Annual Report 2007/08

AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

Stock Code: 900

ISO 10002 ISO 9001 ISO 27001

Planting Seeds of Growth
We are ÆON

Corporate Social Responsibility
企業社會責任

Caring Company 2007/08 Award
榮獲「商界展關懷2007/08」標誌

Active Participation in Activities of Environmental Conservation and Education
參與各種環保及教育活動

Contents

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Corporate Information

Board of Directors

Executive Directors
Masanori Kosaka *(Managing Director)*
Lai Yuk Kwong *(Deputy Managing Director)*
Tomoyuki Kawahara *(Senior Executive Director)*
Koh Yik Kung
Pan Shu Pin, Ban
Fung Kam Shing, Barry

Non-executive Directors
Yoshiki Mori *(Chairman)*
Kazuhide Kamitani

Independent Non-executive Directors
Tsang Wing Hong
Wong Hin Wing
Hui Ching Shan

Qualified Accountant

Lai Yuk Kwong

Company Secretary

Koh Yik Kung

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Share Registrar

Tricor Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Major Bankers

Mizuho Corporate Bank, Ltd.
Hong Kong Branch
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
Hong Kong Branch
Citibank, N.A.
Hong Kong Branch

Registered Office

37/F, The World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

Internet Address

Homepage: http://www.aeon.com.hk
E-mail address: info@aeon.com.hk

Stock Code

900

Milestones

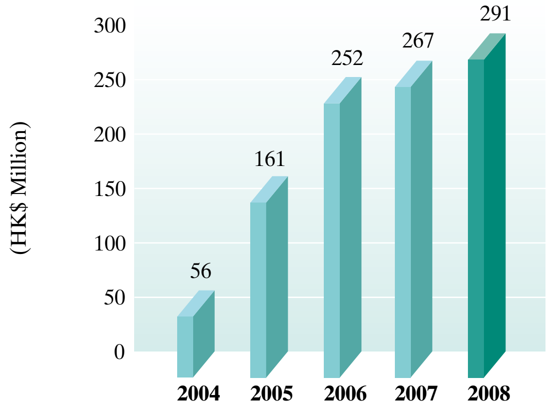
1987	Setting up of a branch office in Hong Kong by ÆON Credit Service Co., Ltd. ("ACS Japan") Provision of hire purchase service
1988	Provision of vehicle financing service
1990	Incorporation of AEON Credit Service (Asia) Company Limited (the "Company") Provision of personal loan service
1993	Provision of credit card service and setting up of ATM network
1994	Issue of AEON MasterCard
1995	Listing of the Company on the Main Board of The Stock Exchange of Hong Kong Limited
1998	Establishment of AEON Education and Environment Fund Limited
1999	Establishment of AEON Information Service (Shenzhen) Co., Ltd. ("AEON Shenzhen")
2000	Issue of AEON American Express Card
2001	Issue of AEON Visa Card
2004	Issue of AEON JCB Card
2006	ISO 27001 Certification Issue of AEON China UnionPay Credit Card Establishment of AEON Credit Guarantee (China) Co., Ltd. ("ACG")
2007	ISO 9001 and ISO 10002 Certifications Setting up of an additional operation centre in Guangzhou "Caring Company" Award

Shareholders' Calendar

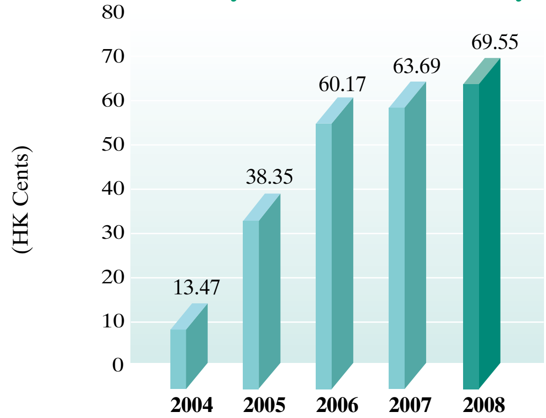
19th September 2007	Announcement of interim results for the six months ended 20th August 2007
4th October 2007	Despatch of Interim Report for the six months ended 20th August 2007
3rd – 9th October 2007	Book closing dates for interim dividend
12th October 2007	Payment of interim dividend of 10.0 HK cents per share and a special dividend of 5.0 HK cents per share, totalling 15.0 HK cents per share
25th April 2008	Announcement of the final results for the year ended 20th February 2008
13th May 2008	Despatch of Annual Report for the year ended 20th February 2008
16th – 20th June 2008	Book closing dates for final dividend
20th June 2008	2008 Annual General Meeting
30th June 2008	Payment of final dividend of 15.0 HK cents per share

Five-year Financial Summary

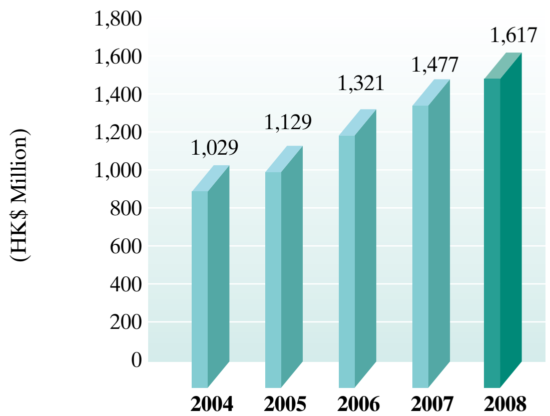
Profit for the Year (note 1)
ended 20th February



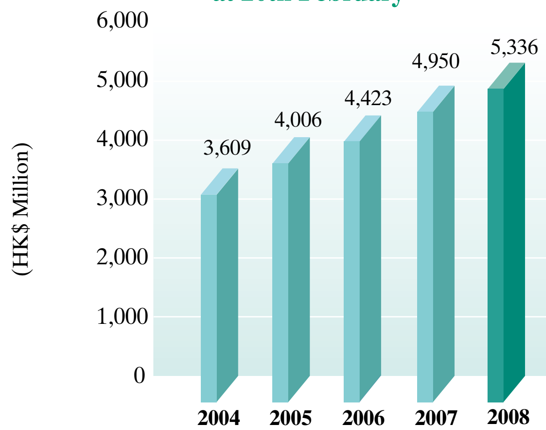
Earnings per Share (note 2)
for the year ended 20th February



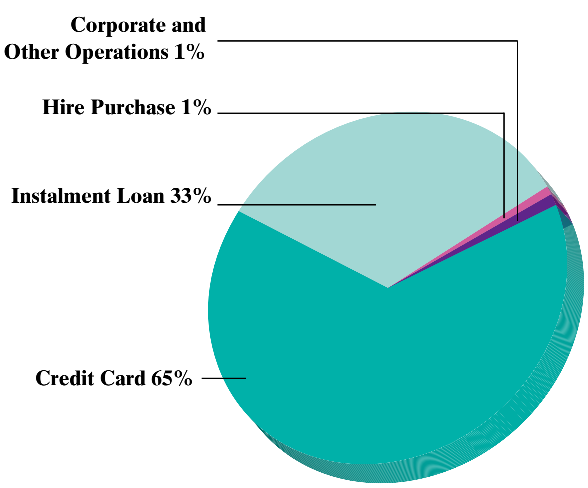
Shareholders' Equity (note 3)
at 20th February



Total Assets (note 4)
at 20th February



Turnover (note 5)



Notes:

1. Represents the consolidated profit for the financial years ended 20th February 2004, 2005, 2006, 2007 and 2008.

2. Represents the consolidated earnings per share for the financial years ended 20th February 2004, 2005, 2006, 2007 and 2008.

3. Represents the consolidated shareholders' equity at 20th February 2004, 2005, 2006, 2007 and 2008.

4. Represents the consolidated total assets at 20th February 2004, 2005, 2006, 2007 and 2008.

5. Represents the respective percentage of turnover by business segments for the financial year ended 20th February 2008.

Five-year Financial Summary

A summary of the consolidated results and of the consolidated assets and liabilities for the last five financial years, as extracted from the audited consolidated financial statements, is set out below:

CONSOLIDATED RESULTS

	For the year ended 20th February				
	2004 (Restated) HK$'000	2005 (Restated) HK$'000	2006 (Restated) HK$'000	2007 HK$'000	**2008 HK$'000**
Turnover	790,752	887,540	955,079	1,020,351	**1,075,010**
Profit before tax	74,275	195,155	305,949	319,750	**340,859**
Income tax expense	(17,888)	(34,538)	(53,966)	(53,054)	**(49,598)**
Profit for the year	56,387	160,617	251,983	266,696	**291,261**
Earnings per share	13.47 cents	38.35 cents	60.17 cents	63.69 cents	**69.55 cents**
Dividend per share	14.00 cents	16.00 cents	18.00 cents	26.00 cents	**30.00 cents**

CONSOLIDATED ASSETS AND LIABILITIES

	At 20th February				
	2004 (Restated) HK$'000	2005 (Restated) HK$'000	2006 (Restated) HK$'000	2007 HK$'000	**2008 HK$'000**
Total assets	3,609,124	4,005,887	4,423,392	4,949,661	**5,336,192**
Total liabilities	(2,579,981)	(2,876,668)	(3,102,847)	(3,472,667)	**(3,719,233)**
Shareholders' equity	1,029,143	1,129,219	1,320,545	1,476,994	**1,616,959**

Chairman's Statement

Yoshiki Mori
Chairman

In Japan, the non-bank finance industry is facing an ongoing severe operating environment, owing to the slowdown of the economic situation and the impact of the amendment of the Money-Lending Business Control and Regulation Law. On the other hand, the diversification of means of payment to include electronic money and the expansion of payment methods to include internet and mobile phones have dramatically improved the convenience.

In Hong Kong, the robust economy in the past one year has intensified the competition of consumer finance business. The Company has spared no efforts in strengthening its main business on one hand, and developing new business on the other. I am pleased to report that the Company and its subsidiaries (the "Group") reported a consolidated net profit of HK$291.3 million, an increase of 9.2% when compared with last year.

MANAGEMENT PHILOSOPHY

The Company is a member of the AEON Group and a subsidiary of ACS Japan, which is listed on the main section of the Tokyo Stock Exchange.

ACS Japan's management philosophy in Japan and the rest of Asia is to support cardholders' lifestyles and enable each individual to maximize future opportunities through effective use of credit. We continue to build trust and meet expectations by paying special attention to cardholders' needs and providing carefully tailored financial services. At the same time, we seek to earn cardholders' support by constantly working to raise standards of corporate behaviour in the financial service industry, adhering to a strict code of corporate ethics and engaging in activities that benefit society.

The principal activities of ACS Japan are credit card and personal loan business. At the same time, through its subsidiaries, ACS Japan is also involved in other financial service activities, including loan management, loan recovery and insurance agency business. ACS Japan aims to be a leading company in Asia's credit markets by continuing to develop and grow the business of overseas subsidiaries and by entering new markets. Besides Hong Kong, ACS Japan has overseas operations and offices in Thailand, Malaysia, Taiwan, Indonesia, China and Vietnam. Last year, our subsidiaries have obtained the listing status in Malaysia and commenced the guarantee business in China. Up to now, ACS Japan and its subsidiaries have a total of 18.39 million cardholders in Asia.

ACS Japan, the only credit card company that has a retailing background, has a good understanding of consumers' mind and is able to offer benefits to customers in different regions who have different needs.

Chairman's Statement

Aiming to improve the revenue structure, besides enhancing the scope of revolving payment business, ACS Japan will also enter into electronic money and gift coupon industry, expand banking processing agency and credit guarantee operations, and strengthen its insurance agency business.

Giving consumers' growing interest in corporate social responsibility, it is important for us to ensure and improve reliability if we want to be the first choice of our customers. Bearing this in mind, ACS Japan will further strengthen its activities to ensure security, safety and reliability, particularly with regard to personal information protection. At the same time, we also promote social contribution through a broad range of activities, including forest protection, both in Japan and overseas. We conduct these activities through the ÆON Environment Foundation, the ÆON 1% club and the Tokimeki Point Club, which are designed to promote charitable donations. Moreover, we will continue to implement other environmental protection measures by fostering employee-based volunteer activities and through our environmental management system.

PERFORMANCE OF THE GROUP

As a result of the issuance of more co-branded cards and the launch of different marketing programs, the number of active cards recorded a continuous increase in the past one year. Moreover, the Group has launched on-line bill payment service and gift card to widen its customer base targeting more prime customers. In addition, the Group has conducted a study on the expansion of its credit related business including collection and insurance agency such as the expansion of collection business to China and the introduction of insurance products to corporate customers. We aim to be one of the most competitive service providers in the market.

It is the strategy of the Group to develop a strong merchant network which is the backbone for its business expansion. Regular communication with merchants is crucial in creating synergy and developing products and services that fulfil customers' requirements. During the year, the Group had held tailor-made marketing programs with different affinity merchants to stimulate credit purchase sales on the co-branded cards.

NEW BUSINESS DEVELOPMENT

The Group has recently launched AEON UnionPay Gift Card. Gift Card serves as gift to friends and family members on special occasions, such as birthdays, weddings and anniversaries. Cardholders can enjoy the convenience of shopping throughout the China UnionPay network in China, Hong Kong and other countries.

In addition, revenue from insurance related business has continued to increase during the year. Number of members who pay their insurance premium through credit cards has surpassed 35,000 and this number is still growing. The Group has expanded its team to develop new insurance products and related business.

Servicer business is also gaining importance. The Group is now providing collection service to a total of 60 companies in the fields of telecommunications, banking, insurance, education and the like. Making use of our operation centres in Shenzhen and Guangzhou, we target to expand our client base in China.

Meanwhile, China is a market that no one can ignore. As a first but important step to enter the consumer finance business in this market, our associate, ACG, has commenced guarantee business in China. Based on this foundation, we are studying the feasibility of extending the service to other areas of consumer finance business and necessary support will be given to ACG to ensure its successful operation.

OUTLOOK

With the spread of the US sub-prime mortgage crisis and the pressure arising from the Renminbi (RMB) appreciation, the year ahead will be a challenging year for the Group. On one side, the wealth effects resulted from the fall of interest rate and the surge of asset prices, we have already noted a growth in consumer spending and borrowing. On the other hand, realignment in the consumer finance industry has led to intensified competition following the emerging information technology and rising cost and loss of human resources.

As the number of cardholders has reached a significant mass level, the Group will strive to reinforce its processing functions in telemarketing, customer service, judgement and collection activities and utilize the platform to provide other consumer finance related business.

Moreover, the Group will ensure stable funding procurement by diversifying its structured finance tools to include the issue of unsecured straight bonds. Addressing the coming enforcement of the management assessment of internal control over financial reporting, the Group is going to enhance its policy of compliance and implement it on all business operations. Special project team has been formed to monitor the progress of implementation.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to thank the members of the Board for their diligent guidance and support, the management team for their sound leadership and management, the staff for their hard work, and our shareholders, customers and business partners for their continued support and confidence in our Group.

森 美 樹

Yoshiki Mori
Chairman

Hong Kong, 25th April 2008

Managing Director's Operational Review

Masanori Kosaka
Managing Director

On behalf of the Board of Directors (the "Board"), I am pleased to present to you the Annual Report of the Group for the year ended 20th February 2008.

The Hong Kong economy remained in an upward trend in the past one year, with unemployment rate dropped to 3.4%, the lowest in the past 10 years and the Hang Seng Index hit its all-time high record in both points and trading volume. Consumption sentiment and the performance of all sectors were strong as a result of increasing individual income. However, the US sub-prime mortgage crisis posed an uncertain market environment with volatile global financial markets and repeated stock market plunges. Together with the rising food prices and the surging oil price, the intensification of domestic inflation in Hong Kong added additional challenges to the local financial industry.

For the year ended 20th February 2008, the Group continued to grow its core business and seek for new business opportunities on strengthened foundations. On the financial side, the Group achieved an increase in sales volume by 5.3%, operating income by 2.8% and net profit by 9.2%. On the operating side, to celebrate the Company's 20th anniversary, a series of marketing campaigns were launched to stimulate the card usage and at the same time reinforce the brand image in the market. On corporate social responsibility, the Group has received the "Caring Company" award in recognition of its continuous support to various community programs on environmental protection, education and cultural exchange. To maintain a constant return on shareholders' interests, the Board decided to increase the absolute dividend amount to 30.0 HK cents, with a payout ratio of 43.1%.

OPERATIONAL REVIEW

Marketing

During the year under review, the Group had launched a series of marketing initiatives to boost up card and personal loan sales, including co-operation with new partners and introduction of new services.

New cards issued during the year

On credit card business, the Group had designed tailor-made card acquisition programs with its affinity partners to increase the card base and card usage. To capture new market segment, the Q-PETS Titanium MasterCard was launched in

Managing Director's Operational Review

20th anniversary lucky draw promotions

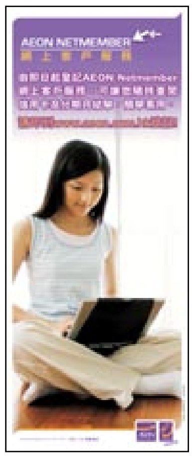
November 2007 targeting pet owners. The unique features of this card such as double bonus points and special member discounts at Q-PETS shops are well received by customers. In addition, three association cards and one charity card were launched in the market to diversify the member base.

To celebrate the Company's 20th anniversary, the Group had launched a series of marketing activities. The four phases of 20th anniversary lucky draw promotions had received overwhelming response in the market. As a result, card credit purchase had increased by 12.7% when compared with last year.

With the recovery of the economic situation, the Group had stepped up its efforts in telemarketing and direct marketing and widened its sales channel for card cash advance and personal loan products. Personal loan sales still maintained a healthy growth in the past one year.

