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82- SUBMISSIONS FACING SHEET

**Follow-Up
Materials**

MICROFICHE CONTROL LABEL



REGISTRANT'S NAME

Leow Co, Ltd

*CURRENT ADDRESS

**FORMER NAME

**NEW ADDRESS

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THURSDAY
FINANCIAL

FILE NO. 82-

34806

FISCAL YEAR

2-20-04

• Complete for initial submissions only •• Please note name and address changes

INDICATE FORM TYPE TO BE USED FOR WORKLOAD ENTRY:

12G3-2B (INITIAL FILING)

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12G32BR (REINSTATEMENT)

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12/2/04

ARIS
2-20-04

AEON Co., Ltd.
Information Furnished Pursuant to Rule 12g3-2(b)
under the Securities Exchange Act of 1934

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SECURITIES AND EXCHANGE COMMISSION

Issuer AEON Co., Ltd.	File Number 82- 34806
--------------------------	--------------------------

November 29, 2004

Office of International Corporate Finance
Division of Corporate Finance
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549
U.S.A.

RECEIVED
2004 DEC -1 A 11:01
OFFICE OF INTERNATIONAL
CORPORATE FINANCE

Re: AEON Co., Ltd.
Information Furnished Pursuant to Rule 12g3-2(b)
under the Securities Exchange Act of 1934

Dear Sir/ Madam:

We, AEON Co., Ltd. which is a joint stock corporation incorporated under the laws of Japan, obtained exceptive relief from the registration requirements of Section 12(g) of the Securities Exchange Act of 1934 available to foreign private issuers pursuant to Rule 12g3-2(b) (the "Exceptive Relief") on August 5, 2004, and we hereby furnish the following information to the Securities and Exchange Commission in order to maintain the status of the Exceptive Relief.

The following list is the information that we have disclosed since August 6, 2004 to date. The item 1, 2 and 3, which we have made public pursuant to the laws of Japan, are briefly explained in ANNEX A, the item 4, 5, 6 and 7, which we have filed with the Stock Exchange, are summarized in ANNEX B, and item 8, which we have distributed to our security holders, is attached as ANNEX C.

ANNEX A

1. Extraordinary Report dated July 16, 2004 and the amendment thereto dated August 9, 2004 in connection with the international offering of the common stock of AEON
2. Semi-Annual Securities Report dated November 18, 2004
3. Amended Shelf Registration Statement dated November 18, 2004

ANNEX B

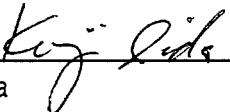
4. Notice of Settlement of number of shares issued and allotted to the third party
5. 20th Anniversary of Jaya Jusco Stores Bhd.
6. Brief Statement Annual Financial Results (Fiscal year ended February 20, 2004)
7. Today's announcement of CFS corporation

ANNEX C

8. Annual Report 2004 (Fiscal year ended February 20, 2004)

In the event that any questions should arise in connection with this matter, please contact Hiromoto Hiramatu in Finance and Accounting Division at h_hiramatu@aeon.biz.

Sincerely yours,



Koji Iida
General Manager
Finance and Accounting Division
AEON Co., Ltd.

1. Extraordinary Report dated July 16, 2004 and the amendment thereto dated August 9, 2004 in connection with the international offering of the common stock of AEON

Extraordinary Report stating the international issuance and the international offering of shares of the common stock of AEON filed with the Director of Kanto Local Finance Bureau.

2. Semi-Annual Securities Report dated November 18, 2004

Semi-Annual Securities Report stating the results for the relevant fiscal year filed with the Director of Kanto Local Finance Bureau.

3. Amended Shelf Registration Statement dated November 18, 2004

Amended Shelf Registration Statement in which Semi-Annual Securities Report dated November 18, 2004 was added to the reference information in the Shelf Registration Statement filed with the Director of Kanto Local Finance Bureau.

ANNEX B

August 11, 2004

To Whom It May Concern

Company Name: AEON Co., Ltd.
Name of Representative: President & Director: Motoya Okada
(Code #: 8267)
Contact: Corporate Communication
Manager: Yuiken Tsutsumi
TEL: 043-212-6042

Notice of Settlement of number of shares issued and allotted to the third party

As of July 16, Aeon offered new share to the public and the over-allotted shares, at the same time President & Representative Executive Officer of our company decided to allot our common stock to a third party due to the notice of purchasing all the shares.

Details are in the following;

- | | |
|------------------------------------|---|
| (1) Total Issued Shares: | 2,430,000 shares
(Number of shares to be issued 2,430,000) |
| (2) Total Values of Issued Shares: | ¥8,337,330,000
(¥3,431 per share) |
| (3) Offering Date: | Aug 16 (Mon.), 2004 |
| (4) Due Date of Payment: | Aug 17 (Tues.), 2004 |

September 14, 2004

AEON Co., Ltd.

20th Anniversary of Jaya Jusco Stores Bhd.

Holding "Malaysia tree-planting activity" as a memorial event on September 15, 2004

Taking advantage of 20th Anniversary, Jaya Jusco Stores, one of Aeon group companies operating its retail business in Malaysia is pleased to announce that effective from 15 September 2004, the company changes its name to AEON Co., (M) Bhd. and holds "Malaysia tree-planting activity" as a memorial event.

Aeon will change names of affiliated companies which operate general merchandise store business in Asia from "Jusco" to "Aeon" for the further development in Asia. Through this change, Aeon wish to establish and penetrate Aeon brand into Asia, and each company in Asia will have a greater role in integrating management resources (develop a common infrastructure etc.) within Aeon and adding more value to our group while promoting the development of shopping center that will play a key role as a corporate citizen within a local community.

ANNEX B

October 5, 2004

Brief Statement of Interim Financial Results for the Fiscal Year ended February 2005

Name of the Listed Company: AEON Co., Ltd.
 Securities Exchange where Listed: The First Section of Tokyo Stock Exchange
 Security Code Number: 8267
 Location of Head Office: Chiba-pref.
 URL: <http://www.aeon.info>
 Representative: Motoya Okada, Director and Representative Executive Officer
 For Inquiries: Yuiken Tsutsumi, Vice President (Corporate Communications Department)
 Telephone: +81-43-212-6042 (Pilot Number)
 Date of the Meeting of the Board of Directors approving the Closing Account: October 5, 2004
 US GAAP: Not applicable

I. Consolidated Earnings of Interim Fiscal Year ended August 2004 (February 21, 2004~August 20, 2004)

(1) Consolidated Operating Result

	Total Revenues		Operating Income		Recurring Profit	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Interim Fiscal Year ended August 2004	2,057,027	29.0	63,470	21.6	69,185	34.5
Interim Fiscal Year ended August 2003	1,594,313	6.8	52,195	△10.4	51,434	△9.6
Fiscal Year ended February 2004	3,546,215		132,212		131,354	

	Interim Net Income	Interim Net Income per Share	Interim Net Income per Share after adjustment of potential shares
	Millions of Yen (%)	Yen	Yen
Interim Fiscal Year ended August 2003	28,353 53.9	84.64	—
Interim Fiscal Year ended August 2002	18,418 Δ 6.6	55.31	—
Fiscal Year ended February 2003	55,316	165.57	—

Note 1 Non-consolidated Subsidiaries on Equity Method Investment Profit and Loss:

Interim Fiscal Year ended August 2004	1,498 (millions of yen)
Interim Fiscal Year ended August 2003	118 (millions of yen)
Fiscal Year ended February 2004	652 (millions of yen)

Note 2 Average Number of Shares Outstanding (consolidated):

Interim Fiscal Year ended August 2004	334,973,083 shares
Interim Fiscal Year ended August 2003	333,025,802 shares
Fiscal Year ended February 2004	333,024,536 shares

Note 3 Amendment to Accounting Method: Not applicable

Note 4 The percentage indications of Total Revenues, Operating Income, Recurring Profit and Interim Net Income show the rate change compared to previous interim period.

(2) Consolidated Financial Condition

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	Millions of Yen	Millions of Yen	%	Yen
Interim Fiscal Year ended August 2004	2,748,859	602,898	21.9	1,663.42
Interim Fiscal Year ended August 2003	2,151,067	439,537	20.4	1,319.84
Fiscal Year ended February 2004	2,609,271	479,090	18.4	1,438.08

Note Number of shares outstanding on term end (consolidated):

Interim Fiscal Year ended August 2004 362,445,946 shares

Interim Fiscal Year ended August 2003 333,024,097 shares

Fiscal Year ended February 2004 333,021,215 shares

(3) Conditions of Consolidated Cash Flows

	Cash Flows from Operating Activities	Cash Flows from Investing Activities	Cash Flows from Financing Activities	Closing Balance of Cash and Cash Equivalents
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Interim Fiscal Year ended August 2004	513	△53,101	96,080	326,206
Interim Fiscal Year ended August 2003	74,712	△73,497	17,816	115,952
Fiscal Year ended February 2004	174,050	74,083	△63,020	281,723

(4) Matters concerning the Range of Consolidation and Equity Method

Number of Consolidated Subsidiaries: 129

Number of Equity Method Affiliates: 28

(5) Changes in the Range of Consolidation and Equity Method

Number of New Consolidated Subsidiaries: 4

Number of Excluded Consolidated Subsidiaries: 4

Number of New Equity-Method Affiliates: 2

Number of Excluded Equity-Method Affiliates: 2

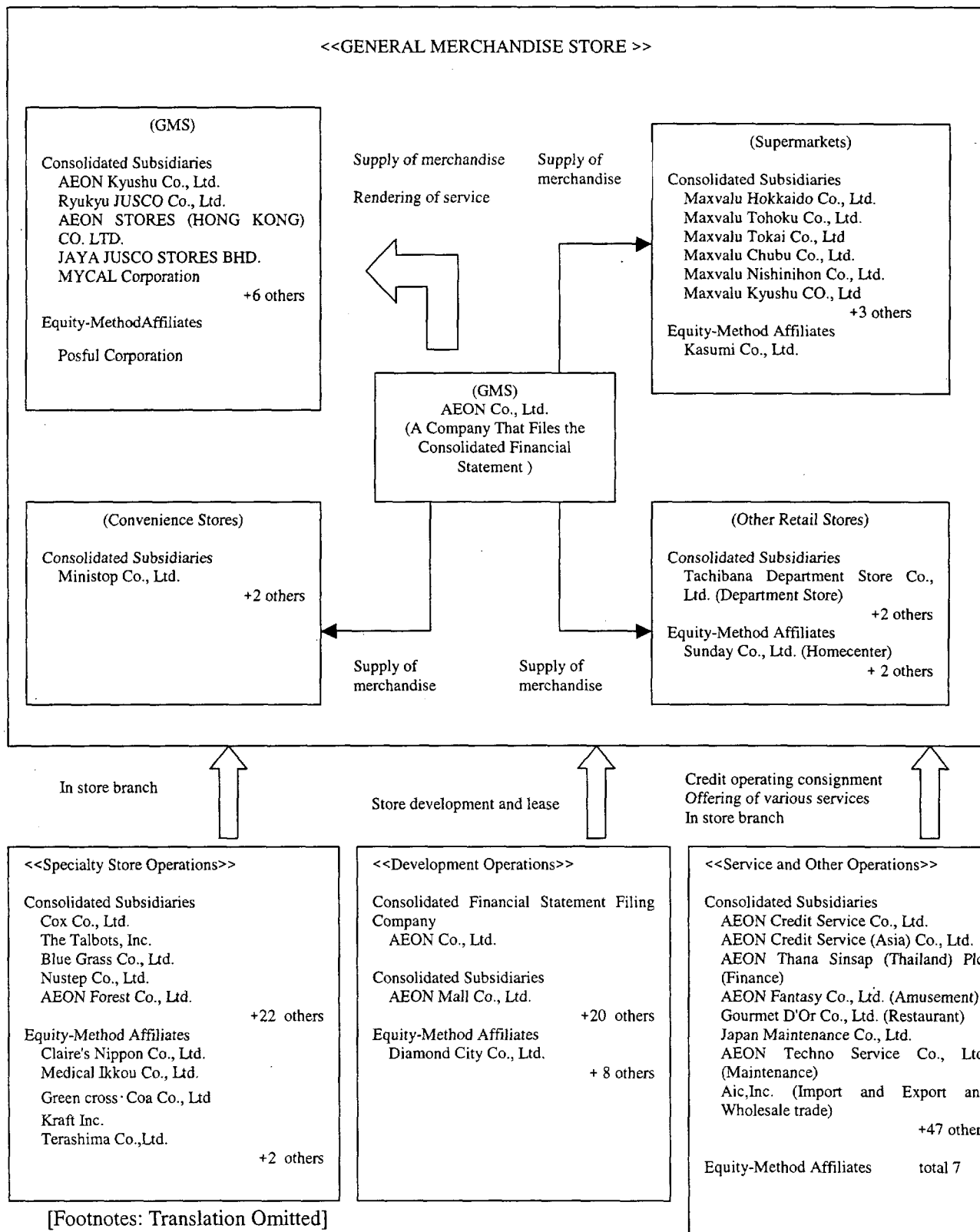
2. Forecast of Consolidated Earnings Fiscal Year ending February 2005 (February 21, 2004~February 20, 2005)

	Total Revenues	Operating Income	Recurring Profit	Net Income
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen
Whole Fiscal Year	4,100,000	157,000	160,000	66,000

[Footnotes: Translation Omitted]

(Attachment)

Status of Business Group



Management Policy

1. Basic Management Policy
[Translation Omitted]
2. Medium and Long Term Management Strategy
 - (1) Long Term Aim: to realize “Global 10” and aim to become world-class
[Translation Omitted]
 - (2) Medium Term Management Strategy
[Translation Omitted]
 - ① Promotion of Group Growth Strategy
[Translation Omitted]
 - ② Establishment of Group Financial Ground which support growth
[Translation Omitted]
 - ③ Establishment of Corporate Ethics
[Translation Omitted]
3. Promotion of “Corporate Governance Reforms” and “Group Management Reforms”
 - (1) Status of the Implementation of Measures related to Corporate Governance
 - ① Company with Committees System in AEON Co., Ltd.
[Translation Omitted]
 - ② Status of the Implementation of Efforts for Improving Corporate Governance in Current Intermediary Period
[Translation Omitted]
 - (2) Status of the Implementation of Group Management Reforms
[Translation Omitted]
4. Promotion of New Brand Strategy
 - (1) Basic Concept: “ From Retail Business to Shopping Business”
[Translation Omitted]
 - (2) Status of Deployment
 - ① Sending New Brand Message “singing AEON”
[Translation Omitted]
 - ② 10th Anniversary of Top Valu and its Further Development
[Translation Omitted]
5. Execution of Social Responsibility as Corporate Citizen
[Translation Omitted]
6. New Initiatives for Group Growth

- (1) Stock Issuing and Stock Offering
[Translation Omitted]
 - (2) Establishment of Aeon (China) Co., Ltd.
[Translation Omitted]
7. Basic Policy related to Lowering Dividends/Minimum Trading Unit for Securities
[Translation Omitted]

Operating Results and Financial Conditions

- 1. Operating Results
(Outline of Current Intermediary Period)
 - ① Status of General Performance
[Translation Omitted]
 - ② Status of Segments by Types of Business
[Translation Omitted]
- 2. Financial Conditions
[Translation Omitted]
- 3. Prospects of Full Period
[Translation Omitted]

INTERIM CONSOLIDATED BALANCE SHEET

(unit: millions of yen)

Item	This Interim Consolidated Fiscal Period End (August 20, 2004)		Previous Interim Consolidated Fiscal Period End (August 20, 2003)		Condensed Consolidated Balance Sheet of the Previous Fiscal Year	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Assets)		%		%		%
I Current Assets						
1 Cash on hand and in bank	341,001		120,732		286,588	
2 Notes receivable and accounts receivable	188,749		191,131		173,763	
3 Securities	5,499		9,673		4,283	
4 Merchandise inventories	275,987		206,361		267,066	
5 Deferred tax assets	27,496		14,007		16,706	
6 Finance receivables	325,987		285,659		304,293	
7 Others	94,629		73,755		90,099	
Allowance for doubtful accounts	(19,221)		(15,201)		(16,353)	
Total Current Assets	1,240,131	45.1	886,120	41.2	1,126,477	43.2
II Fixed Assets						
(1) Tangible Fixed Assets						
1 Buildings and structures	593,433		502,210		560,451	
2 Furniture and fixtures	92,358		73,408		83,841	
3 Land	249,125		195,121		247,111	
4 Construction in progress	9,337		7,682		9,610	
5 Others	315		239		314	
Total tangible fixed assets	944,570	34.4	778,302	36.2	901,329	34.5
(2) Intangible Fixed Assets						
1 Software	29,200		-		27,956	
2 Others	28,375		59,372		33,555	
Total Intangible Fixed Assets	57,575	2.1	59,372	2.7	61,512	2.4
(3) Investments and other assets						
1 Investment securities	111,093		89,841		114,867	
2 Deferred tax assets	25,029		39,348		33,376	
3 Fixed leasehold deposits to lessors	324,128		268,687		334,126	
4 Temporary account for lease	8,117		5,050		3,288	
5 Others	110,157		49,364		112,714	
Allowance for doubtful accounts	(72,581)		(25,018)		(78,391)	
Total investment and other assets	505,945	18.4	427,272	19.9	519,981	19.9
Total fixed assets	1,508,091	54.9	1,264,947	58.8	1,482,823	56.8
III Deferred Assets	636	0.0	-	-	-	-
Total of Assets	2,748,859	100.0	2,151,067	100.0	2,609,271	100.0

Item	This Interim Consolidated Fiscal Period End (August 20, 2004)		Previous Interim Consolidated Fiscal Period End (August 20, 2003)		Condensed Consolidated Balance Sheet of the Previous Fiscal Year	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Liabilities)		%		%		%
I Current Liabilities						
1 Notes and accounts payable - trade	476,584		369,028		480,589	
2 Short-term borrowings (other than commercial paper)	122,461		105,505		93,182	
3 Current portion of long-term debt	107,884		103,798		78,674	
4 Current portion of bonds	2,640		-		-	
5 Commercial paper	-		31,000		33,000	
6 Income taxes payable	22,962		20,063		26,654	
7 Accrued bonuses	9,679		9,392		8,629	
8 Provision for store closing expenses	2,779		5,186		4,105	
9 Current portion of obligations under reorganization proceedings	45,860		-		48,040	
10 Notes payable for properties	62,820		37,293		42,013	
11 Others	215,828		170,831		212,545	
Total current liabilities	1,069,500	38.9	852,100	39.6	1,027,435	39.4
II Fixed Liabilities						
1 Bonds	145,200		137,850		137,915	
2 Long-term debt	365,656		355,351		367,228	
3 Deferred tax liabilities	10,391		7,897		8,762	
4 Reserves for retirement grants	32,685		34,718		64,100	
5 Reserves for retirement grants for retiring Directors and Corporate Auditors	1,346		1,587		1,654	
6 Provision for store closing expenses	3,842		2,678		3,886	
7 Provision for contingent liabilities	2,839		1,204		3,804	
8 Obligations under reorganization proceedings	80,978		-		94,314	
9 Lease deposits from lessees	149,736		146,392		147,580	
10 Negative goodwill	82,291		-		87,904	
11 Others	8,363		7,335		8,955	
Total Fixed Liabilities	883,333	32.2	695,016	32.3	926,106	35.5
Total of Liabilities	1,952,833	71.1	1,547,116	71.9	1,953,542	74.9
(Minority Interests)						
Minority Interests	193,126	7.0	164,413	7.7	176,638	6.7
(Equity)						
I Common stock	101,798	3.7	51,296	2.4	51,296	2.0
II Capital surplus	167,709	6.1	117,235	5.5	117,235	4.5
III Retained earnings	321,543	11.7	263,036	12.2	300,101	11.5
IV Unrealized gain on available-for-sale securities	13,355	0.4	5,154	0.2	14,185	0.5
V Foreign currency translation adjustments	(794)	(0.0)	3,489	0.1	(3,041)	(0.1)
VI Treasury Stock-at cost	(713)	(0.0)	(674)	(0.0)	(687)	(0.0)
Total of equity	602,898	21.9	439,537	20.4	479,090	18.4
Total of Liabilities, Minority Interests and Equity	2,748,859	100.0	2,151,067	100.0	2,609,271	100.0

INTERIM CONSOLIDATED PROFIT AND LOSS STATEMENT

(unit: millions of yen)

Item	This Interim Consolidated Fiscal Period End (February 21, 2004) (August 20, 2004)		Previous Interim Consolidated Fiscal Period End (February 21, 2003) (August 20, 2003)		Condensed Consolidated Profit and Loss Statement of the Previous Fiscal Year (February 21, 2003) (February 20, 2004)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
I Net sales	1,881,480	100.0	1,469,289	100.0	3,258,628	100.0
II Cost of sales	1,361,269	72.4	1,047,192	71.3	2,343,430	71.9
Gross profit on sales	520,211	27.6	422,096	28.7	915,198	28.1
III Rental and other revenues	175,546	9.4	125,024	8.5	287,587	8.8
Gross profit	695,758	37.0	547,120	37.2	1,202,785	36.9
IV Selling, general and administrative expenses	632,287	33.6	494,924	33.6	1,070,573	32.8
Operating Income	63,470	3.4	52,195	3.6	132,212	4.1
V Non-operating income	11,139	0.6	4,353	0.3	10,781	0.3
Interest income	660		443		1,006	
Dividend income	681		477		738	
Amortization of negative goodwill-net	4,845		375		2,158	
Equity in earnings of affiliated companies	1,498		118		652	
Penalties from tenants	450		550		1,028	
Others	3,002		2,387		5,196	
VI Non-operating expenses	5,424	0.3	5,115	0.4	11,639	0.4
Interest expense	3,492		3,721		7,437	
Others	1,931		1,393		4,202	
Recurring profit	69,185	3.7	51,434	3.5	131,354	4.0
VII Special profit	13,175	0.7	4,757	0.3	13,571	0.5
Gain on sale of fixed assets	1,432		672		1,260	
Gain on sale of investment securities	1,831		1,197		5,716	
Gain on provision for allowance for doubtful accounts	716		877		-	
Gain on provision for store closing expenses	508		836		1,566	
Gain from forgiveness of debt	1,524		-		-	
Gain on provision for reserves for retirement grants	3,322		-		-	
Others	3,839		1,174		5,028	
VIII Special loss	23,379	1.3	8,698	0.6	19,207	0.6
Loss on retirement of fixed assets	1,486		1,482		3,805	
Appraisal loss from investment securities	-		1,467		-	
Loss from store closing	-		736		1,577	
Write-off cost for fixed assets	3,040		1,004		780	
Loss on sale of fixed leasehold deposits to lessors	2,584		-		-	
Loss on revision of retirement benefit plan	7,006		-		-	
Others	9,260		4,008		13,044	
Interim Income before income taxes and minority interests	58,981	3.1	47,493	3.2	125,718	3.9
Current income tax	18,856		22,054		48,124	
Deferred income tax	(464)		(3,059)		(498)	
Sub total	18,392	1.0	18,994	1.3	47,625	1.5
Minority interests in net income	12,236	0.6	10,080	0.6	22,777	0.7
Interim(This period)Net income	28,353	1.5	18,418	1.3	55,316	1.7

INTERIM STATEMENT OF CONSOLIDATED SURPLUS

(unit: millions of yen)

Item	This Interim Consolidated Fiscal Period End (February 21, 2004) (August 20, 2004)		Previous Interim Consolidated Fiscal Period End (February 21, 2003) (August 20, 2003)		Condensed Consolidated Statement of Consolidated Surplus of the Previous Fiscal Year (February 21, 2003) (February 20, 2004)	
Capital surplus						
I Initial balance of capital surplus		117,235		117,235		117,235
II Increase in capital surplus						
Issue of new shares by capital increase	50,472		-		-	
Gain on disposal of treasury stocks	1	50,474	0	0	0	0
III Interim Term End						
Closing Balance of capital surplus		167,709		117,235		117,235
Retained earnings						
I Initial Balance of retained earnings		300,101		252,043		252,043
II Increase in retained earnings						
Interim(This Period) Net Income	28,353		18,418		55,316	
Others	663	29,017	270	18,688	441	55,758
III Decrease in retained earnings						
Dividends	7,326		7,326		7,326	
Bonus to directors and corporate auditors	249	7,576	369	7,696	373	7,699
IV Interim term End						
Closing balance of retained earnings		321,543		263,036		300,101

INTERIM STATEMENT OF CONSOLIDATED CASH FLOW

(unit: millions of yen)

Item	This Interim Consolidated Fiscal Period (February 21, 2004 August 20, 2004)	Previous Interim Consolidated Fiscal Period (February 21, 2003 August 20, 2003)	Previous Consolidated Fiscal Period (February 21, 2003 February 20, 2004)
	I Cash Flows from Operating Activities		
Interim Income before income taxes and minority interests	58,981	47,493	125,718
Depreciation expenses	46,870	37,703	78,191
Amortization of fixed assets	3,040	1,004	780
Amortization of negative goodwill-net	(4,845)	(375)	(2,158)
Increase in allowance for doubtful accounts	13,261	2,001	(1,401)
Increase (decrease) in reserves for bonus	996	1,465	(663)
Increase (decrease) in employees retirement benefit	1,934	2,587	3,399
Increase (decrease) in provision for store closing expenses	(1,033)	(394)	(2,466)
Interest and dividend income	(1,342)	(921)	(1,744)
Interest expense	3,492	3,721	7,437
Foreign exchange gain (loss)	109	(166)	(33)
Gain (loss) on equity-method investment	(1,498)	(118)	(652)
Gain on sale of fixed assets	(1,432)	(672)	(1,260)
Loss on sale or retirement of fixed assets	2,022	1,913	5,139
Loss on sale of fixed leasehold deposits to lessors	2,584	-	-
Appraisal loss on fixed assets	-	297	-
Capital gain (loss) on sale of securities	(1,619)	(1,137)	(5,142)
Appraisal loss on securities	50	1,467	126
Gain from forgiveness of debt	(1,524)	-	-
Gain on provision for reserves for retirement grants	(3,322)	-	-
Loss on revision of retirement benefit	7,006	-	-
Increase in trade receivable	(45,735)	(30,227)	(23,939)
Decrease(increase) in inventory assets	(7,277)	4,983	(4,495)
Increase(decrease) in notes and accounts payable-trade	(5,913)	26,347	32,635
Increase (decrease) in other assets or debt	(2,985)	12,629	21,642
Others	1,233	(603)	788
Sub-total	63,055	108,998	231,899
Interest and dividend received	1,549	1,125	1,913
Interest paid	(3,330)	(3,771)	(7,423)
Purchases of transition to defined contribution pension plan	(37,598)	-	-
Income taxes, etc.	(23,162)	(31,640)	(52,338)
Cash Flows from Operating Activities	513	74,712	174,050
II Cash Flows from Investing Activities			
Purchases of marketable securities	(4,999)	(4,909)	(8,899)
Proceeds from sale of marketable securities	4,765	5,998	13,973
Purchases of properties	(77,244)	(56,799)	(133,239)
Proceeds from sale of properties	15,599	4,543	26,492
Purchases of investment securities	(3,001)	(14,654)	(19,431)
Proceeds from sales of investment securities	11,092	87	2,578
Cash received (paid) in conjunction with the purchases of consolidated subsidiaries (Payments for) proceeds from sales of consolidated subsidiaries	(1,872)	(3,991)	195,476
Payments for fixed leasehold deposits to lessors	(12,265)	(11,521)	(20,735)
Collection of fixed leasehold deposits to lessors	15,027	5,428	15,700
Proceeds from lease deposits from lessees	8,446	10,835	20,404
Repayments of lease deposits from lessees	(8,743)	(5,973)	(15,650)
Others	94	(2,193)	(1,427)
Cash Flows from Investing Activities	(53,101)	(73,497)	74,083
III Cash Flows from Financing Activities			
Net increase (decrease) in short-term borrowings	(13,355)	7,687	(126)
Proceeds from long-term debt	69,116	50,540	101,697
Repayments of long-term debt	(43,296)	(41,747)	(107,759)
Proceeds from issue of bonds	9,935	9,934	9,934
Repayments of redemption of debenture	(25)	-	(25)
Proceeds from issue of shares	100,210	-	-
Repayments of obligations under reorganization proceedings	(8,333)	-	(66,080)
Proceeds from issuance of subsidiaries' stock to minority shareholders	4,776	3,740	4,592
Repurchases of subsidiaries' stock from minority shareholders	(2,247)	(2,232)	(3,196)
Dividends paid to shareholders	(7,326)	(7,326)	(7,326)
Dividends paid to minority shareholders	(3,355)	(2,768)	(4,700)
Others	(10,019)	(10)	9,969
Cash Flows from Financing Activities	96,080	17,816	(63,020)
IV Foreign currency translation adjustment on cash and cash equivalents	990	127	(2,468)
V Net increase in cash and cash equivalents	44,483	19,159	182,645
VI Initial cash and cash equivalents	281,723	96,793	96,793
VII Initial cash and cash equivalents (new consolidated subsidiary)	-	-	2,284
VIII Closing balance of cash and cash equivalents	326,206	115,952	281,723

Important Matters in Forming the Basis of Preparing the Interim Consolidated Financial Charts
[Translation Omitted]

Amendments in Accounting Processing Method
[Translation Omitted]

Amendments in Indication Method
[Translation Omitted]

Additional Information
[Translation Omitted]

Footnotes
[Translation Omitted]

October 5, 2004

Brief Statement of Interim Financial Results for the Fiscal Year ended February 2005

(Non-consolidated)

Name of the Listed Company: AEON Co., Ltd.
 Securities Exchange where Listed: The First Section of Tokyo Stock Exchange

Security Code Number: 8267

Location of Head Office: Chiba-pref.

URL: <http://www.aeon.group.net>

For Inquiries: Yuiken Tsutsumi, Vice President (Corporate Communications Department)

Telephone: +81-043-212-6042 (Pilot Number)

Date of the Meeting of the Board of Directors approving the Closing Account:

October 5, 2004

Interim dividend Not applicable

Adoption of unit system for shares applicable (100 shares for 1 unit)

1. Earnings of Interim Fiscal Year ended August 2004 (February 21, 200~August 20, 2004)

(1) Operating Result

	Total Revenues		Operating Income		Recurring Profit	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Interim Fiscal Year ended August 2004	891,749	4.5	1,605	△68.0	7,607	△15.9
Interim Fiscal Year ended August 2003	853,572	3.8	5,023	△54.4	9,045	△32.1
Fiscal Year ended February 2004	1,764,365	3.7	24,017	△25.5	27,593	△18.5

	Net Income		Net Income per Share
	Millions of yen (%)		Yen
Interim Fiscal Year ended August 2004	4,535	0.1	13.54
Interim Fiscal Year ended August 2003	4,532	△33.4	13.61
Fiscal Year ended February 2004	15,795	△7.6	47.43

Note 1 Average Number of Shares Outstanding:

Interim Fiscal Year ended August 2004 334,973,083 shares

Interim Fiscal Year ended August 2003 333,027,099 shares

Fiscal Year ended February 2004 333,025,256 shares

Note 2 Amendment to Accounting Method: not applicable

Note 3 The percentage indications of Net Sales, Operating Income, Recurring Profit and [Interim] Net Income show the rate change compared to previous period.

