

Notes to the Financial Statements

For the year ended 20th February 2004

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 *ÆON* Credit Service Co., Ltd. and its ultimate holding company is *ÆON* 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. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Company has adopted, for the first time, Hong Kong Financial Reporting Standard (“HKFRS”) – Statement of Standard Accounting Practice (“SSAP”) 12 (Revised) “Income Taxes” issued by the Hong Kong Society of Accountants (“HKSA”), the term of HKFRS is inclusive of SSAPs and interpretations approved by the HKSA.

The principal effect of the implementation of SSAP12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. The adoption of the SSAP has not had any material effect on the result for the current or prior accounting periods.

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:

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 2004

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.

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.

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.

Notes to the Financial Statements

For the year ended 20th February 2004

3. 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. 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.

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.

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3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

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.

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 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.

Income tax

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

Notes to the Financial Statements

For the year ended 20th February 2004

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax (Cont'd)

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 investment using the effective yield method.

Notes to the Financial Statements

For the year ended 20th February 2004

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.

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4. TURNOVER

	2004 HK\$'000	2003 HK\$'000
Interest income	479,804	659,026
Fees and commissions	32,280	37,786
Investment income from the seller and subordinated interests in securitisation trust	259,092	92,389
	<u>771,176</u>	<u>789,201</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 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

Segment information about these businesses is presented below:

2004

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
INCOME STATEMENT					
TURNOVER	<u>613,242</u>	<u>16,943</u>	<u>139,213</u>	<u>1,778</u>	<u>771,176</u>
RESULT					
Net interest income	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>
BALANCE SHEET					
ASSETS					
Total assets	<u>1,939,149</u>	<u>172,315</u>	<u>644,998</u>	<u>228,085</u>	<u>2,984,547</u>
LIABILITIES					
Segment liabilities	893,871	195,992	484,097	–	1,573,960
Unallocated corporate liabilities	–	–	–	226,960	<u>226,960</u>
Total liabilities	<u>893,871</u>	<u>195,992</u>	<u>484,097</u>	<u>226,960</u>	<u>1,800,920</u>

Notes to the Financial Statements

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5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

2003

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
INCOME STATEMENT					
TURNOVER	<u>669,736</u>	<u>26,995</u>	<u>83,487</u>	<u>8,983</u>	<u>789,201</u>
RESULT					
Net interest income	461,496	(4,161)	64,987	(7,160)	515,162
Credit card					
securitisation income	192,192	–	–	–	192,192
Other operating income	52,550	21,091	1,512	34,746	109,899
Other loss	–	–	–	(1,500)	(1,500)
Charge for bad and doubtful debts	<u>(318,418)</u>	<u>(12,364)</u>	<u>(72,632)</u>		<u>(403,414)</u>
Segment results	<u>387,820</u>	<u>4,566</u>	<u>(6,133)</u>		
Unallocated operating expenses				(274,144)	<u>(274,144)</u>
Profit before taxation					<u>138,195</u>
BALANCE SHEET					
ASSETS					
Total assets	<u>1,988,875</u>	<u>216,672</u>	<u>351,324</u>	<u>390,081</u>	<u>2,946,952</u>
LIABILITIES					
Segment liabilities	1,240,029	164,694	211,064	–	1,615,787
Unallocated corporate liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>212,460</u>	<u>212,460</u>
Total liabilities	<u>1,240,029</u>	<u>164,694</u>	<u>211,064</u>	<u>212,460</u>	<u>1,828,247</u>

Notes to the Financial Statements

For the year ended 20th February 2004

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

	2004 HK\$'000	2003 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	104,416	120,187
Finance costs on issue of debt securities wholly repayable within five years	12,529	23,677
	<u>116,945</u>	<u>143,864</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\$8,687,000 (2003: HK\$7,256,000).

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.

