing salary level propelled overall growth of the local economy during 2005. Consumer sentiment picked up for the retail markets in Hong Kong, and was also strong in the flourishing PRC. Promising economic indicators encouraged consumers to purchase greater variety of quality merchandise, in turn giving the retail sector a strong boost. In Hong Kong, improving employment figures and record number of inbound tourists, in particular individual travellers from the PRC, contributed to good market sentiment during 2005. In the PRC, the retail market continued to expand healthily as consumers became increasingly conscious of the benefits of buying from reputable and reliable retailers. Being able to answer to this consumption trend with improved merchandising, quality customer services and enhanced shopping environment, the Group achieved remarkable performance.

Hong Kong Operations

As overall economic prospects brightened, the people of Hong Kong have been more ready to consume. For the year ended 31 December 2005, our sales in Hong Kong were HK$3,836 million (10 months ended 31 December 2004: HK$2,878 million), up 33% while net profit rose 90% to HK$138 million (10 months ended 31 December 2004: HK$72 million).

During the year, the first JUSCO Supermarket was opened in April 2005 in apm, Kwun Tong. It was a new operational model that detached the supermarket from our GMS. The supermarket carries a wide range of specialties including fresh imported food, and hot and cold delicatessens to target the business executives and residents of the district.

In addition, we have further strengthened our JUSCO $10 Plaza network with the opening of two outlets in Tsuen Wan and Wan Chai during the year. We now operate a total of nine JUSCO $10 Plaza, which represent our "value-for-money" commitment to provide quality, innovative commodities to customers at a reasonable price.

Meanwhile, our GMS in Tai Po underwent a two-month renovation and re-opened in August 2005. Transformed based on the "Home Sweet Home" concept, the Tai Po Store incorporated a variety of new features including new branded counters, an expanded section for household goods and furniture, a larger diversity of fashion items, clothing and toys, and an enriched selection of delicatessens – all to better serve the expanding population of working couples and nuclear families in the district.

TOPVALU, our in-house brand of quality and good-value products, continued to play a key role in our success. During the period, we actively developed and introduced new products under the brand, ranging from household goods, food products to daily accessories. Now a synonym for top quality, safety, environmental friendliness and customer satisfaction, TOPVALU was welcomed and well received in the market.

PRC Operations

During the past year, the retail sector in the southern China continued to see significant growth. For the year ended 31 December 2005, we achieved sales of HK$1,667 million, a 51% increase compared with that of the ten months last year. It was attributable to the full-period operation of the East Lake Store, the opening of the new Dragon Hill Store and the sales growth of existing stores.

During the year, AEON (China) Co., Ltd. ("AEON China") actively prepared to realise the Group's plans for the market, including developing a shopping mall with a new GSM in Shunde, Guangdong Province. As it was still in the investment stage, resources were allocated to AEON China for establishing a solid foundation. On the other hand, the newly established stores, which the Group strategically put at locations farther from city centres yet laden with potential, were also in the teething stage. These two factors collectively turned the PRC operations to a net loss of HK$14 million (10 months ended 31 December 2004: HK$10 million profit).

Human Resources

As at 31 December 2005, the Group employed about 3,500 full-time and 3,300 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices in the industry.

The Group's success rests on its staff that can deliver high quality services. We fully understand the importance of staff training, and are committed to providing only the best. The Group will continue to invest resources in human resources to boost service quality and staff knowledge. More exchange programmes will be organised with AEON Co., Ltd., the parent company of AEON Stores, to facilitate sharing of best practices and synergy.

PROSPECTS

Hong Kong Operations

Recent studies showed that with Hong Kong's unemployment rate lowering, its property market recovering, healthy inflation and the city continuing to offer the world's freest market conditions, public confidence in the economy is returning. Local people are rediscovering the joy of shopping. At the same time, Hong Kong's reputation as Asia's shoppers' paradise and dining capital continues to draw an ever-growing influx of tourists, especially individual travellers from the PRC. These factors, we believe, will accelerate consumer spending and further invigorate Hong Kong's retail market.

In the coming year, the Group will continue to find suitable locations with high consumer traffic for opening more GMS, JUSCO $10 Plaza and independent supermarket. We will also actively enhance our existing stores to present a shopping environment that fits the needs of customers in respective districts. Our private brand "TOPVALU" will be featured prominently in all our stores as an inexpensive and original choice of quality merchandise.

In the meantime, our supermarkets will continue to offer a unique blend of fresh foods and varieties of commodities including distinctive goods and delicatessens. We will also organise more campaigns to promote goods and foods of different cultural roots or countries and thematic events to please the palate of diverse customers and match market changes.

PRC Operations

The Chinese economy continues to see robust growth. Its industries are thriving, in particular the retail industry. With the consumption power boosted, more mainlanders are looking to shop in stores that carry not only a good variety of quality and novel merchandise, but also give enjoyable shopping experiences. To meet this need, we will focus on creating in our stores an environment that promises convenience and comfort to all customers regardless of their age or gender. We continue to look for suitable locations to open new stores, aiming at capturing this new class of affluent shoppers with one-stop shopping services.

We see full-scale shopping malls assuming importance in retail market in the PRC as urbanisation continues to progress rapidly, population shifts, consumer purchasing habits change, and more families own cars. Under AEON China, a new shopping mall employing a new operational model will be set up by the Group in Shunde, Guangdong Province, by the end of 2006. The location of the mall was selected strategically in Daliang, with residence and sightseeing destinations nearby and served by main highways. This well-serviced shopping mall, of which over 45,000 square metres will be managed by AEON China with an investment budget of RMB60 million, will house another new GMS. The mall itself will house indoor shopping streets, restaurants and various shopping outlets, and about 2,000 parking spaces. Upon opening, it is expected to become a leisure hotspot in Shunde, where local people can enjoy one-stop shopping convenience and great shopping experiences.

In addition to pursuing business expansion and quality excellence, we put forward "The AEON Code of Conduct" which aims to create value for customers at all times. In full embrace of the philosophy "everything we do, we do for our customers", we are confident that we can add great value to the every life of our customers, realising not only our tradition, but also our mission.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE

The Board of Directors of the Company is committed to maintaining high standards of corporate governance. In the year, 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.

AUDIT COMMITTEE

The Audit Committee comprises two independent non-executive directors, namely, Mr. Sham Sui Leung Daniel *(Chairman of the Audit Committee)* and Mdm. Lam Pei Peggy, and one non-executive director, namely, Mr. Tatsuichi Yamaguchi. The Group's audited financial statements for the year ended 31 December 2005 have been reviewed by the Audit Committee.

By Order of the Board
Naoyuki MIYASHITA
Managing Director

Hong Kong, 24 March 2006

As at the date of this announcement, the executive directors are Mr. Naoyuki Miyashita, Mr. Wong Mun Yu and Mr. Lam Man Tin; non-executive directors are Mr. Toshiji Tokiwa, Mr. Motoya Okada, Mr. Tatsuichi Yamaguchi and Mr. Kazumasa Ishii; and independent non-executive directors are Mdm. Lam Pei Peggy and Mr. Sham Sui Leung Daniel.

Please also refer to the published version of this announcement in The Standard.