

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)

2006 ANNUAL RESULTS

The Board of Directors of AEON Stores (Hong Kong) Co., Limited (the "Company") has announced the results of the Company and its subsidiaries (the "Group" or "AEON") for the year ended 31 December 2006 together with comparative figures for the previous financial year as follows:

CONSOLIDATED INCOME STATEMENT
 FOR THE YEAR ENDED 31 DECEMBER 2006

	NOTES	2006 HK\$'000	2005 HK\$'000
Revenue	2	4,286,972	3,919,741
Other income		272,314	246,422
Investment income		33,197	16,122
Purchases of goods and changes in inventories		(2,800,919)	(2,534,489)
Staff costs		(485,718)	(448,762)
Depreciation		(132,247)	(125,378)
Loss on disposal of property, plant and equipment		(1,197)	(2,159)
Pre-operating expenses		(3,451)	(2,642)
Impairment loss reversed in respect of property, plant and equipment		8,967	-
Other expenses		(968,229)	(904,899)
Finance costs		(767)	(227)
Profit before taxation		208,922	163,729
Income tax expenses	3	(52,217)	(39,793)
Profit for the year		156,705	123,936
Attributable to:			
Equity holders of the parent		148,347	124,532
Minority interests		8,358	(596)
		156,705	123,936
Dividends	4		
- final		45,500	36,400
- interim		14,300	14,300
		59,800	50,700
Earnings per share - basic	5	57.06 cents	47.90 cents

CONSOLIDATED BALANCE SHEET
 AT 31 DECEMBER 2006

	2006 HK\$'000	2005 HK\$'000
Non-current Assets		
Property, plant and equipment	304,617	317,613
Available-for-sale investments	24,862	24,861
Deferred taxation	14,486	11,625
Rental deposits and prepayments	79,014	78,756
	422,979	432,855
Current Assets		
Inventories	367,282	383,051
Trade receivables	39,215	23,413
Other receivables, prepayments and deposits	41,310	19,772
Amounts due from fellow subsidiaries	45,159	42,569
Bank balances and cash	1,540,766	1,042,294
	2,033,732	1,511,099
Current Liabilities		
Trade payables	1,040,423	796,116
Other payables and accrued charges	378,096	318,781
Amounts due to fellow subsidiaries	24,754	10,636
Amount due to ultimate holding company	127,534	84,512
Bank borrowings	59,712	14,351
Income tax payable	9,359	14,220
Dividend payable	236	169
	1,640,114	1,238,785
Net Current Assets	393,618	272,314
Total Assets Less Current Liabilities	816,597	705,169
Capital and Reserves		
Share capital	52,000	52,000
Share premium and reserves	693,424	591,551
Equity attributable to equity holders of the parent	745,424	643,551
Minority interests	49,089	40,066
Total Equity	794,513	683,617
Non-current Liabilities		
Deposits received and accrued charges	22,084	21,552
	816,597	705,169

NOTES TO THE FINANCIAL STATEMENTS
1. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of these new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company is still not yet in the position to reasonably estimate the impact that may arise on the Group's results and financial position from the application of these standard, amendment or interpretations.

HKAS 1 (Amendment)
HKFRS 7
HKFRS 8
HK(IFRIC) - INT 7

Capital Disclosures¹
Financial Instruments: Disclosures¹
Operating Segments⁷
Applying the Restatement Approach under HKAS 29
Financial Reporting in Hyperinflationary Economies²
Scope of HKFRS 2³
Reassessment of Embedded Derivatives⁴
Interim Financial Reporting and Impairment⁵
HKFRS 2: Group and Treasury Share Transactions⁶
Service Concession Arrangements⁸

¹ Effective for annual periods beginning on or after 1 January 2007.

² Effective for annual periods beginning on or after 1 March 2006.

³ Effective for annual periods beginning on or after 1 May 2006.

⁴ Effective for annual periods beginning on or after 1 June 2006.

⁵ Effective for annual periods beginning on or after 1 November 2006.

⁶ Effective for annual periods beginning on or after 1 March 2007.

⁷ Effective for annual periods beginning on or after 1 January 2009.

⁸ Effective for annual periods beginning on or after 1 January 2008.

2. 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.

	2006 HK\$'000	2005 HK\$'000
Income from concessionaire sales		
Direct sales	606,351	569,082
Revenue	3,680,621	3,350,659
	4,286,972	3,919,741

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 2006

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Revenue	2,903,314	1,383,658	4,286,972
Segment result	195,007	13,923	208,930
Dividend income			759
Finance costs			(767)
Profit before taxation			208,922
Income tax expenses			(52,217)
Profit for the year			156,705

For the year ended 31 December 2005

	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
Revenue	2,769,886	1,149,855	3,919,741
Segment result	168,216	(4,905)	163,311
Dividend income			645
Finance costs			(227)
Profit before taxation			163,729
Income tax expense			(39,793)
Profit for the year			123,936

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.