(2) Condition of Dividends

	Interim Dividends per Share	Annual Dividends per Share
	Yen	Yen
Interim Fiscal Year August 2004	-	-
Interim Fiscal Year August 2003	-	-
Fiscal Year February 2004	-	22.00

(3) Financial Condition

	Total Assets	Shareholders' Equity	Shareholders' Equity Ratio	Shareholders' Equity per Share
	Millions of Yen	Millions of Yen	%	Yen
Interim Fiscal Year ended August 2004	1,077,748	409,356	38.0	1,129.43
Interim Fiscal Year ended August 2003	960,350	292,616	30.5	878.66
Fiscal Year ended February 2004	980,148	307,846	31.4	924.40

Note 1 Number of shares outstanding on term end:

Interim Fiscal Year ended August 2004	362,445,946 shares
Interim Fiscal Year ended August 2003	333,025,394 shares
Fiscal Year ended February 2004	333,021,215 shares

Note 2 Number of treasury stock on term end:

Interim Fiscal Year ended August 2004	258,728 shares
Interim Fiscal Year ended August 2003	249,280 shares
Fiscal Year ended February 2004	253,459 shares

2. Forecast of Earnings Fiscal Year ending February 20, 2005 (February 21, 2004~February 20, 2005)

	Total Revenues	Operating Income	Recurring Profit	Net Earnings	Annual Dividends per Share	
					Year-end	Year-end
	Millions of Yen	Millions of Yen	Millions of Yen	Millions of Yen	Yen	Yen
Whole Fiscal Year	1,820,000	27,000	32,500	18,000	11.0	11.0

[Footnotes: translation omitted]

Balance Sheet <AEON>

(unit:millions of yen)

Item	This Interim Fiscal Year (August 20, 2004)		Previous Interim Fiscal Year (August 20, 2003)		Condensed Balance Sheet (February 20, 2004)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Assets)		%		%		%
I Current Assets						
Cash on hand and in bank	81,690		20,422		17,363	
Notes receivable	355		308		400	
Accounts receivable	16,074		12,536		13,819	
Merchandise inventories	122,023		112,714		120,388	
Others	53,790		41,020		35,703	
Allowance for doubtful accounts	(147)		(129)		(144)	
Total Current Assets	273,787	25.4	186,871	19.5	187,530	19.1
II Fixed Assets						
Tangible Fixed Assets						
Buildings	234,217		220,840		217,725	
Land	87,128		88,384		87,801	
Others	50,713		45,650		47,916	
Total tangible fixed assets	372,059	34.5	354,875	36.9	353,443	36.1
Intangible Fixed Assets	23,675	2.2	23,272	2.4	26,307	2.7
Investments and other assets						
Investment securities	56,638		46,473		47,447	
Stock of subsidiaries and affiliates	123,605		99,213		130,058	
Fixed leasehold deposits to lessors	182,218		199,339		186,337	
Others	86,450		86,760		89,739	
Allowance for doubtful accounts	(41,323)		(36,456)		(40,715)	
Total of investments and other assets	407,589	37.8	395,330	41.2	412,867	42.1
Total fixed assets	803,324	74.5	773,478	80.5	792,618	80.9
III Deferred Assets	636	0.1	-		-	
Total of Assets	1,077,748	100.0	960,350	100.0	980,148	100.0
(Liabilities)		%		%		%
I Current Liabilities						
Notes payable-trade	63,743		66,813		79,518	
Accounts payable-trade	116,687		113,129		98,670	
Short-term borrowings (other than commercial paper)	27,433		6,102		6,057	
Current portion of long-term debt	37,650		14,821		13,902	
Current portion of bonds						
Income taxes payable	906		889		3,922	
Deposits received	68,289		58,430		53,204	
Accrued bonuses	4,644		5,218		3,727	
Provision for store closing expenses	1,499		3,182		2,488	
Others	105,788		96,716		120,743	
Total current liabilities	426,642	39.6	365,303	38.0	382,233	39.0
II Fixed Liabilities						
Bonds	85,000		85,000		85,000	
Long-term debt	54,916		87,966		82,547	
Reserves for retirement grants	2,877		19,827		20,943	
Reserves for retirement grants for retiring Directors and Corporate Auditors						
Provision for loss of investments	4,448		10,408		4,487	
Provision for store closing expenses	1,754		2,678		1,708	
Provision for contingent liabilities	1,221		1,204		1,447	
Lease deposits from lessees	90,013		95,342		92,320	
Others	1,516		-		1,614	
Total Fixed Liabilities	241,749	22.4	302,429	31.5	290,068	29.6
Total of Liabilities	668,391	62.0	667,733	69.5	672,302	68.6

Item	This Interim Fiscal Year (August 20, 2004)		Previous Interim Fiscal Year (August 20, 2003)		Condensed Balance Sheet (February 20, 2003)	
	Amount	Ratio %	Amount	Ratio %	Amount	Ratio %
(Equity)						
I Common stock		101,798	9.4		51,296	5.4
II Capital surplus						5.2
Additional paid-in capital	167,707			117,235		
Other capital surplus	2			0		
Total capital surplus		167,709	15.6		117,235	12.2
III Retained earnings						
Legal reserve	11,770			11,770		
Voluntary reserves	109,339			101,041		
Unappropriated retained earnings	10,105			9,931		
Total retained earnings		131,214	12.2		122,742	12.8
IV Unrealized gain on available-for-sale securities		9,347	0.9		2,015	0.2
V Treasury stock		(713)	(0.1)		(673)	(0.1)
Total of equity		409,356	38.0		292,616	30.5
Total of Liabilities and Equity		1,077,748	100.0		960,350	100.0

PROFIT AND LOSS STATEMENT <AEON>

(unit:millions of yen)

Item	This Interim Fiscal Year (February 21, 2004 August 20, 2004)		Previous Interim Fiscal Year (February 21, 2003 August 20, 2003)		Condensed Profit and Loss Statement of Previous Fiscal Year (February 21, 2003 February 20, 2004)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
		%		%		%
I Net sales	845,317	100.0	811,791	100.0	1,676,112	100.0
II Cost of sales	633,611	75.0	607,536	74.8	1,251,271	74.7
Gross profit on sales	211,706	25.0	204,254	25.2	424,841	25.3
III Rental and other revenues	46,431	5.5	41,781	5.1	88,252	5.3
Gross profit	258,138	30.5	246,036	30.3	513,094	30.6
IV Selling, general and administrative expenses	256,532	30.3	241,012	29.7	489,076	29.2
Operating income	1,605	0.2	5,023	0.6	24,017	1.4
V Non-operating income	8,678	1.0	6,752	0.8	9,776	0.6
VI Non-operating expenses	2,675	0.3	2,731	0.3	6,200	0.4
Recurring profit	7,607	0.9	9,045	1.1	27,593	1.6
VII Special profit	5,301	0.6	2,728	0.3	4,743	0.3
VIII Special loss	9,225	1.1	4,474	0.5	6,736	0.4
Income before income taxes and minority interests	3,684	0.4	7,298	0.9	25,600	1.5
Current income tax	598		2,315		7,278	
Deffered income tax	(1,449)	(0.1)	451	0.3	2,526	0.6
Net income	4,535	0.5	4,532	0.6	15,795	0.9
Unappropriated retained earnings at beginuing of the period	5,570		5,399		5,399	
Unappropriated retained earnings at end of the period	10,105		9,931		21,194	

Important Accounting Principles

[Translation Omitted]

Amendments in Accounting Principles

[Translation Omitted]

Amendments in Indication Method

[Translation Omitted]

Additional Information

[Translation Omitted]

Footnotes

[Translation Omitted]

ANNEX B

October 8, 2004

Company Name: AEON Co., Ltd.

Name of Representative: President & Director: Motoya Okada

(Code No. 8267)

Today's announcement of CFS Corporation

Today, CFS Corporation suddenly made announcement that they dissolved business and capital tie-up with Aeon as of Oct. 8, 2004.

However, there is not a fact of dissolution of our tie-up and we are very much disturbed and extremely regrettable as thier business partner. This announcement would not only cause unnecessary confusion to our related parties but also to our stake holder surrounding our company. We strongly protest against CFS Corporation and ask for their prompt and appropriate action such as modifying today's announcement. and also ask for their response to us.

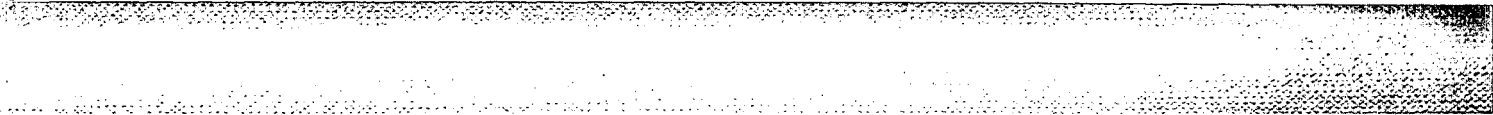
Therefore, based on the premise that they will take an appropriate action in regard to the above matter, Aeon would like to continue favorable alliance with CFS Corporation.

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AEON

CREATING NEW WAYS TO GROW

ANNUAL REPORT 2004 Fiscal year ended February 20, 2004



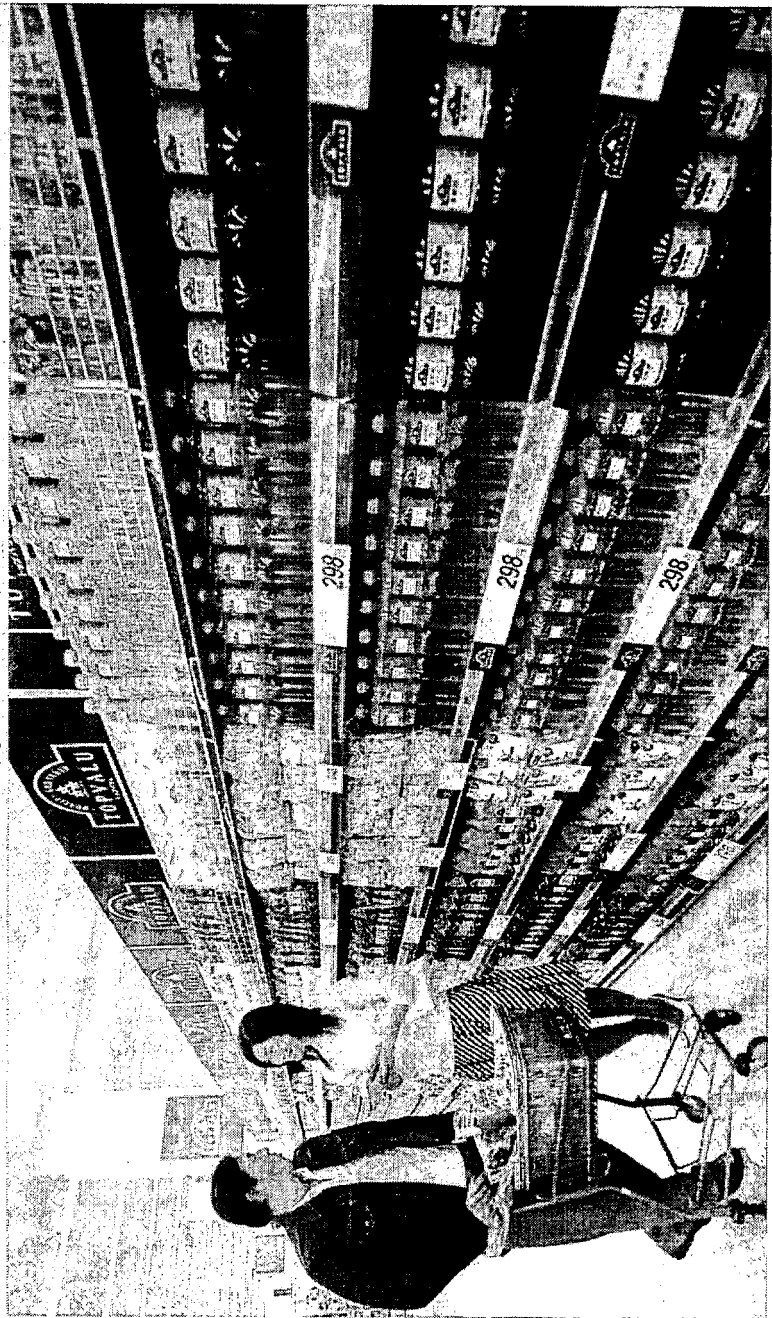
Farmers' Cell Phones Trace Foods to Their Source

The best examples of AEON's superior value for customers are its TOPVALU food products, such as TOPVALU GREEN-EYE, which features additive-free and organic produce and meats. In partnership with farmers and ranchers, a new electronic product-tracking system strengthens AEON's product traceability system by sending data directly from the field regarding frequency and types of agricultural chemicals and fertilizers, processing methods etc.

Meanwhile, traceability information—in stores on special terminals, or online at home—is being steadily expanded to increase consumers' confidence, eventually allowing them to trace their purchase from farm to shelf.



The TOPVALU section is stocked with goods from the world over exemplifying AEON's EDLP and EDLC policies.



Customer Value

[Product consistency, safety and low cost]

Customers prefer to shop at AEON because they believe there is no better source for their daily necessities that so thoroughly addresses very real concerns for product reliability and food safety.

Our private-brand TOPVALU products are carefully selected with all of these customer needs in mind, to support a healthy, worry-free and enjoyable lifestyle. The brand encompasses 2,400 products in the food, clothing, recreational, housewares and home-furnishing sectors.

For nearly 10 years, AEON has worked to bring the full force of its buying power and cost efficiency to TOPVALU products so as to deliver consistently low prices at an unwaveringly high level of quality.

Beyond Retailing to True Community Involvement

As we see it, AEON regional shopping centers ought to play a central role in their communities as virtual towns capable of meeting all of the needs of the people they serve. Tenants include not only retailers and restaurants, but also cinema complexes and other entertainment facilities, and we create spaces for public services such as banks, government offices, license and tax assistance centers, community meeting rooms, childcare centers and health clinics. In this way, our stores serve the needs of communities, families and individuals.

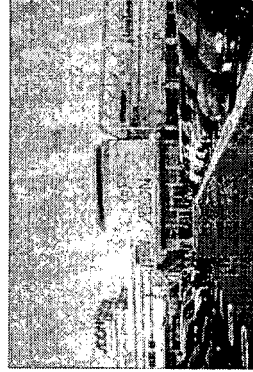
AEON malls do not only brighten shopping environments, but also act as centers for community services.



Community Value

[Redefining localized service]

Across Japan, AEON has taken the lead in the establishment of large-scale malls, also known as regional shopping centers (RSCs), to serve broad, multiple-community trade areas. As developed by AEON, these malls, many on rehabilitated land, consist of multiple anchor stores, including JUSCO and department stores, together with numerous and diverse specialty stores and restaurants. AEON is committed to



providing anxiety-free shopping for all customers, including the elderly and physically impaired, by achieving barrier-free access at our facilities. That is why we go beyond mandated measures to train employees in sign language, install wheelchair-friendly vending machines and ATMs, lend wheelchairs and reading glasses and offer other forms of assistance.

Turning Regional Specialties into a National Obsession

AEON's popular and immensely successful Food Artisan Project grew from customer requests to find ways to preserve Japan's rich, but fading, regional food culture. The Food Artisan Project gives national distribution to the producers of over 100 regional specialties. Producers are glad to see their products gain national recognition at volumes they can supply, and customers gain a unique and convenient source of treasured delicacies. AEON is looking to develop more ideas like this to serve customers with uniqueness, quality and uncompromising service.

The Mizuki's in Iga, Gifu, which produces and sells organic tea for the Food Artisan Project.



Creative Value

[Innovating how and what we sell]

In 2001, we launched the AEON 21 Campaign to publicize "Open Management," through which we work daily to heed the opinions of people we serve. The Campaign has deepened our respect for customers and changed our view of retailing by generating many outstanding ideas from customers and employees. Ideas



like the Food Artisan Project shown on the facing page and the Customer Deputy Store Manager system shown here, which employs customers part time on a rotating basis to

speak freely with fellow shoppers, answer questions and represent the customers' views to store staff. We try to support the community and the natural environment as an innovative retail presence, as a good neighbor and as a friend.

Financial Highlights

	Millions of Yen					Thousands of U.S. Dollars**
	2004	2003	2002	2001	2000	2004
OPERATING RESULTS **						
Total revenues	¥3,500,746	¥2,981,385	¥2,803,533	¥2,605,431	¥2,377,393	\$32,116,936
Operating income	112,471	125,714	118,864	74,866	65,072	1,031,844
Net income (loss) **	17,751	35,014	20,895	9,201	(2,833)	162,853
FINANCIAL POSITION						
Total assets	¥2,781,261	¥2,163,980	¥2,048,188	¥1,995,691	¥1,883,027	\$25,516,156
Shareholders' equity	378,493	340,634	347,900	331,678	313,292	3,472,413
CASH FLOWS						
Cash provided by operations	¥ 257,906	¥ 174,999	¥ 140,376	¥ 55,834	¥ 124,976	\$ 2,366,110
Purchases of properties	134,489	118,671	134,622	146,213	130,187	1,233,844
			Yen			U.S. Dollars
PER SHARE DATA						
Net income (loss)						
Basic	¥53.3	¥105.8	¥63.1	¥28.2	¥(8.7)	\$0.49
Diluted	—	105.2	62.8	27.7	(8.7)	—
Cash dividends	22.0	22.0	22.0	22.0	22.0	0.20

- Notes: 1. For convenience only, U.S. dollar amounts were translated at the rate of ¥109=U.S.\$1, the rate of exchange at February 20, 2004. This translation should not be construed as a representation that the yen amounts could be converted into U.S. dollars.
2. Prior-year amounts in the Consolidated Financial Statements have been reclassified to discounted operations to conform to the current-year presentation in accordance with the Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."
3. For the year ended February 20, 2004, the basis for calculating net income changed substantially upon adoption of SFAS No. 143 (Note 8 in Consolidated Financial Statements). Net income for fiscal 2004 and later cannot and should not be compared directly with results for fiscal 2003 and earlier. (See further explanation under Net Income on page 37.)

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This report includes additional company information through July 20, 2004.

Forward-Looking Statements

Statements contained in this report with respect to AEON's plans, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of AEON which are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause AEON's actual results, performance or achievements to differ materially from the expectations expressed herein.

A Message from the President

SPOTLIGHTING GROWTH IN A YEAR OF PROMISING CHANGE

ÆON Co., Ltd. is aggressively applying global "best practices" in every corner of its operations as it simultaneously expands the scope, diversity, depth and quality of its customer-oriented local service. These measures, combined with our ongoing retail innovation, are laying strong foundations for the next stage of growth.



Motoya Okada
President

Embarking on corporate governance and group-management reforms to realize the Global 10 vision

Globalization and deregulation have pushed the Japanese retailing industry into an era of free competition, including competition from foreign retailers, so that today, we operate in a radically changed business environment. ÆON's target, as defined in our Global 10 vision, is to achieve the level of a global top-10 retail group by 2010. In fiscal 2004, we undertook corporate governance reforms, including the introduction of the "Company with Committees" system, designed to increase the transparency and objectivity of management. We also launched a major

program of group management reforms centering on our transition to a holding-company structure.

The purpose of the group management reforms is to prepare ÆON for the realization of our Global 10 vision by accelerating our growth. This will require the development of synergies among group business operations, including the GMS and supermarket businesses, and so on, and among group functions, such as merchandising, distribution, finance and accounting. We have begun to strengthen group synergies on a number of levels. For example, we are generating merits of scale in procurement and distribution, centralizing back-office functions for improved efficiency, sharing best practices among all group companies, and pursuing group-level area strategies—regional inter-company operational coordination that encompasses all business formats and companies.

The year ended February 2004 brought us a few steps closer to the realization of our Global 10 vision. Along the way, we also produced significant growth in our consolidated business performance, including a 17.4% year-on-year increase in total revenues.

Consolidated operating income, at ¥112 billion (US\$1,032 million), fell a little short of matching the previous year's result, but consolidated income before income taxes achieved a new record level with a 1.9% increase to ¥95.6 billion (US\$877 million).

I would like to call your attention to the 49.3% difference in net income between fiscal 2003 and 2004, which came about from adoption of new accounting principles. As explained in the Financial Review, this does not reflect a year-on-year trend in our underlying business performance. In fact, because of a change in the basis for calculation, fiscal 2003 net income cannot and should not be compared with fiscal 2004 net income. I believe it is useful for your understanding to mention that, under Japanese accounting principles, which did not change between fiscal 2003 and 2004, we recorded an all-time high in net income for the second consecutive year.

With the aim of becoming a "Global 10" retailer, we are strengthening AEON's foundations by targeting further merits of scale.

On September 30, 2003, plans for rehabilitation of MYCAL Corporation and MYCAL KYUSHU Corporation were approved. Both companies are undergoing reconstruction with support from AEON. Capital reductions were implemented on November 29, and both companies became AEON subsidiaries. Also in November 2003, AEON reached agreement on a business and capital alliance with Posil Corporation, which has a strong operating base in Hokkaido, Japan's northern island.

We continued to develop a national supermarket chain. In June 2003, we formed a business and capital alliance with Kasumi Co., Ltd., which has built a solid business

base in the northern Kanto region. The equity-method affiliated companies Maxvalu Hokkaido and Maxvalu Chubu became subsidiaries after AEON purchased their issued shares through tender offers. These transactions were implemented on February 20 and June 6, respectively. On November 21, we merged three subsidiaries: Maxvalu Kyushu, Nishikyushu Well Mart and Hello Co., Ltd.

WE EXPECT THE SUPERCENTER FORMAT TO PLAY A PIVOTAL ROLE IN THE FUTURE

The aim of this move was to create a stronger foundation for our supermarket operations in the Kyushu region.

We expect the supercenter format to play a pivotal role in AEON's future. On September 1, 2003, Kyushu JUSCO merged with Home Wide Corp. to form AEON Kyushu Co., Ltd. With this merger, we have opened the door to full-scale development of supercenter stores in the Kyushu region, in addition to continued GMS development. In August 2003, AEON formed a business and capital alliance with Sundy Co., Ltd., which operates a home center chain based mainly in the Tohoku region, in preparation for increasing the number of supercenters in that region as part of the full-fledged nationwide rollout of this format.

In the year under review, we opened 15 GMS outlets and 50 supermarkets. The addition of these new outlets, together with stores operated by new members of AEON, brought the total number of stores under

GMS and supermarket operations at the end of the fiscal year to 1,244, an increase of 332 compared with the number a year earlier. This scale gives us important advantages in terms of merchandise procurement and the development of original-brand goods. We intend to use these advantages to the full in the future business operations of AEON.

We will establish global management systems while striving to be the best retailer at the local level.

We will ensure that AEON is able to adapt quickly and appropriately to change in the business environment and the needs of its customers by applying the "glocal" (global + local) approach to every aspect of our business activities. Specifically, this means that we will build management systems appropriate for our role as a global retailer in such areas as merchandise development, information technology and distribution. It also means that we will continue our unremitting efforts to be the best local retailer in each community that we serve, in terms of the way we operate our stores and the lines of merchandise that we offer. At the same time, we will continue to achieve growth and success as Japan's largest retail group by actively developing innovative retail formats.

(1) Building global supply-chain management systems

For AEON, 2004 marks the start of a new era in supply-chain management reforms. The extent of the reform process will be even more comprehensive than in the past.

AEON has long been actively involved in direct dealing with manufacturers and foreign direct sourcing. The continuing evolution of these activities hinges on the full realization of these supply-chain management reforms.

We will maximize customer satisfaction by building the efficient supply-chain management systems needed to minimize merchandise and distribution costs and support our transition to an everyday low price (EDLP) and everyday low cost (EDLC) structure. We will also continue to accelerate our efforts to achieve world standards of performance through reforms in the core competencies of retailing such areas as information technology, distribution, merchandising, operations and marketing. The achievements of past reforms are exemplified by AEON's TOPVALU range of private-brand products. This year marks the 10th anniversary of the TOPVALU range, which is now Japan's leading private brand. We aim to surpass national brands both qualitatively and quantitatively by offering consumers extremely low prices, combined with safety, assurance and integrity.

(2) The best local retailer

Localization is also a priority. We are reviewing our approach to community-focused management. Our aim is to enhance our reputation for reliability by ensuring that AEON is always able to heed the wishes of its customers. Through our "AEON 21" campaign, we annually solicit the views of local customers and staff about what they see as the ideal vision for AEON. With the past three campaigns, we have received approximately 545,000 opinions from both customers and employees. One of the innovations to emerge from this campaign was the "Customer Deputy Store Manager" system, under which customers in each of the communities that we serve are invited to become deputy managers in our stores. These people provide valuable recommendations for store improvements based on a customer's point of view.

Customers want a regional focus in our

stores. We have responded by introducing a range of initiatives designed to meet those expectations by perpetuating the best in local food culture in our stores. Examples include the Food Artisan Project, through which regional specialties are made available throughout the country, and the offering of local products to local consumers. Our aim is to offer merchandise and services that precisely match regional characteristics.

(3) Laying foundations for a new phase of growth

GMS stores will continue to play an important role as anchors for our large-scale malls—what the retail industry calls regional shopping centers (RSCs). We are freshening and improving the GMS/anchor-store format to increase store vitality and productivity by establishing a variety of traffic-generating “destination” sales areas. Destination sales areas outstrip specialty stores in terms of merchandise variety and provide a highly attractive and rewarding shopping experience for a diverse range of customers, regardless of age, gender or customer needs.

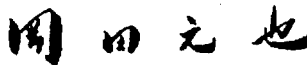
The mainstay of AEON's next stage of growth will be the supercenter format. Perfecting this format will promote development of a wider range of retail outlets for AEON. Our priorities for the supermarket business are the development of the new “Food & Drug” format and the establishment of a full-fledged national chain through accelerated store openings throughout Japan. We will continue to innovate in our SC development business as Japan's leading shopping center developer. Overseas, we will focus the resources and capabilities of AEON toward the achievement of accelerated growth in Asia.

It has been 30 years since shares of AEON Co., Ltd. were first listed on the stock exchange. Today there are well over 20 listed companies in AEON, and we are now Japan's largest retail group in terms of sales.

On July 16, 2004, AEON reached a decision to undertake a new share offering. The Company intends to use the proceeds from the sale of shares for establishment, expansion and refurbishment of GMS stores, which serve as anchor stores of mall-type RSCs, and supercenters, now being developed as a major new business for the future. The funds will also serve to strengthen AEON's profit base.

I think that the firm financial standing concurrently attained through this share offering will function as a driver of additional growth. Moreover, by simultaneously performing a stock split, we will generate a synergistic effect accelerating the growth of “customer stockholders,” a development the Company actively welcomes.

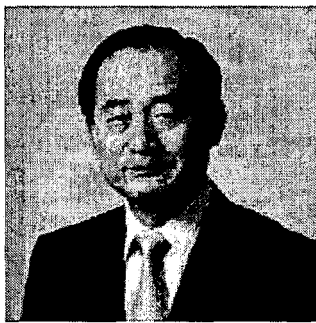
Our long-term vision is to become truly global by achieving the level of a worldwide top-10 retailer. We will continue to work steadily toward this target through wide-ranging reforms and innovations. The AEON Basic Principles emphasize respect for humanity, contribution to local communities, and the pursuit of peace, centered on customers. This philosophy will never change, regardless of any reforms that may be implemented in the future. We will continue to strive for growth by providing local communities and customers with value that is uniquely AEON.



Motoya Okada
President

A Message from the Chairman

By remaining constantly focused on enhancing global management standards and local customer needs, and on maximizing group synergies, AEON has been able to achieve an enviable consistency of growth. We continue to reform our corporate governance and group management in pursuit of transparency and management responsiveness.



Toshiji Tokiwa
Chairman of the Board

One year following transition to the Company with Committees System, AEON enters the second phase of corporate governance reforms

AEON's unchanging Basic Principles are respect for humanity, contribution to local communities, and the pursuit of peace centered on customers. We will continue to fulfill these principles by working to meet the needs of all customers as we work to ensure our long-term growth by responding promptly to change in the business environment and consumer needs.

AEON's long-term target is to reach the level of the world's top 10 retailers. We regard reforms in group management and

corporate governance to be one of our most important priorities in this context. Group management reforms will enhance the total value of AEON through the maximization of group-level synergies, while corporate governance reforms will result in the establishment of a world-class management structure.

In May 2003, AEON Co., Ltd. took its first step toward corporate governance reforms when the annual meeting of shareholders approved a change in its corporate governance structure, from the statutory auditor system to the "company with committees" system. Under this system, the supervisory and executive roles of management are clearly divided between directors and executive officers. This structure strengthens the supervisory role of directors while ensuring that management is transparent and objective. Our aim in switching to the Company with Committees system was to accelerate decision-making and enhance our shareholder value by delegating substantial authority to the executive officers.

These governance changes also resulted in significant reduction in the number of directors. The numbers of inside and outside direc-

tors are now equal at four each. With a smaller board, it is possible to have lively and extensive discussion about decisions. In addition, management is subject to close scrutiny from outside as well as inside perspectives.

At the Board of Directors' meeting on May 19, 2004, I resigned my position as Representative Executive Officer so that I could focus solely on my role as Chairman of the Board. I believe that this change will provide a vintar separation of governance and executive functions, and enhanced transparency in corporate governance.

At the same meeting on May 19, four executive officers including myself, resigned, and 12 new executive officers were appointed. We now have 28 executive officers, who are responsible mainly for operating departmental or headquarters functions and regional companies. The deployment of these people has speeded up management processes and strengthened our framework for the application of the "global" management concept (global-local) to all areas of activity.

Management supervision led by outside directors further improving management transparency
The Board of Directors has established three committees. The Audit Committee supervises the activities of directors and executive officers. The Nomination Committee is responsible for the selection of candidates for the board. And the Compensation Committee determines levels of remuneration for directors and executive officers. The

role of the Audit Committee is especially important in relation to management supervision. To ensure a high standard of transparency and total independence from management executive functions, all three members are outside directors.

The Nomination Committee and Compensation Committee each consist of two outside directors and one inside director. Both are chaired by an outside director. The inside director, who is also the President of AEON, is answerable directly to the outside directors. This relationship ensures that accountability and light working relationship are maintained.

The Board of Directors met six times in the last fiscal year. The Audit Committee held eight meetings, the Compensation Committee three, and the Nomination Committee two.

