

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 20th February 2004.

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 65% (2003: 90%) of its bank borrowings in long-term with fixed interest rate. Moreover, the Company transacted 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 2004, total debt-to-equity ratio was 1.52 (2003: 1.63).

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 20th February 2004 are set out in the income statement on page 35 of the annual report.

An interim dividend of 5.0 HK cents (2003: 5.0 HK cents) per share amounting to HK\$20,938,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 9.0 HK cents (2003: 8.0 HK cents) per share to the shareholders on the register of members on 17th June 2004 amounting to HK\$37,689,000, and the retention of the remaining profit of HK\$60,735,000 for the year.

MAJOR CUSTOMERS

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

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PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately HK\$13,929,000 on computer equipment, HK\$402,000 on furniture and fixtures and HK\$907,000 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 16 to the financial statements.

DIRECTORS

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

Executive directors:

Masanori KOSAKA (*Managing director*)
LAI Yuk Kwong
KOH Yik Kung
Takuya MORIKAWA (resigned on 25th April 2003)

Non-executive directors:

Yoshiki MORI (*Chairman*)
Kazuhide KAMITANI
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

At 20th February 2004, the interests of the directors and chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under Section 352 of the SFO were as follows:

(a) The Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of the Company
Yoshiki Mori	440,000	0.11%
Masanori Kosaka	110,000	0.03%
Kazuhide Kamitani	1,045,000	0.25%
Shao You Bao	330,000	0.08%
Tsang Wing Hong	220,000	0.05%

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Credit Japan
Yoshiki Mori	14,042	0.03%
Masanori Kosaka	3,832	0.01%
Kazuhide Kamitani	4,215	0.01%

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Japan
Yoshiki Mori	3,000	0.01%
Yoichi Kimura	2,000	0.01%

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DIRECTORS' INTERESTS IN SHARES (Cont'd)

(d) AEON Stores (Hong Kong) Co., Limited (formerly known as "Jusco Stores (Hong Kong) Co., Limited) ("AEON Stores") – a fellow subsidiary of the Company

Director	Number of shares held under personal interests	Percentage of the issued share capital of AEON Stores
Shao You Bao	200,000	0.08%

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

Directors	Number of shares held under personal interests	Percentage of the issued shares capital of AEON Thana
Yoshiki Mori	300,000	0.60%
Masanori Kosaka	20,000	0.04%
Kazuhide Kamitani	100,000	0.20%

Save as disclosed above, none of the directors or chief executive nor their associates had any interests or short position in any shares, underlying shares or debentures of the Company or any associated corporations and none of the directors or chief executive, 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.

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CONNECTED TRANSACTIONS

During the year, the Company had the following transactions:

- (i) The Company provided credit purchase facilities and hire purchase facilities to the customers of AEON Stores 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 AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card and certain purchases made by customers which were financed by interest-free hire purchase facilities provided by the Company, both at the stores of AEON Stores and through the call centre of the Company.

For purchases made by customers at the stores of AEON Stores using 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 thanksgiving days and private sale of AEON Stores was 0.6%. As for the AEON Card, the commission rate was 1.3%. For purchases made by customers at the stores of AEON Stores 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, which were subsequently standardised at 3% with effect from 5th January 2004.

For purchases made by customers which are processed through the call centre of the Company, the commission rates payable by AEON Stores were (i) 4% and 6% respectively for 6 month and 12 month interest-free hire purchase (3% with effect from 5th January 2004), (ii) 0.8% for credit purchase charged to 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.

The total amount of commission received and receivable by the Company from AEON Stores for the year ended 20th February 2004 under these arrangements was HK\$13,543,000, representing 1.14% of the Company's net tangible assets at 20th February 2004.

- (ii) The Company had entered into a number of licence agreements with AEON Stores for the operation of branches inside the stores of AEON Stores under which the Company paid to AEON Stores 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 AEON Stores for the year ended 20th February 2004 was HK\$5,900,000, representing 0.50% of the Company's net tangible assets at 20th February 2004.

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CONNECTED TRANSACTIONS (Cont'd)

- (iii) Under a 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 2004 was HK\$45,000.
- (iv) Under a 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 center 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 2004 amounted to HK\$8,663,000, representing 0.73% of the Company's net tangible assets at 20th February 2004.

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.

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\$360,000,000 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.

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.

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SUBSTANTIAL SHAREHOLDERS

At 20th February 2004, the register of substantial shareholders' interests in shares and short positions required to be maintained under Section 336 of the SFO showed that the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Number of shares	%
AEON Credit Service Co., Ltd. (Note 1)	217,514,000	51.94
AEON Co., Ltd. (Note 2)	277,288,000	66.22
FMR Corp.	22,975,600	5.49
Commonwealth Bank of Australia	22,035,000	5.26

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 AEON Stores respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by AEON Credit Japan and AEON Stores respectively.

Save as disclosed above, the Company had not been notified of any other interests representing 5% or more in the Company's issued share capital as at 20th February 2004.

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\$325,000.

RETIREMENT BENEFITS SCHEME

Details of the Company's retirement benefits scheme are set out in note 38 to the financial statements.

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COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 20th February 2004 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, 14th April 2004