



# Annual Report

2003/04



**AEON CREDIT SERVICE (ASIA) COMPANY LIMITED**

# Branch Network 分行網絡



- With the branch network transforming into marketing centres, 15 branches now actively participate in card and merchant recruitment and tele-marketing activities.  
隨著分行網絡轉型為市場推廣中心，15間分行現正積極參與信用咭及商戶招攬以及電話市場推廣活動。
- With the launch of more insurance and purpose loan products, the branch network has become a focal point for cross-selling exercise.  
乘著推出更多保險及用途貸款產品，分行網絡已成為交叉銷售之重點。

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# Corporate Information

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## Board of Directors

### *Executive Directors*

Masanori KOSAKA (*Managing Director*)

LAI Yuk Kwong

KOH Yik Kung

### *Non-Executive Directors*

Yoshiki MORI (*Chairman*)

Kazuhide KAMITANI

Yoichi KIMURA

### *Independent Non-Executive Directors*

SHAO You Bao

TSANG Wing Hong

## Company Secretary

KOH Yik Kung

## Auditors

Deloitte Touche Tohmatsu

*Certified Public Accountants*

## Major Bankers

Mizuho Corporate Bank, Ltd.

Hong Kong Branch

The Bank of Tokyo-Mitsubishi, Ltd.

Hong Kong Branch

UFJ Bank Limited

Hong Kong Branch

## Share Registrars

Secretaries Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

## Registered Office

37th Floor, 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](mailto:info@aeon.com.hk)

# *Board of Directors*

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Yoshiaki MORI



Masanori KOSAKA



LAI Yuk Kwong



KOH Yik Kung



Kazuhide KAMITANI



Yoichi KIMURA



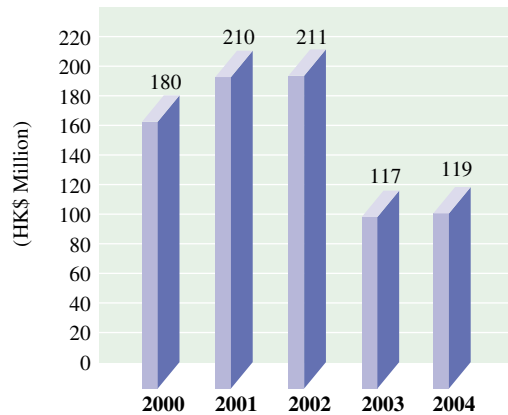
SHAO You Bao



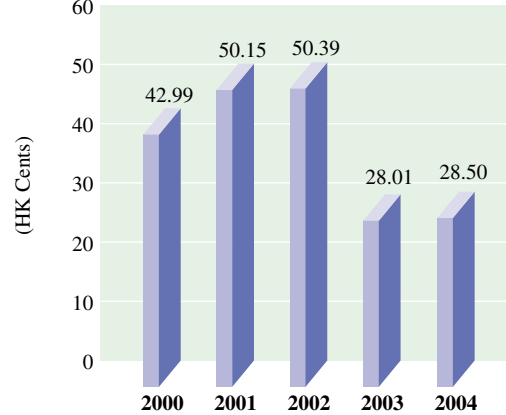
TSANG Wing Hong

# Financial Summary

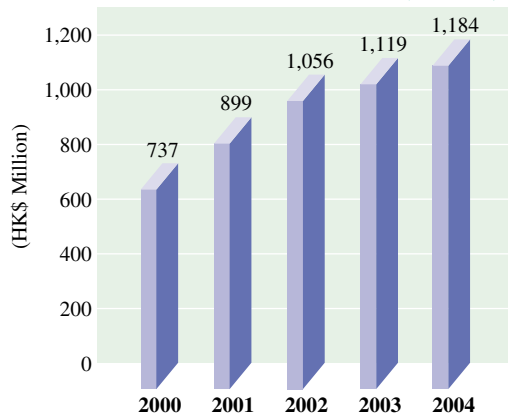
### Net Profit (note 1)



### Earnings per Share (note 2)



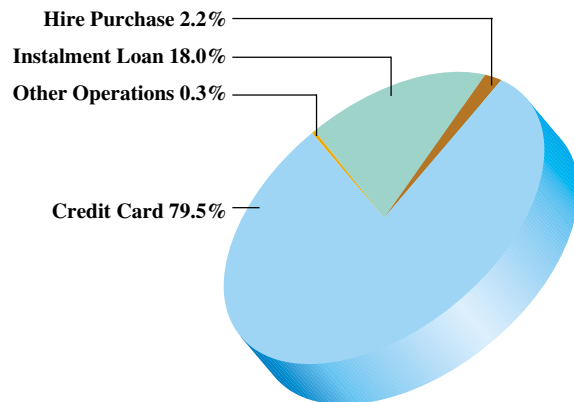
### Shareholders' Funds (note 3)



### Total Assets (note 4)



### Turnover (note 5)



#### Notes:

1. Represents the net profit for the financial years ended 20th February 2000, 2001, 2002, 2003 and 2004.
2. Represents the earnings per share for the financial years ended 20th February 2000, 2001, 2002, 2003 and 2004.
3. Represents the shareholders' funds as at 20th February 2000, 2001, 2002, 2003 and 2004.
4. Represents the total assets as at 20th February 2000, 2001, 2002, 2003 and 2004.
5. Represents the respective percentage of finance charges from hire purchase contracts, interest earned on loans and credit card advances, fee, commission income, interest on bank deposits and investment income from the seller and subordinated interests by principal activities for the financial year ended 20th February 2004.