New Service

To extend the service coverage, the Group introduced the AEON Netmember service and launched AEON on-line bill payment service to its customers. Net-members can now register through our website and make payments to over 400 merchants including government bodies and public utility companies through their credit cards. This not only provides convenience to customers but also creates additional credit card sales to the Group. Up to now, 5,000 members have been registered.



AEON Netmember service

Card instalment plan through ATM

In addition, the Group had enhanced the functionality of its ATMs to provide cash instalment plan which offers flexibility to customers in selecting appropriate repayment terms. Moreover, the Group had already installed 150 ATMs in convenience stores locations and 45 ATMs along the MTR areas.

Customer Service

With the set up of an additional operation centre in Guangzhou, the Group is able to assign sufficient manpower to provide 24-hour hotline service. Moreover, the interactive voice telephone system (IVRS) had been enhanced to provide distinctive services to privileged customers through prioritizing VIP customer calls and the setting up of separate telephone lines. In addition, the Group had successfully extended ISO 9001 (Quality Management System) to the whole Company including all the branches. This marks a step forward for the Group in ensuring quality service for its customers.

PROSPECTS

Looking forward, the coming year will be a year of challenges. The US sub-prime issue and the resultant global financial turbulence will increase the downside risks in the external economic environment. At the same time, the Chinese Government is expected to continue its austerity measures so as to slow down the overheating economy, particularly the property market. A falling US dollar, a rising RMB and together with the global increase in food and energy prices will add inflationary pressures to the Hong Kong economy. Nevertheless, a strong momentum in the Mainland and other emerging markets, coupled with lower interest rates, will help to alleviate the above-mentioned adverse impact. Therefore, it is anticipated that the Hong Kong economy will continue to grow and consumer spending will continue to increase.

Under this operating environment, the challenges ahead for the market players will be the keen competition and increasing operating costs. The Group will strive to expand its market segment for credit card and loan products, improve service quality, expand service coverage areas and maximize the returns of its shareholders.

Credit card business will continue to be the core business of the Group, with the primary aim to build in unique features in affinity cards to suit cardholders' lifestyle. With additional new card benefits and quality services provided to customers, the Group aims to increase the active ratio of new customers and cross-sell other services with additional benefits to such customers. The Group will develop new financial products and cross-sell personal loan, trendy consumer and insurance products to the enlarged member base to ensure full service coverage. With the well-established infrastructure in Hong Kong and China, the Group will continue to source new business opportunities from companies outsourcing their small debt recovery functions and other credit-related services.

The Group will actively strengthen its brand image in the market as providing better life quality for customers and also as a responsible corporate citizen. To this end, the Group will continue to launch new innovative products and services in the market.

Managing Director's Operational Review

Diversification of Market Segments

AEON Card is always the core card for card member growth and usage stimulation. The Group will utilize temporary credit cards, referral promotion and gold card conversions to recruit new member base and stimulate sales. Since co-branded cards can offer value-added benefits to cardholders and create a unique image for merchants, the Group will continue tie up with leading business partners to issue co-branded cards to capture new customer segments and widen its distribution network. In addition, the Group plans to hold mass event promotions in cooperation with theme parks to increase the public awareness of AEON Cards.

Marketing programs on co-branded cards

In order to satisfy different demands in the market for loan products and to attract quality customers, the Group will continue to launch more loan programs with its merchants. The Group will also focus on cross-selling and up-selling loan products to selected inactive, sleeping and newly recruited customers.

Provide Convenience and Reliable Services

The Group will launch innovative new services that offer customers greater convenience by making use of the new technology available. The implementation of wireless Card Authorization Terminal (CAT) will facilitate card acquisition activities using temporary credit cards. With this set up, new card applicants not only can enjoy instant credit facilities but it also speeds up the transaction processing time. The Group will actively use temporary credit card to attract outlet-based new customers for co-branded cards.

The Group targets to increase the number of net-members from 5,000 to 30,000 by the end of 2008. Following the launch of e-statements, customers can now choose to receive statements through internet service for convenience and environmentally friendly. Moreover, the launch of consolidated statements will facilitate the customers to view their transactions more easily.

In order to earn the trust of customers in using its card service, the Group plans to install security chips in newly issued cards. Moreover, the Group will continue upgrade its core and sub-systems to cater for the increase in sales transactions and new services launched. With the full operation of backup data centre, the Group is able to ensure a continuous operating environment during times of emergency.

Managing Director's Operational Review

New Products and Services

AEON Unionpay Gift Card

The Group has recently launched AEON UnionPay Gift Card. The Group plans to step up its sales efforts prior to the upcoming Mother's Day and Father's Day when giving gifts to parents is common in Hong Kong. The Gift Card can be widely used throughout China UnionPay network in more than one million locations in China, Hong Kong and some other countries. The launching of Gift Card not only offers new services to our customers but also attracts new customer base for cross-selling of other financial products.

For cross-selling of insurance products to its customers, the Group will expand the sales channel to branch and affinity merchant networks. Staff will meet with customers to identify their personal and family needs in order to prepare tailor-made insurance products for them.

Insurance counter

Customer Satisfaction and Service Coverage Expansion

Since 2005, the Group has started to implement ISO. Up to now, the Group has obtained certifications of ISO 9001, ISO 10002 and ISO 27001 whereby standards are implemented as per quality management system and information security management system. These certifications not only help us to ensure that the Group's operations are up to international standards but also ensure that the highest level of quality service is being offered to customers.

ISO 9001
Quality Management System

ISO 10002
Customer Satisfaction –
Complaints Management System

ISO 27001
Information Security
Management System

A new hotline system will be implemented by the first quarter of 2008 which will come with various enhancements including call forwarding, real time customer contact history sharing and monitoring reports. This enables the operators to deliver courteous openings and share updated requirements from customers.

In the coming year, the Group will continue create new channels for target marketing and foster closer co-operation with discount and co-branded merchants. To create a convenient network for cash advance usage, the Group will expand its ATM network along the MTR areas and inside convenience stores. Moreover, the Group will further enhance the functionality of its ATMs to perform deferred payment function through credit cards.

Recurrent Transaction Promotions

The collaboration with different merchants in promoting recurrent transactions through credit cards has successfully boosted up credit purchase sales. To improve the active ratio and retain the loyalty of existing customer base, the Group will launch a series of promotion programs on premium payments, bill payments, and automatic add-value services in the coming months.

New Business Development

By using its vast customer base, the Group has recorded substantial increase in the cross-selling of insurance products to its member base. In the coming year, the Group will focus on increasing the number of policy holders by offering unique products ranging from personal accident protection to refundable hospital income. Moreover, the Group will continue to solicit unique and exclusive insurance products for its card members. Besides offering individual insurance products to its card members, the Group is also considering to offer big ticket general insurance items to business partners.

Insurance products

The Group has been providing collection services to corporate clients in Hong Kong in the fields of telecommunications, insurance, education and finance. The Group aims to expand its service territory to China in the near future.

China Business

The operation centre in Shenzhen now provides back-office operation on collection, customer service, risk management, telemarketing and judgment. An additional centre has been in operation in Guangzhou to provide 24 hour hot-line service and also to cater for future consumer finance business in Guangdong Province.


Guangzhou operation centre

Moreover, ACG, an associate, has commenced its operation on hire purchase guarantee business and set up offices in Guangzhou and Beijing. The Group will continue to make use of its expertise, know-how and experience in Hong Kong to assist those operations so as to capture the potential business opportunities upon opening up of the consumer finance market in China.

Managing Director's Operational Review

Future

The continuous improvement in customer service quality and product development, as well as the vast customer base and merchant networks that have been built over these years, will provide the Group with a strong driving force to grow in the Hong Kong market. Moreover, the infrastructure and business model will provide a foundation for the Group to expand into the China market.

SYSTEMS DEVELOPMENT

The Group will continue to revamp its enterprise-wide contingency plan to cater for any unforeseen circumstances and to ensure a continuous operating environment by enhancing its backup data centre in Kwai Chung, expanding the Guangzhou operation centre and setting up backup operation infrastructure in Hong Kong. The measures in the business continuity plan will be tested on a recurrent basis to ensure their efficiencies in time of need. Moreover, the Group will enhance its systems to cater for receivable growth, customers' needs and expectations and to improve on data and network security, risk detection and efficiencies within the Group.

During the year under review, the Group has continued to upgrade its business continuity plan and arrangement, with the backup for core and accounting systems being completed. Besides, the Group has enhanced the application status management system, telemarketing system and auto-call system to facilitate efficient approval processes, telemarketing activities and dunning actions. Other operating systems launched this year include cash instalment plan for cash advance transactions in ATMs, netmember service, on-line payment and gift card.

In the coming year, the Group will put continuous efforts to monitor and enhance the security of its operating systems. Moreover, the Group will extend its business continuity plan to all sub-systems. In addition, operating systems for new product features such as installation of security chips in cards will be completed this year. Further upgrade is planned in judgement and data-warehouse so as to improve the operating efficiencies.

HUMAN RESOURCES

The total number of staff as at 20th February 2008 and 20th February 2007 was 342 and 376 respectively. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from medical insurance and mandatory provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Company. The Company also provides in-housing training programs and external training sponsorships to strengthen its human resources.

Staff Annual Dinner

To foster a sense of belonging and team spirit among staff members, the Company issues staff newsletters and establishes Staff Social Club to organize and promote various activities for the staff.

COROPORATE SOCIAL RESPONSIBILITY

Over the years, we emphasize on three key words, "peace", "people" and "community" in our Group's philosophy. Not only do we strive hard to provide a reasonable return to our shareholders, the Group also takes pride in making charitable contributions to the local community. The Group's efforts and contributions to the local community have been recognized by the "Caring Company" award presented by the Hong Kong Council of Social Service.

Hong Kong Tree Planting Day

To fulfill the mission of "Planting Seeds of Growth" and support the government in "preventing hill fire", both staff and customers volunteered in tree planting activities twice at Tai Lam Country Park. The Group has supported the planting of 30,000 tree seedlings to help green the Hong Kong countryside.


AEON Planting Seeds of Growth

The Group has continued to make donations through its charity cards to support vital charity causes in the community and also sponsored charitable projects of environmental conservation, education and cultural exchange through the AEON Education and Environment Fund. The new projects sponsored included the permanent set up of "AEON Smart Environmental Home" at a local Nature Education Centre; the full support to "20th HKSAR Outstanding Students Selection 2007" and "The Disney Charity Gala Premiere". To echo with the 2008 Olympic games, the Group supported "Spring Walk for Education in Beijing" to raise funds for sports facilities in remote regions of China.

In the coming year, the Group will continue to practice good corporate citizenship to help the less privileged and work towards a green living environment.

Managing Director's Operational Review

ACKNOWLEDGEMENT

On behalf of the Board, I would like to wholeheartedly thank our customers, business partners, and shareholders for their long-standing trust in and support for the Group. I also wish to acknowledge the exemplary hard work carried out with commitment and passion at every level within the Group, especially the trustworthy management team and the members of the Board for their diligent guidance and support. This work attitude and spirit bode well for the Group's long term growth and expansion.

Masanori Kosaka
Managing Director

Hong Kong, 25th April 2008

Management Discussion and Analysis

During the year under review, Hong Kong's economic growth remained strong at 6.3% and was distinctly above the 10 year average growth of 3.8%. The impact of global financial turbulence was not significant yet during the year. External trade was still vibrant, particularly so for export of services. Meanwhile, domestic demand was an important growth driver amidst an upbeat consumer and business confidence. Wholesale and retail sales grew by 8.3% while unemployment rate at end of 2007 dropped to 3.4%, the lowest in the past 10 years. This had been a pull factor in the increase of consumer spending in Hong Kong.

At the same time, the combined effect of the strong consumption market, global food inflation and the elevated energy prices had pushed up Hong Kong's inflation. On the other hand, a distressed stock market in the United States owing to the prolonged sub-prime issue had put pressure on the Hong Kong stock market. To stabilize the financial market in the United States, the Federal Reserve Bank had taken bold action to slash the interest rates. Owing to the peg system of United States dollars to Hong Kong dollars, the HIBOR also followed suit and moved lower. All these factors resulted in a growth in the property market.

During the year under review, the Group continued to record a growth in credit card and personal loan business despite market players moved aggressively into these sectors. The launch of new marketing programs and the recruit of more co-branded cardholders had boosted up credit card sales. With the use of the Group's branch and merchant networks to cross-sell different loan products, personal loan sales continued to maintain a healthy growth.

KEY FINANCIAL HIGHLIGHTS

For the financial year ended 20th February 2008, on an audited basis, profit before tax was HK$340.9 million, an increase of 6.6% when compared with last year. After deducting income tax expense of HK$49.6 million, the Group achieved a profit growth of 9.2%, with net profit increased from HK$266.7 million in the previous year to HK$291.3 million. Earnings per share increased by 9.2% from 63.69 HK cents to 69.55 HK cents in 2007/08.

Operating revenue before interest expense for the year was HK$1,167.8 million, as compared with HK$1,122.1 million in 2006/07.

Operating income was HK$1,004.2 million, an increase of HK$26.9 million when compared with HK$977.3 million in 2006/07. Operating expenses increased by 3.4% from HK$353.7 million to HK$365.8 million, with cost-to-income ratio moved from 36.2% in the previous year to 36.4% in this year. At the operating level before impairment losses and impairment allowances, the Group recorded an increase in operating profit by HK$14.8 million from HK$623.6 million in 2006/07 to HK$638.4 million.

The Group's impairment losses and impairment allowances recorded a slight drop of 0.5% from HK$334.0 million in the previous year to HK$332.2 million in this year. At the same time, recoveries of receivables written-off recorded an increase of 19.8% from HK$30.9 million in 2006/07 to HK$37.0 million in 2007/08.

With the higher volume of consumer loan transactions, total debtor balance increased by 9.6% or HK$418.7 million, from HK$4,355.1 million at 20th February 2007 to HK$4,773.8 million at 20th February 2008.

Net asset value per share (after final dividend) at 20th February 2008 was HK$3.7, as compared to HK$3.4 at 20th February 2007.

The Board proposed the payment of a final dividend of 15.0 HK cents per share. Together with an interim and special dividend of 15.0 HK cents per share already paid, the total dividend for the year increased to 30.0 HK cents per share from 26.0 HK cents per share in 2006/07, representing a dividend payout ratio of 43.1%.

CONSOLIDATED INCOME STATEMENT ANALYSIS

Operating Income

The growth in sales transactions had resulted in the increase in interest income by 4.5% from HK$987.4 million in 2006/07 to HK$1,031.4 million. With a continuous drop in the HIBOR and the renewal of certain long-term borrowings with lower interest rate, the average funding cost moved down from 4.9% in the first half to 4.4% in the second half. The full year average funding cost was 4.6%, as compared to 4.8% in the previous year. With increase in funding requirement, interest expense was HK$163.6 million, an increase of 13.0% when compared with last year. The Group's net interest income recorded an increase of 3.0% to HK$867.8 million from HK$842.6 million in 2006/07.

The strong growth in credit purchase sales had increased the commission income received and, together with an increase in cash advance handling charges, other operating income increased by 12.6% from HK$115.9 million to HK$130.5 million.

Other income of HK$5.9 million represents the gain on disposal of available-for-sale investments, hedge ineffectiveness on cash flow hedges and loss on disposal of property, plant and equipment. During the year, the Group disposed of its investments in shares listed overseas and the proceeds are for general working capital requirements.

Operating Expenses

The Group incurred more on marketing expenses to capture the growth of demand in consumer finance market and to build up its brand image. In addition, following the recruit of more cardholders and the launch of new marketing programs, the Group had spent more on card and loan processing expenses. However, with the exercise of a tight cost control process, the operating expenses only recorded a slight increase of 3.4% from HK$353.7 million in 2006/07 to HK$365.8 million. The Group's cost-to-income ratio was 36.4%, as compared with 36.2% in 2006/07.

Impairment Losses and Impairment Allowances

The Group lent conservatively and strived to continually improve its asset quality. With the improved economic situations and the lower unemployment rate as well as the sharing of positive credit data, asset quality continued to improve during the year. Although the receivables continued to grow, impairment losses and impairment allowances recorded a slight drop of 0.5% from HK$334.0 million in 2006/07 to HK$332.2 million in the year, with recoveries for the year amounted to HK$37.0 million as compared with HK$30.9 million in the previous year.

CONSOLIDATED BALANCE SHEET ANALYSIS

The Group's shareholders' equity at 20th February 2008 were HK$1,617.0 million, representing a growth of 9.5%, or HK$140.0 million, when compared with the balance at 20th February 2007.

Debtor Balance

With a solid infrastructure and customer base, the Group was able to capitalize on market growth opportunities despite the keen competition in the market. With the issue of more cards and launch of different marketing programs, credit card receivables increased by HK$398.3 million from HK$2,872.3 million at 20th February 2007 to HK$3,270.6 million at 20th February 2008. The acquisition of new customer portfolio had expanded the base for cross-selling loan products. Instalment loans receivable reached HK$1,387.6 million, an increase of HK$29.7 million when compared with last year. Although there was a slight drop in hire purchase debtors to HK$115.6 million, total debtor balance increased by 9.6% or HK$418.7 million, from HK$4,355.1 million at 20th February 2007 to HK$4,773.8 million at 20th February 2008.

With an increase in total debtor balance and the percentage of overdue debtor balance for 4 months or above remained at the same level, the Group increased the amount of impairment allowances. Impairment allowances amounted to HK$142.4 million at 20th February 2008, as compared with HK$134.2 million at 20th February 2007 and representing 3.0% of total debtor balance.

