

## p.16 Report of the Directors

The directors have pleasure in presenting their annual report and the audited financial statements for the period from 1 March 2004 to 31 December 2004.

### **Change of Year End Date**

During the period, the Company has changed its year end date from 28 February to 31 December. The financial statements presented therefore cover the 10 months period from 1 March 2004 to 31 December 2004.

### **Principal Activities**

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

### **Subsidiaries**

Details of the Company's subsidiaries at 31 December 2004 are set out in note 16 to the financial statements.

### **Results and Appropriations**

The results of the Group for the period from 1 March 2004 to 31 December 2004 are set out in the consolidated income statement on page 24.

An interim dividend of 4 HK cents per share amounting to HK\$10,400,000 was paid to the shareholders during the period.

The directors recommend the payment of a final dividend of 8.5 HK cents per share to the shareholders on the register of members on 6 May 2005, amounting to HK\$22,100,000, and the retention of the remaining profit for the period.

### **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 period.

### **Property, Plant and Equipment**

During the period, the Group spent approximately HK\$82 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 period are set out in note 15 to the financial statements.

## Directors

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

### **Executive directors**

Kazumasa ISHII (*Managing Director*)

Kozo MURATA (*Deputy Managing Director*)

WONG Mun Yu

LAM Man Tin

### **Non-executive directors**

Toshiji TOKIWA (*Chairman*)

Motoya OKADA

Tatsuichi YAMAGUCHI

### **Independent non-executive directors**

SHAO You Bao

LAM PEI Peggy

SHAM Sui Leung Daniel (appointed on 27 September 2004)

In accordance with Articles 85 and 101 of the Company's Articles of Association, all 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 Articles.

## 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 31 December 2004, the interest 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 (the "Stock Exchange") 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 of the Company %
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	14,000	–	14,000	0.0019
Kozo MURATA	6,000	–	6,000	0.0008
Toshiji TOKIWA	4,000	–	4,000	0.0006
Motoya OKADA (Note)	406,696	8,742	415,438	0.0573
Tatsuichi YAMAGUCHI	22,000	–	22,000	0.0030
	452,696	8,742	461,438	0.0636

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.

**(c) Other associated corporations**

	Kozo MURATA		Toshiji TOKIWA		Motoya OKADA		SHAO You Bao	
	Number of share(s)	Approximate percentage of interest %	Number of share(s)	Approximate percentage of interest %	Number of share(s)	Approximate percentage of interest %	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.	-	-	-	-	24,200	0.211	-	-
AEON Forest Co., Ltd.	-	-	-	-	3,000	0.038	-	-
AEON Kyushu Co., Ltd.	-	-	-	-	2,400	0.015	-	-
AEON Techno Service Co., Ltd.	-	-	-	-	15,000	0.139	-	-
AEON Thana Sinsap (Thailand) Plc.	-	-	500,000	0.200	1,500,000	0.600	-	-
Aeonmall Co., Ltd.	-	-	-	-	1,200	0.004	-	-
Certo Co., Ltd.	-	-	-	-	2,000	0.030	-	-
AEON Co. (M) Bhd.	-	-	-	-	150,000	0.085	-	-
Laura Ashley Japan Co., Ltd.	1	0.012	-	-	10	0.119	-	-
Maxvalu Tohoku Co., Ltd.	-	-	-	-	6,000	0.050	-	-
Maxvalu Tokai Co., Ltd.	-	-	5,000	0.043	10,000	0.086	-	-
Reform Studio Co., Ltd.	-	-	-	-	5	0.208	-	-
Ryukyu JUSCO Co., Ltd.	-	-	-	-	500	0.089	-	-
The Talbots, Inc.	-	-	-	-	44,000	0.079	-	-
Zwei Co., Ltd.	-	-	1,000	0.025	4,000	0.103	-	-

All the shares held are personal interests.

Other than as disclosed above, at 31 December 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.

**Directors' Interests in Contracts of Significance and Connected Transactions**

During the period, the Group had the following material transactions with AEON Co., Ltd. and its subsidiaries, namely AEON Credit Service (Asia) Company Limited ("ACS") and subsidiaries of AIC Inc.. 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 Group made purchases from subsidiaries of AIC Inc. amounting to a total of approximately HK\$41,208,000. The value of purchases was 1.84 per cent. of the total purchases of the Group for the period from 1 March 2004 to 31 December 2004. In the opinion of those directors not having an interest in the subsidiaries of AIC Inc., these transactions were carried out in the ordinary course of business of the Group and on normal commercial terms.

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

- (ii) Royalties payable to AEON Co., Ltd. for the period from 1 March 2004 to 31 December 2004 pursuant to a technical assistance agreement amounted to approximately HK\$28,235,000.
- (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 JUSCO Visa Card, the AEON JUSCO MasterCard, AEON JUSCO American Express Credit Card and certain purchases which are financed by interest-free hire purchase credit facilities provided by ACS to customers of the Company. On 28 June 2002, the Stock Exchange granted a conditional waiver to the Company from strict compliance with certain disclosure requirements as stipulated in 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 Company for the period from 1 March 2004 to 31 December 2004 was approximately HK\$9,346,000. This amount has not exceeded 1.5% per cent. of the audited consolidated turnover of the Group as stipulated in the conditional waiver granted 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 granted a conditional waiver to the Company for strict compliance with certain disclosure requirements as stipulated in the Listing Rules in connection with the transactions subject to certain conditions. The total amount of rentals paid and payable by ACS for the period from 1 March 2004 to 31 December 2004 was approximately HK\$5,105,000. 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 stipulated in the conditional waiver granted 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.

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 period or at any time during the period.

## Substantial Shareholders

At 31 December 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, short positions in the shares and underlying shares 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 ( <i>Note 1</i> )	71.64
Aberdeen Asset Management Asia Ltd.	19,446,000 ( <i>Note 2</i> )	7.48

*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., and 1,776,000 shares by AEON Credit Service (Asia) Company Limited ("ACS").

AEON (U.S.A.), Inc. is a wholly-owned subsidiary of AEON Co., Ltd. and AEON Co. Ltd. was deemed to be interested in the 7,000,000 shares owned by AEON (U.S.A.), Inc.

ACS is owned by AEON Co., Ltd., AEON Credit Service Co., Ltd. and the Company as to 55,990,000 shares representing 13.75%, 217,514,000 shares representing 51.94%, and 3,784,000 shares representing 0.90% respectively of the issued share capital of ACS.

By virtue of its ownership of 45.11% and 71.64% of the issued share capital of AEON Credit Service Co., Ltd. and the Company respectively, AEON Co., Ltd. was deemed to be interested in the 1,776,000 shares owned by ACS.

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

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31 December 2004.

## Arrangements to Purchase Shares or Debentures

At no time during the period 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 period, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **Donations**

During the period, the Group made charitable and other donations amounting to approximately HK\$1,739,000.

### **Corporate Governance**

The Company has complied throughout the period from 1 March 2004 to 31 December 2004 with the Code of Best Practice as set out in Appendix 14 of the Listing Rules.

The Company has received, from each of the independent non-executive directors, an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

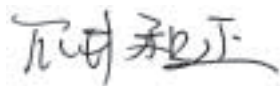
### **Sufficiency of Public Float**

The Company has maintained a sufficient public float throughout the period from 1 March 2004 to 31 December 2004.

### **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, 24 March 2005