# Financial Summary

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

<b>RESULTS</b>					
	<b>For the year ended 20th February</b>				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Turnover	<u>795,222</u>	<u>817,140</u>	<u>849,205</u>	<u>789,201</u>	<u>771,176</u>
Profit before taxation	207,020	242,174	247,671	138,195	<b>145,699</b>
Income tax	<u>(27,000)</u>	<u>(32,170)</u>	<u>(36,669)</u>	<u>(20,890)</u>	<u>(26,337)</u>
Net profit for the year	<u>180,020</u>	<u>210,004</u>	<u>211,002</u>	<u>117,305</u>	<u>119,362</u>
<b>ASSETS AND LIABILITIES</b>					
	<b>At 20th February</b>				
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	2004 HK\$'000
Total assets	2,988,813	3,154,914	3,295,343	2,946,952	<b>2,984,547</b>
Total liabilities	<u>(2,252,145)</u>	<u>(2,255,639)</u>	<u>(2,239,506)</u>	<u>(1,828,247)</u>	<u>(1,800,920)</u>
Shareholders' funds	<u>736,668</u>	<u>899,275</u>	<u>1,055,837</u>	<u>1,118,705</u>	<u>1,183,627</u>

# Chairman's Statement

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**Yoshiaki MORI**  
Chairman

Looking back this year, there were many unfortunate happenings, including the Iraq conflict and the outbreak of SARS, which led to a stagnant economic situation at the beginning of the year. For Hong Kong consumer finance industry, although there were signs of economic recovery in the second half, the unemployment problem still affected the sentiment of the market. Despite such a difficult and challenging operating environment, AEON Credit Service (Asia) Company Limited (the "Company") continued to generate new receivables. With the implementation of positive credit data sharing in Hong Kong, the Company launched a series of affinity cards and utilised its expanded merchant network to recruit new members. I am pleased to report that the Company recorded a net profit of HK\$119.4 million, an increase of 1.8% when compared with last year.

## The Group's Philosophy

The Company is a member of the AEON Group and a subsidiary of AEON Credit Service Co., Ltd. ("AEON Credit Service"), which is listed on the main section of the Tokyo Stock Exchange. In Japan and Asia, AEON Credit Service operates in conformance with the business philosophy of "Customer First" as a lifestyle support company that enables customers to realise the full potential of their futures with credit. AEON Credit Service is determined to listen to the customers and will continue to repay their trust and expectations by providing financial services that bear closely with their daily livings. At the same time, AEON Credit Service seeks strong customer support by ceaselessly cultivating and refining the standard of corporate behaviour in the financial services industry, prizing corporate ethics, and enthusiastically engaging in the social action initiatives. The support, loyalty and confidence of customers have enabled AEON Credit Service to achieve an increase of 1.5 million cardholders in Japan in this financial year.

The core activities of AEON Credit Service are credit card and personal loan business. At the same time, through its subsidiaries, AEON Credit Service is also involved in other financial service activities, including loan management, loan recovery and insurance agency business. AEON Credit Service 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, AEON Credit Service has overseas operations in Thailand, Malaysia, Taiwan and the People's Republic of China (the "PRC").

To fulfill its duties as a good corporate citizen, AEON Credit Service engages in social contribution activities that range from volunteer activities tied to local communities to global environmental protection initiatives. AEON Credit Service has actively engaged in environmental protection activities over the years, including the issuing of various charity cards, support for forest conservation and the use of uniforms made of recycled polyester fiber material. On a global basis, AEON Group members support environmental conservation, international cultural and personal exchanges, regional cultural activities, and other causes through the AEON 1% Club.

## The Company's Performance

For the year under review, the Company extended its cardholder penetration by focusing on recruiting new members through its affinity card merchant network. On credit purchase, the Company had successfully increased card usage by encouraging recurring transactions through the introduction of Octopus add-value service and the launch of different promotion campaigns. The



# Chairman's Statement

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introduction of purpose loan concept to our merchants also marks a new milestone in loan product development. On advertising, we are pleased to receive two Asia-Pacific awards from MasterCard International, indicating the success of our marketing ideas which attract public attention. Following the launch of positive credit data sharing in the market, we are now able to know the credit exposure of applicants, which significantly improves our judgment accuracy. Moreover, the Company has successfully transformed its branches into marketing centres and this has strengthened its marketing force in expanding the merchant network and recruiting new members.

With the view to grasp the opportunity for the open up of consumer finance industry in the PRC in the near future, our Shenzhen call centre has taken an active role in tele-marketing, customer service and collection activities and also offers outsourcing services to third parties. We believe this will provide our staff in the PRC with a good understanding of the consumer finance operation and will facilitate our future development there.

To support the charitable activities in the community, the Company continues to actively promote environmental protection through AEON Education and Environment Fund ("AEON Fund") by organising Home Environmental Ambassadors Selection and School Environmental Home Exhibition Programmes. Moreover, the Company also supported projects on the development in education and environment protection in the PRC through the support to the green campus, the tree planting, the scholarship and the research programmes.

## Outlook

Turning to 2004, we have already seen growth in consumer spending and borrowing. The open up of more job opportunities and pick up in the property markets have changed the consumer spending behaviour and increased the demand for consumer loans. In light of the gradual recovery in the Hong Kong economy, the declining trend of personal bankruptcies and the availability of positive credit data of customers, the Company will utilise its merchant network and undertake an aggressive marketing strategy to grow its core business. Guided by the corporate philosophy of "Customer First", the Company will continue to provide value-added financial services and bring broader convenience to customers. Moreover, the Company will improve its services steadily by always listening to customers. The Company understands its responsibilities and the importance of providing good returns to its shareholders. With regard to social contribution, we will continue to participate actively in environment protection activities through AEON Fund and also will support other community activities and local causes.

