

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 20th February 2003.

PRINCIPAL ACTIVITIES

The Company is engaged in the provision of consumer credit finance services which include the issuance of credit cards, provision of vehicle financing, hire purchase financing and personal loan financing.

QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS

Credit risk management

Credit risk is the risk associated with the possibility that the counterparty in a transaction may default. It arises from the lending and derivatives undertaken by the Company.

The Company has established policies and systems for the monitoring and control of credit risk. The Company's credit policy defines the credit extension criteria, credit approval and monitoring processes. The Company maintains a tight control on loan assessments and approvals and will continue to exercise a conservative and prudent policy in granting loans in order to maintain a quality loan portfolio.

Market risk management

Market risk is the risk associated with changes in interest rates, foreign exchange rates and government policies; and the effect that such changes have on the Company's assets, liabilities and commitments, thus causing profits and losses.

The Company adopts a conservative view on exposure to market risk related financial instruments. The Company monitors its exposure to the market risk on a regular basis and will take appropriate actions to minimise its exposure to market risk.

During the year, the Company maintained 90% (2002: 70%) of its bank borrowings in long term with fixed interest rate. Moreover, the Company traded in market risk related financial instruments mainly for hedging purposes. The market risk exposure from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk information is not disclosed.

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QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS (Cont'd)

Liquidity management

The Company will ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds.

The Company closely monitors its liquidity position with adequate standby facilities being maintained to meet loan demand in the ordinary course of business.

Capital management

The Company's policy is to maintain a strong capital base to support the development of the Company's business. The Company relies principally on internally generated capital as well as bank borrowings and overdrafts for the working capital. The funding position is monitored and reviewed regularly to ensure it is within internally established limits and at reasonable costs.

TOTAL DEBT-TO-EQUITY RATIO

At 20th February 2003, total debt-to-equity ratio was 1.6 (2002: 2.1).

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 20th February 2003 are set out in the income statement on page 34 of the annual report.

An interim dividend of 5.0 HK cents (2002: 5.0 HK cents) per share amounting to HK\$20,935,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 8.0 HK cents (2002: 8.0 HK cents) per share to the shareholders on the register of members on 19th June 2003 amounting to HK\$33,502,000, and the retention of the remaining profit for the year.

MAJOR CUSTOMERS

During the year, the Company derived less than 30% of its income from its five largest customers.

ISSUED CAPITAL

Details of the issued capital of the Company are set out in note 30 to the financial statements.

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PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately HK\$30.5 million on computer equipment, HK\$0.2 million on furniture and fixtures and HK\$1.1 million on leasehold improvements.

Details of these and other movements in the property, plant and equipment of the Company during the year are set out in note 15 to the financial statements.

DIRECTORS

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

Executive directors:

Masanori KOSAKA (<i>Managing director</i>)	(<i>appointed on 25th April 2002</i>)
LAI Yuk Kwong	
KOH Yik Kung	
Takuya MORIKAWA	(<i>appointed on 25th April 2002 and resigned on 25th April 2003</i>)

Non executive directors:

Yoshiaki MORI (<i>Chairman</i>)	
Kazuhide KAMITANI	(<i>re-designated on 20th June 2002</i>)
Kazuro ASANO	(<i>resigned on 25th April 2002</i>)
Yoichi KIMURA	

Independent non executive directors:

SHAO You Bao
TSANG Wing Hong

In accordance with Article 101 of the Company's Articles of Association, all remaining directors shall retire at the forthcoming annual general meeting and shall be eligible for re-election. Accordingly, all directors shall retire and offer themselves for re-election.

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 Company within one year without payment of compensation, other than statutory compensation.

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DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

At 20th February 2003, the interests of the directors and chief executives and their associates in the share capital 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

Directors	Number of shares held under personal interests
Yoshiki Mori	440,000
Masanori Kosaka	110,000
Kazuhide Kamitani	1,045,000
Shao You Bao	330,000
Tsang Wing Hong	220,000

(b) AEON Credit Service Co., Ltd. ("AEON Credit Japan") – immediate holding company of the Company

Directors	Number of shares held under personal interests
Yoshiki Mori	12,766
Masanori Kosaka	3,484
Kazuhide Kamitani	3,832
Takuya Morikawa	3,000

(c) AEON Co., Ltd. ("AEON Japan") – ultimate holding company of the Company

Directors	Number of shares held under personal interests
Yoshiki Mori	3,000
Yoichi Kimura	2,000

(d) Jusco Stores (Hong Kong) Co., Limited ("Jusco HK") – a fellow subsidiary of the Company

Director	Number of shares held under personal interests
Shao You Bao	200,000

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DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (Cont'd)

(e) AEON Thana Sinsap (Thailand) Public Company Limited – a fellow subsidiary of the Company

Directors	Number of shares held under personal interests
Yoshiki Mori	300,000
Masanori Kosaka	20,000
Kazuhide Kamitani	100,000

Other than as disclosed above, none of the directors or chief executives, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in Section 29 of the SDI Ordinance, and none of the directors or chief executives, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

CONNECTED TRANSACTIONS

During the year, the Company had the following transactions:

- (i) The Company provided credit purchase facilities and hire purchase facilities to customers of Jusco HK for which the Company received commission from this fellow subsidiary in respect of certain purchases made by customers with the use of the AEON Card, the Jusco Card, the AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card (launched on 26th August 2002) and certain purchases made by customers which were financed by interest-free hire purchase facilities provided by the Company, both through the call centre of the Company and at the stores of Jusco HK.