The effectiveness of corporate governance has been further improved through the strengthening of our cooperation with the independent auditor. We have also strengthened governance functions in other ways, including the appointment of risk-management officers and internal auditors as an internal organization within the executive structure. AEON has established risk management and corporate ethics promotion organizations under the AEON Executive Committee, which is its supreme decision-making body. The operations of these organizations are monitored by internal audit departments, which report to the Audit Committee.

Ensuring consistent openness to customers, employees and shareholders

The wholly original advisory councils now being set up by AEON Co., Ltd. are aimed at providing a clear and unimpeded customer and community perspective. The Customers Advisory Council provides recommendations from leaders of consumer organizations and actual consumers. The role of the Social Responsibility Advisory Council is to strengthen

important management assets, and they will always play an important role in our management activities.

We continue to seek out the views of consumers and employees about the ideal role for AEON through the "AEON 21" Campaign. We have started to turn ideas contributed through this campaign into action as part of our efforts to create an open structure in which the views of consumers are reflected in management decisions.

Last year, we established the "AEON Code of Conduct," which states that all of our activities are dedicated to customers and stipulates the specific behavior standards required of AEON employees. We intend to work under the AEON Code of Conduct to build closer ties of trust with customers, the community, our business partners and shareholders.

CUSTOMERS

environmental protection and social contribution activities. The Management Advisory Council is made up of outside experts who offer views on overall group strategies from medium-term and long-term perspectives. By creating these councils, we have established formal mechanisms for regular canvassing of the views of outside experts on our customer-first philosophy, our environmental protection and social contribution activities, and general or specific aspects of management. We regard these councils as

As we work toward our Global 10 vision, we will continue to expand our store network in Japan and overseas. Our group work force will also increase, and there will be considerable growth in our organization. We are determined to put the AEON Code of Conduct into practice as a way of ensuring that our behavior continues to reflect the unchanging principles of our corporate philosophy.

李 盤 政 時

Naohiji Tokiwa
Chairman of the Board

Review of Operations

AEON consists of the GMS retailer AEON Co., Ltd., its **129 consolidated subsidiaries**

and **28 equity-method affiliated companies**. These companies are active in four business areas: general merchandise store (GMS) and other retail store operations, **specialty store operations**, shopping center (SC) **development operations and service and other operations**.

In the year ended February 20, 2004 (fiscal 2004), the consolidated revenues of AEON Co., Ltd., and its 129 consolidated subsidiaries **increased by 17.4%** over the previous year's level to ¥3,501 billion (US\$32,117 million), while total consolidated operating income was ¥112 billion (US\$1,032 million). Consolidated income from continuing operations before income taxes set a record high of ¥95.6 billion (US\$877 million), an increase of 1.9%. For a discussion of changes to net income reporting, see page 37.

The figures stated in the "Review of Operations" and "Financial Review" for total revenue and total operating income are based on accounting principles generally accepted in the United States. However, segment breakdowns, such as the figures for GMS, supermarket and convenience store operations, in the case of GMS, and other retail store operations and performance figures for AEON Co., Ltd. and its main subsidiaries, are from raw data based on Japanese accounting principles before adjustment according to principles generally accepted in the United States.

* "AEON" in this report refers to a group of ESE companies, whose "AEON Co., Ltd." refers to the holding company engaged in retail sales conducted on GMS operations.

P16



☐ GMS and other retail store operations

P23



☐ Specialty store operations

P27



☐ SC development operations

P28



☐ Service and other operations

Segment Performance

For the years ended February 20,

Thousands of U.S. Dollars

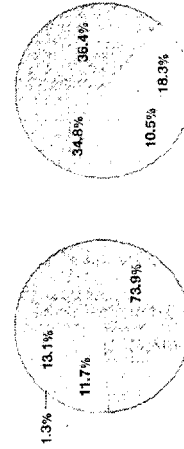
	2004	2003	2002	2001	2000
REVENUES:					
GMS and other retail store operations	¥2,837,009	¥2,375,940	¥2,239,120	¥2,107,424	¥1,977,023
Specialty store operations	448,161	449,852	438,938	411,953	388,919
SC development operations	49,240	44,851	39,574	33,116	28,562
Service and other operations	501,983	476,510	452,382	395,036	274,382
Total	¥3,837,373	¥3,347,153	¥3,170,014	¥2,947,529	¥2,668,866
Eliminations of intersegment revenue under Japanese GAPP	(291,157)	(260,649)	(235,422)	(280,880)	(146,654)
Adjustments/Reclassifications to U.S.GAPP	(45,470)	(105,119)	(131,059)	(133,208)	(144,819)
Total revenues	¥3,500,746	¥2,981,385	¥2,803,533	¥2,605,431	¥2,377,383

OPERATING INCOME:

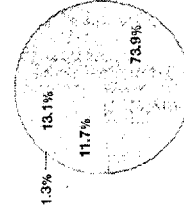
	2004	2003	2002	2001	2000
GMS and other retail store operations	¥ 47,804	¥ 53,528	¥ 46,853	¥36,334	¥31,071
Specialty store operations	24,104	28,420	30,801	20,074	14,555
SC development operations	13,849	12,262	10,321	8,001	7,246
Service and other operations	45,793	38,271	31,330	27,403	18,053
Total	¥131,650	¥132,481	¥119,305	¥91,812	¥70,925
Eliminations of intersegment income under Japanese GAPP	562	(309)	(83)	248	287
Adjustments/Reclassifications to U.S.GAPP	(19,741)	(6,458)	(388)	(17,194)	(6,140)
Total operating income	¥112,471	¥125,714	¥118,864	¥74,866	¥65,072

Note: For convenience only, U.S. dollar amounts were translated at the rate of ¥109=U.S.\$1, the rate of exchange at February 20, 2004. This should not be construed as a representation that the yen amounts could be converted into U.S. dollars.

Operating Income



Revenues



GMS AND OTHER RETAIL STORE OPERATIONS

General merchandise stores, supermarkets, discount stores, convenience stores, department stores, etc.



GMS and Other Retail Store Operations

AEON aims to achieve the level of a global top-10 retail group. As it moves toward this target, in its core general merchandise store (GMS) business it seeks to maximize group synergies through the sharing of best practices and other strategies. It also works to raise customer satisfaction by offering merchandise that matches local needs, and by enhancing its services.

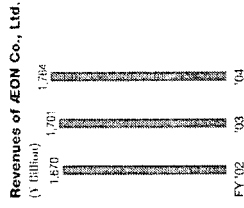
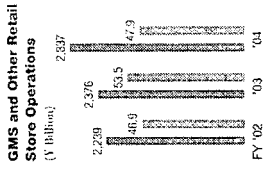
AEON recognizes another essential goal in its GMS and supermarket operations and that is to supply quality products at low prices. It achieves this through IT-based merchandising/reengineering, direct trading with manufacturers, direct sourcing from overseas and development of private label merchandise. In this regard, it is also overcoming Japan's distinctive distribution structure, which is dominated

AEON is transforming its GMS operations in a vision that incorporates global best practices with AEON's distinctive product flair and customer-directed service innovation. JUSCO stores operate nationwide in Japan as the flagship of AEON GMS operations.

by manufacturers, and nontransparent trade practices as it works to establish a customer-oriented, rational and efficient distribution system. Distribution efficiency is an important priority for AEON, and it is developing an integrated nationwide distribution network. Work on related infrastructure development has moved forward in the year under review, and in a move that immediately benefitted the whole group, the AEON Kansai National Distribution Center opened in February 2003.

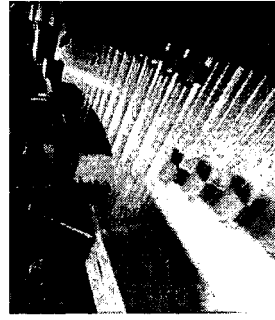
AEON, in collaboration with 16 of the world's leading retailers, has also established the WorldWide Retail

Exchange (WWRE), an internet-based joint purchasing system designed to reduce procurement costs through integration of total group demand and reliance on auctions. AEON continues to improve its productivity by developing new organizational behavior and through business process reengineering. Through these and other strategies, AEON is working to reinforce the "Everyday Low Cost" (EDLC) structure needed to support its "Everyday Low Price" (EDLP) policy. Another priority is the maintenance

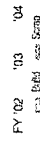
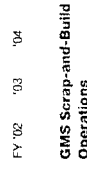
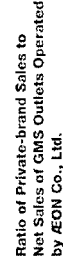


Supply Chain Management Reforms

A major aim of AEON's supply chain management reforms is to improve its competitiveness at the global level by minimizing waste and maximizing efficiency in all processes, from production to the sale of goods to consumers. These goals are being achieved through expanded initiatives in such areas as direct trading with manufacturers, group sourcing, direct overseas sourcing, and IT reforms. The integrated distribution network is a particular priority. The aim is to integrate physical distribution for over 1,000 GMS and supermarket outlets, from Okinawa in the south, to Hokkaido in the north. This



plan calls for the completion of infrastructure development by 2006.



(US\$1,468 million). This accounts for 7.1% of total sales at GMS outlets operated by AEON Co., Ltd.

MYCAL Corporation has made a fresh start with support from AEON and has become a consolidated subsidiary. The addition of MYCAL has increased AEON's size. Now with over 1,000 GMS and supermarket outlets, from Hokkaido in the north, to Kyushu and Okinawa in the south, AEON is Japan's largest retailer. It takes full advantage of its increased scale to advance its group strategies in the areas of product development, joint procurement, information technology and distribution. MYCAL is steadily restoring its sales performance, and after the first creditor reimbursement based on the rehabilitation program, its fourth-quarter operating income of

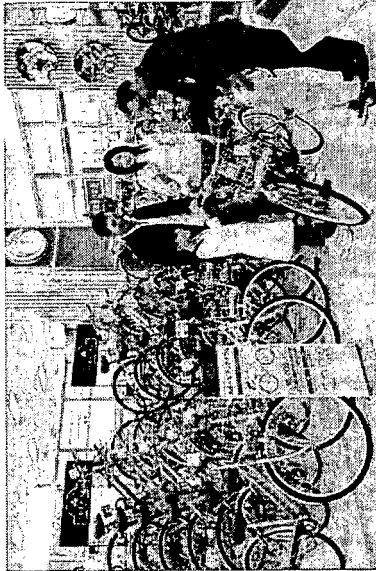
MYCAL stores (SAY and WURE), who recently joined AEON, share a similar customer-first commitment and history of contribution to the community. MYCAL brings to AEON a fresh perspective and opportunity to co-develop and share best practices.

¥3.7 billion (US\$34.3 million) was added to AEON's consolidated results. Revenues from this segment were 19.4% higher at ¥2,837 billion (US\$26,028 million). Sluggish sales performance of seasonal products, the result of cool summer weather and a mild winter, was reflected in lower operating income of ¥47.9 billion (US\$439 million), which was 89.5% of the previous year's result.

GMS Operations

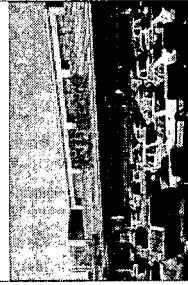
The GMS operators within AEON are steadily adapting to environmental change through scrap-and-build programs based on aggressive growth strategies. They are also building on past successes in implementing "Everyday Low Cost" structures to extend and expand "Everyday Low Price" policy.

In fiscal 2004, AEON Co., Ltd., AEON Kyushu Co., Ltd. and Ryukyu JUSCO Co., Ltd. opened 15 GMS outlets and aggressively extended their operating hours. To improve competitiveness, AEON began development of a new model for GMS stores as anchor stores for large-scale malls, also known as regional shopping centers (RSCs). It is also developing highly specialized destina-



tion sales sections, such as Kids Republic and Digital World to enhance its appeal to the broadest range of customers. AEON targeted productivity improvements by reforming work methods and centralizing store back-office functions.

AEON is focusing on development of the supercenter, a new, high-profit retailing format. We envision it as a discount-oriented, single-floor, large-scale store combining a multitude of products, including groceries, home



Supercenters are going nationwide.

furnishings, clothing and pro-quality tools and materials—plus other merchandise to suit customer demand. To date, AEON has established six supercenters with good results. Following this successful proof of concept, AEON plans to expand the number of supercenters throughout Japan.

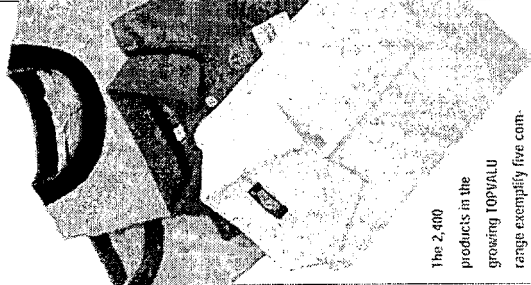
Unfortunately, these initiatives could not fully offset the poor sales performance of apparel and seasonal interior products as a result of unfavorable weather and escalating competition. These factors were reflected in the non-consolidated performance of AEON Co., Ltd., AEON's holding company and principal GMS operator, which recorded higher revenues but lower profit. Revenues increased by 3.7% over the previous year's level to

Number of Retail Outlets in GMS and Other Retail Operations by Store Type

As of February 20,	2004	2003
GMS	463	327
Supermarkets	664	535
Convenience stores	2,633	2,361
Others*	120	110
Total	3,880	3,333

Note: Home centers, discount stores, department stores, and so on.

The 2,400 products in the growing TOPVALU range exemplify five commitments: customer feedback, trust based on safety and environmental concern, clear labeling and traceability, reasonable prices and guaranteed satisfaction. These have made TOPVALU a trusted and sought-after brand throughout Japan.



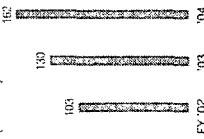
¥1,764 billion (US\$16,187 million), while operating income declined to ¥24.0 billion (US\$220 million), or 74.5% of the previous year's level. Net income was also lower at ¥15.8 billion (US\$145 million) or 82.4% of the previous year's result. AEON Kyushu, which merged with Home Wide Corp., also recorded higher revenues and lower profit. AEON Kyushu's revenues increased by 24.5% to ¥162 billion (US\$1,491 million). Its operating income declined to ¥1.8 billion (US\$16.5 million) and net income to

¥0.9 billion (US\$8.6 million), amounting to 63.6% and 57.2% respectively of the previous year's results.

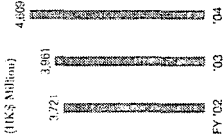
Overseas Operations

AEON's overseas expansion began with the opening of its first overseas affiliated company in Malaysia 20 years ago. In fiscal 2004, Jaya JUSCO Stores Bhd. in Malaysia opened two new stores, bringing its total to 11. In China, Qingdao AEON Dongtai Co., Ltd. continued to make good progress.

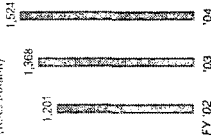
Revenues of AEON Kyushu (¥ billion)



Revenues of AEON Stores (Hong Kong) (HK\$ Million)



Revenues of Jaya JUSCO Stores (RMS Million)



20 Years of Overseas Expansion

Two decades have passed since planning began for AEON's first overseas store, which opened in Malaysia in 1985. In that time, JUSCO stores have become a symbol of quality and lifestyle fulfillment for Malaysians. Its 10th store, opened in January 2004 with a floor space exceeding 10,000 m², is the first large-scale GMS store in Johor Bahru.

Following Malaysia, AEON established outlets in Thailand and Hong Kong. AEON moved into China in the 1990s, and in 2003 it opened its first store in Taiwan.

In the current year, AEON plans to establish AEON China as a wholly owned subsidiary of AEON Stores (Hong Kong) Co., Ltd. in preparation for China's plans to open up to foreign retailers in 2005. Operations will also expand in the rest of Asia.



while Guangdong JUSCO Teem Stores Co., Ltd., a subsidiary of AEON Stores (Hong Kong) Co., Ltd., opened its fifth store. Taiwan AEON Stores Co., Ltd. opened its first store.

AEON will continue to localize the management of its overseas operations while working to maintain the support of local communities and shoppers.

Supermarket Operations

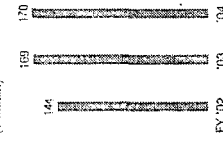
An aggressive scrap-and-build program among AEON supermarket companies resulted in the opening of 44 stores and the closure of 30 during fiscal 2004. Priorities in this business area included the sharing of best practices among supermarket operators, and the establishment of common infrastructure. Maxvalu Chubu Co., Ltd. successfully implemented an original strategy based on local consumption of locally produced goods.

Maxvalu Tokai Co., Ltd. achieved growth in both revenues and income.

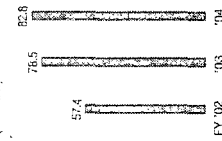
Revenues increased by 10.6% over the previous year's result to ¥66.9 billion (US\$614 million), operating income by 8.1% to ¥3.1 billion (US\$28.5 million), and net income by 51.9% to ¥5.2 billion (US\$47.3 million). Maxvalu Kyushu Co., Ltd. achieved a positive income result in the second year after its establishment.

In June 2003, AEON Co., Ltd. formed a capital tie-up with Kasumi Co., Ltd., a supermarket chain based in Ibaraki Prefecture with stores in the neighboring Kanto region bordering Tokyo. The companies are cooperating on establishing the basis for a regional supermarket chain in Kanto.

Revenues of Maxvalu Nishinohon (¥ billion)



Revenues of Maxvalu Tohoku (¥ billion)



Maxvalu promotes local production for local consumption.



Maxvalu carries the AEON spirit of innovation into supermarket operations on a national scale. Maxvalu stores reflect regional product preferences and enhanced service based on AEON's purchasing power and extended, or 24-hour operations.

SPECIALTY STORE OPERATIONS

Women's apparel, family casual fashions, health and beauty-care products, footwear and other specialty retail activities

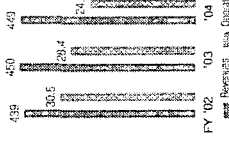


U.S.-based clothing retailer Talbots is an AEON company. A worldwide brand with over 1,000 stores in the United States, Canada, Britain and Japan, Talbots exemplifies AEON's deep focus on highest-quality customer service and exciting and timely merchandise.

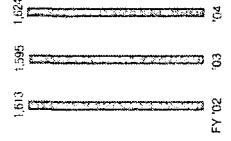
Specialty Store Operations

AEON subsidiary The Talbots, Inc. is one of America's best-known specialty retailers of women's, children's and men's classic apparel. In its 2003 fiscal year, Talbots registered declines in both revenues and income, in part because a full-scale recovery in the U.S. economy did not emerge until the second half of the year. However, Talbots opened 96 stores, including Talbots Men's outlets, and its revenues were 1.8% higher than in the previous year in local currency terms.

Specialty Store Operations
(\$ Billion)



Revenues of Talbots
(\$ Million)



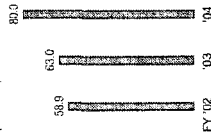
Blue Grass Co., Ltd. and Cox Co., Ltd. both improved their earning potential and registered higher income, thanks to strategies that included the closure of unprofitable outlets and the tightening of inventory management.

Blue Grass is a specialty retailer of women's fashion apparel. It achieved encouraging sales of items based on the popular "layered look" style. However, it was severely affected by prolonged rain and low temperatures in the summer season, by lingering high temperatures in the fall, and by mild and abnormal winter weather.

Convenience Store Operations

Ministop Co., Ltd. opened 141 new outlets and closed 108 under its scrap-and-build program. Two stores taken over from Ministop Kinki Co., Ltd. as a result of a merger brought the total increase in the number of new stores to 35. At the end of the period, there were 1,505 directly operated Ministop outlets. The total number, including area franchise companies in Japan and overseas is now 2,633.

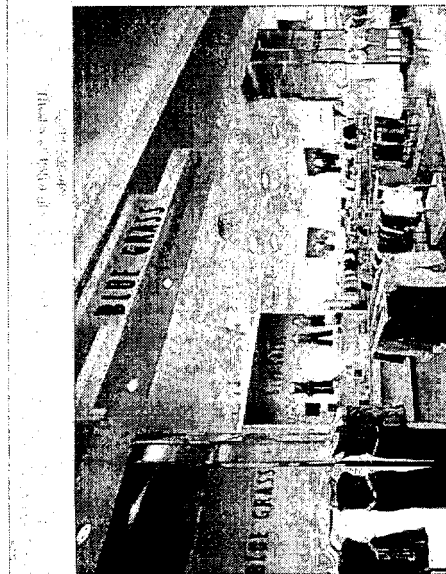
Revenues of Ministop
(\$ Billion)



Despite continued development of original fast-food products for processing in-store, sales of seasonal items were adversely affected by unseasonably mild weather. The result was higher revenues and lower income. Its consolidated revenues increased by 27.0% over the previous year's level to ¥80.0 billion (US\$7.34 million), but operating income was ¥7.1 billion (US\$65.5 million), which represents 83.0% of the previous year's figure.



One secret to Ministop's high customer appeal is tasty and unique products prepared on the premises. Ministop is known for soft ice cream flavored with seasonal fruits and for Panini-bread sandwiches made from fresh-baked imported dough.

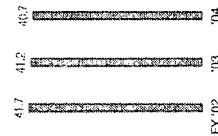


Blue Grass specialty stores create multiple fashionable merchandising themes with strong appeal to selected age and lifestyle segments. Blue Grass customers find products that "speak to them" and provide just the right statement of individuality.

The company responded to these circumstances by tightening its inventory controls to minimize price-cutting losses. Blue Grass also reviewed the locations of its existing outlets and undertook an aggressive scrap-and-build program with the aim of improving its income structure. For the year under review, ordinary income and net income both achieved record levels.

The family casual wear retailer Cox worked to build a new business structure. Responding to market characteristics, including location, competition, and the consumer spending environ-

Revenues of Blue Grass
(¥ billion)



Number of Specialty Stores

As of February 20,	2004	2003
Talbots	977	886
Blue Grass	642	685
Cox	175	199
Talbots Japan	46	44
Laura Ashley Japan	86	77
ÆON Forest	104	101
Mega Sports	50	38
Claire's Nippon	122	108
NuStep	258	257
Book Barn	141	145
Petcity	33	21
Others	32	66
Total	2,666	2,627

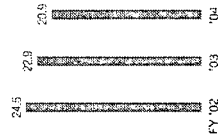
quarters and all outlets. The purpose of these changes was to raise the level of customer satisfaction by providing a prompt and optimized response to market needs. The result was a 96.5% increase in operating income. This dramatic improvement was achieved despite a reduction in operating revenues resulting from a scrap-and-build program.

Mega Sports Co., Ltd., which is building the Sports Authority chain in Japan, achieved growth in both income and revenues. This result reflects a strategic response to the "fashionization" of sports, including the establishment of sales areas for sports casual goods based on brand names, in addition to its sports-specific sales areas.

The specialty store segment as a whole recorded revenues of ¥449 billion (US\$4.121 million), a decrease of 0.2% over the previous year's result. Operating income was ¥24.1 billion (US\$221 million), which represents a decline of 15.2% from the previous year's results.

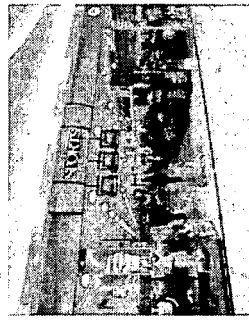
Cox is a premier source of unique "family casual" apparel favored by young families. Recently, Cox has focused its expansion on shopping mall locations and offering merchandise that reflects the tastes and style of each area.

Revenues of Cox
(¥ billion)



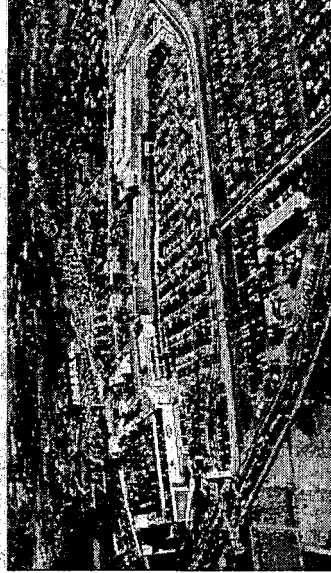
Sports Specialist

ÆON company Mega Sports is developing The Sports Authority chain of large-scale specialty stores in Japan. The Sports Authority is one of America's largest sporting goods chains. The first Japanese outlet was opened in 1996. Sports Authority stores are significantly larger than Japanese sporting goods stores, with an average sales area of about 3,000 m². These innovative, large, and fun specialty stores combine extensive merchandise ranges covering every type of sport and serving every member of the family. A key highlight of every store is the excellent service provided by skilled sales personnel.



SC DEVELOPMENT OPERATIONS

Development of shopping centers, leasing and management of commercial facilities, etc.



SC Development Operations

In fiscal 2004, AEON opened 15 large-scale shopping centers (SCs) in Japan, increasing AEON's total commercial floor area by 480,000 m² to 7 million m²—about 40% of the total new shopping center floor space added throughout Japan during the year.

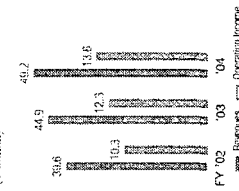
The consolidated subsidiary AEON Mall Co., Ltd. opened a new large-scale mall, or regional shopping center (RSC) in Morioka City, Iwate Prefecture in August, and another in Ota City, Gunma Prefecture, in December. This brought the number of RSCs operated by AEON Mall to 16. The total commercial floor space in these malls increased by 100,000 m² in fiscal 2004 to 850,000 m².

AEON Mall's revenues in the current year increased by 14.5% to ¥35.3 billion (US\$324 million) and operating income by 26.2% to ¥11.4 billion (US\$105 million). Net income set a new record, with a 43.8% increase to ¥5.6 billion (US\$51.2 million), which contributed to consolidated earnings.

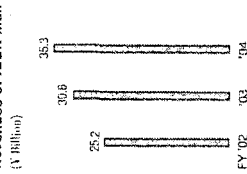
AEON Mall is Japan's largest dedicated shopping mall developer. By 2012, AEON Mall aims to be one of the

top 10 developers in the world, with 50 malls comprising commercial space of 3 million m². Initiatives designed to raise customer satisfaction levels have helped AEON Mall to achieve growth in both revenues and income for 15 consecutive years.

SC Development Operations

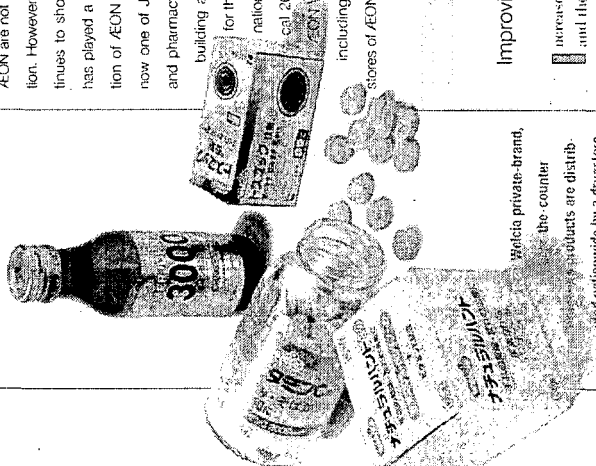


Revenues of AEON Mall



Drugstore Operations

Most of the drugstore companies in AEON are not included in the consolidation. However, this business area continues to show steady growth. AEON has played a pivotal role in the formation of AEON Welcia Stores, which is now one of Japan's largest drugstore and pharmacy alliances. It is currently building a network in preparation for the creation of Japan's first national drugstore chain. In fiscal 2004, the total number of AEON Welcia Stores was 1,929, including the medicine-handling stores of AEON Co., Ltd.



Improving the Community Pharmacy

Increased awareness of health foods and nutritional supplements and the impact of an aging society are reflected in the rapid growth of industries relating to medical care and general health.

AEON has formed alliances with 11 leading dispensing pharmacy and drugstore operators throughout Japan to create a national drugstore chain, AEON Welcia Stores. The aim is to make each Welcia a health support center for people in its local community. Costs are being dramatically reduced through group strategies, including integrated purchasing and common sourcing of materials and fittings.



The stores are run by pharmacists capable of providing superior services and appropriate advice to their customers and neighbors.

which private-brand products are distributed nationwide by a drugstore alliance founded by AEON to bring the benefits of volume purchasing and private-brand merchandising to a retail sector with growing significance in customers' lives.

SERVICE AND OTHER OPERATIONS

Finance, food service, store maintenance, wholesaling and other service activities



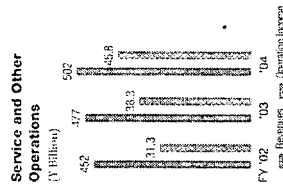
The *AEON Card* is popular with cardholders in Japan and a growing number of countries throughout Asia for its valued amenities, such as special discounts for cardholders and periodic promotional events with various *AEON* retailers.

Service and Other Operations

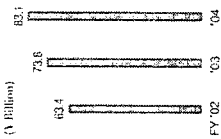
The core company in this segment is *AEON Credit Service Co., Ltd.* In fiscal 2004, its consolidated domestic and overseas operations handled transactions amounting to ¥1,639 billion (US\$15,033 million), an increase of 14.5% over the previous year's result. Revenues increased by 7.7% to ¥109.4 billion (US\$1,004 million), operating income by 14.3% to ¥30.5 billion (US\$230 million), and net income by 15.7% to ¥16.2 billion (US\$148 million). *AEON Credit Service* issued eight new partnership cards and worked actively with merchants to

increase operating rates. Its cardholder base increased by 7.1% to 12.1 million, and the number of active cardholders grew by 11.3% to 6.4 million. Card shopping transactions were significantly higher with a 23.3% increase to ¥866 billion (US\$8,219 million).

The amusement arcade operator *AEON Fantasy Co., Ltd.* continued to develop its chain of exciting "indoor theme parks," opening 19 directly operated facilities and closing one. By the end of the fiscal year, there were a total of 188 facilities, including 172 directly operated facilities and 16 franchises. On November 20, 2003, *AEON Fantasy* was promoted from the *JAS-*



Domestic (Japan only) AEON Credit Service



The in-store amusement creator, *AEON Fantasy*, lives up to its name with "indoor theme park" themed environments providing exciting entertainment that children, young adults and their parents can enjoy.

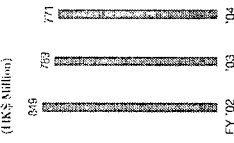
DAO exchange to a listing on the Second Section of the Tokyo Stock Exchange. Its revenues increased by 15.5% to ¥23.4 billion (US\$215 million), its operating income by 19.1% to ¥2.4 billion (US\$21.6 million), and its net income by 17.3% to ¥1.3 billion (US\$11.7 million).

The overall performance of consolidated subsidiaries in this segment was pleasing. Companies showing revenue and profit growth included *Zwei Co.,*

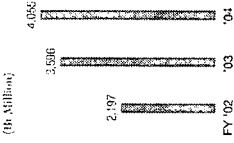
Ltd., a provider of bridal information services, the business supply and vending firm *Carto Corporation*, and the maintenance service company *AEON Techno Service Co., Ltd.*

Revenues from this segment increased by 5.3% to ¥502 billion (US\$4,651 million), while operating income was 19.7% higher at ¥45.8 billion (US\$429 million). This segment achieved the most conspicuous growth among *AEON's* business segments.

