

Notes to the Financial Statements

For the year ended 20th February 2001

1. GENERAL

The Company is a listed 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 Jusco Co., Ltd., both companies are 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. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention. The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Revenue recognition

Interest income other than from bank deposit, 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.

Notes to the Financial Statements

For the year ended 20th February 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation is provided to write off the costs 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 $\frac{1}{3}$ %

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected cash flows are not discounted to their present values.

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

Interest in associates

An associate is an enterprise over which the Company is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee.

Investment in associate is stated at cost, as reduced by any decline in the value of the associate that is other than temporary. Results of associates are accounted for by the Company on the basis of dividends received or receivable during the year.

Notes to the Financial Statements

For the year ended 20th February 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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. 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 period.

Hire purchase contracts

The amounts due from customers in respect of hire purchase contracts are recorded in the balance sheet at the amount of net investment which represent 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.

Provision for bad and doubtful debts

Provision for bad and doubtful debts is 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 provision for bad and doubtful debts. Loans and receivables are stated in the financial statements net of these provisions.

Notes to the Financial Statements

For the year ended 20th February 2001

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Issued debt securities

Issued debt securities are recorded at the consideration received on the issue of the certificates after deduction of costs in connection with the issue. The issue costs are taken as part of finance costs to the income statement at a constant rate on the carrying amount over the term of the certificates.

Operating leases

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

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling 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 ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advances.

Off balance sheet financial instruments

Off balance sheet financial instruments arise from swap transaction undertaken by the Company in the foreign exchange and interest rate markets. Transactions undertaken for hedging purposes are valued on the same basis to 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.

Notes to the Financial Statements

For the year ended 20th February 2001

3. SEGMENTAL INFORMATION

The following segmental information is disclosed pursuant to Appendix 16 of the Listing Rules:

(a) By geographical area

Over 90% of the Company's interest income, fee and commission income and profit are derived from operations carried out in Hong Kong.

(b) Turnover by class of business

Turnover represents the finance charges from hire purchase contracts, interest earned on loans and credit card advances, fee, commission income, and interest on bank deposits and is summarised as follows:

	2001 HK\$'000	2000 HK\$'000
Interest income		
Credit card	697,450	705,210
Vehicle financing	16,924	17,739
Hire purchase	1,240	661
Personal loan	36,507	10,809
Bank deposits	17,747	12,036
	<u>769,868</u>	<u>746,455</u>
Fee and commission		
Credit card	23,019	24,180
Hire purchase	24,253	24,587
	<u>47,272</u>	<u>48,767</u>
Total	<u><u>817,140</u></u>	<u><u>795,222</u></u>

Notes to the Financial Statements

For the year ended 20th February 2001

3. SEGMENTAL INFORMATION (Cont'd)

(c) Contributions by class of business

	2001 HK\$'000	2000 HK\$'000
Profit before taxation		
Credit card	228,758	198,771
Vehicle financing	2,975	276
Hire purchase	1,548	951
Personal loan	7,635	4,142
Others	1,258	2,880
	<u>242,174</u>	<u>207,020</u>

4. INTEREST EXPENSE

	2001 HK\$'000	2000 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	141,993	159,751
Finance costs on issue of debt securities wholly repayable within five years	49,784	–
Finance costs on issue of debt securities not wholly repayable within five years	–	22,999
	<u>191,777</u>	<u>182,750</u>

Included in the interest expense on issue of debt securities wholly repayable within five years are amortisation of costs in connection with issue of debt securities of HK\$6,504,000.

Last year the amortisation of cost, amounted to HK\$4,427,000 included in the finance costs on issue of debt securities not wholly repayable within five years.

Notes to the Financial Statements

For the year ended 20th February 2001

5. OTHER OPERATING INCOME

	2001 HK\$'000	2000 HK\$'000
Dividends received on		
Listed investment	195	—
Unlisted investment	87	—
Fee and commission		
Credit card	23,019	24,180
Hire purchase	24,253	24,587
Handling, late and storage charges	13,819	20,270
Others	7,504	9,619
	<u>68,877</u>	<u>78,656</u>

6. OPERATING EXPENSES

	2001 HK\$'000	2000 HK\$'000
Administrative expenses	55,771	57,918
Advertising expenses	27,782	33,636
Auditors' remuneration	1,286	1,050
Depreciation	21,579	20,580
Loss on disposal of property, plant and equipment	307	55
Operating lease rentals in respect of rented premises and advertising space	53,740	52,144
Other operating expenses	33,149	35,554
Staff costs	79,478	75,220
	<u>273,092</u>	<u>276,157</u>

Operating lease rentals in respect of directors' accommodation and staff quarters of HK\$631,000 (2000: HK\$754,000) and HK\$884,000 (2000: HK\$1,269,000) are included under directors' other emoluments which are disclosed in note 7 and staff costs respectively.

