

Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 28 February 2003.

Principal Activities

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

Subsidiaries

Details of the Company's subsidiaries at 28 February 2003 are set out in note 16 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 28 February 2003 are set out in the consolidated income statement on page 21.

The directors recommend the payment of a final dividend of 9.0 HK cents per share to the shareholders on the register of members on 19 June 2003, amounting to HK\$23,400,000 and the retention of the remaining profit for the year.

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.

Property, Plant and Equipment

During the year, the Group spent approximately HK\$100 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 15 to the financial statements.

Directors

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

Executive directors

Kazumasa ISHII (Managing Director from 10 May 2002)

Sozaburo YAMAZAKI (Managing Director up to 10 May 2002)

Kozo MURATA (Deputy Managing Director from 20 June 2002)

Shinobu WASHIZAWA

WONG Mun Yu

LAM Man Tin

(resigned on 10 May 2002)

(appointed on 20 June 2002)

(resigned on 21 March 2003)

Directors (continued)***Non-executive directors***Toshiji TOKIWA (*Chairman*)

Motoya OKADA

Akihito TANAKA

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. Except for Mr. Akihito TANAKA, who has notified the Company that he will not offer himself for re-election, the remaining directors 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.

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 2003, 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
Kazumasa ISHII	80,000
Kozo MURATA	8,000
Shinobu WASHIZAWA	6,000
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

Directors' Interests in Shares and Debentures (continued)

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

Name of directors	Number of shares held	
	Personal interests	Family interests
Kazumasa ISHII	7,000	–
Kozo MURATA	3,000	–
Shinobu WASHIZAWA	677	–
Toshiji TOKIWA	2,000	–
Motoya OKADA	201,248	4,371
Akihito TANAKA	6,000	–

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

(c) Other associated corporations

	Number of shares held as personal interests				
	Kozo MURATA	Toshiji TOKIWA	Motoya OKADA	Akihito TANAKA	SHAO You Bao
AEON Credit Service (Asia) Company Limited	–	–	110,000	–	330,000
AEON Fantasy Co., Ltd.	–	–	20,000	2,000	–
AEON Forest Co., Ltd.	–	–	3,000	–	–
Aeonmall Co., Ltd.	–	–	1,000	–	–
AEON Techno Service Co., Ltd.	–	–	5	–	–
AEON Thana Sinsap (Thailand) Plc.	–	100,000	300,000	20,000	–
Certo Co., Ltd.	–	–	2	–	–
Jaya JUSCO Stores Bhd.	–	–	75,000	150,000	–
Kyushu JUSCO Co., Ltd.	–	–	2,000	–	–
Laura Ashley Japan Co., Ltd.	1	–	10	–	–
Maxvalu Tohoku 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	–	–

Directors' Interests in Shares and Debentures (continued)

Other than as disclosed above, at 28 February 2003, 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.

Directors' Interests in Contracts of Significance and Connected Transactions

During the year, the Group had the following material transactions with AEON Co., Ltd. and two of its subsidiaries, namely AEON Credit Service (Asia) Company Limited ("ACS") and Aic Merchandising (Japan) Ltd.. Messrs. Toshiji TOKIWA, Sozaburo YAMAZAKI, Motoya OKADA, Akihito TANAKA, Kazumasa ISHII and Shinobu WASHIZAWA have beneficial interests in AEON Co., Ltd.. Messrs. Sozaburo YAMAZAKI, Motoya OKADA and Dr. SHAO You Bao also have beneficial interests in ACS.

- (i) The Company made purchases from Aic Merchandising (Japan) Ltd. amounting to a total of approximately HK\$43,004,000. The value of purchases was 1.82 per cent. of the total purchases of the Company for the year ended 28 February 2003. 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 AEON Co., Ltd. for the year ended 28 February 2003 pursuant to a technical assistance agreement amounted to approximately HK\$26,363,000.
- (iii) ACS and the Group have entered into agreements under which the Group pays commission to ACS in respect of certain purchases made by customers of the Group with the use of the AEON Card, the AEON JUSCO Card, the AEON JUSCO Mastercard, AEON JUSCO American Express Card and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Group. On 28 June 2002, 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") in connection with the transactions subject to certain conditions.

The total amount of commission paid and payable by the Group for the year ended 28 February 2003 was approximately HK\$18,179,000. This amount has not exceeded 1 per cent. of the audited consolidated turnover of the Group as required by the Stock Exchange. In the opinion of an independent non-executive director, 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 Group 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.

Directors' Interests in Contracts of Significance and Connected Transactions (continued)

- (iv) ACS and the Group have entered into a number of licence agreements under which ACS pays to the Group a fixed monthly rental in respect of service counters, cash dispensing machines and cash repayment machines operated by ACS in the stores of the Group. 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 2003 was approximately HK\$7,156,000. 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 Group 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.

Other than as disclosed above, no contracts of significance to which the Company, its subsidiaries, 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 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholder had a direct or indirect interest of 10 per cent. or more in the issued share capital of the Company:

Name	Number of shares	%
AEON Co., Ltd.	186,276,000 (<i>Note</i>)	71.64

Note: These shares are held as to 177,500,000 shares by AEON Co., Ltd., 7,000,000 shares by JUSCO (U.S.A.) Inc., which is a wholly-owned subsidiary of AEON Co., Ltd., and 1,776,000 shares by ACS. AEON 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 that there is any shareholder which is directly or indirectly interested in any other interests representing 10 per cent. or more in the issued share capital of the Company as at 28 February 2003.

Arrangements to Purchase Shares or Debentures

At no time during the year was the Company, its subsidiaries, 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 subsidiaries 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\$1,225,000.

Compliance with Code of Best Practice

The Company has complied throughout the year ended 28 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.

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



Kazumasa ISHII

Managing Director

Hong Kong, 16 May 2003