Notes to the Financial Statements

For the year ended 20th February 2004

8. OTHER OPERATING INCOME

	2004 HK\$'000	2003 HK\$'000
Fees and commissions		
Credit card	17,603	17,183
Hire purchase	14,677	20,603
Handling, late and storage charges	53,222	24,708
Gain on disposal of investment securities and other investments	–	33,322
Servicer fee on credit card securitisation	21,143	8,196
Dividends received on listed investments	260	1,423
Others	2,019	4,464
	<u>108,924</u>	<u>109,899</u>

9. OTHER LOSS

	2004 HK\$'000	2003 HK\$'000
Net loss (gain) on disposal of property, plant and equipment	46	(84)
Net unrealised loss on revaluation of other investments	586	1,584
	<u>632</u>	<u>1,500</u>

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For the year ended 20th February 2004

10. OPERATING EXPENSES

	2004 HK\$'000	2003 HK\$'000
Administrative expenses	53,163	60,842
Advertising expenses	12,870	17,301
Auditors' remuneration	1,702	1,364
Depreciation	28,331	25,931
Exchange loss	–	43
Operating lease rentals in respect of rented premises, advertising space and equipment	54,305	67,129
Other operating expenses	24,599	27,723
Staff costs	58,786	73,811
	<u>233,756</u>	<u>274,144</u>

Operating lease rentals in respect of staff quarters of HK\$422,000 (2003: HK\$1,424,000) are included under staff costs.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2004 HK\$'000	2003 HK\$'000
Directors' fees:		
Non-executive		
– Current year	150	150
– Waived for prior year	–	(262)
Independent non-executive	420	420
	<u>570</u>	<u>308</u>
Other emoluments to executive directors:		
Salaries, housing benefits, other allowances and benefits	4,046	2,647
Discretionary bonus	187	440
Mandatory provident fund contributions	24	24
	<u>4,827</u>	<u>3,419</u>

Operating lease rentals in respect of a director's accommodation of HK\$342,000 (2003: Nil) are included under other emoluments.

Notes to the Financial Statements

For the year ended 20th February 2004

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

The emoluments of the directors were within the following bands:

	2004	2003
	No. of directors	
Nil to HK\$1,000,000	6	8
HK\$1,000,001 to HK\$1,500,000	2	1
HK\$1,500,001 to HK\$2,000,000	1	1
	<u>9</u>	<u>10</u>

During the year, the five highest paid individuals included three directors (2003: two directors), details of whose emoluments are set out in above. The emoluments paid to the remaining two individuals (2003: three individuals) were as follows:

	2004	2003
	HK\$'000	
Salaries and other benefits	1,584	2,232
Discretionary bonus	66	–
	<u>1,650</u>	<u>2,232</u>

The emoluments of the remaining two individuals (2003: three individuals) were within the following bands:

	2004	2003
	No. of employees	
Nil to HK\$1,000,000	<u>2</u>	<u>3</u>

12. CHARGE FOR BAD AND DOUBTFUL DEBTS

	2004	2003
	HK\$'000	
Specific allowances made	348,253	360,673
(Reversal of) increase in general allowances	(4,322)	42,741
	<u>343,931</u>	<u>403,414</u>

Notes to the Financial Statements

For the year ended 20th February 2004

13. INCOME TAX

	2004 HK\$'000	2003 HK\$'000
Provision for the year		
Hong Kong	28,653	26,886
Overprovision in prior years		
Hong Kong	(3,347)	–
Deferred taxation		
For the year (<i>note 34</i>)	843	(5,996)
Effect on change in tax rate (<i>note 34</i>)	188	–
	<u>26,337</u>	<u>20,890</u>

Hong Kong Profits Tax is calculated at 17.5% (2003: 16.0%) on the estimated assessable profit for the year.

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

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>145,699</u>	<u>138,195</u>
Taxation at the applicable rate of 17.5% (2003: 16.0%)	25,497	22,111
Tax effect of expenses that are not deductible in determining taxable profit	105	1,355
Tax effect of income that are not taxable in determining taxable profit	(91)	(5,831)
Overprovision in prior years	(3,347)	–
Increase in opening deferred tax liabilities resulting from an increase in Hong Kong Profits Tax rate	188	–
Others	<u>3,985</u>	<u>3,255</u>
Taxation for the year	<u>26,337</u>	<u>20,890</u>

Notes to the Financial Statements

For the year ended 20th February 2004

14. DIVIDENDS

	2004 HK\$'000	2003 HK\$'000
Interim paid:		
5.0 HK cents (2003: 5.0 HK cents) per share	20,938	20,935
Final proposed:		
9.0 HK cents (2003: 8.0 HK cents) per share	37,689	33,502
	<u>58,627</u>	<u>54,437</u>

