



AEON Stores (Hong Kong) Co., Limited

Annual Report

03/04

AEON Co., Ltd. ("AEON") is a Japanese retailing and service group consisting of more than 140 subsidiaries and affiliates. Its core business is the operation of General Merchandise Stores ("GMS"). It also operates specialty stores, develops shopping centres, and participates in the service sector activities.

AEON is active not only in Japan, but also in Southeast Asia, the PRC and North America. AEON's activities are guided by the unchanging "Everything we do, we do for our customers" credo in every market at all times.

AEON Stores (Hong Kong) Co., Limited (the "Company"), a member of AEON, established its first store in Hong Kong in 1987 and was listed on the Stock Exchange of Hong Kong in 1994. The Company now operates 7 GMS and 5 independent JUSCO \$10 Plaza in Hong Kong, and 6 GMS in the Guangdong Province, the PRC.

m i S S I O N

Our principle is to put "Customer First" at all times. We also emphasise three key words, which make up the essence and character of the retail industry: "peace", "people" and "community". These precepts remain the same wherever we are doing business and we strive to act as a good corporate citizen in the local community.

We strive to provide a wide-range of quality daily necessities at reasonable prices, as well as a pleasant shopping environment for our customers.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Kazumasa ISHII (*Managing Director*)

Kozo MURATA (*Deputy Managing Director*)

WONG Mun Yu

LAM Man Tin

Non-Executive Directors

Toshiji TOKIWA (*Chairman*)

Motoya OKADA

Tatsuichi YAMAGUCHI

Independent Non-Executive Directors

SHAO You Bao

LAM PEI Peggy

COMPANY SECRETARY

HENG Kwoo Seng

AUDITORS

Deloitte Touche Tohmatsu

Certified Public Accountants

PRINCIPAL BANKERS

Mizuho Corporate Bank, Ltd.

The Bank of Tokyo - Mitsubishi, Ltd.

Sumitomo Mitsui Banking Corporation

UFJ Bank Limited

Standard Chartered Bank

The Hong Kong and Shanghai

Banking Corporation Limited

SHARE REGISTRARS

Secretaries Limited

Ground Floor, Bank of East Asia Harbour View Centre

56 Gloucester Road

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

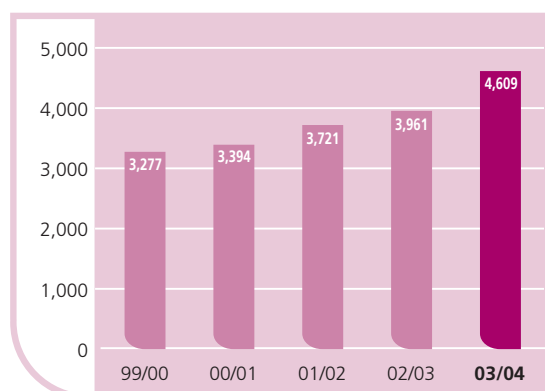
GMS DISTRIBUTION NETWORK

(as at 29 February 2004)

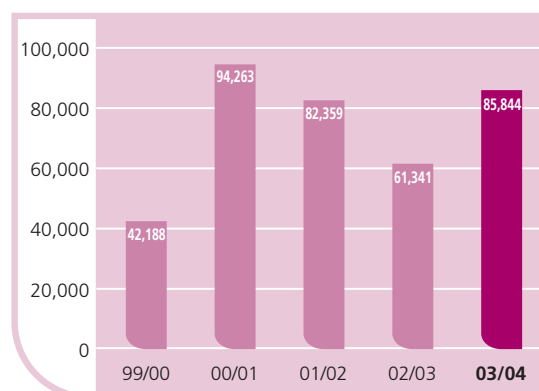
	No. of stores	Floor area (sq. ft.)
Hong Kong	7	1,113,000
Guangdong province	6	1,019,000
Total	13	2,132,000
Net increase (vs. 2003)	0	118,000

FINANCIAL HIGHLIGHTS

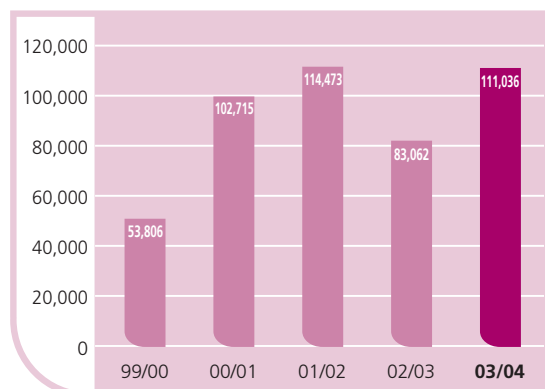
TURNOVER (HK\$million)



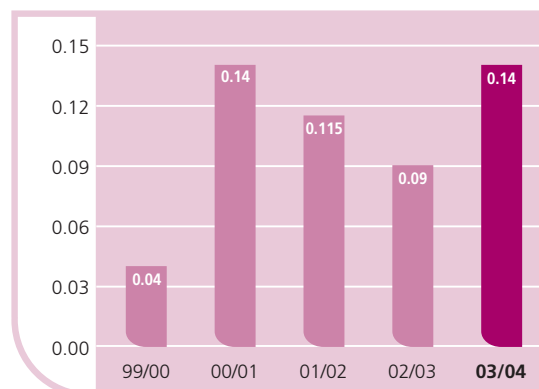
PROFIT ATTRIBUTABLE TO SHAREHOLDERS (HK\$'000)



PROFIT FROM OPERATIONS (HK\$'000)



DIVIDEND PER SHARE (HK\$/share)



	1999/2000	2000/2001	2001/2002	2002/2003	2003/2004
Turnover (HK\$million)	3,277	3,394	3,721	3,961	4,609
Breakdown					
Fashion	23	24	22	22	21
Food	25	27	28	30	33
Household	44	41	43	41	40
Catering	8	8	7	7	6
Profit from operations (HK\$'000)	53,806	102,715	114,473	83,062	111,036
Profit attributable to shareholders (restated) (HK\$'000)	42,188	94,263	82,359	61,341	85,844
Dividend per share (HK\$/share)	0.040	0.140	0.115	0.090	0.140



CHAIRMAN'S STATEMENT



CHAIRMAN'S STATEMENT

2003 was definitely a challenging year for the global economy. From the war in Iraq and Severe Acute Respiratory Syndrome epidemic at the beginning of the year to avian flu towards the end, these events exercised a certain influence on the retail industry. There was pressure on the global consumer market as consumers were reluctant to spend. However, the economy in the second half of the year improved significantly as the cloud of economic uncertainties dispersed. The relaxation of travel restrictions to mainland travellers and the launch of Closer Economic Partnership Arrangement benefited the overall economy of Hong Kong, arousing the appetite of consumers. Building on the diversity of merchandise and our commitment to providing a pleasant and high quality shopping environment for our customers, together with our sound cost control measures in expenses, we have achieved satisfactory results under the difficult and volatile operating environment.



Toshiji TOKIWA,
Chairman

During the year, the JUSCO Stores (Hong Kong) Co., Limited changed its English and Chinese names to "AEON Stores (Hong Kong) Co., Limited" (the "Company") and "永旺(香港)百貨有限公司" respectively in July 2003. The change of the Company's names is to keep in unison with AEON Co., Ltd. ("AEON") in Japan to further enhance its unique image as a global enterprise and highlight the immediately recognisable corporate relationship with AEON. This also allows the Company to pursue and create group synergies with AEON by sharing its best practices, expertise and numerous successes.

In 2003, annual consolidated sales turnover of AEON recorded ¥3,546 billion and became the top company in the Japanese retail industry.

Over the years, AEON has been whole-heartedly pursuing the vision of "becoming one of the top 10 retail groups in the world". To realise this vision, AEON worked hard to achieve "GLOCAL" (Globalisation and Localisation), which AEON considers to be the best way to enhance the competitiveness of its enterprise. AEON understands that to win in the increasingly competitive environment, it must pursue and realise the global standard on the one hand and pay careful attention to our merchandise assortment to adapt regional markets, on the other. AEON achieves localisation through adapting local cultures and satisfying local customers' needs by providing appropriate merchandise and high-standard services.