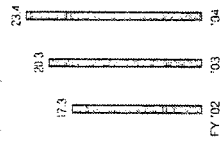
Revenues of AEON Service (Asia)



Revenues of AEON Thana Sinsap (Thailand)



Revenues of AEON Fantasy



Number of Stores in Service and Other Operations

As of February 20,	2004	2003
<i>AEON Credit Service</i> ¹	58	62
Gourmet D'Or	339	274
Jack ²	—	58
MYCAL-IST ³	240	—
Jusvel	22	21
Reform Studio	414	357
Zwei	36	30
<i>AEON Fantasy</i>	188	170
<i>AEON Chermas</i>	5	4
Total	1,302	976

Notes: 1. The number of sales offices.
2. Jack merged with Gourmet D'Or in FY2004.
3. Joined *AEON* in 2004.

Corporate Citizenship



TREE-PLANTING HISTORY, 1991-2004 The AEON Hometown Forests Program began at the Malacca Store in Malaysia in 1991. Since then, AEON has worked with local people to plant native trees in the grounds of its shopping centers and distribution centers in Japan and overseas. To date, around 470,000 people have planted approximately five million trees at over 400 locations. AEON will continue its efforts to increase the area of greenery in the world through this program.

AEON Hometown Forests Program

them to grow in competition. AEON creates mixed plantings of at least 40 and sometimes as many as 60 native species in each location.

Tree-growing Festivals—Monitoring

AEON is not content simply to plant trees. Each year in late April, it dedicates a week to the natural environment. During that week, it holds "Tree-growing Festivals" in cooperation with local people as a way of monitoring the growth of each planting site. At these festivals, AEON works with local communities to protect the forest environment through activities that include weeding, fertilizing, supplementary replacement of dead trees, and pruning of branches that have grown across site boundaries.

Planting Local Trees

The AEON Hometown Forests Program is guided by Dr. Akira Miyawaki, Professor Emeritus of the Yokohama National University. The method advocated by Professor Miyawaki is to plant a mixture of species that grow in the area and to allow



In 1991, AEON Hometown Forests Program began at the Malacca store of Jaya Jusco Stores in Malaysia.



On May 30, 2004, AEON held a memorial festival to celebrate planting the five-millennium tree.

Global Tree-planting

Tree-planting Activities In Japan and Overseas

In addition to its own initiatives to protect the global environment, AEON also provides support and grants to like-minded organizations through the AEON Environmental Foundation, which has been active in this area since 1991.

In 2000, AEON began a forest restoration and planting campaign to bring back the natural flora and fauna to the abandoned farmland in the Shirakawa region of Hokkaido. In 2003, it launched a fundraising campaign for efforts to restore the wild population of the Japanese Crested Ibis, which is an internationally protected bird. In addition to fundraising in its stores, AEON also plant-



AEON is currently inviting its customers in efforts to renew the wild population of the endangered Japanese Crested Ibis.



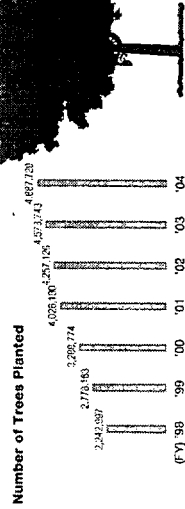
Japanese volunteers and Cambodian students jointly planted 3,000 trees near Angkor Wat World Heritage Site.

ed approximately 2,000 trees. AEON has also commenced forest restoration and tree-planting activities in an area affected by a forest fire in Gifu Prefecture.

Overseas, AEON is implementing a tree-planting program along the Great Wall of China. In the past three years, large numbers of Japanese and Chinese volunteers have planted 390,000 trees through this program. In March 2004, AEON sponsored tree planting activities at Angkor Wat in Cambodia, with the aim of restoring the forest around this World Heritage site. AEON provides grants to Japanese and overseas NGOs for the same purpose. In 2003, it awarded a total of 103 grants worth ¥100 million.

2004 ♪ Every time someone plants a tree, the cumulative benefits of this program are spread a little further. AEON Hometown Forests Program planted its five-millennium tree in April 2004 in Fukuoka Prefecture.

The AEON Hometown Forests Program 5,000,000 trees planted



1991 ♪ At the beginning of the 1990s, AEON was looking for new ways to give something back to the communities it served and deepen its ties with customers. The AEON Hometown Forests Program became the solution of this search. Customers everywhere seem to take quiet pride in watching "their" trees grow.



Working with People to Protect the Earth

The AEON basic principles underscore respect for humanity, contribution to local communities and the pursuit of peace centered on customers. We put this philosophy into practice by fulfilling our responsibilities as a corporate citizen through active involvement in social contribution and environmental conservation activities in Japan and overseas. We believe that these activities need to be firmly rooted in communities, and our aim is to work in partnership with people where they live to build a sustainable society.

Retail Outlets as Focal Points for Environmental Conservation and Social Contribution

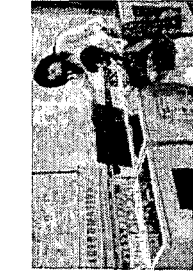
Retailing is more closely involved in the day-to-day lives of consumers than any other industry. As a retailer, AEON has long worked in partnership with local communities to carry out a wide range of environmental conservation and social contribution activities.

One example of these activities is "EON Day." On the 11th day of each

month, AEON implements a variety of environmental and social contribution activities with local people. These activities include the "EON Happy Yellow Receipt" campaign. Customers place their purchase receipts in special boxes, and AEON earmarks 1% of the total value to purchase and donate needed items to local volunteer groups, and so on. There are also "Clean & Green" activities to clean up local roads, parks and other facilities, and the "EON Clean Road" activities, through which employees remove litter from sidewalks, pedestrian bridges and tree plantings along national highways.

Resource conservation is also a priority for AEON. For example, under the "My Bag" and "My Basket" campaigns, shoppers are encouraged to bring their own shopping bags or baskets along to the store for use at check out. Activities such as these help consumers to minimize the environmental load of day-to-day living by conserving petroleum that would have been used for shopping bag manufacture and reducing the number of shopping bags that must be disposed of.

AEON supports recycling activities by providing collection boxes in its



In-store recycling provides collection boxes for aluminum cans, PET bottles, food trays and milk cartons some of which are recycled into TOPVALU Kyokan Sengen products.



On EON Day, the 11th of each month, employees remove litter and restore natural beauty in surrounding neighborhoods as part of the Clean & Green activities.



AEON promotes ecological awareness and action for the next generation by sponsoring Eco Life tours for Japanese students to locations where good ecology is practiced, as in the 2003 tour to Germany.

stores for recyclable waste, such as aluminum cans, PET bottles, food trays and milk cartons. These recovered materials are recycled into some of the products sold in the TOPVALU Kyokan Sengen line.

Social Contribution from a Global Perspective

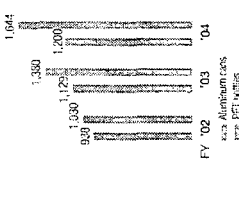
The AEON 1% Club was established in 1989. Through this organization, AEON companies may donate 1% of their income before tax for uses ranging from environmental conservation and international cultural and human exchange to the promotion of regional culture and society.

The AEON 1% Club organizes the "Eco-Life Tour in Germany" to provide

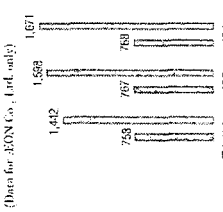
children with opportunities to think about solutions and actions in relation to Japan's environmental problems. The children travel to Germany because it is one of the most environmentally advanced nations in the world. A total of 48 elementary and junior high school children participated in the first tour. They visited German schools and families while experiencing a variety of activities related to environmental protection.

One of AEON's initiatives in the area of international cultural exchange is the Teenage Ambassadors program, which started in 1990. It has hosted students from 12 countries since its inception. To mark AEON's 20th year in Thailand, 20 Thai students visited Japan from February 2nd to 9th, the second time for

Collection of Aluminum Cans and PET Bottles (Tons)



Collection of Food Trays and Milk Cartons (Tons)





The AEON 1% Club, along with customers, employees and the Japan Committee for UNICEF, wrapped up a three-year program building schools in Cambodia to help restore the war-ravaged education system.



AEON's Teenage Ambassadors program, fosters international understanding by hosting overseas high school students in cultural exchanges across Japan. From this year, it has adopted an environmental theme.



A touring group of professional actors and singers under AEON sponsorship recruits and rehearses local children in communities across Japan for ecological musicals that are fun and thought provoking.

Thai students to visit. The first two, who came in 1994, returned again on this visit.

Since 1997, AEON and the "Furusato Caravan" theatre troupe have staged musical performances throughout Japan on themes that emphasize the importance of nature and forests. Local children participate in these productions.

In 2000, the AEON 1% Club donated funds to build ten schools in Cambodia. In 2001, AEON began collecting donations to support further school construction, with the Japan Committee for UNICEF. Altogether, this initiatives led to the establishment of 149 elementary schools, far exceeding the original target.

Because of this initiative, 80,000 children are now able to attend school. After the success in Cambodia, AEON has begun a three-year program to build or refurbish 100 schools in Nepal.

AEON's retail outlets collect donations for many causes, including prevention of global warming, and emergency relief for victims of an earthquake in Iran. In addition to the funds raised, these initiatives also help build goodwill. Donations from customers are matched by donations from the AEON 1% Club.

2004 is the 25th anniversary of The Cultural Foundation of Okada, which promotes the development of art and culture in Mie Prefecture. Its principal activities are the donation of art works to museums, the provision of grants for exhibitions and art promotion, the provision of awards to artists, and support for artistic development. The Foundation has so far donated over 400 art works, including modern art from Japan and other countries. These donations amount to approximately ¥1.1 billion.

View and download the AEON Environmental and Social Report 2004 at www.aeon.info/environment/report/english/.

Financial Section

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AEON Co., Ltd. and Subsidiaries
Selected Financial Data (Five-year)
 Years Ended February 20, 2004, 2003, 2002, 2001 and 2000

	Millions of Yen					Thousands of U.S. Dollars*
	2004 ³	2003	2002	2001	2000	2004
RESULTS FOR THE YEAR:						
Revenue	\$3,215,163	¥2,751,181	¥2,590,612	¥2,430,082	¥2,235,363	\$9,486,608
Net sales	285,583	230,204	204,921	175,339	142,033	2,620,028
Rental and other revenues	3,500,746	2,981,385	2,603,333	2,605,431	2,377,393	32,116,838
Operating costs and expenses:						
Cost of goods sold	2,312,049	1,996,683	1,847,901	1,733,783	1,602,484	21,211,459
Selling, general and administrative expenses	1,076,226	899,608	836,768	796,862	709,837	9,673,633
Operating income	112,471	125,714	118,964	74,865	85,072	1,031,844
Other (income) expenses—net	16,638	31,666	41,700	22,505	25,946	154,477
Income from continuing operations	95,833	93,948	77,674	52,361	59,126	677,367
Before income tax	93,548	91,555	75,145	50,937	58,058	662,826
Income tax	3,285	2,393	2,529	1,424	1,068	14,541
Income from continuing operations before minority interest and equity in earnings	96,833	93,948	77,674	52,361	59,126	677,367
Minority interest	(22,283)	(21,764)	(18,178)	(15,013)	(10,110)	(204,431)
Equity in earnings (losses) of affiliated companies	656	923	(65)	(938)	(1,739)	6,016
Income from continuing operations	34,458	35,086	29,696	10,412	835	316,128
Less from discontinued operations	(2,712)	(20)	(7,791)	(1,212)	(1,998)	(24,881)
Cumulative effect of change in accounting principles	(13,995)	(52)	—	—	—	(123,894)
Net income (loss)	¥ 17,751	¥ 35,914	¥ 20,805	¥ 9,201	¥ (2,833)	\$ 162,853
YEAR-END FINANCIAL POSITION:						
Total assets	¥2,781,261	¥2,163,590	¥2,046,185	¥1,995,691	¥1,833,027	\$9,516,156
Long-term liabilities	1,173,582	883,085	784,298	787,195	670,072	10,746,049
Shareholders' equity	378,493	340,694	347,900	331,679	313,292	3,472,413

* Net income (loss) for discontinued operations was translated at the rate of ¥109=U.S.\$1. The rate of exchange at February 20, 2004. This translation should not be considered as a representation that the yen amounts would be converted into U.S. dollars.
 2. Prior year amounts in the Consolidated Financial Statements have been reclassified to conform to this current year presentation in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Accounting for the Impairment or Disposal of Long-Lived Assets."
 3. For the year ended February 20, 2004, the basis for calculating net income changed substantially upon adoption of SFAS No. 143 "Asset Retirement Obligations" (Notes 1 and 8). Net income for fiscal 2004 and later cannot and should not be compared directly with results for fiscal 2003 and earlier, (see further explanation under Net Income on page 37.)

Financial Review

expenses, expansion of bad debt reserves, payrolls, utilities, etc.

Consolidated Net Income
 Net income decreased by 43.3% to ¥17.8 billion (US\$163 million), as a result of cumulative effect of change in accounting principles on adoption of SFAS No. 143, "Asset Retirement Obligations." The basis for calculating net income for fiscal years through 2003 differs significantly from the basis used for fiscal 2004 onward.

Comparison of the current result and results for fiscal 2003 and earlier does not accurately gauge the Company's performance and should not be employed. The table below, included for convenience only, shows consolidated results under Japanese GAAP, which did not change materially in this regard between the years in question.

Consolidated Financial Position

Consolidated total assets increased by 28.5% year-on-year to ¥2,781 billion (US\$25,516 million). The main reasons for the increase were ¥931 billion

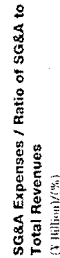
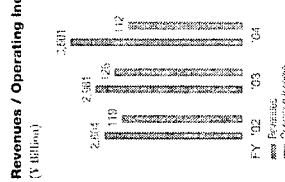
Consolidated Revenues and Operating Income
 Consolidated operating revenues continued to grow, but operating income was essentially flat for the year ended February 20, 2004. Consolidated operating revenues amounted to ¥3,501 billion (US\$32,117 million), an increase of 17.4% over the previous year, mainly reflecting addition of the new subsidiaries, including the MYCAL group of companies and strong increases in revenues by the supermarket operator Maxvaki, the financial services enterprise AEON Credit Service and SC development company AEON Mall.

The main business segment of eCMS and other retail store operations registered a moderate decline in profitability due to an unusually warm winter and colder than normal summer weather that brought on a decrease in sales of seasonal products. Another factor was increasingly fierce competition in the food product sector.

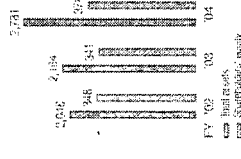
Consolidated operating income stayed almost even compared with the previous fiscal year, at ¥112 billion (US\$1,032 million), due to growing SCS&A expenses related to business expansion, including advertising

Selected Financial Highlights (Japanese GAAP)

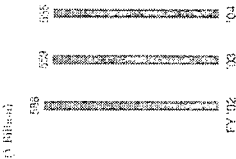
As of February 20,	2004	2003	2002	2001	2000	The ratio of U.S. Dollars
Total revenues	¥3,546,216	¥3,096,504	¥2,981,692	¥2,738,639	¥2,622,211	\$32,534,082
Operating income	132,212	132,172	119,222	92,961	71,212	1,212,954
Net income (loss)	55,316	51,258	(16,139)	22,515	15,151	507,436



Total Assets / Shareholders' Equity
(In billions)



Long- and Short-term Loans and Commercial Paper
(In billions)



US\$4,605 million) from additions of newly consolidated companies, an increase of ¥124 billion (US\$1,234 million) in capital expenditures and the resultant expansion in fixed assets and growth of the credit card operations of AEON Credit Service Co., Ltd., the Group's financial subsidiary, which boosted financial receivables by 7.2% or ¥28 billion (US\$289 million).

Consolidated liabilities increased by 33.1% to ¥2,226 billion yen (US\$20,420 million). A major cause of the increase was assumption of liabilities associated with the acquisition of the MYCAL companies. The composition of these liabilities includes asset retirement obligations, expanded retirement allowances to cover the increased number of employees, and

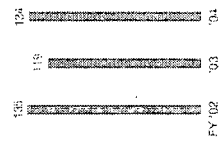
liabilities of the MYCAL companies. Consolidated shareholders' equity rose 1.1% to ¥376 billion (US\$3,472 million), due mainly to an increase in retained earnings.

Consolidated Cash Flows

Net cash provided by operating activities increased by 47.4% to ¥268 billion (US\$2,360 million), due to three major factors, an increase of trade-related accounts payable and a decrease of trade-related accounts receivable, an increase of non-cash charges represented by depreciation, and an increase of employee retirement allowances. An increase in proceeds from acquisition of subsidiaries produced a net cash outflow provided by investing activities of ¥0.5 billion (US\$ 5 million), compared with an outflow of ¥147.8 billion in the previous fiscal year.

Net cash used in financing increased by 184.5% to ¥74.3 billion (US\$682 million) because of the scheduled repayment of obligations of the MYCAL companies under provisions of the corporate reorganization law. These cash flows brought the balance of cash and cash equivalents to ¥264 billion (US\$2,524 million), an increase of 174.2%.

Capital Expenditures
(In billions)



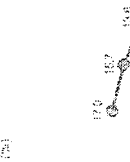
Consolidated Financial Ratios

Return on equity dropped by a marginal 6.5 percentage points to 4.8% due to a decrease of net income. The shareholders' equity ratio declined by 2.1 points to 13.9%, due to the dramatic increase of total assets attributable mainly to the purchase of MYCAL.

Operating Income to Revenues
(%)



Shareholders' Equity Ratio
(%)



Debt Position

	Millions of Yen			Thousands of U.S. Dollars		
	2004	2003	2002	2004	2003	2002
Long-term loans from banks and insurance companies	¥445,774	¥444,740	¥432,085	\$4,009,670		
Short-term bank loans	76,116	72,750	107,370	608,912		
Commercial paper	32,080	41,000	49,000	302,752		
Sub-total	¥554,090	¥558,520	¥588,455	\$5,000,734		
Debt under securitization of accounts receivable	17,500	10,000	20,000	160,581		
Debt under securitization of household deposits	76,547	66,135	35,231	702,266		
Debt under securitization of finance receivables	9,710		2,955	89,082		
Capital lease obligations	102,164	53,420	52,983	937,193		
Convertible bonds			4,537			
Straight bonds	137,985	127,780	110,000	1,265,734		
Total	¥898,766	¥815,835	¥820,182	\$8,245,560		

Financial Income/Expenses

	Millions of Yen			Thousands of U.S. Dollars		
	2004	2003	2002	2004	2003	2002
Interest income	¥ 584	¥ 731	¥ 789	\$ 5,357		
Dividend income	738	795	506	6,771		
Financial income	¥ 1,322	¥ 1,437	¥ 1,295	\$ 12,128		
Interest expenses	6,437	6,242	6,990	59,599		
Interest on bonds	1,811	1,800	1,877	16,515		
Interest on capital lease obligations	1,700	1,389	1,789	15,061		
Financial charges	¥ 9,904	¥ 9,422	¥10,663	\$ 90,862		
Net financial charges	¥8,632	¥7,985	¥9,368	\$79,734		

Principal Financial Ratios
As of February 28,

	2004	2003	2002
Return on assets (%)	0.7	1.7	1.0
Return on equity (%)	4.9	10.2	6.1
Operating income to revenues (%)	3.2	4.2	4.2
Shareholders' equity ratio (%)	13.6	15.7	17.0

AEON Co., Ltd. and Subsidiaries
Consolidated Balance Sheets
 February 29, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars (Note 9)	
	2004	2003	2004	2003
ASSETS				
Current Assets:				
Cash and cash equivalents	¥ 283,858	¥ 98,656	\$ 2,604,202	\$ 916,116
Time deposits (Note 6)	2,517	2,031	23,083	18,630
Marketable securities (Note 4)	3,760	7,051	34,495	64,895
Notes and accounts receivable (Note 6)	98,712	71,659	906,615	660,615
Finance receivables (Notes 3 and 6)	421,905	395,042	3,870,088	3,540,088
Merchandise inventories	281,159	195,028	2,304,211	1,730,028
Assets held for sale (Note 1)	—	5,328	—	48,000
Prepaid expenses and other current assets (Note 15)	70,741	56,942	649,000	509,000
Total current assets	1,132,652	830,597	10,391,303	7,915,303
Property, Buildings and Equipment—at Cost (Notes 6, 12 and 13):				
Land	228,616	185,396	2,097,394	1,687,394
Buildings	617,659	458,272	5,662,927	4,162,927
Leasehold improvements	365,976	327,177	3,265,635	2,955,635
Equipment and fixtures	791,370	674,307	7,260,275	6,140,275
Construction in progress	9,974	6,547	91,477	58,477
Total	2,003,192	1,652,299	18,377,608	15,904,608
Accumulated depreciation and amortization	(877,103)	(744,395)	(8,046,616)	(6,946,616)
Net property, buildings and equipment	1,126,089	907,904	10,331,022	8,958,022
Intangible Assets (Note 9):				
Intangible assets subject to amortization:				
Software	44,617	30,749	409,300	287,300
Others	5,634	6,111	53,529	56,529
Total	50,451	36,860	462,829	343,829
Accumulated amortization	(10,112)	(11,744)	(175,309)	(175,309)
Net intangible assets subject to amortization	40,339	25,116	287,520	168,520
Intangible assets not subject to amortization:				
Goodwill	15,296	8,281	140,065	76,065
Trademarks	8,343	8,760	76,941	76,941
Other	10,049	7,217	92,193	92,193
Total intangible assets not subject to amortization	33,688	24,258	309,209	165,209
Total intangible assets	64,897	49,381	586,303	313,829
Investments and Advances:				
Investments in and advances to affiliated companies	52,156	39,734	478,495	343,495
Investment securities (Note 4)	60,475	41,116	554,817	373,817
Total investments and advances	112,631	80,852	1,033,312	717,312
Other Assets:				
Fixed leasehold deposits, prepaid rent and loans to lessees (Notes 6 and 12)	226,533	154,934	2,050,110	1,415,110
Deferred taxes (Note 15)	70,864	69,080	650,128	600,128
Other	48,495	31,633	444,908	284,908
Total other assets	344,892	255,647	3,164,146	2,300,146
TOTAL	¥2,781,261	¥2,163,980	\$25,516,156	\$19,516,156

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 9)	
	2004	2003	2004	2003
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities:				
Short-term borrowings (Note 5)	¥ 126,616	¥ 125,780	\$ 1,161,116	\$ 1,157,780
Notes and accounts payable:				
Trade	550,147	371,630	5,047,147	3,416,630
Construction	49,475	36,169	453,475	331,169
Income taxes payable (Note 15)	26,634	28,956	244,634	268,956
Accrued expenses and other current liabilities	143,577	108,937	1,317,577	988,937
Liabilities associated with assets held for sale (Note 1)	—	908	—	8,008
Current portion of long-term debt (Note 6)	107,708	117,606	988,708	1,067,606
Current portion of obligations under reorganization proceedings (Note 6)	48,041	—	440,041	—
Total current liabilities	1,052,218	787,995	9,683,218	8,683,995
Long-Term Liabilities:				
Long-term debt, less current portion (Note 6)	664,442	574,450	6,085,442	5,240,450
Asset retirement obligations (Note 8)	70,195	—	643,195	—
Obligations under reorganization proceedings (Note 6)	94,314	—	865,314	—
Lease deposits from lessees and others (Note 6)	163,742	146,432	1,502,742	1,326,432
Employees' termination benefits and pension liabilities (Note 9)	172,107	155,066	1,578,107	1,405,066
Deferred taxes (Note 15)	6,762	6,717	62,762	62,717
Total long-term liabilities	1,173,532	893,665	10,796,532	9,436,665
Minority Interest in Consolidated Subsidiaries	177,018	151,636	1,624,018	1,424,636
Commitments and Contingencies (Note 17 and 20)				
Shareholders' Equity (Notes 9, 10, 11 and 21):				
Common stock, authorized: 600,000,000 shares	51,296	51,296	470,296	470,296
Issued:				
2004 and 2003—333,274,674 shares	141,895	17,680	1,301,895	162,680
Additional paid-in capital	17,680	16,949	163,680	155,949
Legal reserve	205,278	195,584	1,893,278	1,790,584
Retained earnings	(36,868)	(60,545)	(339,868)	(550,545)
Accumulated other comprehensive losses	(687)	(62)	(6,387)	(562)
Treasury stock, at cost: 253,459 shares in 2004 and 254,166 shares in 2003	378,493	369,634	3,472,493	3,369,634
Total shareholders' equity	¥2,781,261	¥2,163,980	\$25,516,156	\$19,516,156

Consolidated Statements of Income

Years Ended February 29, 2004, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2004	2003	2004	2003
Revenues:				
Net sales	¥2,215,163	¥2,751,181	\$29,496,903	\$35,982,612
Rental and other revenues (Note 13)	285,693	230,204	2,900,028	2,424,921
	3,500,746	2,981,385	32,119,936	28,507,533
Operating Costs and Expenses:				
Cost of goods sold	2,812,049	1,996,083	21,211,459	14,847,901
Selling, general and administrative expenses	1,076,226	899,608	9,873,533	838,769
	3,888,275	2,895,691	31,085,092	23,686,670
Operating income	112,471	125,714	1,031,844	1,118,864
Other (Income) Expenses:				
Interest-net (Note 13)	9,320	8,631	95,505	9,874
Foreign exchange (gains) losses	621	913	5,637	(2,617)
Other expenses-net (Note 14)	6,937	22,262	63,275	34,533
	16,878	31,806	164,417	41,790
Income from Continuing Operations before Income Taxes	95,593	93,908	877,387	77,074
Minority Interest and Equity in Earnings (Losses) of Affiliated Companies	48,802	45,221	448,642	32,826
Income Taxes (Note 15)	(9,354)	(9,166)	(85,919)	(2,681)
Current	39,548	36,055	30,145	362,888
Deferred	—	—	—	—
Income from Continuing Operations before Minority Interest and Equity	56,065	57,793	514,561	46,929
In Earnings (Losses) of Affiliated Companies	(22,283)	(21,784)	(204,431)	(18,178)
Minority interest in earnings of consolidated subsidiaries	656	(923)	6,018	(653)
Equity in earnings (losses) of affiliated companies	—	—	—	—
Income from Continuing Operations	34,438	35,086	316,128	28,088
Losses from Discontinued Operations	(2,712)	(20)	(24,891)	(7,791)
Income from Discontinued Operations	—	—	—	—
Net income	¥ 17,726	¥ 35,014	\$ 182,853	\$ 20,895
(Notes 5 and 8)				
¥9,447 million (\$96,670 thousand) in 2004 and ¥925 million in 2003				

Amount Per Share (Note 16)

	2004	2003	2002
Basic			
Net income from continuing operations	¥103.5	¥106.1	¥ 86.6
Less from discontinued operations	(8.2)	(0.1)	(23.5)
Cumulative effect of change in accounting principles	(42.0)	(0.2)	—
Net income	53.3	105.8	63.1
Net income from continuing operations	—	105.4	66.2
Less from discontinued operations	—	(0.1)	(23.4)
Cumulative effect of change in accounting principles	—	(0.1)	—
Net income	—	105.2	62.8
Cash dividends declared during this year	¥ 22.0	¥ 22.0	¥ 22.0

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended February 29, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)		
	2004	2003	2002	2004	2003	2002
Common stock:						
Balance, beginning of year	¥ 51,296	¥ 49,043	¥ 45,038	\$ 683.6	\$ 650.6	\$ 598.5
Issuance of stock for bond conversions	—	—	—	—	—	—
Balance, end of year	¥ 51,296	¥ 49,043	¥ 45,038	\$ 683.6	\$ 650.6	\$ 598.5
Additional paid-in capital:						
Balance, beginning of year	¥135,012	¥143,914	¥134,638	\$ 1,794.3	\$ 1,918.8	\$ 1,774.6
Issuance of stock for bond conversions	—	—	—	—	—	—
Depreciation on sale of a subsidiary	—	—	—	—	—	—
Gain on sales of previously unissued stock by subsidiaries, net of tax of ¥2,424 million (\$26,424 thousand) in 2004, ¥879 million in 2003 and ¥819 million in 2002	—	—	—	—	—	—
Balance, end of year	¥135,012	¥143,914	¥134,638	\$ 1,794.3	\$ 1,918.8	\$ 1,774.6
Legal reserve:						
Balance, beginning of year	¥16,948	¥17,972	¥16,820	\$ 225.3	\$ 239.6	\$ 224.3
Transfer from (to) retained earnings	—	—	—	—	—	—
Balance, end of year	¥16,948	¥17,972	¥16,820	\$ 225.3	\$ 239.6	\$ 224.3
Retained earnings:						
Balance, beginning of year	¥169,939	¥153,372	¥153,372	\$ 2,248.6	\$ 2,014.7	\$ 2,014.7
Net income	17,726	35,014	20,895	182.9	361.1	276.6
Total	¥187,665	¥188,386	¥174,267	\$ 2,431.5	\$ 2,375.8	\$ 2,291.3
Deduct:						
Cash dividends	7,263	7,263	7,263	\$ 96.5	\$ 96.5	\$ 96.5
Transfer to (from) legal reserve	7,329	—	—	\$ 96.7	—	—
Balance, end of year	¥173,073	¥173,860	¥166,904	\$ 2,338.3	\$ 2,279.3	\$ 2,194.3
Accumulated other comprehensive loss:						
Net unrealized gains (losses) on available-for-sale securities, net of applicable income taxes:						
Balance, beginning of year	¥ 6,187	¥ 5,865	¥ 6,877	\$ 82.5	\$ 77.8	\$ 91.6
Net change during the year, net of reclassification adjustment	8,295	522	6,332	107.8	6.9	83.9
Balance, end of year	¥14,482	¥ 6,387	¥13,209	\$ 190.3	\$ 84.7	\$ 175.5
Foreign currency translation adjustments:						
Balance, beginning of year	¥ 167	¥ 2,775	¥ 1,783	\$ 2.2	\$ 36.4	\$ 23.5
Applicable translation adjustments, during the year	¥15,789	¥16,103	¥7,055	\$ 206.7	\$ 213.3	\$ 93.1
Balance, end of year	¥15,956	¥18,878	¥8,838	\$ 208.9	\$ 249.7	\$ 116.6
Net gains on derivative financial instruments, net of applicable income taxes:						
Balance at beginning of year	¥(69)	—	—	\$ (0.9)	—	—
Adjustments for the year	¥422	¥661	¥192	\$ 5.5	\$ 8.7	\$ 2.5
Balance, end of year	¥353	¥661	¥192	\$ 4.6	\$ 8.7	\$ 2.5
Minimum pension liability adjustment (net of applicable income taxes):						
Balance, beginning of year	¥(96,340)	¥(93,499)	¥(121,801)	\$ (1,268.3)	\$ (1,233.3)	\$ (1,618.1)
Adjustments for the year	¥20,615	¥23,340	¥(3,498)	\$ 275.2	\$ 308.4	\$ (46.2)
Balance, end of year	¥(75,725)	¥(70,159)	¥(125,299)	\$ (1,003.1)	\$ (924.9)	\$ (1,664.3)
Treasury stock:						
Balance, beginning of year	¥(62)	¥(62)	¥(405)	\$ (0.8)	\$ (0.8)	\$ (5.4)
Common stock acquired for treasury	¥(25)	¥(67)	¥(405)	\$ (0.3)	\$ (0.9)	\$ (5.4)
Balance, end of year	¥(87)	¥(129)	¥(810)	\$ (1.1)	\$ (1.7)	\$ (10.8)

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income (Loss)

Years Ended February 29, 2004, 2003 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)		
	2004	2003	2002	2004	2003	2002
Net income	¥17,726	¥35,014	¥20,895	\$ 182.9	\$ 361.1	\$ 276.6
Other comprehensive income (loss), net of tax:						
Unrealized gains (losses) on available-for-sale securities:						
Unrealized holding gains (losses) arising during period	8,349	158	(3,908)	\$ 109.3	\$ 2.1	\$ (51.1)
Reclassification adjustment for losses (income) included in net income	(8,295)	(52)	6,332	(107.8)	(6.9)	83.9
Net change in unrealized gains	54	106	(7,640)	\$ 0.7	\$ 1.2	\$ (17.2)
Foreign currency translation adjustments	(6,708)	(6,108)	7,055	\$ (88.1)	\$ (81.1)	\$ 93.1
Net gains (losses) on derivative financial instruments	422	(69)	(192)	\$ 5.5	\$ (1.1)	\$ (2.5)
Minimum pension liability adjustment	20,615	(32,844)	(11,468)	\$ 275.2	\$ (436.1)	\$ (146.2)
Total other comprehensive income (loss)	¥24,910	¥(2,907)	¥(1,664)	\$ 328.5	\$ (321.6)	\$ (185.4)
Comprehensive income (loss)	¥42,636	¥32,107	¥19,231	\$ 511.4	\$ 339.5	\$ 91.2

See notes to consolidated financial statements.

construction of a retail store by giving the lessor a lease discount. The lease discount represents an intangible asset and is recorded on the straight-line basis over the life of the lease (generally 20 years). The net initial payments made under these leases are charged to expense ratably over the life of the leases.