The final dividend of 9.0 HK cents (2003: 8.0 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\$119,362,000 (2003: HK\$117,305,000) and on the number of 418,766,000 (2003: 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
COST					
At 21st February 2003	18,325	13,831	153,241	227	185,624
Additions	907	402	13,929	–	15,238
Disposals	(4,271)	(732)	(4,841)	–	(9,844)
At 20th February 2004	<u>14,961</u>	<u>13,501</u>	<u>162,329</u>	<u>227</u>	<u>191,018</u>
DEPRECIATION					
At 21st February 2003	15,998	7,856	75,854	172	99,880
Provided for the year	1,826	2,155	24,317	33	28,331
Eliminated on disposals	(4,221)	(732)	(4,841)	–	(9,794)
At 20th February 2004	<u>13,603</u>	<u>9,279</u>	<u>95,330</u>	<u>205</u>	<u>118,417</u>
NET BOOK VALUES					
At 20th February 2004	<u>1,358</u>	<u>4,222</u>	<u>66,999</u>	<u>22</u>	<u>72,601</u>
At 20th February 2003	<u>2,327</u>	<u>5,975</u>	<u>77,387</u>	<u>55</u>	<u>85,744</u>

Notes to the Financial Statements

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17. INTEREST IN ASSOCIATES

	2004 HK\$'000	2003 HK\$'000
Unlisted shares at cost	10,592	10,592
Amount due from an associate	152	119
	<u>10,744</u>	<u>10,711</u>

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

Details of the Company's associates at 20th February 2004 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 centre services
AEON Credit Card (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:

	2004 HK\$'000	2003 HK\$'000
Share of loss of associates	<u>(2,985)</u>	<u>(565)</u>
Share of net assets	<u>6,025</u>	<u>9,010</u>

Share of the associates' post acquisition results:

	2004 HK\$'000	2003 HK\$'000
Accumulated loss brought forward	(1,006)	(441)
Share of loss for the year	<u>(2,985)</u>	<u>(565)</u>
Accumulated loss carried forward	<u>(3,991)</u>	<u>(1,006)</u>

The above associates are also fellow subsidiaries of the Company.

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18. INVESTMENT SECURITIES

	2004 HK\$'000	2003 HK\$'000
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	5,141	6,041
Overseas	2,753	2,753
Unlisted shares	988	988
	<u>8,882</u>	<u>9,782</u>
Market value of listed shares	<u>16,871</u>	<u>7,898</u>

19. OTHER INVESTMENTS

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

20. HIRE PURCHASE DEBTORS

	Minimum payments		Present value of minimum payments	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Amounts receivable under hire purchase contracts:				
Within one year	162,535	206,908	161,710	204,097
In the second to fifth year inclusive	17,566	22,141	17,396	20,931
	<u>180,101</u>	229,049	<u>179,106</u>	225,028
Unearned finance income	(995)	(4,021)	-	-
Present value of minimum payments receivable	<u>179,106</u>	<u>225,028</u>	<u>179,106</u>	<u>225,028</u>

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20. HIRE PURCHASE DEBTORS (Cont'd)

Analysed as:

	2004 HK\$'000	2003 HK\$'000
Due:		
Within one year	161,710	204,097
Thereafter	17,396	20,931
	<u>179,106</u>	<u>225,028</u>
Allowance for bad and doubtful debts	(6,967)	(8,942)
	<u>172,139</u>	<u>216,086</u>
Current portion included under current assets	(155,486)	(196,284)
	<u>16,653</u>	<u>19,802</u>

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

21. INSTALMENT LOANS RECEIVABLE

	2004 HK\$'000	2003 HK\$'000
Due:		
Within one year	506,317	310,091
In the second to fifth year inclusive	169,789	65,670
	<u>676,106</u>	<u>375,761</u>
Allowance for bad and doubtful debts	(47,481)	(36,684)
	<u>628,625</u>	<u>339,077</u>
Current portion included under current assets	(470,759)	(279,818)
	<u>157,866</u>	<u>59,259</u>

