

# Credit Card Business

## 信用卡業務



- With the granting of membership licence from JCB and China UnionPay, the Company is the only issuer in the market who can issue credit cards under five different brands.  
隨著JCB及中國銀聯向本公司授出會員特許權後，本公司為市場上單一發卡公司可發行五個品牌信用卡。
- Since affinity cards can offer value-added benefits to cardholders and create a unique image for merchants, the Company will issue more affinity cards.  
由於聯營卡可提供增值優惠予持卡人，亦為商戶創立獨有形象，故本公司將發行更多聯營卡。

# ATM Expansion and Development 櫃員機擴充和功能多元化



Convenience stores  
便利店



High traffic location  
高人流量地點



New ATM  
新櫃員機



Extend to Guangdong Province  
伸展至廣東省



Octopus reloading and lucky draw  
八達通增值及抽獎

- The Company joined China UnionPay ATM network in the Guangdong Province. All AEON cardholders can enjoy cash advance service at over 8,000 ATMs in the Guangdong Province. 本公司加盟廣東省之中國銀聯自動櫃員機網絡。本公司各款信用卡持有人可在廣東省內超過8,000部自動櫃員機享用現金透支服務。
- The Company launched new ATMs with built-in new functions, including Octopus reloading function, automatic add-value service for anonymous Octopus cards and instant lucky draw. 本公司推出附有嶄新內置功能之全新自動櫃員機，新功能包括八達通增值服務、不記名八達通卡自動增值服務及即時抽獎。

# Contents

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	<i>Page</i>
<i>Corporate Information</i>	<i>2</i>
<i>Board of Directors</i>	<i>3</i>
<i>Financial Summary</i>	<i>4</i>
<i>Chairman's Statement</i>	<i>6</i>
<i>Managing Director's Operational Review</i>	<i>9</i>
<i>Management Discussion and Analysis</i>	<i>17</i>
<i>Directors and Senior Management Profile</i>	<i>24</i>
<i>Directors' Report</i>	<i>27</i>
<i>Auditors' Report</i>	<i>36</i>
<i>Income Statement</i>	<i>37</i>
<i>Balance Sheet</i>	<i>38</i>
<i>Statement of Changes in Equity</i>	<i>40</i>
<i>Cash Flow Statement</i>	<i>41</i>
<i>Notes to the Financial Statements</i>	<i>43</i>



# Corporate Information

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## Board of Directors

### *Executive Directors*

Masanori KOSAKA (*Managing Director*)  
LAI Yuk Kwong  
KOH Yik Kung

### *Non-Executive Directors*

Yoshiki MORI (*Chairman*)  
Kazuhide KAMITANI  
Yoichi KIMURA

### *Independent Non-Executive Directors*

SHAO You Bao  
TSANG Wing Hong  
WONG Hin Wing

## Company Secretary

KOH Yik Kung

## Auditors

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

## Major Bankers

Mizuho Corporate Bank, Ltd.  
Hong Kong Branch  
The Bank of Tokyo-Mitsubishi, Ltd.  
Hong Kong Branch  
UFJ Bank Limited  
Hong Kong Branch

## Share Registrar

Secretaries Limited  
Ground Floor  
Bank of East Asia Harbour View Centre  
56 Gloucester Road  
Wanchai  
Hong Kong

## Registered Office

37th Floor, The World Trade Centre  
280 Gloucester Road  
Causeway Bay  
Hong Kong

## Internet Address

Homepage : <http://www.aeon.com.hk>  
E-mail address : [info@aeon.com.hk](mailto:info@aeon.com.hk)

# *Board of Directors*

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Yoshiki MORI



Masanori KOSAKA



LAI Yuk Kwong



KOH Yik Kung



Kazuhide KAMITANI



Yoichi KIMURA



SHAO You Bao



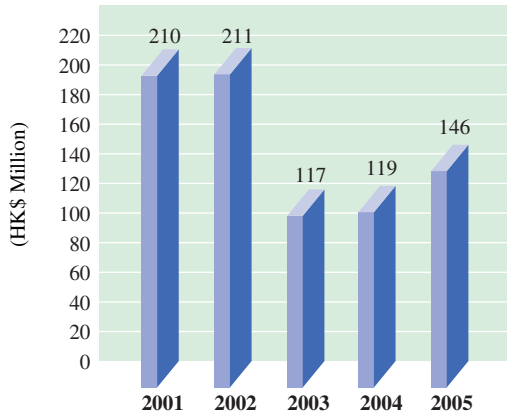
TSANG Wing Hong



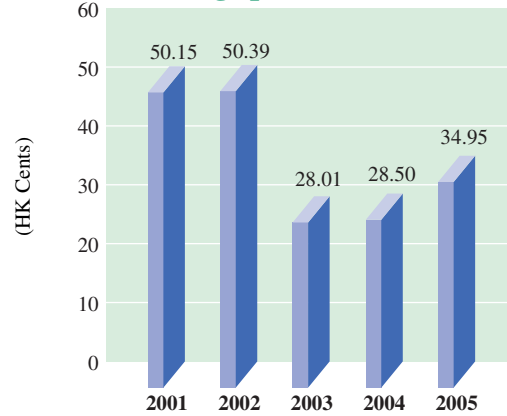
WONG Hin Wing

# Financial Summary

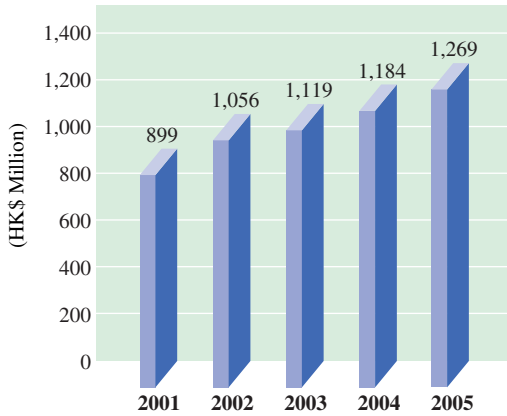
**Net Profit (note 1)**



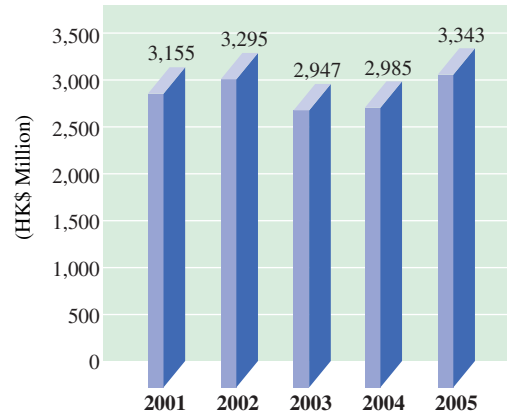
**Earnings per Share (note 2)**



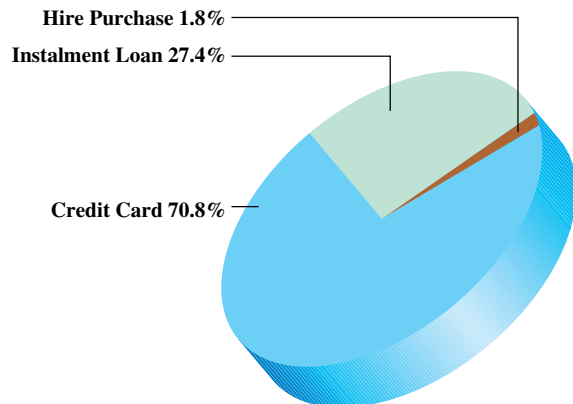
**Shareholders' Funds (note 3)**



**Total Assets (note 4)**



**Turnover (note 5)**



Notes:

1. Represents the net profit for the financial years ended 20th February 2001, 2002, 2003, 2004 and 2005.
2. Represents the earnings per share for the financial years ended 20th February 2001, 2002, 2003, 2004 and 2005.
3. Represents the shareholders' funds as at 20th February 2001, 2002, 2003, 2004 and 2005.
4. Represents the total assets as at 20th February 2001, 2002, 2003, 2004 and 2005.
5. Represents the respective percentage of turnover by business segments for the financial year ended 20th February 2005.

# Financial Summary

A summary of the results and of the assets and liabilities for the last five financial years, as extracted from the audited financial statements, is set out below:

<b>RESULTS</b>					
	<b>For the year ended 20th February</b>				
	2001	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>817,140</u>	<u>849,205</u>	<u>789,201</u>	<u>771,176</u>	<u>878,359</u>
Profit before taxation	242,174	247,671	138,195	145,699	177,752
Income tax	<u>(32,170)</u>	<u>(36,669)</u>	<u>(20,890)</u>	<u>(26,337)</u>	<u>(31,411)</u>
Net profit for the year	<u>210,004</u>	<u>211,002</u>	<u>117,305</u>	<u>119,362</u>	<u>146,341</u>
Earnings per share	<u>50.15 cents</u>	<u>50.39 cents</u>	<u>28.01 cents</u>	<u>28.50 cents</u>	<u>34.95 cents</u>
Dividend per share	<u>12.50 cents</u>	<u>13.00 cents</u>	<u>13.00 cents</u>	<u>14.00 cents</u>	<u>16.00 cents</u>
<b>ASSETS AND LIABILITIES</b>					
	<b>At 20th February</b>				
	2001	2002	2003	2004	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	3,154,914	3,295,343	2,946,952	2,984,547	3,343,061
Total liabilities	<u>(2,255,639)</u>	<u>(2,239,506)</u>	<u>(1,828,247)</u>	<u>(1,800,920)</u>	<u>(2,073,814)</u>
Shareholders' funds	<u>899,275</u>	<u>1,055,837</u>	<u>1,118,705</u>	<u>1,183,627</u>	<u>1,269,247</u>

# Chairman's Statement

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**Yoshiki MORI**  
*Chairman*

In the past one year, positive external economic factors and supportive Central Government's policies towards Hong Kong facilitated the steady recovery of the economy. Employment and consumer spending resumed growth as the business and investment environment continued to improve. Nevertheless, competition for consumer loans intensified further amongst market players as financial institutions looked for lending opportunities with higher interest margin. Despite such a competitive and challenging operating environment, AEON Credit Service (Asia) Company Limited (the "Company") continued to expand its market segment and generate new receivables. With the joining as JCB and China UnionPay members, the Company can now issue credit cards under the five popular brands in the market. I am pleased to report that the Company recorded a net profit of HK\$146.3 million, an increase of 22.6% when compared with last year.

## **The Group's Philosophy**

The Company is a member of the AEON Group and a subsidiary of AEON Credit Service Co., Ltd. ("AEON Credit Service"), which is listed on the main section of the Tokyo Stock Exchange. In Japan and Asia, the management philosophy is to support customers' lifestyles and enable individuals to maximize future opportunities through effective use of credit. AEON Credit Service is determined to listen to the customers and will continue to repay their trust and expectations by providing financial services that bear closely with their daily livings. At the same time, AEON Credit Service seeks strong customer support by ceaselessly cultivating and refining the standard of corporate behaviour in the financial services industry and prizing corporate ethics. AEON Credit Service always follows the belief that customers are the starting point for management decisions. The operations are dedicated to the pursuit of peace through prosperity and making a continuing contribution to the community. The aim is to let its customers, local communities, suppliers and business partners understand our belief and management philosophy and establish a stronger and trustworthy relationship. The support, loyalty and confidence of customers have enabled AEON Credit Service to achieve an increase of 0.8 million cardholders in Japan in this financial year.

The core activities of AEON Credit Service are credit card and personal loan business. At the same time, through its subsidiaries, AEON Credit Service is also involved in other financial service activities, including loan management, loan recovery and insurance agency business. AEON Credit Service aims to be a leading company in Asia's credit markets by continuing to develop and grow the business of overseas subsidiaries and by entering new markets. Besides Hong Kong, AEON Credit Service has overseas operations and offices in Thailand, Malaysia, Indonesia, Taiwan and the People's Republic of China (the "PRC").



# *Chairman's Statement*

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To fulfill its duties as a good corporate citizen, **AEON** Credit Service engages in a wide range of social contribution activities, from volunteer services at the local level, to global environmental protection work. Our belief is “To contribute to the local community” and make the local people live a happy life. **AEON** Credit Service has actively engaged in environmental protection activities over the years, including the issuing of various charity cards, support for forest conservation and the use of uniforms made of recycled polyester fiber material. On a global basis, **AEON** Group members support environmental conservation, international cultural and personal exchanges, regional cultural activities, and other causes through the **AEON** 1% Club.

