



AEON Stores (Hong Kong) Co., Limited

2004

Annual Report

Mission

AEON Co., Ltd. (“AEON Co.”) is a Japanese retailing and service group with more than 150 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 service sector activities.

AEON Co. is active not only in Japan, but also in Southeast Asia, the PRC and North America. AEON’s activities are guided by its unwavering “Everything we do, we do for our customers” credo in every one of its markets at all times.

AEON Stores (Hong Kong) Co., Limited (“AEON Stores”), a member of AEON Co., established its first store in Hong Kong in 1987 and was listed on the Hong Kong Stock Exchange in 1994. AEON Stores now operates 7 GMS and 7 independent \$10 Plaza in Hong Kong, and 8 GMS in Guangdong Province and the Shenzhen Special Economic Zone, the PRC.

Granted an operating license in the PRC through our wholly owned subsidiary, AEON (China) Co., Ltd., our status in the China retail market has been further consolidated. AEON Stores will put in its best to drive and back up our expansion in South China.

Whether it is in Hong Kong or the PRC, we strive for providing customers with a wide range of quality daily necessities at reasonable prices, and a pleasant shopping environment.

Besides adhering to our guiding “Everything we do, we do for our customers” principle, we also endorse three key elements, which capture the essence and character of the retail industry:

“peace” , “people”
and **“community”**

All our staff members are abided by the “AEON Code of Conduct” which guarantees our delivery of excellent services and immediate response to customers’ needs. We take pride in our ability to render to our customer services that constantly exceed their expectations.

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p.2 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

SHAM Sui Leung Daniel

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

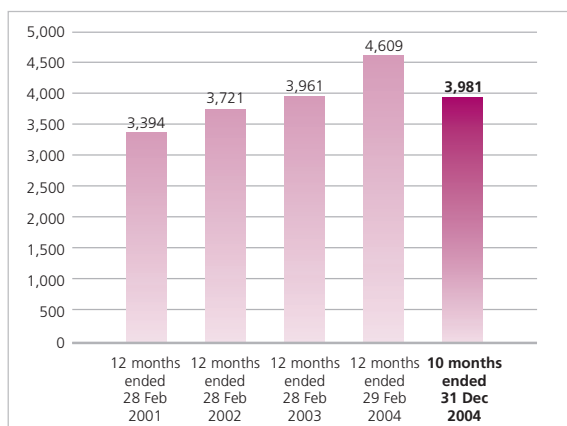
Website: www.jusco.com.hk

GMS DISTRIBUTION NETWORK

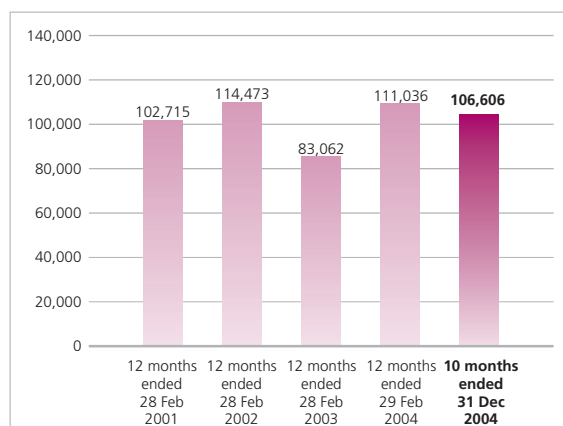
(As at 31 December 2004)

| | No. of Stores | Floor Area (sq. ft.) |
|-----------------------------|---------------|-------------------------|
| Hong Kong | 7 | 1,113,000 |
| Guangdong Province | 8 | 1,446,000 |
| Total | 15 | 2,559,000 |
| Net Increase (vs. Feb 2004) | 2 | 427,000 |

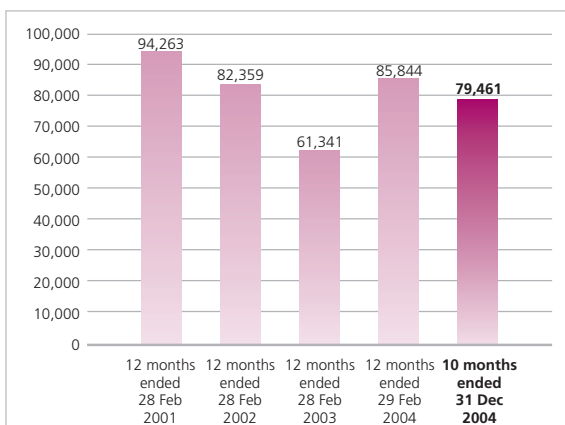
Turnover (HK\$ million)



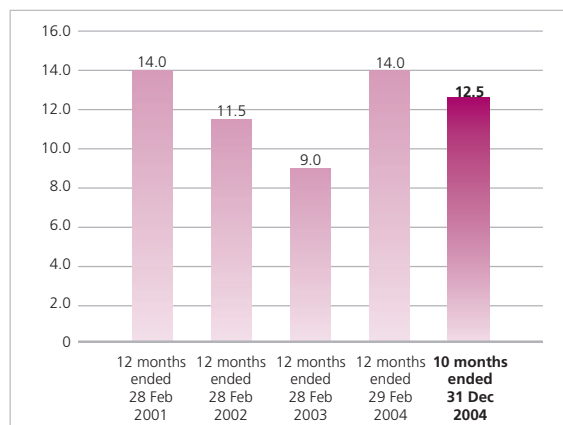
Profit from operations (HK\$ '000)



Profit attributable to shareholders (HK\$ '000)



Dividend per share (HK cents)



| | 12 months ended 28 Feb 2001 | 12 months ended 28 Feb 2002 | 12 months ended 28 Feb 2003 | 12 months ended 29 Feb 2004 | 10 months ended 31 Dec 2004 |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Turnover (HK\$ million) | 3,394 | 3,721 | 3,961 | 4,609 | 3,981 |
| Profit from operations (HK\$ '000) | 102,715 | 114,473 | 83,062 | 111,036 | 106,606 |
| Profit attributable to shareholders (HK\$ '000) | 94,263 | 82,359 | 61,341 | 85,844 | 79,461 |
| Dividend per share (HK cents) | 14.0 | 11.5 | 9.0 | 14.0 | 12.5 |
| Turnover breakdown (%) | | | | | |
| Fashion | 24 | 22 | 22 | 21 | 21 |
| Food | 27 | 28 | 30 | 33 | 34 |
| Household | 41 | 43 | 41 | 40 | 40 |
| Catering | 8 | 7 | 7 | 6 | 5 |
| Total | 100 | 100 | 100 | 100 | 100 |

p.4 Chairman's Statement



Toshiji TOKIWA
Chairman

The AEON goal is to become a “Global top-10” retail group. As we move toward this target, we seek to maximise group synergies through the sharing of best practices and other strategies. We are also working to raise customer satisfaction by offering quality merchandise that matches local needs and by enhancing our services. After more than 30 years of sustained effort, we are now established as the largest retail group in Asia.

In 1987, after establishing AEON Stores (Hong Kong) Co., Limited (“AEON Stores” or “the Group”), the first JUSCO Hong Kong store was established. After many years of continued expansion, the Group now has in total 7 General Merchandise Stores (GMS) and “JUSCO” is widely recognised as a symbol of quality and lifestyle fulfillment for people in Hong Kong. In recent years, due to space limitations, AEON Stores explore and establish new business models - JUSCO \$10 Plaza and JUSCO Supermarket. We believe that all our new business operations are on track to make contributions

and increase our share of the Hong Kong retail market.

Based on this solid foundation, AEON Stores acts as the initiating driving force in support of our expansion into South China. AEON was one of the first retail pioneers to extend its business arm into the South China region. Our professionalism in the retail industry and our rich expertise as well as well trained human resources in Hong Kong are crucial elements in the development of the South China market.

