

Notes to the Financial Statements

For the year ended 20th February 2002

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 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. CHANGES IN ACCOUNTING POLICIES

In the current year, the Company has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these accounting standards has no significant impact on the financial statements of the current or prior period except the follows:

- 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 capital and reserves in the notes to the financial statements. This change in accounting policy has been applied retrospectively, resulting in a prior period adjustment. The proposed final dividend of HK\$28,552,000 for 1999/2000 has been reversed and recognized in the year ended 20th February 2001. The proposed final dividend of HK\$33,502,000 included in the dividend payable in the balance sheet of the Company as at 20th February 2001 has been reversed and the restated capital and reserves brought forward from 21st February 2001 of the Company is HK\$899,275,000.
- The adoption of SSAP 14 (Revised) *Leases* has not resulted in any significant changes to the accounting treatment adopted for leases and accordingly, no prior period adjustment has been required. Disclosures relating to the Company's leasing arrangements have been modified so as to comply with the new requirements of SSAP 14 (Revised). Comparative amounts have been restated to achieve a consistent presentation.
- SSAP 26 *Segment Reporting* has introduced new principles for reporting financial information by segment. Segment disclosures for the year ended 20th February 2002 have been presented to conform with the requirements of the standard.

Notes to the Financial Statements

For the year ended 20th February 2002

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities. 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 recognized 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 recognized 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 recognized in the income statement on a time proportion basis.

Commission income is recognized in the income statement when earned.

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

Property, plant and equipment

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

Notes to the Financial Statements

For the year ended 20th February 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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 $\frac{1}{3}$ %

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 recognized 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 identified impairment loss. 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 recognized 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 recognized 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 recognized 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 unrealized gains and losses included in net profit or loss for the year.

Notes to the Financial Statements

For the year ended 20th February 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its tangible and intangible 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 recognized as an expense immediately, unless the relevant asset is carried a revalued amount under another accounting standard, in which case the impairment loss is treated as revaluation decrease under that accounting standard.

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 recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another accounting standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other accounting standard.

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.

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.

Notes to the Financial Statements

For the year ended 20th February 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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 recognized in the financial statements. The tax effect of timing differences, computed using the liability method, is recognized 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 recognized 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 2002

4. 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 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

Segment information about these businesses is presented below:

2002

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Other operation HK\$'000	Combined HK\$'000
INCOME STATEMENT					
REVENUE	<u>722,892</u>	<u>39,073</u>	<u>77,742</u>	<u>9,498</u>	<u>849,205</u>
RESULT					
Segment result	420,043	22,653	38,070	(4,385)	476,381
Unallocated operating expenses					(296,444)
Unallocated other income					<u>67,734</u>
Profit before taxation					247,671
Income tax					<u>(36,669)</u>
Net profit for the year					<u><u>211,002</u></u>
BALANCE SHEET					
ASSETS					
Segment assets	2,428,976	282,573	297,875	60,016	3,069,440
Unallocated corporate assets					<u>225,903</u>
Total assets					<u><u>3,295,343</u></u>
LIABILITIES					
Segment liabilities	1,612,636	233,023	179,761	196,973	2,222,393
Unallocated corporate liabilities					<u>17,113</u>
Total liabilities					<u><u>2,239,506</u></u>

Notes to the Financial Statements

For the year ended 20th February 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

2001

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Other operation HK\$'000	Combined HK\$'000
INCOME STATEMENT					
REVENUE	<u>720,470</u>	<u>42,416</u>	<u>36,507</u>	<u>17,747</u>	<u>817,140</u>
RESULT					
Segment result	474,887	19,014	20,106	(2,058)	511,949
Unallocated operating expenses					(273,092)
Unallocated other income					<u>3,317</u>
Profit before taxation					242,174
Income tax					<u>(32,170)</u>
Net profit for the year					<u>210,004</u>
BALANCE SHEET					
ASSETS					
Segment assets	2,357,618	319,621	164,319	29,267	2,870,825
Unallocated corporate assets					<u>284,089</u>
Total assets					<u>3,154,914</u>
LIABILITIES					
Segment liabilities	1,575,866	295,906	104,065	263,716	2,239,553
Unallocated corporate liabilities					<u>16,086</u>
Total liabilities					<u>2,255,639</u>

Notes to the Financial Statements

For the year ended 20th February 2002

4. 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.

