Notes to the Financial Statements

For the year ended 31 December 2005

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

The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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

The financial statements are presented in Hong Kong dollars. The Company's functional currency is Hong Kong dollars, while the functional currency of the subsidiaries registered in the People's Republic of China (the "PRC") is Reminbi.

2. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

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

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

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

Financial Instruments

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

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial Instruments *(continued)*

Classification and measurement of financial assets and financial liabilities

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

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

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

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

3. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/ CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial Instruments *(continued)*

Classification and measurement of financial assets and financial liabilities *(continued)*

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

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

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

[2] *Effective for annual periods beginning on or after 1 January 2006.*

[3] *Effective for annual periods beginning on or after 1 December 2005.*

[4] *Effective for annual periods beginning on or after 1 March 2006.*

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost basis except for certain financial instruments which are measured at fair values.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies Ordinance. 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 31 December.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in subsidiaries

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

Revenue recognition

Sales of goods are recognised when goods are sold and title has passed.

Rentals received from licensees are recognised on a straight line basis over the terms of the relevant licence agreements. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased assets and recognised as an expense on a straight-line basis over the lease term.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated 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 at the following rates:

Building fixtures	Over the expected useful lives of nine years or, where shorter, the term of the relevant lease on a straight line basis
Furniture fixtures and equipment	10% – 25% per annum
Motor vehicles	20% – 25% per annum

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.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is derecognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised.

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets.

Trade receivables, other receivables and deposits, and amounts due from fellow subsidiaries

At each balance sheet date subsequent to initial recognition, rental deposits, trade receivables, other receivables and deposits, and amounts due from fellow subsidiaries are carried at amortised cost using the effective interest method, less any impairment losses. An appropriate impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as any of the other categories. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in profit or loss in subsequent periods. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits.

Trade payables, other payables, bank borrowings, amounts due to fellow subsidiaries and ultimate holding company

Trade payables, other payables, bank borrowings, amounts due to fellow subsidiaries and ultimate holding company are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

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.

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Retirement benefits schemes

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

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Pre-operating expenses

Expenses relating to the setting up of stores are charged directly to income statement when incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from 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 using the tax rates that have been enacted on substantively enact by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base 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.

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. KEY SOURCES OF ESTIMATION UNCERTAINTY

Income taxes

As at 31 December 2005, a deferred tax asset of HK$11,625,000 (2004: HK$10,922,000) in relation to accelerated accounting depreciation and other temporary differences has been recognised in the Group's balance sheet. The reliability of the deferred tax asset mainly depends on whether taxable profit will be available against which the deductible temporary differences can be utilised. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

Write-down of inventories

The Group makes a write-down of inventories based on an assessment of the net realiable value of inventories. Allowances are applied to inventories where events or changes in circumstances indicate that the net realisable value is lower than the cost of inventories. The identification of obsolete inventories requires the use of judgment and estimates.

6. TURNOVER AND SEGMENT INFORMATION

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

Geographical segments

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

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

For the year ended 31 December 2005

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

At 31 December 2005

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
BALANCE SHEET			
ASSETS			
Segment assets	1,356,798	575,531	1,932,329
Unallocated corporate assets			11,625
Consolidated total assets			1,943,954
LIABILITIES			
Segment liabilities	831,816	399,731	1,231,547
Bank borrowings	–	14,351	14,351
Unallocated corporate liabilities			14,439
Consolidated total liabilities			1,260,337

6. TURNOVER AND SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

For the year ended 31 December 2005

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
OTHER INFORMATION			
Capital expenditures	**46,950**	**51,992**	**98,942**
Depreciation	**68,778**	**56,600**	**125,378**
Loss on disposal of property, plant and equipment	**1,819**	**340**	**2,159**
Write-down of inventories	**14,553**	**–**	**14,553**

For the period from 1 March 2004 to 31 December 2004

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

6. TURNOVER AND SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

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

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.