To achieve this end, we have a series of measures to drive the growth for AEON's business. As the General Merchandise Stores ("GMS") has been one of our major sources of profit, more resources will be put into this part of the business. This includes the renovation of stores and diversification of sales. In the meantime, we will further upgrade customer service through professional training and providing updated product knowledge for staff members and, in turn, enhance our competitiveness.

CHAIRMAN'S STATEMENT

The South China region is believed to have great market potential and it is included in AEON's future development plan. The Company takes up the responsibility of AEON's business expansion in the Pearl River Delta. To further expand its market share, the Company will continue to strengthen its presence by establishing new stores. We are fortunate to have the benefit of geographical proximity and operational expertise in the region. Hong Kong will continue to serve as a development base and resourceful supply of professionals for China projects.

Apart from its successful GMS business, the Company is working on the feasibility study of new business models in South China. We are actively contemplating this move and will capture this enormous business potential once the time is ripe.

Internally, the Company and its subsidiaries will reform the supply chain process to enhance merchandising capabilities. As a result, stock keeping and related costs will then be minimised and become more responsive to customers' needs.

Moreover, we launched "The AEON Code of Conduct", putting more emphasis on customer services and taking our customers' comments. We promptly respond to their needs and concerns. We take pride in our ability to constantly exceed our customers' expectations. Indeed, we live up to our credo "Everything we do, we do for our customers".

The renaming of the Company symbolises the rebirth of its operations and developments in Hong Kong and South China. We will continue to provide diversified quality merchandises and services for our customers.



Toshiji TOKIWA

Chairman

Hong Kong, 14 May 2004

MANAGEMENT DISCUSSION & ANALYSIS



MANAGEMENT DISCUSSION & ANALYSIS



Kazumasa ISHII,
Managing Director

RESULTS

AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (the "Group" or "AEON Stores") recorded a turnover of HK\$4,609 million for the year ended 29 February 2004, representing a rise of 16% over the previous year's figure of HK\$3,961 million. Profit attributable to shareholders and earnings per share rose 40% to HK\$86 million and 33.02 HK cents (2003: 23.59 HK cents) respectively.

DIVIDENDS

The Board of Directors has recommended a final dividend of 13.0 HK cents per share (2003: 9.0 HK cents) to be paid on or before 28 July 2004, subject to shareholders' approval at the forthcoming annual general meeting on 17 June 2004. Together with the interim dividend of 1.0 HK cent per share distributed in December 2003, this represented, a total dividend of 14.0 HK cents (2003: 9.0 HK cents) per share for the fiscal year.

FINANCIAL REVIEW

Turnover of the Group increased 16% to HK\$4,609 million mainly attributable to our newly opened stores in the PRC and the increase in sales from our existing stores.

Group's performance improved primarily due to the increase in sales partially offset by the cost of closing down our Tsz Wan Shan Store. The Group successfully reversed the previously declining trend of profit, with our net profit recording a growth of 40% to HK\$86 million.

Gross margin decreased 1.1% to 26.1% compared to the previous year. It was partially due to the effect of the Severe Acute Respiratory Syndrome ("SARS") epidemic and the change in sales mix, which our food sector accounted for 33% of sales compared to 30% in the preceding year.

The staff costs to turnover ratio decreased from 9.6% to 8.9% while rental costs to turnover decreased from 9.2% to 8.0%.

As at year end, the Group maintained a solid financial position with no bank borrowings and cash on hand of over HK\$830 million as compared to HK\$400 million a year ago.

Capital expenditure during the year amounted to HK\$67 million mainly incurred in the opening of the Zhongshan Store in the PRC and the three JUSCO \$10 Plaza in Hong Kong, and partly incurred in the renovation of some of our existing stores.

MANAGEMENT DISCUSSION & ANALYSIS

The Group 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 total purchases are settled in foreign currencies.

BUSINESS REVIEW

During the year under review, the global consumer market in the first half of the year was hard hit by the war in Iraq and the outbreak of the SARS epidemic, suppressing general consumer sentiment. These unfortunate events created a challenging business environment and the retail industry was the first to suffer.

Hong Kong Operations

Sales in Hong Kong recorded a growth of 8% to HK\$3,493 million, and profit from operations grew 26% to HK\$100 million. Although the business environment was especially challenging during the SARS period, yet by providing high level of hygiene in our stores, we gained the confidence of customers in the safety of the shopping environment. To our customers, our General Merchandise Stores ("GMS") are perceived as clean and hygienic, providing daily necessities at reasonable prices. Our outlets had become one of our customers' very few acceptable shopping areas during the critical SARS period. Our commitment to providing customers with merchandise and a shopping environment that guaranteed "safety", "confidence" and "trust" became our advantage during this difficult period.

After repeated and unsuccessful negotiations with the landlord of our Tsz Wan Shan Store and serious consideration, the management decided not to renew the lease upon expiration. The store was closed in January 2004 and recorded HK\$8 million closure costs. We believe the closure will not generate any material impact on our daily operations and our existing GMS in Hong Kong as we can better allocate the resources to other GMS.

As for our product branding, JUSCO's merchandise has long been recognised as "value-for-money" and our dedication to providing customers with a rich merchandise mix at reasonable prices remain unchanged. TOPVALU has been our competitive tool of differentiation from our competitors. The brand provides a full range of daily needs with over 600 food, clothing and household products in Hong Kong. This brand has developed a reputation for stringent product selection, safety, environmental friendliness and product development guided by the views of customers.

In the past two years, we have successfully developed our JUSCO \$10 Plaza as our new line of business. The potential of this niche market has led us to open three additional JUSCO \$10 Plaza during the year, strategically located in Kowloon City, Yuen Long and Sheung Wan. All these shops are located outside our GMS in high-density residential and commercial areas, providing quality goods at bargain prices.

MANAGEMENT DISCUSSION & ANALYSIS



In conjunction with our 16th Anniversary, we have launched a series of promotional campaigns either on our own, or jointly with other companies. These campaigns contributed successfully to higher customer flows and business activities. Leveraging our established relationships with agricultural bureaux of numerous countries, our food fairs remain one of our major promotional activities. On the other hand, J Card continued to act as a reliable communication channel for our customers. Private sales and promotional benefits are granted to our members, maintaining our loyal customer base and encouraging frequent shopping in our stores. The number of members significantly increased approximately 42% to 227,000 during the year, demonstrating good reception to our promotion efforts.

Building on our "customer first" philosophy, we consistently provide quality services and merchandise to our customers. Our well-recognised commitment was key to our consecutive winning of "The 14th Top Service Award" organised by Next Magazine in June 2003. We were elected as the best service provider in the "Department Store Category".

We also received "The First Hong Kong Merchants of Integrity Award (2003-2004)" from Guangzhou Daily and further testifying to our brand recognition by South China customers.

PRC Operations

The PRC remains our priority during the year. Despite the keen competition in the country, our sales reached HK\$1,115 million with a 51% growth, while profit from operations increased 208% to HK\$11 million. The full year operation of those GMS opened in the last fiscal year together with our new Zhongshan Store opened in July 2003 were mainly attributable to the improvement in sales of the GMS in the PRC, demonstrating the increasing brand recognition of "JUSCO" there. Due to the strategic locations of our GMS, customers had become more familiar with the "JUSCO" brand and perceived that "JUSCO" was the excellent choice in providing daily necessities at reasonable prices. The comfortable shopping environment and diversified quality products make the GMS an ideal place for family shopping, especially during holiday periods. The growing GDP and the general rise in living standards in the PRC were also essential factors that contributed to the satisfactory results during the year.

MANAGEMENT DISCUSSION & ANALYSIS

To better serve the needs of customers, our marketing team conducts surveys in various localities to gauge the needs of the local customers. The Teem Plaza Store underwent renovation and a part of the store was closed for three months. The supermarket was re-designed for satisfying the local demand. It is understood that the growth of the GMS in the PRC shares the same growth driver as in Hong Kong - the supermarket. Therefore, like in Hong Kong, we strengthened our food sector by providing quality and competitively priced food merchandise. We believe this strategic move will draw our customers to visit other sectors of our GMS, boosting the overall sales of the store.

