

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 28 February 2001

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 JUSCO Co., Ltd., incorporated and listed in Japan.

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

2. 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 subsidiary made up to 28 February each year.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Investment in a subsidiary

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in value of the subsidiary that is other than temporary.

Turnover

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

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 28 February 2001

2. 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 Company'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. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

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.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

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For the Year Ended 28 February 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

	Rate of depreciation	Estimated residual value
Leasehold improvements	Over the term of the relevant lease on a straight line basis	Nil
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 ² / ₃ % - 25% per annum	Nil - 10% of cost
Motor vehicles	22.5% per annum over the first 3 years and 27.5% in the 4th year or 20% per annum	5% - 10% of cost

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

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

In previous years, certain computer equipment included in furniture, fixtures and equipment was depreciated at 15% per annum over the first 5 years and 20% in the 6th year. With effect from 1 March 2000, this computer equipment is depreciated at 25% per annum, which reflects the Group's previous experience of the useful lives of its assets. The change in depreciation rate has increased the depreciation charge for the year by approximately HK\$8 million.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

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For the Year Ended 28 February 2001

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities (continued)

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

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

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Inventories

Inventories, which represent merchandises held for resale, are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, other costs that have been incurred in bringing the inventories to their present location and condition, is computed using the retail price method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

Operating leases

Annual rentals in respect of operating leases are charged to the income statement on a straight line basis over the relevant lease term.

Foreign currencies

Transactions in foreign currencies are translated 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 of the financial statements of subsidiaries which are denominated in currencies other than the Hong Kong dollar are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in the translation reserve.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advances.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 28 February 2001

3. SEGMENTAL INFORMATION

The Group's turnover and contribution to operating profit for the year ended 28 February 2001, analysed by geographical location of operation, were as follows:

	Turnover		Contribution to results from ordinary activities before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	2,919,709	2,964,599	63,372	16,587
The People's Republic of China ("PRC"), other than Hong Kong	474,775	312,783	34,070	35,502
	3,394,484	3,277,382	97,442	52,089
Finance costs			(1,213)	(5,898)
Investment income			5,273	1,717
Gain on dilution of interest in a subsidiary			—	1,682
Profit from ordinary activities before taxation			101,502	49,590

There was no analysis by principal activities because the Group has only one business involved.

4. PROFIT FROM OPERATIONS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	931	804
Operating lease rentals in respect of		
Rented premises	287,209	307,820
Rented furniture, fixtures and equipment	2,711	2,772
	289,920	310,592
Retirement benefits scheme contributions, net of forfeited contributions of HK\$2,608,000 (2000: HK\$1,149,000)	7,520	7,339
Royalties payable to the ultimate holding company	20,936	18,195
Rentals received from licensees	(188,777)	(191,873)

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For the Year Ended 28 February 2001

5. FINANCE COSTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Interest on		
Bank borrowings wholly repayable within five years	1,213	5,887
Finance leases	—	11
	<u>1,213</u>	<u>5,898</u>

6. INVESTMENT INCOME

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Dividend income from listed investment securities	429	378
Interest income from bank deposits	4,844	1,339
	<u>5,273</u>	<u>1,717</u>

7. DIRECTORS' EMOLUMENTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Executive	120	96
Non-executive	1,320	1,344
	<u>1,440</u>	<u>1,440</u>
Other emoluments:		
Executive		
Salaries and other benefits	5,846	4,837
Contributions to retirement benefits scheme	81	121
Non-executive	—	—
Total emoluments	<u>7,367</u>	<u>6,398</u>

The amounts disclosed above include directors' fees of HK\$330,000 (2000: HK\$330,000) payable to independent non-executive directors.

The emoluments of the directors were within the following bands:

	2001	2000
	No. of directors	
HK\$ nil to HK\$1,000,000	8	10
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	1	—

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For the Year Ended 28 February 2001

8. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2000: two) were directors of the Company whose emoluments are included in the disclosures in note 7 above. In last year, one of the employees was appointed as a director. Their total emoluments together with the emoluments of the remaining two (2000: three) individuals are as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	3,062	5,711
Their emoluments were within the following bands:		
	2001	2000
	No. of employees	
HK\$1,000,001 to HK\$1,500,000	1	3
HK\$1,500,001 to HK\$2,000,000	1	1

9. INCOME TAX EXPENSES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profits	5,000	10,000
Overprovision in previous years	(6,768)	—
Hong Kong Profits Tax rebate	—	(1,450)
	(1,768)	8,550
PRC income tax	13,573	1,939
Deferred taxation (note 23)	(9,700)	—
	2,105	10,489

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

Details of the potential deferred tax credit not recognised for the year are set out in note 23.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 28 February 2001

10. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year of HK\$92,236,000 (2000: HK\$32,516,000), a net profit of HK\$78,872,000 (2000: HK\$3,159,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Interim dividend paid of 1.0 HK cent (2000: Nil) per share	2,600	—
Final dividend proposed of 13.0 HK cents (2000: 4.0 HK cents) per share	33,800	10,400
	36,400	10,400

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the Group's net profit for the year of HK\$92,236,000 (2000: HK\$32,516,000) and on 260,000,000 (2000: 260,000,000) ordinary shares in issue during the year.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	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 2000	37,345	544,651	212,976	2,032	18,110	815,114
Translation adjustments	—	(907)	(74)	(28)	(236)	(1,245)
Additions	—	16,337	13,291	544	77,692	107,864
Transfer	—	70,778	15,172	—	(85,950)	—
Disposals	(37,345)	(107,327)	(55,173)	(156)	—	(200,001)
At 28 February 2001	—	523,532	186,192	2,392	9,616	721,732
DEPRECIATION						
At 1 March 2000	37,345	250,484	118,388	1,142	—	407,359
Translation adjustments	—	(299)	(29)	(12)	—	(340)
Provided for the year	—	50,237	31,553	305	—	82,095
Eliminated on disposals	(37,345)	(101,964)	(50,295)	(105)	—	(189,709)
At 28 February 2001	—	198,458	99,617	1,330	—	299,405
NET BOOK VALUES						
At 28 February 2001	—	325,074	86,575	1,062	9,616	422,327
At 29 February 2000	—	294,167	94,588	890	18,110	407,755

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended 28 February 2001

13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold improvements HK\$'000	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 2000	37,345	505,376	209,787	832	7,888	761,228
Additions	—	16,337	10,262	301	58,616	85,516
Transfer	—	45,462	11,426	—	(56,888)	—
Disposals	(37,345)	(107,327)	(54,935)	(156)	—	(199,763)
At 28 February 2001	—	459,848	176,540	977	9,616	646,981
DEPRECIATION						
At 1 March 2000	37,345	237,538	117,144	629	—	392,656
Provided for the year	—	43,220	30,274	81	—	73,575
Eliminated on disposals	(37,345)	(101,964)	(50,141)	(105)	—	(189,555)
At 28 February 2001	—	178,794	97,277	605	—	276,676
NET BOOK VALUES						
At 28 February 2001	—	281,054	79,263	372	9,616	370,305
At 29 February 2000	—	267,838	92,643	203	7,888	368,572

14. INVESTMENT IN A SUBSIDIARY

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted investment, at cost	31,227	31,227

The Company holds a 65% equity interest in Guangdong JUSCO Teem Stores Co., Ltd., a company registered in the PRC which is principally engaged in the operation of general merchandise stores.