7. INVESTMENT INCOME

	1.1.2005 to 31.12.2005 HK$'000	1.3.2004 to 31.12.2004 HK$'000
Dividend income from listed investment securities	**645**	550
Interest income from bank deposits	**15,477**	1,938
	16,122	2,488

8. PRE-OPERATING EXPENSES

Included in pre-operating expenses were staff costs of HK$1,883,000 (1.3.2004 to 31.12.2004: HK$2,762,000).

9. FINANCE COSTS

	1.1.2005 to 31.12.2005 HK$'000	1.3.2004 to 31.12.2004 HK$'000
Interest on bank borrowings wholly repayable within five years	**227**	9

10. INCOME TAX EXPENSE

	1.1.2005 to 31.12.2005 HK$'000	1.3.2004 to 31.12.2004 HK$'000
The charge comprises:		
Current year/period		
Hong Kong	**32,516**	22,500
Other regions in the PRC	**8,212**	4,247
	40,728	26,747
(Over)underprovision in prior periods/years		
Hong Kong	**(522)**	–
Other regions in the PRC	**290**	(521)
	(232)	(521)
	40,496	26,226
Deferred tax credit *(note 19)*		
Current year/period	**(703)**	(1,796)
Income tax expense for the year/period	**39,793**	24,430

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

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

10. INCOME TAX EXPENSE *(continued)*

Income tax expense for the year/period can be reconciled to profit before taxation per the consolidated income statement as follows:

	1.1.2005 to 31.12.2005 HK$'000	1.3.2004 to 31.12.2004 HK$'000
Profit before taxation	**163,729**	106,597
Taxation at the applicable rate of 17.5%	**28,653**	18,654
Tax effect of expenses that are not deductible in determining taxable profit	**2,646**	4,957
Tax effect of income that are not taxable in determining taxable profit	**(2,428)**	(212)
Tax effect of tax losses not recognised	**7,346**	895
Tax effect of utilisation of tax losses previously not recognised	**–**	(1,396)
Tax effect of utilisation of deductible temporary difference previously not recognised	**(452)**	(280)
Tax effect of deductible temporary difference not recognised	**364**	338
Effect of different tax rates of entities operating in the PRC	**3,857**	1,995
Overprovision in prior periods/years	**(232)**	(521)
Other	**39**	–
Income tax expense	**39,793**	24,430

11. PROFIT FOR THE YEAR/PERIOD

	1.1.2005 to 31.12.2005 HK$'000	1.3.2004 to 31.12.2004 HK$'000
Profit for the year/period has been arrived at after charging (crediting):		
Auditors' remuneration	**2,171**	1,817
Exchange gain	**(1,280)**	(630)
Operating lease rentals in respect of		
Rented premises		
– minimum lease payments	**356,039**	303,201
– contingent rent *(Note)*	**28,247**	11,035
	384,286	314,236
Retirement benefits scheme contributions, net of forfeited contributions of HK$567,000 (1.3.2004 to 31.12.2004: HK$881,000)	**22,048**	17,499
Royalties payable to the ultimate holding company	**40,986**	28,235
Rentals received from licensees		
– minimum lease payments	**(169,343)**	(125,878)
– contingent rent *(Note)*	**(46,414)**	(31,769)
	(215,757)	(157,647)
Write-down of inventories	**14,553**	–

Note: Contingent rent is 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.

12. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the 11 (1.3.2004 to 31.12.2004: 10) directors were as follows:

For the year ended 31 December 2005

	Naoyuki MIYASHITA HK$'000	Kazumasa ISHII HK$'000	Kozo MURATA HK$'000	WONG Mun Yu HK$'000	LAM Man Tin HK$'000	Toshiji TOKIWA HK$'000	Motoya OKADA HK$'000	Tatsuichi YAMAGUCHI HK$'000	SHAO You Bao HK$'000	LAM PEI Peggy HK$'000	SHAM Sui Leung Daniel HK$'000	Total HK$'000
Fees	-	-	-	60	60	360	160	170	210	170	120	1,310
Other emoluments												
Salaries and other benefits	1,992	2,224	1,663	1,182	1,366	-	-	-	-	-	-	8,427
Contributions to retirement benefits schemes	-	-	-	64	74	-	-	-	-	-	-	138
	1,992	2,224	1,663	1,306	1,500	360	160	170	210	170	120	9,875