Building on our successful business models in Hong Kong, our first store in Guangzhou was established in 1996, and since then we have expanded our footprints to other cities in Guangdong Province and Shenzhen Special Economic Zone, with a current total of 8 GMS. Our achievements and flourishing business in the PRC are largely due to our sound branding, quality service, wide array of merchandise and comfortable shopping environment. These demonstrate that the GMS business concept, offering daily-necessity merchandise, is very well received by Chinese customers.

AEON Stores now has three subsidiaries in South China. Each of them is pushing ahead aggressively to open new stores. In 2004, AEON Stores established a wholly owned subsidiary, AEON (China) Co., Ltd., in Shenzhen. The new company is now focused on opening new stores and developing a central procurement and logistics centre. Its operations echo the AEON strategy - to share best practices and maximise group synergies.

The expanding network of our stores in South China is evidence that overseas markets will become one of AEON's major revenue streams. This continuous expansion contributes not only brand development but also has a positive impact in terms of profit. AEON will also continue to localise the management of its overseas operations while working to secure the support of local communities and shoppers.

As AEON works toward its "Global top-10" vision, we will continue to expand our store networks in Japan and overseas. We are committed to putting the "AEON Code of Conduct" into practice as a way of ensuring that our behaviour continues to reflect the unchanging principles of our corporate philosophy - "Everything we do, we do for our customers". In this regard, we are also reviewing our approach to community-focused management. We now strive to enhance our reputation by ensuring that AEON always heeds the wishes of its customers, and thereby becomes the best possible local retailer.



Toshiji TOKIWA
Chairman

Hong Kong, 24 March 2005

p.6 Management Discussion and Analysis



Kazumasa ISHII
Managing Director

I am pleased to present this annual report of AEON Stores (Hong Kong) Co., Limited (the "Company") and its subsidiaries (the "Group" or "AEON Stores") to our shareholders, which was made up to the end of 2004. As we have changed our financial year end date to 31 December from end of February, this annual report covered only 10 months from 1 March 2004 to 31 December 2004.

RESULTS

For the 10 months period ended 31 December 2004, the Group recorded a turnover of HK\$3,981 million, compared with HK4,609 million for the year ended 29 February 2004. Net profit reached HK\$79 million (year ended 29 February 2004: HK\$86 million) and earnings per share was 30.56 HK cents (year ended 29 February 2004: 33.02 HK cents).

DIVIDENDS

The Board of Directors has recommended a final dividend of 8.5 HK cents per share (year ended 29 February 2004: 13 HK cents). Together with the interim dividend of 4 HK cents (year ended 29 February 2004: 1 HK cent) distributed in November 2004, this represents a total dividend of 12.5 HK cents (year ended 29 February 2004: 14 HK cents) per share for the period.

FINANCIAL REVIEW

As a result of the change of year end date, turnover of the Group decreased 14% to HK\$3,981 million. Yet, with the same 10 months reporting basis, the Group managed to have 8% increase in turnover, thanks to the pleasing sales of existing stores together with the newly opened stores in the PRC.

With the improvement of the operating results of our stores and we could maintain the gross margin at 26.1%, the Group's net profit decreased only 7% to HK\$79 million.

The staff costs to turnover ratio dropped 0.1% to 8.8% while rental costs to turnover ratio also dropped 0.1% to 7.9%.

At end of December 2004, the Group maintained a solid financial position with no bank borrowings, and cash on hand was over HK\$776 million as compared with HK\$832 million as at 29 February 2004.

Capital expenditure during the period amounted to HK\$82 million. It mainly incurred for the renovation of existing stores, opening of the Foshan Store and Shenzhen East Lake Store in the PRC and 3 independent JUSCO \$10 Plaza in Hong Kong.

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

Retail market witnessed positive market sentiment in both Hong Kong and the PRC during 2004. Riding on the waves of optimism toward the future and enthusiasm in spending, the global economy has been recovering, with previous uncertainties giving way to significant improvement in economic conditions. Furthermore, the booming property market and the relaxation of the PRC travellers had also enhanced the economy, resulting in a good market sentiment in Hong Kong throughout the period. Meanwhile, the retail market in the PRC remains strong, with the continuous rise in living standard and the PRC customers pursuing reputable brands with quality merchandise.

Hong Kong Operations

Driven by the continued positive market sentiment and shopping-spree atmosphere around the city, together with the increasing tourist volume - particularly travellers from the PRC since 2004, Hong Kong people seemed to be fast catching up with the spending desires. Our sales in Hong Kong recorded HK\$2,878 million for the 10 months ended 31 December 2004, decreased 18% as compared with last year. When compared under the same period basis, turnover in 2004 has a positive growth of 2%. The slight sales increment was due to the closure of the Tsz Wan Shan Store in January 2004. Given a sound performance during the period, profit from operations decreased only 7% to HK\$93 million.

The satisfactory results were attributed partly to our successful introduction of a "new concept" JUSCO in Tseung Kwan O. During the period, we closed our Tseung Kwan O Store partially from March to May 2004 for renovation. The supermarket has been expanded into the largest of all JUSCO stores in Hong Kong providing different kinds of hot and cold food items, as well as ready-to-eat delicatessen to meet the needs of young working couples and nucleus families nearby. Meanwhile, other General Merchandise Store ("GMS") also continued to perform well by committing to provide customers with merchandise and a shopping environment that guaranteed "safety", "confidence" and "trust", which became our edge in the competitive retail industry in Hong Kong.

Moreover, our dedication to providing customers with a rich product-mix at reasonable prices has also been one of the attributable factors to the satisfactory results. Our product branding, TOPVALU, has long been recognised as "value-for-money" and our competitive tool of differentiation from our competitors. The brand caters to a full range of daily necessities established a brand reputation for stringent selection, safety, environmental friendliness and customer-guided product development.

In 2004, we further expanded our JUSCO \$10 Plaza network, with new locations at Tseung Kwan O, North Point and Jordan. We have now established a total of 7 JUSCO \$10 Plaza strategically located around Hong Kong. With quality source of supply, unit price and prime locations, our stores were well received by customers.



PRC Operations

The PRC business remained strong and has been our driving force during the period. Sales reached HK\$1,103 million, decreased 1% compared with last year, but if with the same period basis reflected a surge of 27% in sales. Profit from operations significantly increased 23% to HK\$13 million for the 10 months period ended 31 December 2004. The full-period operation of the Zhongshan Store, together with the newly opened Foshan Store and Shenzhen East Lake Store attributed to the sales improvement of the GMS operation in the PRC. Despite the keen competition, leveraging its highly recognised "JUSCO" brand, AEON Stores has further established a concrete footprint in the PRC. The prime locations, together with an excellent selection of daily necessities at reasonable prices, attract customers to shop frequently. 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 period.

During the period, the Group established a wholly owned subsidiary, AEON (China) Co., Limited ("AEON China"). AEON China was granted a license to open new GMS in the PRC. The new company, which focuses on merchandise sourcing and providing logistics support for the Group and store development in the Pearl River Delta region, will significantly boost the Group's operational efficiency. The Group believes that the new move will also enable it to further explore the tremendous business opportunities in the PRC. In order to serve as a procurement centre for AEON Stores, AEON China is working with the Group's sister company AIC Inc. and its subsidiaries. We believe that this business move will optimise resources allocation for the Group and create synergies among our members.



Achievements

Building on our motto “Everything we do, we do for our customers”, we consistently provide services and merchandises of high quality to our customers. Our well recognised commitment was key to our consecutive winning of “The Top Service Award” organised by Next Magazine for the third consecutive years. Determined by readers’ votes and adjudication of a panel of judges from different industries, the award was presented to AEON Stores for its outstanding service to customers in retail industry.

During the period, we were also recognised as the “Caring Company 2004/05” by the Hong Kong Council of Social Service. This is the third consecutive years for us to be awarded the Logo, which entitled us as “Caring Company 2002-05”. In addition, our JUSCO stores and JUSCO \$10 Plaza are approved by Hong Kong Tourism Board as “Merchant of Quality Tourism Services”.

