

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 20th August 2001

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 (SSAP 25) "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules).

2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of other securities.

The accounting policies adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 20th February 2001, except as described below.

Investment securities

As a result of the change in accounting policy on investments in securities by the immediate holding company, with effect from 21st February 2001, the Company changed its treatment on investments in securities from the benchmark method to the alternative method so as to be in line with the immediate holding company. Previously investments in 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 unrealized gains and losses included in net profit or loss for the period. Pursuant to the alternative treatment, investments in securities are classified as trading securities and other securities. Trading securities, which are securities held for trading purposes, are measured at fair values, with unrealized gains and losses included in net profit or loss for the period. Other securities, which are securities held for non-trading purposes, are measured at fair values, with unrealized gains and losses included in the investment revaluation reserves. This change in accounting treatment has been applied retrospectively, resulting in a prior period adjustment (see Note 3).

Dividend proposed or declared after the balance sheet date

In the current period, the Company has adopted, for the first time, a number of new and revised Statement of Standard Accounting Practice ("SSAP") issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has no significant impact on the financial statements of the current or prior period except in accordance with SSAP 9 (Revised) *Events after the Balance Sheet Date*, dividends proposed or declared after the balance sheet date are not recognized as a liability at the balance sheet date, but are disclosed as a separate component of issued capital and capital reserves in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment (see Note 3).

3. Prior Period Adjustment

The financial effects of the change in accounting policy on investments in securities and the adoption of a revised accounting policy described in Note 2 are summarized below:

	Investment revaluation reserve (Unaudited) <i>HK\$'000</i>	Dividend reserve (Unaudited) <i>HK\$'000</i>	Total (Unaudited) <i>HK\$'000</i>
Balance at 21st February 2000			
As originally stated	–	–	–
Derecognition of liability for final dividend for 1999/2000	–	28,552	28,552
Revaluation surplus of other securities pursuant to the alternative treatment	<u>108,857</u>	<u>–</u>	<u>108,857</u>
As restated	<u><u>108,857</u></u>	<u><u>28,552</u></u>	<u><u>137,409</u></u>

4. Segmental Information

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

(a) *By geographical segment*

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 business segment*

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 summarized as follows:

	Six months ended 20th August	
	2001 (Unaudited) <i>HK\$'000</i>	2000 (Unaudited) <i>HK\$'000</i>
Interest income		
Credit card	353,273	347,855
Vehicle financing	7,673	8,374
Hire purchase	386	657
Personal loan	39,978	15,275
Bank deposits	5,469	9,262
	<u>406,779</u>	<u>381,423</u>
Fee and commission		
Credit card	9,797	10,175
Hire purchase	13,563	13,089
	<u>23,360</u>	<u>23,264</u>
Total	<u>430,139</u>	<u>404,687</u>

(c) Contribution by business segment

	Six months ended 20th August	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit before taxation		
Credit card	107,570	109,567
Vehicle financing	3,362	1,357
Hire purchase	3,474	705
Personal loan	13,800	4,816
Others	–	1,877
	<u>128,206</u>	<u>118,322</u>
5. Other Operating Income		
	Six months ended 20th August	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Dividends received	620	264
Fee and commission		
Credit card	9,797	10,175
Hire purchase	13,563	13,089
Handling, late and storage charges	1,729	8,768
Gain on disposal of other securities	–	3,317
Others	4,582	2,904
	<u>30,291</u>	<u>38,517</u>
6. Operating Expenses		
	Six months ended 20th August	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Administrative expenses	31,546	27,155
Advertising expenses	10,795	14,398
Depreciation	12,781	10,187
Loss on disposal of property, plant and equipment	–	307
Operating lease rentals in respect of rented premises and advertising space	28,703	27,042
Other operating expenses	16,522	19,058
Staff costs including directors' emoluments	41,062	38,587
	<u>141,409</u>	<u>136,734</u>

7. Income Tax

Hong Kong Profits Tax is calculated at the rate of 16% (2000: 16%) of the estimated assessable profit for the period.

Details of the deferred tax charge provided and not provided for during the period are set out in Note 20.

8. Dividend

On 19th July 2001, a dividend of 8.0 HK cents (2000: 7.5 HK cents) per share was paid to shareholders as the final dividend for 2000/01.

The directors have determined that an interim dividend of 5.0 HK cents (2000: 4.5 HK cents) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 7th November 2001.

9. Earnings Per Share

The calculation of earnings per share is based on the unaudited net profit for the period of HK\$112,156,000 (2000: HK\$101,822,000) and on the number of 418,766,000 (2000: 418,766,000) shares in issue during the period.