## Acknowledgement

I wish to take this opportunity to extend my sincere gratitude to our customers, business partners and shareholders for their enormous support, and express my heartfelt thanks to the dedication and hard work of our staff.

森 美 樹

**Yoshiki MORI**  
Chairman

Hong Kong, 14th April 2004

# Managing Director's Operational Review

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**Masanori KOSAKA**  
*Managing Director*

## INTRODUCTION

On behalf of the Board of Directors (“the Board”), I am pleased to present to you the Annual Report of the Company for the year ended 20th February 2004.

In the first half of 2003, the economy of Hong Kong was adversely affected by the outbreak of SARS. As a result, social activities ceased and tourists avoided Hong Kong. Hotels and restaurants were badly affected and the July’s unemployment rate jumped to 8.7%, a record high in many years. Despite the adversity, the economy bounced back and the labour market improved in the second half.

As the Company’s card portfolio consists mainly of AEON Stores affinity cards, SARS had little impact on credit purchase transactions. Following the implementation of positive credit data sharing in the second half of the financial year, the Company launched a series of affinity cards and utilised its expanded merchant network to recruit new members. Together with the launch of various spending campaigns and the use of tele-marketing to cross-sell loan products to our customers, the Company recorded an increase in the overall sales volume when compared with last year. On the other hand, with the unemployment rate still at a high level, the overall charge-off rate remained at double digit. In view of the slow recovery in the economic situation, the Company continued to exercise tight control on the operating expenses, especially on advertising and branch-related expenses.

## PERFORMANCE REVIEW

Despite the difficult operating conditions in the first half of the year, the Company was able to achieve a slight profit growth, with net profit increased by 1.8% to HK\$119.4 million from HK\$117.3 million in 2002/03. Earnings per share increased from 28.01 HK cents to 28.50 HK cents. The Board has recommended the payment of a final dividend of 9.0 HK cents per share and, together with the interim dividend of 5.0 HK cents, total dividend for the year was 14.0 HK cents per share. The dividend payout ratio was 49.1%, as compared with 46.4% in 2002/03.

At the operating level, the Company recorded a decrease in operating profit before charge for bad and doubtful debts by 9.6% from HK\$541.6 million in 2002/03 to HK\$489.6 million in 2003/04. Operating income before interest expense for the year was HK\$840.3 million, a decrease of 12.4% when compared with HK\$959.6 million in 2002/03. Interest income decreased by 27.2% to HK\$479.8 million, while interest expense dropped by 18.7% to HK\$117.0 million.

The Company recorded securitisation income of HK\$252.2 million in 2003/04, as compared with HK\$192.2 million in 2002/03. Other operating income was decreased by 0.9% to HK\$108.9 million from HK\$109.9 million in 2002/03.

# Managing Director's Operational Review

During the year, the Company continued to exercise stringent control on operating expenses, especially on staff costs and advertising expenses, which resulted in a further drop in cost-to-income ratio to 32.3%. With the slight recovery in the economic situation, the Company's charge for bad and doubtful debts decreased by 14.7% or HK\$59.5 million to HK\$343.9 million from HK\$403.4 million in the previous year. This was further attributed to the tightened credit control, prompt collection efforts and improved credit quality as a result of the positive credit data sharing.

With the pick up in sales volume in the second half, and despite the transfer of additional amount of receivables to a special purpose vehicle under the enlarged credit card securitisation programme, total debtor balance still recorded an increase of HK\$58.8 million to HK\$1,935.5 million as at 20th February 2004 from HK\$1,876.7 million as 20th February 2003. As at 20th February 2004, the Company had bank borrowings amounted to HK\$1,644.9 million. Shareholders' funds were strengthened by 5.8% to HK\$1,183.6 million as at 20th February 2004 mainly due to the increase in retained earnings.

## REVIEW OF OPERATION

### Marketing

The implementation of positive credit data sharing in Hong Kong turns out to be an effective marketing tool for the Company to expand its customer base. With a better understanding on the total credit exposure of new applicants, it helps the credit control staff to better assess the credit risk and results in a better approval rate. To minimise the advertising expenses, the Company has used the merchant network as the recruitment base and launched new affinity cards to capture new customer database. A series of affinity cards was launched in the second half of the year, which included the IDD 007 AEON Visa Card, the Japan Home Visa Card, the MJ Life Privilege MasterCard and the Katiga MasterCard. The newly acquired member base will become a new backbone for the Company to cross-sell personal loan products, which in turn would increase both personal loan and card sales.



*Launch of new affinity cards to capture new customer database*



*New Tsim Sha Tsui branch*

### Branch Operation

Following the continuous expansion of payment network, our 15 branches have been successfully transformed into marketing centres, which now actively participate in card and merchant recruitment and tele-marketing activities. Besides pre-set sales target, branch staff has to ensure the delivery of quality service to our customers. This has strengthened the Company's

# Managing Director's Operational Review

marketing force in expanding the merchant network for card and personal loan products and recruiting new members. To meet the demand of customers, a new branch was opened in Tsim Sha Tsui in October 2003 with a display corner for merchants' products. Together with the launch of insurance and purpose loan products, the branch network has become a focal point for cross-selling exercise.

## Customer Service

On the customer service side, besides the convenience store payment network, the Company has signed up with a bank to offer payment service to customers through phone banking, internet banking and ATM network. Being an agent of Octopus Card, our cardholders can now enjoy the automatic add-value service to their Octopus cards. Furthermore, the discount merchant network has been expanded to provide additional card benefits to cardholders, with the number of discount merchant outlets reaching around 1,200 in Hong Kong and 4,500 in the PRC.



