

REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 28 February 2001.

PRINCIPAL ACTIVITIES

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

SUBSIDIARY

Details of the Company's subsidiary at 28 February 2001 are set out in note 14 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 28 February 2001 are set out in the consolidated income statement on page 33.

An interim dividend of 1.0 HK cent per share amounting to HK\$2,600,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 13.0 HK cents per share to the shareholders on the register of members on 21 June 2001, amounting to HK\$33,800,000 and the retention of the remaining profit for the year of HK\$55,836,000.

MAJOR CUSTOMERS AND SUPPLIERS

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

RESERVES

Details of movements in the reserves of the Group and the Company during the year are set out in note 22 to the financial statements.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 58.

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SHARE CAPITAL

There were no movements in the share capital of the Company during the year.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$108 million on property, plant and equipment to renovate its stores and expand its operations. Details of these and other movements in the property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

DIRECTORS

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

Executive directors

Sozaburo YAMAZAKI (*Managing Director*)

WONG Mun Yu

LAM Man Tin

Kazumasu ISHII (appointed on 18 May 2001)

Shinobu WASHIZAWA (appointed on 18 May 2001)

Hitoshi UMEZAWA (resigned on 13 April 2001)

Non-executive directors

Toshiji TOKIWA (*Chairman*) (appointed on 14 June 2000)

Akihito TANAKA

Motoya OKADA

Yoichi KIMURA (resigned on 18 May 2001)

Takuya OKADA (resigned on 14 June 2000)

Independent non-executive directors

SHAO You Bao

LAM Pei Peggy

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

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

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DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

At 28 February 2001, the interests of the directors and their associates in the share capital and the debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(a) The Company

Name of directors	Number of ordinary shares held as personal interests
Sozaburo YAMAZAKI	300,000
Hitoshi UMEZAWA	550,000
WONG Mun Yu	18,000
LAM Man Tin	50,000
Motoya OKADA	100,000
Akihito TANAKA	50,000
SHAO You Bao	200,000
LAM Pei Peggy	200,000

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

Name of directors	Number of shares held	
	Personal interests	Family interests
Toshiji TOKIWA	2,000	—
Sozaburo YAMAZAKI	2,601	—
Hitoshi UMEZAWA	3,374	—
Motoya OKADA	202,248	4,371
Akihito TANAKA	6,000	—
Yoichi KIMURA	2,000	—

Mr. Motoya OKADA also has a personal interest in the debentures of JUSCO Co., Ltd. with a total nominal value of ¥2,000,000.

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DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (continued)

(c) Other associated corporations

	Number of shares held as personal interests					
	Toshiji	Sozaburo	Hitoshi	Motoya	Akihito	SHAO
	TOKIWA	YAMAZAKI	UMEZAWA	OKADA	TANAKA	You Bao
AEON Credit Service (Asia) Company Limited	—	22,000	—	110,000	—	330,000
AEON Fantasy Co., Ltd.	—	—	—	10	1	—
AEON Forest Co., Ltd.	—	—	—	3,000	—	—
AEON Kosan Co., Ltd.	—	—	—	1,000	—	—
AEON Techno Service Co., Ltd.	—	—	—	5	—	—
Certo Co., Ltd.	—	—	—	2	—	—
Jaya JUSCO Stores Bhd.	—	—	38,000	75,000	150,000	—
Jus-Photo Co., Ltd.	—	—	—	2,000	—	—
Kyushu JUSCO Co., Ltd.	—	—	—	2,000	—	—
Laura Ashley Japan Co., Ltd.	—	—	—	10	—	—
Maxvalu Tohoku Co., Ltd. (formerly known as Tohoku Wellmart Co., Ltd.)	—	—	—	5,000	—	—
Reform Studio Co., Ltd.	—	—	—	5	—	—
Ryukyu JUSCO Co., Ltd.	—	—	—	500	100	—
Taiwan JUSCO Co., Ltd.	1	—	—	1	—	—
The Talbots, Inc.	—	—	—	44,000	—	—
Zwei Co., Ltd.	—	—	—	4	—	—

Other than as disclosed above, at 28 February 2001, the register maintained by the Company pursuant to Section 29 of the SDI Ordinance recorded no other interests of the directors or chief executives or their associates in the share capital and debentures of the Company or its associated corporations as defined in the SDI Ordinance, and none of the directors or chief executives, nor their spouses or children under the age of 18, had rights to subscribe for the securities of the Company, or had exercised any such right during the year.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

During the year, the Company had the following material transactions with JUSCO Co., Ltd. and two of its subsidiaries, namely AEON Credit Service (Asia) Company Limited ("ACS") and Aic Merchandising (Japan) Ltd. Messrs. Toshiji TOKIWA, Takuya OKADA, Sozaburo YAMAZAKI, Hitoshi UMEZAWA, Motoya OKADA, Akihito TANAKA and Yoichi KIMURA have beneficial interests in JUSCO Co., Ltd. Dr. SHAO You Bao also has a beneficial interest in ACS.