5. INTEREST EXPENSE

	2002 HK\$'000	2001 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	137,700	141,993
Finance costs on issue of debt securities wholly repayable within five years	33,098	49,784
	<u>170,798</u>	<u>191,777</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\$6,177,000 (2001: HK\$6,504,000).

6. OTHER OPERATING INCOME

	2002 HK\$'000	2001 HK\$'000
Dividends received on		
Listed investment	1,136	195
Unlisted investment	–	87
Fee and commission		
Credit card	20,017	23,019
Hire purchase	25,073	24,253
Handling, late and storage charges	23,744	13,819
Others	8,501	7,504
	<u>78,471</u>	<u>68,877</u>

Notes to the Financial Statements

For the year ended 20th February 2002

7. OPERATING EXPENSES

	2002 HK\$'000	2001 HK\$'000
Administrative expenses	64,338	55,771
Advertising expenses	22,628	27,782
Auditors' remuneration	1,350	1,286
Depreciation	26,082	21,579
Exchange loss	100	–
Loss on disposal of property, plant and equipment	–	307
Operating lease rentals in respect of rented premises, advertising space and equipment	58,802	53,740
Other operating expenses	33,810	33,149
Staff costs	89,334	79,478
	<u>296,444</u>	<u>273,092</u>

Operating lease rentals in respect of directors' accommodation and staff quarters of HK\$715,000 (2001: HK\$631,000) and HK\$1,545,000 (2001: HK\$884,000) are included under directors' other emoluments which are disclosed in note 8 and staff costs respectively.

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2002 HK\$'000	2001 HK\$'000
Directors' fees:		
Non-executive	500	375
Independent non-executive	410	285
	<u>910</u>	<u>660</u>
Other emoluments to executive directors:		
Salaries, housing benefits, other allowances and benefits	5,083	4,558
Discretionary bonus	700	950
Mandatory provident fund contributions	20	3
	<u>6,713</u>	<u>6,171</u>

Notes to the Financial Statements

For the year ended 20th February 2002

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

The emoluments of the directors were within the following bands:

	2002	2001
	No. of directors	
Nil to HK\$1,000,000	7	6
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$2,500,001 to HK\$3,000,000	1	–
	<u>10</u>	<u>9</u>

During the year, the five highest paid individuals included four directors (2001: three directors), details of whose emoluments are set out in above. The emoluments paid to the remaining one individual (2001: two individuals) were as follows:

	2002	2001
	HK\$'000	
Salaries and other benefits	786	2,381
Discretionary bonus	15	108
	<u>801</u>	<u>2,489</u>

The emoluments of the remaining one individual (2001: two individuals) were within the following bands:

	2002	2001
	No. of employees	
Nil to HK\$1,000,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	1
	<u>1</u>	<u>2</u>

Notes to the Financial Statements

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9. CHARGE FOR BAD AND DOUBTFUL DEBTS

	2002 HK\$'000	2001 HK\$'000
Specific provision made	222,614	128,856
Increase in general provision	12,793	6,163
	<u>235,407</u>	<u>135,019</u>

10. OTHER INCOME

	2002 HK\$'000	2001 HK\$'000
Gain on disposal of property, plant and equipment	34,005	–
Net unrealized gain on revaluation of other investments	33,729	–
Gain from disposal of investment securities	–	3,317
	<u>67,734</u>	<u>3,317</u>

11. INCOME TAX

	2002 HK\$'000	2001 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% (2001: 16%) of the estimated assessable profit	32,272	28,570
Deferred taxation	4,397	3,600
	<u>36,669</u>	<u>32,170</u>

Details of the deferred tax charge provided and not provided for during the year are set out in note 31.

Notes to the Financial Statements

For the year ended 20th February 2002

12. DIVIDENDS

	2002 HK\$'000	2001 HK\$'000
Interim paid:		
5.0 HK cents (2001: 4.5 HK cents) per share	20,938	18,844
Final proposed:		
8.0 HK cents (2001: 8.0 HK cents) per share	33,502	33,502
	<u>54,440</u>	<u>52,346</u>

The final dividend of 8.0 HK cents (2001: 8.0 HK cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$211,002,000 (2001: HK\$210,004,000) and on the number of 418,766,000 (2001: 418,766,000) shares in issue during the year.