*Launch of Octopus add-value service*



*Provision of collection service to third parties through Shenzhen call centre*

## Outsourcing Business

For outsourcing business, the Company is now providing both hire purchase consultation service and collection service to external third parties through Shenzhen call centre and special accounts control team. In addition, the Company is managing a bonus point programme for a sizeable customer base for one of its business partners.

## PROSPECTS

Although Hong Kong still encounters problems like huge deficit, continued deflation and high unemployment, the economic situation is expected to continue to recover in the coming years. On the other hand, the operating environment for consumer finance business will become more competitive and challenging, as the competition amongst financial institutions to increase their market share in consumer loans will intensify. In order for the players to achieve better results, they must be innovative and adaptive to the needs of the customers. As one of the leading participants in this field, the Company will make use of its niche in the market and progress to tackle the challenges coming ahead. The mission for Year 2004 is to launch products that meet the needs of the public, to provide quality service to our customers, and to develop credit-related business.

# Managing Director's Operational Review

Credit card business will continue to be the core business of the Company, with the primary target on strengthening its customer database and increasing its receivables. With additional new card benefits and convenient services provided to customers, the Company aims to increase the card active ratio and to retain the loyalty of existing cardholders. Moreover, we will cross-sell personal loan and insurance products to this enlarged member base to generate additional revenue. With the well-established infrastructure, the Company will extend its outsourcing business on hire purchase consultation, collection and credit-related services.

## Credit Card Business – Back on Track to Expand the Base

The average card spending per person is expected to increase with the recovery of economic situation. To capture this rising trend, the Company will strengthen its co-operation with member-stores. Tailor-made marketing programmes will be launched to fit into the promotion schedule of individual merchants, including 1-day discount passport and AEON membership festival. This not only would increase the average card spending, but also would help to recruit new members effectively. Since merchant network is a cost-effective channel to recruit new members, the Company will issue more affinity cards, with a target of at least four in the coming year. By launching new affinity cards and making use of the merchant network, the Company aims to issue additional 120,000 cards in the market.

The Company has successfully lined up with Octopus Card, internet service providers, mobile phone and insurance companies for recurrent transactions through credit cards and our next target will be the utility companies. By settling their monthly payments through our credit cards, it not only offers convenience to customers, but also increases the card active ratio.



On card benefits, the Company will continue to utilise its branches to source new discount merchants in Hong Kong and build a network of 2,000 outlets by the end of this year. The Company will source for attractive products to be offered to cardholders as new bonus point redemption gifts. Moreover, the Company will launch card instalment plan to facilitate cardholders to settle their credit purchase by instalments.



*Tailor-made marketing programmes*

# Managing Director's Operational Review

Cash advance transactions are expected to increase at a fast pace in the second half, following the return of confidence level in job security. In view of this, the Company will extend its cash dispensing machine network inside convenience stores and in other high traffic and convenient locations to capture a new customer sector. The previous joint promotion programmes have successfully boosted up the usage of our cash dispensing machines inside Circle K and more programmes will be launched, including the offering of cash coupons to sleeping and inactive customers. We also aim to convert non-AEON cardholders to become our members.



*Joint promotion with convenience stores*

## Personal Loan Business – A New Growth Area

On personal loan business, the Company will make use of the merchant network to develop different purpose loan products to satisfy the demand in the market, such as beauty loan, decoration loan, study loan and car loan. With the use of positive credit data, more sizable loans would be granted to quality customers. The sales volume of personal loan is expected to grow by at least 10% in the coming year.



*Purpose loan products*

## Customer Quality – Expect to Improve Further

On the customer quality side, following the launch of positive credit data sharing, the Company is now able to obtain more information on new applicants and as a result the auto-judgement system can be fully utilised, which improves judgement accuracy. With the improvement in economic situation, the quality of existing customer portfolio is expected to improve as well.

## Credit-Related Business – Area to Develop

On the development of credit-related business, in addition to offering insurance products to our cardholders to generate additional revenue, our special accounts control team has started to provide collection services to corporate clients in Hong Kong. We aim to undertake three additional corporate accounts in this year.

# *Managing Director's Operational Review*

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## **China Business – Build up Solid Experience**

We will continue to encourage card usage by our cardholders in the PRC by extending the merchant network and linking up with other ATM network in the Guangdong Province to facilitate cash advance transactions. This not only generates additional revenue but also allows us to understand the spending behaviour of our cardholders in the PRC. Moreover, we will continue to provide hire purchase consultation service to merchants to gather new customer database for future operation.

## **Future**

The solid business model that we have built over these years, the continuous improvement in customer service quality and product development, and the investment that we have made on the infrastructure for future growth and expansion into the PRC market will give us a head start in this competitive operating environment.

## **SYSTEMS DEVELOPMENT**

The Company will continue to enhance its systems to meet customers' needs and expectations and to improve on risk detection and efficiencies within the Company. Moreover, the Company will revamp the enterprise-wide contingency plan to cater for any unforeseen circumstances. The measures in the business continuity plan will be tested on a recurrent basis to ensure their efficiencies in time of need.

During the year under review, the Company had completed the operating systems for new payment channels through convenience stores and other ATMs as well as the launching of new affinity cards. On the judgement side, modification has been made on the auto-judgement system to cater for the launch of positive credit data sharing. On fraud detection, 'ACE' – the alarm system for credit card fraud effectuation – was implemented in the fourth quarter to effect prompt detection on irregular transactions.

In the coming year, the Company will put efforts to upgrade the functions of its cash dispensing machines, including add-value services. Moreover, the card instalment plan will be launched in the market in the coming year. With the aim to offer convenient services to our customers, our web service will be upgraded and new card services will be launched in the market.