Accounting for the impairment or disposal of Long-Term Assets

The Company adopted the provisions of Financial Accounting Standards Board's ("FASB") No. 144, "Accounting for the Impairment or Disposal of Long-Term Assets," effective February 21, 2002. SFAS No. 144 provides guidance on the recognition of impairment losses on long-lived assets to be held and used or to be disposed of.

The Company sold all its shares of ROYAL COAST CO., Ltd. in consolidated quarterly in the specialty store segment. In the year ended February 20, 2004, this accumulated gain to the transaction was made in accordance with the provision of SFAS No. 144. Prior year's amounts have been restated to conform with current year's presentation. Assets held for sale and related liabilities are separately presented in the consolidated balance sheet. At February 20, 2004, the amount of assets held for sale was \$5,309 million (\$66,523 thousand), and related liabilities was \$209 million (\$2,376 thousand). The details are as follows:

Assets	Millions of Yen	
	2004	As of February 20, 2004
Cash and cash equivalents	¥4,432	
Receivables and accounts receivable	282	
Merchandise inventories	137	
Property, buildings and equipment	12	
Others	536	
Total assets	¥5,309	
Liabilities:		
Notes and accounts payable	¥ 382	
Others	526	
Total liabilities associated with assets held for sale	¥ 908	

The statement also breaks the definition of what constitutes a discontinued operation and how the results of a discontinued operation are to be measured and presented. Adoption of this standard did not have a material impact on the results. However, it did result in classifying the operations of certain stores and subsidiaries as discontinued operations in the accompanying consolidated statements of income.

The Company has accounted for certain stores and subsidiaries as discontinued operations under the provisions of SFAS No. 144 for the year ended February 20, 2004, and all other fiscal years. The details of loss on discontinued operations are as follows:

	Millions of Yen		Treatment of U.S. dollars	
	2004	2003	2004	2003
Revenue from operations	¥43,466	¥102,614	¥139,236	\$368,774
Income (loss) before income taxes	(6,471)	1,950	(6,219)	(13,841)
Income tax expense (benefit)	(778)	2,001	2,918	(7,137)
Minority interest in net earnings	(16)	122	240	(174)
Income (Loss) from discontinued operations	(2,712)	(209)	(7,201)	(24,081)

Goodwill and other intangible assets

Prior to February 21, 2002, the excess of purchase price over the fair value of net assets acquired, or goodwill, and other intangible assets have been amortized on a straight-line basis over their estimated useful lives with a maximum of 40 years. On February 21, 2002, the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," and accordingly ceased amortization its recorded goodwill and other intangible assets with indefinite lives. Instead, the carrying value of these assets is reviewed for impairment at least annually, or more frequently if events or changes in circumstances indicate that the assets might be impaired. Intangible assets are amortized over their useful lives which are primarily five years.

Asset Retirement Obligations

On February 21, 2003, the Company adopted the provisions of SFAS No. 143, "Asset Retirement Obligations" ("SFAS No. 143"). SFAS No. 143 requires the Company to recognize the fair value of a liability associated with the cost the Company would be obligated to incur in order to retire an asset at some point in the future (see Note 9).

As of February 21, 2003, the Company recognized the future cost to remove buildings and store equipment over the estimated service lives in accordance with the provisions of SFAS No. 143. The Company increased the fair value of the liability for the asset retirement obligation and capitalized the related costs as part of the carrying amount of the long-lived asset at the time a store is built or retired. The asset retirement costs are reported over the life of the asset and the liability is amortized to its present value each year.

Income taxes

Deferred tax assets or liabilities are computed based on the differences between the financial statements and income tax basis of assets and liabilities using the enacted tax rate. Deferred income tax expenses (benefits) are based on the change in the assets and liabilities from period to period, subject to an existing assessment of realizability.

Advertising costs

Advertising costs, which are expensed as incurred and included in selling, general and administrative expenses, were ¥67,666 million (\$563,771 thousand), ¥62,978 million and ¥63,679 million for 2004, 2003 and 2002, respectively.

Derivative instruments

Effective February 21, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, as amended by SFAS No. 139, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS No. 133"). SFAS No. 133 requires that all derivative instruments be recognized on the balance sheet at fair value. In addition, SFAS No. 133 provides that for derivatives requiring netting or quality by hedge accounting, changes in the fair value will either be offset against the change in the value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income (loss) until the hedge item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows. The qualitative presentation of a derivative's change in fair value is immediately recognized in earnings.

Gain arising from sale by a subsidiary of its own stock

The Company accounts for gain arising from sales by a subsidiary of its previously unissued stock to minority shareholders as capital transactions in the consolidated financial statements.

Comprehensive income

Comprehensive income which is included in the consolidated statements of shareholders' equity consists of net income, unrealized gains or losses on available for sale investments in debt and equity securities, foreign currency gains and minimum pension liability adjustments.

New accounting standards

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity." SFAS No. 150 establishes standards for how certain financial instruments with characteristics of both liabilities and equity shall be classified and measured, or the fiscal year ended February 20, 2003, for the Company. The adoption of SFAS No. 150 will not have a material effect on the Company's results of operations and financial position.

In March 2004, the Emerging Issues Task Force reached a consensus on Issue No. 03-1 ("EITF 03-1"). The Meeting of Other-Than-Temporary Impairments and Its Application to Certain Investments ("EITF 03-1") provides a three-step impairment model for determining whether an investment is

2. Acquisitions

MYCAL and MYCALKYUSHU

On November 20, 2003, the Company acquired all the shares of common stock of MYCAL Corporation and its eight subsidiaries ("MYCAL") for the aggregated amount of ¥28 billion, and 66.7% of its common stock of MYCALKYUSHU Corporation ("MYCALKYUSHU") for ¥0.5 billion. MYCAL and MYCALKYUSHU are operators of general merchandise stores in Japan.

As of November 20, 2003	Millions of Yen		Treatment of U.S. dollars	
	MYCAL and subsidiaries	MYCALKYUSHU	MYCAL and subsidiaries	MYCALKYUSHU
Cash and cash equivalents	¥ 208,362	¥ 11,427	¥ 1,911,486	\$104,951
Notes and accounts receivable	31,898	1,124	392,824	37,450
Merchandise inventories	44,249	4,093	392,807	25,239
Property, buildings and equipment	187,429	2,693	1,719,632	29,956
Other assets	94,489	2,637	688,956	11,348
Notes and accounts payable	(124,679)	(6,762)	(1,348,679)	(62,617)
Long-term debt	(50,281)	—	(491,110)	—
Contingent liabilities	(139,322)	(10,488)	(1,278,000)	(99,116)
Minority interest	(144,903)	(4,285)	(1,329,388)	(64,222)
Goodwill	(6,371)	—	(69,459)	—
The excess of fair value of net assets over the cost	¥ 478,087	¥ 510	¥ 2,183,394	4,017
Total acquisition cost	¥ 2,000	¥ 630	¥ 1,924,466	\$ 9,289

The excess of fair value of net assets over the cost, or goodwill, has been allocated to certain assets on a pro-rata basis in accordance with SFAS No. 141.

Both of the transactions have been accounted for using the purchase method, and accordingly, their results of operations have been included in the consolidated financial statements since the date of acquisition. The comparative results of operations of MYCAL and MYCALKYUSHU for the three-month period ended February 20, 2004, for fiscal year and date, are as follows:

other-than-temporary impaired; (1) determine whether an investment is impaired; (2) evaluate whether an impairment is other-than-temporary; (3) if the impairment is other-than-temporary, recognize an impairment equal to the difference between the investment's cost and fair value as of the reporting date. The provisions of EITF 03-1 are effective for the reporting periods beginning after June 15, 2004.

In March 2004, the Emerging Issues Task Force reached a consensus on Issue No. 03-16 ("EITF 03-16"). "Accounting for Investments in Consolidated Subsidiaries." EITF 03-16 provides guidance about when to account for an investment in a limited liability company that maintains a special ownership account for each investor using the cost method or the equity method of accounting. The provisions of EITF 03-16 are effective for reporting periods beginning after June 15, 2004. The Company is currently determining the effect of EITF 03-16 on the Company's consolidated financial statements.

Reclassification

Certain reclassifications have been made in prior years' consolidated financial statements to conform to the presentation used for 2004.

and no other, under separate management proceedings in accordance with the Corporate Reorganization Law of Japan. The Company has also stated the allocation and allocation of the purchase price for the acquisition of MYCAL and MYCALKYUSHU.

The following table summarizes the total purchase price allocation of acquired and liabilities assumed for each entity at the date of acquisition.

3. Finance Receivables

Finance receivables, primarily from consumables, at February 29, 2004 and 2003, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Credit card	\$ 97,971	\$ 105,191	\$ 183,417	\$ 195,417
Hire purchase	19,853	27,044	191,964	270,440
Credit card and hire purchase total	117,824	132,235	1,080,771	1,465,857
Loan-credit card	282,743	243,119	2,894,169	2,431,119
Interest primarily at 18.0%-30.0%	23,717	22,291	372,833	372,833
Loan-other	130	257	1,265	1,265
Secured, interest primarily at 2.3%-4.3%	731	646	6,708	6,708
Loan to the AEON Co. employees	315,349	266,513	2,874,781	2,474,781
Credit card and other loan total	431,158	401,455	3,958,592	3,558,592
Finance receivables total	548,982	533,694	4,781,167	4,781,167
Accrued interest income	438,372	408,843	4,009,413	4,009,413
Allowance for possible credit losses	(14,467)	(10,203)	(132,729)	(132,729)
Net finance receivables	\$421,808	\$523,642	\$4,876,684	\$4,876,684

On February 29, 2004, contractual maturities of loans receivable excluding accrued interest were as follows:

Year Ending February 29,	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
2005	\$130,195	\$172,431	1,272,431	1,722,431
2006	139,856	1,031,583	1,331,583	1,031,583
2007	9,369	85,354	85,354	85,354
2008	774	7,191	7,191	7,191
2009	140	1,363	1,363	1,363
Thereafter	9	82	82	82
Total	\$313,348	\$2,274,761	\$2,774,761	\$2,274,761

4. Investments

All of the Company's investments and marketable securities have been classified as available-for-sale securities and are reported at their fair value. Such equity and debt securities at February 29, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Equity securities:				
Cost	\$32,873	\$27,751	\$301,567	\$277,751
Fair value	59,258	40,482	543,651	404,482
Gross unrealized gains	27,167	15,364	242,239	149,731
Debt securities:				
Cost	782	2,625	7,174	26,250
Fair value	4,975	7,810	45,622	78,100
Gross unrealized gains	4,975	7,728	45,651	77,228
Total	8	4	74	4
Gross unrealized losses	6	15	55	15
Net				

Maturities of debt securities and fund trust at February 29, 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Due within 1 year	\$3,701	\$3,706	\$33,945	\$33,945
Due after 1 year through 5 years	1,149	1,153	10,541	10,578
Due after 5 years through 10 years	3	3	28	28
Due after 10 years	122	121	1,119	1,110
Total	\$4,975	\$4,977	\$45,622	\$45,651

The Company recorded a loss on the write-down of available-for-sale securities for the year ended February 29, 2004 of \$31 million (\$835 thousand) for the year ended February 29, 2004 because the Company believes the decline in fair value is other than temporary.

5. Goodwill and Other Intangible Assets

Effective February 21, 2002, the Company expanded the provision of SFAS 142, which addresses financial accounting and reporting for acquired goodwill and intangible assets. The statement eliminates amortization of goodwill and intangible assets with indefinite lives and requires a transitional impairment test of these assets within six months of the date of adoption and an annual impairment test thereafter or when circumstances suggest an impairment in value has occurred.

The Company has certain intangible assets mainly software with indefinite lives and subject to amortization, and recognized amortization expense of \$7.24 million (\$68.43 thousand) and \$6.27 million for the year ended February 29, 2004 and 2003, respectively. Estimated amortization expense for the next five fiscal years are as follows:

Year ending February 29,	Thousands of U.S. Dollars	
2005	\$3,006	\$7,279
2006	7,368	67,595
2007	6,026	55,294
2008	3,256	29,550
2009	1,591	14,595

Income from continuing operations before cumulative effects of change in accounting principles:

	2004	2003
Reported income from continuing operations before cumulative effect of change in accounting principles	\$34,456	\$28,686
Add back: goodwill amortization (net of tax)	—	275
Adjusted income from continuing operations before cumulative effects of change in accounting principles	\$34,456	\$28,961

Cost of sold securities is computed by the average cost method. The proceeds from sale of available-for-sale securities and from sales, gains and losses resulting from the sale for the years ended February 29, 2004, 2003 and 2002, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Proceeds from sale	\$15,833	\$7,392	\$145	\$70
Gross realized gain	539	39	5	0
Gross realized losses	47	78	0	0

The Company recorded a loss on the write-down of available-for-sale securities for the year ended February 29, 2004 of \$31 million (\$835 thousand) for the year ended February 29, 2004 because the Company believes the decline in fair value is other than temporary.

The changes in the carrying amount of goodwill for the years ended February 29, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Balance at beginning of year	\$ 9,391	\$7,020	85,354	63,708
Goodwill acquired during the year	7,797	2,271	71,964	20,728
Impairment during the year	(94)	—	(853)	—
Translation adjustment	(729)	—	(6,708)	—
Balance at end of year	\$16,265	\$9,291	\$151,757	84,436

Reconciliation of income before cumulative effect of change in accounting principles and income before cumulative effect of change in accounting principles for the exclusion of goodwill impairment for the years ended February 29, 2004, 2003 and 2002 are as follows:

	2004	2003
Income from continuing operations before cumulative effects of change in accounting principles	\$34,456	\$28,686
Goodwill impairment	—	275
Adjusted income from continuing operations before cumulative effects of change in accounting principles	\$34,456	\$28,961

A significant portion of the loan portfolio represents loans made under revolving lines of credit arrangements. Under such arrangements, borrowers may repay loans or make additional borrowings at any time when the line of credit amounts to help its financial position. Such repayments may occur at any time up until the specified repayment date. The above table, therefore, is not to be regarded as a forecast of future cash collection. During the years ended February 29, 2004 and 2003, the value of loans repaid to average loan receivable balances were 33.4% and 55.7%, respectively.

During the year ended February 29, 2004 and 2003, the AEON Credit Service Co., Ltd., substantial sold credit card receivables on a non-recourse basis of ¥6,920 million (US\$48,800 thousand) and ¥0,189 million, respectively, to the special purpose companies. Gains and losses on such sales were not significant.

The changes in the allowance for possible credit losses for the years ended February 29, 2004, 2003 and 2002 are shown below:

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Balance, beginning of year	¥ 12,993	¥ 9,016	¥ 129,930	¥ 90,160
Provision for possible credit losses	20,397	19,483	192,652	184,830
Charge-offs	(18,896)	(17,063)	(173,369)	(170,630)
Recoveries	489	1,262	4,486	12,620
Net charge-offs	(18,407)	(15,801)	(168,883)	(158,010)
Foreign currency translation adjustments	(284)	(683)	(2,840)	(6,830)
Balance, end of year	¥ 15,467	¥ 12,293	¥ 152,724	¥ 122,920

Gross unrealized holding loss on available-for-sale securities and the fair value of the related securities, aggregated by treatment category and length of time that individual securities have been in continuous unrealized loss position, at February 29, 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	Less than 12 months	12 months or longer	Less than 12 months	12 months or longer
Equity securities	¥2,801	¥305	¥1,612	¥477
Debt securities	2,045	0	—	—
Total	¥4,846	¥311	¥1,612	¥477
Equity securities	\$18,987	\$2,738	\$16,824	\$4,376
Debt securities	18,781	95	—	—
Total	\$37,768	\$2,833	\$16,824	\$4,376

	2005		2004	
	Year	2005	Year	2004
		Millions of U.S. Dollars		Millions of U.S. Dollars
Basic earnings per share:				
Reported income from continuing operations before cumulative effect of change in accounting principles		\$103.6	\$98.6	\$0.95
Add back: goodwill amortization (net of tax)		0.6	0.6	0.05
Adjusted income from continuing operations before cumulative effects of change in accounting principles		\$103.6	\$98.6	\$0.95
Diluted earnings per share:				
Reported income from continuing operations before cumulative effect of change in accounting principles		\$103.6	\$98.6	\$0.95
Add back: goodwill amortization (net of tax)		0.6	0.6	0.05
Adjusted income from continuing operations before cumulative effects of change in accounting principles		\$103.6	\$98.6	\$0.95

6. Short-Term Borrowings, Long-Term Debt, and Obligations under Reorganization Proceedings

a. Short-term borrowings at February 29, 2004 and 2003, consisted of the following:

	2004		2003	
	Millions of U.S. Dollars	2004	Millions of U.S. Dollars	2003
Short-term bank loans		\$ 72,780	\$ 990,312	
Commercial paper		33,000	300,762	
Debt under securitization of accounts receivable		17,600	160,551	
Total		\$123,380	\$1,451,625	

Short-term bank loans are represented by notes, generally for 90 days. The loans bear interest at February 29, 2004 and 2003, at 0.01% to 10.75%.

b. Long-term debt at February 29, 2004 and 2003, consisted of the following:

	2004		2003	
	Millions of U.S. Dollars	2004	Millions of U.S. Dollars	2003
Secured:				
Debt under securitization of accounts receivable		\$ 100,773	\$ 378,569	
Debt under securitization of household deposits, due through the year 2013		476,808	4,375,835	
Debt under securitization of financial receivables, due through the year 2008		76,547	702,268	
Capital lease obligations, due through the year 2022		9,710	80,082	
Total		\$653,838	\$5,536,754	
Less current portion		772,150	692,655	
Total		\$1,425,988	\$4,844,099	

c. At February 29, 2004 and 2003, interest rates on notes, bonds and loans, principally from banks and insurance companies, which are generally reported as current market conditions change, securitized loanhold improvements and finance receivables, were as follows:

	2004		2003	
	Millions of U.S. Dollars	2004	Millions of U.S. Dollars	2003
0.0% - 1.0%		\$ 217,259	\$ 228,126	\$ 1,983,202
1.1% - 2.0%		270,785	231,424	2,483,907
2.1% - 3.0%		115,539	120,289	1,059,991
3.1% - 4.0%		15,043	19,618	146,269
4.1% - 5.0%		48,359	10,650	443,936
5.1% - 6.0%		1,766	8,226	16,389
6.1% - 7.0%		349	5,709	3,165
7.1% - 8.0%		—	8,477	—
8.1% - 9.0%		—	5,987	—
9.1% -		—	790	—
Total		\$689,698	\$1,632,635	\$6,148,792

d. The original maturities of long-term debt outstanding at February 29, 2004 were as follows:

Year ending February 29	Millions of U.S. Dollars	Thousands of U.S. Dollars
2005	\$10,706	\$ 938,117
2006	162,882	1,562,892
2007	117,736	1,173,063
2008	127,336	1,060,166
2009	107,939	984,761
Thereafter	142,237	1,301,927
Total	\$772,150	\$7,068,945

e. The annual maturities of obligations under reorganization proceedings outstanding at February 29, 2003 were as follows:

Year ending February 29	Millions of U.S. Dollars	Thousands of U.S. Dollars
2005	\$ 49,041	\$ 440,743
2006	33,395	309,276
2007	6,346	58,239
2008	9,394	83,959
2009	6,394	50,559
Thereafter	41,803	383,514
Total	\$142,355	\$1,305,019

7. Derivatives and Hedging Activities

Risk management policy
The Company operates a national utility, which incurs the Company to the risk of changes in foreign exchange rates and interest rates.

Exchange financial instruments are compared principally of forward exchange contracts and interest rate swaps entered by the Company and certain of its subsidiaries to reduce these risks. The Company assesses foreign currency exchange rate risk and interest rate risk by continually monitoring changes in these exposures and by seeking hedging opportunities. The Company does not utilize derivative financial instruments for trading purposes. The Company is also exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are internationally recognized financial institutions and the Company has controlled credit risk through credit approvals, limits and monitoring procedures.

Foreign currency exchange rate risk management

The Company enters contracts to purchase or sell foreign currencies generated from operations primarily denominated in U.S. dollars. To manage foreign exchange exposure from purchases in foreign currencies with an U.S. dollar, the Company enters into forward exchange contracts. These contracts are primarily used to hedge the foreign currency exposure of contracted purchase transactions which are denominated in foreign currencies. In accordance with the Company's policy, a specific portion of foreign currency exposure resulting from contracted purchase transactions are hedged using foreign currency contracts which primarily mature within one year.

The Company also enters into currency swaps and forward exchange contracts to hedge the foreign currency risk associated with long-term debt denominated in foreign currencies.

f. Collateralized short-term bank loans, long-term debt and other at February 29, 2004 and 2003, were as follows:

Year ending February 29	Millions of U.S. Dollars	Thousands of U.S. Dollars
2004	\$16,407	\$ 1,723
2003	105,774	967,465
Short-term bank loans		
Long-term debt		
Obligations under reorganization proceedings		
Deposits received and other		
Total	\$229,373	\$1,693,923

The assets of the Company pledged as collateral for short-term bank loans, long-term debt and other at February 29, 2004 and 2003, were summarized as follows:

	2004		2003	
	Millions of U.S. Dollars	2004	Millions of U.S. Dollars	2003
Property, buildings and equipment-net		\$260,190	\$182,470	\$2,366
Accounts receivable and finance receivables		9,486	—	—
Time deposits, lease deposits for stores included in fixed leasehold deposits and other		32,237	3,057	29
Total		\$299,913	\$185,527	\$2,395

Interest rate risk management

The Company's exposure to the market risk of changes in interest rates relates primarily to its debt obligations. The variable rate debt obligations expose the Company to variability in their future cash flow due to changing interest rates. To manage the variability in the future cash flow caused by interest rate changes, the Company enters into interest rate swaps. The rate swap is to be appropriate based on market conditions. The variable rate debt obligations are exposed to variability in their future cash flow due to changing interest rates. To manage the variability in the future cash flow caused by interest rate changes, the Company enters into interest rate swaps. The rate swap is to be appropriate based on market conditions. The variable rate debt obligations are exposed to variability in their future cash flow due to changing interest rates. To manage the variability in the future cash flow caused by interest rate changes, the Company enters into interest rate swaps. The rate swap is to be appropriate based on market conditions.

Fair value hedge

Derivative financial instruments, described as fair value hedges, are used to hedge the fair value of the Company's debt obligations with purchases of interest rate swaps. Changes in the fair value of the hedges, firm commitments and derivative instruments designated as fair value hedges of these line commitments are recognized in other income (loss).

Cash flow hedge

Changes in the fair value of interest rate swap contracts constitute cash flow hedges. Cash flow hedges are used to hedge the variability in the future cash flow of the Company's debt obligations. The Company enters into interest rate swaps to hedge the variability in the future cash flow of the Company's debt obligations. The Company enters into interest rate swaps to hedge the variability in the future cash flow of the Company's debt obligations. The Company enters into interest rate swaps to hedge the variability in the future cash flow of the Company's debt obligations.

ed as cash flow hedges and reported in accumulated other comprehensive income (loss), net of the related tax effect, are income of \$422 million (\$3.872 billion) for the year ended February 29, 2004. The amounts which were reclassified out of accumulated other comprehensive income (loss) into other income (deductions) for the year ended February 29, 2004 had net cash equivalents. There is no hedging ineffectiveness.

The Company has also entered into certain interest rate swap agreements. Interest rate currency swap agreements which do not meet the hedging criteria of SFAS No. 133. The Company records these instruments at fair value on the balance sheet. The changes in fair values are recorded in earnings immediately. The notional amounts of these interest rate swap agreements and interest rate currency swap agreements were \$4,023 million (\$3,939 thousand) at February 29, 2004. The Company recognized net losses related to these

instruments in the amount of \$466 million (\$5,633 thousand) for the year ended February 29, 2004 and classified such amount in other income (deductions). Notional amount for derivatives at February 29, 2004 and 2003 are set forth below:

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Interest rate swap contracts	\$ 110,524	\$ 10,651	\$ 89,650	\$ 8,650
Interest rate cap contracts	30,734	—	—	—
Interest rate currency swap contracts	1,817	2,899	16,070	24,899
Interest rate option contracts	—	—	—	—
Forward exchange contracts	2,780	—	17,084	—
Currency swap contracts	\$ 9,939	\$ 7,640	\$ 82,183	\$ 62,183

8. Asset Retirement Obligations

SFAS No. 142 requires the Company to recognize an estimated liability for the removal of store building and equipment is based on the Company's historical experience in removing these stores, evaluated store service levels, expected inflation as to the cost to remove the stores in the future. The liability is discounted using a credit-adjusted risk-free rate of approximately 2%. Differences to the liability could occur due to changes in store building and equipment future cash flows or these service levels.

Upon adoption of SFAS No. 142 in February 21, 2003 (see Note 1), the Company recognized a deferred liability of \$40,829 million (\$375,263 thousand) recorded in the equity account of net property and equipment by \$17,528 million (\$163,798 thousand) and recognized a same amount effect charge related to concrete expenses and depreciation expenses during the term from acquisition date to the beginning of this fiscal year of \$13,992 million (\$126,354 thousand) net of deferred tax benefit of \$9,447 million (\$86,070 thousand).

Reconciliation of income before cumulative effect of change in accounting principle and earnings per share before cumulative effect of change in accounting principle to the amounts adjusted for the inclusion of depreciation

	Millions of Yen			Thousands of U.S. Dollars		
	2004	2003	2002	2004	2003	2002
Net income before cumulative effect of change in accounting principles	931,746	926,365	920,655	\$291,247	\$291,247	\$291,247
Reported income from continuing and discontinued operations before cumulative effect of change in accounting principles	—	—	—	—	—	—
Adjustment expenses—net of tax	—	(628)	(765)	—	—	—
Depreciation	—	(381)	(348)	—	—	—
Interest expense	—	(197)	—	—	—	—
Loss on impairment, disposition and sale of property	—	(12)	(13)	—	—	—
Loss from discontinued operations	—	—	—	—	—	—
Adjusted income from continuing and discontinued operations before cumulative effect of change in accounting principles	\$931,746	\$925,727	\$918,779	\$291,247	\$291,247	\$291,247

* These amounts do not include the cumulative effect of adoption of SFAS No. 142.

	2004		2003		2002	
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Basic earnings per share:						
Reported income from continuing and discontinued operations before cumulative effect of change in accounting principles*	935.3	¥106.0	935.3	¥106.0	935.3	¥106.0
Adjustment: expenses—net of tax	—	—	—	—	—	—
Depreciation	—	—	—	—	—	—
Interest expense	—	—	—	—	—	—
Loss on impairment, disposition and sale of property	—	—	—	—	—	—
Loss from discontinued operations	—	—	—	—	—	—
Adjusted income from continuing and discontinued operations before cumulative effect of change in accounting principles	935.3	¥106.0	935.3	¥106.0	935.3	¥106.0
Diluted earnings per share:						
Reported income from continuing and discontinued operations before cumulative effect of change in accounting principles	—	—	—	—	—	—
Adjustment: expenses—net of tax	—	—	—	—	—	—
Depreciation	—	—	—	—	—	—
Interest expense	—	—	—	—	—	—
Loss on impairment, disposition and sale of property	—	—	—	—	—	—
Loss from discontinued operations	—	—	—	—	—	—
Adjusted income from continuing and discontinued operations before cumulative effect of change in accounting principles	—	—	—	—	—	—

* These amounts do not include the cumulative effect of adoption of SFAS No. 142.

9. Employees' Benefit Plans

Retirement benefit plans
 AON Co., Ltd. and certain of its domestic subsidiaries have a contributory defined benefit pension plan covering substantially all of their employees (the "Contributory plan"), which provides lifetime annuity payments commencing age 60 based on eligible compensation and credits at the time of severance, years of service and other factors. Other subsidiaries also have non-contributory defined benefit plans or voluntary termination benefit plans covering substantially all employees.

The Contributory plan consists of a substantial portion, which has been specified by the Japanese government's welfare pension regulations, and an additional part established by AON Co., Ltd. and certain of its domestic subsidiaries. The Contributory plan is administered by a board of trustees composed of management and employee representatives. Annual contributions are made by employees and employers in accordance with the contribution formula stipulated by the government for the substantial portion and contributions for the remaining portion are made by employees with an amount determined on the basis of an actuarial method. The Contributory plan assets are managed as a single portfolio for the entire plan.