3. INCOME TAX EXPENSES

	2006 HK\$'000	2005 HK\$'000
The charges comprise:		
Current tax		
Hong Kong	36,730	32,516
Other regions in the PRC	15,034	8,212
	51,764	40,728
Under(over)provision in prior years		
Hong Kong	-	(522)
Other regions in the PRC	3,314	290
	3,314	(232)
	55,078	40,496
Deferred tax		
Current year	(2,861)	(703)
Income tax expenses for the year	52,217	39,793

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

PRC income tax is calculated at 33% of the estimated assessable profit of the subsidiaries.

4. DIVIDENDS

The Board of Directors has recommended a final dividend of 17.5 HK cents per share (2005: 14.0 HK cents) to be paid on or before 18 June 2007, subject to shareholders' approval at the forthcoming annual general meeting on 23 May 2007. Together with the interim dividend of 5.5 HK cents (2005: 5.5 HK cents), this represented a total dividend of 23.0 HK cents (2005: 19.5 HK cents) per share for the year.

5. EARNINGS PER SHARE

The calculation of earnings per share attributable to the equity holders of the parent is based on the Group's profit for the year attributable to the equity holders of the parent of HK\$148,347,000 (2005: HK\$124,532,000) and on 260,000,000 (2005: 260,000,000) ordinary shares in issue during the year.

There were no dilutive potential shares in both years.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 18 May 2007 to 23 May 2007 (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 Floor Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 17 May 2007.

FINANCIAL REVIEW

Revenue increased by 9% to HK\$4,287 million largely driven by the sales growth of our stores in the PRC. Gross margin was slightly down from 35.3% to 34.7% as the food segment of the Group's business was enlarged. The opening of additional independent supermarkets also placed a greater emphasis on the food sector, hence affecting gross margin as well. The Group's net profit attributable to shareholders for the year rose by 19% to HK\$148 million.

Staff costs to revenue ratio dipped slightly from 11.4% to 11.3% while rental costs to revenue ratio increased from 9.8% to 10.6%.

As at 31 December 2006, the Group maintained a net cash position with bank balances and cash of HK\$1,541 million (2005: HK1,042 million) and short-term bank loans of HK\$60 million (2005: HK\$14 million). The loans were denominated in Renminbi, bearing interest at 5.02% per annum.

Capital expenditures during the year amounted to HK\$106 million, mainly used for the renovation of existing stores, opening of an independent supermarket, three JUSCO \$10 Plaza as well as a shopping centre in the PRC.

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

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

BUSINESS REVIEW

Strong retail market sentiment in the PRC and steady growth in Hong Kong provided a positive backdrop for the Group's business. During the year under review, the Hong Kong economy made noticeable improvements and the unemployment rate declined continuously. Encouraged by a general increase in disposable income and prosperous stock market, consumers were more willing to spend, particularly on quality merchandise, which boosted growth of the retail sector. The PRC retail market also benefited from the favourable macroeconomic environment as consumer confidence surged during the year.

Hong Kong Operations

2006 is a year which presented favourable conditions for the retail industry; hence, Hong Kong operations recorded increased revenue of 5% to HK\$2,903 million (2005: HK\$2,770 million), while the profit grew by 16% to HK\$195 million (2005: HK\$168 million).

To replicate the success of the first JUSCO Supermarket in apm, Kwun Tong, the Group opened its second independent supermarket at the Kai Tin Shopping Centre in Lam Tin in September 2006. The roughly 31,000 sq. ft. JUSCO Supermarket adopts the theme: "Fun for the Whole Family", and features a mix of quality merchandise imported from Japan along with diverse commodities under the Group's TOPVALU private brand. As one of the largest supermarkets in Lam Tin, the JUSCO Supermarket will help satisfy the needs of residents of a highly populated district.

In the second half of the year, the Group opened three more JUSCO \$10 Plaza outlets, increasing the total number of stores to eleven. Following the Fanling and Shamshuipo outlets opened in August and September, the Group opened its Kowloon JUSCO \$10 Plaza flagship store in December. Located in Mongkok, one of the busiest and most exciting districts in Hong Kong, the store comprises of commercial, residential and entertainment elements. Moreover, a brand new "J Valor Corner" was set up to provide premium value products that are priced from HK\$15 to HK\$200, thus offering more choices for customers with greater means and are interested in more than "value-for-money" goods and services. This is in keeping with the Group's development strategy to broadening its product mix.

To keep pace with the changing needs of customers and the community, the Group partially closed the Whampoa Store for renovation work in April 2006. Embracing the "Healthy Living" concept, the store now boasts an enlarged Supermarket, Fashion Section, and Household and Furniture Section; hence an ideal shopping destination for nuclear families in the district.

PRC Operations

In 2006, the PRC operations recorded revenue totalling HK\$1,384 million (2005: HK\$1,150 million), up 20%, and was mainly attributed to the growth of existing stores operating in a burgeoning retail sector.