## **HUMAN RESOURCES**

The total number of staff as at 20th February 2004 and 20th February 2003 was 260 and 286 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 provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Company. The Company also provides in-house training programmes and external training sponsorships to strengthen its human resources.

# Managing Director's Operational Review

## CONTRIBUTION TO THE SOCIETY

Over the years, we emphasize on three key words, “peace”, “people” and “community” in our Company’s philosophy. Besides striving hard to provide a reasonable return to our shareholders, the Company also aspires to be a responsible corporate citizen placing special attention on local community and environment needs. During the year, the Company made donations through its charity cards to support vital charity causes in the community and also participated in the activities of environmental conservation, education and cultural exchange through the AEON Fund.



*Green Parent Award Presentation Ceremony*

The AEON Fund continues to promote environmental protection through its newly established Green Horizon website, the organisation of Home Environmental Ambassadors Selection and tailor-made promotion programmes on Environmental Home Exhibition for schools. In addition, the Company also sponsored the Youth Leadership Seminar, the publication of the green magazines, the green study trip to Bangkok, Thailand and Xinjiang, the PRC and the election of the “Most Beautiful River & Stream in Hong Kong”.



*Tsinghua University Scholarship Award Presentation Ceremony*

In the PRC, the AEON Fund has continued its support to the green campus, the scholarship and the research programmes in Tsinghua University, and the tree planting and student exchange in Inner Mongolia.

## ACKNOWLEDGEMENT

I am most grateful to our customers, business partners, and shareholders whose generous support has guided the Company through the adverse operating environment. On behalf of the Board, I would like to take this opportunity to express our sincere thanks to our customers, our business partners and our shareholders for their continuous support, dedication and loyalty in the past year. Last but not least, I wish to express my gratitude to the members of the Board for their diligent guidance and support, and to thank the management team and staff for their unstinting efforts and dedication.



**Masanori KOSAKA**  
*Managing Director*

Hong Kong, 14th April 2004



# *Management Discussion and Analysis*

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The first half of 2003 provided an extremely unfavourable environment for the financial industry. The outbreak of SARS and high unemployment rate had resulted in a loss of loan demand and continuing bankruptcies. Although signs of recovery emerged in the second half of the year, the continued deflation and unemployment still deterred the lending environment and customers' spending. Under such operating environment, the Company slowed down its member-recruitment activities and underwriting of new receivables in the first half. With the implementation of positive credit data sharing in August 2003, it provides the Company with a comprehensive picture of an individual's total credit exposure and thereby enhances credit risk management. As a result, the Company launched a series of affinity cards and utilised its expanded merchant network to recruit new members. Together with the launch of various spending campaigns and the use of tele-marketing to cross-sell loan products to customers, the Company recorded an increase in the overall sales volume by 18.0% when compared with last year. However, with the unemployment rate still at a high level, the overall charge-off rate remained at double digit. In view of the slow recovery in the economic situation, the Company continued to exercise tight control on operating expenses, especially on advertising and branch-related expenses.

## **KEY FINANCIAL HIGHLIGHTS**

The Company achieved a slight profit growth, with net profit increased by 1.8% to HK\$119.4 million from HK\$117.3 million in 2002/03. Earnings per share increased by 1.8% from 28.01 HK cents to 28.50 HK cents in 2003/04.

Operating income was HK\$723.4 million, a decrease of HK\$92.4 million when compared with HK\$815.8 million in 2002/03. Operating expenses decreased by 14.7% from HK\$274.1 million to HK\$233.8 million, with cost-to-income ratio dropped to 32.3% from 33.6% in the previous year.

The Company's charge for bad and doubtful debts decreased by 14.7% or HK\$59.5 million to HK\$343.9 million from HK\$403.4 million in the previous year.

Despite the transfer of additional amount of credit card receivables to the special purpose vehicle under the enlarged securitisation programme, total debtor balance still recorded an increase of HK\$58.8 million, from HK\$1,876.7 million as at 20th February 2003 to HK\$1,935.5 million as at 20th February 2004.

The Board recommended the payment of a final dividend of 9.0 HK cents per share. Together with the interim dividend of 5.0 HK cents per share already paid, the total dividend for the year increased to 14.0 HK cents per share from 13.0 HK cents per share in 2002/03, with the dividend payout ratio increased to 49.1% from 46.4%.

# Management Discussion and Analysis

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## INCOME STATEMENT ANALYSIS

### Operating Income

With the record of gains on sales of credit card receivables at the time of securitisation and gain on disposal of investment securities and other investments in the previous year, operating income before interest expense recorded a drop of HK\$119.3 million, from HK\$959.6 million in 2002/03 to HK\$840.3 million in 2003/04. Under the securitisation programme backed by credit card receivables, the Company is required to sell from time to time certain designated credit card receivables to a special purpose entity. Interest income and fees and commissions of these credit card receivables are distributed back to the Company in the form of investment income from the seller and subordinated interests in the securitisation trust. As a result, interest income decreased by 27.2% to HK\$479.8 million from HK\$659.0 million in 2002/03.

With HIBOR continued to remain at a low level and with the renewal of HK\$540.0 million long-term bank borrowings at a lower interest rate, average funding cost moved down from 5.5% in the first half to 4.2% in the second half of this year, and ended up at 4.8% for the whole year. Average funding cost in the fourth quarter even reached 3.9%. Interest expense amounted to HK\$117.0 million, representing a decrease of 18.7% when compared with HK\$143.9 million in the previous year. The Company's net interest income recorded a drop of 29.6% to HK\$362.9 million from HK\$515.2 million in 2002/03.