According to the attachment of the Defined Benefit Pension Plan Law in April 2002, the Company applied to the Ministry of Finance for exemption from obligation to pay benefits for future employee services related to the substantial portion which would result in the transfer of the pension obligation to the Japanese government.

tion and related assets to government by another subsequent application and the application was approved in September 2002. In March 2003, the Company submitted another application for approval of the remaining substantial portion (representing a transfer of the benefit obligation of the substantial portion related to past services as well as the related government-approved plan assets to government).

Effective 03-02, Accounting for the Transfer to the Japanese Government of Substantial Portion of Employees' Pension Fund Liability" requires the Company to account for the entire separation process of the substantial portion by the entire Contributory plan upon completion of the transfer to government. In the substantial portion of the benefit obligation and related plan assets, a combination of a series of the steps is a single business transaction. In connection with the separation of the substantial portion, in March 2004 the Company also amended the plan for the remaining portion of the Contributory plan to replace a portion of the employees' benefits with a defined contribution plan.

Effects of the separation of the substantial portion and the earlier requirement with the contribution plan on the Company's consolidated financial statements have not been determined.

The net periodic pension cost, changes in benefit obligation plan assets and funded status of the Contributory plan and other defined benefit plans and other assumptions used to determine these amounts were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	2004	2003	2002	2004	2003	2002
Components of net periodic pension cost:						
Service cost	¥15,160	¥12,965	¥10,909	\$139,000	\$119,000	\$99,000
Interest cost	4,571	5,106	4,949	41,000	46,000	45,000
Return on assets	(407)	(9,022)	(6,397)	(3,700)	(82,000)	(57,000)
Amortization of unrecognized net asset	—	—	—	—	—	—
Amortization of unrecognized past service cost	13,415	(1,476)	(1,536)	121,000	(13,000)	(14,000)
Amortization of unrecognized net loss	—	—	—	—	—	—
Net periodic pension cost	¥26,253	¥16,169	¥11,919	\$236,000	\$140,000	\$109,000

	2004	2003	2002
Change in benefit obligation	(4278,242)	¥ (515,559)	\$ (2,592,679)
Benefit obligation at beginning of year	(15,160)	(139,024)	(139,024)
Service cost	(6,571)	(5,168)	(41,936)
Interest cost	(1,467)	(1,467)	(1,467)
Plan participants' contributions	30,158	(69,354)	376,679
Actuarial gain (loss)	(38,753)	(925)	(925)
Plan settlement	4,897	7,213	44,948
Reclassification for other plans and other	(229,871)	¥ (274,163)	\$ (2,740,273)
Benefit paid	¥ 107,242	¥ 113,142	\$ 893,872
Change in plan assets	289	(11,474)	2,651
Market value of plan assets at beginning of year	6,450	6,380	59,174
Actual return on assets	1,487	315	42,880
Employer contributions	(8,879)	(4,909)	(35,897)
Reclassification for other plans and other	¥ 114,777	¥ 107,242	\$ 1,053,009
Benefit paid	¥ (184,894)	¥ (170,923)	\$ (1,686,272)
Market value of plan assets at end of year	11,801	150,597	1,028,615
Plan assets less than benefit obligation	(9,559)	(11,027)	(67,224)
Unrecognized net actuarial loss	¥ (62,522)	¥ (31,779)	\$ (797,082)
Unrecognized prior service gain	¥ (172,107)	¥ (156,069)	\$ (1,578,963)
Net amount recognized in the consolidated balance sheet	¥ 80,585	¥ 124,236	\$ 81,883
Net amount recognized in the consolidated balance sheet consists of:	¥ (62,522)	¥ (31,779)	\$ (797,082)
Employee termination benefits and pension liabilities			
Accumulated other comprehensive income-tax			

	2004	2003	2002
Assumptions:			
Benefit obligations	2.0%	1.40%	
Discount Rate	3.0%	3.40%	
Rate of increase in compensation levels	1.40%	2.40%	3.00%
Rate of increase in pension levels	3.40%	3.40%	4.10%
Expected long-term rate of return on plan assets	2.95%	5.28%	5.25%

An expected long-term rate of return on plan assets for the Contributory plan is determined based on assumed historical returns on the plan assets in the past several years with certain adjustments for expectation of future returns. Measurement dates for the defined benefit plans used by ACN Co., Ltd. and certain of its subsidiaries are principally December 31, every year.

The accumulated benefit obligation of the Contributory plan was ¥229,924 million (\$21,163,216 thousand) and ¥219,024 million at February 29, 2004 and 2003, respectively, in accordance with the provision of SFAS No. 87. The Company has recognized an additional retirement liability representing the factors of the accumulated benefit obligation with respect to the Contributory plan for the value of the plan assets and accrued pension liabilities previously recorded. A corresponding amount has been recorded as a separate liability of shareholders' equity, net of deferred income taxes.

The Company adopted revised SFAS No. 152, "Employers' Disclosures about Pensions and Other Postretirement Benefits." The revised standard requires more disclosures in addition to those required by the original standard about the assets, obligations, cash flows and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. Weighted average assets applicable to the Contributory plan at February 29, 2004 and 2003, by asset category, are as follows:

Asset category	2004	2003
Cash equivalents	56.0%	54.1%
Debt securities	43.0%	44.0%
Equity securities	—	31.5%
Total	100.0%	100.0%

10. Shareholders' Equity

ACN Co., Ltd. issued 2,161,512 shares and 9,328 shares of common stock during the years ended February 29, 2003 and 2002 in connection with conversion of convertible debt.

The Corporate Code of Japan (the "Code") provided that an amount equal to at least 10% of approximate paid-in cash be distributed as a legal reserve until such reserve equals 25% of common stock. The Code amended effective on October 1, 2001, provides that an amount equal to at least 10% of approximate paid-in cash be distributed as a legal reserve until an aggregated amount of additional paid-in capital and the legal reserve equals 25% of common stock.

Before October 2002, investment policies of the Contributory plan are designed to ensure adequate plan assets to provide future payments of pension benefits to eligible persons and to minimize future contribution payments, and plan funds has been invested in equity securities, debt securities and other assets based on guidelines for allocation percentages specified in each major asset category to get a total target rate of expected long-term return on the plan assets. On November 2002, the investment policies were amended to minimize for value risk exposure on the plan assets to maintain stable future contribution payments as well as the returns. Certain plan assets allocated in connection with the acquisition of the additional portion and the partial replacement of the remaining portion with a defined contribution plan, and plan funds have been invested in cash, bonds and debt securities.

A target percentage for assets allocation by each major asset category determined based on market conditions under the market portfolio theory achieves a total target rate of expected long-term return on the plan assets. The Company estimates the difference between expected return and the return of invested plan assets on an annual basis to determine if such excess is necessary to reverse in the formation of the plan asset portfolio.

The Company expects to contribute ¥28,885 million (\$207,428 thousand), which includes a special contribution of ¥20,770 million (\$150 million) in 2004 in order to compensate a shortage of the Contributory plan in connection with the calculation and recognition contributed in the year of the Contributory plan for the year ending February 29, 2005.

ACN Co., Ltd. may purchase, by resolution of the shareholders, a portion of retained earnings available for dividends to capital.

ACN Co., Ltd. may issue new shares of common stock to the existing shareholders without consideration by resolution of the Board of Directors. Under the Code, the amount available for dividends is based on retained earnings recorded on the Company's books. At February 29, 2004, retained earnings recorded on the Company's books were ¥121,586 million (\$9,115,119 thousand) which is available for future dividends subject to the approval of the shareholders and legal reserve requirements.

11. Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) for the years ended February 29, 2004, 2003 and 2002 are as follows:

	Millions of Yen		Net-of-tax amount
	Pre-tax amount	Tax (Expense) benefit	
2004:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains (losses) arising during period	¥ 18,920	¥ (5,971)	¥ 12,949
Reclassification adjustment for (gains) losses included in net income	(92)	36	(56)
Net change in unrealized gains (losses)	18,828	(5,935)	12,893
Foreign currency translation adjustments	(5,795)	—	(5,795)
Net gains on derivative financial instruments	509	(87)	422
Minimum pension liability adjustment	36,515	(15,663)	20,852
Other comprehensive income (loss)	¥ 48,057	¥ (17,663)	¥ 30,394
2003:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains (losses) arising during period	¥ 815	¥ (657)	¥ 158
Reclassification adjustment for (gains) losses included in net income	625	(267)	358
Net change in unrealized gains (losses)	1,440	(924)	516
Foreign currency translation adjustments	(5,108)	—	(5,108)
Net losses on derivative financial instruments	174	113	287
Minimum pension liability adjustment	57,163	24,821	32,342
Other comprehensive income (loss)	¥ 62,067	¥ 23,515	¥ 38,552
2002:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains (losses) arising during period	¥ 6,266	¥ 2,959	¥ 3,307
Reclassification adjustment for (gains) losses included in net income	17,561	(7,213)	10,348
Net change in unrealized gains (losses)	11,295	(4,254)	7,041
Foreign currency translation adjustments	7,055	—	7,055
Net gains on derivative financial instruments	97	\$	97
Minimum pension liability adjustment	(60,038)	8,306	(51,732)
Other comprehensive income (loss)	¥ (41,585)	¥ 3,615	¥ (37,970)

	Thousands of U.S. dollars		Net-of-tax amount
	Pre-tax amount	Tax (Expense) benefit	
2004:			
Unrealized gains on available-for-sale securities:			
Unrealized holding gains (losses) arising during period	\$ 127,706	\$ (51,119)	\$ 76,587
Reclassification adjustment for (gains) losses included in net income	(844)	349	(495)
Net change in unrealized gains (losses)	126,862	(50,770)	76,092
Foreign currency translation adjustments	(53,174)	—	(53,174)
Net gains on derivative financial instruments	4,670	(766)	3,904
Minimum pension liability adjustment	235,000	(145,505)	89,495
Other comprehensive income (loss)	\$ 212,688	\$ (197,040)	\$ 15,648

12. Leasing Arrangements

In most cases, lease buildings are constructed by the Company's subsidiaries or leased from the lessor, and are leased under noncancelable contracts having unexpired terms generally exceeding 10 years. Classes of leases vary by individual lease contract. But in general, all noncancelable lease contracts are classified as operating leases. The construction costs of most lease buildings are financed by the Company in the form of lease deposits paid to

cost of construction of the store buildings. They represent operating improvements made by the Company on leased land and are capitalized.

Payments made under the terms of the lease agreements, net of reductions for refunds of lease deposits, represent the rental cost for land and are considered to be operating leases.

The following is a schedule of future minimum payments required under operating leases, in which those are described above, that have not yet expired, as of February 29, 2004:

Year ending February 29,	Millions of Yen	U.S. Dollars
2005	¥ 55,934	\$ 510,128
2006	50,259	481,387
2007	48,355	445,000
2008	44,186	408,376
2009	42,154	386,734
Thereafter	245,283	2,249,559
Total	¥ 495,941	\$ 4,681,174

Total rental expenses amounted to ¥ 147,825 million (\$ 1,351,850 thousand), ¥ 149,293 million and ¥ 143,795 million for the years ended February 29, 2004, 2003 and 2002, respectively.

In addition, the Company issues, under noncancelable agreements, certain store equipment over periods of four to seven years including periods covered by lessee renewal options. Such lease obligations are classified as capital leases and the related assets are depreciable over periods comparable to the useful lives of the assets. Costs of leased assets under capital leases included in property, buildings and equipment at February 29, 2004 and 2003 were ¥ 159,877 million (\$ 1,468,715 thousand) and ¥ 155,854 million, respectively. Accumulated depreciation related to such leased assets at February 29, 2004 and 2003 were ¥ 51,333 million (\$ 490,761 thousand) and ¥ 45,943 million, respectively.

An analysis of leased assets under capital leases at February 29, 2004 and 2003 were as follows:

13. Capitalization of Interest

Interest costs attributable to major capital projects in process mainly for leasehold improvements have been capitalized at the effective rate of borrowings. Capitalized interest is charged over the useful lives of the related assets.

14. Other (Income) Expenses-Net

Other (income) expenses-net for the years ended February 29, 2004, 2003 and 2002 consisted of the following:

	Millions of Yen		U.S. Dollars
	2004	2003	2002
Net loss on impairment, disposition and sale of property	¥ 8,357	¥ 14,025	¥ 130,443
Dividend income	(736)	(658)	(6,717)
Net gain on sale of securities, including gains on sale of initial common stock	(537)	(1,193)	(14,920)
Write-down of securities	91	1,720	17,582
Other-net	1,714	7,261	68,729
Total	¥ 8,889	¥ 22,255	¥ 233,127

	Millions of Yen		U.S. Dollars
	2004	2003	2002
Buildings	¥ 56,107	¥ 81,840	¥ 780,443
Equipment and fixtures	103,770	99,044	943,311
Total	¥ 159,877	¥ 180,884	¥ 1,723,754

The following is a schedule of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments at February 29, 2004:

Year ending February 29,	Millions of Yen	U.S. Dollars
2005	¥ 24,374	\$ 226,221
2006	19,830	184,316
2007	15,251	141,935
2008	10,684	99,595
2009	8,069	75,257
Thereafter	317,658	2,943,111
Total minimum lease payments	¥ 317,658	¥ 2,943,111
Less amount representing interest	(10,922)	(101,000)
Present value of net minimum lease payments	¥ 306,736	¥ 2,842,111
Less current obligation	22,193	205,259
Long-term capital lease obligations	¥ 284,543	¥ 2,636,852

The Company leases portions of its store space to tenants under lease agreements generally for periods of three to six years, in certain cases, payments are based on a minimum rental plus a percentage of tenants' sales, and in other cases, rental payments are based only on a fixed fee. The rents received are included in the sales revenue. Sales revenue for 2004, 2003 and 2002 amounted to ¥ 32,261 million (\$ 300,377 thousand), ¥ 34,308 million and ¥ 29,759 million, respectively.

Interest costs capitalized in 2004, 2003 and 2002 amounted to ¥ 26,853 million (\$ 250,443 thousand), ¥ 25 million and ¥ 20 million, respectively.

	Millions of Yen		U.S. Dollars
	2004	2003	2002
Net loss on impairment, disposition and sale of property	¥ 8,357	¥ 14,025	¥ 130,443
Dividend income	(736)	(658)	(6,717)
Net gain on sale of securities, including gains on sale of initial common stock	(537)	(1,193)	(14,920)
Write-down of securities	91	1,720	17,582
Other-net	1,714	7,261	68,729
Total	¥ 8,889	¥ 22,255	¥ 233,127

15. Income Taxes

Total income taxes for the years ended February 29, 2004, 2003 and 2002 comprised the following:

	2004		2003		2002	
	Millions of U.S. Dollars		Millions of U.S. Dollars		Millions of U.S. Dollars	
Provision for income taxes	\$29,549	29,549	29,595	29,595	29,745	29,745
Income tax expense (benefit) directly charged (credited) to shareholders' equity	—	—	—	—	—	—
Accumulated other comprehensive income (loss)	5,593	919	(113)	(5)	4,861	59,761
Net unrecognized gains (losses) on available-for-sale securities	97	(97)	(2,321)	(2,321)	(9,394)	798
Net gains on derivative financial instruments	16,880	2,224	678	809	—	148,505
Minimum pension liability adjustment	2,224	—	—	—	—	20,404
Gain on sale of previously unissued stock by subsidiary	—	—	—	—	—	—
Total income taxes	\$48,232	48,232	27,252	27,252	20,404	20,404

Income taxes in Japan applicable to the Company, incurred by the indirect, participating and municipal governments, in the aggregate, result in a normal effective statutory rate of approximately 41.7% for the years ended February 29, 2004, 2003, and 2002. Foreign subsidiaries are subject to income taxes on the earnings in which they operate.

A reconciliation of the combined statutory tax rate for the years ended February 29, 2004, 2003 and 2002 to the effective rates of income taxes reflect:

	2004	2003	2002
Normal Japanese statutory tax rate	41.7%	41.7%	41.7%
Excesses (shortages) in taxes resulting from:			
Business not deductible for tax purposes	0.6	0.5	2.1
Differences from foreign subsidiaries eliminated for consolidation purposes	1.1	0.7	1.6
Operating losses of certain subsidiaries	4.1	0.6	3.5
Tax benefits on losses of subsidiaries	(2.9)	(3.1)	(5.5)
Lower rate applicable to income in certain foreign countries	(3.1)	(3.5)	(4.3)
Pro-ration portion of Japanese tax	3.0	2.9	3.8
Foreign tax credit	0.1	(0.3)	(0.6)
Effect of reduction in tax rate	1.8	—	—
Others	(2.0)	(1.0)	(5.1)
Effective income tax rate	41.6%	39.5%	39.2%

The approximate effect of temporary differences and losses carry-forwards that give rise to deferred tax balances at February 29, 2004 and 2003, were as follows:

	2004		2003		2002	
	Millions of U.S. Dollars		Millions of U.S. Dollars		Millions of U.S. Dollars	
Deferred Tax Assets	\$ 10,389	10,389	10,389	10,389	10,389	10,389
Deferred Tax Liabilities	56,846	56,846	56,846	56,846	56,846	56,846
Inventories	—	—	—	—	—	—
Property, buildings and equipment	2,296	2,296	2,296	2,296	2,296	2,296
Capitalization of interest	16,612	16,612	16,612	16,612	16,612	16,612
Investment intangibles	67,095	67,095	67,095	67,095	67,095	67,095
Retirement and pension costs	2,494	2,494	2,494	2,494	2,494	2,494
Enterprise tax	60,399	60,399	60,399	60,399	60,399	60,399
Evaluation losses under recognition proceedings	42,140	42,140	42,140	42,140	42,140	42,140
Other temporary differences	32,014	32,014	32,014	32,014	32,014	32,014
Tax rate carryforwards	289,666	289,666	289,666	289,666	289,666	289,666
Total	(126,419)	(126,419)	(126,419)	(126,419)	(126,419)	(126,419)
Valuation allowances	163,209	163,209	163,209	163,209	163,209	163,209
Total	\$ 48,232	48,232	27,252	27,252	20,404	20,404

A valuation allowance is established to reduce certain subsidiaries' deferred tax assets relating to net operating loss carryforwards and certain temporary differences to reflect uncertainty associated with their realization. The valuation allowance increased by ¥192,731 million (\$242,426 thousand) during the year ended February 29, 2004 and decreased by ¥5,656 million during the year ended February 29, 2003.

At February 29, 2004, certain subsidiaries have net operating loss carryforwards of approximately ¥69,412 million (\$86,867 thousand) which are available to offset losses from their individually reported taxable income of future years. If not utilized, such carryforwards expire as follows:

Expiration Date	Amount
2004	¥34,458
2005	¥28,666
2006	37
2007	316
2008	316
2009	17,263
2010	23
2011	69
2012	69
2013	17,751
2014	25,056
2015	37
2016	37
2017	37
2018	37
2019	37
2020	37
2021	37
2022	37
2023	37
2024	37
2025	37
2026	37
2027	37
2028	37
2029	37
2030	37
2031	37
2032	37
2033	37
2034	37
2035	37
2036	37
2037	37
2038	37
2039	37
2040	37
2041	37
2042	37
2043	37
2044	37
2045	37
2046	37
2047	37
2048	37
2049	37
2050	37

16. Per Share Amounts

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations was as follows:

	2004	2003	2002
Amount Per Share			
Net income from continuing operations	¥14,458	¥28,666	¥31,612
1.4% unsecured convertible bonds due 2003	—	—	—
The effect of dilutive securities:			
Adjusted net income from continuing operations	34,458	28,723	31,612
Loss on discontinued operations	(2,712)	—	—
Cumulative effect of changes in accounting principle	(19,929)	—	—
Net income	¥11,751	¥28,723	¥31,612
Weighted-average common shares outstanding	333,024,536	330,772,766	331,177,200
The effect of dilutive securities:			
1.4% unsecured convertible bonds due 2003	—	—	—
Diluted common shares outstanding	333,024,536	330,772,766	331,177,200

Weighted-average common shares outstanding in the discontinued operations of JSCON are the amounts of dividends declared and paid during the year.

17. Commitments and Contingencies

Commitments outstanding at February 29, 2004, for construction of property, buildings and equipment and for lease deposits approximated ¥6,658 million (\$8,153 thousand).

Contingent liabilities at February 29, 2004, for guarantees of loans were ¥1,679 million (\$1,904 thousand).

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*. Under FIN 46, the Company is required to consolidate variable interest entities for which the Company is deemed to be the primary beneficiary by the year ended February 29, 2004, and disclosure information about those in which the Company has significant variable interests effective immediately.

In February 2000, JSCON Co., Ltd. entered into noncancelable operating lease contracts related to two shipping container barges with an unamortized

Ending in	Millions of U.S. Dollars
2005	¥ 1,682
2006	15,403
2007	6,342
2008	13,637
2009	31,568
2010	169,412
Total	¥240,652

As of February 29, 2004, provisions totaling ¥61 million (\$75 thousand) were made for lease on undistributed earnings of all foreign subsidiaries of which earnings are not expected to be permanently reinvested. Taxes on undistributed earnings of domestic subsidiaries and affiliates not been provided, as any dividends to be received are not expected to be subject to any major present Japanese tax law.

In connection with the lease contracts with the lease contracts with JSCON Co., Ltd. also entered into Total Lease of Return ("TLR") lease contracts with the SPE, primarily to swap requirements of the first special dividend of ¥8,760 million (\$7,827 thousand) to be issued by the SPE for construction of the leased assets and certain proceeds from sales of the leased assets.

On November 2002, the Company entered into noncancelable operating lease contracts of three shipping container barges and underlying land rights in Rio de Janeiro, Brazil, under the terms of a lease agreement with JSCON Co., Ltd. These contracts, the Company also has entered into when necessary, are based on the sales of the beneficiary rights to another representative beneficiary of the related party at the end of the term available lease term. The Company will compensate JSCON Co., Ltd. for such losses up to a maximum of ¥8,650 million (\$8,615 thousand), including first loss of ¥4,000 million

(\$10,387 thousands)

On June 2003, the Company entered into non-cancelable operating lease contracts of six shopping center buildings and underlying land with Takaura Funding Corporation ("Takaura"), an unconsolidated special purpose entity. Takaura financed the construction of the lease assets from financial institutions, and the Company entered into a contract with these

financial institutions, which requires the financial institutions with real options to sell a portion of their loan to Takaura in certain cases including Takaura's insolvency. If the financial institutions exercise their put option, the Company will be able to terminate these lease contracts with Takaura. The borrowings of Takaura from the financial institutions as of February 20, 2004 were \$6,622 million (\$60,759 thousand).

18. Fair Value of Financial Instruments

See Note 107, "Disclosures about Fair Value of Financial Instruments," requires the company to report the fair value of certain financial instruments.

	2004		2003		2004	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:						
Cash and cash equivalents	\$203,859	\$203,859	\$38,863	\$38,863	\$2,604,202	\$2,604,202
Time deposits	2,517	2,517	2,031	2,031	23,092	23,092
Notes and accounts receivable	98,712	98,712	71,059	71,059	905,615	905,615
Liabilities:						
Short term borrowings	126,616	126,616	128,780	128,780	1,161,615	1,161,615
Notes and accounts payable	899,022	899,022	407,910	407,910	5,001,118	5,001,118
Long-term debt	772,150	776,930	692,055	708,955	7,933,941	7,125,051
Derivative financial instruments: gains (losses)						
Interest rate swap contracts	(594)	(594)	(291)	(515)	(3,329)	(5,499)
Interest rate cap contracts	(169)	(169)	(91)	(91)	(1,480)	(1,480)
Interest rate currency swap contracts			(63)	(63)		
Interest rate option contracts						
Forward exchange contracts	(109)	(109)	13	13	(891)	(891)
Commodity swap contracts	(203)	(203)	(263)	(263)	(1,862)	(1,862)

Assets, including cash and cash equivalents, time deposits and notes and accounts receivable are carried at approximately fair value amount.

The fair value of non-cancelable and investment securities which is generally determined by market quotes obtained from exchanges for listed securities or dealers for unlisted securities is disclosed in Note 4.

Short-term bank loans, notes and accounts payable are carried at approximate fair value amounts. For long-term debt, the estimated fair values were calculated by a discounted future cash flows using the borrowing interest rates currently available to the Company for debt with similar terms and remaining average maturities.

19. Segment Information

The Company separates its operations into four segments, which consist of general merchandise store and other retail store operations, specialty store operations, SC development operations and service and other operations, and reviews operating results of the segments to make decisions about resources to be allocated to the segments and to assess its performance against.

The general merchandise store and other retail store operations include mainly general merchandise store, supermarket, discount store, convenience store and department store operations. Stores in this segment offer various types of goods. The specialty store operations include women's apparel, casual wear items for men and women, cosmetics and toiletries, and shoes. The Company management assesses the operating results of stores categorized

statements differ from those issued for domestic purposes in Japan. The Company evaluates segment performance based on operating income and assets recorded in accordance with the accounting principles generally accepted in Japan (the "Japanese GAAP"). The principal adjustments and accounted for at values based on market prices.

Operating Segment Information

	Millions of Yen			
	General merchandise store operations	Specialty store operations	SC development operations	Service and other operations
2004:				
Revenue from external customers	\$2,133,647	\$447,339	\$32,135	\$3,546,386
Intersegment revenue	23,862	1,822	16,765	249,268
Depreciation and amortization	58,759	9,916	7,702	789,889
Segment operating income	47,901	24,104	13,049	45,709
Segment assets	1,692,015	222,600	555,723	803,220
Expenditures for segment assets	31,802	14,695	17,077	9,666
2003:				
Revenue from external customers	\$2,354,776	443,039	427,544	\$3,086,666
Intersegment revenue	21,162	753	17,307	271,477
Depreciation and amortization	55,575	10,629	7,373	8,124
Segment operating income	58,523	28,420	12,362	32,271
Segment assets	1,110,996	248,897	221,547	509,023
Expenditures for segment assets	58,634	18,106	19,728	9,759
2002:				
Revenue from external customers	\$2,279,564	\$433,838	\$23,038	\$2,837,440
Intersegment revenue	20,158	130	18,488	198,651
Depreciation and amortization	45,127	9,811	7,865	8,087
Segment operating income	46,853	59,831	10,221	31,330
Segment assets	1,100,491	228,690	219,857	2,333,003
Expenditures for segment assets	74,780	16,327	24,287	11,471

Thousands of U.S. Dollars

2004:				
Revenue from external customers	\$25,813,275	\$4,104,098	\$299,468	\$32,534,303
Intersegment revenue	214,940	16,716	153,297	2,290,862
Depreciation and amortization	489,202	90,972	69,679	70,691
Segment operating income	439,476	221,108	127,055	460,119
Segment assets	15,196,101	2,041,468	2,246,093	25,077,661
Expenditures for segment assets	842,220	134,616	156,670	84,679

Geographic Area Information

	Millions of Yen		
	Japan	North America	Other
2004:			
Revenue from external customers	\$3,161,219	\$183,894	\$181,103
Long-lived assets	1,529,104	\$3,317	29,979
2003:			
Revenue from external customers	\$3,722,929	\$269,996	\$166,610
Long-lived assets	922,633	34,529	33,443
2002:			
Revenue from external customers	\$2,587,746	\$208,105	\$136,729
Long-lived assets	825,195	26,441	34,889

Thousands of U.S. Dollars

2004:			
Revenue from external customers	\$29,185,495	1,651,499	\$4,534,092
Long-lived assets	10,624,607	305,961	11,307,193

20. Significant Litigation

MYCAL and MYCALYUSHU Related Litigation
 MYCAL Corporation ("MYCAL") is involved in separate litigations with two of its creditors, IRI Leasing Co., Ltd. and Showa Leasing Co., Ltd., relating to disputes over the determinations made by the insurers supervising MYCAL's corporate reorganization proceedings as to the values of their secured claims with respect to rail cars and equipment presented to MYCAL. In addition, MYCALYUSHU Corporation ("MYCALYUSHU") is in litigation with its secured creditor, IRI Leasing Co., Ltd., relating to a similar dispute. The amount claimed against MYCAL by IRI Leasing Co., Ltd. is ¥3,878 million (¥33,101 thousand) and by Showa Leasing Co., Ltd. is ¥1,247 million (¥10,400 thousand). The amount claimed by IRI Leasing Co., Ltd. against MYCALYUSHU is ¥1,013 million (¥8,533 thousand).

Reconciliation of the reportable segments' amounts to the amounts per consolidated financial statements:

	2004		2003		Thousands of U.S. Dollars	
	Y	V	Y	V	2004	2003
Revenues:						
Total revenues for reportable segments	¥3,537,472	¥3,347,153	¥3,170,014		\$5,206,257	\$4,971,169
Elimination of management revenue under Japanese GAAP	(201,157)	(230,648)	(235,472)		(1,677,788)	(1,711,950)
Elimination of management revenue under U.S. GAAP	(43,779)	(195,113)	(131,059)		(471,150)	(471,150)
Total revenues	¥3,500,716	¥3,296,192	¥3,003,583		\$52,116,936	\$49,788,069
Depreciation and amortization:						
Total depreciation and amortization for reportable segments	¥78,972	¥82,307	¥70,710		\$724,514	\$724,514
Adjustments/Reclassifications to U.S. GAAP	38,037	23,073	32,950		346,963	346,963
Total depreciation and amortization	¥117,009	¥105,379	¥103,660		\$1,071,477	\$1,071,477
Profit:						
Total reportable segment operating income under Japanese GAAP	¥131,656	¥132,481	¥19,905		\$1,207,798	\$1,207,798
Elimination of management income under Japanese GAAP	562	(208)	(83)		515	(181,110)
Adjustments/Reclassifications to U.S. GAAP	(10,741)	(6,456)	(358)		(181,110)	(181,110)
Operating income	¥121,477	¥125,714	¥118,864		\$1,031,944	\$1,031,944
Other (income) expense:						
Interest—net	¥9,920	¥6,691	¥9,374		\$93,595	\$93,595
Foreign exchange (gain) losses	821	913	(2,617)		6,897	6,897
Other (income) expense—net	6,897	22,262	34,533		68,275	68,275
Income from continuing operations before income taxes, minority interest and equity in net income (loss) of affiliated companies	¥135,115	¥155,580	¥162,764		\$1,160,711	\$1,160,711
Income taxes	¥1,249	¥1,249	¥1,249		\$10,408	\$10,408
Total income	¥133,866	¥154,331	¥161,515		\$1,150,303	\$1,150,303
Assets:						
Total segments assets under Japanese GAAP	¥2,733,487	¥2,123,452	¥2,038,043		\$55,077,863	\$55,077,863
Unallocated assets under Japanese GAAP	16,932	13,363	27,615		148,928	148,928
Elimination of management assets and liability under Japanese GAAP	(140,959)	(128,764)	(90,060)		(1,289,520)	(1,289,520)
Adjustments/Reclassifications to U.S. GAAP	171,890	160,912	80,390		1,577,880	1,577,880
Total assets	¥2,770,340	¥2,168,953	¥2,035,978		\$55,516,151	\$55,516,151
Expenses for segment assets:						
Total expenditures for assets for reportable segment	¥133,240	¥98,235	¥120,375		\$1,222,305	\$1,222,305
Adjustments/Reclassifications to U.S. GAAP	1,249	20,435	7,747		11,459	11,459
Total expenditures	¥134,489	¥118,670	¥128,122		\$1,233,764	\$1,233,764

21. Subsequent Event

Appropriations of Retained Earnings
 On April 7, 2004, the Board of Directors resolved payment of a cash dividend of ¥22 (52.5¢) per share totaling ¥7,326 million (627.215 thousand) to shareholders, of record as of February 20, 2004.