## **The Company's Performance**

For the year under review, the Company moved aggressively in the market to expand its customer base and increase its loan portfolio. With the extensive merchant network, the Company organised various promotion activities to recruit new members and at the same time to increase the card usage. To provide convenient service to our customers, the Company extended its ATM network to West Rail in Hong Kong and to the Guangdong Province in the PRC through joining the China UnionPay ATM network. Moreover, the Company incorporated Octopus reloading function in the newly launched ATMs as one of its customer retention activities. The granting of membership licence by JCB and China UnionPay is another breakthrough for our credit card business. The Company is now the only company in Hong Kong which can issue the five popular brands of credit cards in the market. This offers flexibility in issuing credit cards to different customer segments. In view of the strong demand for consumer loans, the Company launched new loan programs and used its branch and merchant network to cross-sell different loan products.

With the view to grasp the opportunity to enter the consumer finance market in the PRC in the near future, **AEON** Information Service (Shenzhen) Co., Ltd. has set up a branch in Guangzhou in October 2004. The branch focuses on planning and preparation work to build a business alliance network to launch hire purchase products. The call center in Shenzhen has taken an active role in telemarketing, customer service and collection activities and this provides the foundation for our future consumer finance operation in the PRC.

To contribute to the local community, the Company made donations to different charitable organisations and organised staff to participate in the tsunami disaster relief program. Moreover, through **AEON** Education and Environment Fund Limited (“**AEON** Fund”), the Company has been actively promoting the concept of environmental protection in Hong Kong and the PRC. The Fund has committed a three years' sponsorship for the Hong Kong Tree Planting Day and also sponsored the production of a youth television program on environment and life education. In the PRC, the Company has also been engaging in activities that benefit the society, including the tree planting at the Great Wall and the sponsorship to Tsinghua University for education and research.

# Chairman's Statement

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## Outlook

The year ahead will be a challenging year for consumer finance business. We have already seen growth in consumer spending and borrowing. With the expected increase in job and investment opportunities in the market, the demand for consumer loans will continue to increase. On the other hand, interest rates are expected to move up and competition is expected to intensify following the open up of positive credit data for review assessment by the market players.

In light of the declining trend of personal bankruptcies and the drop in the unemployment rate of our market segment, the Company will utilise its branch and merchant network and undertake a more aggressive marketing strategy to grow its core business. Notwithstanding this, the Company will continue to exercise a tight control on operating expenses and maintain a tight control on loan assessments and approvals.

Guided by the corporate philosophy of "Customer First", the Company will continue to provide value-added and convenient financial services to customers and improve its service quality. The Company understands its responsibilities and the importance of providing good returns to its shareholders. With regard to social contribution, we will continue to participate actively in environment protection activities and also will support other community activities and local causes.

## Acknowledgement

On behalf of the Board, I wish to take this opportunity to extend my sincere gratitude to our customers, business partners and shareholders for their enormous advice, guidance and support, and express my heartfelt thanks to the dedication and hard work of our staff.

森 美 樹

**Yoshiki MORI**  
*Chairman*

Hong Kong, 26th April 2005

# Managing Director's Operational Review

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**Masanori KOSAKA**  
*Managing Director*

## INTRODUCTION

On behalf of the Board of Directors (“the Board”), I am pleased to present to you the Annual Report of the Company for the year ended 20th February 2005.

The economy of Hong Kong grew relatively stronger in the past one year. The steady recovery of the property and stock markets, as well as the turn around of the retail, tourism, hotel and catering industries, helped to move the unemployment rate from its high levels to new lows in recent year. Deflation, which has persisted for years, has markedly improved. Various economic indicators all show that the Hong Kong economy has bottomed out.

This was a challenging but successful year for the Company. On the financial side, the Company achieved a growth in the sales volume by 18.0%, an increase in total debtor balance by 17.6% and a surge in net profit by 22.6%. To share this delightful results with our shareholders, the Board decided to increase the full year dividend amount to 16.0 HK cents. On the operating side, in developing new partners for credit card operation, the Company has signed up with JCB and launched a brand new AEON JCB Travel Card in July 2004 to catch up with the increased outbound tourism to Japan. Moreover, the partnership with China UnionPay has further been strengthened in that China UnionPay has granted us a principal member licence and the Company will issue UnionPay credit cards in the second half of 2005/06. The Company can now issue the five popular brands of credit cards in the market. This provides both the merchants and customers with a wider choice and also facilitates us to issue more card types to capture different customer segments.

## PERFORMANCE REVIEW

For the financial year ended 20th February 2005, on an audited basis, profit before taxation was HK\$177.8 million, an increase of 22.0% when compared with last year. After deducting income tax of HK\$31.4 million, net profit for the year increased by 22.6%, or HK\$26.9 million, from HK\$119.4 million in 2003/04 to HK\$146.3 million in 2004/05. The Board has recommended the payment of a final dividend of 10.5 HK cents per share and, together with the interim dividend of 5.5 HK cents, total dividend for the year was 16.0 HK cents per share.

At the operating level, the Company recorded an increase in operating profit before charge for bad and doubtful debts by 0.6% from HK\$489.6 million in 2003/04 to HK\$492.7 million in 2004/05. Operating income before interest expense for the year was HK\$840.5 million, as compared with HK\$840.3 million in 2003/04. Interest income increased by 14.6% to HK\$549.7 million, while interest expense dropped by 27.0% to HK\$85.4 million.

# Managing Director's Operational Review

Although the Company had to spend more on advertising and promoters, the Company continued to exercise tight control on the operating expenses and managed to maintain the cost-to-income ratio at 34.7%. With the drop in unemployment rate, the overall charge-off rate also reduced, resulting in the drop in charge for bad and doubtful debts by 8.4% from HK\$343.9 million in the previous year to HK\$314.9 million.

With the stronger demand for consumer loans, total debtor balance recorded an increase of HK\$341.6 million to HK\$2,277.1 million as at 20th February 2005 from HK\$1,935.5 million as at 20th February 2004. As at 20th February 2005, the Company had bank borrowings amounted to HK\$1,875.6 million. Shareholders' funds were strengthened by 7.2% to HK\$1,269.2 million as at 20th February 2005 mainly due to the increase in retained earnings.

## OPERATIONAL REVIEW

### Marketing

In the second half of the year, the Company collaborated with four new affinity partners and issued four new cards related to travel, health and beauty. J-WORLD credit cards were launched in September 2004 targeting young executive travellers. ISIC Visa Card was launched in October 2004 extending our service to university students. In November 2004, the Company launched HealthPlus Visa Card, endorsing a health conscious lifestyle, and Aster Visa Card, targeting young female working executives. These new cards will be the driving force for us to expand our customer base in the coming one year. In addition, the Company has also extended its loan and hire purchase service to 52 new affinity members. These newly acquired merchants will be the new channels to recruit new members, which in return would increase both personal loan and hire purchase sales.



*Launch of new affinity cards related to travel, health and beauty*



*Marketing programs and products*

The Company had also successfully launched different marketing programs and products with its partners to boost up card sales, personal loan sales and recurrent transactions. This includes the 3G promotion, private sale and discount shopping day, as well as the launch of AEON 100 personal loan program.

# Managing Director's Operational Review

## Branch Operation

As at 20th February 2005, the Company has a network of fifteen branches. These branches have been operating as individual marketing centers and they are responsible for card and merchant recruitment, as well as telemarketing activities. This not only provides a focal point to serve the customers' needs but also gathers feedback from the customers, which will be passed to the head office to design new marketing programs.

## Customer Service

In expanding services to customers, the Company has joined China UnionPay ATM network in the Guangdong Province. Customers can now enjoy cash advance service at over 8,000 ATMs operating in the Guangdong Province. The Company has also launched new ATMs with built-in new functions, which incorporate Octopus reloading function and provide automatic add-value service for anonymous Octopus cards. This has not only generated more



*Octopus reloading service and instant lucky draw at ATM*

recurrent transactions through credit cards but also created a new source for member recruitment. Besides Octopus reloading and add-value functions, the new ATMs also provide instant lucky draw, as well as information search functions to stimulate cash advance and credit purchase transactions. With the launch of card instalment plan in March 2005, which enables customers to enjoy flexible repayment terms, it will increase credit purchase sales in the coming year.

## PROSPECTS

Improving consumer spending reflected restoration of confidence among Hong Kong people towards the continuous recovery of the economic situation. Local interest rates are expected to catch up with those in the United States and this will narrow the gap between bank overdraft and credit card facilities. With the opening of the Hong Kong Disneyland this September, the tourism industry will flourish, which in turn will create more job opportunities for the Company's target customer segments. Despite the competitive operating environment for consumer finance business, the Company will actively pursue a strategy to increase its receivables under the existing well-established market segments. In order to achieve better results, the Company will reinforce its brand image as innovative and adaptive to the needs of the customers. The mission for Year 2005/06 is to extend services that meet the needs of the public, to expand the service coverage areas to create convenience for customers, to enter into other credit related business to offer added-value service to partners, and to explore new business opportunities in China.

# Managing Director's Operational Review

Credit card business will continue to be the core business of the Company, with the primary target on expanding its customer base and increasing its active ratio. With additional new card benefits and convenient services provided to customers, the Company aims to increase the active ratio of new customers and retain the loyalty of existing cardholders. The Company will also cross-sell personal loan, insurance and investment-related products to this enlarged member base to ensure full service coverage. With the well-established infrastructure, the Company will continue to extend its outsourcing business on hire purchase consultation, collection and credit-related services.

## Credit Card Business – Retain Existing Base, Acquire New Base

The average card spending per person on lifestyle items is expected to increase with the recovery of the economic situation. To capture this demand, the Company will sign up with more merchants on card instalment plan and also design tailor-made marketing programs for individual merchants, including issuing member discount passport and organizing festivals. Through data mining on existing customer base, the Company can assist merchants to launch special promotion programs to targeted customers. This not only would increase the average card spending, but also help to recruit new members effectively. Since affinity cards can offer value-added benefits to cardholders and create a unique image for merchants, the Company will issue more affinity cards under the five different brands, with a target of at least five in the coming one year. The Company has just launched AMTD MasterCard targeting young executives that have financial needs on investment and financial products. The Company will issue UnionPay credit cards in the second half of 2005/06. The target segment for UnionPay credit cards will be those frequent travellers to China looking for convenient cash advance and credit purchase networks in China.

Based on our past experience, the cooperation with different partners, such as transport service provider, mobile phone and insurance companies, in promoting recurrent transactions using our credit cards, has successfully boosted up our credit purchase sales. The Company will launch different promotion programs with different service providers to attract new customers. This will increase the card active ratio and also retain the loyalty of existing customers.



*Tailor-made marketing programs jointly organised with merchants*

# Managing Director's Operational Review

On card benefits, the Company will continue to utilize its marketing forces to source new discount merchants in Hong Kong, Macau and China and build up a network of over 9,300 outlets by the end 2005/06. The Company will also source for attractive products from overseas to be offered to our cardholders as bonus point redemption gifts or as special promotion items.



*Joint promotion with convenience stores*

Cash advance transactions are expected to increase at a fast pace in the second half of this year, following the increase in interest rates and the return of confidence level in job security. In anticipation of such increase, the Company has extended its cash advance service to the Guangdong Province through the co-operation with China UnionPay. In addition, the Company will open up its ATM network to China UnionPay members in May 2005. In view of the influx of tourists from China, the Company will continue to extend its ATM network inside convenience stores, and in other high traffic and convenient locations to capture new customer sectors. More promotion programs on cash advance transactions will be launched, such as instant lucky draw campaigns through ATMs and the offering of cash coupons to our sleeping and inactive customers.

## **Personal Loan Business – Drive for Growth**

The Company will work closely with its merchants to launch different purpose loan programs to satisfy the demand in the market, such as decoration loans, overseas study loans, car loans, motorcycle loans, education loans and beauty loans. With the expansion of its branch and merchant network, the Company also plans to launch revolving loan products in the second half of 2005/06.

## **Customer Service – Extend Service Coverage**

On the extension of service coverage area, besides the UnionPay cards which will be widely accepted by China UnionPay's merchant network throughout China, China UnionPay will open up their merchant network in the Guangdong Province to the Company's cardholders, who will then be able to use AEON credit cards to enjoy credit purchase at China UnionPay's merchant network.