The most outstanding achievement during the period of the Group was it being named one of the “Regional Best-Managed Company” (small-cap) in Asiamoney’s 13th Annual Best-Managed Companies Poll. The polls are recognised as the most prestigious and accurate measure of excellence for companies in the Asia-Pacific region (including Australia and Japan). The Group received high praise for its corporate strategy, financial management, operational efficiency, investor relations, focus on shareholder value, annual reports and web sites.

Human Resources

As at 31 December 2004, the Group employed about 3,300 full-time and 3,400 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. Adhering to this commitment, the Group will continue to invest resources into staff training to boost service quality and staff knowledge. By empowering our staff through constantly providing them with a series of training seminars, we hope to continuously enhance their knowledge and skills in better serving our customers. This will in turn further enhance the overall operation of the Group.

During the period, all our staff members are committed to providing excellent services and making immediate response to our customers needs through strictly carrying out the "AEON Code of Conduct". 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.

PROSPECTS

Hong Kong Operations

We remain optimistic about Hong Kong's retail market in view of the benefits brought by relaxation of travel restrictions for mainland travellers under the Individual Traveller Scheme. Meanwhile, with the overall market sentiment being improved by the booming property market and the revitalisation of Hong Kong's retail industry, we believe the retail market will continue to be positive in the coming year.

In the coming year, the Group will continue to look for appropriate sites for opening new GMS and JUSCO \$10 Plaza that can serve the communities in high-density residential areas along major mass transportation networks by taking full advantage of busy customer traffic. In the meantime, the Tai Po Store will have renovation in mid 2005. We aim at providing a store that fits the customer needs of the district. Partial section will be closed and the renovation is expected to be completed in July this year.



In January 2005, the Group has announced the opening of an independent Supermarket at apm, the retail flagship mall of Sun Hung Kai Properties, in Kwun Tong. The investment is approximately HK\$20 million which is financed by internal resources. This new store will open in May 2005, covering a total floor area of about 33,000 square feet. JUSCO Supermarket will carry cutting-edge products. Adopting the operative model used in Japan, our new store will be the first supermarket detached from GMS of AEON Stores in Hong Kong. Building on the solid foundation of GMS, the Group will venture into supermarkets tailored for customers looking for modern life style. JUSCO Supermarket will be operated with a unique approach entailing the offering of a great variety of merchandises, especially on our private brand "TOPVALU". Building on our expertise in operating supermarket and in sourcing a wide range of quality merchandise, the Group is confident in adopting this new business mode and views it as an important part of our diversifying source of revenue. The Group is now looking into other possible locations to open more independent supermarkets, aiming to serve the districts that our GMS do not reach.

PRC Operations

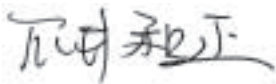
The South China Region's retail market is expected to remain strong growth. Yet the Group provides diversified product categories and a shopping environment that guarantees "safety" (安全), "confidence" (安心) and "trust" (信賴) for the customers, as proven by the frequent shopping habits of the communities nearby.

Understanding that there are still rooms for expanding our market share in the Shenzhen Special Economic Zone, we are set to open our third GMS in Shenzhen in early July. In addition, a new store at Shunde will also open by the end of 2006.

JUSCO's brand name will be further promoted in the PRC through development in chain store operation. Apart from that, the Group is now considering the establishment of other business modes to further enhance our reputation and market share in the PRC. Thorough market research and survey will be conducted in order to provide the best services and address the needs 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 to our customers and shareholders for their support in the past period. I would also like to thank our dedicated staff members who have devoted solid and sustained effort to improve the Group's performance. 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 contributing to the well-being of the community.



Kazumasa ISHII

Managing Director

Hong Kong, 24 March 2005

EXECUTIVE DIRECTORS

Mr. Kazumasa ISHII

Mr. Ishii, aged 54, was appointed as Managing Director of the Company in May 2002. He is also the Legal Representative of Shenzhen Aeon Friendship Co. Ltd., Managing Director of AEON (China) Co., Ltd. and Chairman of Guangdong Jusco Teem Stores Co., Ltd.. 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 since 1990. He became a Director of the Company in 1994. In 1995, he resigned from Director. He 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 2000, 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 51, 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 47, was appointed as a Director of the Company in May 1999. He is currently Director of Accounts and Finance of the Company. He joined the Company in 1988. He is a fellow of The Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Mr. LAM Man Tin

Mr. Lam, aged 46, was appointed as a Director of the Company in May 1999. He is currently Director of South China Business Development of the Company. 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 65, 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.

Mr. Motoya OKADA

Mr. Okada, aged 53, 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 59, 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 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 84, 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 76, 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 and 9th Chinese People's Political Consultative Conference. She was awarded the Order of British Empire (O.B.E.) in 1993, the Silver Bauhinia Star (S.B.S.) in 1998 and the Gold Bauhinia Star (G.B.S.) in 2003.

Mr. Sham Sui Leung Daniel

Mr. Sham, aged 49, was appointed as a Director of the Company in September 2004. He graduated from Leeds University in England with a bachelor degree in Economics. Mr. Sham is an associate member of the Institute of Chartered Accountants in England and Wales and he is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants (HKICPA). He was a partner with Moores Rowland Mazars from 1988 to 2003. He had been a committee member of the Expert Panel on Listing, the Expert Panel on Securities and the Accountants' Report Task Force of the HKICPA. He had also been and is a committee member of the Disciplinary Panel of the HKICPA.

SENIOR MANAGEMENT

Mr. Daisuke KOBAYASHI

Mr. Kobayashi, aged 46, is 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. Akira KAMBAYASHI

Mr. Kambayashi aged 49, is General Manager of Buying Division. He graduated from Nihon University with a bachelor degree in Sociology. He joined AEON Co., Ltd. in 1979 and the Company in 2004.

Mr. CHAK Kam Yuen

Mr. Chak, aged 42, is General Manager of Operations. He joined the Company in 1987. He has over 20 years of experience in retail industry, especially in store management.

p.16 Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements for the period from 1 March 2004 to 31 December 2004.

Change of Year End Date

During the period, the Company has changed its year end date from 28 February to 31 December. The financial statements presented therefore cover the 10 months period from 1 March 2004 to 31 December 2004.

Principal Activities

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

Subsidiaries

Details of the Company's subsidiaries at 31 December 2004 are set out in note 16 to the financial statements.

Results and Appropriations

The results of the Group for the period from 1 March 2004 to 31 December 2004 are set out in the consolidated income statement on page 24.

An interim dividend of 4 HK cents per share amounting to HK\$10,400,000 was paid to the shareholders during the period.

The directors recommend the payment of a final dividend of 8.5 HK cents per share to the shareholders on the register of members on 6 May 2005, amounting to HK\$22,100,000, and the retention of the remaining profit for the period.

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 period.

Property, Plant and Equipment

During the period, the Group spent approximately HK\$82 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 period are set out in note 15 to the financial statements.

Directors

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

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

SHAM Sui Leung Daniel (appointed on 27 September 2004)

In accordance with Articles 85 and 101 of the Company's Articles of Association, all 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 Articles.

Directors' Service Contracts

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

Directors' Interests in Shares and Debentures

At 31 December 2004, the interest 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 (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) The Company

| Name of directors | Number of ordinary shares held as personal interests | Approximate percentage of the issued share capital of the Company % |
|---------------------|--|---|
| 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 | 14,000 | – | 14,000 | 0.0019 |
| Kozo MURATA | 6,000 | – | 6,000 | 0.0008 |
| Toshiji TOKIWA | 4,000 | – | 4,000 | 0.0006 |
| Motoya OKADA (Note) | 406,696 | 8,742 | 415,438 | 0.0573 |
| Tatsuichi YAMAGUCHI | 22,000 | – | 22,000 | 0.0030 |
| | 452,696 | 8,742 | 461,438 | 0.0636 |

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.