Issuance of New Shares

On July 16, 2004, the Company decided to offer 27,000,000 new shares of common stock in a global offering. Of the offered shares, the Company plans to offer 15,200,000 shares in Japan and 11,800,000 shares outside of Japan. Other terms of this offering, including offer price per share, are subject to be filed during the period from July 23, 2004 to August 3, 2004. Payment for the shares is scheduled during the period from August 6, 2004 to August 10, 2004. Holders of the shares being offered in the global offering will be considered to have been shareholders since February 21, 2004.

Stock Split

On July 16, 2004, the Company decided to make a stock split by way of one share distribution at the rate of five shares for each outstanding share of August 10, 2004 effective October 13, 2004.

INDEPENDENT AUDITORS' REPORT

To Shareholders and Board of Directors of
AEON CO., LTD.:

We have audited the accompanying consolidated balance sheets of AEON CO., LTD. and subsidiaries as of February 20, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, comprehensive income (loss), and cash flows for each of the three years in the period ended February 20, 2004 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of AEON CO., LTD. and subsidiaries at February 20, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended February 20, 2004, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 8 to the consolidated financial statements, effective from February 21, 2003, AEON CO., LTD. and subsidiaries have adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations."

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.



May 19, 2004 (July 16, 2004 as to the effects of the issuance of new shares and the stock split described in Note 21)

Board of Directors and Executive Officers (as of May 19, 2004)

Board of Directors

Toshiji Tokiwa

Chairman of the Board, AEON Co., Ltd.

Motoya Okada

President, AEON Co., Ltd.

Yutaka Furutani

Senior Executive Vice President, AEON Co., Ltd.

Yoshiki Mori

President and Representative Director, AEON Credit Service Co., Ltd.

Tadashi Ogawa

Chairman and Representative Director, Japan Tobacco Inc.

Yoshiharu Fukuhara

Honorary Chairman, Shiseido Co., Ltd.

Minoru Makihara

Advisor, Board of Directors, Mitsubishi Corp.

Genzo Yamazaki

Attorney at Law and Corporate Auditor, Maxvalu Tokai Co., Ltd.

Executive Officers

President

Motoya Okada*

Senior Executive Vice President

Yutaka Furutani

Executive Vice President

Naoki Hayashi

Akihito Tanaka

Fukunobu Hirashima

Senior Vice President

Tatsuichi Yamaguchi

Hisateru Taniuchi

Yoichi Kimura

Kunio Nakamura

Atsunobu Agata

Noriyuki Murakami

Kunihiko Hisaki

Shouhei Murai

Vice President

Masaaki Toyoshima

Shigeyuki Hayamizu

Keiichi Ishimoto

Toshio Kawamoto

Teiichiro Noguchi

Kenzo Kurimoto

Akinori Yamashita

Tetsu Tomonaga

Akira Fujimoto

Akio Kaguri

Yasuhide Chikazawa

Yuichiro Okauchi

Yuiken Tsutsumi

Minoru Mukai

Tadanori Uemura

* Representative Executive Officer

Major Group Companies (as of Feb. 20, 2004)

General Merchandise Stores (GMS)

*AEON Co., Ltd.
*AEON Kyushu Co., Ltd.
*Jaya JUSCO Stores Bhd.
*AEON Stores (Hong Kong) Co., Ltd.
*Ryukyu JUSCO Co., Ltd.
*MYCAL Corporation
*MYCALKYUSHU Corporation
*Posful Corporation
*Siam JUSCO Co., Ltd.
*Guangdong JUSCO Teem Stores Co., Ltd.
*Qingdao AEON Dongtai Co., Ltd.
*Shenzhen JUSCO Friendship Stores Co., Ltd.
*Taiwan AEON Stores Co., Ltd.

Supermarkets

*Maxvalu Hokkaido Co., Ltd.
*Maxvalu Tohoku Co., Ltd.
*Maxvalu Chubu Co., Ltd.
*Maxvalu Nishinihon Co., Ltd.
*Maxvalu Tokai Co., Ltd.
*Maxvalu Kyushu Co., Ltd.
*Kasumi Co., Ltd.

Convenience Stores

*Ministop Co., Ltd.

Department Stores

*Bon Belta Isejin Co., Ltd.
*Bon Belta Co., Ltd.
*Tachibana Department Store Co., Ltd.

Specialty Stores

*The Talbots, Inc.
*Blue Grass Co., Ltd.
*Cox Co., Ltd.
*Talbots Japan Co., Ltd.
*Laura Ashley Japan Co., Ltd.
*AEON Forest Co., Ltd.
*Mega Sports Co., Ltd.
*Claire's Nippon Co., Ltd.
*Nustep Co., Ltd.
*Abilities JUSCO Co., Ltd.
*Book Bahn Co., Ltd.
*Pelcity Co., Ltd.
*Mega Petro Co., Ltd.

Drugstores

Kraft Inc.
CFS Corporation
Green cross Coa Co., Ltd.
Medical Ikkou Co., Ltd.
*Takiya Co., Ltd.
*Wajpark Co., Ltd.
*IINO Co., Ltd.

SC Development Operations

*AEON Mail Co., Ltd.
*Diamond City Co., Ltd.
*Diamond Family Co., Ltd.
*LOC Development Co., Ltd.

Financial Services

*AEON Credit Service Co., Ltd.
*AEON Credit Service (Asia) Co., Ltd.
*AEON Thana Sinsap (Thailand) Plc.
*AEON Credit Service (M) Sdn. Bhd.
*AEON Credit Service (Taiwan) Co., Ltd.
*AEON Credit Card (Taiwan) Co., Ltd.

Services

*AEON Fantasy Co., Ltd.
*Jusvei Co., Ltd.
*Reform Studio Co., Ltd.
*Zwei Co., Ltd.
*AEON Techno Service Co., Ltd.
*AEON Cinemas Co., Ltd.
*Quality Control Center Co., Ltd.

Food Services

*Gourmet D'Or Co., Ltd.
*MYCAL-IST, Inc.

Food Processing, Distribution and Other Operations

*Certo Corporation
*Food Supply JUSCO Co., Ltd.
*Aic, Inc.
*Tasmania Feedlot Pty. Ltd.

e-commerce Business

*AEON Visty Co., Ltd.

*Consolidated subsidiaries.
Listed companies are shown in bold.

- AEON 1% Club
- AEON Environment Foundation
- The Cultural Foundation of Okada

Shareholder Information

Head Office 1-5-1 Nakase, Mihama-ku, Chiba-shi, Chiba
261-8515, Japan
Tel: 81-(43)-212-6042
Fax: 81-(43)-212-6849
Homepage: <http://www.aeon.info>

Stock Exchange Listing Tokyo Stock Exchange

Transfer Agent The Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku, Tokyo
105-8574, Japan

Capital Stock ¥51,296 million (333,274,674 shares)

Independent Auditors Deloitte Touche Tohmatsu
MS Shibaura Bldg., 13-23, Shibaura
4-chome, Minato-ku, Tokyo
108-8530, Japan

Shareholders' Meeting May 19, 2004

AEON 2004

SUPPLEMENTARY FINANCIAL INFORMATION

(Japanese GAAP)

AEON Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended February 20, 2002, 2003 and 2004,
and Independent Auditors' Report, including some additional company information through July 20, 2004.

AEON Co., Ltd. and Consolidated Subsidiaries
Consolidated Balance Sheets
 February 28, 2002, 2003 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2002	2003	2004	
(Japanese GAAP)				
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents (Notes 4.a and 15.a)	¥ 104,770	¥ 103,297	¥ 204,594	\$ 2,610,959
Time deposits	5,717	2,031	2,916	23,091
Marketable securities (Note 6)	1,289	7,051	3,760	34,497
Receivables:				
Notes and accounts—trade	42,362	43,216	55,959	513,389
Installment (Note 5)	105,488	135,145	117,803	1,060,767
Financial loan (Note 5)	246,755	266,312	304,293	2,791,680
Other	50,140	31,015	46,453	426,175
Merchandise inventories	212,010	209,021	267,066	2,450,155
Deferred tax assets (Note 14)	9,938	12,663	16,706	153,273
Prepaid expenses and other current assets	34,513	34,509	43,646	400,426
Allowance for doubtful accounts	(9,914)	(12,985)	(16,553)	(150,032)
Total current assets	783,102	831,279	1,126,447	10,334,392
PROPERTY, BUILDINGS AND EQUIPMENT (Notes 8 and 9):				
Land	150,638	184,159	247,111	2,267,075
Buildings and structures	817,850	867,133	1,017,969	9,339,167
Furniture and fixtures	167,377	185,585	233,607	2,143,924
Vehicles	3,221	1,120	1,110	10,185
Construction in progress	6,373	6,111	9,610	88,166
Total	1,195,459	1,254,211	1,509,488	13,846,519
Accumulated depreciation	(473,124)	(520,513)	(608,159)	(5,579,444)
Net property, buildings and equipment	722,335	733,697	901,329	8,269,075
INVESTMENTS AND OTHER ASSETS:				
Investment securities (Notes 6 and 9)	46,656	41,240	60,475	554,820
Investments in and advances to unconsolidated subsidiaries and associated companies	38,502	55,060	62,137	570,067
Intangible assets	46,547	50,279	61,512	564,334
Fixed basehold deposits to lessors (Notes 7, 8 and 9)	266,730	246,897	329,669	3,024,489
Deferred tax assets (Note 14)	38,482	35,229	33,376	306,205
Other (Note 6)	39,054	41,392	112,714	1,034,078
Allowance for doubtful accounts	(13,943)	(22,010)	(78,391)	(719,184)
Total investments and other assets	462,161	448,090	581,484	5,334,811
TOTAL	¥1,967,599	¥2,013,067	¥2,609,271	\$23,938,269

See notes to consolidated financial statements.

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2002	2003	2004	
(Japanese GAAP)				
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Short-term borrowings (Note 8)	¥ 176,370	¥ 123,779	¥ 128,182	\$1,111,111
Current portion of long-term debt (Note 6)	78,986	94,593	78,724	700,000
Current portion of secured and unsecured obligations under reorganization proceedings of subsidiaries (Notes 4.a and 9)			48,040	430,000
Payables:				
Notes and accounts—trade	912,184	534,134	480,589	4,400,000
Construction	26,016	36,819	49,475	450,000
Other	37,894	37,851	69,503	630,000
Income taxes payable	14,023	29,046	26,654	240,000
Accrued expenses	(3,173)	45,063	56,308	510,000
Provision for store closing expenses (Note 2.b)		4,440	4,105	37,000
Other current liabilities (Notes 9 and 10)	62,294	63,570	87,850	790,000
Total current liabilities	750,545	769,307	1,027,435	9,400,000
LONG-TERM LIABILITIES:				
Long-term debt (Note 8)	477,842	477,908	505,143	4,600,000
Lease deposits from lessees (Note 8)	133,079	137,396	147,560	1,300,000
Secured and unsecured obligations under reorganization proceedings of subsidiaries (Notes 4.a and 9)			94,314	850,000
Liability for retirement benefits (Note 11)	55,588	32,865	65,754	600,000
Provision for store closing expenses (Note 2.b)		3,913	3,896	35,000
Negative goodwill (Note 4.g)	2,265	1,552	87,904	800,000
Deferred tax liabilities (Note 14)	7,247	6,716	8,762	80,000
Other	5,435	5,505	12,759	115,000
Total long-term liabilities	691,259	665,962	928,106	8,400,000
MINORITY INTERESTS	140,894	151,537	176,638	1,600,000
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 16, 17, 18 and 19)				
SHAREHOLDERS' EQUITY (Notes 12 and 23):				
Common stock—authorized, 600,000,000 shares; issued, 333,274,674 shares in 2002, and 333,274,674 shares in 2003 and 2004				
Capital surplus	49,042	51,296	51,296	460,000
Retained earnings	114,983	117,235	117,235	1,050,000
Unrealized gain on available-for-sale securities	208,993	252,043	300,101	2,700,000
Foreign currency translation adjustments	2,899	3,360	14,185	130,000
Treasury stock—at cost, 161,420 shares in 2002, 245,166 shares in 2003 and 253,459 shares in 2004	(9,367)	(3,065)	(3,041)	(27,000)
Total shareholders' equity	364,900	426,359	479,090	4,300,000
TOTAL	¥1,967,599	¥2,013,067	¥2,609,271	\$23,938,269

See notes to consolidated financial statements.

AEON Co., Ltd. and Consolidated Subsidiaries
Consolidated Statements of Operations
 Years Ended February 20, 2004, 2003 and 2004

	Millions of Yen			Thousands of U.S. Dollars (Note 1)	
	2004	2003	2004	2004	2004
REVENUES:					
Net sales	¥2,726,908	¥2,853,795	¥3,256,628	\$29,895,874	
Rental and other revenues (Note 16)	297,683	232,709	287,587	2,638,417	
Total revenues	2,934,592	3,086,504	3,544,215	32,534,091	
COST OF SALES	1,886,404	2,029,594	2,343,430	21,489,361	
Gross profit	998,187	1,056,909	1,200,785	11,034,729	
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	878,965	924,737	1,070,573	9,821,772	
Operating income	119,222	132,172	132,212	1,212,957	
OTHER INCOME (EXPENSES):					
Interest and dividend income	1,525	1,694	1,744	16,008	
Amortization of negative goodwill—net	2,231	388	2,158	19,799	
Interest expense	(9,625)	(9,317)	(7,437)	(69,230)	
Foreign exchange (loss) gain—net	1,389	(623)	(405)	(3,721)	
Change for transitional obligation of retirement benefits (Notes 21 and 11)	(68,049)				
Gain on exemption from future pension obligations (Note 11)	(40,446)	(38,429)	(2,553)	(23,430)	
Other—net (Note 13)	(112,880)	(9,786)	(6,493)	(59,574)	
Other expenses—net	6,241	123,385	125,718	1,153,302	
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS					
INCOME TAXES (Note 14):					
Current	35,369	48,627	46,124	441,506	
Deferred	(30,926)	1,692	(498)	(4,576)	
Total income taxes	4,443	50,319	45,626	436,930	
MINORITY INTERESTS IN NET INCOME	17,938	21,507	22,777	208,964	
NET INCOME (LOSS)	¥ (16,139)	¥ 51,257	¥ 55,316	\$ 507,487	
	2002	2003	2004	2004	
PER SHARE OF COMMON STOCK (Notes 24 and 20):					
Basic net income (loss)	¥ (49.64)	¥ 153.73	¥ 165.57	\$ 1.52	
Diluted net income	22.00	152.77	22.00	2.00	
Cash dividends applicable to the year					
See notes to consolidated financial statements.					

AEON Co., Ltd. and Consolidated Subsidiaries
Consolidated Statements of Shareholders' Equity
 Years Ended February 20, 2004, 2003 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2004	2003	2004	2003
REVENUES:				
Net sales	¥2,726,908	¥2,853,795	¥3,256,628	\$29,895,874
Rental and other revenues (Note 16)	297,683	232,709	287,587	2,638,417
Total revenues	2,934,592	3,086,504	3,544,215	32,534,091
COST OF SALES	1,886,404	2,029,594	2,343,430	21,489,361
Gross profit	998,187	1,056,909	1,200,785	11,034,729
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	878,965	924,737	1,070,573	9,821,772
Operating income	119,222	132,172	132,212	1,212,957
OTHER INCOME (EXPENSES):				
Interest and dividend income	1,525	1,694	1,744	16,008
Amortization of negative goodwill—net	2,231	388	2,158	19,799
Interest expense	(9,625)	(9,317)	(7,437)	(69,230)
Foreign exchange (loss) gain—net	1,389	(623)	(405)	(3,721)
Change for transitional obligation of retirement benefits (Notes 21 and 11)	(68,049)			
Gain on exemption from future pension obligations (Note 11)	(40,446)	(38,429)	(2,553)	(23,430)
Other—net (Note 13)	(112,880)	(9,786)	(6,493)	(59,574)
Other expenses—net	6,241	123,385	125,718	1,153,302
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS				
INCOME TAXES (Note 14):				
Current	35,369	48,627	46,124	441,506
Deferred	(30,926)	1,692	(498)	(4,576)
Total income taxes	4,443	50,319	45,626	436,930
MINORITY INTERESTS IN NET INCOME	17,938	21,507	22,777	208,964
NET INCOME (LOSS)	¥ (16,139)	¥ 51,257	¥ 55,316	\$ 507,487
	2002	2003	2004	2004
PER SHARE OF COMMON STOCK (Notes 24 and 20):				
Basic net income (loss)	¥ (49.64)	¥ 153.73	¥ 165.57	\$ 1.52
Diluted net income	22.00	152.77	22.00	2.00
Cash dividends applicable to the year				
See notes to consolidated financial statements.				

	(Japanese GAAP)			
	Millions of Yen		Thousands of U.S. Dollars (Note 1)	
	2002	2003	2004	2004
OPERATING ACTIVITIES:				
Increase (decrease) in receivables and minority interests	¥ 6,241	¥ 123,395	¥ 126,718	\$ 1,153,382
Adjustments for:				
Income taxes—paid	(39,401)	(33,210)	(62,338)	(486,170)
Depreciation and amortization	73,710	82,208	78,971	724,510
Amortization of negative goodwill—net	(2,231)	(963)	(2,159)	(19,789)
Foreign exchange gain/loss—net	(849)	510	(3)	(309)
Equity in earnings/losses of associated companies	411	888	(632)	(6,937)
Gain on sales of property, buildings and equipment	(2,068)	(1,647)	(1,269)	(11,965)
Loss on disposals and sales of property, buildings and equipment	15,385	7,125	5,138	47,151
Net gain on sales of securities	(3,341)	(8,554)	(5,142)	(47,182)
Write-down of securities	6,997	1,532	128	1,159
Changes in assets and liabilities, net of effects from newly consolidated subsidiaries:				
Decrease (increase) in notes and accounts receivable—trade	(2,993)	(1,643)	4,017	38,856
Decrease (increase) in installment receivable	(15,938)	(35,866)	13,192	121,035
Increase in installment loan receivable	(35,189)	(19,592)	(41,149)	(371,519)
Increase (decrease) in merchandise inventories	29,763	594	(4,499)	(41,249)
Increase (decrease) in notes and accounts payable—trade	(14,580)	16,166	32,635	299,495
(Decrease) increase in allowance for doubtful accounts	9,829	11,294	(1,401)	(12,853)
Increase (decrease) in liability for retirement benefits	57,315	(35,281)	2,673	24,529
(Decrease) increase in provision for store closing expenses	(2,007)	(8,269)	(2,468)	(22,028)
Other assets and liabilities	428	(2,697)	20,978	192,466
Other—net	71,223	10,103	1,895	15,559
Total adjustments	49,331	1,911	49,331	443,612
Net cash provided by operating activities	¥ 71,465	¥ 124,398	¥ 174,650	¥ 1,596,795
INVESTING ACTIVITIES:				
Purchases of marketable securities	(1,327)	(9,286)	(6,838)	(81,650)
Proceeds from sales of marketable securities	1,279	8,219	126,193	1,060,609
Purchases of properties	(126,973)	(98,236)	(133,239)	(1,202,384)
Proceeds from sales of properties	11,987	38,949	26,492	243,054
Purchases of investment securities	(7,614)	(24,362)	(19,431)	(170,273)
Proceeds from sales of investment securities	1,089	656	2,578	23,653
Cash received from/ in conjunction with the purchases of consolidated subsidiaries (Note 15.b)	(10)	(623)	195,476	1,750,359
(Payments for) proceeds from sales of consolidated subsidiaries (Note 15.c)	(406)	821	(1,156)	(10,609)
Payments for fixed leasehold deposits to lessors	(22,380)	(21,300)	(20,735)	(190,236)
Collection of fixed leasehold deposits to lessors	15,050	15,722	15,700	144,041
Proceeds from lease deposits from lessees	9,523	12,693	20,494	187,195
Repayments of lease deposits from lessees	(11,221)	(12,794)	(15,650)	(143,584)
Other—net	4,153	3,223	(1,427)	(13,939)
Net cash provided by (used in) investing activities	¥ (119,582)	¥ (82,082)	¥ 74,083	¥ 679,657
FINANCING ACTIVITIES:				
Net decrease in short-term borrowings	(7,510)	(49,205)	(126)	(1,164)
Proceeds from long-term debt	100,597	195,972	111,531	1,024,142
Repayments of long-term debt	(54,941)	(86,047)	(107,754)	(986,940)
Repayments of secured and unsecured obligations under reorganization proceedings	(66,000)	(66,000)	(66,000)	(606,238)
Proceeds from issuance of subsidiaries' stock to minority shareholders	4,339	5,628	4,592	42,134
Repayments of subsidiaries' stock to minority shareholders	(5,165)	(2,572)	(4,196)	(29,328)
Dividends paid to shareholders	(7,285)	(7,282)	(7,326)	(67,216)
Dividends paid to minority shareholders	(3,906)	(4,388)	(4,700)	(43,120)
Other—net	(411)	(255)	9,959	91,466
Net cash (used in) provided by financing activities	¥ 25,624	¥ (37,856)	¥ (63,020)	¥ (578,171)
FOREIGN CURRENCY TRANSLATION ADJUSTMENT ON CASH AND CASH EQUIVALENTS	3,059	(2,566)	(2,284)	(20,969)
CASH AND CASH EQUIVALENTS INCREASED BY MERGER	401	—	—	—
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	100,382	1,969	184,929	1,696,602
CASH AND CASH EQUIVALENTS, END OF YEAR	765	94,854	95,783	866,616
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 15.a)	¥ 94,984	¥ 98,733	¥ 211,723	¥ 2,594,618

See notes to consolidated financial statements.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting practices and protocols generally accepted in Japan, which are different in certain respects as to recognition and disclosure requirements of International Financial Reporting Standards and accounting practices generally accepted in the United States of America ("U.S. GAAP"). The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. Japanese yen figures base on a million yen are rounded down to the nearest million yen, except for per share data.

In preparing these consolidated financial statements, certain non-identical-

Items and arrangements have been made to the consolidated financial statements issued domestically in order to present them in a form more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2002 and 2003 financial statements to conform to classifications used in 2004.

The consolidated financial statements are stated in Japanese yen as the currency of the country in which AEON Co., Ltd. ("Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan and have been made at the rate of ¥100 to \$1, the approximate rate of exchange at February 20, 2004. Such translations should not be used as representations that the Japanese yen amounts could be converted at U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of February 20, 2004 include the accounts of the Company and its 123 significant (100 in 2002 and 111 in 2003) subsidiaries together, the "Group".

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in 20, 22 in 2002 and 23 in 2003 associated companies are accounted for by the equity method.

Investments in 7 unconsolidated subsidiaries in 2004 are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The differences between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition are allocated over an estimated shorter period, mainly 5 years. As mentioned in Note 4.a, the negative goodwill recorded upon the acquisition of Aeon Corporation ("Aeon") is amortized over a period of 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

Intangible Assets—Intangible assets are carried at cost less accumulated amortization. Amortization of intangible assets of the Group is by the straight-line method except for consolidated subsidiaries in the United States of America ("U.S. subsidiaries"). Software is amortized over 5 years.

Intangible assets with indefinite lives held by U.S. subsidiaries are amortized, but included are available for redemption at least annually according with U.S. GAAP.

b. Cash Equivalents on the Consolidated Balance Sheets—Cash equivalents on the consolidated balance sheets are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Merchandise Inventories—Substantially all merchandise inventories of the Company and consolidated subsidiaries are stated at cost determined by the retail method. Other inventories of certain consolidated subsidiaries are stated at cost determined by the moving-average method.

d. Marketable and Investment Securities—Marketable and investment securities are classified and accounted for, depending on management's intent, as (1) held-to-maturity debt securities, which are reported to be held

e. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on past credit loss experience and an evaluation of potential losses in sales and other assets such as fixed leasehold deposits to lessees.

f. Property, Buildings and Equipment—Property, buildings and equipment are stated at cost. Depreciation of property, buildings and equipment is computed under the straight-line method based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 10 for buildings and fixtures, from 2 to 20 years for furniture and fixtures from 4 to 6 years for vehicles.

g. Provision for Store Closing Expenses—For fiscal years prior to February 20, 2005, store closing expenses, such as rental agreements, collection penalties and facility restoration costs had been recognized as a provision at the time when a decision to close a store or store is closed.

As of February 20, 2003, the Company and consolidated subsidiaries changed their method of accounting for store closing expenses to recognize a provision at the time when a decision to close a store or store management and such expenses are reasonably estimated.

AEON Co., Ltd. and Consolidated Subsidiaries
 Financial Information 2004

3. ACCOUNTING CHANGE

The consolidated financial services subsidiaries receive fees for collection of the delinquent receivables and the related administrative services from the retailer stores under credit card contracts and personal credit contracts for shopping.

For the February 21, 2002, the consolidated subsidiaries recognized such fees based on the respective installment plans over the lives of the related receivables.

4. ACQUISITIONS

a. Mycal

The Company invested in total of ¥20,000 million (\$195.816 thousand) to acquire 100% of the issued shares of Mycal and 66.7% of Mycal Kyushu Corporation (Mycal Kyushu) in November 2003, and 100% of Mycal Ist Corporation in May 2003, which had been corporations operating under the Corporate Reorganization Law of Japan.

As a result of these acquisitions, Mycal and its 17 significant consolidated subsidiaries, Mycal Kyushu and Mycal Ist Corporation have been consolidated since 2004.

The assets and liabilities of Mycal and its 17 significant consolidated subsidiaries, Mycal Kyushu and Mycal Ist Corporation which are included in the consolidated balance sheet as of February 20, 2004, were as follows:

	Million of ¥	Thousands of U.S. Dollars
Assets:		
Cash and cash equivalents	¥ 61,860	\$ 1,493,125
Merchandise inventories	40,663	373,062
Other current assets	32,830	301,197
Real property, buildings and equipment	112,293	1,070,202
Investments and other assets	101,242	929,199
Total	¥ 448,738	\$ 4,116,845
Liabilities:		
Accounts payable—trade	¥ 67,276	\$ 992,148
Liability for retirement benefits	29,156	267,579
Secured and unsecured obligations under the reorganization proceedings	142,364	1,306,696
Other liabilities	62,810	576,245
Total	¥ 301,606	\$ 3,142,668

5. RECEIVABLES

a. Financial Loan Receivable

Actual number of financial loan receivable, primarily from customers, at February 20, 2004, were as follows:

Year Ending February 20,	Millions of ¥	Thousands of U.S. Dollars
2005	¥ 184,139	\$ 1,699,349
2006	109,854	1,007,935
2007	9,369	86,954
2008	774	7,101
2009	146	1,369
Thereafter	9	83
Total	¥ 304,235	\$ 2,791,630

ed into Japanese yen at the exchange rates at each balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of each balance sheet date except for shareholders' equity, which is translated at the historical rate. Differences arising from such translation were shown as "Foreign Currency Translation Adjustments" in a separate component of shareholders' equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

Derivatives and Hedging Activities—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange and interest rates. Derivative financial instruments are comprised primarily of foreign exchange forward contracts, currency swaps and interest rate swaps utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for, as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Receivables and payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting. Gains and losses related to qualifying hedges of firm commitments or anticipated transactions are deferred and recognized in income when the hedged transaction occurs.

Long term debt denominated in foreign currencies for which currency swaps are used to hedge the foreign currency fluctuations are translated at the contracted rate if the hedged contracts qualify for hedge accounting. The interest rate swaps which qualify for hedge accounting and derivative matching criteria are not translated at market value but the difference paid or received under the swap agreements are recognized and included in interest expenses or income.

Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period.

Divided net income per share reflects the potential dilution that could occur if securities were converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible bonds at the beginning of the year for at the time of issuance with an applicable adjustment for related interest expense and net of tax.

Cash dividends per share presented in the accompanying consolidated statements of operations are declared applicable to the respective years including dividends to the past after the end of the year.

The effect of this change was to decrease income before income taxes and minority interests for the year ended February 20, 2003 by ¥13,118 million.

Retirement and Pension Plans—The Company and certain consolidated domestic subsidiaries have a contributory funded defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees.

U.S. subsidiaries have a contributory funded defined benefit pension plan and defined contribution pension plan covering substantially all employees.

Effective February 21, 2001, the Company and consolidated domestic subsidiaries adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligation and plan assets at the balance sheet date. The full amount of the transitional obligation of ¥30,018 million at the adoption date was charged to income and presented as "other expense" in the consolidated statement of operations for the year ended February 20, 2002. The effect of the adoption of this new accounting standard was to increase the net assets; benefit costs by ¥665 million and to decrease income before income taxes and minority interests by ¥58,462 million for the year ended February 20, 2002.

Retirement benefits for directors and corporate auditors are provided at the amount which would be required if all directors and corporate auditors retired at balance sheet date. These retirement benefits are paid subject to the approval of the shareholders.

Since the Company ceased the severance payment plan for directors and corporate auditors effective May 15, 2003, the Company did not make provisions for severance benefits to directors and corporate auditors as of February 20, 2004.

Leases—All leases of the Company and consolidated domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that occur to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying current tax rates to the temporary differences. A valuation allowance is provided for any portion of the deferred tax assets that is not considered to be realizable.

Advertising Costs—Advertising costs which are expensed as incurred and recorded in selling, general and administrative expense were ¥20,331 million, ¥23,574 million and ¥26,249 million, \$206,143 thousand for the years ended February 20, 2002, 2003 and 2004, respectively.

Appropriations of Retained Earnings—Appropriations of retained earnings are reflected in the financial statements for the following year upon approval.

Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated

Effective February 21, 2002, the consolidated subsidiaries changed their recognition method to recognizing the fees at the time when they receive the cash from the retailer stores in order to recognize the installment receivables to the retailer stores in advance. The effect of this change was to increase income before income taxes and minority interests for the year ended February 20, 2003 by ¥1,342 million.

In connection with the acquisition of Mycal, negative goodwill of ¥1 million (\$972,561 thousand) is being amortized over a period of 10 years, which is equivalent to the remaining period of the amortization of the reorganization plan.

At February 20, 2004, cash and cash equivalents of Mycal and its consolidated subsidiaries occurring under the reorganization proceedings amounted to ¥150,504 million (\$1,360,170 thousand).