Community Contribution

To celebrate our 16th Anniversary, the Group launched a one-year "AEON Love and Care Campaign" in October 2003, providing support and promotional opportunities to 60 social services projects through the donation of a certain percentage of our sales and encouraging participation of our customers. This stemmed from our Group's commitment to rewarding our community and fulfilling the obligation of corporate citizenship. Our "Old Book Recycling Campaign", as well as other charitable activities, continued to be held during the year. Recognised as a social caring company, the Group was awarded "Caring Company" by the Hong Kong Council of Social Service for consecutive years, which acknowledged companies with active participation in social services and made great contribution to the Hong Kong community.

Human Resources

As at 29 February 2004, the Group employed about 3,000 full-time and 1,800 part-time staff in Hong Kong and the PRC. The Group remunerates employees based on their performance, experience and prevailing practices in the industry.

One of the key factors for our success as a high-quality company is our commitment to staff training. Apart from offering staff benefits such as professional tuition and training subsidies, our JUSCO University, which has been established for many years, was upgraded to South China AEON University. Staff training was extended to cover the whole South China region. The University will further expand the coverage of its courses and provide more training seminars to continuously enhance the knowledge and skills of our staff and equip them to better serve our customers.

PROSPECTS

Hong Kong Operations

Thanks to the relaxation of the travel restriction to mainland travellers under the Individual Traveller Scheme, the overall economy in the second half of the year saw a rebound. Meanwhile, the announcement of the Closer Economic Partnership



MANAGEMENT DISCUSSION & ANALYSIS



Arrangement improved the overall market sentiment and the retail industry in Hong Kong was revitalised. We believe the retail market will continue be positive in this fiscal year.

In the coming year, the Group will continue to look for sites for opening new GMS that can serve the communities in high-density residential areas to take full advantage of busy customer traffic. This will be one of our criteria in our expansion strategy.

By the end of May 2004, we will resume full operation of our Tseung Kwan O ("TKO") Store after 3-month renovation, providing a better shopping environment for our customers. TKO is a satellite town with many young families and an abundance of opportunities exist in serving this community. We have expanded and strengthened our TKO supermarket to include a hot and cold delicatessen to cater for the needs of the young working couples with more convenience for home cooking. The supermarket in TKO Store will become the largest one among all of our GMS in Hong Kong. In addition, we intend to provide more modern brands to suit the tastes of younger customers in the TKO service district.

The Group will maintain the momentum of expanding the market share of the JUSCO \$10 Plaza in this niche market. Targeted locations will be highly populated commercial or residential areas along major mass transportation networks.

Our own brand, TOPVALU has long been one of our competitive strengths that distinguishes us from our competitors. We provide more than 600 items in Hong Kong, covering areas of clothing, food and household products, receiving strong support of our customers. This year is the 10th Anniversary of TOPVALU, and a series of campaigns will be implemented to celebrate this event. More distinctive quality items will be introduced to the customers in both Hong Kong and the PRC.

During the year, we rolled out the "AEON Code of Conduct". All our staff members are committed to providing excellent services and making immediate response to our customers needs. We take pride in our constant ability to deliver services that exceed the expectation of our customers. However, we are never complacent. Our target is to keep providing the best of our best to our customers, in fulfillment of our motto "Everything we do, we do for our customers".

PRC Operations

Although competition in the PRC retail sector is expected to remain intense, the management believes there is abundant room for the expansion of the PRC operations.

MANAGEMENT DISCUSSION & ANALYSIS

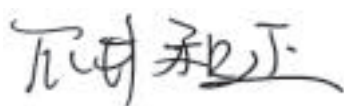
We position ourselves as a unique GMS which is different from that of our established competitors, the department store. AEON Stores is the pioneer of GMS operation in the PRC, providing one-stop shopping convenience for customers. We will continue to promote the concept of GMS and expand our operation in the China market.

To differentiate our products from our competitors, our sourcing team is dedicated to developing our quality private brands in different categories of products. Besides, we will also improve the layout of stores and enhance display methods to attract more customers. We will also provide diversified product categories and a comfortable shopping environment that guarantee "safety", "confidence" and "trust" for our customers.

Two GMS, in Foshan and Shenzhen, are to be opened in 2004, aiming to bring one-stop shopping convenience to customers in the regions. In the long run, we aim at establishing our "JUSCO" brand name in the PRC through developing chain-store operation. This will in turn lead to the achievement of economies of scale in logistics and merchandise sourcing. We will continue to conduct market research and maintain regular store monitoring to adapt the store layout, merchandise mix and product display to cater to the needs and demands of local customers, thereby maximising customer satisfaction.

CONCLUSION

Last but not least, on behalf of AEON Stores, I would like to express my sincere gratitude for the support of our customers and our shareholders in the past year. I would also like to thank our dedicated staff members who have made a solid and sustained effort to improve the Group's performance, especially in such a challenging year. In the years to come, we will continue to commit ourselves to providing quality service to our valued customers, maximising returns for our shareholders and making contribution to the well-being of the community.



Kazumasa ISHII
Managing Director

Hong Kong, 14 May 2004



SENIOR MANAGEMENT PROFILE

EXECUTIVE DIRECTORS

Mr. Kazumasa ISHII

Mr. Ishii, aged 53, was appointed as Managing Director of the Company in May 2002. He joined AEON Co., Ltd. in 1974 after his graduation from the Doshisha University with a bachelor degree in Commerce. Mr. Ishii joined the Company in 1990. He became a Director of the Company in 1994. In 1995, he resigned from this position and moved to Guangdong province of the PRC for the establishment of Guangdong JUSCO Teem Stores Co., Ltd. in the same year and acted as its Managing Director. In 2002, he was appointed as Vice-Chairman of Guangdong Chain Operations Association and is the first and only non-Chinese taking up this position.

Mr. Kozo MURATA

Mr. Murata, aged 50, was appointed as a Director of the Company in June 2002, and is now Deputy Managing Director of the Company. He graduated from Tokyo Institute of Technology with a master degree in Social Technology. He joined AEON Co., Ltd. in 1978.

Mr. WONG Mun Yu

Mr. Wong, aged 46, was appointed as a Director of the Company in May 1999. He is currently Director of Accounts and Finance. He joined the Company in 1988. He is a fellow of The Association of Chartered Certified Accountants and an associate member of the Hong Kong Society of Accountants.

Mr. LAM Man Tin

Mr. Lam, aged 45, was appointed as a Director of the Company in May 1999. He is currently Director of South China Business Development. He graduated from University of Hull with a master degree in Strategic Marketing. He joined the Company in 1992 and had over 20 years of experience in the retail and service industry.

NON-EXECUTIVE DIRECTORS

Mr. Toshiji TOKIWA

Mr. Tokiwa, aged 64, was appointed as a Director of the Company in June 2000 and is also the Chairman of the Company. He is also the Chairman of AEON Co., Ltd. He graduated from Keio University with a bachelor degree in Law. He joined AEON Co., Ltd. in 1999.

SENIOR MANAGEMENT PROFILE***Mr. Motoya OKADA***

Mr. Okada, aged 52, was appointed as a Director of the Company in February 1992. He is the President of AEON Co., Ltd. He graduated from Waseda University with a bachelor degree in Commerce. He also received a master degree in Business Administration from the Graduate School of Business Administration of Babson College. He joined AEON Co., Ltd. in 1979.

Mr. Tatsuichi YAMAGUCHI

Mr. Yamaguchi, aged 58, was appointed as a Director of the Company in 1988 and resigned from Managing Director in 1997. He was re-appointed as a Director of the Company in June 2003. He is also a Senior Vice President of AEON Co., Ltd. He graduated from Meiji University with a bachelor degree in Management. He joined AEON Co., Ltd. in 1969.

INDEPENDENT NON-EXECUTIVE DIRECTORS***Dr. SHAO You Bao, S.B.S.***

Dr. Shao, aged 83, was appointed as a Director of the Company in July 1993. He graduated from Japan Kobe University with a bachelor degree in Economics and received an Honorary Doctorate of Laws from Ohio University. Dr. Shao is also the Chairman of Van Yu Trading Co. Ltd., Van Yu Holding Co. Ltd., and Van Fung Co., Ltd. He had over 50 years of experience in the banking industry. He had been a Hong Kong Affairs Advisor to the People's Republic of China and a member of the Preparatory Committee for the Hong Kong Special Administrative Region. Dr. Shao was awarded the Silver Bauhinia Star (S.B.S.) by the Government of Hong Kong Special Administrative Region in 1998.