(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. | - | - | - | - | 24,200 | 0.211 | - | - |
| AEON Forest Co., Ltd. | - | - | - | - | 3,000 | 0.038 | - | - |
| AEON Kyushu Co., Ltd. | - | - | - | - | 2,400 | 0.015 | - | - |
| AEON Techno Service Co., Ltd. | - | - | - | - | 15,000 | 0.139 | - | - |
| AEON Thana Sinsap (Thailand) Plc. | - | - | 500,000 | 0.200 | 1,500,000 | 0.600 | - | - |
| Aeonmall Co., Ltd. | - | - | - | - | 1,200 | 0.004 | - | - |
| Certo Co., Ltd. | - | - | - | - | 2,000 | 0.030 | - | - |
| AEON Co. (M) Bhd. | - | - | - | - | 150,000 | 0.085 | - | - |
| Laura Ashley Japan Co., Ltd. | 1 | 0.012 | - | - | 10 | 0.119 | - | - |
| Maxvalu Tohoku Co., Ltd. | - | - | - | - | 6,000 | 0.050 | - | - |
| Maxvalu Tokai Co., Ltd. | - | - | 5,000 | 0.043 | 10,000 | 0.086 | - | - |
| Reform Studio Co., Ltd. | - | - | - | - | 5 | 0.208 | - | - |
| Ryukyu JUSCO Co., Ltd. | - | - | - | - | 500 | 0.089 | - | - |
| The Talbots, Inc. | - | - | - | - | 44,000 | 0.079 | - | - |
| Zwei Co., Ltd. | - | - | 1,000 | 0.025 | 4,000 | 0.103 | - | - |

All the shares held are personal interests.

Other than as disclosed above, at 31 December 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.

Directors' Interests in Contracts of Significance and Connected Transactions

During the period, the Group had the following material transactions with AEON Co., Ltd. and its subsidiaries, namely AEON Credit Service (Asia) Company Limited ("ACS") and subsidiaries of AIC Inc.. 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 Group made purchases from subsidiaries of AIC Inc. amounting to a total of approximately HK\$41,208,000. The value of purchases was 1.84 per cent. of the total purchases of the Group for the period from 1 March 2004 to 31 December 2004. In the opinion of those directors not having an interest in the subsidiaries of AIC Inc., these transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

Directors' Interests in Contracts of Significance and Connected Transactions (continued)

- (ii) Royalties payable to AEON Co., Ltd. for the period from 1 March 2004 to 31 December 2004 pursuant to a technical assistance agreement amounted to approximately HK\$28,235,000.
- (iii) ACS and the Company have entered into agreements under which the Company pays commission to ACS in respect of certain purchases made by customers of the Company with the use of the AEON JUSCO Visa Card, the AEON JUSCO MasterCard, AEON JUSCO American Express Credit Card and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company. On 28 June 2002, the Stock Exchange granted a conditional waiver to the Company from strict compliance with certain disclosure requirements as stipulated in 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 Company for the period from 1 March 2004 to 31 December 2004 was approximately HK\$9,346,000. This amount has not exceeded 1.5% per cent. of the audited consolidated turnover of the Group as stipulated in the conditional waiver granted 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 Company 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.

- (iv) ACS and the Company have entered into a number of licence agreements under which ACS pays to the Company a fixed monthly rental in respect of service counters, cash dispensing machines and cash repayment machines operated by ACS in the stores of the Company. On 27 November 1998, the Stock Exchange granted a conditional waiver to the Company for strict compliance with certain disclosure requirements as stipulated in the Listing Rules in connection with the transactions subject to certain conditions. The total amount of rentals paid and payable by ACS for the period from 1 March 2004 to 31 December 2004 was approximately HK\$5,105,000. 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 stipulated in the conditional waiver granted 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 Company 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 period or at any time during the period.

Substantial Shareholders

At 31 December 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, short positions in the shares and underlying shares 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 (<i>Note 1</i>) | 71.64 |
| Aberdeen Asset Management Asia Ltd. | 19,446,000 (<i>Note 2</i>) | 7.48 |

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

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

ACS is owned by AEON Co., Ltd., AEON Credit Service Co., Ltd. and the Company as to 55,990,000 shares representing 13.75%, 217,514,000 shares representing 51.94%, and 3,784,000 shares representing 0.90% respectively of the issued share capital of ACS.

By virtue of its ownership of 45.11% and 71.64% of the issued share capital of AEON Credit Service Co., Ltd. and the Company respectively, AEON Co., Ltd. was deemed to be interested in the 1,776,000 shares owned by ACS.

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2004.

Arrangements to Purchase Shares or Debentures

At no time during the period 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 period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Donations

During the period, the Group made charitable and other donations amounting to approximately HK\$1,739,000.

Corporate Governance

The Company has complied throughout the period from 1 March 2004 to 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has received, from each of the independent non-executive directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

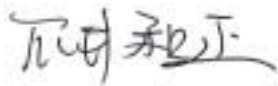
Sufficiency of Public Float

The Company has maintained a sufficient public float throughout the period from 1 March 2004 to 31 December 2004.

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, 24 March 2005

Deloitte.

德勤

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

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 24 to 53 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 Institute of Certified Public 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 31 December 2004 and of the profit and cash flows of the Group for the period from 1 March 2004 to 31 December 2004 and have been properly prepared in accordance with the Companies Ordinance.



Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

24 March 2005

p.24 Consolidated Income Statement

For the Period from 1 March 2004 to 31 December 2004

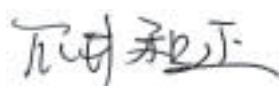
| | Notes | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|---|-------|--|---|
| Turnover | | 3,981,000 | 4,608,801 |
| Other operating income | | 176,935 | 208,195 |
| Investment income | 6 | 2,488 | 3,035 |
| Purchases of goods and changes in inventories | | (2,940,090) | (3,404,099) |
| Staff costs | | (352,240) | (409,684) |
| Depreciation | | (98,954) | (105,566) |
| Loss on disposal of property, plant and equipment | | (2,330) | (8,510) |
| Pre-operating expenses | 7 | (4,136) | (1,149) |
| Other operating expenses | | (656,067) | (779,987) |
| Profit from operations | 8 | 106,606 | 111,036 |
| Finance costs | 9 | (9) | (25) |
| Profit from ordinary activities before taxation | | 106,597 | 111,011 |
| Income tax expenses | 12 | (24,430) | (25,489) |
| Profit before minority interest | | 82,167 | 85,522 |
| Minority interest | | (2,706) | 322 |
| Net profit for the period/year | | 79,461 | 85,844 |
| Dividends | 13 | 44,200 | 26,000 |
| Earnings per share | 14 | 30.56 cents | 33.02 cents |

Consolidated Balance Sheet p.25

At 31 December 2004

| | Notes | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
|---|-------|------------------------|-----------------------|
| Non-current Assets | | | |
| Property, plant and equipment | 15 | 342,660 | 361,714 |
| Investment securities | 17 | 3,936 | 3,936 |
| Deferred taxation | 18 | 10,922 | 9,126 |
| | | 357,518 | 374,776 |
| Current Assets | | | |
| Inventories | | 384,075 | 325,976 |
| Trade receivables | 19 | 16,302 | 15,522 |
| Other receivables, prepayments and deposits | | 92,836 | 134,473 |
| Amounts due from fellow subsidiaries | 20 | 37,515 | 19,636 |
| Bank balances and cash | | 776,018 | 831,988 |
| | | 1,306,746 | 1,327,595 |
| Current Liabilities | | | |
| Trade payables | 21 | 709,949 | 865,382 |
| Other payables and accrued charges | | 298,775 | 250,981 |
| Amounts due to fellow subsidiaries | 22 | 10,553 | 9,409 |
| Amount due to ultimate holding company | 23 | 61,678 | 32,656 |
| Obligations under finance leases | 24 | 298 | 202 |
| Taxation | | 9,705 | 8,213 |
| Dividend payable | | 142 | 114 |
| | | 1,091,100 | 1,166,957 |
| Net Current Assets | | | |
| | | 215,646 | 160,638 |
| Capital and Reserves | | | |
| Share capital | 25 | 52,000 | 52,000 |
| Share premium and reserves | | 480,221 | 445,105 |
| | | 532,221 | 497,105 |
| Minority Interest | | | |
| | | 40,682 | 38,022 |
| Non-current Liabilities | | | |
| Obligations under finance leases | 24 | 261 | 287 |
| | | 573,164 | 535,414 |