In view of the booming travel activities in Macau, the Company is in the process of setting up a service counter in Macau to offer travel information to its members and at the same to build up a discount merchant network in Macau. The Company targets to develop 50 discount merchants in Macau within the coming year. The Company is also in the process of applying for a licence to operate in Macau and once it is approved, the Company will extend its consumer finance business to Macau.

# Managing Director's Operational Review

## Credit-Related Business – Potential to Expand

In addition to cross-selling of insurance products, the Company will also cooperate with its partners to introduce investment products to cardholders. By using its vast customer base, the Company has also introduced catalogue sales on discounted products to its customers. This new source of business not only helps to generate additional revenue to the Company, it also helps to retain the loyalty of our customers.

The Company has been providing collection services to five corporate clients in Hong Kong in the fields of telecommunications, insurance and education. The Company aims to expand its client base to ten this year.

## China Business – Establish Operation Model

The call center in Shenzhen now provides back-office support on collection, customer service and telemarketing. In the coming year, the Company plans to train the call center staff on judgment operation so as to cater for the future consumer finance operation in China. In October 2004, AEON Information Service (Shenzhen) Co., Ltd. set up its Guangzhou branch to focus on planning and preparation work to form a business alliance to offer hire purchase products. In addition, the Company will make use of its expertise, know-how and experience by setting up credit-related consultancy companies in the Guangdong Province to capture the potential business opportunities upon opening up of the consumer finance market in China.



*Insurance programs launched with partners*

## Future

The customer base and the merchant network that we have built over these years, coupled with the continuous improvement in customer service quality and product development, as well as the investment that we have made on the infrastructure and business model for future growth and expansion into the PRC market, will provide us with a strong driving force to grow in this competitive operating environment.



# Managing Director's Operational Review

## SYSTEMS DEVELOPMENT

The Company will continue to enhance its systems to meet the receivable growth, the customers' needs and expectations and to improve on security, risk detection and efficiencies within the Company. Moreover, the Company will revamp the enterprise-wide contingency plan to cater for any unforeseen circumstances and to ensure a continuous operating environment. The measures in the business continuity plan will be tested on a recurrent basis to ensure their efficiencies in time of need.

During the year under review, the Company had completed the operating systems for card instalment plan and the new functions in ATMs, including Octopus reloading, automatic add-value service and lucky draw. On extension of ATM coverage, the linkage with China UnionPay ATM network in the Guangdong Province was completed in the fourth quarter of the year. For new card system, JCB card brand and four new affinity card types were successfully launched.

In the coming year, the Company will put efforts to integrate the database of credit card and hire purchase system to facilitate future enhancement. Moreover, operating systems for the launch of UnionPay credit cards, the open up of the Company's ATM network in Hong Kong to China UnionPay members and the settlement of card usage within the merchant network of China UnionPay in the Guangdong Province will be completed in the coming year. To ensure high security and stable operating environment, the Company will move the information system division to data center with hot standby function.

## HUMAN RESOURCES

The total number of staff as at 20th February 2005 and 20th February 2004 was 272 and 260 respectively. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from medical insurance and provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Company. The Company also provides in-house training programs and external training sponsorships to strengthen its human resources.

## CONTRIBUTION TO THE SOCIETY

Over the years, we emphasize on three key words, "peace", "people" and "community" in our Company's philosophy. Besides striving hard to provide a reasonable return to our shareholders, the Company also aspires to be a responsible corporate citizen placing special attention on local community and environment needs. During the year, the Company received a bronze award from The Community Chest of Hong Kong in recognition of its donation to support the local community. The Company also organised staff



*Best Environmental Trip Reporting  
Competition Award Ceremony*

# Managing Director's Operational Review

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donation to participate in the tsunami disaster relief program. Besides, the Company made donations through its charity cards to support vital charity causes in the community and also participated in the activities of environmental conservation, education and cultural exchange through the AEON Fund.

The AEON Fund promotes environmental protection through organising projects including the Third Outstanding Home Environmental Ambassadors Selection, the Award Trip to Kyushu of Japan and the Competition for the Best Environmental Trip Reporting. Besides, the Fund has committed a three years' sponsorship for the Hong Kong Tree Planting Day and also the formation of AEON Eco Kid Club in early 2005. In addition, the Fund continued to support the organic planting competition for schools, the environmental awards for student ambassadors and the publication of the green magazines.



*Hong Kong Tree Planting Day 2005*

In the PRC, the AEON Fund continued to involve in the green campus, the scholarship and research programs in Tsinghua University, the tree planting at the Great Wall, and the student exchange programs in Tibet, Yunnan and Beijing.

## ACKNOWLEDGEMENT

I am most grateful to our customers, business partners, and shareholders whose generous support in the past few years has successfully guided the Company through the adverse operating environment and has put the Company back on the growth track. I also wish to express my gratitude to the members of the Board for their diligent guidance and support, and to thank the management team and staff for their unstinting efforts and dedication.



**Masanori KOSAKA**  
*Managing Director*

Hong Kong, 26th April 2005

# *Management Discussion and Analysis*

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The economy of Hong Kong grew relatively stronger in the past one year. With the improvement in unemployment rate, coupled with the low interest rate environment and pick up in the investment sector, there is an increase in card spending and a stronger demand for consumer loans. In view of this improved economic situation, the Company launched several different affinity cards and loan products to meet the needs of customers of different age groups. As a result, the Company recorded an increase in the overall sales volume by 18.0% when compared with last year. With the drop in the unemployment rate, the charge-off rate also reduced. Although the Company had to spend more on advertising and promoters to expand its customer base, the Company continued to exercise tight control on the operating expenses and managed to maintain the cost-to-income ratio at 34.7%.

## **KEY FINANCIAL HIGHLIGHTS**

The Company achieved a profit growth of 22.6%, with net profit increased from HK\$119.4 million in the previous year to HK\$146.3 million. Earnings per share increased by 22.6% from 28.50 HK cents to 34.95 HK cents in 2004/05.

Operating income was HK\$755.0 million, an increase of HK\$31.6 million when compared with HK\$723.4 million in 2003/04. Operating expenses increased by 12.2% from HK\$233.8 million to HK\$262.3 million, with cost-to-income ratio increased to 34.7% from 32.3% in the previous year.

The Company's charge for bad and doubtful debts decreased by 8.4% or HK\$29.0 million to HK\$314.9 million from HK\$343.9 million in the previous year.

With the higher volume of consumer loan transactions during the year, total debtor balance recorded an increase of 17.6% or HK\$341.6 million, from HK\$1,935.5 million as at 20th February 2004 to HK\$2,277.1 million as at 20th February 2005.

Net asset value per share as at 20th February 2005 was HK\$3.0, as compared to HK\$2.8 as at 20th February 2004.

The Board recommended the payment of a final dividend of 10.5 HK cents per share. Together with the interim dividend of 5.5 HK cents per share already paid, the total dividend for the year increased to 16.0 HK cents per share from 14.0 HK cents per share in 2003/04, with the dividend payout ratio being 45.8%.

# *Management Discussion and Analysis*

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## **INCOME STATEMENT ANALYSIS**

### **Operating Income**

The Company's net interest income recorded an increase of 27.9% from HK\$362.9 million in 2003/04 to HK\$464.2 million in 2004/05. With the growth in interest earning assets, interest income increased by 14.6% from HK\$479.8 million in 2003/04 to HK\$549.7 million in 2004/05.

With HIBOR continued to remain at a low level and with the renewal of long-term borrowings at lower interest rates, the average funding cost moved down from an average of 4.8% in 2003/04 to 3.7% in 2004/05. Average funding cost was 3.8% in the first half and 3.5% in the second half of the year. Interest expense amounted to HK\$85.4 million, representing a decrease of 27.0% when compared with HK\$116.9 million in the previous year.

The record of gains on sales of credit card receivables in the previous year and the revaluation loss on the interest-only strips had resulted in the drop of credit card securitisation income by 26.1% to HK\$186.5 million. The lower volume of cash advance transactions, coupled with the extension of convenient payment network and recovery in economic situation had resulted in the drop in handling, late and storage charges. Although there was an increase in fees and commissions, other operating income decreased by 3.1% from HK\$108.9 million in 2003/04 to HK\$105.6 million in 2004/05.

Other loss of HK\$1.3 million was mainly resulted from the loss on disposal of computer equipment and leasehold improvements, and the impairment loss recognised on investment securities.

### **Operating Expenses**

In view of a stronger demand for consumer finance, the Company spent more on advertising and hired additional part-time staff to recruit new members within the merchant network, with advertising expenses and staff costs increased by 32.5% from HK\$71.7 million in 2003/04 to HK\$95.0 million in 2004/05. At the same time, the Company exercised tight control on other operating expenses. Total operating expenses increased by 12.2% from HK\$233.8 million in 2003/04 to HK\$262.3 million in 2004/05. Consequently, the Company's cost to income ratio increased to 34.7% in 2004/05 from 32.3% in 2003/04.

### **Charge for Bad and Doubtful Debts**

For the year ended 20th February 2005, the Company's specific allowances made decreased by 10.4% or HK\$36.3 million from HK\$348.3 million in 2003/04 to HK\$312.0 million in 2004/05. This was attributed to the tightened credit control, prompt collection efforts and improved credit quality as a result of lower personal bankruptcies. With an increase in general allowances by HK\$3.0 million, the charge for bad and doubtful debts decreased by 8.4% or HK\$29.0 million to HK\$314.9 million from HK\$343.9 million in the previous year.

# Management Discussion and Analysis

## BALANCE SHEET ANALYSIS

The Company's shareholders' funds as at 20th February 2005 were HK\$1,269.2 million, representing a growth of 7.2%, or HK\$85.6 million, when compared with the balance as at 20th February 2004.

### Debtor Balance

With the transfer of additional credit card receivables to the special purpose entity under the securitisation program, credit card receivables as at 20th February 2005 was HK\$1,039.0 million, as compared to HK\$1,080.3 million as at 20th February 2004. With the launching of new purpose loan products and the increase in customer base, instalment loans receivable reached HK\$1,005.1 million, an increase of 48.7% when compared with HK\$676.1 million as at 20th February 2004. Total debtor balance recorded an increase of 17.6% or HK\$341.6 million, from HK\$1,935.5 million as at 20th February 2004 to HK\$2,277.1 million as at 20th February 2005.

Considering the drop in overdue debtor balance for 3 months or above, the Company reduced the amount of allowance for bad and doubtful debts. Allowance for bad and doubtful debts amounted to HK\$174.1 million as at 20th February 2005, a decrease of HK\$16.2 million when compared with previous year and representing 7.6% of total debtor balance.

Set out below is an analysis of debtor balance of hire purchase debtors, instalment loans receivable and credit card receivables which was overdue for more than 1 month:

	20th February 2005		20th February 2004	
	HK\$'000	%*	HK\$'000	%*
Over 1 month but less than 2 months	94,046	4.1	135,315	7.0
Over 2 months but less than 3 months	18,094	0.8	23,609	1.2
Over 3 months	84,570	3.7	95,470	4.9
	<u>196,710</u>	<u>8.6</u>	<u>254,394</u>	<u>13.1</u>

\* Percentage of total debtor balance

# *Management Discussion and Analysis*

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## **Retained Interests in Securitisation Trust**

The Company raised a total of HK\$850 million through the realisation of credit card receivables originated and selected by the Company to a special purpose entity, which issued trust certificates backed by such receivables.

Under the securitisation program, the entitlements to interest-only strips and cash reserve account are stated at fair values whereas seller and subordinated interests are stated at their allocated amounts and subject to amortisation. The interest-only strips, which are retained by the Company, represent the present value of expected cash flows generated from the securitised credit card receivables during their estimated lives.

As at 20th February 2005, the Company had retained interests in the securitisation trust in the forms of seller interest, subordinated interest, interest-only strips and cash reserve account amounting to HK\$937.5 million, as compared with HK\$913.5 million as at 20th February 2004.

## **Bank Borrowings and Capital Financing**

The Company relied principally on its internally generated capital, bank borrowings and structured finance to fund its business. The principal source of internally generated capital is from retained earnings.

As at 20th February 2005, the Company had bank borrowings amounted to HK\$1,875.6 million, with 77.9% being fixed in interest rates. Out of these borrowings, 33.0% will mature within one year, 14.7% between one and two years, 14.7% between two and three years, 22.1% between three and four years and 15.5% over four years. The Company continued to maintain a strong financial position. As at 20th February 2005, total debt-to-equity ratio was 1.63. All the Company's borrowings were denominated in Hong Kong dollars.