Available-for-Sale Investments

During the year, the Group subscribed for 173 new shares in PT. AEON Credit Service Indonesia ("AEON Indonesia"), a fellow subsidiary, for a cash consideration of HK$4,475,000. Upon completion of the subscription, the Group owns 5.18% of the issued share capital of AEON Indonesia. The investment is accounted for as available-for-sale investment measured at fair value at balance sheet date subsequent to initial recognition. With the anticipated growth in the economy in Indonesia in the near future, AEON Indonesia will expand its operation in the coming years. The investment is expected to bring good returns to the Group in the long run and thus enhancing the shareholders' value of the Group.

Moreover, the Group was granted Class C (Series l) Common Stock of Visa Inc. under Visa Inc.'s pre-listing reorganization scheme. The investment is accounted for as available-for-sale investment measured at fair value at balance sheet date subsequent to initial recognition. The investment is expected to bring good returns to the Group and thus enhancing the shareholders' value of the Group.

Collateralised Debt Obligation

The Company entered into a HK$850,000,000 collateralised debt obligation transaction (the "Transaction") as long-term funding. Pursuant to the Transaction, the Company transferred credit card receivables to a trust established solely for this financing purpose. The Company is the sole beneficiary of the trust and holds the entire undivided interest in the credit card receivables transferred to the trust. The Transaction will last for four more years and commence amortization in 2012. According to HKAS 39, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group's consolidated financial statements.

The collateralised debt obligation amounted to HK$846.6 million at 20th February 2008 and carried a fixed interest coupon. This was secured by credit card receivables of HK$1,435.8 million and restricted deposit of HK$68.0 million.

Funding and Capital Financing

The Group relies principally on its internally generated capital, structured finance and bank borrowings to fund its business. At 20th February 2008, 31.6% of the funding was derived from shareholders' equity, 16.5% from structured finance and 51.9% from direct borrowings from financial institutions.

The principal source of internally generated capital is from accumulated profits. Besides the collateralized debt obligation transaction mentioned above, at 20th February 2008, the Group had bank borrowings, bank overdrafts and cross-currency syndicated term loan amounted to HK$2,657.2 million, with 76.8% being fixed in interest rates.

Including the collateralised debt obligation, 29.5% of these indebtedness will mature within one year, 11.7% between one and two years, 13.0% between two and three years, 20.7% between three and four years and 25.1% over four years. The average duration of indebtedness was around 2.5 years. The Group's bank borrowings were denominated in Hong Kong dollars, except for a syndicated term loan of Japanese Yen 7.5 billion which was hedged by a cross-currency interest rate swap.

The Group continued to maintain a strong financial position. The net debt to equity ratio at 20th February 2008 was as follows:

	2008	2007
	HK$'000	HK$'000
Debt *(note a)*	**3,500,812**	3,266,984
Cash and cash equivalents	**(242,842)**	(278,616)
Net debt	**3,257,970**	2,988,368
Equity *(note b)*	**1,616,959**	1,476,994
Net debt to equity ratio	**2.01**	2.02

Notes:

(a) Debt comprises bank borrowings and collateralised debt obligation.

(b) Equity includes all capital and reserves of the Group.

The net asset of the Group at 20th February 2008 was HK$1,617.0 million, as compared with HK$1,477.0 million at 20th February 2007.

The Group's principal operations were transacted and recorded in Hong Kong dollars and thereby did not subject to any exposure on exchange rate fluctuation. During the year, the Group engaged in derivative financial instruments mainly to hedge its exposure on interest rate and exchange rate fluctuations.

Capital expenditure for the year amounted to HK$28.1 million as compared to HK$93.2 million in the previous year. This was mainly related to the software development on the enhancement of the operating and security systems and the subscription of new shares in a fellow subsidiary. At 20th February 2008, capital commitments entered were related to the purchase of property, plant and equipment and the purchase of available-for-sale investments.

Taking into account the financial resources available to the Group, including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

In determining the dividend payment, the objective is to reward shareholders with dividend income while retaining funds for future business development and expansion in both Hong Kong and China. As the current growing economic situation is expected to continue in the coming year, coupled with anticipated open up of the China market, the business opportunities for consumer finance loans would increase. Moreover, under the volatile stock market, shareholders would generally expect a reasonable return on their investments and a higher dividend amount would stabilise share price. In order to meet shareholders' expectation, the Board decided to increase the full year absolute dividend amount by 4.0 HK cents from 26.0 HK cents to 30.0 HK cents for the year ended 20th February 2008, representing a payout out ratio of 43.1%. The Board now recommended the payment of a final dividend of 15.0 HK cents per share. An interim and special dividend of 15.0 HK cents was paid on 12th October 2007.

SEGMENT INFORMATION

The Group's business comprised mainly three operating divisions, namely credit card, instalment loans and hire purchase. In 2007/08, credit card operation accounted for 65.1% of the Group's turnover, as compared to 64.5% in 2006/07. For operating income after deducting impairment losses and impairment allowances, credit card operation accounted for 67.7% in 2007/08, as compared to 68.6% in 2006/07.

With the issue of more cards and good response to the 20th anniversary marketing programs, net interest income from credit card operation increased by HK$4.5 million, from HK$538.7 million in 2006/07 to HK$543.2 million in 2007/08. The strong growth in credit purchase sales had increased the commission income received and, together with an increase in cash advance handling charges, other operating income from credit card operation increased by 9.9% or HK$9.7 million from HK$97.7 million to HK$107.4 million in 2007/08. Impairment losses and impairment allowances remained quite stable, with HK$200.6 million in 2006/07 and HK$200.8 million in 2007/08. On the other hand, recoveries of receivables written-off had reported an increase of 13.5% or HK$3.6 million from HK$26.8 million in 2006/07 to HK$30.4 million in 2007/08. As a result, operating results from credit card operation recorded an increase of 3.8% or HK$17.6 million from HK$462.6 million in 2006/07 to HK$480.2 million in 2007/08.

With the enlarged customer base and distribution channels, the Group remained active in developing its instalment loan business. Instalment loan continued to record a stable growth in the reporting year, representing 32.7% of the Group's turnover. Net interest income from instalment loan operation recorded an increase of HK$19.1 million, from HK$299.7 million in 2006/07 to HK$318.8 million in 2007/08. Following the increase in sales and receivables, other operating income recorded an increase of HK$1.9 million from HK$16.9 million in 2006/07 to HK$18.8 million in 2007/08. With the effective use of the credit bureau information, there was a decrease in impairment losses and impairment allowances by HK$1.5 million from HK$129.5 million in 2006/07 to HK$128.0 million in 2007/08. Moreover, recoveries of receivables written-off had increased from HK$3.5 million to HK$5.8 million in 2007/08. As a result, the operating results from instalment loan operation increased by 13.0% or HK$24.8 million from HK$190.6 million in 2006/07 to HK$215.4 million in 2007/08.

With the higher usage of card instalment plan, hire purchase sales recorded a slight drop, resulting in the decrease in interest income and other operating income from hire purchase transactions by HK$0.1 million from HK$4.5 million in 2006/07 to HK$4.4 million in 2007/08. Impairment losses and impairment allowances recorded a drop from HK$3.9 million in 2006/07 to HK$3.4 million in 2007/08. Moreover, recoveries of receivables written-off were HK$0.9 million in 2007/08 and HK$0.7 million in 2006/07. As a result, the operating results from hire purchase operation increased from HK$1.2 million in 2006/07 to HK$1.8 million in 2007/08.

COMPETITIVE ADVANTAGES

Synergy

The Group continued to benefit from the strong connections with affiliated merchants by launching various co-branded cards and using the merchants' networks as card acquisition base and cross-selling channels, resulting in the continuous growth in the number of cardholders and instalment loan customers.

Know-how and Expertise

ACS Japan has extensive know-how and expertise in the consumer finance industry and brings in innovative ideas on the marketing and card acquisition programs.

Customer Base

The customer base of the Group is widely diversified. The new cardholders recruited in this financial year were mainly related to merchants in the retail, catering and travel industries. Around 60% of the customers are in the age range of 30 to 50. With the launch of more co-branded cards, the percentage of female cardholders is around 70%.

Convenient Service

For ease of payment, customers can settle their payments via branch counters, convenience stores networks, phone banking, internet banking and ATM networks. Customers can also have easy access to speedy and convenient cash advance and personal loan services via the extensive ATM networks in Hong Kong and China as well as the Group's branch network and operation centres. For card spending, the extensive discount merchant network continues to provide convenience and wide-ranging choices to cardholders. The launch of on-line bill payment service allows cardholders to register through AEON's website and make payments to over 400 merchants including government bodies and public utility companies.

Quality of Service

The Group obtained ISO 27001 certification for information security management system, ISO 9001 certification for quality management system and ISO 10002 certification for customer satisfaction - complaints management system. These certifications help ensure that the highest level of quality service is being offered to customers.

GROWTH PHILOSOPHY

The four key elements of the Group's growth philosophy are (1) ongoing product and service innovation; (2) total consumer credit services; (3) operational cost effectiveness; and (4) a strong network of affiliated companies. Consumers in Hong Kong have widely accepted and appreciated the innovative consumer credit finance services provided at low costs by the Group.

Directors and Senior Management Profile

DIRECTORS

Mr. Yoshiki Mori, aged 57, was appointed the Chairman of the Company on 16th June 1999 and has been a Non-executive Director of the Company since 1992. He is currently the President and Chief Executive Officer of ÆON Credit Service Co., Ltd. and will be appointed as the Chairman on 13th May 2008. He is a Director of ÆON Co., Ltd., AEON Thana Sinsap (Thailand) Public Company Limited and AEON Credit Service (M) Berhad. Mr. Mori holds a Bachelor's degree in Economics from Nanzan University.

Mr. Masanori Kosaka, aged 51, was appointed an Executive Director and Managing Director of the Company on 25th April 2002 and 20th June 2002 respectively. He was formerly with the Company from March 1993 to June 1996 and rejoined the Company in April 2002. He is a Director of AEON Information Service (Shenzhen) Co., Ltd. and AEON Credit Guarantee (China) Co., Ltd. Mr. Kosaka holds a Bachelor's degree in Law from Kyoto Sangyo University.

Mr. Lai Yuk Kwong, aged 45, was appointed an Executive Director and Deputy Managing Director of the Company on 16th June 1999 and 14th June 2006 respectively. He is also the Qualified Accountant of the Company. He joined the Company in July 1996. Mr. Lai holds a Professional Diploma in Accountancy from Hong Kong Polytechnic University. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and the ITAccountants Association, and an associate member of the Institute of Chartered Accountants in England & Wales. Mr. Lai had worked with an international audit firm for six years.

Mr. Tomoyuki Kawahara, aged 47, was appointed an Executive Director and Senior Executive Director of the Company on 14th June 2006 and 15th June 2007 respectively. He is in charge of the Marketing Division of the Company. He joined the Company in September 2000. Mr. Kawahara holds a Bachelor's degree in Business Administration from Hokkaido University.

Ms. Koh Yik Kung, aged 52, was appointed an Executive Director of the Company on 21st June 2001. She is also the Company Secretary and in-house counsel. She is in charge of the Corporate Affairs Division of the Company. She was formerly with the Company from August 1992 to June 1994 and rejoined the Company in November 1998. Ms. Koh holds a Bachelor's degree in Law from South Bank University. She is a barrister.

Dr. Pan Shu Pin, Ban, aged 40, was appointed an Executive Director of the Company on 14th June 2006. He is responsible for the business planning and development of the China market. He was formerly with the Company from April 1993 to September 1996 and rejoined the Company in April 1998. He is a Director of AEON Credit Guarantee (China) Co., Ltd. Dr. Pan holds a Bachelor's degree in Computer Science and a Management Certificate in Management Information System from University of Lethbridge, a Master's degree in Business Administration from South Eastern University and a Doctorate in Business Administration from Wisconsin International University.

Directors and Senior Management Profile

Mr. Fung Kam Shing, Barry, aged 45, was appointed an Executive Director of the Company on 14th June 2006. He is in charge of the Accounts and Finance Division of the Company. He joined the Company in May 2002. He is a Director of AEON Credit Guarantee (China) Co., Ltd. Mr. Fung holds a Bachelor's degree in Business Administration from Yokohama National University. He is also a Chartered Financial Analyst. Prior to joining the Company, he worked for a number of major international banks in Hong Kong, Singapore and Japan.

Mr. Kazuhide Kamitani, aged 51, was the Managing Director of the Company from June 1990 to June 2002 and re-designated as Non-executive Director of the Company on 20th June 2002. He is currently the Senior Managing Director of ÆON Credit Service Co., Ltd. and will be appointed as the President and Chief Executive Officer on 13th May 2008. He is a Director of AEON Thana Sinsap (Thailand) Public Company Limited and AEON Credit Service (M) Berhad. Mr. Kamitani holds a Bachelor's degree in Management from Ritsumeikan University.

Mr. Tsang Wing Hong, aged 81, was appointed an Independent Non-executive Director on 26th June 1995. He was a member of the Banking Advisory Committee from 1991 to 1993. He is a member of the Board of Trustees of United College, Chinese University of Hong Kong. Mr. Tsang has over 35 years of experience in the banking industry.

Mr. Wong Hin Wing, aged 45, was appointed an Independent Non-executive Director on 13th October 2004. He holds a Master's degree in Executive Business Administration from Chinese University of Hong Kong. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Hong Kong Institute of Directors and the Association of Chartered Certified Accountants, as well as a member of the American Institute of Certified Public Accountants. He is also a fellow member of the Institute of Chartered Secretaries and Administrators and a member of the Securities & Investment Institute. He is currently the Chief Executive Officer and responsible officer of Legend Capital Partners, Inc., a licensed corporation under the Securities and Futures Ordinance. Mr. Wong has over 20 years of experience in accounting, finance, investment management and advisory.

Dr. Hui Ching Shan, aged 57, was appointed an Independent Non-executive Director on 26th June 2006. He holds a Bachelor's degree in Social Science from University of Hong Kong, a Master's degree in Business Administration from University of Toronto, a Doctorate in Business Administration from University of South Australia and a Postgraduate Certificate in Laws from University of Hong Kong. He is also a Certified Management Accountant of Canada and a member of the Hong Kong Institute of Chartered Secretaries. He is currently a Director of Sun Wah Media Holdings Limited and Sun Wah Kadokawa (Hong Kong) Group Limited. Dr. Hui has over 15 years of experience in commercial and merchant banking and had held senior positions in a number of local and international merchant banks.

SENIOR MANAGEMENT

Mr. Ivan S. C. Wong, aged 47, is the General Manager responsible for the Company's internal operations. He joined the Company in May 1996. He is a Director of AEON Information Service (Shenzhen) Co., Ltd. Mr. Wong holds a Bachelor's degree in Business Administration from Royal Melbourne Institute of Technology University and a Diploma in Management Studies from Hong Kong Polytechnic University. Prior to joining the Company, he worked for a major bank in Hong Kong for 10 years.

Mr. Jamie S. S. Lei, aged 49, is the General Manager in charge of the Insurance Division of the Company. He joined the Company in April 1998. Mr. Lei holds a Bachelor's degree in Economics from St. Francis Xavier University. Prior to joining the Company, he worked for a major U.S. bank in Hong Kong.

Mr. Yukio Matsumoto, aged 46, is the General Manager responsible for the Company's system development. He was formerly with the Company from October 1996 to March 2001 and rejoined the Company in January 2003. Mr. Matsumoto holds a Bachelor's degree in Economics from Dokkyo University.

Ms. Dorothy F. K. Chan, aged 39, is the Financial Controller of the Company. She joined the Company in April 1995. Ms. Chan holds a Professional Diploma in Accountancy from Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants, a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and an associate member of the Institute of Chartered Accountants in England & Wales.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance to balance the interests of shareholders, customers and employees. The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 20th February 2008, except for the deviations from code provisions A.4.1 and A.4.2 which are explained in the relevant paragraphs below.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the year under review.

BOARD OF DIRECTORS

The Board is charged with leading the Company in a responsible and effective manner. The Board has adopted formal terms of reference, which detail its functions and responsibilities. Its main responsibilities include, but not limited to, approving the Company's long-term objectives and commercial strategy, ensuring competent and prudent management, ensuring sound planning, ensuring the maintenance of an adequate system of internal control and the compliance with statutory and regulatory obligations. Directors, as members of the Board, jointly share responsibility for the proper direction and management of the Company. Daily operations and administration are delegated to the management.

As at the date of this report, the Board comprises eleven members, consisting of six Executive Directors and five Non-executive Directors, out of whom three are Independent Non-executive Directors.

The Non-executive Directors bring a wide range of expertise and knowledge in the consumer finance sector to the Company. The Independent Non-executive Directors are persons with extensive experience as well as academic and professional qualifications in the fields of banking and accounting. They provide valuable advice to the Board towards the effective discharge of its duties and responsibilities. The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-executive Directors are independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules.

The Company has in place established Board process. Regular Board meetings are scheduled one year in advance and held at least four times a year, and, if necessary, additional meetings will be arranged. At least fourteen days notice of all Board meetings is given to all Directors and they can include matters for discussion in the agenda if the need arises. The agenda and the accompanying Board materials are normally sent to all Directors three days in advance of the Board meetings to facilitate informed discussion and decision-making. Management provides appropriate and sufficient information to the Board and its committees in a timely manner to enable them to make informed decisions. Members of the senior management are invited to attend Board meetings to make presentations or answer the Board's enquiries.

The Company Secretary is responsible for taking minutes of the Board and committee meetings. Minutes of the Board and committee meetings record in sufficient detail of matters and concerns discussed are kept by the Company Secretary and open for inspection at any reasonable time on reasonable notice by any Director. Draft and final versions of minutes of Board and committee meetings are sent to Directors for their comments and records within a reasonable time after each meeting. All Directors have access to the advice and services of the Company Secretary, and are allowed to seek external professional advice if so required. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and maintain good corporate governance practice.