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

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22. CREDIT CARD RECEIVABLES

	2004 HK\$'000	2003 HK\$'000
Credit card receivables	1,080,251	1,275,944
Allowance for bad and doubtful debts	(135,934)	(190,236)
	<u>944,317</u>	<u>1,085,708</u>

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:

	2004		2003	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	135,315	7.0	176,250	9.4
Overdue 2 months but less than 3 months	23,609	1.2	34,420	1.8
Overdue 3 months or above	95,470	4.9	129,332	6.9
	<u>254,394</u>	<u>13.1</u>	<u>340,002</u>	<u>18.1</u>

* Percentage of total debtor balance

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

	2004 HK\$'000	2003 HK\$'000
Due:		
Within one year	652,336	500,630
In the second to fifth year inclusive	261,195	231,984
	<u>913,531</u>	<u>732,614</u>
Analysed as:		
Seller interest	248,614	258,700
Subordinated interest	279,628	193,866
Interest-only strips	267,039	201,048
Cash reserve account	118,250	79,000
	<u>913,531</u>	<u>732,614</u>

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.

Amount due to securitisation trust of HK\$41,657,000 (2003: HK\$31,136,000) 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.

Notes to the Financial Statements

For the year ended 20th February 2004

25. CREDITORS AND ACCRUED CHARGES

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

	2004 HK\$'000	2003 HK\$'000
Current	39,973	32,372
Over 1 month but less than 3 months	634	739
Over 3 months	339	194
	<u>40,946</u>	<u>33,305</u>

26. MATURITY PROFILE

	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
ASSETS					
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>
LIABILITIES					
Bank borrowings	454,910	355,000	695,000	140,000	1,644,910

Notes to the Financial Statements

For the year ended 20th February 2004

26. MATURITY PROFILE (Cont'd)

	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	2003 4 years or less but over 1 year HK\$'000	Over 4 years HK\$'000	Total HK\$'000
ASSETS					
Credit card receivables	1,275,944	–	–	–	1,275,944
Hire purchase debtors	80,351	123,746	20,931	–	225,028
Instalment loans receivable	114,102	195,989	65,670	–	375,761
Retained interests in securitisation trust	295,234	205,396	231,984	–	732,614
Pledged time deposits	106,494	–	–	–	106,494
Time deposits	153,580	–	–	–	153,580
	<u>2,025,705</u>	<u>525,131</u>	<u>318,585</u>	<u>–</u>	<u>2,869,421</u>
LIABILITIES					
Issued debt securities	118,500	208,213	–	–	326,713
Bank borrowings	151,245	500,000	640,000	110,000	1,401,245
	<u>269,745</u>	<u>708,213</u>	<u>640,000</u>	<u>110,000</u>	<u>1,727,958</u>

27. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

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.

Notes to the Financial Statements

For the year ended 20th February 2004

30. BANK BORROWINGS

	2004 HK\$'000	2003 HK\$'000
Bank overdraft, unsecured	310	1,245
Bank loans, unsecured	1,644,600	1,350,000
Bank loans, secured	–	50,000
	<u>1,644,910</u>	<u>1,401,245</u>
The maturity of bank borrowings is as follows:		
Within one year	809,910	651,245
Between one and two years	155,000	485,000
Between two to five years	680,000	265,000
	<u>1,644,910</u>	<u>1,401,245</u>
Amount repayable within one year included under current liabilities	<u>(809,910)</u>	<u>(651,245)</u>
Amount repayable after one year	<u>835,000</u>	<u>750,000</u>

31. ISSUED CAPITAL

	Number of shares 2004 & 2003	Share capital 2004 & 2003 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>

32. SHARE PREMIUM AND RESERVES

The Company's reserves available for distribution to shareholders as at 20th February 2004 amounted to HK\$914,150,000 (2003: HK\$849,228,000), representing the aggregate of the dividend reserve and the accumulated profits.

Notes to the Financial Statements

For the year ended 20th February 2004

33. ISSUED DEBT SECURITIES

In 1999, the Company raised financing of HK\$540,000,000 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. On 21st August 2003 the Company exercised the option to cause the revolving period of the Transaction to terminate pursuant to the terms of the Transaction and the amount has been fully repaid as at 20th February 2004.