The net asset value of the Company as at 20th February 2005 was HK\$1,269.2 million, or HK\$3.0 per share, as compared with HK\$2.8 per share as at 20th February 2004. No assets were pledged as at 20th February 2005.

The Company's principal operations were transacted and recorded in Hong Kong dollars and thereby did not subject to any exposure on exchange rate fluctuation. During the year, the Company engaged in derivative financial instruments mainly to hedge its exposure on interest rate fluctuations.

# *Management Discussion and Analysis*

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Capital expenditure for the year amounted to HK\$43.9 million as compared to HK\$15.2 million in the previous year. This was mainly related to the purchase of new ATMs, the purchase of computer equipment upon exercise of purchase option under lease agreement, and the system development on new products. As at 20th February 2005, capital commitments entered were mainly related to the purchase of property, plant and equipment.

Taking into account the financial resources available to the Company, including internally generated funds and available banking facilities, the Company has sufficient working capital to meet its present requirements.

In determining the dividend payment, the objective is to reward shareholders with dividend income while retaining funds for future business development and expansion. As the economic situation is expected to continue to recover in the coming year, demand for consumer loans will increase. Moreover, shareholders generally expect a reasonable return on their investments and would expect a higher dividend amount when the share price goes up. In order to meet shareholders' expectation, the Board decided to increase the absolute dividend amount by 2.0 HK cents. For the year ended 20th February 2005, the Board recommended the payment of a final dividend of 10.5 HK cents per share, which together with an interim dividend of 5.5 HK cents per share, making a total dividend of 16.0 HK cents per share and a payout ratio of 45.8%.

## **SEGMENT INFORMATION**

The Company's business comprised mainly three operating divisions, namely credit card, hire purchase and instalment loan. In 2004/05, credit card operation accounted for 70.8% of the Company's turnover, as compared to 79.5% in 2003/04. For operating income after deducting charge for bad and doubtful debts, credit card operation accounted for 64.7% in 2004/05, as compared to 85.8% in 2003/04.

With the change in borrowing behaviour from cash advance to personal loans, net interest income from credit card operation recorded a drop of HK\$4.3 million, from HK\$270.7 million in 2003/04 to HK\$266.4 million in 2004/05. The record of gains on sales of credit card receivables in the previous year and the revaluation loss on the interest-only strips had resulted in the drop of credit card securitisation income from HK\$252.2 million in 2003/04 to HK\$186.5 million in 2004/05. The lower volume of cash advance transactions and recovery in economic situation had resulted in the drop in other operating income from credit card operation by 7.2% to HK\$81.4 million. Operating profit before charge for bad and doubtful debts decreased by HK\$76.4 million to HK\$534.3 million in 2004/05. Although there was a drop in charge for bad and doubtful debts by 12.5% from HK\$285.1 million in 2003/04 to HK\$249.6 million in 2004/05, operating income after deducting charge for bad and doubtful debts from credit card operation still recorded a drop of 12.5% from HK\$325.6 million in 2003/04 to HK\$284.8 million in 2004/05.

# *Management Discussion and Analysis*

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With the drop in funding cost, there was an increase in net interest income and other operating income by HK\$1.2 million from hire purchase operation. With an increase in charge for bad and doubtful debts by HK\$2.4 million, operating income after deducting charge for bad and doubtful debts from hire purchase operation decreased from HK\$4.0 million in 2003/04 to HK\$2.8 million in 2004/05.

In view of the strong demand for consumer loans, the Company launched new loan programs. Together with the use of call centers and branches to cross-sell different loan products, the Company had successfully boosted up the instalment loan business, with net interest income recorded an increase of 91.2% from HK\$109.0 million in 2003/04 to HK\$208.4 million in 2004/05. Other operating income also recorded an increase of 47.3% to HK\$9.1 million. With a slight increase in charge for bad and doubtful debts by 7.6% from HK\$56.7 million in 2003/04 to HK\$61.0 million in 2004/05, operating income after deducting charge for bad and doubtful debts from instalment loan operation was increased by HK\$98.1 million from HK\$58.5 million in 2003/04 to HK\$156.6 million in 2004/05.

## **COMPETITIVE ADVANTAGES**

### **Synergy**

The Company continued to benefit from the launching of new card and loan products in the market resulting in the continuous growth in the number of cardholders and personal loan customers.

### **Know-how and Expertise**

AEON Credit Service Co., Ltd. has extensive know-how and expertise in the consumer finance industry and has assisted the Company in tackling the changing market environment and in bringing in innovative ideas on the marketing and recruitment programs.

### **Customer Base**

The customer base of the Company is widely diversified. Using merchant network as the recruitment base, the Company had launched several new affinity cards to capture new customer sectors. The new cardholders recruited in this financial year were mainly through the affinity cards related to retail and catering sectors. Around 70% of the customers is in the age range of 26 to 45, out of which 40% is young generation. With the launch of more affinity cards, the percentage of female cardholders has reached 67%.



# *Management Discussion and Analysis*

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## **Convenient Service**

In providing consumer credit services to customers, the Company emphasises on convenience. On payment, customers can settle their payments through branch counters, convenience store payment network, phone banking, internet banking and ATM network. With the extensive ATM network in Hong Kong and the Guangdong Province in China, coupled with the Company's branch network and the call centers in Hong Kong and Shenzhen, customers can enjoy cash advance and personal loan services at a speedy and convenient way. As for credit purchase, the extensive discount merchant network continues to provide convenience and wide-ranging choices to cardholders.

## **GROWTH PHILOSOPHY**

The four key elements of the Company's growth philosophy are (1) ongoing product and service innovation; (2) total consumer credit services; (3) operational cost effectiveness; and (4) a strong network of affiliated companies. Consumers in Hong Kong have widely accepted and appreciated the innovative consumer credit finance services provided at low costs by the Company.

# *Directors and Senior Management Profile*

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## **DIRECTORS**

*Mr. Yoshiki MORI*, aged 54, was appointed the Chairman of the Company on 16th June 1999. Mr. Mori has been a Non-executive Director of the Company since 1992. He is a director of *AEON Co., Ltd.*, which he joined in 1973. He is the president and a founder of *AEON Credit Service Co., Ltd.*, established in 1981. He is also a director of *AEON Thana Sinsap (Thailand) Co., Ltd.* and *AEON Information Service (Shenzhen) Co., Ltd.*. Mr. Mori graduated from Nanzan University with a Bachelor's degree in Economics.

*Mr. Masanori KOSAKA*, aged 48, was appointed the Managing Director of the Company on 20th June 2002. Mr. Kosaka was formerly with the Company from March 1993 to June 1996 and rejoined the Company in April 2002. He joined *AEON Credit Service Co., Ltd.* in 1981. He is a director of *AEON Information Service (Shenzhen) Co., Ltd.*. Mr. Kosaka graduated from Kyoto Sangyo University with a Bachelor's degree in Law.

*Mr. LAI Yuk Kwong*, aged 42, was appointed an Executive Director of the Company on 16th June 1999. Mr. Lai is also the qualified accountant of the Company. He joined the Company in July 1996. Mr. Lai graduated from Hong Kong Polytechnic University with a Professional Diploma in Accountancy. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and the ITAccountants Association, and an associate member of the Institute of Chartered Accountants in England & Wales. Mr. Lai had worked with an international audit firm for six years.

*Ms. KOH Yik Kung*, aged 49, was appointed an Executive Director of the Company on 21st June 2001. Ms. Koh is also the Company Secretary and in-house counsel. She was formerly with the Company from August 1992 to June 1994 and rejoined the Company in November 1998. Ms. Koh graduated from South Bank University with a Bachelor's degree in Law. She is a barrister.

*Mr. Kazuhide KAMITANI*, aged 48, was the managing director of the Company from June 1990 to June 2002 and re-designated as Non-executive Director of the Company on 20th June 2002. Mr. Kamitani is the senior managing director of *AEON Credit Service Co., Ltd.*, which he joined in 1982. He is also a director of *AEON Thana Sinsap (Thailand) Co., Ltd.* and *AEON Information Service (Shenzhen) Co., Ltd.*. Mr. Kamitani graduated from Ritsumeikan University with a Bachelor's degree in Management.

*Mr. Yoichi KIMURA*, aged 60, was appointed a Non-executive Director of the Company on 16th June 1999. Mr. Kimura is a director of *AEON Co., Ltd.*, which he joined in 1998. He graduated from Hitotsubashi University with a Bachelor's degree in Economics. Mr. Kimura has over 30 years of experience in the banking industry.

# *Directors and Senior Management Profile*

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*Dr. SHAO You Bao*, aged 84, was appointed an Independent Non-executive Director on 26th June 1995. Dr. Shao is also an independent non-executive director of AEON Stores (Hong Kong) Co., Limited, a public company listed on the Stock Exchange. He is the Chairman of Van Yu Trading Co., Ltd., Van Yu Holding Co., Ltd., and Van Fung Co., Ltd.. He was a Hong Kong Affairs Adviser to the People's Republic of China and a member of the Preparatory Committee for the Hong Kong Special Administrative Region. He was awarded the Silver Bauhinia Star (S.B.S.) by the Government of the Hong Kong Special Administrative Region in 1998. He was also awarded The Order of Sacred Treasure, Gold Rays with Rosette by His Majesty The Emperor of Japan in 1987. He graduated from Kobe University with a Bachelor's degree in Economics and received an Honorary Doctorate of Laws from Ohio University. Dr. Shao has over 50 years of experience in the banking industry.

*Mr. TSANG Wing Hong*, aged 78, was appointed an Independent Non-executive Director on 26th June 1995. Mr. Tsang was a member of the Banking Advisory Committee from 1991 to 1993. He is a member of the Board of Trustees of United College, Chinese University of Hong Kong. Mr. Tsang has over 35 years of experience in the banking industry.

*Mr. WONG Hin Wing*, aged 42, was appointed an Independent Non-executive Director on 13th October 2004. Mr. Wong holds a Master's degree in Executive Business Administration from Chinese University of Hong Kong. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Hong Kong Institute of Directors and the Association of Chartered Certified Accountants, as well as a member of the American Institute of Certified Public Accountants. He is also a fellow member of the Institute of Chartered Secretaries and Administrators and a member of the Securities Institute in the United Kingdom. Mr. Wong has over 20 years of experience in accounting, finance, investment management and advisory.

## **SENIOR MANAGEMENT**

*Mr. Ivan S. C. WONG*, aged 45, is the General Manager of the Internal Operations Division. He joined the Company in May 1996. Mr. Wong holds a Bachelor's degree in Business Administration from Royal Melbourne Institute of Technology University and a Diploma in Management Studies from Hong Kong Polytechnic University. Prior to joining the Company, he worked for a major bank in Hong Kong for 10 years.

*Mr. Ban S. P. PAN*, aged 37, is the General Manager of the Marketing Division. He was formerly with the Company from April 1993 to September 1996 and rejoined the Company in April 1998. Mr. Pan holds a Bachelor's degree in Computer Science and a Management Certificate in Management Information System both from University of Lethbridge and a Master's degree in Business Administration from South Eastern University.

# *Directors and Senior Management Profile*

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*Mr. Tomoyuki KAWAHARA*, aged 44, is the General Manager of the Branch Business Department. He joined the Company in September 2000. Mr. Kawahara holds a Bachelor's degree in Business Administration from Hokkaido University.

*Mr. Jamie S. S. LEI*, aged 46, is the General Manager of the Sales and Promotion Department. He joined the Company in April 1998. Mr. Lei holds a Bachelor's degree in Economics from St. Francis Xavier University. Prior to joining the Company, he worked for a major U.S. bank in Hong Kong.

*Mr. Barry K. S. FUNG*, aged 42, is the General Manager of the Finance Department. He joined the Company in May 2002. Mr. Fung holds a Bachelor's degree in Business Administration from Yokohama National University. He is also a Chartered Financial Analyst. Prior to joining the Company, he worked for a number of major international banks in Hong Kong, Singapore and Japan.

*Mr. Yukio MATSUMOTO*, aged 43, is the General Manager of the Information Systems Division. He was formerly with the Company from October 1996 to March 2001 and rejoined the Company in January 2003. Mr. Matsumoto holds a Bachelor's degree in Economics from Dokkyo University.

*Mr. Gerald C. L. FONG*, aged 41, is the General Manager of the Accounts Control Division. He joined the Company in February 2004. He was formerly with the Company from July 1988 to August 1989 and from May 1991 to November 2000. Mr. Fong holds a Bachelor's degree in Social Science and a Master's degree in Business Administration both from Chinese University of Hong Kong and a Master's degree in Information Systems from Hong Kong Polytechnic University.