Newly appointed Directors will receive an orientation package including key legal requirements, the Company's Memorandum and Articles of Association and the Company's policies and guidelines. Executive Directors and senior management will meet with the new Directors to provide them with more detailed knowledge of the Company's business and operations.

Corporate Governance Report

During the year, four regular Board meetings were held, and details of Directors' attendance record are set out below:

Directors	**Attendance**
Executive Directors:	
Masanori Kosaka	4/4
Lai Yuk Kwong	4/4
Tomoyuki Kawahara	4/4
Koh Yik Kung	4/4
Pan Shu Pin, Ban	4/4
Fung Kam Shing, Barry	4/4
Non-executive Directors:	
Yoshiki Mori *(Chairman)*	2/4
Kazuhide Kamitani	2/4
Independent Non-executive Directors:	
Tsang Wing Hong	4/4
Wong Hin Wing	4/4
Hui Ching Shan	4/4

CHAIRMAN AND CHIEF EXECUTIVE

The Chairman and Managing Director of the Company are Mr. Yoshiki Mori and Mr. Masanori Kosaka. The roles of the Chairman and the Managing Director are segregated and assumed by two separate individuals who have no relationship with each other to ensure the power and authority are not concentrated in any one individual. The division of responsibilities between the Chairman and the Managing Director have been clearly established and set out in writing.

The Chairman is responsible for the effective running of the Board, while the Managing Director is delegated with the authorities to manage the business of the Company.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company does not have a Nomination Committee as the role and function of such committee is performed by the Board. The Board as a whole is responsible for the procedure for agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing Directors. The Board will identify individuals suitably qualified to become its members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account his experience, qualification and other relevant factors. All candidates must also meet the standards set out in the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The second limb of code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Non-executive Directors are not appointed for a specific term and Directors are not subject to retirement by rotation. However, all Directors, including executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

The annual general meeting circular contains information on re-election of Directors including detailed biography of all Directors standing for re-election to enable shareholders to make an informed decision on their election.

REMUNERATION COMMITTEE

The salary and annual incentive of the Executive Directors and senior management are determined by the Remuneration Committee. No Director is involved in deciding his own remuneration.

As at the date of this report, the Remuneration Committee of the Company comprises two Non-executive Directors and three Independent Non-executive Directors, namely Mr. Yoshiki Mori, Mr. Kazuhide Kamitani, Mr. Tsang Wing Hong, Mr. Wong Hin Wing and Dr. Hui Ching Shan. The principal duties of the Remuneration Committee are to review and make recommendations to the Board the individual remuneration packages of the Executive Directors and senior management. The Remuneration Committee meets at least once a year, and its terms of reference are posted on the Company's website. The emoluments payable to the Executive Directors are decided with the objective to provide remuneration in form and amount, which will motivate and retain high calibre executives. Details of the Directors' emoluments are set out in note 12 to the consolidated financial statements.

The Remuneration Committee held one meeting for the year ended 20th February 2008, during which the Committee reviewed the salaries and performance bonuses for the Executive Directors and senior management and recommended to the Board the Directors' fees for the Independent Non-executive Directors. Details of attendance record of members of the Remuneration Committee are set out below:

Members	**Attendance**
Tsang Wing Hong *(Chairman)*	1/1
Yoshiki Mori	1/1
Kazuhide Kamitani	0/1
Wong Hin Wing	1/1
Hui Ching Shan	1/1

AUDIT COMMITTEE

As at the date of this report, the Audit Committee of the Company comprises two Non-executive Directors and three Independent Non-executive Directors, namely Mr. Yoshiki Mori, Mr. Kazuhide Kamitani, Mr. Tsang Wing Hong, Mr. Wong Hin Wing and Dr. Hui Ching Shan. Members of the Audit Committee possess appropriate professional qualifications or accounting or related financial management expertise. The principal duties of the Audit Committee include the review of the nature and scope of audit performed, the review of financial information of the Company, as well as the oversight of the Company's financial reporting system and internal control procedures. The Audit Committee will also discuss matters raised by external auditor to ensure that appropriate recommendations are implemented. The Audit Committee meets at least twice a year, and its terms of reference are posted on the Company's website.

The Audit Committee held three meetings for the year ended 20th February 2008, and the meetings were attended by external auditor and the qualified accountant. The work performed by the Audit Committee included:

- Met with external auditor to discuss the general scope of their audit work;
- Reviewed external auditor's management letter and management's response;
- Reviewed management representation letter;
- Reviewed the effectiveness of internal control system;
- Reviewed and approved internal audit plan;
- Reviewed and approved the engagement of external auditor for providing non-audit services;
- Reviewed and approved the remuneration in respect of audit and non-audit services provided by external auditor;
- Reviewed the independence and objectivity of external auditor;
- Met with external auditor to discuss issues arising from the audit of annual accounts and review of interim accounts;
- Reviewed the annual report and accounts and half-year interim report; and
- Recommended to the Board the appointment of external auditor.

Details of attendance record of members of the Audit Committee are set out below:

Members	**Attendance**
Tsang Wing Hong *(Chairman)*	3/3
Yoshiki Mori	1/3
Kazuhide Kamitani	0/3
Wong Hin Wing	3/3
Hui Ching Shan	3/3

INTERNAL CONTROL

The Board and senior management are responsible for establishing, maintaining and operating a sound and effective internal control system to safeguard the shareholders' investment and the Company's assets. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operating systems and achievement of the Company's objectives.

The internal control system of the Company includes a defined management structure with specified limits of authority. The Board has clearly defined the authorities and key responsibilities of each division to ensure adequate checks and balances. The internal control system has been designed to safeguard the Company's assets against unauthorized use or disposition; to ensure the maintenance of proper accounting records for producing reliable financial information; and to ensure compliance with applicable laws, regulations and industry standard.

During the year under review, no major issue but areas for improvement had been identified by internal and external auditors and appropriate measures taken. The Board is of the view that the system of internal controls in place for the year and up to the date of issuance of the annual report is sound and is sufficient to safeguard the interests of the shareholders, the customers, the employees and of the Company's assets.

The key processes that have been established in ensuring the adequacy and integrity of the system of internal controls include the following:

- Management accounting system is in place to provide financial and operational performance indicators to the management and the relevant financial information for reporting and disclosure purpose.

- Systems and procedures are laid down to identify, measure, manage and control different risks, including legal, credit, market, concentration, operational, environmental, behavioural and systematic risks that may have an impact on the consumer finance business in Hong Kong.

- Division heads are involved in preparing the strategic plan in accordance with the corporate strategies to be pursued in the next three years for achieving the annual operating plan and operational targets. Based on the strategic plan, the annual operating plan and annual budget will be prepared and approved by the Board on an annual basis. The budget will be reviewed on a half-year basis with reference to the market situation, and the business and financial performance.

- The Company's Audit and Assurance Department monitors the Company's internal governance and strives to provide objective assurance to the Board that a sound internal control system is maintained and operated by the management in compliance with agreed processes and standards by performing periodic checking. Significant issues in the management letters from both internal and external auditors will be brought to the attention of the Audit Committee to ensure that prompt remedial action is taken. All recommendations will be properly followed up to ensure they are implemented within a reasonable period of time. Annual internal audit plan is designed with audit resources to focus on higher risk areas and submitted to the Audit Committee for review and approval.

MANAGEMENT OF RISKS

Credit risk management

Credit risk is the risk associated with the possibility that a customer or counterparty in a transaction may default. It arises from the lending and derivatives undertaken by the Group.

In evaluating the credit associated with an individual or counter-party, financial strength and repayment ability are always the primary considerations. The Group has established policies and systems for the monitoring and control of credit risk. The Group's credit policy defines the credit extension criteria, credit approval and monitoring processes. The approval of credit card and loan transactions is delegated to the authorised personnel in head office and branch managers subject to the set limits. The Audit and Assurance Department is responsible for appraising the effectiveness of credit controls. The Group maintains a tight control on credit assessments and approvals and will continue to exercise a conservative and prudent policy in granting credit facilities in order to maintain a quality receivable portfolio.

Market risk management

Market risk is the risk associated with changes in interest rates, foreign exchange rates, equity prices and government policies; and the effect of such changes has on the Group's assets, liabilities and commitments, including both on and off balance sheet, thus causing profits and losses.

The Group adopts a conservative view on exposure to market risk related financial instruments. The Group monitors its exposure to the market risk on a regular basis and will take appropriate actions to minimise its exposure to market risk.

The Group maintained a significant portion of its borrowings in long-term with fixed interest rate. Moreover, the Group transacted in market risk related financial instruments solely for hedging purposes. The market risk exposure from both on and off balance sheet activities was considered immaterial.

Liquidity management

The Group will ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund receivable growth and to generate reasonable returns from available funds. The balance between liquidity and profitability is carefully considered. The Accounts and Finance Division is responsible for the management of daily treasury operations, and to ensure availability of funds to settle card transactions, to fund receivable growth and to meet contractual financial commitments.

During the year, the Group closely monitored its liquidity position with adequate standby facilities being maintained to meet merchant settlement and receivable demand in the ordinary course of business.

Capital management

The Group's policy is to maintain a strong capital base to support the development of the Group's business. During the year, the Group relied principally on internally generated capital as well as asset-backed financing transaction and bank borrowings for the working capital. The funding position is monitored and reviewed regularly to ensure it is within internally established limits and at reasonable costs.

ACCOUNTABILITY AND AUDIT

It is the responsibility of the Board to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Management shall provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information presented before the Board for approval.

The Directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 20th February 2008, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

The Group has announced its annual and interim results in a timely manner within the limits of four months and three months respectively after the end of the relevant period, as laid down in the Listing Rules.

AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu has been reappointed as the Company's external auditor at the 2007 Annual General Meeting until the conclusion of the next Annual General Meeting.

During the year under review, a remuneration of HK$1,880,000 was paid to Deloitte Touche Tohmatsu for the provision of audit services. In addition, the following remunerations were paid to Deloitte Touche Tohmatsu for the provision of non-audit related services to the Company:

Services rendered	**Fees**
	HK$'000
Taxation compliance	230
Agreed upon procedures	606
Advisory services on internal control	207
Total	1,043

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The Board recognizes the importance of good communications with shareholders and investors. The Company establishes various communication channels with its shareholders and investors. These include the annual general meeting, the annual and interim reports, notices, announcements, circulars, the Company's website and meetings with investors and analysts.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. Directors, senior management and external auditor make an effort to attend the annual general meeting to address shareholders' queries. Separate resolutions are proposed at general meetings on each substantially separate issue, including the re-election of Directors. The notice of the meeting, the annual report and the circular containing information on the proposed resolutions are sent to shareholders at least twenty one days before the meeting. Details of the rights of shareholders to demand a poll are set out in the circular. Relevant details of proposed resolutions, including biography of each Director standing for re-election, are also included in the circular.

At the Company's 2007 Annual General Meeting, the Chairman of the Board and Chairman of the Audit Committee and Remuneration Committee attended the meeting and were available to answer shareholders' questions. The Managing Director who took the chair explained the procedures for demanding a poll at the commencement of the meeting. All the resolutions at the meeting were dealt with on a show of hands and the Chairman of the meeting also indicated to the meeting the level of proxies lodged on each resolution after it had been dealt with on a show of hands.

Corporate Governance Report

The management personnel responsible for investor relations holds regular meetings with equity research analysts, fund managers and institutional shareholders and investors. In addition, press conferences and investors' and analysts' presentations are held after the interim and final results announcements.

The market capitalization of the Company as at 20th February 2008 was HK$2,721,976,000 (issued share capital: 418,765,600 shares at closing market price: HK$6.5 per share).

The 2008 Annual General Meeting will be held at JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on 20th June 2008 at 10:30 a.m.

Directors' Report

The Directors have pleasure in presenting their annual report and the audited consolidated financial statements for the year ended 20th February 2008.

PRINCIPAL ACTIVITIES

The Company and its subsidiaries (the "Group") are engaged in the provision of consumer credit finance services which include the issuance of credit cards and the provision of personal loan financing and hire purchase financing for vehicles and household and other consumer products.

NET DEBT TO EQUITY RATIO

At 20th February 2008, the net debt to equity ratio was 2.01 (2007: 2.02).

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 20th February 2008 are set out in the consolidated income statement on page 51 of the annual report.

An interim and a special dividend of 10.0 HK cents and 5.0 HK cents (2007: interim dividend of 8.5 HK cents) per share amounting to HK$41,877,000 and HK$20,938,000 respectively was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 15.0 HK cents (2007: 17.5 HK cents) per share to the shareholders on the register of members on 20th June 2008 amounting to HK$62,815,000, and the retention of the remaining profit of HK$165,631,000 for the year.

MAJOR CUSTOMERS

During the year, the Group derived less than 30% of its income from its five largest customers.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK$20,716,000 on computer equipment, HK$2,679,000 on leasehold improvements and HK$228,000 on furniture and fixtures.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 16 to the consolidated financial statements.

Directors' Report

DIRECTORS

The Directors during the year and up to the date of this report are:

Executive Directors:

Masanori Kosaka *(Managing Director)*
Lai Yuk Kwong *(Deputy Managing Director)*
Tomoyuki Kawahara *(Senior Executive Director)*
Koh Yik Kung
Pan Shu Pin, Ban
Fung Kam Shing, Barry

Non-executive Directors:

Yoshiki Mori *(Chairman)*
Kazuhide Kamitani

Independent Non-executive Directors:

Tsang Wing Hong
Wong Hin Wing
Hui Ching Shan

In accordance with Article 102 of the Company's Articles of Association, all Directors shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES

At 20th February 2008, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(a) The Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of the Company
Yoshiki Mori	280,000	0.07
Masanori Kosaka	110,000	0.03
Kazuhide Kamitani	1,045,000	0.25
Tsang Wing Hong	220,000	0.05

(b) ÆON Credit Service Co., Ltd. ("ACS Japan") – immediate holding company of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of ACS Japan
Yoshiki Mori	42,126	0.03
Masanori Kosaka	9,096	0.01
Kazuhide Kamitani	12,645	0.01

(c) ÆON Co., Ltd. ("ÆON Japan") – ultimate holding company of the Company

Director	Number of shares held under personal interests	Percentage of the issued share capital of ÆON Japan
Yoshiki Mori	7,500	0.01

DIRECTORS' INTERESTS IN SHARES (Cont'd)

(d) AEON Thana Sinsap (Thailand) Public Company Limited ("AEON Thailand") – a fellow subsidiary of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Thailand
Yoshiki Mori	1,402,600	0.56
Masanori Kosaka	100,000	0.04
Kazuhide Kamitani	500,000	0.20

(e) AEON Credit Service (M) Berhad ("AEON Malaysia") – a fellow subsidiary of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Malaysia
Yoshiki Mori	480,000	0.40
Masanori Kosaka	90,000	0.08
Kazuhide Kamitani	180,000	0.15

Other than the holdings disclosed above, none of the Directors nor their associates, had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 20th February 2008.

CONNECTED TRANSACTIONS

During the year, the Group had the following connected transactions which are subject to the reporting and announcement requirements and exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

(a) Pursuant to an agreement entered into between the Company and AEON Stores (Hong Kong) Co., Limited ("AEON Stores") on 15th April 2005, the Company would provide credit purchase facilities and hire purchase facilities to customers of AEON Stores for which the Company would receive commission from this fellow subsidiary in respect of certain purchases made by customers with the use of certain credit cards issued by the Company and certain purchases made by customers which are financed by interest-free hire purchase facilities provided by the Company.

CONNECTED TRANSACTIONS (Cont'd)

The total amount of commission received and receivable by the Company from AEON Stores for the year ended 20th February 2008 was HK$12,639,000, of which HK$9,520,000 is classified as interest income under HKAS 39. The commission amount did not exceed the cap of HK$20,890,000 as disclosed in the Company's announcement dated 20th April 2005.

(b) Pursuant to a service agreement dated 21st May 2003 entered into between the Company and AEON Information Service (Shenzhen) Co., Ltd. ("AEON Shenzhen") (as supplemented and amended by a supplemental agreement dated 15th April 2005) (the "Service Agreement"), the Company would pay service fees to AEON Shenzhen, an associate, for the provision of call centre services to the Company.

During the year, due to better-than-expected increase in the sales transactions of the Company under the booming economic situation and the increased volume of services transferred to and provided by AEON Shenzhen, it was estimated that the aggregate amount of service fees for the year would exceed the cap of HK$16,400,000 as disclosed in the Company's announcement dated 20th April 2005. In view thereof, the Company entered into a supplemental agreement with AEON Shenzhen on 18th January 2008 to revise the cap and renew the Service Agreement from 15th April 2008 to 20th February 2011, details of which were disclosed in the Company's announcement dated 21st January 2008.

The total amount of service fees paid and payable by the Company to AEON Shenzhen for the year ended 20th February 2008 amounted to HK$18,727,000, which did not exceed the revised cap of HK$19,000,000 as disclosed in the Company's announcement dated 21st January 2008.

(c) The Company had entered into a number of licence agreements with AEON Stores for the operation of branches and ATMs inside the stores of AEON Stores under which the Company would pay to AEON Stores a fixed monthly licence fee. All licences were for a fixed term with no options for renewal.

On 12th June 2007, the Company entered into a licence agreement with AEON Stores for the leasing of shop no. L302, 3/F, Kornhill Plaza (South), Kornhill Road, Quarry Bay, Hong Kong for a term of one year from 13th May 2007 to 12th May 2008 at a monthly licence fee of HK$141,750 (exclusive of rates and management fee). The monthly management fee is HK$7,614. The aggregate sum of the annual licence fee and management fee amounted to HK$1,792,368. Details of the transaction were disclosed in the Company's announcement dated 13th June 2007.