Notes to the Financial Statements

For the year ended 20th February 2002

14. 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 2001	20,956	12,936	123,308	1,056	158,256
Additions	2,918	1,401	48,728	99	53,146
Disposals	(799)	–	(42,145)	–	(42,944)
At 20th February 2002	23,075	14,337	129,891	1,155	168,458
DEPRECIATION					
At 21st February 2001	17,048	3,911	71,135	491	92,585
Provided for the year	3,186	2,377	20,225	294	26,082
Eliminated on disposals	(799)	–	(29,650)	–	(30,449)
At 20th February 2002	19,435	6,288	61,710	785	88,218
NET BOOK VALUES					
At 20th February 2002	3,640	8,049	68,181	370	80,240
At 20th February 2001	3,908	9,025	52,173	565	65,671

15. INTEREST IN ASSOCIATES

	2002 HK\$'000	2001 HK\$'000
Unlisted shares at cost	1,987	1,988
Amount due from an associate	259	650
	2,246	2,638

Notes to the Financial Statements

For the year ended 20th February 2002

15. INTEREST IN ASSOCIATES (Cont'd)

Details of the Company's associates at 20th February 2002 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
AEON Credit Service (Taiwan) Co., Ltd.	Incorporated	Taiwan	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:

	2002 HK\$'000	2001 HK\$'000
Share of loss of associates	<u>(27)</u>	<u>(1,335)</u>
Share of net assets	<u>575</u>	<u>594</u>

Share of the associate's post acquisition results:

	2002 HK\$'000	2001 HK\$'000
Accumulated loss brought forward	(1,394)	(59)
Share of loss for the year	<u>(27)</u>	<u>(1,335)</u>
Accumulated loss carried forward	<u>(1,421)</u>	<u>(1,394)</u>

Notes to the Financial Statements

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16. INVESTMENT SECURITIES

	2002 HK\$'000	2001 HK\$'000
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	6,041	3,541
Overseas	4,183	2,753
Unlisted shares	–	5,595
	<u>10,224</u>	<u>11,889</u>
Market value of listed shares	<u>41,573</u>	<u>20,751</u>

17. OTHER INVESTMENTS

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

18. HIRE PURCHASE DEBTORS

	Minimum lease payments		Present value of minimum lease payment	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Amounts receivable under hire purchase contracts:				
Within one year	246,536	266,157	239,164	253,437
In the second to fifth year inclusive	49,895	78,044	45,040	67,089
	<u>296,431</u>	<u>344,201</u>	<u>284,204</u>	<u>320,526</u>
Unearned finance income	(12,227)	(23,675)	–	–
Present value of minimum lease payment receivable	<u>284,204</u>	<u>320,526</u>	<u>284,204</u>	<u>320,526</u>

Notes to the Financial Statements

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18. HIRE PURCHASE DEBTORS (Cont'd)

Analysed as:

	2002 HK\$'000	2001 HK\$'000
Due:		
Within one year	239,164	253,437
Thereafter	45,040	67,089
	<u>284,204</u>	<u>320,526</u>
Provision for bad and doubtful debts	(2,663)	(2,491)
	<u>281,541</u>	<u>318,035</u>
Current portion included under current assets	(237,375)	(251,467)
	<u>44,166</u>	<u>66,568</u>

The Company enters into the hire purchase arrangements for customers. The term of hire purchase contracts entered into ranges from 6 months to 5 years.

19. INSTALMENT LOANS RECEIVABLE

	2002 HK\$'000	2001 HK\$'000
Due:		
Within one year	265,767	146,259
Thereafter	36,620	20,908
	<u>302,387</u>	<u>167,167</u>
Provision for bad and doubtful debts	(13,364)	(6,748)
	<u>289,023</u>	<u>160,419</u>
Current portion included under current assets	(254,021)	(140,355)
	<u>35,002</u>	<u>20,064</u>

Notes to the Financial Statements

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20. CREDIT CARD RECEIVABLES

	2002 HK\$'000	2001 HK\$'000
Credit card receivables	2,337,615	2,253,027
Provision for bad and doubtful debts	(132,652)	(81,244)
	<u>2,204,963</u>	<u>2,171,783</u>

21. 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:

	2002		2001	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	116,692	4.0	86,356	3.1
Overdue 2 months but less than 3 months	32,177	1.1	22,145	0.8
Overdue 3 months or above	127,444	4.3	83,759	3.0
	<u>276,313</u>	<u>9.4</u>	<u>192,260</u>	<u>6.9</u>