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

Mrs. Lam, aged 75, was appointed as a Director of the Company in January 1994. She graduated from University of Shanghai with a bachelor 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. Mrs. Lam is a fellow in Family Planning of the American University, the United States of America. She was the Chairman of 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 had been a Hong Kong Affairs Advisor to the People's Republic of China, a member of the Legislative Council in 1988-1995 and a member of Provisional Legislature of the Hong Kong Special Administrative Region. She was also a member of the 7th, 8th & 9th Chinese People's Political Consultative Conference. She was awarded the Silver Bauhinia Star (S.B.S.) and the Gold Bauhinia Star (G.B.S.) by the Government of Hong Kong Special Administrative Region in 1998 and 2003 respectively.

SENIOR MANAGEMENT PROFILE

SENIOR MANAGEMENT

Mr. Daisuke KOBAYASHI

Mr. Kobayashi, aged 45, is the General Manager of Administration of the Company. He graduated from Kwansei Gakuin University with a bachelor degree in Business Administration. He joined AEON Co., Ltd. in 1981 and the Company in 2000.

Mr. Yutaka AGAWA

Mr. Agawa, aged 47, is the General Manager of Buying Division. He graduated from Daito-Bunka University with a bachelor degree in Arts. He joined AEON Co., Ltd. in 1980 and the Company in 2003.

Mr. CHAK Kam Yuen

Mr. Chak, aged 41, is the General Manager of Operations. He joined the Company in 1987. He has over 20 years of experience in the retail industry, especially in Store Management.

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 29 February 2004.

Pursuant to a special resolution passed at an annual general meeting on 19 June 2003, the name of the Company was changed from Jusco Stores (Hong Kong) Co., Limited 吉之島(香港)百貨有限公司 to AEON Stores (Hong Kong) Co., Limited 永旺(香港)百貨有限公司 with effect from 11 July 2003.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries are engaged in the operation of general merchandise stores.

SUBSIDIARIES

Details of the Company's subsidiaries at 29 February 2004 are set out in note 15 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 29 February 2004 are set out in the consolidated income statement on page 25.

An interim dividend of 1.0 HK cent per share amounting to HK\$2,600,000 was paid to the shareholders during the year.

The directors recommend the payment of a final dividend of 13.0 HK cents per share to the shareholders on the register of members on 17 June 2004, amounting to HK\$33,800,000 and the retention of the remaining profit for the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales and purchases attributable to the Group's five largest customers and suppliers respectively were less than 30 per cent. of the Group's total sales and purchases for the year.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$67 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 14 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive directors

Kazumasa ISHII (*Managing Director*)

Kozo MURATA (*Deputy Managing Director*)

Shinobu WASHIZAWA (resigned on 21 March 2003)

WONG Mun Yu

LAM Man Tin

Non-executive directors

Toshiji TOKIWA (*Chairman*)

Motoya OKADA

Tatsuichi YAMAGUCHI (appointed on 19 June 2003)

Akihito TANAKA (resigned on 19 June 2003)

Independent non-executive directors

SHAO You Bao

LAM PEI Peggy

In accordance with Articles 85 and 101 of the Company's Articles of Association, all remaining directors retire from office and offer themselves for re-election.

The term of office for each non-executive and independent non-executive director is the period up to his retirement in accordance with the above Article.

DIRECTORS' SERVICE CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

At 29 February 2004, the interests of the directors and their associates in the shares, underlying shares and convertible bonds 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 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	Approximate percentage of the issued share capital %
Kazumasa ISHII	80,000	0.031
Kozo MURATA	8,000	0.003
WONG Mun Yu	18,000	0.007
LAM Man Tin	50,000	0.019
Motoya OKADA	100,000	0.038
Tatsuichi YAMAGUCHI	22,000	0.008
SHAO You Bao	200,000	0.077
LAM PEI Peggy	200,000	0.077
	678,000	0.260

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

Name of directors	Number of shares held			Approximate percentage of interest %
	Personal interests	Family interests	Total	
Kazumasa ISHII	7,000	–	7,000	0.0021
Kozo MURATA	3,000	–	3,000	0.0009
Toshiji TOKIWA	2,000	–	2,000	0.0006
Motoya OKADA (Note)	203,348	4,371	207,719	0.0623
Tatsuichi YAMAGUCHI	11,000	–	11,000	0.0033
	226,348	4,371	230,719	0.0692

Note: The family interest of Mr. Motoya OKADA is held by his spouse. In addition, Mr. Motoya OKADA also has a personal interest in the debentures of AEON Co., Ltd. with a total nominal value of ¥2,000,000.

REPORT OF THE DIRECTORS

(c) Other associated corporations

	Kozo MURATA		Toshiji TOKIWA		Motoya OKADA		SHAO You Bao	
	Number of share(s)	Approximate percentage of interest %	Number of share(s)	Approximate percentage of interest %	Number of share(s)	Approximate percentage of interest %	Number of share(s)	Approximate percentage of interest %
AEON Credit Service (Asia) Company Limited	-	-	-	-	110,000	0.026	330,000	0.079
AEON Fantasy Co., Ltd.	-	-	-	-	22,000	0.211	-	-
AEON Forest Co., Ltd.	-	-	-	-	3,000	0.038	-	-
AEON Kyushu Co., Ltd. (formerly known as Kyushu JUSCO Co., Ltd.)	-	-	-	-	2,400	0.015	-	-
AEON Techno Service Co., Ltd.	-	-	-	-	15,000	0.139	-	-
AEON Thana Sinsap (Thailand) Plc.	-	-	100,000	0.200	300,000	0.600	-	-
Aeonmall Co., Ltd.	-	-	-	-	1,200	0.004	-	-
Certo Co., Ltd.	-	-	-	-	2	0.033	-	-
Jaya JUSCO Stores Bhd.	-	-	-	-	75,000	0.085	-	-
Laura Ashley Japan Co., Ltd.	1	0.012	-	-	10	0.119	-	-
Maxvalu Tohoku Co., Ltd.	-	-	-	-	6,000	0.050	-	-
Reform Studio Co., Ltd.	-	-	-	-	5	0.208	-	-
Ryukyu JUSCO Co., Ltd.	-	-	-	-	500	0.089	-	-
The Talbots, Inc.	-	-	-	-	44,000	0.078	-	-
Zwei Co., Ltd.	-	-	-	-	4	0.111	-	-

All the shares held are personal interests.

Other than as disclosed above, at 29 February 2004, 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.

REPORT OF THE DIRECTORS**DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS**

During the year, the Group had the following material transactions with AEON Co., Ltd. and two of its subsidiaries, namely AEON Credit Service (Asia) Company Limited ("ACS") and AIC Merchandising (Japan) Ltd.. Messrs. Kazumasa ISHII, Kozo MURATA, Toshiji TOKIWA, Motoya OKADA and Tatsuichi YAMAGUCHI have beneficial interests in AEON Co., Ltd. Messrs. Motoya OKADA and Dr. SHAO You Bao also have beneficial interests in ACS.

- (i) The Company made purchases from AIC Merchandising (Japan) Ltd. amounting to a total of approximately HK\$50,421,000. The value of purchases was 1.98 per cent. of the total purchases of the Company for the year ended 29 February 2004. In the opinion of those directors not having an interest in the above transactions, these transactions were carried out in the ordinary course of business of the Company and on normal commercial terms.
- (ii) Royalties payable to AEON Co., Ltd. for the year ended 29 February 2004 pursuant to a technical assistance agreement amounted to approximately HK\$32,301,000.
- (iii) ACS and the Group have entered into agreements under which the Group pays commission to ACS in respect of certain purchases made by customers of the Group with the use of the AEON Card, the AEON JUSCO Card, the AEON JUSCO Mastercard, AEON JUSCO American Express Card and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Group. On 28 June 2002, The Stock Exchange of Hong Kong Limited ("the Stock Exchange") has granted a conditional waiver to the Company from strict compliance with the disclosure requirements as stipulated in Rule 14.25(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") in connection with the transactions subject to certain conditions.