Notes to the Financial Statements

For the year ended 20th February 2001

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2001 HK\$'000	2000 HK\$'000
Directors' fees:		
Non-executive	375	480
Independent non-executive	285	330
	<u>660</u>	<u>810</u>
Other emoluments to executive directors:		
Salaries, housing benefits, other allowances and benefits	4,558	4,373
Discretionary bonus	950	758
	<u>6,168</u>	<u>5,941</u>

The emoluments of the directors were within the following bands:

	2001 No. of directors	2000 No. of directors
HK\$ nil to HK\$1,000,000	6	11
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	–	–
HK\$2,000,001 to HK\$2,500,000	1	1

During the year, the five highest paid individuals included three directors (2000: four directors), details of whose emoluments are set out in above. The emolument paid to the remaining two individuals (2000: one individual) were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	2,381	1,471
Discretionary bonus	108	46
	<u>2,489</u>	<u>1,517</u>

Notes to the Financial Statements

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7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

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

	2001	2000
	No. of employees	
HK\$ nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>2</u>	<u>1</u>

8. CHARGE FOR BAD AND DOUBTFUL DEBTS

	2001	2000
	HK\$'000	HK\$'000
Specific charge	128,856	148,400
General charge	6,163	10,784
	<u>135,019</u>	<u>159,184</u>

9. INCOME TAX

	2001	2000
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% (2000: 16%)		
of the estimated assessable profit	28,570	27,000
Deferred taxation	3,600	–
	<u>32,170</u>	<u>27,000</u>

Details of the deferred tax charge provided and not provided for during the year are set out in note 29.

Notes to the Financial Statements

For the year ended 20th February 2001

10. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim dividend of 4.5 HK cents (2000: 4.0 HK cents) per share	18,844	15,228
Final dividend proposed of 8.0 HK cents (2000: 7.5 HK cents) per share	<u>33,502</u>	<u>28,552</u>
	<u><u>52,346</u></u>	<u><u>43,780</u></u>

The amount of final dividend proposed has been calculated on the basis of 418,766,000 shares in issue at 19th April 2001.

11. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$210,004,000 (2000: HK\$180,020,000) and on the number of 418,766,000 (2000: 418,766,000) shares in issue during the year.

The number of shares for the purpose of earnings per share has been adjusted for the effect of bonus issue during the year. The comparative earnings per share for the corresponding year has been adjusted retrospectively.

Notes to the Financial Statements

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12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST					
At 21st February 2000	19,379	5,477	88,229	698	113,783
Additions	3,240	7,459	35,079	848	46,626
Disposals	(1,663)	–	–	(490)	(2,153)
At 20th February 2001	20,956	12,936	123,308	1,056	158,256
DEPRECIATION					
At 21st February 2000	14,097	2,715	55,357	683	72,852
Provided for the year	4,307	1,196	15,778	298	21,579
Eliminated on disposals	(1,356)	–	–	(490)	(1,846)
At 20th February 2001	17,048	3,911	71,135	491	92,585
NET BOOK VALUES					
At 20th February 2001	3,908	9,025	52,173	565	65,671
At 20th February 2000	5,282	2,762	32,872	15	40,931

13. INTEREST IN ASSOCIATES

	2001 HK\$'000	2000 HK\$'000
Unlisted shares at cost	1,988	495
Amount due from an associate	650	–
	2,638	495

Notes to the Financial Statements

For the year ended 20th February 2001

13. INTEREST IN ASSOCIATES (Cont'd)

Details of the Company's associates at 20th February 2001 are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest	Principal activity
AEON Information Service (Shenzhen) Co., Ltd.	People's Republic of China	50%	Provision of call center services
AEON Credit Service (Taiwan) Co., Ltd.	Republic of China	20%	Consumer credit finance services

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

	2001 HK\$'000	2000 HK\$'000
Share of loss of associates	<u>(1,335)</u>	<u>(59)</u>
Share of net assets	<u>594</u>	<u>436</u>

Share of the associate's post acquisition results:

	2001 HK\$'000	2000 HK\$'000
Accumulated loss brought forward	(59)	—
Share of loss for the year	<u>(1,335)</u>	<u>(59)</u>
Accumulated loss carried forward	<u>(1,394)</u>	<u>(59)</u>

14. INVESTMENT SECURITIES

	2001 HK\$'000	2000 HK\$'000
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	3,541	3,541
Overseas	2,753	3,059
Unlisted shares	<u>5,595</u>	<u>3,095</u>
	<u>11,889</u>	<u>9,695</u>
Market value of listed shares	<u>20,751</u>	<u>115,458</u>

Notes to the Financial Statements

For the year ended 20th February 2001

15. OTHER INVESTMENTS

Other investments represent shares listed overseas and the market value is HK\$2,146,000.