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

	2002		2001	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	94,628	3.2	68,302	2.5
Overdue 2 months but less than 3 months	26,948	0.9	19,798	0.7
Overdue 3 months or above	126,235	4.3	81,779	3.0
	<u>247,811</u>	<u>8.4</u>	<u>169,879</u>	<u>6.2</u>

* Percentage of total debtor balance

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22. CREDITORS AND ACCRUED CHARGES

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

	2002 HK\$'000	2001 HK\$'000
Current	44,189	56,660
Over 1 month but less than 3 months	1,642	4,480
Over 3 months	263	513
	<u>46,094</u>	<u>61,653</u>

23. MATURITY PROFILE

	2002			Total HK\$'000
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	4 years or less but over 1 year HK\$'000	
ASSETS				
Credit card receivable	2,337,615	-	-	2,337,615
Hire purchase debtors	96,517	142,647	45,040	284,204
Instalment loans receivable	97,057	168,710	36,620	302,387
Pledged time deposits	126,844	5,000	-	131,844
Time deposits	6,700	-	-	6,700
	<u>2,664,733</u>	<u>316,357</u>	<u>81,660</u>	<u>3,062,750</u>

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23. MATURITY PROFILE (Cont'd)

	2001			Total HK\$'000
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	4 years or less but over 1 year 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>

24. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

25. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

26. 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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27. BANK BORROWINGS

	2002 HK\$'000	2001 HK\$'000
Bank overdraft, unsecured	1,946	1,640
Bank loans, unsecured	1,477,800	1,485,000
Bank loans, secured	130,000	130,000
	<u>1,609,746</u>	<u>1,616,640</u>
The maturity of bank borrowings is as follows:		
Within one year	519,746	461,640
Between one and two years	530,000	440,000
Between two to five years	560,000	715,000
	<u>1,609,746</u>	<u>1,616,640</u>
Amount repayable within one year included under current liabilities	<u>(519,746)</u>	<u>(461,640)</u>
Amount repayable after one year	<u>1,090,000</u>	<u>1,155,000</u>

28. ISSUED CAPITAL AND RESERVES

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
At 21st February 2000					
– as originally stated	38,070	231,137	270	–	269,477
– prior period adjustment	–	–	–	28,552	28,552
– as restated	38,070	231,137	270	28,552	298,029
Issue by capitalization of the share premium account	3,807	(3,807)	–	–	–
Final dividend paid for 1999/2000	–	–	–	(28,552)	(28,552)
Final dividend proposed for 2000/01	–	–	–	33,502	33,502
At 20th February 2001	41,877	227,330	270	33,502	302,979
Final dividend paid for 2000/01	–	–	–	(33,502)	(33,502)
Final dividend proposed for 2001/02	–	–	–	33,502	33,502
At 20th February 2002	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>33,502</u>	<u>302,979</u>

Notes to the Financial Statements

For the year ended 20th February 2002

28. ISSUED CAPITAL AND RESERVES (Cont'd)

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

29. ACCUMULATED PROFITS

	2002 HK\$'000	2001 HK\$'000
At 21st February	596,296	438,638
Net profit for the year	211,002	210,004
Interim dividend paid	(20,938)	(18,844)
Final dividend proposed	(33,502)	(33,502)
	<u>752,858</u>	<u>596,296</u>
At 20th February	<u>752,858</u>	<u>596,296</u>

The Company's reserves available for distribution to shareholders as at 20th February 2002 amounted to HK\$786,360,000 (2001: HK\$629,798,000), representing the aggregate of the dividend reserve and the accumulated profits.

30. ISSUED DEBT SECURITIES

	2002 HK\$'000	2001 HK\$'000
Consideration received on the issue	540,000	540,000
Unamortised portion of costs in connection with issue of debt securities	(15,946)	(22,123)
	<u>524,054</u>	<u>517,877</u>

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.

Notes to the Financial Statements

For the year ended 20th February 2002

31. DEFERRED TAXATION

	2002	2001
	HK\$'000	HK\$'000
At 21st February	3,600	–
Charge for the year	4,397	3,600
	<u>7,997</u>	<u>3,600</u>
At 20th February	7,997	3,600

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

	Provided		Unprovided	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	–	–	10,022	9,212
General provision for bad and doubtful debts	–	–	(3,123)	(1,076)
Unamortised cost in connection with issue of debt securities	2,600	3,600	–	–
Net unrealized gain on revaluation of other investments	5,397	–	–	–
	<u>7,997</u>	<u>3,600</u>	<u>6,899</u>	<u>8,136</u>

The deferred tax liability of the Company amounting to HK\$6,899,000 (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 crystallise in the foreseeable future, after taking into account of the Company's medium term financial plans and projections.