The total amount of commission paid and payable by the Group for the year ended 29 February 2004 was approximately HK\$13,797,000. This amount has not exceeded 1.5% per cent. of the audited consolidated turnover of the Group as required by the Stock Exchange. In the opinion of the independent non-executive directors, these transactions or the terms of the respective agreements governing such transactions were entered into in the ordinary and usual course of the business of the Group on normal commercial terms and in accordance with the terms of the respective agreements and are fair and reasonable so far as the shareholders of the Company are concerned.

REPORT OF THE DIRECTORS

- (iv) ACS and the Group have entered into a number of licence agreements under which ACS pays to the Group a fixed monthly rental in respect of service counters, cash dispensing machines and cash repayment machines operated by ACS in the stores of the Group. On 27 November 1998, the Stock Exchange has granted a conditional waiver to the Company for strict compliance with the disclosure requirements as stipulated in Rule 14.25(1) of the Listing Rules in connection with the transactions subject to certain conditions. The total amount of rentals paid and payable by ACS for the year ended 29 February 2004 was approximately HK\$6,726,000. This amount has not exceeded the higher of HK\$10,000,000 or 3 per cent. of the book value of the audited consolidated net tangible assets of the Company as required by the Stock Exchange. In the opinion of the independent non-executive directors, these transactions or the terms of the respective licence agreements governing such transactions were entered into in the ordinary and usual course of the business of the Group on normal commercial terms and in accordance with the terms of the respective licence agreements and are fair and reasonable so far as the shareholders of the Company are concerned.

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.

SUBSTANTIAL SHAREHOLDERS

At 29 February 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of substantial shareholders	Long positions Number of shares	Approximate percentage of the issued share capital
AEON Co., Ltd.	186,276,000 (Note 1)	71.64
Aberdeen Asset Management Asia Ltd.	20,000,000 (Note 2)	7.69
State Street Corporation	15,832,000 (Note 3)	6.09

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. (formerly known as JUSCO (U.S.A.) Inc.), which is a wholly-owned subsidiary of AEON Co., Ltd., and 1,776,000 shares by ACS. AEON Co., Ltd. beneficially owns 66.22% of ACS and is accordingly deemed by the SFO to be interested in the shares of the Company beneficially owned by ACS.

Note 2: These shares are held by Aberdeen Asset Management Asia Ltd. in the capacity of investment manager.

Note 3: These shares are held by State Street Bank & Trust Company, which is a wholly owned subsidiary of State Street Corporation, in a lending pool.

REPORT OF THE DIRECTORS

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 29 February 2004.

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 approximately HK\$1,643,000.

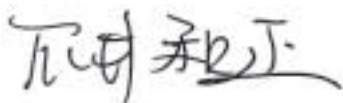
COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 29 February 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

AUDITORS

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

On behalf of the Board



Kazumasa ISHII

Managing Director

Hong Kong, 14 May 2004

REPORT OF THE AUDITORS

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE SHAREHOLDERS OF AEON STORES (HONG KONG) CO., LIMITED

永旺(香港)百貨有限公司

(FORMERLY KNOWN AS JUSCO STORES (HONG KONG) CO., LIMITED 吉之島(香港)百貨有限公司)

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 25 to 57 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the 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.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 29 February 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.


Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 14 May 2004

CONSOLIDATED INCOME STATEMENT

For the year ended 29 February 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (restated)
Turnover		4,608,801	3,961,113
Other operating income		208,195	213,529
Investment income	5	3,035	4,835
Changes in inventories		(3,404,099)	(2,882,029)
Staff costs		(409,684)	(380,418)
Depreciation		(105,566)	(90,199)
Loss on disposal of property, plant and equipment		(8,510)	(440)
Pre-operating expenses	6	(1,149)	(14,180)
Other operating expenses		(779,987)	(729,149)
Profit from operations	7	111,036	83,062
Finance costs	8	(25)	(23)
Profit from ordinary activities before taxation		111,011	83,039
Income tax expenses	11	(25,489)	(25,273)
Profit before minority interest		85,522	57,766
Minority interest		322	3,575
Net profit for the year		85,844	61,341
Dividends	12	26,000	24,700
Earnings per share	13	33.02 cents	23.59 cents

CONSOLIDATED BALANCE SHEET

At 29 February 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (restated)
Non-current Assets			
Property, plant and equipment	14	361,714	407,978
Investment securities	16	3,936	3,936
Deferred taxation	17	9,126	9,846
		374,776	421,760
Current Assets			
Inventories		325,976	328,485
Trade receivables	18	15,522	5,530
Other receivables, prepayments and deposits		134,473	125,588
Amount due from a fellow subsidiary	19	19,636	14,304
Bank balances and cash		831,988	409,431
		1,327,595	883,338
Current Liabilities			
Trade payables	20	865,382	577,857
Other payables and accrued charges		250,981	205,058
Amount due to a fellow subsidiary	21	9,409	8,819
Amount due to ultimate holding company	22	32,656	27,921
Obligations under a finance lease	23	202	200
Taxation		8,213	9,599
Dividend payable		114	97
		1,166,957	829,551
Net Current Assets			
		160,638	53,787
		535,414	475,547
Capital and Reserves			
Share capital	24	52,000	52,000
Share premium and reserves		445,105	384,492
		497,105	436,492
Minority Interest			
		38,022	38,504
Non-current Liabilities			
Obligations under a finance lease	23	287	551
		535,414	475,547

The financial statements on pages 25 to 57 were approved and authorised for issue by the Board of Directors on 14 May 2004 and are signed on its behalf by:



Kazumasa ISHII
Director



Kozo MURATA
Director

BALANCE SHEET

At 29 February 2004

	NOTES	2004 HK\$'000	2003 HK\$'000 (restated)
Non-current Assets			
Property, plant and equipment	14	217,412	281,876
Investments in subsidiaries	15	64,936	64,935
Investment securities	16	3,936	3,936
Deferred taxation	17	9,126	9,846
		295,410	360,593
Current Assets			
Inventories		277,759	285,368
Trade receivables	18	11,451	4,372
Other receivables, prepayments and deposits		94,517	101,282
Amount due from subsidiaries		13,234	15,643
Amount due from a fellow subsidiary	19	19,636	14,304
Bank balances and cash		647,820	254,425
		1,064,417	675,394
Current Liabilities			
Trade payables	20	646,973	411,827
Other payables and accrued charges		179,667	156,804
Amount due to a fellow subsidiary	21	9,397	8,797
Amount due to ultimate holding company	22	32,668	27,921
Taxation		5,457	6,464
Dividends payable		114	97
		874,276	611,910
Net Current Assets			
		190,141	63,484
		485,551	424,077
Capital and Reserves			
Share capital	24	52,000	52,000
Share premium and reserves	25	433,551	372,077
		485,551	424,077



Kazumaza ISHII
Director



Kozo MURATA
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 29 February 2004

	Share capital HK\$'000	Share premium HK\$'000	Translation reserve HK\$'000	PRC statutory reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 March 2002						
– as originally stated	52,000	63,158	49	864	278,766	394,837
– prior period adjustment	–	–	–	–	5,401	5,401
– as restated	52,000	63,158	49	864	284,167	400,238
Exchange differences arising on translation of overseas operations not recognised in the income statement	–	–	(387)	–	–	(387)
Profit for the year	–	–	–	–	61,341	61,341
Transfer, net of minority interest's share	–	–	–	964	(964)	–
Dividend	–	–	–	–	(24,700)	(24,700)
At 28 February 2003	52,000	63,158	(338)	1,828	319,844	436,492
Exchange differences arising on translation of overseas operations not recognised in the income statement	–	–	769	–	–	769
Profit for the year	–	–	–	–	85,844	85,844
Transfer, net of minority interest's share	–	–	–	220	(220)	–
Dividends	–	–	–	–	(26,000)	(26,000)
At 29 February 2004	52,000	63,158	431	2,048	379,468	497,105

PRC statutory reserves are reserves required by the relevant PRC laws applicable to the subsidiaries of the Company in the PRC.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 29 February 2004