For purchases made by customers at the stores of Jusco HK using the Jusco Card, the AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card, the commission rate was 0.8% except that the commission rate on Jusco Thanksgiving Days and Jusco Private Sale was 0.6%. As for the AEON Card, the commission rate was 1.3%. For purchases made by customers at the stores of Jusco HK and financed by interest-free hire purchase facilities provided by the Company, the commission rates were 3%, 2.5%, 4.75%, 8.25% and 10% respectively for the 6 month, 9 month, 12 month, 18 month and 24 month interest-free hire purchase.

For purchases made by customers which were processed through the call centre of the Company, the commission rates payable by Jusco HK were (i) 4% and 6% respectively for 6 month and 12 month interest-free hire purchase, (ii) 0.8% for credit purchase charged to the Jusco Card, the AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card and (iii) 1.3% for credit purchase charged to the AEON Card.

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CONNECTED TRANSACTIONS (Cont'd)

The total amount of commission received and receivable by the Company from Jusco HK for the year ended 20th February 2003 under these arrangements was HK\$18,252,000, representing 1.6% of the Company's net tangible assets at 20th February 2003.

- (ii) The Company had entered into a number of licence agreements with Jusco HK for the operation of branches inside the Jusco stores under which the Company paid to Jusco HK a fixed monthly licence fee. All licences were for a fixed term with no options for renewal.

The total amount of licence fees paid and payable by the Company to Jusco HK for the year ended 20th February 2003 was HK\$6,292,000, representing 0.6% of the Company's net tangible assets at 20th February 2003.

- (iii) Under the name licence and territory agreement (and a supplementary agreement thereto) with *AEON* Japan, the Company has exclusive right to use the *AEON* trade mark and trade name (the "Trade Mark") in relation to the business and/or goods sold or services provided by the Company within Hong Kong, Macau and Guangdong province including Shenzhen of the People's Republic of China ("the territory"). The total amount of licence fee payable by the Company to *AEON* Japan for the year ended 20th February 2003 was HK\$45,000.
- (iv) Under the territory agreement (and a supplementary agreement thereto) with *AEON* Credit Japan, *AEON* Credit Japan and its affiliates will not carry on any business which competes with the Company within the territory. No fee was payable by the Company to *AEON* Credit Japan under this agreement.
- (v) The Company had entered into a service agreement with AEON Information Service (Shenzhen) Co., Ltd. ("AEON Shenzhen"), an associate, for the provision of call centre services to the Company for which the Company paid service fees to AEON Shenzhen. The total amount of service fees paid and payable by the Company to AEON Shenzhen for the year ended 20th February 2003 amounted to HK\$8,371,000, representing 0.7% of the Company's net tangible assets at 20th February 2003.
- (vi) The Company sold 2,880,000 shares of AEON Thana Sinsap (Thailand) Public Company Limited, a company incorporated in Thailand with limited liability the shares of which are listed on the Stock Exchange of Thailand Limited, to *AEON* Credit Japan and NCS Kosan Co., Ltd, a fellow subsidiary of the Company for a total consideration of HK\$72,431,000.

The transactions mentioned in (i) to (v) above have been reviewed by the Company's independent non-executive directors. The independent non-executive directors have confirmed that these transactions were entered into by the Company in the ordinary and usual course of business and on normal commercial terms or terms that were fair and reasonable as far as the Company and the Company's shareholders are concerned.

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CONNECTED TRANSACTIONS (Cont'd)

The independent non-executive directors have also confirmed that the transactions were entered into in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties.

DISCLOSURE UNDER PRACTICE NOTE 19

A syndicated revolving credit facility up to the sum of HK\$360 million made available to the Company for a term of 2 years on 18th October 2002 includes a condition that **AEON** Japan and **AEON** Credit Japan have to maintain not less than 51% of the issued share capital of the Company.

A revolving credit facility up to the sum of HK\$200 million made available to the Company with the final date of maturity falling on 20th August 2003 includes a condition that the Company will procure that there is no change in the control of the Company by **AEON** Credit Japan.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its holding companies or 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

As at 20th February 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name	Number of shares	%
AEON Credit Service Co., Ltd. (Note 1)	217,514,000	51.9
AEON Co., Ltd. (Note 2)	277,288,000	66.2

Notes:

- (1) Out of 217,514,000 shares, 213,114,000 shares were held by **AEON** Credit Japan and 4,400,000 shares were held by Nomura Securities (HK) Limited, as a nominee on behalf of **AEON** Credit Japan.
- (2) **AEON** Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 45.11% and 71.64% of the issued share capital of **AEON** Credit Japan and Jusco HK respectively, was deemed, for the purposes of the SDI Ordinance, to be interested in the 217,514,000 shares and 3,784,000 shares owned by **AEON** Credit Japan and Jusco HK respectively.

Other than disclosed above, the Company had not been notified of any other interests representing 10% or more in the Company's issued share capital as at 20th February 2003.

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ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its holding companies or 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, there was no purchase, sale or redemption by the Company of its listed securities.

DONATIONS

During the year, the Company made charitable and other donations amounting to HK\$2,760,000.

RETIREMENT BENEFITS SCHEME

Details of the Company's retirement benefits scheme are set out in note 37 to the financial statements.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 20th February 2003 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 except that the non executive directors are not appointed for specific terms. They are subject to retirement and re-election at the annual general meeting of the Company in accordance with Article 101 of the Company's Articles of Association.

The Company established an Audit Committee comprising Messrs. Shao You Bao and Tsang Wing Hong, independent non executive directors and Messrs. Yoshiki Mori and Yoichi Kimura, non executive directors.

AUDITORS

A resolution to reappoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board



Masanori KOSAKA
Managing Director

Hong Kong, 25th April 2003