10. Hire Purchase Debtors

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) <i>HK\$'000</i>
Due:		
Within one year	248,816	253,437
Thereafter	61,035	67,089
	<hr/>	<hr/>
	309,851	320,526
Provision for bad and doubtful debts	(1,922)	(2,491)
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	307,929	318,035
Current portion included under current assets	(247,583)	(251,467)
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Amount due after one year	60,346	66,568
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11. Instalment Loans Receivable

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) <i>HK\$'000</i>
Due:		
Within one year	248,142	146,259
Thereafter	<u>45,146</u>	<u>20,908</u>
	293,288	167,167
Provision for bad and doubtful debts	<u>(12,445)</u>	<u>(6,748)</u>
	280,843	160,419
Current portion included under current assets	<u>(237,613)</u>	<u>(140,355)</u>
Amount due after one year	<u>43,230</u>	<u>20,064</u>

12. Credit Card Receivables

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) <i>HK\$'000</i>
Credit card receivables	2,295,737	2,253,027
Provision for bad and doubtful debts	<u>(83,387)</u>	<u>(81,244)</u>
	<u>2,212,350</u>	<u>2,171,783</u>

13. 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 August 2001 (Unaudited) <i>HK\$'000</i>	%	20th February 2001 (Audited) <i>HK\$'000</i>	%
Over 1 month but less than 2 months	123,685	4.3	86,356	3.1
Over 2 months but less than 3 months	19,181	0.7	22,145	0.8
Over 3 months	<u>92,720</u>	<u>3.1</u>	<u>83,759</u>	<u>3.0</u>
	<u>235,586</u>	<u>8.1</u>	<u>192,260</u>	<u>6.9</u>

* Percentage of total debtor balance

14. Creditors and Accrued Charges

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

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) <i>HK\$'000</i>
Current	49,150	56,660
Over 1 month but less than 3 months	4,363	4,480
Over 3 months	466	513
	<u>53,979</u>	<u>61,653</u>

15. Maturity Profile

	20th August 2001 (Unaudited)			
	3 months or less <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	3 years or less but over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS				
Credit card receivables	2,295,737	-	-	2,295,737
Hire purchase debtors	100,686	148,130	61,035	309,851
Instalment loans receivable	79,202	168,941	45,145	293,288
Pledged time deposits	131,844	-	-	131,844
Time deposits	8,920	-	-	8,920
	<u>2,616,389</u>	<u>317,071</u>	<u>106,180</u>	<u>3,039,640</u>
	20th February 2001 (Audited)			
	3 months or less <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	3 years or less but over 1 year <i>HK\$'000</i>	Total <i>HK\$'000</i>
ASSETS				
Credit card receivables	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>

16. Bank Borrowings

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) <i>HK\$'000</i>
Bank overdraft, unsecured	665	1,640
Bank loans, unsecured	1,475,000	1,485,000
Bank loans, secured	130,000	130,000
	<u>1,605,665</u>	<u>1,616,640</u>
The maturity of bank borrowings is as follows:		
Within one year	425,665	461,640
Between one and two years	385,000	440,000
Between two to five years	795,000	715,000
	<u>1,605,665</u>	<u>1,616,640</u>
Amount repayable within one year included under current liabilities	<u>(425,665)</u>	<u>(461,640)</u>
Amount repayable after one year	<u>1,180,000</u>	<u>1,155,000</u>

17. Issued Capital and Capital Reserves

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2000						
– as originally stated (Audited)	38,070	231,138	270	–	–	269,478
– prior period adjustment	–	–	–	108,857	28,552	137,409
	<u>38,070</u>	<u>231,138</u>	<u>270</u>	<u>108,857</u>	<u>28,552</u>	<u>406,887</u>
– as restated	38,070	231,138	270	108,857	28,552	406,887
Issue by capitalisation of the share premium account	3,807	(3,807)	–	–	–	–
Realised surplus on disposal of other securities	–	–	–	(3,317)	–	(3,317)
Final dividend paid for 1999/2000	–	–	–	–	(28,552)	(28,552)
Final dividend proposed for 2000/01	–	–	–	–	33,502	33,502
Revaluation deficit of other securities	–	–	–	(92,584)	–	(92,584)
	<u>41,877</u>	<u>227,331</u>	<u>270</u>	<u>12,956</u>	<u>33,502</u>	<u>315,936</u>
At 20th February 2001	41,877	227,331	270	12,956	33,502	315,936
Final dividend paid for 2000/01	–	–	–	–	(33,502)	(33,502)
Revaluation deficit of other securities	–	–	–	(9,333)	–	(9,333)
	<u>–</u>	<u>–</u>	<u>–</u>	<u>(9,333)</u>	<u>–</u>	<u>(9,333)</u>
At 20th August 2001 (Unaudited)	<u>41,877</u>	<u>227,331</u>	<u>270</u>	<u>3,623</u>	<u>–</u>	<u>273,101</u>

The authorized share capital of the Company is 1,000 million (20th February 2001:1,000 million) ordinary shares of HK\$0.1 each.