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit from operations	111,036	83,062
Adjustment for:		
Investment income	(3,035)	(4,835)
Depreciation	105,566	90,199
Loss on disposal of property, plant and equipment	8,510	440
Operating cash flows before movements in working capital	222,077	168,866
Decrease (increase) in inventories	2,904	(58,590)
(Increase) decrease in trade receivables	(9,981)	531
Increase in other receivables, prepayments and deposits	(8,663)	(6,765)
(Increase) decrease in amount due from a fellow subsidiary	(5,332)	5,381
Increase in trade payables	286,005	68,968
Increase in other payables and accrued charges	43,671	9,799
Increase in amount due to a fellow subsidiary	590	4,880
Increase in amount due to ultimate holding company	4,735	4,281
Cash generated from operations	536,006	197,351
Hong Kong Profits Tax paid	(21,755)	(26,496)
People's Republic of China income taxes paid	(4,419)	(10,982)
Interest paid	(25)	(23)
Interest received	2,542	4,342
NET CASH FROM OPERATING ACTIVITIES	512,349	164,192
INVESTING ACTIVITIES		
Dividends received from listed investment securities	493	493
Purchase of property, plant and equipment	(65,303)	(100,707)
Proceeds from disposal of property, plant and equipment	398	17
NET CASH USED IN INVESTING ACTIVITIES	(64,412)	(100,197)
FINANCING ACTIVITIES		
Dividends paid	(25,983)	(24,689)
Dividends paid to a minority shareholder	(546)	(2,370)
Repayment of obligations under a finance lease	(270)	(51)
Contributions from a minority shareholder	-	18,151
NET CASH USED IN FINANCING ACTIVITIES	(26,799)	(8,959)
NET INCREASE IN CASH AND CASH EQUIVALENTS	421,138	55,036
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	409,431	354,854
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	1,419	(459)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	831,988	409,431
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	831,988	409,431

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

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. Its ultimate holding company is AEON Co., Ltd., incorporated and listed in Japan.

The principal activities of the Group are the operation of general merchandise stores.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted the following Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Society of Accountants (HKSA). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAPs") and Interpretations approved by the HKSA.

Income taxes

In current year, the Group has adopted SSAP12 (Revised) "Income taxes". The principal effect of the adoption of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method under which a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary 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, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts for 2003 have been restated accordingly.

As a result of this change in policy, the opening balance on retained profits at 1 March 2003 has been increased by HK\$9,846,000 (1 March 2002: HK\$5,401,000). The profit for the year ended 29 February 2004 has been decreased by HK\$720,000 (2003: increased by HK\$4,445,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 28 February each year and 29 February in current year.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost, less any identified impairment loss.

Turnover

Turnover represents the invoiced value of goods, net of discounts, sold to customers during the year.

Revenue recognition

Sales are recognised when goods are sold.

Rentals received from licensees are recognised on a straight line basis over the terms of the relevant licence agreements.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

Construction in progress is stated at cost which includes all expenditure incurred for construction of building fixtures, furniture, fixtures and equipment and the direct costs attributable to such assets.

Depreciation is provided to write off the cost of property, plant and equipment other than construction in progress to their estimated residual values in annual instalments over their estimated useful lives. The rates of depreciation used and their estimated residual values are as follows:

	Rate of depreciation	Estimated residual value
Building fixtures	Over the expected useful lives or, where shorter, the term of the relevant lease on a straight line basis	5% – 10% of cost
Furniture, fixtures and equipment	15% per annum over the first 5 years and 20% in the 6th year or $6\frac{2}{3}\%$ – 25% per annum	Nil – 10% of cost
Motor vehicles	22.5% per annum over the first 3 years and 27.5% in the 4th year or 20% per annum	5% – 10% of cost

In respect of construction in progress, depreciation will be provided when the construction is completed and ready for its intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as assets owned by the Group or, where shorter, the term of the relevant lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment (continued)**

All capital expenditure on items costing under HK\$5,000 is charged to the income statement in the year of incurrence.

The gain or loss arising on disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Leased assets

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease. Finance costs, which represent the difference between the total commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease term.

Investments in securities

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at cost, as reduced by any impairment loss that is other than temporary.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its 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. 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories, which represent merchandises held for resale, are stated at the lower of cost and net realisable value and is computed using the retail price method.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

On consolidation, the assets and liabilities of subsidiaries which are denominated in currencies other than the Hong Kong dollar are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences, if any, are classified as equity and transferred to Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

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 net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount 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. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

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 difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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.

Retirement benefits schemes

The pension costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution schemes.

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

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 are the basis on which the Group reports its primary segment information.

Geographical segment information about the business by location of assets and market is presented below.

2004

	Year ended 29 February 2004		
	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
TURNOVER	3,493,438	1,115,363	4,608,801
RESULT			
Profit from operations	100,125	10,911	111,036
Finance costs	(25)	–	(25)
Profit from ordinary activities before taxation	100,100	10,911	111,011
Income tax expenses	(21,468)	(4,021)	(25,489)
Profit before minority interest	78,632	6,890	85,522

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

2004

	At 29 February 2004		
	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
BALANCE SHEET			
ASSETS			
Segment total assets	1,272,531	420,714	1,693,245
Unallocated corporate assets			9,126
Consolidated total assets			1,702,371
LIABILITIES			
Segment liabilities	868,819	289,723	1,158,542
Unallocated corporate liabilities			8,702
Consolidated total liabilities			1,167,244

	Year ended 29 February 2004		
	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
OTHER INFORMATION			
Capital expenditure	10,754	56,301	67,055
Depreciation	66,790	38,776	105,566
Loss on disposal of property, plant and equipment	8,378	132	8,510

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

2003 (restated)

	Year ended 28 February 2003		
	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
TURNOVER	3,224,259	736,854	3,961,113
RESULT			
Profit from operations	79,519	3,543	83,062
Finance costs	(23)	–	(23)
Profit from ordinary activities before taxation	79,496	3,543	83,039
Income tax expenses	(15,401)	(9,872)	(25,273)
Profit (loss) before minority interest	64,095	(6,329)	57,766
	At 28 February 2003		
	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
BALANCE SHEET			
ASSETS			
Segment assets	945,563	349,689	1,295,252
Unallocated corporate assets			9,846
Consolidated total assets			1,305,098
LIABILITIES			
Segment liabilities	605,446	214,306	819,752
Unallocated corporate liabilities			10,350
Consolidated total liabilities			830,102

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Geographical segments (continued)

	Year ended 28 February 2003		
	Hong Kong HK\$'000	PRC HK\$'000	Consolidated HK\$'000
OTHER INFORMATION			
Capital expenditure	10,629	88,979	99,608
Depreciation	68,810	21,389	90,199
Loss on disposal of property, plant and equipment	404	36	440

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.

5. INVESTMENT INCOME

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Dividend income from listed investment securities	493	493
Interest income from bank deposits	2,542	4,342
	3,035	4,835

6. PRE-OPERATING EXPENSES

Included in pre-operating expenses were staff costs of HK\$1,071,000 (2003: HK\$5,196,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

7. PROFIT FROM OPERATIONS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	1,664	1,430
Depreciation		
– owned assets	105,341	90,152
– assets under a finance lease	225	47
	105,566	90,199
Operating lease rentals in respect of rented premises		
– minimum lease payments	348,361	354,195
– contingent rent (<i>Note</i>)	19,581	11,254
	367,942	365,449
Retirement benefits scheme contributions, net of forfeited contributions of HK\$528,000 (2003: HK\$665,000)	14,348	12,965
Royalties payable to the ultimate holding company	32,301	26,363
Rentals received from licensees		
– minimum lease payments	(144,482)	(153,918)
– contingent rent (<i>Note</i>)	(37,731)	(33,358)
	(182,213)	(187,276)

Note: Contingent rent payments are 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

8. FINANCE COSTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Interest on bank borrowings wholly repayable within five years	25	23

9. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Executive	120	120
Non-executive	1,070	793
	1,190	913
Other emoluments:		
Executive		
Salaries and other benefits	5,701	7,226
Contributions to retirement benefits scheme	131	128
Non-executive	-	-
Total emoluments	7,022	8,267

The amounts disclosed above include directors' fees of HK\$380,000 (2003: HK\$380,000) payable to independent non-executive directors.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