34. DEFERRED TAXATION

	2004 HK\$'000	2003 HK\$'000
At 21st February	2,001	7,997
Charge (credit) for the year	843	(5,996)
Effect of change in tax rate charge to income statement	188	-
Transfer from provision for taxation in previous years (<i>note</i>)	15,968	-
	<u>19,000</u>	<u>2,001</u>
At 20th February	<u>19,000</u>	<u>2,001</u>

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

	2004 HK\$'000	2003 HK\$'000
Tax effect of temporary differences because of:		
Excess of tax allowances over depreciation	11,682	-
General allowance for bad and doubtful debts	(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	16,266	-
Unamortised cost in connection with issue of debt securities	-	2,001
	<u>19,000</u>	<u>2,001</u>
Net deferred tax liabilities	<u>19,000</u>	<u>2,001</u>

Note: The amount represented current income tax provided in prior year and was included in tax payable as at 20th February 2003. During the year, this amount 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 2004

35. 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:

	2004	2003
	HK\$'000	HK\$'000
Within one year	21,825	30,676
In the second to fifth year inclusive	11,533	17,717
	<u>33,358</u>	<u>48,393</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 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 renew the lease for a twelve-month term and 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 of HK\$6,994,000 (2003: HK\$11,151,000). 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 (2003: HK\$1,161,000) and HK\$12,260,000 (2003: HK\$11,151,000) respectively.

36. PLEDGE OF ASSETS

- (a) At 20th February 2003, the Company's issued debt securities were secured by credit card receivables of HK\$550,167,000. With the full repayment of the issued debt securities, the charge was released during the year.
- (b) At 20th February 2003, the Company's bank facilities of HK\$200,000,000 with HK\$50,000,000 utilised by the Company were secured by hire purchase debtors of HK\$102,854,000. The bank facilities were cancelled and the charge was released during the year.

Notes to the Financial Statements

For the year ended 20th February 2004

36. PLEDGE OF ASSETS (Cont'd)

- (c) As at 20th February 2003, time deposits of HK\$100,494,000 were pledged pursuant to the terms of the securitisation agreement for the issued debt securities. With the full repayment of the issued debt securities, the charge was released during the year.
- (d) At 20th February 2003, the Company also pledged time deposits of HK\$6,000,000 to banks to secure the short-term general banking facilities and the sharing of ATM network. With the cancellation of the short-term general banking facilities and the sharing of ATM network, the charge was released during the year.

37. FINANCIAL INSTRUMENTS

(a) Derivatives

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

At the balance sheet date, the contractual or notional amounts of each significant class of derivatives for the Company entered into for hedging purposes with financial institutions are summarised as follows:

	2004 HK\$'000	2003 HK\$'000
Interest rate contracts:		
Swaps	625,000	440,000
Caps	–	570,000
	<u>625,000</u>	<u>1,010,000</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.
- (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.

Notes to the Financial Statements

For the year ended 20th February 2004

38. 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\$1,486,000 (2003: HK\$3,349,000) represents contributions payable to the MPF Scheme by the Company in respect of the current accounting period. As at 20th February 2004, contributions of HK\$181,000 (2003: HK\$193,000) due in respect of the reporting period had not been paid over to the MPF Scheme.

39. 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 a further proceeds of HK\$250,000,000. During the year, related pre-tax gains, including unrealised gains on retained interests (interest only strips and cash reserve accounts), recognised at the time of both securitisations and subsequent sales of credit card receivables were HK\$108,122,000 (2003: HK\$175,861,000).