The total amount of licence fees for all the licences paid and payable by the Company to AEON Stores for the year ended 20th February 2008 was HK$6,013,000.

CONNECTED TRANSACTIONS (Cont'd)

(d) The Company subscribed for 173 new shares in PT. AEON Credit Service Indonesia ("AEON Indonesia"), a fellow subsidiary, for a cash consideration of HK$4,475,000 on 20th September 2007. Upon completion of the subscription, the Company owns 5.18% of the issued share capital of AEON Indonesia. The purpose of the transaction is to bring good returns to the Company in the long run and thus enhancing the shareholders' value of the Company. Details of the transaction were disclosed in the Company's announcement dated 20th September 2007.

The three Independent Non-executive Directors, namely Mr. Tsang Wing Hong, Mr. Wong Hin Wing and Dr. Hui Ching Shan, have reviewed the transactions in (a), (b) and (c) above which constituted continuing connected transactions and confirmed that the transactions were entered into (i) in the ordinary and usual course of business of the Company, (ii) on normal commercial terms, and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The related party transactions as disclosed in note 46 to the consolidated financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Group has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

LOAN FACILITY WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

On 27th September 2006, the Company obtained a syndicated term loan of ¥7,500,000,000 (the "Facility") with the repayment date falling on 20th September 2011.

Under the Facility, the Company has made certain representations and warranties, including the Company is a consolidated subsidiary of ACS Japan, which is a controlling shareholder of the Company currently holding 51.94% of the issued share capital of the Company. It shall be an event of default under the terms of the Facility if the representation and warranty shall become untrue. As a result, the Facility will become due and payable on demand.

No repayment was made during the year of review and at 20th February 2008, the outstanding loan principal was ¥7,500,000,000 and the circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continued to exist.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company, its subsidiaries, any of its holding companies or fellow subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 20th February 2008, the register of substantial shareholders' interests in shares and short positions required to be maintained under Section 336 of the SFO shows that the following shareholders had notified the Company to have an interest of 5% or more in the issued share capital of the Company:

Name	Number of shares	%
ÆON Co., Ltd. *(Note 1)*	277,288,000	66.22
ÆON Credit Service Co., Ltd. *(Note 2)*	217,514,000	51.94
Aberdeen Asset Management Plc and its Associates	29,672,000	7.09
DJE Investment S.A. *(Note 3)*	20,946,000	5.00

Notes:

(1) ÆON Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 45.60% and 71.64% of the issued share capital of ACS Japan and AEON Stores respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by ACS Japan and AEON Stores respectively.

(2) Out of 217,514,000 shares, 213,114,000 shares were held by ACS Japan and 4,400,000 shares were held by Nomura Securities (HK) Limited, as a nominee on behalf of ACS Japan.

(3) DJE Investment S.A. was a company 81% controlled by Dr. Jens Ehrhardt Kapital AG which in turn was 68.5% controlled by Dr. Jens Alfred Karl Ehrhardt.

Other than as disclosed above, the Company had not been notified of any other interests representing 5% or more in the Company's issued share capital as at 20th February 2008.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company, its subsidiaries, any of its holding companies or fellow subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company or its subsidiaries of the Company's listed securities.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK$978,000.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the Directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market statistics.

RETIREMENT BENEFITS SCHEME

Details of the Company's retirement benefits scheme are set out in note 45 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained a sufficient public float during the year.

AUDITOR

A resolution to reappoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board

M. Kosaka

Masanori Kosaka
Managing Director

Hong Kong, 25th April 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF AEON CREDIT SERVICE (ASIA) COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of AEON Credit Service (Asia) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 116, which comprise the consolidated balance sheet as at 20th February 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITY (Cont'd)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 20th February 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 25th April 2008

Consolidated Income Statement

For the year ended 20th February 2008

	Notes	2008 HK$'000	2007 HK$'000
Turnover	5	**1,075,010**	1,020,351
Interest income	7	**1,031,383**	987,351
Interest expense	8	**(163,573)**	(144,702)
Net interest income		**867,810**	842,649
Other operating income	9	**130,471**	115,875
Other income	10	**5,930**	18,819
Operating income		**1,004,211**	977,343
Operating expenses	11	**(365,769)**	(353,721)
Operating profit before impairment allowances		**638,442**	623,622
Impairment losses and impairment allowances		**(332,247)**	(333,985)
Recoveries of receivables written-off		**37,045**	30,927
Share of results in associates		**(2,381)**	(814)
Profit before tax		**340,859**	319,750
Income tax expense	13	**(49,598)**	(53,054)
Profit for the year		**291,261**	266,696
Dividends paid	14	**136,099**	83,753
Earnings per share	15	**69.55 cents**	63.69 cents
Final dividend per share proposed	14	**15.0 cents**	17.5 cents

Consolidated Balance Sheet

At 20th February 2008

	Notes	2008 HK$'000	2007 HK$'000
Non-current assets			
Property, plant and equipment	16	**84,214**	98,452
Investments in associates	17	**42,904**	40,446
Available-for-sale investments	18	**87,406**	52,375
Credit card receivables	19	**146,964**	114,075
Instalment loans receivable	20	**552,895**	477,691
Hire purchase debtors	21	**16,728**	17,676
Deferred tax assets	26	**4,500**	1,000
Restricted deposits	27	**68,000**	120,000
		1,003,611	921,715
Current assets			
Derivative financial instruments	36	**14,487**	7,115
Credit card receivables	19	**3,042,158**	2,688,578
Instalment loans receivable	20	**782,450**	823,640
Hire purchase debtors	21	**96,672**	104,454
Prepayments, deposits, interest receivables and other debtors	24	**151,022**	123,848
Time deposits	28	**167,778**	166,116
Bank balances and cash	29	**78,014**	114,195
		4,332,581	4,027,946
Current liabilities			
Creditors and accrued charges	30	**107,998**	121,938
Amount due to a fellow subsidiary	31	**50,387**	51,022
Amount due to immediate holding company	32	**–**	380
Amount due to ultimate holding company	33	**57**	60
Amount due to an associate	34	**239**	299
Bank borrowings – repayable within one year	35	**1,032,000**	706,000
Bank overdrafts		**2,950**	1,695
Derivative financial instruments	36	**28,531**	13,639
Tax liabilities		**28,259**	16,650
		1,250,421	911,683
Net current assets		**3,082,160**	3,116,263
Total assets less current liabilities		**4,085,771**	4,037,978

Consolidated Balance Sheet

At 20th February 2008

	Notes	2008 HK$'000	2007 HK$'000
Capital and reserves			
Issued capital	37	**41,877**	41,877
Share premium and reserves	38	**1,575,082**	1,435,117
		1,616,959	1,476,994
Non-current liabilities			
Collateralised debt obligation	39	**846,562**	846,806
Bank borrowings – repayable after one year	35	**1,622,250**	1,714,178
		2,468,812	2,560,984
		4,085,771	4,037,978

The consolidated financial statements on pages 51 to 116 were approved and authorised for issue by the Board of Directors on 25th April 2008 and are signed on its behalf by:

Director *Director*

Consolidated Statement of Changes in Equity

For the year ended 20th February 2008

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 21st February 2006, as restated	41,877	227,330	270	12,479	158	–	1,038,431	1,320,545
Gain on available-for-sale investments	–	–	–	3,730	–	–	–	3,730
Net adjustment on cash flow hedges	–	–	–	–	(6,682)	–	–	(6,682)
Net income (expense) recognised directly in equity	–	–	–	3,730	(6,682)	–	–	(2,952)
Profit for the year	–	–	–	–	–	–	266,696	266,696
Transfer to consolidated income statement on sales of available-for-sale investments	–	–	–	(15,143)	–	–	(8,399)	(23,542)
Total recognised income for the year	–	–	–	(11,413)	(6,682)	–	258,297	240,202
Final dividend paid for 2005/06	–	–	–	–	–	–	(48,158)	(48,158)
Interim dividend paid for 2006/07	–	–	–	–	–	–	(35,595)	(35,595)
	–	–	–	(11,413)	(6,682)	–	174,544	156,449
At 20th February 2007	**41,877**	**227,330**	**270**	**1,066**	**(6,524)**	**–**	**1,212,975**	**1,476,994**
Gain on available-for-sale investments	**–**	**–**	**–**	**30,556**	**–**	**–**	**–**	**30,556**
Exchange difference arising from translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**4,839**	**–**	**4,839**
Net adjustment on cash flow hedges	**–**	**–**	**–**	**–**	**(50,592)**	**–**	**–**	**(50,592)**
Net income (expense) recognised directly in equity	**–**	**–**	**–**	**30,556**	**(50,592)**	**4,839**	**–**	**(15,197)**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**291,261**	**291,261**
Total recognised income for the year	**–**	**–**	**–**	**30,556**	**(50,592)**	**4,839**	**291,261**	**276,064**
Final dividend paid for 2006/07	**–**	**–**	**–**	**–**	**–**	**–**	**(73,284)**	**(73,284)**
Interim and special dividend paid for 2007/08	**–**	**–**	**–**	**–**	**–**	**–**	**(62,815)**	**(62,815)**
	–	**–**	**–**	**30,556**	**(50,592)**	**4,839**	**155,162**	**139,965**
At 20th February 2008	**41,877**	**227,330**	**270**	**31,622**	**(57,116)**	**4,839**	**1,368,137**	**1,616,959**

Consolidated Cash Flow Statement

For the year ended 20th February 2008

	2008 HK$'000	2007 HK$'000
Operating activities		
Profit before tax	**340,859**	319,750
Adjustments for:		
Amortisation of upfront cost of issued debt securities	**–**	1,861
Amortisation of upfront cost of collateralised debt obligation	**858**	71
Depreciation	**37,755**	42,828
Dividends received on available-for-sale investments	**(1,403)**	(983)
Gain on disposal of available-for-sale investments	**(6,489)**	(19,206)
Impairment losses and impairment allowances recognised in respect of debtor balance	**332,247**	333,985
Interest expense	**162,715**	142,770
Interest income	**(1,031,383)**	(987,351)
Loss on disposal of investments held for trading	**–**	323
Loss on disposal of property, plant and equipment	**106**	64
Share of results in associates	**2,381**	814
Operating cash flows before movements in working capital	**(162,354)**	(165,074)
Increase in credit card receivables	**(585,539)**	(546,905)
Increase in instalment loans receivable	**(162,503)**	(372,756)
Decrease in hire purchase debtors	**5,288**	9,194
(Increase) decrease in prepayments, deposits, interest receivables and other debtors	**(36,986)**	25,667
Decrease in creditors and accrued charges	**(8,532)**	(323)
(Decrease) increase in amount due to a fellow subsidiary	**(635)**	16,394
(Decrease) increase in amount due to immediate holding company	**(380)**	380
(Decrease) increase in amount due to ultimate holding company	**(3)**	8
(Decrease) increase in amount due to an associate	**(60)**	205
Cash used in operations	**(951,704)**	(1,033,210)
Tax paid	**(41,489)**	(65,014)
Interest paid	**(168,692)**	(135,095)
Interest received	**1,038,847**	991,590
Net cash used in operating activities	**(123,038)**	(241,729)

Consolidated Cash Flow Statement

For the year ended 20th February 2008

	2008	2007
	HK$'000	HK$'000
Investing activities		
Dividends received	**1,403**	983
Increase in investment in an associate	**–**	(38,946)
Proceeds from disposal of available-for-sale investments	**6,489**	22,209
Proceeds from disposal of investments held for trading	**–**	2,054
Purchase of property, plant and equipment	**(23,623)**	(44,145)
Purchase of available-for-sale investments	**(4,475)**	(10,120)
Net cash used in investing activities	**(20,206)**	(67,965)
Financing activities		
Collateralised debt obligation raised	**–**	850,000
Decrease in restricted deposits	**52,000**	–
Dividends paid	**(135,530)**	(83,753)
New bank loans raised	**14,465,200**	17,614,678
Repayment of bank loans	**(14,274,200)**	(17,250,500)
Repayment of issued debt securities	**–**	(850,000)
Net cash generated from financing activities	**107,470**	280,425
Net decrease in cash and cash equivalents	**(35,774)**	(29,269)
Cash and cash equivalents at beginning of the year	**278,616**	307,885
Cash and cash equivalents at end of the year	**242,842**	278,616
Being:		
Time deposits	**167,778**	166,116
Bank balances and cash	**78,014**	114,195
Bank overdrafts	**(2,950)**	(1,695)
	242,842	278,616

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 in Japan and listed on the Tokyo Stock Exchange. The address of the registered office and principal place of business of the Company is 37/F, The World Trade Centre, 280 Gloucester Road, Causeway Bay, Hong Kong.

The Group is engaged in the provision of consumer credit finance services which include the issuance of credit cards and the provision of personal loan financing and hire purchase financing for vehicles and household and other consumer products.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment to Hong Kong Accounting Standards ("HKAS") and interpretations ("HK(IFRIC) – Int") ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants, which are effective for the accounting periods beginning 1st January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Cont'd)

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK (IFRIC) – Int 12	Service Concession Arrangements[4]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK (IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] *Effective for annual periods beginning on or after 1st January 2009*
[2] *Effective for annual periods beginning on or after 1st July 2009*
[3] *Effective for annual periods beginning on or after 1st March 2007*
[4] *Effective for annual periods beginning on or after 1st January 2008*
[5] *Effective for annual periods beginning on or after 1st July 2008*

The Directors of the Company anticipate that the application of the new or revised standards, amendment and interpretations will have no material impact on the results and the financial position of the Group except for HK(IFRIC) – Int 13 as discussed below.

HK(IFRIC) – Int 13 is effective for annual periods beginning on or after 1st July 2008. It addresses how companies that grant their customers loyalty award credits (often called 'bonus points') when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem the bonus points. The Group currently accounts for the bonus point obligation under marketing expenses based on actual bonus points awarded and accruals with reference to historical redemption experience. HK(IFRIC) – Int 13 requires companies to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations to provide goods or services. The Company has commenced considering the potential impact resulted from the application of this interpretation on the results and the financial position of the Group and is not yet in a position to determine the impact at the date of this report.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts throughout the expected life of the financial asset to that asset's net carrying amount.

Annual fees on credit cards are recognised on a time proportion basis.

Commission income, handling charge and late charge are recognised when earned.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent 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 and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold improvements	$33^1/_3$%
Furniture and fixtures	20%
Computer equipment	20% – $33^1/_3$%
Motor vehicles	20% – $33^1/_3$%

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is recognised in the consolidated income statement in the year in which the item is derecognised.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

The Group as lessor

Amounts due from customers in respect of hire purchase contracts are classified under finance leases and are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the contracts.

Foreign currencies

In preparing the financial statements in each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operation are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

The Group's financial assets are classified into one of the two categories – loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including credit card receivables, instalment loans receivable, hire purchase debtors, accrued interest, other receivables, other debtors and bank deposits) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated listed and unlisted equity securities as available-for-sale investments.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

***Financial assets* (Cont'd)**

Available-for-sale financial assets (Cont'd)

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy in respect of impairment of financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as credit card receivables, instalment loans receivable and hire purchase debtors, accrued interest and other receivables that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis.

Individual impairment allowances are assessed by a discounted cash flow method for loans and receivables that are individually significant and have objective evidence of impairment. The individual impairment allowances are measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets **(Cont'd)**

Impairment of financial assets (Cont'd)

On collective impairment, individually insignificant loans and receivables or loans and receivables where no impairment has been identified individually are assessed on a portfolio basis. Evaluation is made by reference to the credit risk characteristics that are indicative of borrowers' ability to pay all amounts in accordance with the contractual terms. Expected future cash flows of loans and receivables that are assessed collectively for impairment are estimated on the basis of prior loan loss experience.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. When the financial assets are considered to be uncollectible, the amounts are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss. If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not be recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

3. **SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

Financial instruments (Cont'd)

Financial liabilities and equity **(Cont'd)**

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs. Financial liabilities including bank borrowings, collateralised debt obligation, creditors, amounts due to a fellow subsidiary, immediate holding company, ultimate holding company and an associate subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at proceeds received, net of direct issue cost.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Hedge accounting

The Group designates certain derivatives as hedges of its exposure against foreign exchange and interest rate movements (cash flow hedges).

At the inception of the hedge relationship the entity documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred as equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedge relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the transferred asset and also recognises a collateralised borrowing for the proceeds received.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition **(Cont'd)**

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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. An impairment loss is 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.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, management is required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the accounting policies

There are no significant effects on amounts recognised in the consolidated financial statements arising from the judgements used by the management in the process of applying the Group's accounting policies.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment allowances on loans and receivables

The Group establishes, through charges against the consolidated income statement, impairment allowances in respect of estimated incurred loss in loans and receivables. The allowances consist of individual impairment allowances and collective impairment allowances. The overall impairment allowances represent the aggregate amount by which the management considers necessary to write down its loan portfolio in order to state it in the consolidated balance sheet at its estimated net recoverable value.

In determining individual impairment allowances, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Key sources of estimation uncertainty (Cont'd)

Impairment allowances on loans and receivables (Cont'd)

In determining collective impairment allowances, management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Details of the impairment allowances movements are disclosed in note 25.

Fair value of available-for-sale investments

As described in note 18, the management of the Group use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

The Group's unlisted shares issued by corporate entities with carrying amount of **HK$46,233,000** (2007: HK$34,792,000) are valued using a discounted cash flow analysis based on assumptions supported, where possible, by observable market prices or rates.