9. DIRECTORS' EMOLUMENTS (continued)

The emoluments of the directors were within the following bands:

	No. of directors	
	2004	2003
Nil to HK\$1,000,000	7	7
HK\$1,000,001 to HK\$1,500,000	3	2
HK\$1,500,001 to HK\$2,000,000	1	2
	11	11

10. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2003: five) were directors of the Company whose emoluments are included in the disclosures in note 9 above. The emolument of the remaining four individuals (2003: Nil) was as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other remuneration	5,023	–
Performance based bonus	1,016	–
Contributions to pension scheme	199	–
	6,238	–

Their emoluments were within the band from HK\$1,500,001 to HK\$2,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

11. INCOME TAX EXPENSES

	2004 HK\$'000	2003 HK\$'000 (restated)
The charge comprises:		
Current year		
Hong Kong	20,748	19,745
Other regions in the PRC	3,437	7,671
	24,185	27,416
Underprovision in prior years		
Hong Kong	–	101
Other regions in the PRC	584	2,201
	24,769	29,718
Deferred tax charge (credit) (note 17)		
Current year	1,643	(4,445)
Attributable to a change in tax rate	(923)	–
	720	(4,445)
Income tax expenses for the year	25,489	25,273

Hong Kong Profits Tax is calculated at 17.5% (2003: 16%) of the estimated assessable profit for the year. During the year, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 29 February 2004.

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

Details of the deferred taxation are set out in note 17.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

11. INCOME TAX EXPENSES (continued)

Income tax expenses for the year can be reconciled from taxation based on profit per the consolidated income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	111,011	83,039
Taxation at the applicable rate of 17.5% (2003: 16.0%)	19,427	13,286
Tax effect of expenses that are not deductible in determining taxable profit	5,315	7,166
Tax effect of income that are not taxable in determining taxable profit	(382)	(920)
Tax effect of tax losses not recognised	1,208	649
Tax effect of utilisation of tax losses previously not recognised	(1,184)	(2,047)
Tax effect of utilisation of deductible temporary difference previously not recognised	(170)	–
Tax effect of deductible temporary difference not recognised	–	885
Effect of different tax rates of entities operating in other jurisdiction	1,614	3,952
Underprovision in prior years	584	2,302
Effect on change in tax rate	(923)	–
Income tax expenses	25,489	25,273

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

12. DIVIDENDS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Final dividend in respect of 2003 of 9.0 HK cents (2002: 9.5 HK cents) per share	23,400	24,700
Interim dividend paid of 1.0 HK cents (2003: Nil) per share	2,600	–
	26,000	24,700

The final dividend of 13.0 HK cents per ordinary share has been proposed by the directors and is subject to approval by the Company's shareholders in general meeting.

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's net profit for the year of HK\$85,844,000 (2003: HK\$61,341,000) and on 260,000,000 (2003: 260,000,000) ordinary shares in issue during the year.

The adjustment to comparative basic earnings per share, arising from the adoption of SSAP 12 (Revised), is as follows:

	HK cents
Reconciliation of 2003 basic earnings per share:	
Reported figure before adjustment	21.88
Adjustment arising from the adoption of SSAP 12 (Revised)	1.71
Restated	23.59

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

14. 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 March 2003	636,585	247,374	3,973	2,679	890,611
Translation adjustments	1,215	415	27	24	1,681
Additions	8,316	11,482	658	46,599	67,055
Transfer	38,543	7,164	–	(45,707)	–
Disposals	(53,236)	(18,760)	(693)	–	(72,689)
At 29 February 2004	631,423	247,675	3,965	3,595	886,658
DEPRECIATION					
At 1 March 2003	324,964	155,861	1,808	–	482,633
Translation adjustments	407	107	12	–	526
Provided for the year	75,569	29,385	612	–	105,566
Eliminated on disposals	(46,908)	(16,572)	(301)	–	(63,781)
At 29 February 2004	354,032	168,781	2,131	–	524,944
NET BOOK VALUES					
At 29 February 2004	277,391	78,894	1,834	3,595	361,714
At 28 February 2003	311,621	91,513	2,165	2,679	407,978

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Building fixtures	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY					
COST					
At 1 March 2003	503,974	202,060	988	48	707,070
Additions	4,448	5,240	176	890	10,754
Transfer	221	190	–	(411)	–
Disposals	(53,236)	(18,353)	(179)	–	(71,768)
At 29 February 2004	455,407	189,137	985	527	646,056
DEPRECIATION					
At 1 March 2003	280,546	144,127	521	–	425,194
Provided for the year	46,306	20,266	218	–	66,790
Eliminated on disposals	(46,908)	(16,262)	(170)	–	(63,340)
At 29 February 2004	279,944	148,131	569	–	428,644
NET BOOK VALUES					
At 29 February 2004	175,463	41,006	416	527	217,412
At 28 February 2003	223,428	57,933	467	48	281,876

The net book values of furniture, fixtures and equipment of the Group include an amount of HK\$572,400 (2003: HK\$755,000) in respect of assets held under a finance lease.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

15. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments, at cost	64,936	64,935

Particulars of the subsidiaries at 29 February 2004 are as follows:

Name	Form of business structure	Place of registration/ operation	Paid up registered/ ordinary share capital	Proportion of registered/ issued capital held by the Group	Principal activities
Guangdong Jusco Teem Stores Co., Ltd. ("GDJ")	Sino-foreign equity joint venture	PRC	RMB51,700,000	65%	General merchandise stores
Shenzhen Jusco Friendship Stores Co., Ltd.	Sino-foreign equity joint venture	PRC	RMB55,000,000	65%	General merchandise stores
Jusco Stores (Hong Kong) Co., Limited 吉之島(香港)百貨有限公司 (formerly known as AEON Stores (Hong Kong) Co., Limited 永旺(香港)百貨有限公司)	Incorporated	Hong Kong	HK\$1,000	100%	Inactive

GDJ has entered into agreements with a PRC party to operate department stores in the PRC. All transactions were carried out in the name of the PRC party. Under the agreements, GDJ is to bear the entire risks and liabilities of those department stores. GDJ will be entitled to 100% of the net profit after deducting a fixed annual amount paid to the PRC party.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

15. INVESTMENTS IN SUBSIDIARIES (continued)

At the balance sheet date, the aggregate amount of assets, liabilities and turnover recognised in the financial statements in relation to the operations are as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Assets	149,727	86,909
Liabilities	164,484	102,198
Turnover	533,656	282,636

16. INVESTMENT SECURITIES

	THE GROUP AND THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Equity securities:		
Listed shares in Hong Kong, at cost	2,196	2,196
Debt securities:		
Unlisted club debenture, at cost	1,740	1,740
	3,936	3,936
Market value of listed securities	22,515	9,933

The listed securities detailed above represent an investment in a fellow subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

17. DEFERRED TAXATION

The following are the major deferred tax assets (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	Total HK\$'000
At 1 March 2002			
– as previously reported	–	–	–
– adjustment on adoption of SSAP 12 (Revised)	6,041	(640)	5,401
– as restated	6,041	(640)	5,401
Credit to income for the year	3,532	913	4,445
At 28 February 2003	9,573	273	9,846
Charge to income for the year	(1,643)	–	(1,643)
Effect of change in tax rate – credit to income	897	26	923
At 29 February 2004	8,827	299	9,126

For the purposes of balance sheet presentation, deferred tax assets and liabilities above have been offset and shown under non-current assets.

At the balance sheet date, the Group has unused tax losses of approximately HK\$17,148,000 (2003: HK\$16,854,000) available for offset against future profits and temporary differences in respect of allowance for doubtful debts, accrued rental expenses and pre-operating expenses written off of approximately HK\$15,622,000 (2003: HK\$16,543,000). A deferred tax asset has been recognised in respect of HK\$1,709,000 (2003: HK\$1,709,000) for such temporary differences. No deferred tax asset has been recognised in respect of the unused tax losses and the remaining temporary differences of HK\$13,913,000 (2003: HK\$14,834,000) due to unpredictability of future profit streams for certain subsidiaries.