16. HIRE PURCHASE DEBTORS

	2001 HK\$'000	2000 HK\$'000
Due:		
Within one year	253,437	250,331
Thereafter	67,089	71,068
	<u>320,526</u>	<u>321,399</u>
Provision for bad and doubtful debts	(2,491)	(1,839)
	<u>318,035</u>	<u>319,560</u>
Current portion included under current assets	(251,467)	(248,899)
	<u>66,568</u>	<u>70,661</u>

The total costs of assets acquired for leasing to customers under hire purchase contracts during the year and the aggregate rentals receivable amounted to HK\$561,292,000 and HK\$555,978,000 (2000: HK\$498,808,000 and HK\$472,430,000) respectively.

17. INSTALMENT LOANS RECEIVABLE

	2001 HK\$'000	2000 HK\$'000
Due:		
Within one year	146,259	81,947
Thereafter	20,908	4,924
	<u>167,167</u>	<u>86,871</u>
Provision for bad and doubtful debts	(6,748)	(1,070)
	<u>160,419</u>	<u>85,801</u>
Current portion included under current assets	(140,355)	(80,938)
	<u>20,064</u>	<u>4,863</u>

Notes to the Financial Statements

For the year ended 20th February 2001

18. CREDIT CARD RECEIVABLES

	2001 HK\$'000	2000 HK\$'000
Credit card receivables	2,253,027	2,227,155
Provision for bad and doubtful debts	(81,244)	(82,229)
	<u>2,171,783</u>	<u>2,144,926</u>

19. 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 more than 1 month:

	20th February 2001		20th February 2000	
	HK\$'000	%*	HK\$'000	%*
Over 1 month but less than 2 months	86,356	3.1	74,314	2.8
Over 2 months but less than 3 months	22,145	0.8	20,744	0.8
Over 3 months	83,759	3.0	65,602	2.5
	<u>192,260</u>	<u>6.9</u>	<u>160,660</u>	<u>6.1</u>

Should overdue debtor balance include only accounts that could not meet the minimum payment amount, the analysis would be as follows:

	20th February 2001		20th February 2000	
	HK\$'000	%*	HK\$'000	%*
Over 1 month but less than 2 months	68,302	2.5	64,226	2.4
Over 2 months but less than 3 months	19,798	0.7	15,314	0.6
Over 3 months	81,779	3.0	63,538	2.4
	<u>169,879</u>	<u>6.2</u>	<u>143,078</u>	<u>5.4</u>

* Percentage of total debtor balance

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20. CREDITORS AND ACCRUED CHARGES

The aging analysis of creditors and accrued charges as at 20th February 2001 was as follows:

	2001 HK\$'000	2000 HK\$'000
Current	56,660	73,553
Over 1 month but less than 3 months	4,480	5,231
Over 3 months	513	107
	<u>61,653</u>	<u>78,891</u>

21. MATURITY PROFILE

	20th February 2001			
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	3 years or less but over 1 year HK\$'000	Total HK\$'000
ASSETS				
Credit card receivable	2,253,027	–	–	2,253,027
Hire purchase debtors	109,099	144,338	67,089	320,526
Instalment loans receivable	51,856	94,403	20,908	167,167
Pledged time deposits	106,564	25,280	–	131,844
Time deposits	133,481	–	–	133,481
	<u>2,654,027</u>	<u>264,021</u>	<u>87,997</u>	<u>3,006,045</u>

Notes to the Financial Statements

For the year ended 20th February 2001

21. MATURITY PROFILE (Cont'd)

	20th February 2000			
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	3 years or less but over 1 year HK\$'000	Total HK\$'000
ASSETS				
Credit card receivable	2,227,155	–	–	2,227,155
Hire purchase debtors	105,578	144,753	71,068	321,399
Instalment loans receivable	25,352	56,595	4,924	86,871
Pledged time deposits	106,552	26,785	–	133,337
Time deposits	122,205	–	–	122,205
	<u>2,586,842</u>	<u>228,133</u>	<u>75,992</u>	<u>2,890,967</u>

22. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

23. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

24. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

Notes to the Financial Statements

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25. BANK BORROWINGS

	2001 HK\$'000	2000 HK\$'000
Bank overdraft, unsecured	1,640	2,307
Bank loans, unsecured	1,485,000	1,445,000
Bank loans, secured	130,000	160,000
	<u>1,616,640</u>	<u>1,607,307</u>
The maturity of bank borrowings is as follows:		
Within one year	461,640	682,307
Between one and two years	440,000	520,000
Between two to five years	715,000	405,000
	<u>1,616,640</u>	<u>1,607,307</u>
Amount repayable within one year included under current liabilities	<u>(461,640)</u>	<u>(682,307)</u>
Amount repayable after one year	<u>1,155,000</u>	<u>925,000</u>

26. ISSUED CAPITAL AND CAPITAL RESERVES

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Total HK\$'000
At 21st February 1999 and 21st February 2000	38,070	231,138	270	269,478
Issue by capitalisation of the share premium account	<u>3,807</u>	<u>(3,807)</u>	<u>–</u>	<u>–</u>
At 20th February 2001	<u>41,877</u>	<u>227,331</u>	<u>270</u>	<u>269,478</u>

The authorised share capital of the Company is 1,000 million (2000: 500 million) ordinary shares of HK\$0.1 each.

Notes to the Financial Statements

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26. ISSUED CAPITAL AND CAPITAL RESERVES (Cont'd)

Pursuant to the resolutions passed at the annual general meeting of the Company held on 14th June 2000:

- (a) The authorised share capital of the Company was increased from HK\$50,000,000 to HK\$100,000,000 by the creation of an additional 500,000,000 ordinary shares of HK\$0.1 each ranking pari passu with the existing shares in all respects.
- (b) 38,070,000 shares of HK\$0.1 each were issued as bonus shares and were credited as fully paid at par to the holders of shares on the register of members at the close of business on 14th June 2000 by way of capitalisation of the sum of HK\$3,807,000 standing to the credit of the share premium account of the Company.

27. ACCUMULATED PROFITS

	2001 HK\$'000	2000 HK\$'000
At 21st February	438,638	302,398
Net profit for the year	210,004	180,020
Dividends (<i>note 10</i>)	(52,346)	(43,780)
	<u>596,296</u>	<u>438,638</u>
At 20th February	<u>596,296</u>	<u>438,638</u>

The Company's reserves available for distribution to shareholders as at 20th February 2001 amounted to HK\$596,296,000 (2000: HK\$438,638,000).

28. ISSUED DEBT SECURITIES

	2001 HK\$'000	2000 HK\$'000
Consideration received on the issue	540,000	540,000
Costs in connection with issue of debt securities (unamortised portion)	(22,123)	(28,627)
	<u>517,877</u>	<u>511,373</u>

Last year, the Company raised new financing of HK\$540 million through the issue of certificates backed by credit card receivables in Hong Kong (the "Transaction") for funding its operations. The monthly interest of the debt securities is determined at 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.75% per annum. The Transaction has a five years' revolving period unless terminated earlier by a one-time right to trigger liquidation in September 2002.

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29. DEFERRED TAXATION

	2001 HK\$'000	2000 HK\$'000
At 21st February	–	–
Charge for the year	<u>3,600</u>	<u>–</u>
At 20th February	<u>3,600</u>	<u>–</u>

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

	Provided		Unprovided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	–	–	9,212	5,392
General provision for bad and doubtful debts	–	–	(1,076)	(3,125)
Unamortised cost in connection with issue of debt securities	<u>3,600</u>	<u>–</u>	<u>–</u>	<u>–</u>
	<u>3,600</u>	<u>–</u>	<u>8,136</u>	<u>2,267</u>

The deferred tax liability of the Company amounting to HK\$8,136,000 (2000: HK\$2,267,000) has not been provided in the financial statements as, in the opinion of the directors, the timing differences are not expected to crystallise in the foreseeable future, after taking into account of the Company's medium term financial plans and projections.

