

Notes to the Financial Statements

For the year ended 20th February 2005

1. GENERAL

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

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

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Turnover

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

Notes to the Financial Statements

For the year ended 20th February 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

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

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

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

Commission income is recognised in the income statement when earned.

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

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

Property, plant and equipment

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

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

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Interest in associates

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

Investments in securities

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

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

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

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

Impairment

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

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

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For the year ended 20th February 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Hire purchase contracts

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

Allowances for bad and doubtful debts

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

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

Operating leases

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

Foreign currencies

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

Notes to the Financial Statements

For the year ended 20th February 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Income tax

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

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

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

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

Asset securitisations

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Asset securitisations (Cont'd)

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

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

Derivative financial instruments

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

Retirement benefit costs

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

Notes to the Financial Statements

For the year ended 20th February 2005

4. TURNOVER

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

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Principal activities are as follows:

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

Notes to the Financial Statements

For the year ended 20th February 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

Segment information about these businesses is presented below:

2005

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

Notes to the Financial Statements

For the year ended 20th February 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

2004

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
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 (expense)	270,738	(8,688)	108,992	(8,183)	362,859
Credit card securitisation income	252,235	–	–	–	252,235
Other operating income	87,738	14,722	6,204	260	108,924
Other loss	–	–	–	(632)	(632)
Charge for bad and doubtful debts	<u>(285,147)</u>	<u>(2,038)</u>	<u>(56,746)</u>	–	<u>(343,931)</u>
Segment results	<u>325,564</u>	<u>3,996</u>	<u>58,450</u>		
Unallocated operating expenses				(233,756)	<u>(233,756)</u>
Profit before taxation					<u>145,699</u>
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					
Total liabilities	<u>893,871</u>	<u>195,992</u>	<u>484,097</u>	<u>226,960</u>	<u>1,800,920</u>
OTHER INFORMATION					
Additions to property, plant and equipment	–	–	–	15,238	15,238
Depreciation	–	–	–	28,331	28,331
Net loss on disposal of property, plant and equipment	<u>–</u>	<u>–</u>	<u>–</u>	<u>46</u>	<u>46</u>

Notes to the Financial Statements

For the year ended 20th February 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(b) Geographical segments

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

6. INTEREST EXPENSE

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

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

7. CREDIT CARD SECURITISATION INCOME

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

8. OTHER OPERATING INCOME

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

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For the year ended 20th February 2005

9. OTHER LOSS

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

10. OPERATING EXPENSES

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

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

The emoluments of the directors were within the following bands:

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

Notes to the Financial Statements

For the year ended 20th February 2005

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

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

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

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

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

12. CHARGE FOR BAD AND DOUBTFUL DEBTS

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

Notes to the Financial Statements

For the year ended 20th February 2005

13. INCOME TAX

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

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

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

14. DIVIDENDS

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

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

15. EARNINGS PER SHARE

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

16. PROPERTY, PLANT AND EQUIPMENT

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

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17. INTEREST IN ASSOCIATES

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

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

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

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

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

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

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

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For the year ended 20th February 2005

17. INTEREST IN ASSOCIATES (Cont'd)

Share of the associates' post acquisition results:

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

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

18. INVESTMENT SECURITIES

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

19. OTHER INVESTMENTS

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

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20. HIRE PURCHASE DEBTORS

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

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

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21. INSTALMENT LOANS RECEIVABLE

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

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

22. CREDIT CARD RECEIVABLES

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

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

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23. OVERDUE DEBTOR BALANCE

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

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

* Percentage of total debtor balance

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

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

Analysed as:

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

Notes to the Financial Statements

For the year ended 20th February 2005

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

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

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

25. CREDITORS AND ACCRUED CHARGES

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

26. MATURITY PROFILE

	2005				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	Over 4 years HK\$'000	
ASSETS					
Credit card receivables	1,015,043	20,198	3,786	–	1,039,027
Hire purchase debtors	72,081	134,042	26,857	–	232,980
Instalment loans receivable	226,238	473,446	303,219	2,201	1,005,104
Retained interests in securitisation trust	423,832	285,349	228,319	–	937,500
	<u>1,737,194</u>	<u>913,035</u>	<u>562,181</u>	<u>2,201</u>	<u>3,214,611</u>
LIABILITIES					
Bank borrowings	<u>440,556</u>	<u>180,000</u>	<u>965,000</u>	<u>290,000</u>	<u>1,875,556</u>
			2004		
	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	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	<u>454,910</u>	<u>355,000</u>	<u>695,000</u>	<u>140,000</u>	<u>1,644,910</u>

27. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

Notes to the Financial Statements

For the year ended 20th February 2005

28. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

29. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

30. BANK BORROWINGS

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

The maturity of bank borrowings is as follows:

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

31. ISSUED CAPITAL

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

Notes to the Financial Statements

For the year ended 20th February 2005

32. SHARE PREMIUM AND RESERVES

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

33. DEFERRED TAX LIABILITIES

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

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

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

34. OPERATING LEASE COMMITMENTS

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

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

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

35. FINANCIAL INSTRUMENTS

(a) Derivatives

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

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

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

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

36. RETIREMENT BENEFITS SCHEME

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

Notes to the Financial Statements

For the year ended 20th February 2005

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

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

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

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

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

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

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

Proforma consolidated balance sheet at 20th February 2005:

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

Notes to the Financial Statements

For the year ended 20th February 2005

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

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

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

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

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
Turnover	<u>771,176</u>	19,576		<u>790,752</u>
Interest income	479,804	243,651		723,455
Interest expense	<u>(116,945)</u>	(10,975)		<u>(127,920)</u>
Net interest income	362,859			595,535
Credit card securitisation income	252,235	(252,235)		–
Other operating income	108,924	13,875		122,799
Other loss	<u>(632)</u>			<u>(632)</u>
Operating income	723,386			717,702
Operating expenses	<u>(233,756)</u>	(1,181)		<u>(234,937)</u>
Operating profit before charge for bad and doubtful debts	489,630			482,765
Charge for bad and doubtful debts	(343,931)	(61,574)		(405,505)
Share of results of associates	–		(2,985)	<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 2005

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

Proforma consolidated balance sheet at 20th February 2004:

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
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 receivable	470,759			470,759
Credit card receivables	944,317	1,247,551		2,191,868
Retained interests in securitisation trust	652,336	(652,336)		–
Prepayments, deposits, interest receivable and other debtors	125,934	32,050		157,984
Time deposits	29,000	145,074		174,074
Bank balances and cash	78,077			78,077
	<u>2,456,606</u>			<u>3,228,945</u>
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><u>2,037,627</u></u>			<u><u>2,716,877</u></u>

Notes to the Financial Statements

For the year ended 20th February 2005

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

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

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

Notes to the Financial Statements

For the year ended 20th February 2005

38. RELATED PARTY TRANSACTIONS

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

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

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

39. CAPITAL COMMITMENTS

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