The financial statements on pages 24 to 53 were approved and authorised for issue by the Board of Directors on 24 March 2005 and are signed on its behalf by:



Kazumasa ISHII
Director

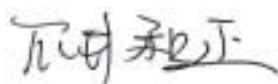


Kozo MURATA
Director

p.26 Balance Sheet

At 31 December 2004

| | Notes | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
|---|-------|------------------------|-----------------------|
| Non-current Assets | | | |
| Property, plant and equipment | 15 | 180,376 | 217,412 |
| Investments in subsidiaries | 16 | 72,011 | 64,936 |
| Investment securities | 17 | 3,936 | 3,936 |
| Deferred taxation | 18 | 10,922 | 9,126 |
| | | 267,245 | 295,410 |
| Current Assets | | | |
| Inventories | | 316,704 | 277,759 |
| Trade receivables | 19 | 10,837 | 11,451 |
| Other receivables, prepayments and deposits | | 52,854 | 94,517 |
| Amounts due from subsidiaries | | 22,981 | 13,234 |
| Amount due from a fellow subsidiary | 20 | 36,781 | 19,636 |
| Bank balances and cash | | 569,973 | 647,820 |
| | | 1,010,130 | 1,064,417 |
| Current Liabilities | | | |
| Trade payables | 21 | 472,335 | 646,973 |
| Other payables and accrued charges | | 203,379 | 179,667 |
| Amount due to a fellow subsidiary | 22 | 10,497 | 9,397 |
| Amount due to ultimate holding company | 23 | 61,720 | 32,668 |
| Taxation | | 7,437 | 5,457 |
| Dividends payable | | 142 | 114 |
| | | 755,510 | 874,276 |
| Net Current Assets | | | |
| | | 254,620 | 190,141 |
| | | 521,865 | 485,551 |
| Capital and Reserves | | | |
| Share capital | 25 | 52,000 | 52,000 |
| Share premium and reserves | 26 | 469,865 | 433,551 |
| | | 521,865 | 485,551 |



Kazumasa ISHII
Director



Kozo MURATA
Director

Consolidated Statement of Changes in Equity p.27

For the period from 1 March 2004 to 31 December 2004

| | Share capital HK\$'000 | Share premium HK\$'000 | Translation reserve HK\$'000 | PRC | | Total HK\$'000 |
|---|------------------------------|------------------------------|------------------------------------|-----------------------------------|---------------------------------|-------------------|
| | | | | statutory reserves HK\$'000 | Retained profits HK\$'000 | |
| At 1 March 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 1 March 2004 | 52,000 | 63,158 | 431 | 2,048 | 379,468 | 497,105 |
| Exchange differences arising on translation of overseas operations not recognised in the income statement | – | – | (145) | – | – | (145) |
| Profit for the period | – | – | – | – | 79,461 | 79,461 |
| Dividends | – | – | – | – | (44,200) | (44,200) |
| At 31 December 2004 | 52,000 | 63,158 | 286 | 2,048 | 414,729 | 532,221 |

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

p.28 Consolidated Cash Flow Statement

For the period from 1 March 2004 to 31 December 2004

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|--|--|---|
| Operating Activities | | |
| Profit from operations | 106,606 | 111,036 |
| Adjustment for: | | |
| Investment income | (2,488) | (3,035) |
| Depreciation | 98,954 | 105,566 |
| Loss on disposal of property, plant and equipment | 2,330 | 8,510 |
| Operating cash flows before movements in working capital | 205,402 | 222,077 |
| (Increase) decrease in inventories | (58,151) | 2,904 |
| Increase in trade receivables | (784) | (9,981) |
| Decrease (increase) in other receivables, prepayments and deposits | 41,594 | (8,663) |
| Increase in amounts due from fellow subsidiaries | (17,879) | (5,332) |
| (Decrease) increase in trade payables | (155,200) | 286,005 |
| Increase in other payables and accrued charges | 45,658 | 43,671 |
| Increase in amounts due to fellow subsidiaries | 1,144 | 590 |
| Increase in amount due to ultimate holding company | 29,022 | 4,735 |
| Cash generated from operations | 90,806 | 536,006 |
| Hong Kong Profits Tax paid | (20,520) | (21,755) |
| People's Republic of China income taxes paid | (4,211) | (4,419) |
| Interest paid | (9) | (25) |
| Interest received | 1,938 | 2,542 |
| Net Cash from Operating Activities | 68,004 | 512,349 |
| Investing Activities | | |
| Dividends received from listed investment securities | 550 | 493 |
| Purchase of property, plant and equipment | (80,086) | (65,303) |
| Proceeds from disposal of property, plant and equipment | 111 | 398 |
| Net Cash Used in Investing Activities | (79,425) | (64,412) |
| Financing Activities | | |
| Dividends paid | (44,172) | (25,983) |
| Dividends paid to a minority shareholder | - | (546) |
| Repayment of obligations under a finance lease | (121) | (270) |
| Cash Used in Financing Activities | (44,293) | (26,799) |
| Net (Decrease) Increase in Cash and Cash Equivalents | (55,714) | 421,138 |
| Cash and Cash Equivalents at Beginning of the Period/Year | 831,988 | 409,431 |
| Effect of Foreign Exchange Rate Changes | (256) | 1,419 |
| Cash and Cash Equivalents at End of the Period/Year | 776,018 | 831,988 |
| Analysis of the Balances of Cash and Cash Equivalents | | |
| Bank balances and cash | 776,018 | 831,988 |

Notes to the Financial Statements p.29

For the period from 1 March 2004 to 31 December 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. Basis of Preparation of Financial Statements

The financial statements for the current period cover the ten months period ended 31 December 2004. The corresponding amounts shown for the income statement, statement of changes in equity, cash flows and related notes covered a twelve month period from 1 March 2003 to 29 February 2004 and therefore may not be comparable with amounts shown for the current period.

3. Potential Impact Arising from the Recently Issued Accounting Standards

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the period ended 31 December 2004.

The Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

4. 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 29 February for the prior periods and 31 December in the current period.

Investments in subsidiaries

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

For the period from 1 March 2004 to 31 December 2004

4. Significant Accounting Policies (Continued)

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.

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 or remaining net book values of property, plant and equipment, other than construction in progress, over the estimated useful lives using the straight line method.

In previous years and for the current period from 1 March 2004 to 31 August 2004. The rates of depreciation used and their estimated residual values were 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 |

For the period from 1 March 2004 to 31 December 2004

4. Significant Accounting Policies (Continued)

Property, plant and equipment (Continued)

During the period, the management reassessed the useful lives and residual values of its assets. With effect from 1 September 2004, the remaining net book values of property, plant and equipment are depreciated at the following rates:

| | |
|----------------------------------|---|
| Building fixtures | Over the expected useful lives or, where shorter, the term of the relevant lease on a straight line basis |
| Furniture fixtures and equipment | 6 $\frac{2}{3}$ % – 25% per annum |
| Motor vehicles | 20% – 25% per annum |

The change in depreciation rates has increased the depreciation charge for the period by approximately HK\$10,603,000.

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.

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 the 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.

For the period from 1 March 2004 to 31 December 2004

4. Significant Accounting Policies (Continued)

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. An impairment loss is recognised as an expense immediately.

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

Inventories

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

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 the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

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.

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 period. 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.