- (i) The Company made purchases from Aic Merchandising (Japan) Ltd. amounting to a total of approximately HK\$29,579,000. The value of purchases was 1.39 per cent. of the total purchases of the Company for the year ended 28 February 2001. In the opinion of those directors not having an interest in the above transactions, these transactions were carried out in the ordinary course of business and on normal commercial terms.
- (ii) Royalties payable to JUSCO Co., Ltd. for the year ended 28 February 2001 pursuant to a technical assistance agreement amounted to approximately HK\$20,936,000.
- (iii) ACS and the Company have entered into agreements under which the Company pays commission to ACS in respect of certain purchases made by customers of the Company with the use of the AEON Card, the AEON JUSCO Card, the AEON JUSCO Mastercard and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company. On 23 June 1999, The Stock Exchange of Hong Kong Limited ("the Stock Exchange") has granted a conditional waiver to the Company from strict compliance with the disclosure requirements as stipulated in Rule 14.25(1) of the Listing Rules in connection with the transactions subject to certain conditions.

The total amount of commission paid and payable by the Company for the year ended 28 February 2001 was approximately HK\$15,606,000. This amount has not exceeded 1 per cent. of the audited consolidated turnover of the Company as required by the Stock Exchange. In the opinion of the independent non-executive directors, these transactions or the terms of the respective agreements governing such transactions were entered into in the ordinary and usual course of the business of the Company on normal commercial terms and in accordance with the terms of the respective agreements and are fair and reasonable so far as the shareholders of the Company are concerned.

- (iv) ACS and the Company have entered into a number of licence agreements under which ACS pays to the Company a fixed monthly rental in respect of service counters, cash dispensing machines and cash repayment machines operated by ACS in the stores of the Company. On 27 November 1998, the Stock Exchange has granted a conditional waiver to the Company for strict compliance with the disclosure requirements as stipulated in Rule 14.25(1) of the Listing Rules in connection with the transactions subject to certain conditions. The total amount of rentals paid and payable by ACS for the year ended 28 February 2001 was approximately HK\$7,397,000. This amount has not exceeded the higher of HK\$10,000,000 or 3 per cent. of the book value of the audited consolidated net tangible assets of the Company as required by the Stock Exchange. In the opinion of the independent non-executive directors, these transactions or the terms of the respective licence agreements governing such transactions were entered into in the ordinary and usual course of the business of the Company on normal commercial terms and in accordance with the terms of the respective licence agreements and are fair and reasonable so far as the shareholders of the Company are concerned.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS (continued)

- (v) On 10 June 1998, JUSCO Co., Ltd. has established an Asian Headquarters office (“the Asian Headquarters”) in Hong Kong. JUSCO Co., Ltd. provides services to the Company relating to merchandising, new stores development and staff training through the Asian Headquarters. The Company has to pay to JUSCO Co., Ltd. an annual service fee for the services rendered by the Asian Headquarters. This service fee is actually the share of operating costs of the Asian Headquarters. The total amount of service fee paid and payable by the Company for the year ended 28 February 2001 was approximately HK\$354,000. During the year, operating costs amounted to HK\$623,000 incurred by the Asian Headquarters in Hong Kong were advanced by the Company to JUSCO Co., Ltd. Other operating costs amounted to HK\$90,000 were advanced by JUSCO Co., Ltd. to the Company.
- (vi) In relation to the establishment of the Asian Headquarters, the office of the Asian Headquarters is located within the offices of the Company. The Company charges JUSCO Co., Ltd. the amounts incurred for the provision of facilities in respect of the office space occupied and support services used by the Asian Headquarters. The total amount of the fees related to the support services paid and payable by JUSCO Co., Ltd. for the year ended 28 February 2001 was approximately HK\$148,000.

Other than as disclosed above, no contracts of significance to which the Company, its subsidiary, its ultimate holding company or any of its fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 28 February 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder had an interest of 10 per cent. or more in the issued share capital of the Company:

Name	Number of shares	%
JUSCO Co., Ltd.	186,276,000 (Note)	71.64

Note: These shares are held as to 167,500,000 shares by JUSCO Co., Ltd., 10,000,000 shares by JUSCO (Europe) B.V. and 7,000,000 shares by JUSCO (U.S.A.) Inc., which are wholly-owned subsidiaries of JUSCO Co., Ltd., and 1,776,000 shares by ACS. JUSCO Co., Ltd. beneficially owns 66.22% of ACS and is accordingly deemed by the SDI Ordinance to be interested in the shares of the Company beneficially owned by ACS.

Other than as disclosed above, the Company has not been notified of any other interests representing 10 per cent. or more in the issued share capital of the Company as at 28 February 2001.

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ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its subsidiary, its ultimate holding company, or any of its fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiary purchased, sold or redeemed any of the Company's listed securities.

DONATIONS

During the year, the Group made charitable and other donations amounting to approximately HK\$556,000.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 28 February 2001 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Audit Committee meets regularly with the Finance Director, internal audit manager and the external auditors to consider the nature and scope of audit, annual and interim financial reporting and the effectiveness of the systems of internal control and compliance. The members of the Audit Committee are Dr. SHAO You Bao, Mr. Akihito TANAKA and Mdm. LAM Pei Peggy.

AUDITORS

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

On behalf of the Board



Sozaburo YAMAZAKI
MANAGING DIRECTOR
Hong Kong, 18 May 2001