At 20th February 2004, the Company had retained interests of HK\$913,531,000 (2003: HK\$732,614,000) 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 2004 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 2004 had the exemption given in paragraph 27 of SSAP 32 not applied:

Notes to the Financial Statements

For the year ended 20th February 2004

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

Proforma consolidated income statement:

	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	<u>–</u>		(2,985)	<u>(2,985)</u>
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 2004

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

Proforma consolidated balance sheet:

	The Company HK\$’000	Effect of consolidation of SPE HK\$’000	Effect of equity accounting for associates HK\$’000	The proforma group HK\$’000
Non-current assets				
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>
Current assets				
Other investments	697			697
Hire purchase debtors	155,486			155,486
Instalment loans receivables	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>
Current liabilities				
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 2004

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

Proforma consolidated balance sheet: (continued)

	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>
Net-current liabilities				
Bank borrowings – repayable after one year	835,000			835,000
Issued debt securities	–	850,000		850,000
Deferred taxation	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 2004

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

Proforma consolidated income statement (for the year ended 20th February 2003):

	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>789,201</u>	(7,057)		<u>782,144</u>
Interest income	659,026	92,200		751,226
Interest expense	<u>(143,864)</u>	(5,998)		<u>(149,862)</u>
Net interest income	515,162			601,364
Credit card securitisation income	192,192	(192,192)		–
Other operating income	109,899	(786)		109,113
Other loss	<u>(1,500)</u>			<u>(1,500)</u>
Operating income	815,753			708,977
Operating expenses	<u>(274,144)</u>			<u>(274,144)</u>
Operating profit before charge for bad and doubtful debts	541,609			434,833
Charge for bad and doubtful debts	(403,414)	(4,345)		(407,759)
Share of results of associates	–		(565)	(565)
Profit before taxation	138,195			26,509
Income tax	<u>(20,890)</u>	21,195		<u>305</u>
Net profit for the year	<u>117,305</u>			<u>26,814</u>

Notes to the Financial Statements

For the year ended 20th February 2004

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

Proforma consolidated balance sheet (for the year ended 20th February 2003):

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
Non-current assets				
Property, plant and equipment	85,744			85,744
Interest in associates	10,711		(1,582)	9,129
Investment securities	9,782			9,782
Hire purchase debtors	19,802			19,802
Instalment loans receivable	59,259			59,259
Retained interests in securitisation trust	231,984	(231,984)		–
Pledged time deposits	100,494	79,000		179,494
	<u>517,776</u>			<u>363,210</u>
Current assets				
Other investments	383			383
Hire purchase debtors	196,284			196,284
Instalment loans receivable	279,818			279,818
Credit card receivables	1,085,708	998,248		2,083,956
Retained interests in securitisation trust	500,630	(500,630)		–
Prepayments, deposits, interest receivable and other debtors	124,344	21,102		145,446
Tax recoverable	–	20,334		20,334
Pledged time deposits	6,000			6,000
Time deposits	153,580			153,580
Bank balances and cash	82,429	92,006		174,435
	<u>2,429,176</u>			<u>3,060,236</u>
Current liabilities				
Creditors and accrued charges	33,305			33,305
Amount due to securitisation trust	31,136	(31,136)		–
Amount due to immediate holding company	11			11
Amount due to a fellow subsidiary	32,928			32,928
Amount due to ultimate holding company	47			47
Issued debt securities	326,713			326,713
Bank borrowings – repayable within one year	651,245			651,245
Taxation	861	(861)		–
	<u>1,076,246</u>			<u>1,044,249</u>
Net current assets	<u>1,352,930</u>			<u>2,015,987</u>
Total assets less current liabilities	<u><u>1,870,706</u></u>			<u><u>2,379,197</u></u>

Notes to the Financial Statements

For the year ended 20th February 2004

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

Proforma consolidated balance sheet (for the year ended 20th February 2003): (continued)

	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	1,076,828	(89,927)	(1,582)	985,319
	<u>1,118,705</u>			<u>1,027,196</u>
Non-current liabilities				
Bank borrowings – repayable after one year	750,000			750,000
Issued debt securities	–	600,000		600,000
Deferred taxation	2,001			2,001
	<u>752,001</u>			<u>1,352,001</u>
	<u><u>1,870,706</u></u>			<u><u>2,379,197</u></u>

Notes to the Financial Statements

For the year ended 20th February 2004

40. 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	
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission received	a)	<u>13,543</u>	<u>18,252</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>5,900</u>	<u>6,292</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>8,663</u>	<u>8,371</u>	<u>-</u>	<u>-</u>
Donation	d)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>265</u>	<u>2,477</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.

41. CAPITAL COMMITMENTS

	2004 HK\$'000	2003 HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	<u>3,959</u>	<u>1,963</u>