For the period from 1 March 2004 to 31 December 2004

	Kazumasa ISHII HK$'000	Kozo MURATA HK$'000	WONG Mun Yu HK$'000	LAM Man Tin HK$'000	Toshiji TOKIWA HK$'000	Motoya OKADA HK$'000	Tatsuichi YAMAGUCHI HK$'000	SHAO You Bao HK$'000	LAM PEI Peggy HK$'000	SHAM Sui Leung Daniel HK$'000	Total HK$'000
Fees	–	–	50	50	300	133	142	175	142	31	1,023
Other emoluments											
Salaries and other benefits	1,503	1,164	943	1,142	–	–	–	–	–	–	4,752
Contributions to retirement benefits schemes	–	–	51	62	–	–	–	–	–	–	113
	1,503	1,164	1,044	1,254	300	133	142	175	142	31	5,888

No directors waived any emoluments in the year ended 31 December 2005 and for the period from 1 March 2004 to 31 December 2004.

13. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (1.3.2004 to 31.12.2004: one) were directors of the Company whose emoluments are included in the disclosures in note 12 above. The emoluments of the remaining three individuals (1.3.2004 to 31.12.2004: four) were as follows:

	1.1.2005 to 31.12.2005 HK$'000	1.3.2004 to 31.12.2004 HK$'000
Salaries and other remuneration	**5,458**	4,088
Performance based bonus	**880**	1,170
Contributions to pension scheme	**113**	318
	6,451	5,576

	No. of employees	
	1.1.2005 to 31.12.2005	1.3.2004 to 31.12.2004
HK$1,000,001 to HK$1,500,000	**–**	3
HK$1,500,001 to HK$2,000,000	**1**	1
HK$2,000,001 to HK$2,500,000	**2**	–

14. DIVIDENDS

	1.1.2005 to 31.12.2005 HK$'000	1.3.2004 to 31.12.2004 HK$'000
Final dividend paid in respect of the period from 1.3.2004 to 31.12.2004 of 8.5 HK cents (for the year ended 29 February 2004: 13 HK cents) per share	**22,100**	33,800
Interim dividend of 5.5 HK cents (1.3.2004 to 31.12.2004: 4 HK cent) per share paid	**14,300**	10,400
	36,400	44,200

The final dividend of 14.0 HK cents per ordinary share has been proposed by the directors and is subject to approval by the Company's shareholders in general meeting.

15. EARNINGS PER SHARE

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

There were no dilutive potential shares in both years.

16. 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
Translation adjustments	4,887	1,747	74	4	6,712
Additions	9,480	16,878	814	71,770	98,942
Transfer	47,315	21,147	–	(68,462)	–
Disposals	(44,543)	(3,360)	(349)	–	(48,252)
At 31 December 2005	698,117	306,997	4,780	4,037	1,013,931
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
Translation adjustments	2,326	667	40	–	3,033
Provided for the year	93,321	31,355	702	–	125,378
Eliminated on disposals	(42,952)	(2,696)	(314)	–	(45,962)
At 31 December 2005	470,153	223,158	3,007	–	696,318
CARRYING VALUES					
At 31 December 2005	227,964	83,839	1,773	4,037	317,613
At 31 December 2004	263,520	76,753	1,662	725	342,660

16. 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
Additions	4,450	13,256	–	29,244	46,950
Transfer	24,855	4,940	–	(29,795)	–
Disposals	(44,543)	(2,346)	–	–	(46,889)
At 31 December 2005	450,102	209,354	985	–	660,441
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
Provided for the year	54,964	13,693	121	–	68,778
Eliminated on disposals	(42,952)	(2,067)	–	–	(45,019)
At 31 December 2005	326,817	176,020	926	–	503,763
CARRYING VALUES					
At 31 December 2005	123,285	33,334	59	–	156,678
At 31 December 2004	150,535	29,110	180	551	180,376

17. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Unlisted investments, at cost	**93,249**	72,011

Particulars of the subsidiaries at 31 December 2005 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	RMB30,000,000	100%	General merchandise
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.