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Included in unrecognised tax losses above are losses that will expire in:		
28 February 2007	10,247	16,854
29 February 2008	6,901	–
	17,148	16,854

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

18. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within due dates	15,451	3,885	11,389	3,552
Overdue under 30 days	61	985	62	160
Overdue over 30 days	10	660	–	660
	15,522	5,530	11,451	4,372

19. AMOUNT DUE FROM A FELLOW SUBSIDIARY

THE GROUP AND THE COMPANY

The amount is unsecured, non-interest bearing and is repayable on demand.

20. TRADE PAYABLES

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

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within due dates	778,221	526,964	614,672	385,885
Overdue under 30 days	48,390	22,737	12,505	6,224
Overdue over 30 days	38,771	28,156	19,796	19,718
	865,382	577,857	646,973	411,827

21. AMOUNT DUE TO A FELLOW SUBSIDIARY

THE GROUP AND THE COMPANY

The amount is unsecured, non-interest bearing and is repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

22. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amount is unsecured, non-interest bearing and is repayable on demand.

23. OBLIGATIONS UNDER A FINANCE LEASE

	Minimum lease payments		Present value of minimum lease payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
THE GROUP				
Amounts payable under a finance lease:				
Within one year	202	200	202	200
In the second to fifth years inclusive	287	551	287	551
	489	751	489	751
Less: future finance charges	–	–	–	–
Present value of lease obligations	489	751	489	751
Less: Amounts due for settlement within 12 months (shown under current liabilities)			(202)	(200)
Amounts due for settlement after 12 months			287	551

It is the Group's policy to lease certain of its fixtures and equipment under finance leases. The lease is arranged with AEON Information Service (Shenzhen) Co., Ltd., an associate of Aeon Credit Services (Asia) Company Limited. The lease term is 4 years. The lease is interest free, on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under a finance lease are secured by the lessor's charge over the leased assets.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

24. SHARE CAPITAL

	2004 & 2003
	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

25. SHARE PREMIUM AND RESERVES

	Share premium	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000
THE COMPANY			
At 1 March 2002			
– as originally stated	63,158	255,893	319,051
– prior period adjustment	–	5,401	5,401
– as restated	63,158	261,294	324,452
Profit for the year	–	72,325	72,325
Dividend	–	(24,700)	(24,700)
At 28 February 2003	63,158	308,919	372,077
Profit for the year	–	87,474	87,474
Dividends	–	(26,000)	(26,000)
At 29 February 2004	63,158	370,393	433,551

The Company's reserves available for distribution to shareholders as at 29 February 2004 represented the retained profits of HK\$370,393,000 (2003: HK\$308,919,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

26. MAJOR NON-CASH TRANSACTIONS

Included in other payables and accrued charges as at 29 February 2004 is an amount of HK\$2,460,000 (2003: HK\$708,000) in respect of the purchase of property, plant and equipment not yet paid at that date.

During the year, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of Nil (2003: HK\$802,000).

27. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	19,557	2,662	716	–

28. 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	364,741	366,340	277,852	283,802
In the second to fifth year inclusive	1,305,421	1,323,223	972,997	1,036,106
Over five years	1,038,228	1,001,062	628,861	815,594
	2,708,390	2,690,625	1,879,710	2,135,502

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

28. OPERATING LEASE ARRANGEMENTS (continued)

In addition to the above, fourteen (2003: twelve) of the leases of the Group and eleven (2003: nine) of the leases of the Company are each 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 rentals payable by the Group for its stores and staff quarters. Leases of stores are negotiated for terms ranging from one to eighteen 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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	70,854	114,818	66,436	109,753
In the second to fifth year inclusive	16,103	53,570	13,812	47,031
	86,957	168,388	80,248	156,784

The leases are negotiated for terms ranging from one to six 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

29. RETIREMENT BENEFITS SCHEMES

The Company has participated 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 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 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 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.

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the retirement benefit schemes and which are available to reduce the contributions payable in the future years was approximately HK\$40,000 (2003: HK\$35,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

30. RELATED PARTY TRANSACTIONS

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

Nature of transaction		2004 HK\$'000	2003 HK\$'000
Fellow subsidiaries	Commission expenses	13,797	18,179
	Purchase of goods	50,421	43,004
	Rental income from licensees	6,726	7,156
Ultimate holding company	Royalty expenses	32,301	26,363
Minority shareholders of the subsidiaries	Rental expenses and management fees	41,018	36,720

Commission expenses were in respect of certain purchases made by customers of the Group and certain purchases which are financed by interest-free hire purchase credit facilities provided by a fellow subsidiary to customers of the Group. The amount was charged at the commission rate on the purchases in accordance with the relevant commission agreements.

Purchase of goods, rental expenses and management fees were carried out on the basis of estimated market value or at terms determined and agreed by both parties. In respect of rental expenses, in addition to the monthly fixed rentals, contingent rent is charged at a fixed percentage of the annual gross turnover and receipts in excess of a specified minimum amount as stated in the relevant rental agreements.

Rental income from licensees was in respect of service counters, cash dispensing machines and cash repayment machines operated by a fellow subsidiary in the stores of the Group. The amount was charged at a monthly rental in accordance with the relevant licence agreements.

Royalty expenses were charged at a fixed percentage on the adjusted gross profit of a store or a fixed rate on the floor area of the other stores in accordance with a technical assistance agreement.

During the year, the Group received dividend income amounting to HK\$493,000 (2003: HK\$493,000) from a fellow subsidiary which was based on the percentage of equity interests in that fellow subsidiary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 29 February 2004

30. RELATED PARTY TRANSACTIONS (continued)

In addition to the above, the Group has donated HK\$877,000 (2003: HK\$848,000) to AEON Education and Environment Fund Limited (formerly known as AEON JUSCO Education and Environment Fund Limited) ("the Fund") of which the Company is a member of the Fund. The Fund is a company limited by guarantee and not having a share capital, established in co-operation with AEON Credit Service (Asia) Company Limited on 18 February 1998. The objective of the Fund is to promote environmental protection, cultural exchange and education in the Hong Kong Special Administrative Region and other parts of the PRC. The Group donates 1 per cent. of the Company's preceding year-end profit before taxation to the Fund every year.

Outstanding balances as at the balance sheet date arising from the above transactions with related parties were as set out in the consolidated balance sheet except for the following balance, which is included in other receivables, prepayments and deposits:

	2004	2003
	HK\$'000	HK\$'000
Amounts due from minority shareholders of the subsidiaries	20,254	11,586

FIVE-YEAR SUMMARY

	For the year ended				29 February 2004 HK\$'000
	29 February 2000 HK\$'000 (restated)	28 February 2001 HK\$'000 (restated)	28 February 2002 HK\$'000 (restated)	28 February 2003 HK\$'000 (restated)	
RESULTS					
Turnover	3,277,382	3,394,484	3,720,924	3,961,113	4,608,801
Profit from operations	53,806	102,715	114,473	83,062	111,036
Finance costs	(5,898)	(1,213)	(125)	(23)	(25)
Gain on dilution of interest in a subsidiary	1,682	–	–	–	–
Profit from ordinary activities before taxation	49,590	101,502	114,348	83,039	111,011
Income tax expenses	(817)	(78)	(26,530)	(25,273)	(25,489)
Profit before minority interest	48,773	101,424	87,818	57,766	85,522
Minority interest	(6,585)	(7,161)	(5,459)	3,575	322
Net profit for the year	42,188	94,263	82,359	61,341	85,844
	At				29 February 2004 HK\$'000
	29 February 2000 HK\$'000 (restated)	28 February 2001 HK\$'000 (restated)	28 February 2002 HK\$'000 (restated)	28 February 2003 HK\$'000 (restated)	
ASSETS AND LIABILITIES					
Total assets	940,366	1,067,479	1,177,392	1,305,098	1,702,371
Total liabilities	(636,902)	(686,365)	(750,667)	(830,102)	(1,167,244)
Minority interest	(16,055)	(22,845)	(26,487)	(38,504)	(38,022)
Shareholders' funds	287,409	358,269	400,238	436,492	497,105

Note: The results for the four years ended 28 February 2003 and the summary of assets and liabilities for the Group as at 29 February 2000, 28 February 2001, 2002, 2003 has been extracted from the Company's annual reports after restatement to reflect the effect of the prior period adjustments on adoption of SSAP 12 (Revised).