*Ms. Dorothy F. K. CHAN*, aged 36, is the Financial Controller of the Company. She joined the Company in April 1995. Ms. Chan holds a Professional Diploma in Accountancy from Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

# *Directors' Report*

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The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 20th February 2005.

## **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 customer or counterparty in a transaction may default. It arises from the lending and derivatives undertaken by the Company.

In evaluating the credit associated with an individual or counter-party, financial strength and repayment ability are always the primary considerations. 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 of such changes has 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 70% (2004: 65%) of its bank borrowings in long-term with fixed interest rates. 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.

# *Directors' Report*

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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.

During the year, the Company closely monitored 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. During the year, 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 2005, total debt-to-equity ratio was 1.63 (2004: 1.52).

## **RESULTS AND APPROPRIATIONS**

The results of the Company for the year ended 20th February 2005 are set out in the income statement on page 37 of the annual report.

An interim dividend of 5.5 HK cents (2004: 5.0 HK cents) per share amounting to HK\$23,032,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 10.5 HK cents (2004: 9.0 HK cents) per share to the shareholders on the register of members on 16th June 2005 amounting to HK\$43,970,000, and the retention of the remaining profit of HK\$79,339,000 for the year.

## **MAJOR CUSTOMERS**

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

# *Directors' Report*

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## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Company spent approximately HK\$41,311,000 on computer equipment, HK\$912,000 on furniture and fixtures, HK\$1,580,000 on leasehold improvements and HK\$129,000 on motor vehicles.

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

### **Non-executive directors:**

Yoshiki MORI (*Chairman*)  
Kazuhide KAMITANI  
Yoichi KIMURA

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

SHAO You Bao  
TSANG Wing Hong  
WONG Hin Wing (appointed on 13th October 2004)

In accordance with Article 102 of the Company's Articles of Association, all 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.

# Directors' Report

## DIRECTORS' INTERESTS IN SHARES

At 20th February 2005, 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	330,000	0.08%
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	6,000	0.01%
Yoichi Kimura	4,000	0.01%



# Directors' Report

## DIRECTORS' INTERESTS IN SHARES (Cont'd)

### (d) AEON 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 share capital of AEON Thana
Yoshiki Mori	1,500,000	0.60%
Masanori Kosaka	100,000	0.04%
Kazuhide Kamitani	500,000	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.

# Directors' Report

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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 the customers with the use of certain credit cards issued by the Company, including AEON Jusco Mastercard, AEON Jusco Visa Card and AEON Jusco American Express Card, and certain purchases made by the customers which were financed by interest-free hire purchase facilities provided by the Company.

For purchases made by the customers using the credit cards issued by the Company, the commission rate was 0.8% except that the commission rate on thanksgiving days and private sale of AEON Stores was 0.6%. For purchases made by the customers financed by interest-free hire purchase facilities provided by the Company, the commission rate was 3%.

The total amount of commission received and receivable by the Company from AEON Stores for the year ended 20th February 2005 under these arrangements was HK\$11,216,000, representing 0.88% of the Company's net tangible assets at 20th February 2005.

- (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 2005 was HK\$5,385,000, representing 0.42% of the Company's net tangible assets at 20th February 2005.

- (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 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 2005 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.

# *Directors' Report*

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## **CONNECTED TRANSACTIONS (Cont'd)**

- (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 2005 amounted to HK\$9,386,000, representing 0.74% of the Company's net tangible assets at 20th February 2005.

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 PURSUANT TO RULE 13.21 OF LISTING RULES**

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 15th October 2004 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.

# Directors' Report

## SUBSTANTIAL SHAREHOLDERS

At 20th February 2005, 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 2005.

## 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\$1,923,000.

## RETIREMENT BENEFITS SCHEME

Details of the Company's retirement benefits scheme are set out in note 36 to the financial statements.

# *Directors' Report*

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## **CORPORATE GOVERNANCE**

The Company has complied throughout the year ended 20th February 2005 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 (the "Listing Rules") except that the non-executive directors are not appointed for a specific term, but are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, all directors confirmed that they have complied with the required standard set out in the Model Code throughout the year.

The Company has received from each of the independent non-executive directors an annual written 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 year.

## **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, 26th April 2005

# Auditors' Report

**Deloitte.**  
**德勤**

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**TO THE SHAREHOLDERS OF AEON CREDIT SERVICE (ASIA) COMPANY LIMITED**  
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 37 to 76 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

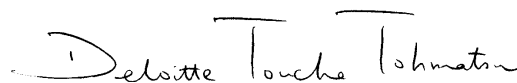
**Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 20th February 2005 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.



**Deloitte Touche Tohmatsu**  
Certified Public Accountants

Hong Kong, 26th April 2005

# Income Statement

For the year ended 20th February 2005

	Notes	2005 HK\$'000	2004 HK\$'000
Turnover	4	<u>878,359</u>	<u>771,176</u>
Interest income		549,659	479,804
Interest expense	6	<u>(85,421)</u>	<u>(116,945)</u>
Net interest income		464,238	362,859
Credit card securitisation income	7	186,501	252,235
Other operating income	8	105,551	108,924
Other loss	9	<u>(1,251)</u>	<u>(632)</u>
Operating income		755,039	723,386
Operating expenses	10	<u>(262,341)</u>	<u>(233,756)</u>
Operating profit before charge for bad and doubtful debts		492,698	489,630
Charge for bad and doubtful debts	12	<u>(314,946)</u>	<u>(343,931)</u>
Profit before taxation		177,752	145,699
Income tax	13	<u>(31,411)</u>	<u>(26,337)</u>
Net profit for the year		<u>146,341</u>	<u>119,362</u>
Earnings per share	15	<u>34.95 cents</u>	<u>28.50 cents</u>

# Balance Sheet

At 20th February 2005

	<i>Notes</i>	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	84,848	72,601
Interest in associates	17	997	10,744
Investment securities	18	17,124	8,882
Hire purchase debtors	20	25,773	16,653
Instalment loans receivable	21	283,309	157,866
Credit card receivables	22	3,450	–
Retained interests in securitisation trust	24	228,319	261,195
		<u>643,820</u>	<u>527,941</u>
<b>Current assets</b>			
Other investments	19	1,239	697
Hire purchase debtors	20	198,155	155,486
Instalment loans receivable	21	649,030	470,759
Credit card receivables	22	943,247	944,317
Retained interests in securitisation trust	24	709,181	652,336
Prepayments, deposits, interest receivable and other debtors		100,878	125,934
Time deposits		–	29,000
Bank balances and cash		97,511	78,077
		<u>2,699,241</u>	<u>2,456,606</u>
<b>Current liabilities</b>			
Creditors and accrued charges	25	79,356	40,946
Amount due to securitisation trust	24	45,855	41,657
Amount due to immediate holding company	27	4,440	963
Amount due to a fellow subsidiary	28	40,685	32,159
Amount due to ultimate holding company	29	50	47
Bank borrowings – repayable within one year	30	620,556	809,910
Taxation		25,772	21,238
		<u>816,714</u>	<u>946,920</u>
<b>Net current assets</b>		<u>1,882,527</u>	1,509,686
<b>Total assets less current liabilities</b>		<u>2,526,347</u>	<u>2,037,627</u>



# Balance Sheet

At 20th February 2005

	Notes	2005 HK\$'000	2004 HK\$'000
<b>Capital and reserves</b>			
Issued capital	31	41,877	41,877
Share premium and reserves	32	<u>1,227,370</u>	<u>1,141,750</u>
		<u>1,269,247</u>	<u>1,183,627</u>
<b>Non-current liabilities</b>			
Bank borrowings – repayable after one year	30	1,255,000	835,000
Deferred tax liabilities	33	<u>2,100</u>	<u>19,000</u>
		<u>1,257,100</u>	<u>854,000</u>
		<u>2,526,347</u>	<u>2,037,627</u>

The financial statements on pages 37 to 76 were approved and authorised for issue by the Board of Directors on 26th April 2005 and are signed on its behalf by:



DIRECTOR



DIRECTOR

# Statement of Changes in Equity

For the year ended 20th February 2005

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Dividend reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 21st February 2003	41,877	227,330	270	33,502	815,726	1,118,705
Net profit for the year	-	-	-	-	119,362	119,362
Final dividend paid for 2002/03	-	-	-	(33,502)	-	(33,502)
Interim dividend paid for 2003/04	-	-	-	-	(20,938)	(20,938)
Final dividend proposed for 2003/04	-	-	-	37,689	(37,689)	-
At 21st February 2004	41,877	227,330	270	37,689	876,461	1,183,627
Net profit for the year	-	-	-	-	146,341	146,341
Final dividend paid for 2003/04	-	-	-	(37,689)	-	(37,689)
Interim dividend paid for 2004/05	-	-	-	-	(23,032)	(23,032)
Final dividend proposed for 2004/05	-	-	-	43,970	(43,970)	-
<b>At 20th February 2005</b>	<b>41,877</b>	<b>227,330</b>	<b>270</b>	<b>43,970</b>	<b>955,800</b>	<b>1,269,247</b>

# Cash Flow Statement

For the year ended 20th February 2005

	2005 HK\$'000	2004 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	177,752	145,699
Adjustments for:		
Net loss on disposal of property, plant and equipment	443	46
Unrealised gain on revaluation of other investments	(542)	–
Impairment loss recognised on investment securities	1,350	586
Interest expense	85,421	116,945
Reversal of allowance for bad and doubtful debts	(16,235)	(45,480)
Dividends received on listed investments	(433)	(260)
Depreciation	31,240	28,331
Operating cash flows before movements in working capital	278,996	245,867
Decrease (increase) in amount due from an associate	155	(33)
(Increase) decrease in hire purchase debtors	(53,874)	45,922
Increase in instalment loans receivable	(328,998)	(300,345)
Decrease in credit card receivables	41,224	195,693
Increase in retained interests in securitisation trust	(22,219)	(141,667)
Decrease (increase) in prepayments, deposits, interest receivable and other debtors	25,056	(1,590)
Increase in creditors and accrued charges	38,372	10,675
Increase in amount due to securitisation trust	4,198	10,521
Increase in amount due to immediate holding company	3,477	952
Increase (decrease) in amount due to a fellow subsidiary	8,526	(769)
Increase in amount due to ultimate holding company	3	–
Cash (used in) generated from operations	(5,084)	65,226
Tax (paid) refunded	(43,777)	11,039
Interest paid	(85,386)	(111,288)
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(134,247)</b>	<b>(35,023)</b>
<b>INVESTING ACTIVITIES</b>		
Decrease in pledged time deposits	–	106,494
Dividends received	433	260
Proceeds from disposal of property, plant and equipment	2	4
Increase in cash reserve retained in securitisation trust	(1,750)	(39,250)
Purchase of property, plant and equipment	(43,932)	(15,238)
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(45,247)</b>	<b>52,270</b>



# Cash Flow Statement

For the year ended 20th February 2005

	2005 HK\$'000	2004 HK\$'000
<b>FINANCING ACTIVITIES</b>		
New bank loans raised	9,599,800	9,287,600
Repayment of bank loans	(9,370,200)	(9,043,000)
Repayment of issued debt securities	–	(335,403)
Dividends paid	(60,718)	(54,441)
	<u>168,882</u>	<u>(145,244)</u>
<b>NET CASH FROM (USED IN) FINANCING ACTIVITIES</b>		
	<u>168,882</u>	<u>(145,244)</u>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(10,612)</b>	<b>(127,997)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>106,767</b>	<b>234,764</b>
	<u>106,767</u>	<u>234,764</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>96,155</b>	<b>106,767</b>
	<u>96,155</u>	<u>106,767</u>
Being:		
Time deposits	–	29,000
Bank balances and cash	97,511	78,077
Bank overdrafts	(1,356)	(310)
	<u>96,155</u>	<u>106,767</u>
	<u>96,155</u>	<u>106,767</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. Its immediate holding company is *AEON* Credit Service Co., Ltd. and its ultimate holding company is *AEON* Co., Ltd., both companies being incorporated and listed in Japan.

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

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) issued a number of new or revised Hong Kong Accounting Standards (“HKASs”) and Hong Kong Financial Reporting Standards (“HKFRSs”) (herein collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1st January 2005. The Company has not early adopted these new HKFRSs in the financial statements for the year ended 20th February 2005.