5. TURNOVER

	2008 HK$'000	2007 HK$'000
Interest income	**1,031,383**	987,351
Fees and commissions	**43,627**	33,000
	1,075,010	1,020,351

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Principal activities are as follows:

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

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

Segment information about these businesses is presented below:

2008

	Credit card HK$'000	Instalment loan HK$'000	Hire purchase HK$'000	Corporate and other operations HK$'000	Consolidated HK$'000
CONSOLIDATED INCOME STATEMENT					
TURNOVER	699,367	352,018	7,123	16,502	1,075,010
RESULT					
Net interest income	543,234	318,751	4,358	1,467	867,810
Other operating income	107,394	18,825	6	4,246	130,471
Other income	–	–	–	5,930	5,930
Impairment losses and impairment allowances	(200,815)	(127,991)	(3,441)	–	(332,247)
Recoveries of receivables written-off	30,391	5,777	877	–	37,045
Segment results	480,204	215,362	1,800	11,643	709,009
Unallocated operating expenses					(365,769)
Share of results in associates					(2,381)
Profit before tax					340,859
Income tax expense					(49,598)
Profit for the year					291,261

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

	Credit card HK$'000	Instalment loan HK$'000	Hire purchase HK$'000	Corporate and other operations HK$'000	Consolidated HK$'000
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	3,488,652	1,363,403	113,511	323,222	5,288,788
Investments in associates					42,904
Unallocated corporate assets					4,500
Consolidated total assets					5,336,192
LIABILITIES					
Segment liabilities	2,649,398	891,110	36,577	113,889	3,690,974
Unallocated corporate liabilities					28,259
Consolidated total liabilities					3,719,233
OTHER INFORMATION					
Additions to property, plant and equipment	–	–	–	23,623	23,623
Depreciation	–	–	–	37,755	37,755
Loss on disposal of property, plant and equipment	–	–	–	106	106

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

2007

	Credit card HK$'000	Instalment loan HK$'000	Hire purchase HK$'000	Corporate and other operations HK$'000	Consolidated HK$'000
CONSOLIDATED INCOME STATEMENT					
TURNOVER	657,816	338,455	8,296	15,784	1,020,351
RESULT					
Net interest income (expense)	538,707	299,708	4,448	(214)	842,649
Other operating income	97,711	16,923	15	1,226	115,875
Other income	–	–	–	18,819	18,819
Impairment losses and impairment allowances	(200,559)	(129,514)	(3,912)	–	(333,985)
Recoveries of receivables written-off	26,788	3,451	688	–	30,927
Segment results	462,647	190,568	1,239	19,831	674,285
Unallocated operating expenses					(353,721)
Share of results in associates					(814)
Profit before tax					319,750
Income tax expense					(53,054)
Profit for the year					266,696

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

	Credit card HK$'000	Instalment loan HK$'000	Hire purchase HK$'000	Corporate and other operations HK$'000	Consolidated HK$'000
CONSOLIDATED BALANCE SHEET					
ASSETS					
Segment assets	3,138,428	1,331,877	122,228	315,682	4,908,215
Investments in associates					40,446
Unallocated corporate assets					1,000
Consolidated total assets					4,949,661
LIABILITIES					
Segment liabilities	2,498,100	833,208	37,289	87,420	3,456,017
Unallocated corporate liabilities					16,650
Consolidated total liabilities					3,472,667
OTHER INFORMATION					
Additions to property, plant and equipment	–	–	–	44,145	44,145
Depreciation	–	–	–	42,828	42,828
Loss on disposal of property, plant and equipment	–	–	–	64	64

(b) Geographical segments

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

7. INTEREST INCOME

	2008	2007
	HK$'000	HK$'000
Time deposits, bank balances and cash	**13,931**	15,784
Credit card receivables, instalment loans receivable and hire purchase debtors	**1,015,130**	968,757
Impaired credit card receivables, instalment loans receivable and hire purchase debtors	**2,322**	2,810
	1,031,383	987,351

8. INTEREST EXPENSE

	2008	2007
	HK$'000	HK$'000
Interest on bank borrowings and overdrafts wholly repayable within five years	**98,968**	108,201
Interest on bank borrowings and overdrafts wholly repayable after five years	**1,440**	1,040
Interest on collateralised debt obligation wholly repayable within five years	**42,336**	–
Interest on collateralised debt obligation wholly repayable after five years	**–**	1,890
Interest on issued debt securities wholly repayable within five years	**–**	18,220
Net interest expense on interest rate swap contracts	**20,829**	15,351
	163,573	144,702

For the year 2008, amortisation of upfront cost of **HK$858,000** is included in the interest expense on collateralised debt obligation wholly repayable within five years.

For the year 2007, amortisation of upfront cost of HK$1,861,000 and HK$71,000 are included in the interest expense on issued debt securities wholly repayable within five years and collateralised debt obligation wholly repayable after five years respectively.

Notes to the Consolidated Financial Statements

For the year ended 20th February 2008

9. OTHER OPERATING INCOME

	2008 HK$'000	2007 HK$'000
Dividends received on available-for-sale investments		
Listed equity securities	**1,124**	573
Unlisted equity securities	**279**	410
Exchange gains/losses		
Exchange loss on bank loan	**(43,072)**	–
Exchange gain on hedging instrument released from cash flow hedge reserve	**43,072**	–
Exchange gains on other monetary items, net	**270**	243
Fees and commissions	**43,627**	33,000
Handling and late charges	**84,220**	79,735
Others	**951**	1,914
	130,471	115,875

10. OTHER INCOME

	2008 HK$'000	2007 HK$'000
Gain on disposal of available-for-sale investments	**6,489**	19,206
Hedge ineffectiveness on cash flow hedges	**(453)**	–
Loss on disposal of investments held for trading	**–**	(323)
Loss on disposal of property, plant and equipment	**(106)**	(64)
	5,930	18,819

11. OPERATING EXPENSES

	2008 HK$'000	2007 HK$'000
Administrative expenses	**85,308**	84,113
Auditor's remuneration	**1,880**	1,790
Depreciation	**37,755**	42,828
Marketing expenses	**43,287**	39,445
Operating lease rentals in respect of rented premises, advertising space and equipment	**62,796**	56,537
Other operating expenses	**38,026**	34,334
Staff costs including directors' emoluments	**96,717**	94,674
	365,769	353,721

Operating lease rentals in respect of staff quarters of **HK$733,000** (2007: HK$747,000) are included under staff costs.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the eleven (2007: thirteen) Directors were as follows:

2008

Name of Director	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Mandatory provident fund contributions HK$'000	Total HK$'000
Yoshiki Mori	–	–	–	–	–
Masanori Kosaka *(Note)*	–	1,602	475	12	2,089
Lai Yuk Kwong		1,320	135	12	1,467
Tomoyuki Kawahara	–	900	104	12	1,016
Koh Yik Kung	–	1,620	40	12	1,672
Pan Shu Pin, Ban	–	900	104	12	1,016
Fung Kam Shing, Barry	–	960	104	12	1,076
Kazuhide Kamitani	–	–	–	–	–
Tsang Wing Hong	250	–	–	–	250
Wong Hin Wing	220	–	–	–	220
Hui Ching Shan	210	–	–	–	210
	680	7,302	962	72	9,016

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

(a) Directors' emoluments (Cont'd)

2007

Name of Director	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus HK$'000	Mandatory provident fund contributions HK$'000	Total HK$'000
Yoshiki Mori	–	–	–	–	–
Masanori Kosaka *(Note)*	–	1,482	470	12	1,964
Lai Yuk Kwong	–	1,224	130	12	1,366
Tomoyuki Kawahara (14.6.2006 – 20.2.2007)	–	588	100	8	696
Koh Yik Kung	–	1,560	30	12	1,602
Pan Shu Pin, Ban (14.6.2006 – 20.2.2007)	–	576	100	8	684
Fung Kam Shing, Barry (14.6.2006 – 20.2.2007)	–	617	100	8	725
Kazuhide Kamitani	–	–	–	–	–
Yoichi Kimura (21.2.2006 – 26.4.2006)	38	–	–	–	38
Shao You Bao (21.2.2006 – 12.3.2006)	22	–	–	–	22
Tsang Wing Hong	240	–	–	–	240
Wong Hin Wing	210	–	–	–	210
Hui Ching Shan (26.6.2006 – 20.2.2007)	131	–	–	–	131
	641	6,047	930	60	7,678

Note: Operating lease rentals in respect of Director's accommodation of **HK$342,000** (2007: HK$342,000) are included under salaries and other benefits.

(b) Employees' emoluments

The five highest paid individuals in the Group in 2008 and 2007 were all Directors and details of their emoluments are set out above.

13. INCOME TAX EXPENSE

	2008	2007
	HK$'000	HK$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	**62,012**	53,917
– Overprovision in respect of prior years	**(8,914)**	(6,880)
	53,098	47,037
Deferred tax *(note 26)*		
– Current year	**(3,500)**	–
– Reversal of deferred tax assets	**–**	6,017
	49,598	53,054

Hong Kong Profits Tax is calculated at 17.5% (2007: 17.5%) on the estimated assessable profit for the year.

The tax charge for the year can be reconciled to the profit per the consolidated income statement as follows:

	2008	2007
	HK$'000	HK$'000
Profit before tax	**340,859**	319,750
Tax at the applicable rate of 17.5% (2007: 17.5%)	**59,650**	55,956
Tax effect of share of results in associates	**417**	143
Tax effect of expenses not deductible for tax purpose	**40**	5
Tax effect of income not taxable for tax purpose	**(2,575)**	(3,881)
Overprovision in respect of prior years	**(8,914)**	(6,880)
Reversal of deferred tax	**–**	6,017
Others	**980**	1,694
Tax charge for the year	**49,598**	53,054

14. DIVIDENDS

	2008 HK$'000	2007 HK$'000
Dividend recognised as distribution during the year:		
Final dividend paid in respect of 2007 of 17.5 cents (2006: 11.5 cents) per share	**73,284**	48,158
Interim and special dividend paid in respect of 2008 of 15.0 cents (2007: interim dividend of 8.5 cents) per share	**62,815**	35,595
	136,099	83,753
Final dividend proposed in respect of 2008 of 15.0 cents (2007: 17.5 cents) per share	**62,815**	73,284

The final dividend of 15.0 HK cents per share has been proposed by the Directors and will be paid to shareholders on 30th June 2008. This dividend is subject to approval by shareholders at the forthcoming annual general meeting and has not been included as a liability in these consolidated financial statements. The proposed dividend is payable to all shareholders on the register of members on 20th June 2008.

15. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of **HK$291,261,000** (2007: HK$266,696,000) and on the number of shares of **418,766,000** (2007: 418,766,000) in issue during the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements	Furniture and fixtures	Computer equipment	Motor vehicles	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
COST					
At 21st February 2006	12,727	15,830	217,101	352	246,010
Additions	5,612	1,138	37,395	–	44,145
Disposals/write-off	–	(1,276)	(2,215)	–	(3,491)
At 20th February 2007	**18,339**	**15,692**	**252,281**	**352**	**286,664**
Additions	**2,679**	**228**	**20,716**	**–**	**23,623**
Disposals/write-off	**(682)**	**(40)**	**(25,346)**	**–**	**(26,068)**
At 20th February 2008	**20,336**	**15,880**	**247,651**	**352**	**284,219**
DEPRECIATION					
At 21st February 2006	7,230	12,106	129,328	147	148,811
Provided for the year	3,376	1,034	38,301	117	42,828
Eliminated on disposals/write-off	–	(1,276)	(2,151)	–	(3,427)
At 20th February 2007	**10,606**	**11,864**	**165,478**	**264**	**188,212**
Provided for the year	**4,241**	**1,050**	**32,376**	**88**	**37,755**
Eliminated on disposals/write-off	**(576)**	**(40)**	**(25,346)**	**–**	**(25,962)**
At 20th February 2008	**14,271**	**12,874**	**172,508**	**352**	**200,005**
CARRYING VALUES					
At 20th February 2008	**6,065**	**3,006**	**75,143**	**–**	**84,214**
At 20th February 2007	7,733	3,828	86,803	88	98,452

The Group has reviewed the residual values used for the purposes of depreciation calculations. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior years. These residual values will be reviewed and updated annually in the future.

17. INVESTMENTS IN ASSOCIATES

	2008	2007
	HK$'000	HK$'000
Cost of unlisted investments in associates	**39,946**	39,946
Exchange difference arising from translation	**4,839**	–
Share of post-acquisition results	**(1,881)**	500
	42,904	40,446

At 20th February 2008 and 2007, the Group had interests in the following associates:

Name of associates	**Place of incorporation and operation**	**Proportion of ownership interest**	**Proportion of voting power held**	**Principal activities**
AEON Credit Guarantee (China) Co., Ltd.	People's Republic of China ("PRC")	50%	37.5%	Provision of guarantee services
AEON Information Service (Shenzhen) Co., Ltd.	PRC	50%	40%	Provision of call centre services

The above associates are also fellow subsidiaries of the Company.

17. INVESTMENTS IN ASSOCIATES (Cont'd)

The summarised financial information in respect of the Group's associates is set out below:

	2008	2007
	HK$'000	HK$'000
Total assets	**89,331**	84,658
Total liabilities	**(3,523)**	(3,766)
Net assets	**85,808**	80,892
Share of associates' net assets	**42,904**	40,446
Revenue	**19,395**	18,440
Loss for the year	**(4,762)**	(1,628)
Group's share of associates' loss for the year	**(2,381)**	(814)

18. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
	HK$'000	HK$'000
At fair value:		
Issued by corporate entities		
Listed equity securities		
Hong Kong	**27,315**	17,583
Overseas	**13,858**	–
Unlisted equity securities	**46,233**	34,792
	87,406	52,375

18. AVAILABLE-FOR-SALE INVESTMENTS (Cont'd)

The investments included above represent investments in both listed and unlisted equity securities that offer the Group the opportunity for return through dividend income and fair value gains. The fair values of listed equity securities are based on quoted market bid prices. The above unlisted investments represent equity interest in five private entities incorporated overseas engaged in consumer credit finance services and related business. The fair values of unlisted equity securities are calculated by using discounted cash flow method based on the latest financial budgets prepared by the investees' management covering a period of 3 to 8 years. Budgeted net profits projections have been determined based on the historical records and the management's expectations for the growth potential and market development.

19. CREDIT CARD RECEIVABLES

	2008	2007
	HK$'000	HK$'000
Due:		
Within one year	**3,119,837**	2,755,391
In the second to fifth year inclusive	**150,717**	116,909
	3,270,554	2,872,300
Impairment allowances		
– individually assessed	**(26,347)**	(24,181)
– collectively assessed	**(55,085)**	(45,466)
	(81,432)	(69,647)
	3,189,122	2,802,653
Current portion included under current assets	**(3,042,158)**	(2,688,578)
Amount due after one year	**146,964**	114,075

The term of card instalment plans entered with customers ranges from 3 months to 4 years.

All credit card receivables are denominated in Hong Kong dollars. The credit card receivables carry interest ranging from 20.2% to 43.3% (2007: 19.6% to 43.6%).

19. CREDIT CARD RECEIVABLES (Cont'd)

Asset backed financing transactions

The Group entered into asset backed financing transactions, which are collateralised by the Group's revolving credit card receivables portfolio. The transactions do not meet the "transfer of assets" tests under HKAS 39 Financial Instruments: Recognition and Measurement. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received as collateralised debt obligation (see note 39). At 20th February 2008, the carrying amount of the credit card receivables under these financing transactions is **HK$1,435,766,000** (2007: HK$1,284,786,000). The carrying amount of the collateralised debt obligation is **HK$850,000,000** (2007: HK$850,000,000).

20. INSTALMENT LOANS RECEIVABLE

	2008	2007
	HK$'000	HK$'000
Due:		
Within one year	**813,063**	859,417
In the second to fifth year inclusive	**574,528**	498,441
	1,387,591	1,357,858
Impairment allowances		
– individually assessed	**(18,222)**	(19,352)
– collectively assessed	**(34,024)**	(37,175)
	(52,246)	(56,527)
	1,335,345	1,301,331
Current portion included under current assets	**(782,450)**	(823,640)
Amount due after one year	**552,895**	477,691

The term of instalment loans entered with customers ranges from 6 months to 5 years. All instalment loans receivable are denominated in Hong Kong dollars. The instalment loans receivable carry interest ranging from 5.6% to 51.7% (2007: 5.6% to 51.7%).

21. HIRE PURCHASE DEBTORS

	Minimum payments		Present value of minimum payments	
	2008	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under hire purchase contracts:				
Within one year	**102,229**	111,017	**98,590**	106,831
In the second to fifth year inclusive	**17,593**	18,577	**17,059**	18,078
	119,822	129,594	**115,649**	124,909
Unearned finance income	**(4,173)**	(4,685)	**–**	–
Present value of minimum payments receivable	**115,649**	124,909	**115,649**	124,909

Analysed as:

	2008	2007
	HK$'000	HK$'000
Due:		
Within one year	**98,590**	106,831
In the second to fifth year inclusive	**17,059**	18,078
	115,649	124,909
Impairment allowances		
– individually assessed	**(754)**	(1,142)
– collectively assessed	**(1,495)**	(1,637)
	(2,249)	(2,779)
	113,400	122,130
Current portion included under current assets	**(96,672)**	(104,454)
Amount due after one year	**16,728**	17,676

The term of hire purchase contracts entered with customers ranges from 5 months to 3 years. All hire purchase agreements are denominated in Hong Kong dollars. The hire purchase debtors carry interest ranging from 3.8% to 14.8% (2007: 3.8% to 14.8%).