17. 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 above operations are as follows:

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
Assets	**173,936**	124,479
Liabilities	**165,662**	141,193
	1.1.2005 to 31.12.2005	1.3.2004 to 31.12.2004
	HK$'000	HK$'000
Turnover	**699,023**	530,214

18. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES

	THE GROUP AND THE COMPANY	
	2005	2004
	HK$'000	HK$'000
Equity securities:		
Listed shares in Hong Kong		
At cost	**–**	2,196
At fair value	**22,921**	–
	22,921	2,196
Debt securities:		
Unlisted club debenture		
At cost	**–**	1,740
At fair value	**1,940**	–
	1,940	1,740
	24,861	3,936
Classified as:		
Available-for-sale investments	**24,861**	–
Investment securities	**–**	3,936
	24,861	3,936

The fair value of the investments have been determined by reference to bid prices quoted in active markets.

The listed securities detailed above include an investment in a fellow subsidiary of HK$22,893,000 (31.12.2004: HK$2,196,000).

19. 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 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
Credit to income for the year	603	100	703
At 31 December 2005	11,220	405	11,625

At the balance sheet date, the Group has unused tax losses of approximately HK$56,567,000 (2004: HK$14,267,000) 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$15,585,000 (2004: HK$15,980,000). A deferred tax asset has been recognised in respect of HK$2,316,000 (2004: HK$1,743,000) for such temporary differences. No deferred tax asset has been recognised in respect of the unused tax losses and the remaining temporary differences of HK$13,269,000 (2004: HK$14,237,000) due to the unpredictability of future profit streams for certain subsidiaries.

	THE GROUP	
	2005	2004
	HK$'000	HK$'000
The tax losses above will expire as follows:		
31 December 2007	**2,795**	–
31 December 2008	**10,331**	8,631
31 December 2009	**5,232**	5,636
31 December 2010	**38,209**	–
	56,567	14,267

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

20. INVENTORIES

During the year, the directors have considered the market performance and the expected net realisable value of the inventories. As a result, a write-down of inventories of HK$14,553,000 (1.3.2004 to 31.12.2004: Nil) has been recognised and included in cost of sales in the current year.

21. 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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within due dates	**23,413**	16,192	**15,240**	10,727
Overdue under 30 days	**–**	110	**–**	110
	23,413	16,302	**15,240**	10,837

The directors consider the fair values of trade receivables approximate their carrying amounts.

22. OTHER FINANCIAL ASSETS

Other financial assets include other receivables and deposits, amounts due from subsidiaries and fellow subsidiaries and bank balances and cash.

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

Bank balances and cash comprise cash held by the Group and short term bank deposits with an original maturity of three months or less.

The directors consider the fair values of other receivables and deposits, amounts due from subsidiaries and fellow subsidiaries and bank balances and cash approximate their carrying amounts.

23. TRADE PAYABLES

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

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within due dates	**694,151**	618,346	**493,648**	441,440
Overdue under 30 days	**57,595**	46,163	**4,553**	8,874
Overdue over 30 days	**44,370**	45,440	**21,058**	22,021
	796,116	709,949	**519,259**	472,335

The directors consider the trade payables approximate their fair values.

24. BANK BORROWINGS

THE GROUP

The bank borrowings represent unsecured short term bank borrowings denominated in Renminbi and interest bearing at floating rates. The average effective interest rate during the year is 5.22%.

The directors believe that the current interest rates represent prevailing market rates and therefore, the fair values of the bank borrowings estimated by discounting their future cash flows at the prevailing market borrowing rates approximate the carrying amounts at the balance sheet date.

25. OTHER FINANCIAL LIABILITIES

Other financial liabilities include other payables, amounts due to fellow subsidiaries and ultimate holding company.

The amounts due to fellow subsidiaries and ultimate holding company are aged within due dates, unsecured, non-interest bearing and are repayable on demand.

The directors consider the fair values of other payables amounts due to fellow subsidiaries and ultimate holding company approximate their carrying amounts.