As the retail industry in southern China continued to prosper, most of the stores operated by the Group in Guangdong Province duly recorded satisfactory sales performance. With the Dragon Hill Store operated for a full financial year, it too contributed to PRC sales. However, there were some stores that remained in an investment stage of development, consequently taking greater time to adapt to local residents' tastes and needs, hence affecting profit contributions. In addition, costs arising from the operation of AEON (China) Co., Ltd. ("AEON China"), which is currently in a developmental stage, was also incurred. Of further note, opening of the shopping mall in Shunde under AEON China was postponed until January 2007 due to construction delays. In all, the PRC operations generated a profit of HK\$14 million (2005: HK\$5 million loss).

Human Resources

As at 31 December 2006, the Group employed about 4,100 full-time and 2,800 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices in the industry.

A team of excellent employees is vital to the success of a corporation. The Group fully understands the importance of staff training, and are committed to providing the very best. The Group will continue to invest in human resources in order to boost service quality and staff knowledge. By providing the necessary mechanisms for upgrading the professionalism and competence of staff members of all levels, and creating a platform for knowledge exchanges and experience sharing, synergy among the Group and its parent company, AEON Co., Ltd., will therefore be amplified.

PROSPECTS

Hong Kong Operations

With an improving unemployment rate, rising salary levels and healthy inflation, Hong Kong's economy appears to be on the way back to steady growth. Holding a more optimistic view towards the economy, consumers tend to enhance their quality of life through the purchase of quality merchandise. These factors will thereby facilitate continuous growth of the retail sector in Hong Kong. Taking into account that there may be other factors affecting the economy including adjustments in the financial markets, the Group is cautiously optimistic about its Hong Kong operations for the near future.

The steady progress achieved in 2006 has added to the positive spirit of the Group as it celebrates its 20th anniversary in Hong Kong in 2007. Following the success of the first two JUSCO Supermarket outlets, a third supermarket is scheduled to open in Tokwawan by mid-2007. Located in the Grand Waterfront Plaza, the roughly 31,000 sq. ft. supermarket will be the largest of its kind in the district and will be fully capable of catering to the daily needs of customers. Leveraging the Group's strengths in operating "Japanese Supermarket", it will feature high quality merchandise at reasonable prices, thus satisfying the customers' needs.

The Group will continue its efforts to offer a diverse range of high quality products to consumers. Towards this goal is the "TOPVALU" private brand which covers a broad spectrum of goods ranging from food to clothing, will be featured prominently in stores.

As an extension of its commitment to patrons, the Group will search for suitable locations to open more new stores, especially JUSCO \$10 Plaza and JUSCO Supermarket which are more flexible in space requirements. To provide more comprehensive services and further strengthen its presence in Hong Kong, when opportunities arise, the Group will also consider opening stores operated under new business models so as to expand its sales network.

PRC Operations

Notwithstanding macroeconomic measures, the Chinese economy maintained its remarkable growth. China's GDP continued to improve as did total retail sales of consumer goods. Under an improving economic environment, consumers were more motivated to shop, not only for daily necessities, but also for quality products and services. This duly opened exciting business prospects for the Group.

With the renowned "JUSCO" brand and solid experience of AEON Co., Ltd. in the PRC, the Group is well equipped to extend its business interests exponentially. To provide an innovative shopping experience to customers, AEON Shunde Shopping Centre, which has a GMS under AEON China, started operations in January 2007. Occupying over 47,000 sq. m., the Centre represents the first complex of its kind to be opened by the Group. The 18,500 sq. m. GMS is the focus of the Centre, offering a pleasurable one-stop leisure shopping experience. Among the attractions that visitors can look forward to is the presence of several retailers that are in Shunde for the first time. Indeed, 40 per cent of the 93 retail outlets present are new to the city. The Group is confident that the Centre will become an important landmark for the region and will further enhance JUSCO's brand status in southern China.

Apart from setting up the first shopping centre in Shunde, the Group will introduce the first ever independent supermarket and one additional GMS in Shenzhen in April and late 2007 respectively, thus capturing vast market opportunities available in the region.

While committed to uncovering new prospects, the Group will continue its efforts to respond promptly to the needs and concerns of customers, thus providing excellent products and services that exceed all expectations.

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 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 three independent non-executive directors and one non-executive director. The Group's audited financial statements for the year ended 31 December 2006 have been reviewed by the Audit Committee.

By Order of the Board
Lam Man Tin
Managing Director

Hong Kong, 3 April 2007

As at the date of this announcement, the executive directors of the Company are Mr. Lam Man Tin, Mr. Yutaka Fukumoto and Mr. Wong Mun Yu; the non-executive directors are Mr. Toshiji Tokiwa, Mr. Akihito Tanaka, Mr. Tatsuchi Yamaguchi and Mr. Naoyuki Miyashita; and the independent non-executive directors are Mdm. Lam Pei Peggy, Mr. Sham Sui Leung, Daniel and Ms. Cheng Yin Ching, Anna.