22. OVERDUE DEBTOR BALANCE

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

	2008		2007	
	HK$'000	**%***	HK$'000	%*
Overdue 1 month but less than 2 months	**126,812**	**2.6**	96,448	2.2
Overdue 2 months but less than 3 months	**27,159**	**0.6**	27,859	0.6
Overdue 3 months but less than 4 months	**18,769**	**0.4**	17,455	0.4
Overdue 4 months or above	**41,072**	**0.9**	39,596	0.9
	213,812	**4.5**	181,358	4.1

* *Percentage of total debtor balance*

23. IMPAIRED DEBTOR BALANCE

Details of the debtor balance impaired individually are as follows:

	2008	2007
	HK$'000	HK$'000
Gross impaired debtor balance		
– Overdue (included in note 22)	**45,869**	45,782
– Current	**1,816**	936
Impairment allowances under individual assessment	**(45,323)**	(44,675)
Net impaired debtor balance	**2,362**	2,043
Gross impaired debtor balance as a percentage of gross debtor balance	**1.0%**	1.1%

24. PREPAYMENTS, DEPOSITS, INTEREST RECEIVABLES AND OTHER DEBTORS

	2008 HK$'000	2007 HK$'000
Accrued interest and other receivables	**98,424**	90,304
Prepayments, deposits and other debtors	**59,101**	38,801
	157,525	129,105
Impairment allowances – collectively assessed	**(6,503)**	(5,257)
	151,022	123,848

The above accrued interest, other receivables and other debtors are unsecured, interest-free and repayable on demand.

25. IMPAIRMENT ALLOWANCES

	2008 HK$'000	2007 HK$'000
Analysis by products as:		
Credit card receivables *(note 19)*	**81,432**	69,647
Instalment loans receivable *(note 20)*	**52,246**	56,527
Hire purchase debtors *(note 21)*	**2,249**	2,779
Prepayments, deposits, interest receivables and other debtors *(note 24)*	**6,503**	5,257
	142,430	134,210

25. IMPAIRMENT ALLOWANCES (Cont'd)

	Individual assessment HK$'000	Collective assessment HK$'000	Total HK$'000
At 21st February 2007	**44,675**	**89,535**	**134,210**
Impairment losses and impairment allowances	**324,675**	**7,572**	**332,247**
Amounts written off as uncollectible	**(324,027)**	**–**	**(324,027)**
At 20th February 2008	**45,323**	**97,107**	**142,430**

	Individual assessment HK$'000	Collective assessment HK$'000	Total HK$'000
At 21st February 2006	76,966	81,732	158,698
Impairment losses and impairment allowances	326,182	7,803	333,985
Amounts written off as uncollectible	(358,473)	–	(358,473)
At 20th February 2007	44,675	89,535	134,210

26. DEFERRED TAX ASSETS

	2008 HK$'000	2007 HK$'000
At 21st February	**1,000**	7,017
Credit to consolidated income statement for the year	**3,500**	–
Reversal	**–**	(6,017)
At 20th February	**4,500**	1,000

Notes to the Consolidated Financial Statements

For the year ended 20th February 2008

26. DEFERRED TAX ASSETS (Cont'd)

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

	2008	2007
	HK$'000	HK$'000
Tax effect of temporary differences because of:		
Impairment allowances	**17,000**	15,800
Excess of tax allowances over depreciation	**(12,500)**	(14,800)
Net deferred tax assets	**4,500**	1,000

27. RESTRICTED DEPOSITS

The Group's restricted deposits is in relation to the arrangement under collateralised debt obligation. This represents time deposits carrying at fixed rates ranging from 2.0% to 5.3% (3.7% to 4.5% for the year ended 20th February 2007) during the year.

28. TIME DEPOSITS

Time deposits carry fixed rates ranging from 1.0% to 5.6% (3.0% to 5.0% for the year ended 20th February 2007) during the year.

29. BANK BALANCES AND CASH

Bank balances carry prevailing market interest rate.

Functional currency of relevant group entity is Hong Kong dollars. The carrying amounts of the Group's bank balances and cash are denominated in the following currencies:

	Hong Kong dollars HK$'000	**Japanese Yen HK$'000**	**United States dollars HK$'000**	**Total HK$'000**
2008				
Bank balances and cash	**77,654**	**–**	**360**	**78,014**
2007				
Bank balances and cash	93,032	20,787	376	114,195

30. CREDITORS AND ACCRUED CHARGES

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

	2008	2007
	HK$'000	HK$'000
Current	**104,615**	121,078
Over 1 month but less than 3 months	**592**	653
Over 3 months	**2,791**	207
	107,998	121,938

31. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

32. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

33. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

34. AMOUNT DUE TO AN ASSOCIATE

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

35. BANK BORROWINGS

	2008 HK$'000	2007 HK$'000
Bank loans, unsecured	**2,654,250**	2,420,178
The maturity of bank borrowings is as follows:		
Within one year	**1,032,000**	706,000
Between one and two years	**410,000**	415,000
Between two and five years	**1,182,250**	1,269,178
Over five years	**30,000**	30,000
	2,654,250	2,420,178
Amount repayable within one year included under current liabilities	**(1,032,000)**	(706,000)
Amount repayable after one year	**1,622,250**	1,714,178

Functional currency of relevant group entity is Hong Kong dollars. The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Hong Kong dollars HK$'000	**Japanese Yen HK$'000**	**Total HK$'000**
2008			
Bank loans	**2,112,000**	**542,250**	**2,654,250**
2007			
Bank loans	1,921,000	499,178	2,420,178

35. BANK BORROWINGS (Cont'd)

Hong Kong dollar bank loans of **HK$570,000,000** (2007: HK$675,000,000) are at fixed interest rates ranging from 2.9% to 5.3% (2007: 3.7% to 7.0%) and expose the Group to fair value interest rate risk. Other Hong Kong dollar bank borrowings are arranged at floating interest rates ranging from 0.4% plus HIBOR to 0.5% plus HIBOR (2007: 0.4% plus HIBOR to 0.75% plus HIBOR) while the Japanese Yen borrowing is arranged at floating interest rate of 0.4% plus JPY-LIBOR-BBA, thus exposing the Group to cash flow interest rate risk.

The Group did not have available undrawn committed borrowing facilities at 20th February 2008 and 20th February 2007.

At 20th February 2008, the Group has available unutilised overdrafts and non-committed short term bank loan facilities of **HK$16,900,000** (2007: HK$6,900,000) and **HK$650,720,000** (2007: HK$476,000,000) respectively.

36. DERIVATIVE FINANCIAL INSTRUMENTS

	2008		2007	
	Assets HK$'000	**Liabilities HK$'000**	Assets HK$'000	Liabilities HK$'000
Interest rate swaps	**44**	**28,531**	7,115	3,506
Cross-currency interest rate swap	**14,443**	**–**	–	10,133
	14,487	**28,531**	7,115	13,639

Cash flow hedges:

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rate by swapping certain Hong Kong dollar floating-rate bank borrowings with aggregate principal of **HK$925,000,000** from floating rates to fixed rates. The interest rate swaps of the Group with aggregate notional amount of **HK$925,000,000** have fixed interest payments at fixed interest rates ranging from 3.2% to 5.7% (2007: 3.2% to 6.6%) and floating interest receipts ranging from 0.4% plus HIBOR to 0.8% plus HIBOR (2007: 0.4% plus HIBOR to 0.8% plus HIBOR) for periods up until July 2013. The interest rate swaps and the corresponding bank borrowings have the same terms and the Directors of the Company consider that the interest rate swaps are highly effective hedging instruments. Interest rate swaps are designated as cash flow hedging instruments from floating interest rate to fixed interest rates.

36. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cash flow hedges: (Cont'd)

***Interest rate swaps* (Cont'd)**

The fair value change on interest rate swaps amounted to **HK$32,096,000** (2007: HK$6,491,000) are included in equity.

The fair value of the interest rate swaps are determined by using the discounted cash flow method based on HIBOR yield curves at balance sheet date.

Cross-currency interest rate swap

The Group uses a cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposure to foreign currency and cash flow interest rate risk of its floating-rate Japanese Yen syndicated bank borrowing by swapping the floating-rate Japanese Yen bank borrowing with principal of JPY7,500,000,000 to fixed-rate Hong Kong dollar bank borrowing. The cross-currency interest rate swap of the Group with notional amount of JPY7,500,000,000 (equivalent to HK$499,178,000) has fixed currency payments in Hong Kong dollars at exchange rate of Japanese Yen to Hong Kong dollars at 15.0, fixed interest payments in Hong Kong dollars at 4.9% and floating interest receipts in Japanese Yen at 0.4% plus JPY-LIBOR-BBA for periods up until September 2011. The cross-currency interest rate swap and the corresponding syndicated bank borrowing have the same terms and the Directors of the Company consider that the cross-currency interest rate swap is highly effective hedging instrument.

The fair value change on cross-currency interest rate swap amounted to **HK$24,576,000** (2007: HK$nil) are included in equity and **HK$453,000** (2007: HK$nil) are included in consolidated income statement.

The fair value of the cross-currency interest rate swap is determined by using the discounted cash flow method based on JPY-LIBOR-BBA yield curve and the forward exchange rate between Japanese Yen and Hong Kong dollars estimated at balance sheet date.

37. ISSUED CAPITAL

	Number of shares 2008 & 2007	Share capital 2008 & 2007 HK$'000
Ordinary shares of HK$0.1 each		
Authorised		
At beginning and end of year	1,000,000,000	100,000
Issued and fully paid		
At beginning and end of year	418,766,000	41,877

38. SHARE PREMIUM AND RESERVES

The Group's reserves available for distribution to shareholders at 20th February 2008 amounted to **HK$1,368,137,000** (2007: HK$1,212,975,000), representing the accumulated profits.

39. COLLATERALISED DEBT OBLIGATION

(a) The Company entered into a HK$850,000,000 collateralised debt obligation financing transaction (the "Transaction"). Pursuant to this Transaction, the Company transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the "Trust") established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Company is the sole beneficiary of the Trust and holds the entire undivided interest in the credit card receivables transferred. In accordance with HKAS-INT-12, the Trust is deemed to be controlled by the Company and the results thereof are consolidated by the Company in its consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under this Transaction have not been derecognised and remained in the Group's consolidated financial statements.

(b) The collateralised debt obligation is backed by the credit card receivables transferred (see notes 19 and 44) and with the carrying amount denominated in Hong Kong dollars. The revolving period of the Transaction will end in February 2012. The monthly interest of the collateralised debt obligation is fixed at 4.9% during the revolving period, thus exposing the Group to fair value interest rate risk. The effective interest rate is 4.9% during the year.

40. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that:

- the Group will be able to continue as a going concern;
- Maximise the return to shareholders through the optimisation of the debt and equity balance and by pricing products commensurately with the level of risk; and
- Funds are available at competitive costs to meet all contractual financial commitments, to fund debtor balance growth and to generate reasonable funds from available funds.

The capital structure of the Group consists of debt (which includes bank borrowings and collateralised debt obligation), cash and cash equivalents and equity attributable to shareholders of the Company, comprising issued capital, reserves and accumulated profits.

Net debt to equity ratio

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt to equity ratio of 2.5 to 3.0 determined as the proportion of net debt to equity.

The net debt to equity ratio at the year end was as follows:

	2008	2007
	HK$'000	HK$'000
Debt *(note a)*	**3,500,812**	3,266,984
Cash and cash equivalents	**(242,842)**	(278,616)
Net debt	**3,257,970**	2,988,368
Equity *(note b)*	**1,616,959**	1,476,994
Net debt to equity ratio	**2.01**	2.02

Notes:

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 35 and 39 respectively.

(b) Equity includes all capital and reserves of the Group.

41. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2008 HK$'000	2007 HK$'000
Financial assets		
Derivative instruments in designated hedge accounting relationships	**14,487**	7,115
Loans and receivables	**5,045,073**	4,713,172
Available-for-sale financial assets	**87,406**	52,375
Financial liabilities		
Derivative instruments in designated hedge accounting relationships	**28,531**	13,639
Amortised cost	**3,563,670**	3,328,986

b. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, credit card receivables, instalment loans receivable, hire purchase debtors, derivative financial instruments, bank deposits, accrued interest, other receivables, other debtors, collateralised debt obligation, bank borrowings, creditors and amount due to a fellow subsidiary, immediate holding company, ultimate holding company and an associate. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, and the use of derivative financial instruments. Compliance with policies on effectiveness of hedging activities is reviewed by internal auditors on a regular basis. The Group does not enter into or trade derivative financial instruments for speculative purposes.

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and credit risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including:

- currency swap to convert the foreign currency debt to the functional currency of the relevant group entity; and

- interest rate swaps to mitigate the cash flow interest rate risk.

Market risk exposures are measured using sensitivity analysis.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) *Foreign currency risk management*

Foreign currency risk is the risk that the holding of foreign currency assets and liabilities will affect the Group's position as a result of a change in foreign currency exchanges rates. Certain equity investments, bank deposits and a bank borrowing of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk.

The Group's foreign currency risk exposure primarily relates to its Japanese Yen denominated bank borrowing. The carrying amount of such bank borrowing as at 20th February 2008 was **HK$542,250,000** (2007: HK$499,178,000). To minimise the foreign currency risk in relation to the bank borrowing, the Group has been using a cross-currency interest rate swap designed to hedge against the debt which is highly effective to convert the foreign currency debt to the functional currency of the relevant group entity. The critical term of this currency swap is similar to those of hedged borrowings. Hence, the net foreign currency risk after taking derivative financial instrument into consideration is not material to the Group.

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

***Market risk* (Cont'd)**

(ii) *Interest rate risk management*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to fair value interest rate risk relates primarily to fixed-rate lending and borrowings. All interest-bearing financial assets are exposed to fair value interest rate risk only. The interest rates and terms of repayment of financial assets and bank borrowings of the Group are disclosed in notes 19, 20, 21, 35 and 39.

The Group's cash flow interest rate risk relates primarily to floating-rate financial liabilities (see note 35).

The Group monitors the interest rate exposure, through assessing the interest rate gap of its interest bearing financial assets and financial liabilities. To minimise the cash flow interest rate gap, the Group has been using interest rate swaps to convert a proportion of its variable rate debts to fixed rate. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

***Market risk* (Cont'd)**

(ii) *Interest rate risk management* (Cont'd)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for derivative and non-derivative financial instruments at the balance sheet date. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 20th February 2008 would decrease/increase by HK$4,693,000 (2007: decrease/increase by HK$6,680,000). This is mainly attributable to the Group's exposure to interest rates on its variable bank borrowings; and

- other equity reserves would increase/decrease by HK$37,125,000 (2007: increase/decrease by HK$43,372,000) mainly as a result of the changes in the fair value of derivative financial instruments.

The table below summarise the Group's exposure to interest rate risks. Included in the tables are the Group's non-derivative assets and liabilities at carrying amounts and derivative at notional amounts, categorised by the earlier of contractual repricing or maturity dates.

41. **FINANCIAL INSTRUMENTS (Cont'd)**

b. **Financial risk management objectives and policies (Cont'd)**

***Market risk* (Cont'd)**

(ii) *Interest rate risk management* (Cont'd)

	2008					
	Up to 3 months HK$'000	3 – 12 months HK$'000	1 – 4 years HK$'000	Over 4 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
ASSETS						
Non-derivative financial assets						
Available-for-sale investments	–	–	–	–	87,406	87,406
Credit card receivables	2,552,175	302,662	147,067	1,091	186,127	3,189,122
Instalment loans receivable	218,096	562,834	545,272	9,053	90	1,335,345
Hire purchase debtors	33,400	63,183	16,803	–	14	113,400
Restricted deposits	–	–	–	68,000	–	68,000
Time deposits	167,778	–	–	–	–	167,778
Bank balances and cash					78,014	78,014
Other assets	–	–	–	–	93,414	93,414
	2,971,449	928,679	709,142	78,144	445,065	5,132,479
Derivative						
Interest rate swaps	1,467,250	–	–	–	–	1,467,250
Total assets	4,438,699	928,679	709,142	78,144	445,065	6,599,729
LIABILITIES						
Non-derivative financial liabilities						
Collateralised debt obligation	–	–	–	846,562	–	846,562
Bank borrowings						
– fixed rate	–	140,000	430,000	–	–	570,000
– variable rate	2,084,250	–	–	–	–	2,084,250
Bank overdrafts	–	–	–	–	2,950	2,950
Other liabilities	–	–	–	–	59,908	59,908
	2,084,250	140,000	430,000	846,562	62,858	3,563,670
Derivative						
Interest rate swaps	40,000	235,000	1,162,250	30,000	–	1,467,250
Total liabilities	2,124,250	375,000	1,592,250	876,562	62,858	5,030,920
Total interest sensitivity gap	2,314,449	553,679	(883,108)	(798,418)	382,207	1,568,809

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

***Market risk* (Cont'd)**

(ii) *Interest rate risk management* (Cont'd)

	2007					
	Up to 3 months HK$'000	3 – 12 months HK$'000	1 – 4 years HK$'000	Over 4 years HK$'000	Non-interest bearing HK$'000	Total HK$'000
ASSETS						
Non-derivative financial assets						
Available-for-sale investments	–	–	–	–	52,375	52,375
Credit card receivables	2,324,782	220,010	115,043	–	142,818	2,802,653
Instalment loans receivable	231,672	590,464	468,798	10,397	–	1,301,331
Hire purchase debtors	35,389	68,930	17,811	–	–	122,130
Restricted deposits	–	–	–	120,000	–	120,000
Time deposits	166,116	–	–	–	–	166,116
Bank balances and cash	–	–	–	–	114,195	114,195
Other assets	–	–	–	–	86,747	86,747
	2,757,959	879,404	601,652	130,397	396,135	4,765,547
Derivative						
Interest rate swaps	1,424,178	–	–	–	–	1,424,178
Total assets	4,182,137	879,404	601,652	130,397	396,135	6,189,725
LIABILITIES						
Non-derivative financial liabilities						
Collateralised debt obligation	–	–	–	846,806	–	846,806
Bank borrowings						
– fixed rate	90,000	115,000	470,000	–	–	675,000
– variable rate	1,745,178	–	–	–	–	1,745,178
Bank overdrafts	–	–	–	–	1,695	1,695
Other liabilities	–	–	–	–	60,307	60,307
	1,835,178	115,000	470,000	846,806	62,002	3,328,986
Derivative						
Interest rate swaps	–	180,000	670,000	574,178	–	1,424,178
Total liabilities	1,835,178	295,000	1,140,000	1,420,984	62,002	4,753,164
Total interest sensitivity gap	2,346,959	584,404	(538,348)	(1,290,587)	334,133	1,436,561

The Group's sensitivity to interest rates has not changed significantly from prior year.