18. Accumulated Profits

	<i>HK\$'000</i>
At 21st February 2000 (Audited)	438,638
Net profit for the year 2000/01	210,004
Interim dividend paid for 2000/01	(18,844)
Final dividend proposed for 2000/01	(33,502)
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At 20th February 2001	596,296
Net profit for the six months ended 20th August 2001	112,156
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At 20th August 2001 (Unaudited)	<u>708,452</u>

19. Issued Debt Securities

The Company raised 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.

20. Deferred Taxation

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) <i>HK\$'000</i>
At 21st February	3,600	–
Charge for the period	–	3,600
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	<u>3,600</u>	<u>3,600</u>

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

	Provided		Unprovided	
	20th August	20th February	20th August	20th February
	2001	2001	2001	2001
	(Unaudited)	(Audited)	(Unaudited)	(Audited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	-	-	9,715	9,212
General provision for bad and doubtful debts	-	-	(805)	(1,076)
Unamortised cost in connection with issue of debt securities	3,600	3,600	-	-
	<u>3,600</u>	<u>3,600</u>	<u>-</u>	<u>-</u>
Net deferred tax liabilities	3,600	3,600	8,910	8,136

The deferred tax liability of the Company amounting to HK\$8,910,000 (20th February 2001: HK\$8,136,000) has not been provided in the financial statements as, in the opinion of the directors, the timing differences are not expected to crystallize in the foreseeable future, after taking into account of the Company's medium term financial plans and projections.

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

	Six months ended 20th August	
	2001	2000
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	503	881
Reduction in general provision for bad and doubtful debts	271	540
	<u>774</u>	<u>1,421</u>

21. Operating Lease Commitments

At the balance sheet date, the total future minimum lease payments under non-cancellable operating leases in respect of rented premises and advertising space are payable as follows:

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) (As restated) <i>HK\$'000</i>
Operating leases which expire:		
Not later than one year	17,774	9,587
Later than one year but not later than five years	38,439	29,105
	<u>56,213</u>	<u>38,692</u>

22. Capital Commitments

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) <i>HK\$'000</i>
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	9,938	3,761
Authorised but not contracted for:		
Purchase of property, plant and equipment	702	–
	<u>10,640</u>	<u>3,761</u>

23. Pledge of Assets

- (a) At 20th August 2001, the Company's issued debt securities were secured by credit card receivables of HK\$715,375,000 (20th February 2001: HK\$684,864,000).
- (b) At 20th August 2001, the Company's bank loans of HK\$130,000,000 (20th February 2001: HK\$130,000,000) were secured by hire purchase debtors of HK\$193,838,000 (20th February 2001: HK\$229,967,000).
- (c) The pledged time deposits include special deposits amounting to HK\$100,494,000 (20th February 2001: 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 (20th February 2001: HK\$20,280,000) represents a pledge to a licensor of credit card to secure a credit card license granted to the Company.
- (d) The Company also pledged time deposits of HK\$11,070,000 (20th February 2001: HK\$11,070,000) to banks to secure the short term general banking facilities and the sharing of ATM network.

24. 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:

	20th August 2001 (Unaudited) <i>HK\$'000</i>	20th February 2001 (Audited) <i>HK\$'000</i>
Interest rate contracts:		
Swaps	360,000	270,000
Caps	610,000	620,000
Exchange rate contracts:		
Swaps	95,000	95,000
	<u>1,065,000</u>	<u>985,000</u>

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.

25. Related Party Transactions

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

		Fellow subsidiary		Associate		AEON Jusco Education and Environment Fund Limited	
		Six months ended 20th August (Unaudited)					
		2001	2000	2001	2000	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Commission received	a)	9,265	7,614	-	-	-	-
Licence fees paid	b)	3,351	3,126	-	-	-	-
Service fees paid	c)	-	-	2,427	71	-	-
Donation	d)	-	-	-	-	400	-

- 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.*