The Company recorded securitisation income of HK\$252.2 million in 2003/04, as compared with HK\$192.2 million in 2002/03, representing the gains on sales of credit card receivables, investment income from the seller and subordinated interests and unrealised gains on interest-only strips and cash reserve account. The Company recorded an increase in both handling, late and storage charges and servicer fee on credit card securitisation, however, without another gain on disposal of investment securities, other operating income decreased by 0.9% to HK\$108.9 million from HK\$109.9 million in 2002/03.

### Operating Expenses

In view of the sluggish economy, the Company continued to exercise tight control on operating expenses, especially on advertising and branch-related expenses. Operating expenses for the year amounted to HK\$233.8 million, a drop of 14.7% or HK\$40.3 million when compared with HK\$274.1 million in 2002/03, with cost-to-income ratio at 32.3%. Staff costs and operating lease rentals represented 79.6% and 80.9% respectively when compared with last year, which was attributable to the branch restructuring and the cut down on promoter costs. Advertising expenses represented 74.4% when compared with last year, which was in line with the decline in promotion activities in the first half of the year.

# Management Discussion and Analysis

## Charge for Bad and Doubtful Debts

The Company's charge for bad and doubtful debts decreased by 14.7% or HK\$59.5 million to HK\$343.9 million from HK\$403.4 million in the previous year. This was attributed to the tightened credit control, prompt collection efforts and improved credit quality as a result of lower personal bankruptcies. In view of the slow economic recovery and high unemployment rate, the Company still adopted a conservative and prudent provisioning policy.

## BALANCE SHEET ANALYSIS

The Company's shareholders' funds as at 20th February 2004 were HK\$1,183.6 million, representing a growth of 5.8%, or HK\$64.9 million, when compared with the balance as at 20th February 2003. The net asset value (before final dividend) per share as at 20th February 2004 was HK\$2.83, compared with HK\$2.67 per share as at 20th February 2003.

## Debtor Balance

With the transfer of additional credit card receivables to the special purpose entity under the enlarged securitisation programme, credit card receivables as at 20th February 2004 was HK\$1,080.3 million, as compared to HK\$1,275.9 million as at 20th February 2003. With the launching of new purpose loan products and the change of borrowing behaviour from cash advance to personal loan, instalment loans receivable reached HK\$676.1 million as at 20th February 2004, an increase of 79.9% when compared with HK\$375.8 million as at 20th February 2003. Total debtor balance as at 20th February 2004 was HK\$1,935.5 million.

Considering the drop in overdue debtor balance for 3 months or above, the Company reduced the amount of allowance for bad and doubtful debts. Allowance for bad and doubtful debts amounted to HK\$190.4 million as at 20th February 2004, a decrease of HK\$45.5 million when compared with the previous year and representing 9.8% of total debtor balance.

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

	20th February 2004		20th February 2003	
	HK\$'000	%*	HK\$'000	%*
Over 1 month but less than 2 months	135,315	7.0	176,250	9.4
Over 2 months but less than 3 months	23,609	1.2	34,420	1.8
Over 3 months	95,470	4.9	129,332	6.9
	<u>254,394</u>	<u>13.1</u>	<u>340,002</u>	<u>18.1</u>

\* Percentage of total debtor balance

# *Management Discussion and Analysis*

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## **Retained Interests in Securitisation Trust**

The Company raised a total of HK\$850 million through the realisation of credit card receivables originated and selected by the Company to a special purpose entity, which issued trust certificates backed by such receivables.

Under the securitisation programme, the entitlements to interest-only strips and cash reserve account are stated at fair values whereas seller and subordinated interests are stated at their allocated amounts and subject to amortisation. The interest-only strips, which are retained by the Company, represent the present value of expected cash flows generated from the securitised credit card receivables during their estimated lives.

As at 20th February 2004, the Company had retained interests in the securitisation trust in the forms of seller interest, subordinated interest, interest-only strips and cash reserve account amounting to HK\$913.5 million, as compared with HK\$732.6 million as at 20th February 2003.

## **Bank Borrowings and Capital Financing**

The Company relied principally on its internally generated capital, bank borrowings and structured finance to fund its business. The principal source of internally generated capital is from retained earnings.

With the full repayment of the HK\$540 million issued debt securities in last October, and the diversification of funding sources through structured finance to cater for the growth in receivables, the Company has utilised the platform of the off-balance asset securitisation entered in 2002 to obtain an additional funding of HK\$250 million in January this year. As a result, the Company managed to reduce its interest-bearing liabilities by a total of HK\$850 million.

As at 20th February 2004, the Company had bank borrowings amounted to HK\$1,644.9 million. Out of these borrowings, 49.3% will mature within one year, 9.4% between one and two years, 16.1% between two and three years and 25.2% over three years. The Company had further strengthened its financial position as compared with 2002/03. As at 20th February 2004, total debt-to-equity ratio was 1.52, as compared with 1.63 in 2002/03. All the Company's borrowings were denominated in Hong Kong dollars.

The net asset value of the Company as at 20th February 2004 was HK\$1,183.6 million, or HK\$2.83 per share, as compared with HK\$2.67 per share as at 20th February 2003. With the full repayment of the issued debt securities, the corresponding charges were released and no assets were pledged as at 20th February 2004.

# *Management Discussion and Analysis*

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The Company'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 Company engaged in derivative financial instruments mainly to hedge its exposure on interest rate fluctuations.