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

***Market risk* (Cont'd)**

(iii) *Other price risks*

The Group is exposed to equity price risk through its available-for-sale investments. The Group's equity price risk is mainly concentrated on listed equity securities operating in consumer credit finance services and related business. The management will monitor the price movements and take appropriate actions when it is required.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk on listed equity securities at the reporting date.

If equity prices had been 10% higher/lower:

- other equity reserves would increase/decrease by HK$4,491,000 (2007: increase/decrease by HK$1,758,000) as a result of the changes in fair value of available-for-sale investments.

The Group's sensitivity to equity prices has not changed significantly from prior year.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations at 20th February 2008 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its credit card receivables, instalment loans receivable, hire purchase debtors, accrued interest and other receivables. In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of loans and receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

***Credit risk* (Cont'd)**

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds and derivative financial instruments which are entered with two major banks with high credit-ratings, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Credit quality

Credit quality of credit card receivables, instalment loans receivable, hire purchase debtors, accrued interest and other receivables are summarised as follows:

	2008	2007
	HK$'000	HK$'000
Neither past due nor impaired	**4,638,052**	4,249,429
Past due but not impaired	**186,481**	149,224
Impaired	**47,685**	46,718
	4,872,218	4,445,371
Less: impairment allowances *(note 25)*	**(142,430)**	(134,210)
	4,729,788	4,311,161

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

Credit risk **(Cont'd)**

Credit quality (Cont'd)

(i) Credit card receivables, instalment loans receivable, hire purchase debtors, accrued interest and other receivables past due but not impaired

Gross amount of credit card receivables, instalment loans receivable, hire purchase debtors, accrued interest and other receivables that were past due but not individually impaired, of which assessment for impairment has been performed on collectively basis, were as follows:

	2008				
	Credit card receivables HK$'000	Instalment loans receivable HK$'000	Hire purchase debtors HK$'000	Accrued interest and other receivables HK$'000	Total HK$'000
Over 1 month but less than 2 months	73,660	49,316	1,742	13,464	138,182
Over 2 months but less than 3 months	13,707	10,852	410	2,695	27,664
Over 3 months but less than 4 months	10,166	7,328	222	1,913	19,629
Over 4 months or above	–	540	–	466	1,006
	97,533	68,036	2,374	18,538	186,481
Less: Collective impaired	(55,085)	(34,024)	(1,495)	(6,503)	(97,107)
	42,448	34,012	879	12,035	89,374
Fair value of collateral	2,782	–	–	–	2,782

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

Credit risk **(Cont'd)**

Credit quality (Cont'd)

(i) Credit card receivables, instalment loans receivable, hire purchase debtors, accrued interest and other receivables past due but not impaired (Cont'd)

	2007				
	Credit card receivables HK$'000	Instalment loans receivable HK$'000	Hire purchase debtors HK$'000	Accrued interest and other receivables HK$'000	Total HK$'000
Over 1 month but less than 2 months	48,263	43,600	1,317	9,070	102,250
Over 2 months but less than 3 months	12,104	12,990	385	2,480	27,959
Over 3 months but less than 4 months	8,651	7,841	425	1,647	18,564
Over 4 months or above	–	–	–	451	451
	69,018	64,431	2,127	13,648	149,224
Less: Collective impaired	(45,466)	(37,175)	(1,637)	(5,257)	(89,535)
	23,552	27,256	490	8,391	59,689
Fair value of collateral	–	–	–	–	–

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

Credit Risk **(Cont'd)**

Credit quality (Cont'd)

(ii) Credit card receivables, instalment loans receivable, hire purchase debtors, accrued interest and other receivables individually impaired

The breakdown of the gross amount of individually impaired credit card receivables, instalment loans receivable, hire purchase debtors, accrued interest and other receivables by class are as follows:

	Credit card receivables HK$'000	Instalment loans receivable HK$'000	Hire purchase debtors HK$'000	Total HK$'000
2008				
Individually impaired financial assets	**27,364**	**19,526**	**795**	**47,685**
2007				
Individually impaired financial assets	25,082	20,459	1,177	46,718

There are no related collateral held by the Group as security. Impairment allowances of **HK$45,323,000** (2007: HK$44,675,000) have been provided (note 23).

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

Liquidity risk management

The Group has laid down an appropriate liquidity risk management framework for the management of the short, medium and long-term funding and liquidity management requirements, which is reviewed regularly by the Directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and maintain a conservative level of long-term funding to finance its short-term financial assets.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables below have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue to those liabilities except where the Group are entitled and intends to repay the liability before its maturity.

	2008					
	Up to 1 month HK$'000	**1 – 3 months HK$'000**	**3 – 12 months HK$'000**	**1 – 4 years HK$'000**	**Over 4 years HK$'000**	**Total HK$'000**
Collateralised debt obligation	**3,457**	**6,913**	**31,110**	**124,440**	**853,719**	**1,019,639**
Bank borrowings						
– fixed rate	**1,973**	**4,149**	**157,931**	**455,169**	**–**	**619,222**
– variable rate	**380,389**	**286,912**	**291,645**	**1,230,847**	**30,717**	**2,220,510**
Bank overdrafts	**2,950**	**–**	**–**	**–**	**–**	**2,950**
Other liabilities	**52,791**	**4,326**	**2,791**	**–**	**–**	**59,908**
Total undiscounted financial liabilities	**441,560**	**302,300**	**483,477**	**1,810,456**	**884,436**	**3,922,229**

	2007					
	Up to 1 month HK$'000	1 – 3 months HK$'000	3 – 12 months HK$'000	1 – 4 years HK$'000	Over 4 years HK$'000	Total HK$'000
Collateralised debt obligation	3,457	6,913	31,110	124,440	895,199	1,061,119
Bank borrowings						
– fixed rate	62,074	34,313	133,648	449,591	–	679,626
– variable rate	327,359	13,490	229,453	878,292	576,653	2,025,247
Bank overdrafts	1,695	–	–	–	–	1,695
Other liabilities	59,447	653	207	–	–	60,307
Total undiscounted financial liabilities	454,032	55,369	394,418	1,452,323	1,471,852	3,827,994

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

***Liquidity risk management* (Cont'd)**

The following table details the Group's expected maturity of its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows (outflows) on the derivative instrument that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Up to 1 month HK$'000	1 – 3 months HK$'000	3 – 12 months HK$'000	1 – 4 years HK$'000	Over 4 years HK$'000
2008					
Derivatives settled net interest rate contracts	**(2,206)**	**(4,635)**	**(18,735)**	**(27,569)**	**(354)**
2007					
Derivatives settled net interest rate contracts	(2,286)	(4,824)	(17,943)	(29,671)	(1,227)

41. FINANCIAL INSTRUMENTS (Cont'd)

b. Financial risk management objectives and policies (Cont'd)

***Liquidity risk management* (Cont'd)**

Analysis of assets and liabilities by remaining maturity

The table below analyses the carrying amount of the Group's assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

	2008				
	Up to 3 months HK$'000	3 – 12 months HK$'000	1 – 4 years HK$'000	Over 4 years HK$'000	Total HK$'000
ASSETS					
Available-for-sale investments	5,092	–	–	82,314	87,406
Credit card receivables	2,738,302	303,856	145,873	1,091	3,189,122
Installment loans receivable	218,126	564,324	543,842	9,053	1,335,345
Hire purchase debtors	33,410	63,262	16,728	–	113,400
Restricted deposits	–	–	–	68,000	68,000
Derivative financial instruments	44	–	14,443	–	14,487
Time deposits	167,778	–	–	–	167,778
Bank balances and cash	78,014	–	–	–	78,014
Other assets	93,414	–	–	–	93,414
Total assets	3,334,180	931,442	720,886	160,458	5,146,966
LIABILITIES					
Collateralised debt obligation	–	–	–	846,562	846,562
Bank borrowings					
– fixed rate	–	140,000	430,000	–	570,000
– variable rate	657,000	235,000	1,162,250	30,000	2,084,250
Bank overdrafts	2,950	–	–	–	2,950
Derivative financial instruments	–	2,146	23,331	3,054	28,531
Other liabilities	52,791	4,326	2,791	–	59,908
Total liabilities	712,741	381,472	1,618,372	879,616	3,592,201
Net liquidity gap	2,621,439	549,970	(897,486)	(719,158)	1,554,765

41. **FINANCIAL INSTRUMENTS (Cont'd)**

b. **Financial risk management objectives and policies (Cont'd)**

Liquidity risk management **(Cont'd)**

Analysis of assets and liabilities by remaining maturity (Cont'd)

	2007				
	Up to 3 months HK$'000	3 – 12 months HK$'000	1 – 4 years HK$'000	Over 4 years HK$'000	Total HK$'000
ASSETS					
Available-for-sale investments	–	–	–	52,375	52,375
Credit card receivables	2,467,600	220,978	114,075	–	2,802,653
Installment loans receivable	231,672	591,968	467,294	10,397	1,301,331
Hire purchase debtors	35,389	69,065	17,676	–	122,130
Restricted deposits	–	–	–	120,000	120,000
Derivative financial instruments	–	382	6,733	–	7,115
Time deposits	166,116	–	–	–	166,116
Bank balances and cash	114,195	–	–	–	114,195
Other assets	86,747	–	–	–	86,747
Total assets	3,101,719	882,393	605,778	182,772	4,772,662
LIABILITIES					
Collateralised debt obligation	–	–	–	846,806	846,806
Bank borrowings					
– fixed rate	60,000	145,000	470,000	–	675,000
– variable rate	351,000	150,000	670,000	574,178	1,745,178
Bank overdrafts	1,695	–	–	–	1,695
Derivative financial instruments	–	628	11,596	1,415	13,639
Other liabilities	59,447	653	207	–	60,307
Total liabilities	472,142	296,281	1,151,803	1,422,399	3,342,625
Net liquidity gap	2,629,577	586,112	(546,025)	(1,239,627)	1,430,037

41. FINANCIAL INSTRUMENTS (Cont'd)

c. Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid (if only for financial assets) prices;

– the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

– the fair value of derivative instruments is estimated using discounted cash flow analysis and the applicable yield curve.

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values:

	2008		2007	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	**HK$'000**	HK$'000	HK$'000
Bank borrowings	**2,654,250**	**2,630,188**	2,420,178	2,417,750

42. OPERATING LEASE COMMITMENTS

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

	2008	2007
	HK$'000	HK$'000
Within one year	**44,159**	40,710
In the second to fifth year inclusive	**30,683**	44,820
	74,842	85,530

Leases for rented premises, including head office and data centre, are negotiated for an average term of three years and rentals are fixed throughout the lease period. Leases for other rented premises and advertising space are negotiated for an average term of two years and rentals are fixed for an average of one year. Leases for computer equipment are negotiated for an average term of six years and rentals are fixed throughout the lease period.

43. CAPITAL COMMITMENTS

	2008	2007
	HK$'000	HK$'000
Contracted for but not provided in the consolidated financial statements:		
Purchase of property, plant and equipment	**14,677**	11,946
Purchase of available-for-sale investments	**2,273**	2,273
	16,950	14,219

44. PLEDGE OF ASSETS

At 20th February 2008, the Group's collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK$1,435,766,000** and **HK$68,000,000** respectively (2007: HK$1,284,786,000 and HK$120,000,000) (see notes 19 and 27).

45. 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$2,792,000** (2007: HK$2,950,000) represents contributions payable to the MPF Scheme by the Company in respect of the current accounting year. As at 20th February 2008, contributions of **HK$459,000** (2007: HK$496,000) due in respect of the reporting year had not been paid over to the MPF Scheme.

46. RELATED PARTY TRANSACTIONS

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

	Fellow subsidiaries		Immediate holding company		Ultimate holding company		Associates	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income received	**9,520**	9,255	**–**	–	**–**	–	**–**	–
Commission received	**3,119**	2,751	**–**	–	**–**	–	**–**	–
Dividends received	**1,391**	729	**–**	–	**–**	–	**–**	–
Licence fees paid	**6,013**	5,888	**155**	148	**45**	50	**–**	–
Service fees paid	**–**	–	**–**	–	**–**	–	**18,727**	14,952
Subscription of new shares	**4,475**	10,120	**–**	–	**–**	–	**–**	–
Capital injected in an incorporated associate	**–**	–	**–**	–	**–**	–	**–**	38,946

46. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

The remuneration of Directors and other members of key management during the year was as follows:

	2008	2007
	HK$'000	HK$'000
Short-term benefits	**12,405**	12,268

The remuneration of Directors and key executives is determined by the Remuneration Committee having regard to the Group's operating results, performance of individuals and market trends.

47. PARTICULARS OF SUBSIDIARIES AND A MASTER TRUST OF THE COMPANY

(a) Subsidiaries

Name of subsidiary	Place of incorporation and operation	Issued share capital/ paid-up capital	Proportion of ownership interest deemed to be held by the Company 2008	2007	Principal activities
AEON Education and Environment Fund Limited	Hong Kong	Limited by guarantee	**100%**	50%	Support community charity projects and activities
Nihon (Hong Kong) Company Limited	Hong Kong	HK$1,000	–	100%	Investment holding

(b) Master trust

Horizon Master Trust (AEON 2006-1) is a special purpose entity set up for a collateralised debt obligation financing transaction. At 20th February 2008, assets in this special purpose entity mainly consist of credit card receivables, restricted deposits, time deposits, subordinated beneficiary and seller beneficiary.

48. COMPARATIVE FIGURES

Amount due to an associate of HK$299,000 included in investments in associates in prior year have been reclassified to current liabilities in order to conform with the current year's presentation.

Branches and ATMs

At 8th May 2008

Branches

Hong Kong Island

Aberdeen	Shop 1A & 1B, 1/F, Site 5, Aberdeen Centre
Causeway Bay	37/F, The World Trade Centre, 280 Gloucester Road
Central	Room 1203, Century Square, 1 – 13 D'Aguilar Street
Chai Wan	Shop 31, Level 4, New Jade Shopping Arcade, No. 233 Chai Wan Road
Kornhill	Shop L302, 3/F, Kornhill Plaza (South), 2 Kornhill Road
Sheung Wan	Shop 296B, 2/F, Shun Tak Centre (Podium), Nos. 168 – 200 Connaught Road

Kowloon

Jordan	Shop 6, G/F, Chuang's London Plaza, 219 Nathan Road
Kwun Tong	G/F, Hong Ning Building, 7 Mut Wah Street
Lok Fu	Shop 302, 3/F, Lok Fu Shopping Centre II, Junction Road
Mongkok	Shop 4–5, G/F, 168 Sai Yeung Choi Street
Sham Shui Po	Unit No. 210A, 2/F, Dragon Centre, 37K Yen Chow Street
Tseung Kwan O	Shop No. 17 – 18, UG/F, Maritime Bay, 18 Pui Shing Road
Tsim Sha Tsui	G/F, Karlock Building, No. 7A Lock Road
Whampoa	Shop G5 – 16, G/F, Site 5 & 6 Whampoa Garden
San Po Kong	Shop 7, G/F Shun Ling Building, Nos. 65-89 Shung Ling Street

Branches and ATMs

At 8th May 2008

Branches (Cont'd)

New Territories

Kwai Chung	Shop No 27, G/F, Kwai Chung Plaza, 7 – 11 Kwai Foo Road
Shatin	Shop 10 B&C, G/F, Lucky Plaza, 1 – 15 Wang Pok Street
Sheung Shui	Shop E, G/F, Lung Ha Building, Nos. 122 – 130 San Fung Avenue
Tai Po	Shop 101, Level 1, Zone B, Tai Po Mega Mall, 8 – 10 On Pong Road
Tsuen Wan	Unit 405, Level 4, Tsuen Wan Plaza, 4 – 30 Tai Pa Street
Tuen Mun	Shop 219A, UG/F, Tuen Mun Town Plaza, Phase 1, 1 Tuen Shun Street
Yuen Long	Shop 6, 1/F, Prosper Centre, 29 Sau Fu Street

Outlying Islands

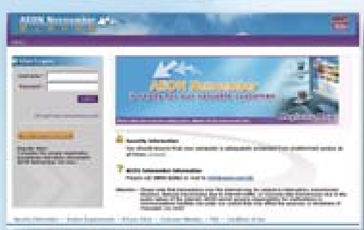
Sky Plaza	Shop 112, Level 3, Sky Plaza, Hong Kong International Airport

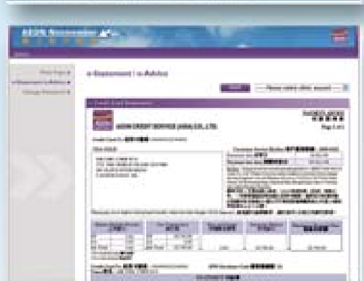
ATMs (Total: 295)

	Hong Kong Island	Kowloon	New Territories
Branches	11	18	14
Convenience Stores	30	53	66
Shopping Centres	8	23	19
MTR	3	16	26
Others	–	8	–
Total	52	118	125

New Products Launch
推出新產品

AEON UnionPay Gift Card
AEON 銀聯禮品卡





AEON On-line Bill Payment Service and E-Statement
AEON 網上繳費服務及電子賬單