Notes to the Financial Statements

For the year ended 20th February 2002

31. DEFERRED TAXATION (Cont'd)

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

	2002 HK\$'000	2001 HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	810	3,820
(Increase) decrease in general provision for bad and doubtful debts	(2,047)	2,049
	<u>(1,237)</u>	<u>5,869</u>

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

	2002 HK\$'000	2001 HK\$'000
Profit before taxation	247,671	242,174
Interest expense	170,798	191,777
Dividends received on investment securities	(1,136)	(282)
Depreciation	26,082	21,579
(Gain) loss on disposal of property, plant and equipment	(34,005)	307
Gain from disposal of investment securities	-	(3,317)
Net unrealized gain on revaluation of other investments	(33,729)	-
Increase in provision for bad and doubtful debts	58,196	5,345
Decrease in amount due from an associate	392	-
Decrease in hire purchase debtors	36,322	873
Increase in instalment loans receivable	(135,220)	(80,296)
Increase in credit card receivables	(84,588)	(25,872)
Increase in prepayments, deposits, interest receivable and other debtors	(51,824)	(11,804)
Decrease in creditors and accrued charges	(9,588)	(15,941)
Increase (decrease) in amount due to immediate holding company	14	(3)
(Decrease) increase in amount due to a fellow subsidiary	(883)	547
Increase in amount due to ultimate holding company	-	11
Net cash inflow from operating activities	<u>188,502</u>	<u>325,098</u>

Notes to the Financial Statements

For the year ended 20th February 2002

33. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Issued debt securities	Bank loans
	HK\$'000	HK\$'000
At 21st 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
New loans raised	–	515,000
Repayment of loans	–	(635,000)
Other movement not involving cash:		
Amortisation of costs in connection with issue of debt securities included in interest expense	6,177	–
At 20th February 2002	524,054	1,285,000

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:

	2002	2001
	HK\$'000	HK\$'000
Within one year	37,972	28,969
In the second to fifth year inclusive	17,646	6,504
	55,618	35,473

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.

Notes to the Financial Statements

For the year ended 20th February 2002

34. OPERATING LEASE COMMITMENTS (Cont'd)

During the year, the Company disposed of certain computer equipment and entered into 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. At the balance sheet date, the Company had commitments for minimum future lease payments in respect of the above leasing arrangements falling due within one year under the basis term of HK\$11,151,000 (2001: Nil). 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\$1,161,000 (2001: Nil) and HK\$23,463,000 (2001: Nil) respectively.

35. PLEDGE OF ASSETS

- (a) At 20th February 2002, the Company's issued debt securities were secured by credit card receivables of HK\$663,813,000 (2001: HK\$684,864,000).
- (b) At 20th February 2002, the Company's bank loans of HK\$130,000,000 (2001: HK\$130,000,000) were secured by hire purchase debtors of HK\$214,014,000 (2001: HK\$229,967,000).
- (c) The pledged time deposits include special deposits amounting to HK\$100,494,000 (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 (2001: HK\$20,280,000) 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 (2001: HK\$11,070,000) to banks to secure the short term general banking facilities and the sharing of ATM network.

Notes to the Financial Statements

For the year ended 20th February 2002

36. 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:

	2002 HK\$'000	2001 HK\$'000
Interest rate contracts:		
Swaps	480,000	270,000
Caps	570,000	620,000
Exchange rate contracts:		
Swaps	65,000	95,000
	<u>1,115,000</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.

37. RETIREMENT BENEFITS SCHEME

The Company operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees. The assets of the MPF Scheme are separately kept from those of the Company, in funds under the control of trustees. The contribution to the MPF Scheme for the year is HK\$2,408,000 (2001: HK\$619,000).

Notes to the Financial Statements

For the year ended 20th February 2002

38. CAPITAL COMMITMENTS

	2002 HK\$'000	2001 HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	<u>18,981</u>	<u>3,761</u>

39. 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	
	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission received a)	<u>20,392</u>	15,522	-	-	-	-	-	-
Licence fees paid b)	<u>6,723</u>	6,570	45	45	-	-	-	-
Service fees paid c)	-	-	-	-	6,098	1,477	-	-
Donation d)	-	-	-	-	-	-	2,422	-

- 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.