Capital expenditure for the year amounted to HK\$15.2 million as compared to HK\$31.8 million in the previous year. This was mainly related to the system development on different operating systems, including the modification of auto-judgment system and the implementation of alarm system for credit card fraud effectuation. As at 20th February 2004, capital commitments entered were mainly related to the purchase of property, plant and equipment.

Taking into account the financial resources available to the Company, including internally generated funds and available banking facilities, the Company 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. As the economic situation is expected to continue to recover in the coming year, demand for consumer finance loans will increase. Moreover, shareholders generally expect a reasonable return on their investments and would expect a higher dividend amount when the share price goes up. In order to meet shareholders' expectation, the Board decided to increase the absolute dividend amount by 1.0 HK cents. For the year ended 20th February 2004, the Board recommended the payment of a final dividend of 9.0 HK cents per share, which together with an interim dividend of 5.0 HK cents per share, making a total dividend of 14.0 HK cents per share and a payout ratio of 49.1%.

## **SEGMENT INFORMATION**

The Company's business comprised mainly three operating divisions, namely credit card, hire purchase and instalment loan. In 2003/04, credit card operation accounted for 79.5% of the Company's turnover, as compared to 84.9% in 2002/03. For operating income after deducting charge for bad and doubtful debts, credit card operation accounted for 85.8% in 2003/04, as compared to 94.1% in 2002/03.

With the record of gains on sales of credit card receivables at the time of securitisation in the previous year, net interest income and credit card securitisation income for credit card operation recorded a drop of HK\$130.7 million, from HK\$653.7 million in 2002/03 to HK\$523.0 million in 2003/04. The Company recorded an increase in both handling, late and storage charges and servicer fee on credit card securitisation, resulting in other operating income for credit card operation to increase by 67.0% from HK\$52.6 million in 2002/03 to HK\$87.7 million in 2003/04. Operating profit before charge for bad and doubtful debts decreased by HK\$95.5 million to HK\$610.7 million in 2003/04. Although there was a drop in charge for bad and doubtful debts by 10.5% from HK\$318.4 million in 2002/03 to HK\$285.2 million in 2003/04, operating income after charge for bad and doubtful debts for credit card operation still recorded a drop by 16.1% from HK\$387.8 million in 2002/03 to HK\$325.6 million in 2003/04.

# *Management Discussion and Analysis*

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There was a drop in net interest income and other operating income by HK\$10.9 million for hire purchase operation due to keen competition in the market. With a significant decrease in charge for bad and doubtful debts by HK\$10.3 million, operating income after deducting charge for bad and doubtful debts for hire purchase operation was only marginally decreased from HK\$4.6 million in 2002/03 to HK\$4.0 million in 2003/04.

To meet the structural change of borrowing behaviour in the market, the Company launched different purpose loans such as beauty loan, decoration loan and study loan. This had boosted up the instalment loan business significantly, with net interest income and other operating income recorded an increase of 73.2% from HK\$66.5 million in 2002/03 to HK\$115.2 million in 2003/04. Together with a drop in charge for bad and doubtful debts by 21.9% from HK\$72.6 million in 2002/03 to HK\$56.8 million in 2003/04, operating income after charge for bad and doubtful debts for instalment loan operation was HK\$58.5 million in 2003/04 as compared with operating loss of HK\$6.1 million in 2002/03.

## **COMPETITIVE ADVANTAGES**

### **Synergy**

The Company continued to benefit from the launching of various well-accepted affinity cards and purpose loan products in the market resulting in the continuous growth in the number of cardholders and personal loan customers.

### **Know-how and Expertise**

AEON Credit Service Co., Ltd. has extensive know-how and expertise in the consumer finance industry and has assisted the Company in tackling the changing market environment, in particular the funding structure and credit risk and in bringing in innovative ideas on the marketing and recruitment programmes.

### **Customer Base**

The customer base of the Company is widely diversified. Using merchant network as the recruitment base, the Company had launched several new affinity cards to capture new customer sector. The new cardholders recruited in this financial year were mainly through the newly launched IDD 007 AEON Visa Card and Japan Home Visa Card, and also the AEON Jusco Visa Card. Around 70% of the customers is in the age range of 28 to 45, out of which 40% is young generation. With the launch of more affinity cards with department stores, the percentage of female cardholders has reached 65%.

# *Management Discussion and Analysis*

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## **Convenient Service**

In providing consumer credit services to customers, the Company emphasises on convenience. On the provision of payment service, besides the convenience store payment network, the Company has signed up with a bank to offer payment service to customers through phone banking, internet banking and ATM network. With the Company's extensive cash dispensing machine network coupled with its branch network and the call centres in Hong Kong and Shenzhen, customers can enjoy cash advance and personal loan services at a speedy and convenient way. As for credit purchase, the extensive discount merchant network continues to provide convenience and wide-ranging choices to cardholders.

## **GROWTH PHILOSOPHY**

The four key elements of the Company'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 Company.

# Directors and Senior Management Profile

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## DIRECTORS

*Mr. Yoshiki MORI*, aged 53, was appointed the Chairman of the Company on 16th June 1999. Mr. Mori has been a Non-executive Director of the Company since 1992. He is a director of *AEON Co., Ltd.* and a founder and the president of *AEON Credit Service Co., Ltd.*, both being the substantial shareholders of the Company. He joined *AEON Co., Ltd.* in 1973. Mr. Mori graduated from Nanzan University with a Bachelor's degree in Economics.

*Mr. Masanori KOSAKA*, aged 47, was appointed the Managing Director of the Company on 20th June 2002. Mr. Kosaka was formerly with the Company from March 1993 to June 1996 and rejoined the Company in April 2002. He joined *AEON Credit Service Co., Ltd.* in 1981 which is a substantial shareholder of the Company. Mr. Kosaka graduated from Kyoto Sangyo University with a Bachelor's degree in Law.