For the period from 1 March 2004 to 31 December 2004

4. Significant Accounting Policies (Continued)

Taxation (continued)

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 taxable 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.

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.

5. Turnover and Segment Information

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

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.

For the period from 1 March 2004 to 31 December 2004

5. Turnover and Segment Information (Continued)

Geographical segments (Continued)

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

For the period from 1 March 2004 to 31 December 2004

| | Hong Kong HK\$'000 | PRC HK\$'000 | Consolidated HK\$'000 |
|--|-----------------------|------------------|--------------------------|
| Turnover | 2,878,006 | 1,102,994 | 3,981,000 |
| Result | | | |
| Profit from operations | 93,209 | 13,397 | 106,606 |
| Finance costs | (9) | – | (9) |
| Profit from ordinary activities before taxation | 93,200 | 13,397 | 106,597 |
| Income tax expenses | (20,704) | (3,726) | (24,430) |
| Profit before minority interest | 72,496 | 9,671 | 82,167 |
| Minority interest | – | (2,706) | (2,706) |
| Net profit for the period | 72,496 | 6,965 | 79,461 |

At 31 December 2004

| | Hong Kong HK\$'000 | PRC HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|-----------------------|-----------------|--------------------------|
| Balance Sheet | | | |
| Assets | | | |
| Segment assets | 1,171,461 | 481,881 | 1,653,342 |
| Unallocated corporate assets | | | 10,922 |
| Consolidated total assets | | | 1,664,264 |
| Liabilities | | | |
| Segment liabilities | 748,079 | 333,018 | 1,081,097 |
| Unallocated corporate liabilities | | | 10,264 |
| Consolidated total liabilities | | | 1,091,361 |

For the period from 1 March 2004 to 31 December 2004

| | Hong Kong HK\$'000 | PRC HK\$'000 | Consolidated HK\$'000 |
|--|-----------------------|-----------------|--------------------------|
| Other Information | | | |
| Capital expenditures | 25,281 | 57,213 | 82,494 |
| Depreciation | 60,153 | 38,801 | 98,954 |
| Loss on disposal of property, plant and equipment | 2,127 | 203 | 2,330 |

For the period from 1 March 2004 to 31 December 2004

5. Turnover and Segment Information (Continued)**Geographical segments (Continued)**

For the 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 |
| Minority interest | — | 322 | 322 |
| Net profit for the year | 78,632 | 7,212 | 85,844 |

At 29 February 2004

| | Hong Kong HK\$'000 | PRC HK\$'000 | Consolidated HK\$'000 |
|-----------------------------------|-----------------------|-----------------|--------------------------|
| Balance Sheet | | | |
| Assets | | | |
| Segment 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 |

For the year ended 29 February 2004

| | Hong Kong HK\$'000 | PRC HK\$'000 | Consolidated HK\$'000 |
|--|-----------------------|-----------------|--------------------------|
| Other Information | | | |
| Capital expenditures | 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 |

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.

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For the period from 1 March 2004 to 31 December 2004

6. Investment Income

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|---|--|---|
| Dividend income from listed investment securities | 550 | 493 |
| Interest income from bank deposits | 1,938 | 2,542 |
| | 2,488 | 3,035 |

7. Pre-operating Expenses

Included in pre-operating expenses were staff costs of HK\$2,761,563 (1.3.2003 to 29.2.2004: HK\$1,071,000).

8. Profit from Operations

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|--|--|---|
| Profit from operations has been arrived at after charging (crediting): | | |
| Auditors' remuneration | 1,817 | 1,664 |
| Depreciation | | |
| – owned assets | 98,719 | 105,341 |
| – assets under a finance lease | 235 | 225 |
| | 98,954 | 105,566 |
| Operating lease rentals in respect of Rented premises | | |
| – minimum lease payments | 303,201 | 348,361 |
| – contingent rent (<i>Note</i>) | 11,035 | 19,581 |
| | 314,236 | 367,942 |
| Retirement benefits scheme contributions, net of forfeited contributions of HK\$881,000 (1.3.2003 to 29.2.2004: HK\$528,000) | 17,499 | 14,348 |

For the period from 1 March 2004 to 31 December 2004

8. Profit from Operations (Continued)

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|---|--|---|
| Royalties payable to the ultimate holding company | 28,235 | 32,301 |
| Rentals received from licensees | | |
| – minimum lease payments | (125,878) | (144,482) |
| – contingent rent (Note) | (31,769) | (37,731) |
| | (157,647) | (182,213) |

Note: Contingent rent payments/receipts 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.

9. Finance Costs

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|--|--|---|
| Interest on bank borrowings wholly repayable within five years | 9 | 25 |

10. Directors' Emoluments

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|---|--|---|
| Directors' fees: | | |
| Executive | 100 | 120 |
| Non-executive | 923 | 1,070 |
| | 1,023 | 1,190 |
| Other emoluments: | | |
| Executive | | |
| Salaries and other benefits | 4,752 | 5,701 |
| Contributions to retirement benefits scheme | 113 | 131 |
| Non-executive | – | – |
| Total emoluments | 5,888 | 7,022 |

The amounts disclosed above include directors' fees of HK\$348,000 (1.3.2003 to 29.2.2004: HK\$380,000) payable to independent non-executive directors.

For the period from 1 March 2004 to 31 December 2004

10. Directors' Emoluments (Continued)

The emoluments of the directors were within the following bands:

| | No. of Directors | |
|--------------------------------|------------------------------|-----------------------------|
| | 1.3.2004 to 31.12.2004 | 1.3.2003 to 29.2.2004 |
| Nil to HK\$1,000,000 | 6 | 7 |
| HK\$1,000,001 to HK\$1,500,000 | 3 | 3 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 1 |
| | 10 | 11 |

11. Employees' Emoluments

Of the five individuals with the highest emoluments in the Group, one (1.3.2003 to 29.2.2004: one) was a director of the Company whose emoluments are included in the disclosures in note 10 above. The emoluments of the remaining four individuals (1.3.2003 to 29.2.2004: four) were as follows:

| | HK\$'000 | |
|---------------------------------|------------------------------|-----------------------------|
| | 1.3.2004 to 31.12.2004 | 1.3.2003 to 29.2.2004 |
| Salaries and other remuneration | 4,088 | 5,023 |
| Performance based bonus | 1,170 | 1,016 |
| Contributions to pension scheme | 318 | 199 |
| | 5,576 | 6,238 |

| | No. of Employees | |
|--------------------------------|------------------------------|-----------------------------|
| | 1.3.2004 to 31.12.2004 | 1.3.2003 to 29.2.2004 |
| HK\$1,000,001 to HK\$1,500,000 | 3 | – |
| HK\$1,500,001 to HK\$2,000,000 | 1 | 4 |

For the period from 1 March 2004 to 31 December 2004

12. Income Tax Expenses

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|---|--|---|
| The charge comprises: | | |
| Current period/year | | |
| Hong Kong | 22,500 | 20,748 |
| Other regions in the PRC | 4,247 | 3,437 |
| | 26,747 | 24,185 |
| (Over) underprovision in prior years | | |
| Other regions in the PRC | (521) | 584 |
| | 26,226 | 24,769 |
| Deferred tax (credit) charge (<i>note 18</i>) | | |
| Current period/year | (1,796) | 1,643 |
| Attributable to a change in tax rate | – | (923) |
| | (1,796) | 720 |
| Income tax expenses for the period/year | 24,430 | 25,489 |

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

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 18.