Yachon (Currently Maxvita Tokai Co., Ltd.)
In June 2003, the Company invested ¥50 million to acquire 100% issued shares of Yachon, which had been a corporation operating under the Corporate Reorganization Law of Japan.

During the year ended February 20, 2002, Yachon made equity investments of about 100 million yen under the reorganization proceedings and procedures in its reorganization plan under the Law.

A substantial portion of the financial debt receivables represent loans under revolving line of credit arrangements. Under such arrangements, borrowers may repay loans or make additional borrowings at any time. The line of credit amounts as long as minimum periodic debt payments are fully made up to the specified repayment date. The above information, therefore, is not to be regarded as a forecast of future cash outflows.

b. Transfer of Receivables of Consolidated Financial Services Subsidiaries

During the years ended February 20, 2002, 2003 and 2004, the consolidated financial services subsidiaries securitized certain and financial loan receivables and subsequently transferred the cash flow interests in these assets to certain trusts established for the purpose of selling to investors. The trusts are structured as trusts for the purpose of selling to investors. The trusts are structured as trusts for the purpose of selling to investors.

Some of the interests in the securitized financial assets are related to the form of seller or originator (hence, "retaining interests"), which are recorded as installment or financial loan receivables.

6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of February 20, 2002, 2003 and 2004 consisted of the following:

Current:	Millions of Yen			Thousands of U.S. Dollars	
	2002	2003	2004	2002	2004
Government and corporate bonds	Y 590	Y 3,062	Y 3,700	\$ 33,946	
Other	300	3,988	60	550	
Total	Y 1,290	Y 7,051	Y 3,760	\$ 34,497	
Non-current:					
Equity securities	Y 1,812	Y 30,339	Y 59,230	\$ 543,398	
Government and corporate bonds	4,454	1,955	1,187	10,894	
Other	421	35	97	327	
Total	Y 6,517	Y 32,329	Y 60,504	\$ 554,620	

The carrying amounts and aggregate fair values of marketable and investment securities at February 20, 2002, 2003 and 2004 were as follows:

February 20, 2002	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	Y 2,298	Y 185	Y (3,982)	Y 37,602
Debt securities	5,339	3	(119)	5,423
Other	1,095	(5)	(5)	1,090
Hold-to-maturity	9			9

February 20, 2003	Millions of Yen			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as:				
Available-for-sale:				
Equity securities	Y 8,124	Y 9,872	Y (3,169)	Y 34,827
Debt securities	7,810	4	(15)	7,899
Other	10			10
Hold-to-maturity	65			65

The remaining interests included in receivables as of February 20, 2002, 2003 and 2004 were as follows:

	Millions of Yen			Thousands of U.S. Dollars	
	2002	2003	2004	2002	2004
Receivables:					
Installment	Y 2,322	Y 4,623	Y 5,976	\$ 63,009	
Financial loan	5,422	13,066	119,871		
Total	Y 7,744	Y 17,689	Y 125,847	\$ 182,888	\$ 173,779

Securities classified as available-for-sale:

February 20, 2004	Millions of Yen		Thousands of U.S. Dollars
	Unrealized Gains	Unrealized Losses	
Equity securities	Y 21,424	Y (72)	\$ 191
Debt securities	4,338	(1)	38
Other	135	(1)	12

Securities classified as available-for-sale:

February 20, 2004	Millions of Yen		Thousands of U.S. Dollars
	Unrealized Gains	Unrealized Losses	
Equity securities	Y 196,552	Y (6,230)	\$ 1,751
Debt securities	41,389	(48)	361
Other	1,256	(10)	112

Available-for-sale securities whose fair value is not readily determinable as of February 20, 2002, 2003 and 2004 were mainly as follows:

February 20, 2002	Millions of Yen		Thousands of U.S. Dollars
	Unrealized Gains	Unrealized Losses	
Available-for-sale	Y 4,511	Y (9,971)	\$ 91
Equity securities			

Proceeds, gross realized gains and losses on sale of available-for-sale securities for the years ended February 20, 2002, 2003 and 2004 were as follows:

February 20, 2002	Millions of Yen		Thousands of U.S. Dollars
	Unrealized Gains	Unrealized Losses	
Proceeds	Y 2,369	Y 255	\$ 22
Gross realized gains	213	39	502
Gross realized losses	(50)	(30)	(4)

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at February 20, 2004 are as follows:

Due in one year or less	Millions of Yen		Thousands of U.S. Dollars
	2002	2004	
Due after one year through five years	1,143		\$ 33,946
Due after five years through ten years	2		10,451
Total	Y 1,145		\$ 44,397

7. FIXED LEASEHOLD DEPOSITS TO LESSORS

The Company and certain consolidated subsidiaries ("Companies") have secured certain amounts of fixed leasehold deposits to lessors by transferring these deposits to unaffiliated special purpose entities such as J-Box Assets Corporation. The aggregate amounts of securitized deposits as of February 20, 2002, 2003 and 2004 were Y 37,845 million, Y 70,223 million and Y 79,900 million (\$ 3,027 thousand, respectively). These special purpose entities have agreed to sell the transferred deposits back to the Companies in

certain cases including lease termination. When the special purpose entities exercise their call options, they also cancel interest rate swap agreements which they entered into with financial institutions for hedging interest rate risk. The special purpose entities also calculate gains and losses on the swap agreements as of February 20, 2002, 2003 and 2004 were Y 1,151 million, Y 2,569 million and Y 2,669 million (\$ 23,955 thousand, respectively).

8. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at February 29, 2003, 2002, 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2003	2004	2003	2004
Short-term loans principally from banks, 0.13% to 7.80% (2002), 0.19% to 8.40% (2003) and 0.01% to 10.75% (2004)	¥ 117,484	¥ 91,048	\$ 935,305	
Bank overdraft, 1.75% to 7.15% (2002), 1.37% to 4.87% (2003) and 0.72% to 1.87% (2004)	9,985	2,134	19,582	
Commercial papers, 0.02% to 0.16% (2002), 0.02% to 0.20% (2003) and 0.01% (2004)	49,000	33,000	302,752	
Total	¥ 176,469	¥ 126,182	\$ 1,157,639	

Long-term debt at February 29, 2002, 2003 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars	
	2002	2003	2002	2003
Issued by AQR Co., Ltd.				
Unsecured 1.4% Japanese yen convertible bonds, convertible into common stock at ¥2,141 per share, due 2002	¥ 4,537	¥ 20,000	\$ 183,486	
Unsecured 2.225% Japanese yen notes due 2005	20,000	5,000	45,071	
Unsecured 2.5% Japanese yen notes due 2005	5,000	20,000	183,486	
Unsecured 1.98% Japanese yen notes due 2007	10,000	10,000	91,743	
Unsecured 2.68% Japanese yen notes due 2010	20,000	20,000	183,486	
Unsecured 1.71% Japanese yen notes due 2006	20,000	10,000	91,743	
Unsecured 2.44% Japanese yen notes due 2011	10,000	10,000	91,743	
Issued by AQR Credit Services Co., Ltd.				
Unsecured 1.57% Japanese yen notes due 2005	10,000	10,000	91,743	
Unsecured 1.22% Japanese yen notes due 2009	15,000	15,000	137,814	
Unsecured 1.47% Japanese yen notes due 2010	15,000	15,000	137,814	
Unsecured 0.91% Japanese yen notes due 2011	10,000	10,000	91,743	
Issued by AQR THANA SINSAP (THAILAND) PLC—Unsecured 1.05% Thai baht notes due 2006		2,760	25,137	
Issued by Ino Co., Ltd.—Unsecured 0.02% Japanese yen notes due 2009		225	2,064	
Loans from banks and insurance companies, due through 2021 with interest rates ranging from 0.30% to 15.00% (2002), from 0.30% to 12.82% (2003) and from 0.30% to 6.40% (2004)				
Collateralized	195,576	36,464	979,566	
Unsecured	352,118	339,130	3,111,289	
Total	588,231	572,500	5,396,688	
Less current portion	(78,538)	(94,553)	(722,246)	
Long-term debt, less current portion	¥ 477,512	¥ 477,946	\$ 4,674,442	

Annual maturities of long-term debt at February 29, 2004 were as follows:

Year Ending February 29	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 78,724	\$ 722,249
2006	142,467	1,307,941
2007	104,934	963,184
2008	50,155	460,539
2009	61,338	566,225
2010 and thereafter	78,195	717,401
Total	¥ 503,868	\$ 4,656,538

Collateralized short-term borrowings, long-term debt and other at February 29, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term borrowings	¥ 16,407	\$ 150,533
Long-term debt	105,772	979,566
Other current liabilities	1,925	17,677
Lease deposits from lessees and others	15,973	146,549
Total	¥ 141,980	\$ 1,294,317

9. SECURED AND UNSECURED OBLIGATIONS UNDER REORGANIZATION PROCEEDINGS

Miyagi and other consolidated subsidiaries operating under the reorganization proceedings are obligated to redeem secured and unsecured indebtedness in accordance with the reorganization plan.

Annual maturities of secured and unsecured obligations under the reorganization proceedings at February 29, 2004 were as follows:

Year Ending February 29	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 48,040	\$ 440,739
2006	33,394	306,374
2007	6,348	58,241
2008	6,383	58,555
2009	6,383	58,555
2010 and thereafter	41,803	383,518
Total	¥ 142,354	\$ 1,308,099

The maturity schedules above are primarily based on the reorganization plans of Miyagi and other consolidated subsidiaries operating under reorganization proceedings, which have been prepared based on the best estimate of management.

The carrying amounts of assets pledged as collateral for short-term loans, long-term debt and other at February 29, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 63,800	\$ 590,800
Buildings and structures—net of accumulated depreciation	115,379	1,063,379
Fixed household deposits to lessors	5,887	54,387
Investments and other assets—other	3,000	27,600
Other	93	861
Total	¥ 188,259	\$ 1,737,007

Obligations under the reorganization proceedings at February 29, 2004 consisted of the following:

	Millions of Yen	Thousands of U.S. Dollars
Secured	¥ 89,291	\$ 830,291
Unsecured	54,963	506,808
Total	¥ 144,254	\$ 1,337,100
Less current portion	(18,040)	(167,301)
Secured and unsecured obligations under the reorganization proceedings, less current portion	¥ 126,214	\$ 1,169,799

The carrying amounts of assets pledged as collateral for secured obligations under the reorganization proceedings of ¥ 89,291 million (830,291 thousands of U.S. dollars) at February 29, 2004 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land	¥ 19,329	\$ 180,329
Buildings and structures—net of accumulated depreciation	56,962	525,362
Furniture and fixtures—net of accumulated depreciation	444	4,104
Investment securities	8,185	76,205
Fixed household deposits to lessors	15,149	140,349
Total	¥ 99,969	\$ 926,351

10. OTHER CURRENT LIABILITIES

In February 2004, to hedge the risk of loss in an uninsured portion of the cash deposits, the Company transferred ¥ 10,000 million (94,743 thousand) of deposit rights derived from future store sales cash in an unconsolidated

15. SUPPLEMENTAL CASH FLOW INFORMATION

a. Reconciliation of Cash and Cash Equivalents
 A reconciliation of cash and cash equivalents between the consolidated financial statements and the consolidated statements of cash flows at February 20, 2003, 2003 and 2004 is as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2002	2003	2003	2004
Cash and cash equivalents on the consolidated balance sheets	¥ 1,552	¥ 2,782	\$ 23,800	\$ 34,192
Bank overdraft	2,917	2,744	3,727	169,004
Money deposited as insurance premiums	3,882	8,671	18,421	13,026
Cash and cash equivalents on the consolidated statements of cash flows	¥ 94,384	¥ 98,793	\$ 1,047,770	\$ 1,032,297

b. Purchases of Newly Consolidated Subsidiaries
 For the year ended February 20, 2003, Hain Co. Ltd. Maxvella Holdings Co., Ltd. and 7 other companies were acquired. Assets and liabilities of these companies at the time of consolidation, cash paid for the capital and

	Millions of Yen	
	2002	2003
Assets	¥ 35,474	54
Liabilities	(29,603)	(5,503)
Cash paid for the capital	3,051	3,132
Cash and cash equivalents of consolidated subsidiaries	¥ 528	

For the year ended February 20, 2004, Mycel, the subsidiaries of Mycel and 7 other companies were newly consolidated. Assets and liabilities of the subsidiaries at the time of consolidation, cash paid for the capital and cash

	Millions of Yen	
	2003	2004
Assets	¥ 558,447	5,123,368
Liabilities	(427,943)	(3,928,085)
Negative goodwill	(89,103)	(617,460)
Minority interests	(11,846)	(108,701)
Cash paid for the capital	29,552	271,320
Cash and cash equivalents of consolidated subsidiaries	225,028	2,064,480
Cash received in conjunction with the purchases of consolidated subsidiaries	¥ 185,478	¥ 1,753,395

c. Sales of Previously Consolidated Subsidiaries
 For the year ended February 20, 2003, Jits-Picco Co., Ltd. was acquired from the Group by selling the stock. Assets and liabilities of the subsidiary at

	Millions of Yen	
	2003	2004
Assets	¥ 10,325	306
Liabilities	(323)	(132)
Minority interests	4,182	11,446
Cash received by selling the stock	5,227	5,227
Proceeds from sales of consolidated subsidiaries	¥ 8,221	

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at February 20, 2002, 2003 and 2004 are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2002	2003	2003	2004
Deferred tax assets:				
Entirety tax	¥ 1,552	¥ 2,782	\$ 23,800	\$ 34,192
Merchandise inventories	2,917	2,744	3,727	169,004
Allowance for doubtful accounts	3,882	8,671	18,421	13,026
Accounts receivable	1,585	1,832	1,419	64,037
Payables and accrued expenses	13,273	17,345	20,462	187,726
Property, buildings and equipment	26,237	11,323	24,497	224,744
Liability for retirement benefits	10,739	8,794	6,840	62,760
Investment securities, including investments in unconsolidated subsidiaries and associated companies	14,657	13,950	27,911	30,303
Provision for store closing expenses	7,659	7,650	6,997	558,611
Tax loss carryforwards of consolidated subsidiaries	5,258	6,417	10,922	99,284
Other	(29,011)	(22,953)	(1,655,121)	(1,655,121)
Less valuation allowance	61,756	63,267	72,971	609,461
Total	¥ 41,122	¥ 41,175	¥ 41,320	¥ 378,065
Deferred tax liabilities:				
Investments in unconsolidated subsidiaries and associated companies	(6,747)	(6,353)	(6,346)	(56,214)
Unrealized gain on available-for-sale securities	(2,201)	(2,824)	(8,289)	(76,140)
Undistributed earnings of consolidated foreign subsidiaries	(2,448)	(3,403)	(3,204)	(28,898)
Property, buildings and equipment	(1,478)	(2,011)	(6,944)	(62,815)
Total	(20,572)	(22,992)	(31,650)	(290,375)
Net deferred tax assets	¥ 41,122	¥ 41,175	¥ 41,320	¥ 378,065

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates included in the accompanying consolidated statements of operations for the years ended February 20, 2002, 2003 and 2004 is as follows:

	2002	2003	2004
Normal effective statutory tax rate	41.7%	41.7%	41.7%
Lower income tax rates applicable to income in certain foreign countries	(3.7)	(2.4)	(2.4)
Undistributed earnings of consolidated foreign subsidiaries	46.9	0.4	0.3
Dividends from consolidated foreign subsidiaries eliminated for consolidation purposes	20.3	0.5	0.6
Per capita portion of inhabitant tax	46.5	2.2	2.3
Amortization of negative goodwill	(14.0)	(0.3)	(0.7)
Equity in earnings losses of associated companies	2.7	0.3	(0.2)
Change in valuation allowance	(31.6)	(3.1)	(3.1)
Expenses not deductible for tax purposes	17.1	0.8	0.1
Other—net	1.3	0.9	(0.8)
Actual effective tax rate	71.2%	41.0%	37.9%

At February 20, 2004, certain consolidated subsidiaries have tax loss carryforwards aggregating approximately ¥5,412 million (\$528,513 thousand) which are available to be offset against taxable income of such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending February 20,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 1,561	\$ 14,327
2006	10,405	150,489
2007	8,342	58,188
2008	13,257	134,194
2009	21,568	239,516
Total	¥ 69,412	\$ 692,313

For the year ended February 29, 2004, Omega Decca Co., Ltd. and Poyntekston Corp. were excluded from the Group by selling the stock. Assets and liabilities of the subsidiaries at the time of excluding from the

	Millions of Yen	Thousands of U.S. Dollars
Assets	¥ 7,414	\$ 68,825
Liabilities	(2,034)	(19,214)
Minority interests	(1)	(1)
Net loss on sales of the stock	(974)	(9,941)
Cash and cash equivalents of consolidated subsidiaries	(334)	(3,087)
Payments for sales of consolidated subsidiaries	1,009	36,789
	5,166	47,387
	¥ 1,156	\$ 10,608

d. Significant Non-cash Investing and Financing Activities

(1) Conversion of convertible bonds
Increase in common stock and capital surplus due to conversion of convertible bonds for the years ended February 29, 2002 and 2003 were as follows:

	Millions of Yen	
	2002	2003
Common stock	¥ 7	¥ 2,254
Capital surplus	6	2,251
Total	¥ 13	¥ 4,505

16. LEASES

a. Lessee
The Group leases certain store buildings, store equipment and other assets. Total rental expenses for the years ended February 29, 2002, 2003 and 2004 were ¥ 150,560 million, ¥ 155,405 million and ¥ 187,038 million, respectively, including ¥ 21,567 million, ¥ 21,565 million and ¥ 22,355 million (2002, 2003 and 2004) for the Company and consolidated lessee lessees.

	Millions of Yen		
	2002	2003	Total
Acquisition cost	¥ 5,696	¥ 100,795	¥ 106,491
Accumulated depreciation	(1,907)	(62,457)	(64,364)
Net leased property	¥ 3,789	¥ 38,338	¥ 42,127

	Millions of Yen		
	2002	2003	Total
Acquisition cost	¥ 6,640	¥ 98,238	¥ 104,878
Accumulated depreciation	(2,165)	(63,825)	(65,990)
Net leased property	¥ 4,475	¥ 34,413	¥ 38,888

Group, cash received by selling the stock and payments for sales of consolidated subsidiaries were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Assets acquired	¥ 24,523	\$ 224,080
Liabilities assumed	(13,072)	(125,434)

(2) Merger with an associated company
For the year ended February 29, 2004, Koyasu JIRSCO Co., Ltd. (referred to as "Koyasu"), a consolidated subsidiary, merged with Home Wise Corp., an associate company. Assets acquired and liabilities assumed in merger of Home Wise Corp. were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Assets acquired	¥ 24,523	\$ 224,080
Liabilities assumed	(13,072)	(125,434)

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessor on an "as if capitalized" basis for the years ended February 29, 2002, 2003 and 2004 for the Company and consolidated lessee subsidiaries was as follows:

	Millions of Yen		
	2002	2003	Total
Acquisition cost	¥ 730	¥ 107,412	¥ 108,142
Accumulated depreciation	(377)	(65,742)	(66,119)
Net leased property	¥ 353	¥ 41,670	¥ 42,023

	Millions of Yen		
	2002	2003	Total
Acquisition cost	¥ 804	¥ 106,680	¥ 107,484
Accumulated depreciation	(403)	(65,089)	(65,492)
Net leased property	¥ 401	¥ 41,591	¥ 41,992

	Millions of Yen	
	2003	2004
Buildings and Structures	¥ 1,120	¥ 1,143
Furniture and Fixtures	(943)	(935)
Net leased property	¥ 48,284	¥ 508

	Thousands of U.S. Dollars	
	2003	2004
Buildings and Structures	\$ 487,342	\$ 414,484
Furniture and Fixtures	(67,036)	(63,828)
Net leased property	\$ 400,304	\$ 4,655

Depreciation expense and interest expense under finance leases:

	Millions of Yen	
	2003	2004
Depreciation expense	¥ 19,781	¥ 20,926
Interest expense	1,843	1,694
Total	¥ 21,624	¥ 22,620

	Thousands of U.S. Dollars	
	2003	2004
Depreciation expense	\$ 1,765	\$ 1,869
Interest expense	163	153
Total	\$ 1,928	\$ 2,022

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.
The minimum rental commitments under noncancelable operating leases at February 29, 2004 were as follows:

	Millions of Yen
Due within one year	¥ 75,561
Due after one year	¥ 581,369
Total	¥ 656,930

b. Lessor

The Group leases certain store spaces to tenants and other lessees. Total rental revenues for the year ended February 29, 2004 were ¥ 131,140 million (¥ 27,020 thousand) including ¥ 168 million (¥ 800 thousand) of receipt of rental payments under finance leases.
Pro forma information of leased property such as acquisition cost, accumulated depreciation, future rental revenue under finance leases, depreciation expense, interest income of finance leases that do not transfer ownership of the leased property to the lessor on an "as if capitalized" basis for the year ended February 29, 2004 for certain consolidated domestic subsidiaries was as follows:

	Millions of Yen	
	2003	2004
Acquisition cost	¥ 2,128	¥ 19,531
Accumulated depreciation	(1,573)	(15,353)
Net leased property	¥ 555	¥ 4,177

	Millions of Yen	
	2003	2004
Buildings and Structures	¥ 1,120	¥ 1,143
Furniture and Fixtures	(943)	(935)
Net leased property	¥ 48,284	¥ 508

	Thousands of U.S. Dollars	
	2003	2004
Buildings and Structures	\$ 487,342	\$ 414,484
Furniture and Fixtures	(67,036)	(63,828)
Net leased property	\$ 400,304	\$ 4,655

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	2003	2004
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	Thousands of U.S. Dollars	
	2003	2004
Depreciation expense	\$ 1,765	\$ 1,869
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Total	\$ 1,928	\$ 2,022

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.
The minimum rental commitments under noncancelable operating leases at February 29, 2004 were as follows:

	Millions of Yen
Due within one year	¥ 75,561
Due after one year	¥ 581,369
Total	¥ 656,930

Future rental revenues under finance leases:

	Millions of Yen
Due within one year	¥ 498
Due after one year	¥ 1,392
Total	¥ 1,890

Depreciation expense and interest income under finance leases for the year ended February 29, 2004:

	Millions of Yen
Depreciation expense	¥ 65
Interest income	¥ 7

The Group did not have such lease agreements for the years ended February 29, 2002 and 2003.

20. NET INCOME PER SHARE

Basic and diluted net income per share (EPS) for the years ended February 20, 2004, 2003 and 2004 are as follows:

Year Ended February 20, 2004	Year Ended February 20, 2003	Year Ended February 20, 2002
Net income	¥51,257	¥16,139
Net loss		297
Bonus to directors and corporate auditors		
Net loss available to common shareholders	¥51,257	¥16,139
Diluted EPS is not disclosed because of net loss election.		
Basic EPS:		
Net income	373	373
Bonus to directors and corporate auditors	50,884	50,884
Net income available to common shareholders	51,257	51,257
Effect of dilutive securities—Convertible bonds	2,034	2,034
Diluted EPS—Net income for computation	53,291	53,291

Year Ended February 20, 2004	Year Ended February 20, 2003	Year Ended February 20, 2002
Basic EPS:		
Net income	¥55,216	¥16,139
Bonus to directors and corporate auditors	178	178
Net income available to common shareholders	¥55,394	¥16,317

Diluted EPS is not disclosed because there are no dilutive securities.

21. RELATED PARTY TRANSACTIONS

The president of the Company is the controlling shareholder of companies under reorganization proceedings such as Mycal and Mycal Kyushu. Balances and transactions with these companies for the years ended February 20, 2004, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2004	2003	2004	2003
Notes and accounts receivable—Trade	¥ 415	¥ 95	\$ 3807	\$ 887
Investment and other assets—Other (claims to Mycal Kyushu)	1,224	1,224	11,229	11,229
Construction payable		130		1,211
Sales of merchandise	2,094	301	19,211	2,712
Purchase of fixed leasehold deposits to lessors	5,669	595	51,275	5,412
Purchase of land and buildings				

Note 1: The Company purchased certain structured notes from general creditors of Mycal Kyushu of Japan which would be planned to be repaid in the future. The balance sheet above for the year ended February 20, 2004, represents the balance at the time of such purchase in November 2003.

Note 2: The balance sheet above for the year ended February 20, 2004, represents the balance at the time of such purchase in November 2003.

22. SEGMENT INFORMATION

The Company separates its operations into four segments, which consist of general merchandise store and other retail store operations, specialty store operations, shopping center (SC) development operations and services and other operations, and reviews operating results of the segments to make decisions about resources to be allocated to the segments and to assess its performance regularly.

The general merchandise store and other retail store operations include mainly general merchandise store, department, convenience store and department store operations. Stores in this segment offer various types of goods. The specialty store operations include women's apparel, casual wear items for men and women, cosmetics and toiletries, and shoes. The Company management assesses the operability results of stores categorized

a. Sales and Operating Income

	Millions of Yen	
	2004	2003
Sales to customers	¥2,218,904	¥1,938,808
Intersegment sales	20,169	129
Total revenues	2,239,073	1,938,937
Operating expenses	¥ 46,853	¥ 30,800
Operating income	¥ 2,192,220	¥ 1,908,137

b. Total Assets, Depreciation and Capital Expenditures

	Millions of Yen	
	2004	2003
Total assets	¥1,100,405	¥228,880
Depreciation	45,127	9,810
Capital expenditures	74,750	18,327

Note: 1. Total assets of the Company as of February 20, 2004 includes separate assets, including plants, of cash, and deposits, and other assets and investment securities held by the Company for the year ended February 20, 2004 are as follows: 1,027,814 million yen.

In this segment separately from those of general merchandise stores because of the differences in target customers and level of sales relative to the merchandise. The SC development operations include store development and retail services. The services and other operations segment includes credit card operations, consumer financing, investment management, restaurants and store maintenance.

The Company also separates its operations into three geographical regions which consist of Japan, North America and others. This segmentation is based on location of operations. Information about industry segments, geographic segments and foreign subsidiaries of the Company and consolidated subsidiaries for the years ended February 20, 2004, 2003 and 2004, is as follows.

	Millions of Yen	
	2004	2003
Sales to customers	¥2,218,904	¥1,938,808
Intersegment sales	20,169	129
Total revenues	2,239,073	1,938,937
Operating expenses	¥ 46,853	¥ 30,800
Operating income	¥ 2,192,220	¥ 1,908,137

Note: 2. The above figures are in million yen and are subject to audit procedures. The above figures are in million yen and are subject to audit procedures. The above figures are in million yen and are subject to audit procedures.

a. Sales and Operating Income

	Millions of Yen	
	2004	2003
Sales to customers	¥2,218,904	¥1,938,808
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Total revenues	2,239,073	1,938,937
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
ÆON Co., Ltd.:

We have audited the accompanying consolidated balance sheets of ÆON Co., Ltd. and consolidated subsidiaries as of February 20, 2002, 2003 and 2004, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ÆON Co., Ltd. and consolidated subsidiaries as of February 20, 2002, 2003 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

As discussed in Note 2.i to the consolidated financial statements, effective February 21, 2001, ÆON Co., Ltd. and consolidated domestic subsidiaries adopted a new accounting standard for employees' retirement benefits.

As discussed in Note 2.h to the consolidated financial statements, as of February 20, 2003, ÆON Co., Ltd. and consolidated domestic subsidiaries changed their method of accounting for store closing expenses.

As discussed in Note 23.a to the consolidated financial statements, there was a subsequent event regarding the amendment of the pension plan of ÆON Co., Ltd. and certain consolidated domestic subsidiaries.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 19, 2004, except for Notes 23.c and 23.d, as to which the date is July 16, 2004

	Millions of Yen		
	2004	2003	2002
Sales to customers	\$3,181,219	\$183,984	\$181,102
Interarea transfer	1,222	1,325	\$3,884
Total revenues	\$3,182,442	185,229	182,428
Operating expenses	3,078,856	165,563	173,467
Operating income	\$103,586	\$19,666	\$8,960
Total assets	\$2,329,576	\$112,418	\$183,395
			\$ (1)
			\$ 3,620
			\$2,609,271

	Thousands of U.S. Dollars		
	2004	2003	2002
Sales to customers	\$29,185,699	\$1,687,101	\$1,661,490
Interarea transfer	11,218	12,256	12,162
Total revenues	29,196,917	1,699,357	1,673,653
Operating expenses	28,249,268	1,518,927	1,591,447
Operating income	\$949,330	\$180,429	\$82,205
Total assets	\$21,372,281	\$1,031,360	\$1,496,679
			\$ (6)
			\$35,971
			\$29,038,289

Notes: 1. Major securities and units included in each geographic segment are as follows:
North America: The United States of America and Canada
China: China, Korea, Malaysia, Thailand, Singapore and Australia

(3) Sales to Foreign Customers
Sales to foreign customers for the years ended February 20, 2002, 2003 and 2004 amounted to ¥446,943 million, ¥355,575 million and ¥364,529 million (\$3,548,597 thousand), respectively.

23. SUBSEQUENT EVENTS

a. Change in Employees' Retirement Benefits Plans
With the approval of AEO Pension Fund (ÆON) (Acquisition-Kien Retirement Plan) on March 11, 2004, the Company and certain consolidated domestic subsidiaries agreed on March 31, 2004, for transfer of the substantial portion of the past pension obligation under the governmental pension program to the government, and also for the transfer of a portion of the remaining fund assets to the defined contribution pension plan. The effect of this transfer is expected to decrease income before income taxes and non-interest by approximately ¥7,900 million (\$72,477 thousand) for the year ending February 20, 2005.

b. Appropriations of Retained Earnings
The following appropriations of retained earnings at February 20, 2004 were resolved at the Board of Directors meeting held on April 7, 2004:

	Thousands of U.S. Dollars
Year-end cash dividends	\$7,215
¥22 (80.2) per share	\$7,206

c. Issuance of New Shares

On July 15, 2004, the Company decided to offer 27,000,000 new shares of common stock in a global offering. Of the offered shares, the Company plans to offer 16,000,000 shares in Japan and 10,000,000 shares outside of Japan. Other terms of this offering, including offer price per share, are set to be finalized during the period from July 20, 2004 to August 3, 2004. Payment for the shares is scheduled during the period from August 6, 2004 to August 10, 2004. Holders of the shares being offered in the global offering will be considered to have been shareholders since February 21, 2004 for purposes of the year-end dividends for the fiscal year ending February 20, 2005. The Company intends to use the proceeds from the offering primarily for opening new stores and renovation of existing stores.

The Company also decided to issue up to an additional 2,400,000 shares of common stock through an over-allotment program in Japan at the same issue price per share as the offer price in the global offering, above.

d. Stock Split

On July 16, 2004, the Company decided to make a stock split by way of a free share contribution at the rate of 2 shares for each outstanding share as of August 20, 2004, effective October 16, 2004.

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