The Company has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with HKFRSs (which also include Statements of Standard Accounting Practice (“SSAPs”) and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities. The principal accounting policies adopted in preparing these financial statements are as follows:

### Turnover

Turnover represents interest income, annual fees and commission income received and receivable from credit finance services provided to outside customers and investment income from the seller and subordinated interests in securitisation trust received during the year.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Revenue recognition

Interest income, other than from bank deposits, is recognised in the income statement on an accrual basis, except in the case where a debt becomes doubtful at which stage interest ceases to be accrued.

Interest income from bank deposits is recognised in the income statement on a time proportion basis by reference to the principal outstanding and at the interest rate applicable.

Annual fees on credit cards are recognised in the income statement on a time proportion basis.

Commission income is recognised in the income statement when earned.

Dividend income from investments in securities is recognised in the income statement when the Company's right to receive payment has been established.

Credit card securitisation income is recognised in accordance with the accounting policy under "Asset securitisations".

### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the costs of items of property, plant and equipment over their estimated useful lives using the straight-line method, at the following rates per annum:

Leasehold improvements	33 $\frac{1}{3}$ %
Furniture and fixtures	20%
Computer equipment	20% – 33 $\frac{1}{3}$ %
Motor vehicles	33 $\frac{1}{3}$ %

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Interest in associates

Investments in associates are stated at cost, as reduced by any identified impairment loss. The results of associates are accounted for by the Company on the basis of dividends received or receivable during the year.

### Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Company has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments. Investment securities, which are securities held for an identified long-term purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair values, with unrealised gains and losses included in net profit or loss for the year.

### Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### **Hire purchase contracts**

The amounts due from customers in respect of hire purchase contracts are recorded in the balance sheet at the amount of the net investment which represents the total rental receivable under hire purchase agreements less unearned income. Finance income implicit in the rental receivable is credited to the income statement to produce an approximate constant periodic rate of return on the net investment.

### **Allowances for bad and doubtful debts**

Allowances for bad and doubtful debts are made against loans and receivables as and when they are considered doubtful by the management. In addition, an amount is set aside as a general allowance for bad and doubtful debts. Loans and receivables are stated in the financial statements net of these allowances.

Credit losses associated with securitised and sold credit card receivables are not reflected in the Company's allowance for bad and doubtful debts. Such credit losses are absorbed directly under the contractual agreements of the credit card securitisation trust, thereby reducing credit card securitisation income rather than being charged against the allowance for bad and doubtful debts.

### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease terms.

### **Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.



# Notes to the Financial Statements

For the year ended 20th February 2005

## 3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period, directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carry amounts for financial reporting purposes.

Deferred tax liabilities and deferred tax assets are recognised for all taxable and deductible temporary differences. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

### Asset securitisations

The Company securitises various consumer financial assets, which generally results in the sale of these assets to special-purpose vehicles which, in turn, issue securities to investors. Financial assets are partially or wholly derecognised when the Company gives up control of the contractual rights that comprise the financial assets.

Interests in the securitised financial assets may be retained in the form of seller or subordinated tranches, interest-only strips or other residual interests (“retained interests”). The seller and subordinated tranches are recorded in the balance sheet as retained interests in securitisation trust and are carried at amortised cost. The difference between the allocated carrying amount and the fair value of the securitised receivables at the date of the transfer is recognised as interest income over the life of the investment using the effective yield method.

# *Notes to the Financial Statements*

For the year ended 20th February 2005

## **3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

### **Asset securitisations (Cont'd)**

The interest-only strips and other residual interests are recorded in the balance sheet as retained interests in securitisation trust and are carried at fair value. The determination of fair values of retained interests is generally based on listed market prices or by determining the present value of expected future cash flows using pricing models that incorporate management's best estimates of critical assumptions which may include credit losses, discount rates, yield curves and other factors. Unrealised gains or losses are recorded in the credit card securitisation income in the income statement.

Gains or losses on securitisation depend in part on the carrying amount of the transferred financial assets, allocated between the financial assets derecognised and the retained interests based on their relative fair values at the date of the transfer. The Company recognises all assets obtained and liabilities incurred in consideration as proceeds of the sale, including any contingent liabilities. Gains or losses on securitisation are recorded in the credit card securitisation income in the income statement.

### **Derivative financial instruments**

Derivative financial instruments arise from swap transactions undertaken by the Company in the foreign exchange and interest rate markets. Transactions undertaken for hedging purposes are valued on the same basis as the assets, liabilities or net positions that they are hedging. Any profit or loss is recognised in the income statement on the same basis as that arising from the related assets, liabilities or positions.

### **Retirement benefit costs**

Payments to the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 4. TURNOVER

	2005 HK\$'000	2004 HK\$'000
Interest income	549,659	479,804
Fees and commissions	37,436	32,280
Investment income from the seller and subordinated interests in securitisation trust	291,264	259,092
	<u>878,359</u>	<u>771,176</u>

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

For management purposes, the Company is currently organised into three operating divisions – credit card, hire purchase and instalment loan. These divisions are the basis on which the Company reports its primary segment information.

Principal activities are as follows:

- Credit card – Provide credit card services to individuals and acquiring services for member-stores
- Hire purchase – Provide vehicle financing and hire purchase financing for household products and other consumer products to individuals
- Instalment loan – Provide personal loan financing to individuals

# Notes to the Financial Statements

For the year ended 20th February 2005

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

### (a) Business segments (Cont'd)

Segment information about these businesses is presented below:

#### 2005

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
<b>INCOME STATEMENT</b>					
<b>TURNOVER</b>	<u>621,476</u>	<u>15,472</u>	<u>241,089</u>	<u>322</u>	<u>878,359</u>
<b>RESULT</b>					
Net interest income (expense)	266,421	(7,363)	208,408	(3,228)	464,238
Credit card securitisation income	186,501	-	-	-	186,501
Other operating income	81,390	14,587	9,141	433	105,551
Other loss	-	-	-	(1,251)	(1,251)
Charge for bad and doubtful debts	(249,557)	(4,424)	(60,965)	-	(314,946)
Segment results	<u>284,755</u>	<u>2,800</u>	<u>156,584</u>		
Unallocated operating expenses				(262,341)	<u>(262,341)</u>
Profit before taxation					<u>177,752</u>
<b>BALANCE SHEET</b>					
<b>ASSETS</b>					
Total assets	<u>1,934,272</u>	<u>224,016</u>	<u>961,526</u>	<u>223,247</u>	<u>3,343,061</u>
<b>LIABILITIES</b>					
Total liabilities	<u>956,152</u>	<u>214,767</u>	<u>743,658</u>	<u>159,237</u>	<u>2,073,814</u>
<b>OTHER INFORMATION</b>					
Additions to property, plant and equipment	-	-	-	43,932	43,932
Depreciation	-	-	-	31,240	31,240
Net loss on disposal of property, plant and equipment	-	-	-	443	443

# Notes to the Financial Statements

For the year ended 20th February 2005

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

### (a) Business segments (Cont'd)

2004

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
<b>INCOME STATEMENT</b>					
<b>TURNOVER</b>	<u>613,242</u>	<u>16,943</u>	<u>139,213</u>	<u>1,778</u>	<u>771,176</u>
<b>RESULT</b>					
Net interest income (expense)	270,738	(8,688)	108,992	(8,183)	362,859
Credit card securitisation income	252,235	–	–	–	252,235
Other operating income	87,738	14,722	6,204	260	108,924
Other loss	–	–	–	(632)	(632)
Charge for bad and doubtful debts	<u>(285,147)</u>	<u>(2,038)</u>	<u>(56,746)</u>	–	<u>(343,931)</u>
Segment results	<u>325,564</u>	<u>3,996</u>	<u>58,450</u>		
Unallocated operating expenses				(233,756)	<u>(233,756)</u>
Profit before taxation					<u>145,699</u>
<b>BALANCE SHEET</b>					
<b>ASSETS</b>					
Total assets	<u>1,939,149</u>	<u>172,315</u>	<u>644,998</u>	<u>228,085</u>	<u>2,984,547</u>
<b>LIABILITIES</b>					
Total liabilities	<u>893,871</u>	<u>195,992</u>	<u>484,097</u>	<u>226,960</u>	<u>1,800,920</u>
<b>OTHER INFORMATION</b>					
Additions to property, plant and equipment	–	–	–	15,238	15,238
Depreciation	–	–	–	28,331	28,331
Net loss on disposal of property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>46</u>	<u>46</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

### (b) Geographical segments

All the Company's interest income, fee and commission income and profit are derived from operations carried out in Hong Kong.

## 6. INTEREST EXPENSE

	2005 HK\$'000	2004 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	85,421	104,416
Finance costs on issue of debt securities wholly repayable within five years ( <i>note</i> )	—	12,529
	<u>85,421</u>	<u>116,945</u>

*Note:* Included in the interest expense in 2004 was an amount of HK\$8,687,000 that represented amortisation of costs in connection with the issue of debt securities.

## 7. CREDIT CARD SECURITISATION INCOME

Credit card securitisation income represents the combined effect of gains on sales of credit card receivables, investment income from the seller and subordinated interests in securitisation trust and unrealised gains and losses on the interest-only strips and cash reserve account in the securitisation trust.

## 8. OTHER OPERATING INCOME

	2005 HK\$'000	2004 HK\$'000
Fees and commissions		
Credit card	22,903	17,603
Hire purchase	14,533	14,677
Handling, late and storage charges	38,083	53,222
Servicer fee on credit card securitisation	26,714	21,143
Dividends received on listed investments	433	260
Others	2,885	2,019
	<u>105,551</u>	<u>108,924</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 9. OTHER LOSS

	2005 HK\$'000	2004 HK\$'000
Net loss on disposal of property, plant and equipment	443	46
Unrealised gain on revaluation of other investments	(542)	–
Impairment loss recognised on investment securities	1,350	586
	<u>1,251</u>	<u>632</u>

## 10. OPERATING EXPENSES

	2005 HK\$'000	2004 HK\$'000
Administrative expenses	60,548	53,163
Advertising expenses	20,934	12,870
Auditors' remuneration	1,800	1,702
Depreciation	31,240	28,331
Exchange loss	17	–
Operating lease rentals in respect of rented premises, advertising space and equipment	47,845	54,305
Other operating expenses	25,920	24,599
Staff costs	74,037	58,786
	<u>262,341</u>	<u>233,756</u>

Operating lease rentals in respect of staff quarters of HK\$505,000 (2004: HK\$422,000) are included under staff costs.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2005 HK\$'000	2004 HK\$'000
Directors' fees:		
Non-executive	150	150
Independent non-executive	541	420
	<u>691</u>	<u>570</u>
Other emoluments to executive directors:		
Salaries, housing benefits, other allowances and benefits	4,014	4,046
Discretionary bonus	700	187
Mandatory provident fund contributions	35	24
	<u>5,440</u>	<u>4,827</u>

Operating lease rentals in respect of a director's accommodation of HK\$342,000 (2004: HK\$342,000) are included under other emoluments.

The emoluments of the directors were within the following bands:

	2005 No. of directors	2004
Nil to HK\$1,000,000	6	6
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,500,000	2	1
	<u>9</u>	<u>9</u>



# Notes to the Financial Statements

For the year ended 20th February 2005

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

During the year, the five highest paid individuals included three directors (2004: three directors), details of whose emoluments are set out above. The emoluments paid to the remaining two individuals (2004: two individuals) were as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other benefits	1,620	1,584
Discretionary bonus	159	66
	<u>1,779</u>	<u>1,650</u>

The emoluments of the remaining two individuals (2004: two individuals) were within the following bands:

	2005 No. of employees	2004 No. of employees
Nil to HK\$1,000,000	<u>2</u>	<u>2</u>

## 12. CHARGE FOR BAD AND DOUBTFUL DEBTS

	2005 HK\$'000	2004 HK\$'000
Specific allowances made	311,974	348,253
Increase in (reversal of) general allowances	2,972	(4,322)
	<u>314,946</u>	<u>343,931</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 13. INCOME TAX

	2005 HK\$'000	2004 HK\$'000
Provision for the year		
Hong Kong	47,712	28,653
Under(over)provision in prior years		
Hong Kong	599	(3,347)
Deferred tax liabilities		
For the year ( <i>note 33</i> )	(16,900)	843
Effect on change in tax rate ( <i>note 33</i> )	–	188
	<u>31,411</u>	<u>26,337</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for both years.