Income tax expenses for the period/year can be reconciled from taxation based on profit from ordinary activities before taxation in the consolidated income statement as follows:

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|--|--|---|
| Profit before taxation | 106,597 | 111,011 |
| Taxation at the applicable rate of 17.5% | 18,654 | 19,427 |
| Tax effect of expenses that are not deductible in determining taxable profit | 4,957 | 5,315 |
| Tax effect of income that are not taxable in determining taxable profit | (212) | (382) |
| Tax effect of tax losses not recognised | 895 | 1,208 |
| Tax effect of utilisation of tax losses previously not recognised | (1,396) | (1,184) |
| Tax effect of utilisation of deductible temporary difference previously not recognised | (280) | (170) |
| Tax effect of deductible temporary difference not recognised | 338 | – |
| Effect of different tax rates of entities operating in the PRC | 1,995 | 1,614 |
| (Over) underprovision in prior years | (521) | 584 |
| Effect of change in tax rate | – | (923) |
| Income tax expenses | 24,430 | 25,489 |

For the period from 1 March 2004 to 31 December 2004

13. Dividends

| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
|--|--|---|
| Final dividend in respect of the year ended 29.2.2004 of 13 HK cents (1.3.2002 to 28.2.2003: 9 HK cents) per share | 33,800 | 23,400 |
| Interim dividend of 4 HK cents (1.3.2003 to 29.2.2004: 1 HK cent) per share | 10,400 | 2,600 |
| | 44,200 | 26,000 |

The final dividend of 8.5 HK cents per ordinary share has been proposed by the directors and is subject to approval by the Company's shareholders in general meeting.

14. Earnings per Share

The calculation of earnings per share is based on the Group's net profit for the current period of HK\$79,461,000 (1.3.2003 to 29.2.2004: HK\$85,844,000) and on 260,000,000 (1.3.2003 to 29.2.2004: 260,000,000) ordinary shares in issue during the period/year.

For the period from 1 March 2004 to 31 December 2004

15. 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 2004 | 631,423 | 247,675 | 3,965 | 3,595 | 886,658 |
| Translation adjustments | (188) | (63) | (3) | (3) | (257) |
| Additions | 11,762 | 12,982 | 538 | 57,212 | 82,494 |
| Transfer | 45,644 | 14,435 | – | (60,079) | – |
| Disposals | (7,663) | (4,444) | (259) | – | (12,366) |
| At 31 December 2004 | 680,978 | 270,585 | 4,241 | 725 | 956,529 |
| Depreciation | | | | | |
| At 1 March 2004 | 354,032 | 168,781 | 2,131 | – | 524,944 |
| Translation adjustments | (80) | (22) | (2) | – | (104) |
| Provided for the period | 69,229 | 29,042 | 683 | – | 98,954 |
| Eliminated on disposals | (5,723) | (3,969) | (233) | – | (9,925) |
| At 31 December 2004 | 417,458 | 193,832 | 2,579 | – | 613,869 |
| Net Book Values | | | | | |
| At 31 December 2004 | 263,520 | 76,753 | 1,662 | 725 | 342,660 |
| At 29 February 2004 | 277,391 | 78,894 | 1,834 | 3,595 | 361,714 |

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For the period from 1 March 2004 to 31 December 2004

15. Property, Plant and Equipment (*Continued*)

| | Building fixtures HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Construction in progress HK\$'000 | Total HK\$'000 |
|-------------------------|---|---|--|--|---------------------------|
| The Company | | | | | |
| Cost | | | | | |
| At 1 March 2004 | 455,407 | 189,137 | 985 | 527 | 646,056 |
| Additions | 9,911 | 5,623 | – | 9,747 | 25,281 |
| Transfer | 7,685 | 2,038 | – | (9,723) | – |
| Disposals | (7,663) | (3,294) | – | – | (10,957) |
| At 31 December 2004 | 465,340 | 193,504 | 985 | 551 | 660,380 |
| Depreciation | | | | | |
| At 1 March 2004 | 279,944 | 148,131 | 569 | – | 428,644 |
| Provided for the period | 40,584 | 19,333 | 236 | – | 60,153 |
| Eliminated on disposals | (5,723) | (3,070) | – | – | (8,793) |
| At 31 December 2004 | 314,805 | 164,394 | 805 | – | 480,004 |
| Net Book Values | | | | | |
| At 31 December 2004 | 150,535 | 29,110 | 180 | 551 | 180,376 |
| At 29 February 2004 | 175,463 | 41,006 | 416 | 527 | 217,412 |

The net book value of furniture, fixtures and equipment of the Group includes an amount of HK\$491,557 (29.2.2004: HK\$572,400) in respect of assets held under a finance lease.

For the period from 1 March 2004 to 31 December 2004

16. Investments in Subsidiaries

| | The Company | |
|-------------------------------|------------------------|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| Unlisted investments, at cost | 72,011 | 64,936 |

Particulars of the subsidiaries at 31 December 2004 are as follows:

| Name | Form of business structure | Place of registration/ operation | Paid up registered/ ordinary share capital | Proportion of registered/ issued capital directly held by the Group | Principal activities |
|---|-----------------------------------|-------------------------------------|---|---|----------------------------|
| Guangdong Jusco Teem Stores Co., Ltd. ("GDJ") | Sino-foreign equity joint venture | PRC | RMB51,700,000 | 65% | General merchandise stores |
| Shenzhen Aeon Friendship Co., Ltd. | Sino-foreign equity joint venture | PRC | RMB55,000,000 | 65% | General merchandise stores |
| AEON (China) Co., Ltd. | Wholly owned foreign enterprise | PRC | RMB7,500,000 | 100% | General merchandise stores |
| Jusco Stores (Hong Kong) Co., Limited | 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.

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For the period from 1 March 2004 to 31 December 2004

16. 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 | |
|-------------|--|---|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| Assets | 124,479 | 149,727 |
| Liabilities | 141,193 | 164,484 |
| | 1.3.2004 to 31.12.2004 HK\$'000 | 1.3.2003 to 29.2.2004 HK\$'000 |
| Turnover | 530,214 | 533,656 |

17. Investment Securities

| | The Group and The Company | |
|---|---------------------------------|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 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 | 19,866 | 22,515 |

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

For the period from 1 March 2004 to 31 December 2004

18. Deferred Taxation

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

| | The Group and the Company | | |
|---|--|--|--------------|
| | Accelerated accounting depreciation | Other temporary differences | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 March 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 1 March 2004 | 8,827 | 299 | 9,126 |
| Credit to income for the period | 1,790 | 6 | 1,796 |
| At 31 December 2004 | 10,617 | 305 | 10,922 |

At the balance sheet date, the Group has unused tax losses of approximately HK\$14,267,000 (29.2.2004: HK\$17,148,000) 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\$15,980,000 (29.2.2004: HK\$15,622,000). A deferred tax asset has been recognised in respect of HK\$1,743,000 (29.2.2004: 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\$14,237,000 (29.2.2004: HK\$13,913,000) due to the unpredictability of future profit streams for certain subsidiaries.

| | The Group | |
|---|--------------------------------|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| Included in unrecognised tax losses above are losses that will expire in: | | |
| 31 December 2007 | – | 8,333 |
| 31 December 2008 | 8,631 | 8,815 |
| 31 December 2009 | 5,636 | – |
| | 14,267 | 17,148 |

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

For the period from 1 March 2004 to 31 December 2004

19. 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 | |
|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| Within due dates | 16,192 | 15,451 | 10,727 | 11,389 |
| Overdue under 30 days | 110 | 61 | 110 | 62 |
| Overdue over 30 days | – | 10 | – | – |
| | 16,302 | 15,522 | 10,837 | 11,451 |

20. Amounts due from Fellow Subsidiaries

The Group and the Company

The amounts are aged within due dates, unsecured, non-interest bearing and are repayable on demand.

21. Trade Payables

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

| | The Group | | The Company | |
|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| Within due dates | 618,346 | 778,221 | 441,440 | 614,672 |
| Overdue under 30 days | 46,163 | 48,390 | 8,874 | 12,505 |
| Overdue over 30 days | 45,440 | 38,771 | 22,021 | 19,796 |
| | 709,949 | 865,382 | 472,335 | 646,973 |

22. Amounts due to Fellow Subsidiaries

The Group and the Company

The amounts are aged within due dates, unsecured, non-interest bearing and are repayable on demand.

