

## REPORT OF THE DIRECTORS

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 29 February 2004.

Pursuant to a special resolution passed at an annual general meeting on 19 June 2003, the name of the Company was changed from Jusco Stores (Hong Kong) Co., Limited 吉之島(香港)百貨有限公司 to AEON Stores (Hong Kong) Co., Limited 永旺(香港)百貨有限公司 with effect from 11 July 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 29 February 2004 are set out in note 15 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 29 February 2004 are set out in the consolidated income statement on page 25.

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 recommend the payment of a final dividend of 13.0 HK cents per share to the shareholders on the register of members on 17 June 2004, amounting to HK\$33,800,000 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\$67 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 14 to the financial statements.

## REPORT OF THE DIRECTORS

### DIRECTORS

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

#### Executive directors

Kazumasa ISHII (*Managing Director*)

Kozo MURATA (*Deputy Managing Director*)

Shinobu WASHIZAWA (resigned on 21 March 2003)

WONG Mun Yu

LAM Man Tin

#### Non-executive directors

Toshiji TOKIWA (*Chairman*)

Motoya OKADA

Tatsuichi YAMAGUCHI (appointed on 19 June 2003)

Akihito TANAKA (resigned on 19 June 2003)

#### Independent non-executive directors

SHAO You Bao

LAM PEI Peggy

In accordance with Articles 85 and 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.

### 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.

## REPORT OF THE DIRECTORS

## DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

At 29 February 2004, the interests of the directors and their associates in the shares, underlying shares and convertible bonds of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

## (a) The Company

Name of directors	Number of ordinary shares held as personal interests	Approximate percentage of the issued share capital %
Kazumasa ISHII	80,000	0.031
Kozo MURATA	8,000	0.003
WONG Mun Yu	18,000	0.007
LAM Man Tin	50,000	0.019
Motoya OKADA	100,000	0.038
Tatsuichi YAMAGUCHI	22,000	0.008
SHAO You Bao	200,000	0.077
LAM PEI Peggy	200,000	0.077
	678,000	0.260

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

Name of directors	Number of shares held			Approximate percentage of interest %
	Personal interests	Family interests	Total	
Kazumasa ISHII	7,000	–	7,000	0.0021
Kozo MURATA	3,000	–	3,000	0.0009
Toshiji TOKIWA	2,000	–	2,000	0.0006
Motoya OKADA (Note)	203,348	4,371	207,719	0.0623
Tatsuichi YAMAGUCHI	11,000	–	11,000	0.0033
	226,348	4,371	230,719	0.0692

Note: The family interest of Mr. Motoya OKADA is held by his spouse. In addition, Mr. Motoya OKADA also has a personal interest in the debentures of AEON Co., Ltd. with a total nominal value of ¥2,000,000.

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## (c) Other associated corporations

	Kozo MURATA		Toshiji TOKIWA		Motoya OKADA		SHAO You Bao	
	Approximate Number of share(s)	Approximate percentage of interest %	Approximate Number of share(s)	Approximate percentage of interest %	Approximate Number of share(s)	Approximate percentage of interest %	Approximate Number of share(s)	Approximate percentage of interest %
AEON Credit Service (Asia) Company Limited	-	-	-	-	110,000	0.026	330,000	0.079
AEON Fantasy Co., Ltd.	-	-	-	-	22,000	0.211	-	-
AEON Forest Co., Ltd.	-	-	-	-	3,000	0.038	-	-
AEON Kyushu Co., Ltd. (formerly known as Kyushu JUSCO Co., Ltd.)	-	-	-	-	2,400	0.015	-	-
AEON Techno Service Co., Ltd.	-	-	-	-	15,000	0.139	-	-
AEON Thana Sinsap (Thailand) Plc.	-	-	100,000	0.200	300,000	0.600	-	-
Aeonmall Co., Ltd.	-	-	-	-	1,200	0.004	-	-
Certo Co., Ltd.	-	-	-	-	2	0.033	-	-
Jaya JUSCO Stores Bhd.	-	-	-	-	75,000	0.085	-	-
Laura Ashley Japan Co., Ltd.	1	0.012	-	-	10	0.119	-	-
Maxvalu Tohoku Co., Ltd.	-	-	-	-	6,000	0.050	-	-
Reform Studio Co., Ltd.	-	-	-	-	5	0.208	-	-
Ryukyu JUSCO Co., Ltd.	-	-	-	-	500	0.089	-	-
The Talbots, Inc.	-	-	-	-	44,000	0.078	-	-
Zwei Co., Ltd.	-	-	-	-	4	0.111	-	-

All the shares held are personal interests.

Other than as disclosed above, at 29 February 2004, none of the directors, chief executives nor their associates had any interests or short positions in any shares, underlying shares and convertible bonds of the Company or any of its associated corporations.

**REPORT OF THE DIRECTORS****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. Kazumasa ISHII, Kozo MURATA, Toshiji TOKIWA, Motoya OKADA and Tatsuichi YAMAGUCHI have beneficial interests in AEON Co., Ltd. Messrs. 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\$50,421,000. The value of purchases was 1.98 per cent. of the total purchases of the Company for the year ended 29 February 2004. 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 of the Company and on normal commercial terms.
- (ii) Royalties payable to AEON Co., Ltd. for the year ended 29 February 2004 pursuant to a technical assistance agreement amounted to approximately HK\$32,301,000.
- (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 29 February 2004 was approximately HK\$13,797,000. This amount has not exceeded 1.5% per cent. of the audited consolidated turnover of the Group 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 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.

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- (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 29 February 2004 was approximately HK\$6,726,000. 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 29 February 2004, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Name of substantial shareholders	Long positions Number of shares	Approximate percentage of the issued share capital
AEON Co., Ltd.	186,276,000 (Note 1)	71.64
Aberdeen Asset Management Asia Ltd.	20,000,000 (Note 2)	7.69
State Street Corporation	15,832,000 (Note 3)	6.09

*Note 1:* These shares are held as to 177,500,000 shares by AEON Co., Ltd., 7,000,000 shares by AEON (U.S.A.), Inc. (formerly known as 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 SFO to be interested in the shares of the Company beneficially owned by ACS.

*Note 2:* These shares are held by Aberdeen Asset Management Asia Ltd. in the capacity of investment manager.

*Note 3:* These shares are held by State Street Bank & Trust Company, which is a wholly owned subsidiary of State Street Corporation, in a lending pool.

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Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 29 February 2004.

**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\$1,643,000.

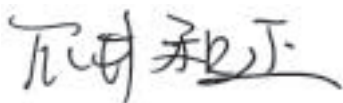
**COMPLIANCE WITH CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 29 February 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

**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, 14 May 2004