26. SHARE CAPITAL

	At 1.3.2004, 31.12.2004 and 31.12.2005 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

27. SHARE PREMIUM AND RESERVES

	Share premium HK$'000	**Investment revaluation reserve** HK$'000	**Retained profits** HK$'000	**Total** HK$'000
THE COMPANY				
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
At 1 January 2005				
– as originally stated	63,158	–	406,707	469,865
– effects on adoption of new accounting policy *(note 3)*	–	–	17,640	17,640
– as restated	63,158	–	424,347	487,505
Gain on fair value changes of available-for-sale investments	–	3,266	–	3,266
Profit for the year	–	–	147,900	147,900
Dividends	–	–	(36,400)	(36,400)
At 31 December 2005	63,158	3,266	535,847	602,271

28. CAPITAL COMMITMENTS

	THE GROUP		THE COMPANY	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements	**4,559**	–	**–**	–
Capital expenditure in respect of acquisition of property, plant and equipment authorised but not contracted for	**57,402**	–	**–**	–

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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**395,199**	376,353	**308,199**	286,085
In the second to fifth year inclusive	**1,003,000**	1,152,967	**684,668**	834,795
Over five years	**410,772**	651,162	**72,346**	195,753
	1,808,971	2,180,482	**1,065,213**	1,316,633

In addition to the above, twenty-three (2004: twenty) of the leases of the Group and sixteen (2004: fourteen) 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.

29. OPERATING LEASE ARRANGEMENTS *(continued)*

The Group and the Company as lessee: *(continued)*

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	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**19,489**	112,511	**3,168**	101,599
In the second to fifth year inclusive	**17,363**	60,412	**962**	50,535
Over five years	**3,765**	–	**–**	–
	40,617	172,923	**4,130**	152,134

The leases are negotiated for terms ranging from one to six years. In addition to the minimum lease payments, the Group and the Company are entitled to receive contingent rent based on a fixed percentage of turnover of the licensees in excess of the minimum lease payments as stated in the relevant rental agreements.

30. RETIREMENT BENEFIT 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.

30. RETIREMENT BENEFIT SCHEMES *(continued)*

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 benefit 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$36,000 (2004: HK$44,000).

31. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on trade receivables and bank balances and cash is limited because majority of the counterparties are banks with creditworthy financial institutions.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Currency risk

Certain of the Group's purchases are denominated in foreign currencies, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Cash flow interest rate risk

The Group has exposures to cash flow interest rate risk as its bank borrowing is subject to floating interest rate. Currently, interest rate risk is not hedged. However, from time to time, if interest rate fluctuates significantly, appropriate measures would be taken to manage interest rate exposure.

Price risk

The Group's available-for-sale investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to the price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Liquidity risk

The Group is exposed to minimal liquidity risk as the Group closely monitors its cash flow position.

32. RELATED PARTY TRANSACTIONS

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

	Nature of transaction	**1.1.2005 to 31.12.2005 HK$'000**	1.3.2004 to 31.12.2004 HK$'000
Fellow subsidiaries	Commission expenses	**12,166**	9,346
	Purchase of goods	**57,445**	41,208
	Rental income from licensees	**6,454**	5,105
Ultimate holding company	Royalty expenses	**40,986**	28,235
Minority shareholders of the subsidiaries	Rental expenses and management fees	**37,083**	40,741

During the year/period, the Group received dividend income amounting to HK$643,000 (1.3.2004 to 31.12.2004: HK$550,000) from a fellow subsidiary.

In addition to the above, the Group has donated HK$1,012,000 (1.3.2004 to 31.12.2004: HK$1,089,000) 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, a fellow subsidiary of the Company, 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.

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:

	2005 HK$'000	2004 HK$'000
Amounts due from minority shareholders of the subsidiaries	**7,731**	23,859

Compensation of key management personnel

The Group's key management personnel are all directors, details of their remuneration are disclosed in note 12.

The remuneration of key management personnel is determined by the remuneration committee having regard to the performance of individuals and market trends.