23. Amount due to Ultimate Holding Company

The Group and the Company

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

For the period from 1 March 2004 to 31 December 2004

24. Obligations under Finance Leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|---------------------------|-----------------------|---|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| The Group | | | | |
| Amounts payable under finance leases: | | | | |
| Within one year | 298 | 202 | 298 | 202 |
| In the second to fifth years inclusive | 261 | 287 | 261 | 287 |
| | 559 | 489 | 559 | 489 |
| Less: future finance charges | – | – | – | – |
| Present value of lease obligations | 559 | 489 | 559 | 489 |
| Less: Amounts due for settlement within 12 months (shown under current liabilities) | | | (298) | (202) |
| Amounts due for settlement after 12 months | | | 261 | 287 |

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, a fellow subsidiary. 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 finance leases are secured by the lessor's charge over the leased assets.

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For the period from 1 March 2004 to 31 December 2004

25. Share Capital

| | 31.12.2004 & 29.2.2004 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 |

26. Share Premium and Reserves

| | Share premium HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|-----------------------|------------------------------|---------------------------------|-------------------|
| The Company | | | |
| At 1 March 2003 | 63,158 | 308,919 | 372,077 |
| Profit for the year | – | 87,474 | 87,474 |
| Dividends | – | (26,000) | (26,000) |
| At 1 March 2004 | 63,158 | 370,393 | 433,551 |
| Profit for the period | – | 80,514 | 80,514 |
| Dividends | – | (44,200) | (44,200) |
| At 31 December 2004 | 63,158 | 406,707 | 469,865 |

The Company's reserves available for distribution to shareholders as at 31 December 2004 represented the retained profits of HK\$406,707,000 (29.2.2004: HK\$370,393,000).

For the period from 1 March 2004 to 31 December 2004

27. Major Non-cash Transactions

Included in other payables and accrued charges as at 31 December 2004 is an amount of HK\$4,677,000 (29.2.2004: HK\$2,460,000) in respect of the purchase of property, plant and equipment not yet paid at that date.

During the period, the Group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of HK\$191,000 (29.2.2004: Nil).

28. Capital Commitments

| | The Group | | The Company | |
|--|------------------------|-----------------------|------------------------|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements | – | 19,557 | – | 716 |

29. 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 | |
|---------------------------------------|------------------------|-----------------------|------------------------|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| Within one year | 376,353 | 364,741 | 286,085 | 277,852 |
| In the second to fifth year inclusive | 1,152,967 | 1,305,421 | 834,795 | 972,997 |
| Over five years | 651,162 | 1,038,228 | 195,753 | 628,861 |
| | 2,180,482 | 2,708,390 | 1,316,633 | 1,879,710 |

For the period from 1 March 2004 to 31 December 2004

29. Operating Lease Arrangements (Continued)

In addition to the above, twenty (29.2.2004: fourteen) of the leases of the Group and fourteen (29.2.2004: eleven) 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 | |
|--|------------------------|-----------------------|------------------------|-----------------------|
| | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 | 31.12.2004 HK\$'000 | 29.2.2004 HK\$'000 |
| Within one year | 112,511 | 70,854 | 101,599 | 66,436 |
| In the second to fifth year inclusive | 60,412 | 16,103 | 50,535 | 13,812 |
| | 172,923 | 86,957 | 152,134 | 80,248 |

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 rents based on a fixed percentage of turnover of the licensees in excess of the minimum lease payments as stated in the relevant rental agreements.

For the period from 1 March 2004 to 31 December 2004

30. Retirement Benefits Schemes

The Company participates in the Mandatory Provident Fund Schemes ("MPF Schemes") registered under the Mandatory Provident Fund Ordinance in December 2001. Contributions paid or payable for the MPF Schemes for the year are charged to the income statement for the year. The contributions represent contributions payable to the MPF Schemes by the Company in accordance with government regulations. In addition to the mandatory contributions, the contributions also include voluntary contributions at rates specified in the rules of the MPF Scheme for certain employees who make voluntary contributions.

The Company also operates a defined contribution provident fund scheme for all qualifying employees. The assets of the scheme are held separately from those of the Company in funds under the control of trustees. The contributions 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\$44,000 (29.2.2004: HK\$40,000).

For the period from 1 March 2004 to 31 December 2004

31. Related Party Transactions

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

| Nature of transaction | | 1.3.2004 | 1.3.2003 |
|---|-------------------------------------|------------|-----------|
| | | to | to |
| | | 31.12.2004 | 29.2.2004 |
| | | HK\$'000 | HK\$'000 |
| Fellow subsidiaries | Commission expenses | 9,346 | 13,797 |
| | Purchase of goods | 41,208 | 50,421 |
| | Rental income from licensees | (5,105) | (6,726) |
| Ultimate holding company | Royalty expenses | 28,235 | 32,301 |
| Associate of a fellow subsidiary | Consultancy fee | 107 | – |
| | Rental income from licensees | (47) | – |
| Minority shareholders of the subsidiaries | Rental expenses and management fees | 40,741 | 41,018 |

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, consultancy fee, 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.

For the period from 1 March 2004 to 31 December 2004

31. Related Party Transactions (Continued)

During the period/year, the Group received dividend income amounting to HK\$550,000 (1.3.2003 to 29.2.2004: HK\$493,000) from a fellow subsidiary which was based on the percentage of equity interests in that fellow subsidiary.

In addition to the above, the Group has donated HK\$1,089,000 (1.3.2003 to 29.2.2004: HK\$877,000) to AEON 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:

| | 31.12.2004 | 29.2.2004 |
|--|-------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Amounts due from minority shareholders of the subsidiaries | 23,859 | 20,254 |

p.54 Five-Year Financial Summary

| | For the year ended | | | | For the period from 1 March 2004 to 31 December 2004 HK\$'000 |
|--|---|---|---|---------------------------------|--|
| | 28 February 2001 HK\$'000 (restated) | 28 February 2002 HK\$'000 (restated) | 28 February 2003 HK\$'000 (restated) | 29 February 2004 HK\$'000 | |
| Results | | | | | |
| Turnover | 3,394,484 | 3,720,924 | 3,961,113 | 4,608,801 | 3,981,000 |
| Profit from operations | 102,715 | 114,473 | 83,062 | 111,036 | 106,606 |
| Finance costs | (1,213) | (125) | (23) | (25) | (9) |
| Profit from ordinary activities before taxation | 101,502 | 114,348 | 83,039 | 111,011 | 106,597 |
| Income tax expenses | (78) | (26,530) | (25,273) | (25,489) | (24,430) |
| Profit before minority interest | 101,424 | 87,818 | 57,766 | 85,522 | 82,167 |
| Minority interest | (7,161) | (5,459) | 3,575 | 322 | (2,706) |
| Net profit for the year/period | 94,263 | 82,359 | 61,341 | 85,844 | 79,461 |
| | | | At | | |
| | 28 February 2001 HK\$'000 (restated) | 28 February 2002 HK\$'000 (restated) | 28 February 2003 HK\$'000 (restated) | 29 February 2004 HK\$'000 | 31 December 2004 HK\$'000 |
| Assets and Liabilities | | | | | |
| Total assets | 1,067,479 | 1,177,392 | 1,305,098 | 1,702,371 | 1,664,264 |
| Total liabilities | (686,365) | (750,667) | (830,102) | (1,167,244) | (1,091,361) |
| Minority interest | (22,845) | (26,487) | (38,504) | (38,022) | (40,682) |
| Shareholders' funds | 358,269 | 400,238 | 436,492 | 497,105 | 532,221 |

Note: The results for the three years ended 28 February 2003 and the summary of assets and liabilities for the Group as at 28 February 2001, 2002, 2003 have been extracted from the Company's annual reports after restatement to reflect the effect of the prior period adjustments on adoption of Statement of Standard Accounting Practice 12 (Revised) issued by the HKICPA.