Taxation for the year can be reconciled to the profit per the income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	<u>177,752</u>	<u>145,699</u>
Taxation at the applicable rate of 17.5%	31,107	25,497
Tax effect of expenses not deductible for tax purposes	147	105
Tax effect of income not taxable for tax purposes	(132)	(91)
Under(over)provision in prior years	599	(3,347)
Increase in opening deferred tax liabilities resulting		
from an increase in Hong Kong Profits Tax rate	–	188
Others	(310)	3,985
Taxation for the year	<u>31,411</u>	<u>26,337</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 14. DIVIDENDS

	2005 HK\$'000	2004 HK\$'000
Interim paid:		
5.5 HK cents (2004: 5.0 HK cents) per share	23,032	20,938
Final proposed:		
10.5 HK cents (2004: 9.0 HK cents) per share	43,970	37,689
	<u>67,002</u>	<u>58,627</u>

The final dividend of 10.5 HK cents (2004: 9.0 HK cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

## 15. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$146,341,000 (2004: HK\$119,362,000) and on the number of 418,766,000 (2004: 418,766,000) shares in issue during the year.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>					
At 21st February 2004	14,961	13,501	162,329	227	191,018
Additions	1,580	912	41,311	129	43,932
Disposals	(4,193)	(24)	(4,157)	(24)	(8,398)
<b>At 20th February 2005</b>	<u>12,348</u>	<u>14,389</u>	<u>199,483</u>	<u>332</u>	<u>226,552</u>
<b>DEPRECIATION</b>					
At 21st February 2004	13,603	9,279	95,330	205	118,417
Provided for the year	1,161	1,976	28,052	51	31,240
Eliminated on disposals	(4,110)	(24)	(3,795)	(24)	(7,953)
<b>At 20th February 2005</b>	<u>10,654</u>	<u>11,231</u>	<u>119,587</u>	<u>232</u>	<u>141,704</u>
<b>NET BOOK VALUES</b>					
<b>At 20th February 2005</b>	<u>1,694</u>	<u>3,158</u>	<u>79,896</u>	<u>100</u>	<u>84,848</u>
At 20th February 2004	<u>1,358</u>	<u>4,222</u>	<u>66,999</u>	<u>22</u>	<u>72,601</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 17. INTEREST IN ASSOCIATES

	2005 HK\$'000	2004 HK\$'000
Unlisted shares at cost	1,000	10,592
Amount due (to) from an associate	(3)	152
	<u>997</u>	<u>10,744</u>

The amount due from an associate was unsecured, interest free and had no fixed term of repayment.

Details of the Company's associate at 20th February 2005 are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interest	Principal activity
AEON Information Service (Shenzhen) Co., Ltd.	Incorporated	People's Republic of China	50%	Provision of call center services

The above associate is also a fellow subsidiary of the Company.

The following amounts would have been dealt with in the financial statements of the Company if consolidated financial statements had been presented:

	2005 HK\$'000	2004 HK\$'000
Share of results of associates	(4,331)	(2,985)
Gain on deemed disposal of an associate	<u>3,863</u>	<u>–</u>
Share of net assets	<u>1,974</u>	<u>6,025</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 17. INTEREST IN ASSOCIATES (Cont'd)

Share of the associates' post acquisition results:

	2005 HK\$'000	2004 HK\$'000
Accumulated loss brought forward	(3,991)	(1,006)
Share of results for the year	(4,331)	(2,985)
Gain on deemed disposal of an associate	3,863	–
Transfer to investment securities	5,419	–
	<u>960</u>	<u>(3,991)</u>
Accumulated profit (loss) carried forward	<u>960</u>	<u>(3,991)</u>

During the year, interest in AEON Credit Card (Taiwan) Co., Ltd. was diluted from 20% to 12.2% upon the issue of new shares to the other shareholders. Accordingly, the investment was reclassified to investment securities.

## 18. INVESTMENT SECURITIES

	2005 HK\$'000	2004 HK\$'000
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	3,541	5,141
Overseas	2,753	2,753
Unlisted shares	10,830	988
	<u>17,124</u>	<u>8,882</u>
Market value of listed shares	<u>27,669</u>	<u>16,871</u>

## 19. OTHER INVESTMENTS

Other investments represent shares listed overseas and are stated at market value.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 20. HIRE PURCHASE DEBTORS

	Minimum payments		Present value of minimum payments	
	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Amounts receivable under hire purchase contracts:				
Within one year	206,790	162,535	206,123	161,710
In the second to fifth year inclusive	27,008	17,566	26,857	17,396
	<u>233,798</u>	<u>180,101</u>	<u>232,980</u>	<u>179,106</u>
Unearned finance income	(818)	(995)	-	-
Present value of minimum payments receivable	<u>232,980</u>	<u>179,106</u>	<u>232,980</u>	<u>179,106</u>
Analysed as:				
			2005	2004
			HK\$'000	HK\$'000
Due:				
Within one year			206,123	161,710
Thereafter			26,857	17,396
			<u>232,980</u>	<u>179,106</u>
Allowance for bad and doubtful debts			(9,052)	(6,967)
			<u>223,928</u>	<u>172,139</u>
Current portion included under current assets			(198,155)	(155,486)
Amount due after one year			<u>25,773</u>	<u>16,653</u>

The Company enters into hire purchase arrangements with customers. The term of hire purchase contracts ranges from 4 months to 3 years.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 21. INSTALMENT LOANS RECEIVABLE

	2005 HK\$'000	2004 HK\$'000
Due:		
Within one year	699,684	506,317
In the second to fifth year inclusive	305,420	169,789
	<u>1,005,104</u>	<u>676,106</u>
Allowance for bad and doubtful debts	(72,765)	(47,481)
	<u>932,339</u>	<u>628,625</u>
Current portion included under current assets	(649,030)	(470,759)
	<u>283,309</u>	<u>157,866</u>

The term of instalment loans ranges from 6 months to 5 years.

## 22. CREDIT CARD RECEIVABLES

	2005 HK\$'000	2004 HK\$'000
Due:		
Within one year	1,035,241	1,080,251
In the second to fifth year inclusive	3,786	–
	<u>1,039,027</u>	<u>1,080,251</u>
Allowance for bad and doubtful debts	(92,330)	(135,934)
	<u>946,697</u>	<u>944,317</u>
Current portion included under current assets	(943,247)	(944,317)
	<u>3,450</u>	<u>–</u>

The Company enters into card instalment plans with customers. The term of card instalment plans ranges from 3 months to 2 years.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 23. OVERDUE DEBTOR BALANCE

Set out below is an analysis of debtor balance of hire purchase debtors, instalment loans receivable and credit card receivables which is overdue for more than 1 month:

	2005		2004	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	94,046	4.1	135,315	7.0
Overdue 2 months but less than 3 months	18,094	0.8	23,609	1.2
Overdue 3 months or above	84,570	3.7	95,470	4.9
	<u>196,710</u>	<u>8.6</u>	<u>254,394</u>	<u>13.1</u>

\* Percentage of total debtor balance

## 24. RETAINED INTERESTS IN SECURITISATION TRUST AND AMOUNT DUE TO SECURITISATION TRUST

	2005 HK\$'000	2004 HK\$'000
Due:		
Within one year	709,181	652,336
In the second to fifth year inclusive	228,319	261,195
	<u>937,500</u>	<u>913,531</u>

Analysed as:

Seller interest	316,317	248,614
Subordinated interest	284,643	279,628
Interest-only strips	216,540	267,039
Cash reserve account	120,000	118,250
	<u>937,500</u>	<u>913,531</u>



# Notes to the Financial Statements

For the year ended 20th February 2005

## 24. RETAINED INTERESTS IN SECURITISATION TRUST AND AMOUNT DUE TO SECURITISATION TRUST (Cont'd)

Seller and subordinated interests represent the amortised cost of the credit card receivables included in the securitisation trust and retained by the Company. The interest-only strips, which are retained by the Company, represent the net present value of the projected excess cash flows expected to be produced from the securitised credit card receivables during their estimated lives.

The amount due to securitisation trust of HK\$45,855,000 (2004: HK\$41,657,000) on the balance sheet represents collections received by the Company from the securitised credit card receivables and related interests but payable to the securitisation trust after the balance sheet date.

## 25. CREDITORS AND ACCRUED CHARGES

The aging analysis of creditors and accrued charges is as follows:

	2005 HK\$'000	2004 HK\$'000
Current	78,695	39,973
Over 1 month but less than 3 months	309	634
Over 3 months	352	339
	<u>79,356</u>	<u>40,946</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 26. MATURITY PROFILE

	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	2005 4 years or less but over 1 year HK\$'000	Over 4 years HK\$'000	Total HK\$'000
<b>ASSETS</b>					
Credit card receivables	1,015,043	20,198	3,786	–	1,039,027
Hire purchase debtors	72,081	134,042	26,857	–	232,980
Instalment loans receivable	226,238	473,446	303,219	2,201	1,005,104
Retained interests in securitisation trust	423,832	285,349	228,319	–	937,500
	<u>1,737,194</u>	<u>913,035</u>	<u>562,181</u>	<u>2,201</u>	<u>3,214,611</u>
<b>LIABILITIES</b>					
Bank borrowings	<u>440,556</u>	<u>180,000</u>	<u>965,000</u>	<u>290,000</u>	<u>1,875,556</u>
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	2004 4 years or less but over 1 year HK\$'000	Over 4 years HK\$'000	Total HK\$'000
<b>ASSETS</b>					
Credit card receivables	1,080,251	–	–	–	1,080,251
Hire purchase debtors	69,240	92,470	17,396	–	179,106
Instalment loans receivable	166,743	339,574	168,020	1,769	676,106
Retained interests in securitisation trust	365,977	286,359	261,195	–	913,531
Time deposits	29,000	–	–	–	29,000
	<u>1,711,211</u>	<u>718,403</u>	<u>446,611</u>	<u>1,769</u>	<u>2,877,994</u>
<b>LIABILITIES</b>					
Bank borrowings	<u>454,910</u>	<u>355,000</u>	<u>695,000</u>	<u>140,000</u>	<u>1,644,910</u>

## 27. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount is unsecured, non-interest bearing and is repayable on demand.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 28. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount is unsecured, non-interest bearing and is repayable on demand.

## 29. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

The amount is unsecured, non-interest bearing and is repayable on demand.

## 30. BANK BORROWINGS

	2005 HK\$'000	2004 HK\$'000
Bank overdraft, unsecured	1,356	310
Bank loans, unsecured	1,874,200	1,644,600
	<u>1,875,556</u>	<u>1,644,910</u>

The maturity of bank borrowings is as follows:

Within one year	620,556	809,910
Between one and two years	275,000	155,000
Between two to five years	980,000	680,000
	<u>1,875,556</u>	<u>1,644,910</u>
Amount repayable within one year included under current liabilities	<u>(620,556)</u>	<u>(809,910)</u>
Amount repayable after one year	<u>1,255,000</u>	<u>835,000</u>

## 31. ISSUED CAPITAL

	Number of shares 2005 & 2004	Share capital 2005 & 2004 HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised		
At beginning and end of year	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid		
At beginning and end of year	<u>418,766,000</u>	<u>41,877</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 32. SHARE PREMIUM AND RESERVES

The Company's reserves available for distribution to shareholders as at 20th February 2005 amounted to HK\$999,770,000 (2004: HK\$914,150,000), representing the aggregate of the dividend reserve and the accumulated profits.

## 33. DEFERRED TAX LIABILITIES

	2005 HK\$'000	2004 HK\$'000
At 21st February	19,000	2,001
(Credit) charge for the year	(16,900)	843
Effect of change in tax rate charged to income statement	-	188
Transfer from provision for taxation in previous years ( <i>note</i> )	-	15,968
	<u>2,100</u>	<u>19,000</u>
At 20th February	<u>2,100</u>	<u>19,000</u>

At the balance sheet date, the major components of the deferred tax liabilities (assets) are as follows:

	2005 HK\$'000	2004 HK\$'000
Tax effect of temporary differences because of:		
Excess of tax allowances over depreciation	13,636	11,682
General allowance for bad and doubtful debts	(9,468)	(8,948)
Gains on sales of credit card receivables and unrealised gains and losses on interest-only strips and cash reserve account in the securitisation trust	(2,068)	16,266
	<u>2,100</u>	<u>19,000</u>
Net deferred tax liabilities	<u>2,100</u>	<u>19,000</u>

*Note:* The amount represented income tax provided in prior years and was transferred from tax payable to deferred tax to recognise the tax effect of the temporary differences due to gains on sales of credit card receivables and unrealised gains and losses on interest-only strips and cash reserve account in the securitisation trust.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 34. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises and advertising space which fall due as follows:

	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>21,931</b>	21,825
In the second to fifth year inclusive	<b>7,413</b>	11,533
	<u><b>29,344</b></u>	<u>33,358</u>

Leases for rented premises and advertising space are negotiated for an average term of two years and rentals are fixed for an average of one year.