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29. DEFERRED TAXATION (Cont'd)

The amount of the unprovided deferred tax charge for the year is as follows:

	2001 HK\$'000	2000 HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	3,820	1,711
Reduction in general provision for bad and doubtful debts	2,049	2,640
	<u>5,869</u>	<u>4,351</u>

30. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	242,174	207,020
Interest expense	191,777	182,750
Dividends received on investment securities	(282)	–
Depreciation	21,579	20,580
Loss on disposal of property, plant and equipment	307	55
Gain from disposal of investment securities	(3,317)	–
Increase in provision for bad and doubtful debts	5,345	2,039
Decrease (increase) in hire purchase debtors	873	(52,328)
Increase in instalment loans receivable	(80,296)	(79,020)
Increase in credit card receivables	(25,872)	(24,520)
Increase in prepayments, deposits, interest receivable and other debtors	(11,804)	(18,528)
Decrease in creditors and accrued charges	(15,941)	(9,583)
Decrease in amount due to immediate holding company	(3)	(34)
Increase (decrease) in amount due to a fellow subsidiary	547	(29,484)
Increase in amount due to ultimate holding company	11	35
	<u>325,098</u>	<u>198,982</u>
Net cash inflow from operating activities		

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31. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Issued debt securities HK\$'000	Bank loans HK\$'000
At 20th February 1999	–	1,464,000
New loans raised	540,000	836,500
Repayment of loans	–	(1,045,500)
Costs in connection with issue of debt securities	(33,054)	–
Other movement not involving cash:		
Amortisation of costs in connection with issue of debt securities included in interest expense	4,427	–
At 20th February 2000	511,373	1,255,000
New loans raised	–	790,000
Repayment of loans	–	(640,000)
Other movement not involving cash:		
Amortisation of costs in connection with issue of debt securities included in interest expense	6,504	–
At 20th February 2001	517,877	1,405,000

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company had the following outstanding annual commitments under non-cancellable operating leases in respect of rented premises and advertising space as follows:

	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:		
Within one year	9,587	10,895
In the second to fifth year inclusive	21,313	20,395
	30,900	31,290

Notes to the Financial Statements

For the year ended 20th February 2001

33. PLEDGE OF ASSETS

- (a) At 20th February 2001, the Company's issued debt securities were secured by credit card receivables of HK\$684,864,000 (2000: HK\$671,195,000).
- (b) At 20th February 2001, the Company's bank loans of HK\$130,000,000 (2000: HK\$160,000,000) were secured by hire purchase debtors of HK\$229,967,000 (2000: HK\$205,362,000).
- (c) The pledged time deposits include special deposits amounting to HK\$100,494,000 (2000: HK\$100,494,000) maintained pursuant to the terms of the securitisation agreements for the issued debt securities. The remaining balance of HK\$20,280,000 (2000: HK\$20,230,000) represents a pledge to a licensor of a credit card to secure a credit card license granted to the Company.
- (d) The Company also pledged time deposits of HK\$11,070,000 (2000: HK\$12,613,000) to banks to secure the short term general banking facilities and the sharing of ATM network.

34. FINANCIAL INSTRUMENTS

(a) Derivatives

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

The following is a summary of the contractual or notional amounts of each significant class of derivatives for the Company entered into for hedging purposes with financial institutions:

	2001 HK\$'000	2000 HK\$'000
Interest rate contracts:		
Swaps	270,000	50,000
Caps	620,000	700,000
Exchange rate contracts:		
Swaps	95,000	100,000
	985,000	850,000

Notes to the Financial Statements

For the year ended 20th February 2001

34. FINANCIAL INSTRUMENTS (Cont'd)

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.

The aggregate credit risk weighted amounts and aggregate replacement costs are considered insignificant.

35. RETIREMENT BENEFITS SCHEME

Starting from December 2000, the Company joined the Mandatory Provident Fund Scheme ("MPF Scheme") under the rules and regulations of the MPF Authority.

36. CAPITAL COMMITMENTS

	2001 HK\$'000	2000 HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	<u>3,761</u>	<u>–</u>

Notes to the Financial Statements

For the year ended 20th February 2001

37. RELATED PARTY TRANSACTIONS

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

		Fellow subsidiary		Ultimate holding company		Associate		AEON Jusco Education and Environment Fund Limited	
		2001	2000	2001	2000	2001	2000	2001	2000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission received	a)	<u>15,522</u>	<u>15,473</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees paid	b)	<u>6,570</u>	<u>6,894</u>	<u>45</u>	<u>35</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Service fees paid	c)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,477</u>	<u>-</u>	<u>-</u>	<u>-</u>
Donation	d)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,091</u>

- a) Commission rates payable by the fellow subsidiary to the Company are based on the terms agreed by both parties.
- b) Licence fees 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 Jusco 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.