In the prior year, the Company disposed of certain computer equipment and entered into two lease agreements to lease back the equipment for a basic term of twelve months, with an option to renew the lease for two twelve-month terms, at a fixed monthly rental throughout the lease period. The Company has been granted an option to purchase the equipment at the end of each twelve-month term at an amount equal to the higher of the market price or the fixed purchase price as stipulated in the lease agreements. During the year, the Company exercised the option to purchase the computer equipment under one of the leases at HK\$8,600,000 (2004: Nil) and renew the remaining lease for a twelve-month term. At the balance sheet date, the Company had commitments for minimum future lease payments in respect of the remaining lease falling due within one year of HK\$1,650,000 (2004: HK\$6,994,000). Lease payments under the renewal option for two twelve-month terms which fall due within one year and in the second to fifth year inclusive are HK\$2,310,000 (2004: HK\$2,310,000) and HK\$8,300,000 (2004: HK\$12,260,000) respectively.

# Notes to the Financial Statements

For the year ended 20th February 2005

## 35. FINANCIAL INSTRUMENTS

### (a) Derivatives

Derivatives refer to financial contracts whose values depend on the values of one or more underlying assets or indices.

At 20th February 2005, the contractual or notional amounts of interest rate swap contracts entered into by the Company for hedging purposes with financial institutions were HK\$860,000,000 (2004: HK\$625,000,000).

The contractual or notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts of risk.

- (b) The credit risk on derivative financial instruments is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agents.
- (c) As a result of the securitisation transaction entered in September 2002, the Company has entered into forward contracts with Nihon (Hong Kong) Company Limited, a special purpose entity (a “SPE”) incorporated in Hong Kong formed for the sole purpose of the transaction, to sell credit card receivables to the SPE from time to time in accordance with the terms of the agreement.

## 36. RETIREMENT BENEFITS SCHEME

The Company operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualifying employees. The assets of the MPF Scheme are held separately from those of the Company, in funds under the control of trustees. The Company contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees. The total cost charged to income of HK\$2,421,000 (2004: HK\$1,486,000) represents contributions payable to the MPF Scheme by the Company in respect of the current accounting period. As at 20th February 2005, contributions of HK\$359,000 (2004: HK\$181,000) due in respect of the reporting period had not been paid over to the MPF Scheme.

# *Notes to the Financial Statements*

*For the year ended 20th February 2005*

## **37. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (“SPE” )**

The Company securitised credit card receivables through the SPE that was specifically set up for this transaction in 2002. Proceeds received in this transaction were HK\$600,000,000. The Company’s continuing involvement was primarily limited to the retention of various security interests and servicing rights. During the year ended 20th February 2004, the Company securitised additional credit card receivables through the same SPE and received further proceeds of HK\$250,000,000. During the year ended 20th February 2005, related pre-tax gains, including unrealised gains on retained interests (interest only strips and cash reserve accounts), recognised at the time of both securitisation and subsequent sales of credit card receivables were HK\$110,199,000 (2004: HK\$108,122,000).

At 20th February 2005, the Company had retained interests of HK\$937,500,000 (2004: HK\$913,531,000) in the securitisation trust.

Although the Company has retained significant exposures to returns from the securitised assets, the SPE is not construed as the Company’s subsidiary under Section 2(4) of the Hong Kong Companies Ordinance. Accordingly, the SPE has not been consolidated into the Company’s financial statements for the year ended 20th February 2005 in accordance with the provisions of paragraph 27 of SSAP 32 “Consolidated Financial Statements And Accounting For Investments In Subsidiaries”.

In accordance with paragraph 46 of SSAP 32, the Company has set out below the details of the effect on the consolidated financial statements of the Company and the SPE for the year ended 20th February 2005 had the exemption given in paragraph 27 of SSAP 32 not applied:

# Notes to the Financial Statements

For the year ended 20th February 2005

## 37. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (“SPE” ) (Cont’d)

Proforma consolidated income statement for the year ended 20th February 2005:

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
Turnover	<u>878,359</u>	9,181		<u>887,540</u>
Interest income	549,659	268,234		817,893
Interest expense	<u>(85,421)</u>	(11,722)		<u>(97,143)</u>
Net interest income	464,238			720,750
Credit card securitisation income	186,501	(186,501)		-
Other operating income	105,551	5,497		111,048
Other loss	<u>(1,251)</u>			<u>(1,251)</u>
Operating income	755,039			830,547
Operating expenses	<u>(262,341)</u>	(852)		<u>(263,193)</u>
Operating profit before charge for bad and doubtful debts	492,698			567,354
Charge for bad and doubtful debts	(314,946)	(56,785)		(371,731)
Share of results of associates	-		(4,331)	(4,331)
Gain on deemed disposal of an associate	<u>-</u>		3,863	<u>3,863</u>
Profit before taxation	177,752			195,155
Income tax	<u>(31,411)</u>	(3,127)		<u>(34,538)</u>
Net profit for the year	<u>146,341</u>			<u>160,617</u>



# Notes to the Financial Statements

For the year ended 20th February 2005

## 37. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (“SPE” ) (Cont’d)

Proforma consolidated balance sheet at 20th February 2005:

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment	84,848			84,848
Interest in associates	997		974	1,971
Investment securities	17,124		(5,829)	11,295
Hire purchase debtors	25,773			25,773
Instalment loans receivable	283,309			283,309
Credit card receivables	3,450			3,450
Retained interests in securitisation trust	228,319	(228,319)		–
Deferred tax assets	–	24,417		24,417
Pledged time deposits	–	120,000		120,000
	<u>643,820</u>			<u>555,063</u>
<b>Current assets</b>				
Other investments	1,239			1,239
Hire purchase debtors	198,155			198,155
Instalment loans receivable	649,030			649,030
Credit card receivables	943,247	1,245,241		2,188,488
Retained interests in securitisation trust	709,181	(709,181)		–
Prepayments, deposits, interest receivable and other debtors	100,878	33,620		134,498
Time deposits	–	181,903		181,903
Bank balances and cash	97,511			97,511
	<u>2,699,241</u>			<u>3,450,824</u>
<b>Current liabilities</b>				
Creditors and accrued charges	79,356	809		80,165
Amount due to securitisation trust	45,855	(45,855)		–
Amount due to immediate holding company	4,440			4,440
Amount due to a fellow subsidiary	40,685			40,685
Amount due to ultimate holding company	50			50
Bank borrowings – repayable within one year	620,556			620,556
Taxation	25,772			25,772
	<u>816,714</u>			<u>771,668</u>
Net current assets	<u>1,882,527</u>			<u>2,679,156</u>
Total assets less current liabilities	<u>2,526,347</u>			<u>3,234,219</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 37. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (“SPE” ) (Cont’d)

### Proforma consolidated balance sheet at 20th February 2005: (Cont’d)

	The Company HK\$’000	Effect of consolidation of SPE HK\$’000	Effect of equity accounting for associates HK\$’000	The proforma group HK\$’000
<b>Capital and reserves</b>				
Issued capital	41,877			41,877
Share premium and reserves	1,227,370	(135,173)	(4,855)	1,087,342
	<u>1,269,247</u>			<u>1,129,219</u>
<b>Non-current liabilities</b>				
Bank borrowings – repayable after one year	1,255,000			1,255,000
Issued debt securities	–	850,000		850,000
Deferred tax liabilities	2,100	(2,100)		–
	<u>1,257,100</u>			<u>2,105,000</u>
	<u><u>2,526,347</u></u>			<u><u>3,234,219</u></u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 37. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (“SPE” ) (Cont’d)

Proforma consolidated income statement for the year ended 20th February 2004:

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
Turnover	<u>771,176</u>	19,576		<u>790,752</u>
Interest income	479,804	243,651		723,455
Interest expense	<u>(116,945)</u>	(10,975)		<u>(127,920)</u>
Net interest income	362,859			595,535
Credit card securitisation income	252,235	(252,235)		–
Other operating income	108,924	13,875		122,799
Other loss	<u>(632)</u>			<u>(632)</u>
Operating income	723,386			717,702
Operating expenses	<u>(233,756)</u>	(1,181)		<u>(234,937)</u>
Operating profit before charge for bad and doubtful debts	489,630			482,765
Charge for bad and doubtful debts	(343,931)	(61,574)		(405,505)
Share of results of associates	–		(2,985)	(2,985)
Profit before taxation	145,699			74,275
Income tax	<u>(26,337)</u>	8,449		<u>(17,888)</u>
Net profit for the year	<u>119,362</u>			<u>56,387</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 37. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (“SPE” ) (Cont’d)

Proforma consolidated balance sheet at 20th February 2004:

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment	72,601			72,601
Interest in associates	10,744		(4,567)	6,177
Investment securities	8,882			8,882
Hire purchase debtors	16,653			16,653
Instalment loans receivable	157,866			157,866
Retained interests in securitisation trust	261,195	(261,195)		–
Pledged time deposits	–	118,000		118,000
	<u>527,941</u>			<u>380,179</u>
<b>Current assets</b>				
Other investments	697			697
Hire purchase debtors	155,486			155,486
Instalment loans receivable	470,759			470,759
Credit card receivables	944,317	1,247,551		2,191,868
Retained interests in securitisation trust	652,336	(652,336)		–
Prepayments, deposits, interest receivable and other debtors	125,934	32,050		157,984
Time deposits	29,000	145,074		174,074
Bank balances and cash	78,077			78,077
	<u>2,456,606</u>			<u>3,228,945</u>
<b>Current liabilities</b>				
Creditors and accrued charges	40,946	362		41,308
Amount due to securitisation trust	41,657	(41,657)		–
Amount due to immediate holding company	963			963
Amount due to a fellow subsidiary	32,159			32,159
Amount due to ultimate holding company	47			47
Bank borrowings – repayable within one year	809,910			809,910
Taxation	21,238	(13,378)		7,860
	<u>946,920</u>			<u>892,247</u>
Net current assets	<u>1,509,686</u>			<u>2,336,698</u>
Total assets less current liabilities	<u>2,037,627</u>			<u>2,716,877</u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 37. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (“SPE” ) (Cont’d)

Proforma consolidated balance sheet at 20th February 2004 (Cont’d):

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
Capital and reserves				
Issued capital	41,877			41,877
Share premium and reserves	1,141,750	(149,917)	(4,567)	987,266
	<u>1,183,627</u>			<u>1,029,143</u>
Non-current liabilities				
Bank borrowings – repayable after one year	835,000			835,000
Issued debt securities	–	850,000		850,000
Deferred tax liabilities	19,000	(16,266)		2,734
	<u>854,000</u>			<u>1,687,734</u>
	<u><u>2,037,627</u></u>			<u><u>2,716,877</u></u>

# Notes to the Financial Statements

For the year ended 20th February 2005

## 38. RELATED PARTY TRANSACTIONS

During the year, the Company entered into the following transactions with related parties:

		Fellow subsidiary		Immediate holding company		Ultimate holding company		Associate		AEON Education and Environment Fund Limited	
		2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission received	a)	<u>11,216</u>	<u>13,543</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees received	b)	<u>-</u>	<u>-</u>	<u>203</u>	<u>203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees paid	b)	<u>5,385</u>	<u>5,900</u>	<u>-</u>	<u>-</u>	<u>45</u>	<u>45</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Service fees paid	c)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,386</u>	<u>8,663</u>	<u>-</u>	<u>-</u>
Donation	d)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,800</u>	<u>265</u>

- a) Commission rates payable by the fellow subsidiary to the Company are based on the terms agreed by both parties.
- b) Licence fees received and paid were calculated in accordance with the licence agreements.
- c) Service fees paid to an associate are based on the terms agreed by both parties.
- d) AEON Education and Environment Fund Limited (the "Fund") is a company limited by guarantee and not having a share capital. The Company is a member of the Fund. The objective of the Fund is to promote environment protection, cultural exchange and education in the Hong Kong Special Administrative Region and other parts of the People's Republic of China.

## 39. CAPITAL COMMITMENTS

	2005	2004
	HK\$'000	HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	<u>8,789</u>	<u>3,959</u>