*Mr. LAI Yuk Kwong*, aged 41, was appointed an Executive Director of the Company on 16th June 1999. Mr. Lai joined the Company in July 1996. He was working in Deloitte Touche Tohmatsu from 1985 to 1991. Mr. Lai graduated from Hong Kong Polytechnic University with a Professional Diploma in Accountancy. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.

*Ms. KOH Yik Kung*, aged 48, was appointed an Executive Director of the Company on 21st June 2001. Ms. Koh is also the Company Secretary. She was formerly with the Company from August 1992 to June 1994 and rejoined the Company in November 1998. Ms. Koh graduated from South Bank University with a Bachelor's degree in Law. She is a barrister.

*Mr. Kazuhide KAMITANI*, aged 47, was appointed a Non-executive Director of the Company on 20th June 2002. Mr. Kamitani was the managing director of the Company from June 1990 to June 2002. He is the senior managing director of *AEON Credit Service Co., Ltd.* which is a substantial shareholder of the Company. He joined *AEON Credit Service Co., Ltd.* in 1982. Mr. Kamitani graduated from Ritsumeikan University with a Bachelor's degree in Management.

*Mr. Yoichi KIMURA*, aged 59, was appointed a Non-executive Director of the Company on 16th June 1999. Mr. Kimura is a director of *AEON Co., Ltd.* which is a substantial shareholder of the Company. Prior to joining *AEON Co., Ltd.* in 1998, he was the general manager of Dai-Ichi Kangyo Bank, Ltd. which he joined in 1968. Mr. Kimura graduated from Hitotsubashi University with a Bachelor's degree in Economics.



# *Directors and Senior Management Profile*

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*Dr. SHAO You Bao*, aged 83, was appointed an Independent Non-executive Director on 26th June 1995. Dr. Shao is also an independent non-executive director of AEON Stores (Hong Kong) Co., Limited which is a fellow subsidiary of the Company. He is the deputy general manager of The Bank of Tokyo-Mitsubishi, Ltd., Hong Kong Branch which he joined in 1953. Prior to that, he was with Bank of China, Shanghai Branch from 1945 to 1953. He is the Chairman of Van Yu Trading Co., Ltd., Van Yu Holding Co., Ltd., and Van Fung Co., Ltd. He was a Hong Kong Affairs Adviser to the People's Republic of China and a member of the Preparatory Committee for the Hong Kong Special Administrative Region. He was awarded the Silver Bauhinia Star by the Government of HKSAR in 1998. He was also awarded The Order of Sacred Treasure, Gold Rays with Rosette by His Majesty The Emperor of Japan in 1987. Dr. Shao graduated from Kobe University with a Bachelor's degree in Economics and received an Honorary Doctorate of Law from Ohio University.

*Mr. TSANG Wing Hong*, aged 77, was appointed an Independent Non-executive Director on 26th June 1995. Prior to his appointment, Mr. Tsang held various senior positions in Wing Hang Bank until his retirement in 1995. He joined Wing Hang Bank in 1957 and was appointed director in 1960, vice chairman in 1985, chairman and chief executive in 1987. He was a member of the Banking Advisory Committee from 1991 to 1993. Mr. Tsang is a member of the Board of Trustees of United College, Chinese University of Hong Kong.

## **SENIOR MANAGEMENT**

*Mr. Ivan S. C. WONG*, aged 44, is the General Manager of the Internal Operations Division. He joined the Company in May 1996. 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. Ban S. P. PAN*, aged 36, is the General Manager of the Marketing Division. He was formerly with the Company from April 1993 to September 1996 and rejoined the Company in April 1998. Mr. Pan holds a Bachelor's degree in Computer Science and a Management Certificate in Management Information System both from University of Lethbridge and a Master's degree in Business Administration from South Eastern University.

*Mr. Tomoyuki KAWAHARA*, aged 43, is the General Manager of the Branch Business Department. He joined the Company in September 2000. Mr. Kawahara holds a Bachelor's degree in Business Administration from Hokkaido University.

*Mr. Jamie S. S. LEI*, aged 45, is the General Manager of the Sales and Promotion Department. 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.

# *Directors and Senior Management Profile*

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*Mr. Barry K. S. FUNG*, aged 41, is the General Manager of the Finance Department. He joined the Company in May 2002. 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. Yukio MATSUMOTO*, aged 42, is the General Manager of the Information System Division. 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.

*Mr. Gerald C. L. FONG*, aged 40, is the General Manager of the Accounts Control Division. He joined the Company in February 2004. He was formerly with the Company from July 1988 to August 1989 and from May 1991 to November 2000. Mr. Fong holds a Bachelor's degree in Social Science and a Master's degree in Business Administration both from Chinese University of Hong Kong and a Master's degree in Information Systems from Hong Kong Polytechnic University.

*Ms. Dorothy F. K. CHAN*, aged 35, is the Financial Controller of the Company. She joined the Company in April 1995 and holds a Professional Diploma in Accountancy from Hong Kong Polytechnic University. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.

# *Directors' Report*

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The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 20th February 2004.

## **PRINCIPAL ACTIVITIES**

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

## **QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS**

### **Credit risk management**

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

The Company has established policies and systems for the monitoring and control of credit risk. The Company's credit policy defines the credit extension criteria, credit approval and monitoring processes. The Company maintains a tight control on loan assessments and approvals and will continue to exercise a conservative and prudent policy in granting loans in order to maintain a quality loan portfolio.

### **Market risk management**

Market risk is the risk associated with changes in interest rates, foreign exchange rates and government policies; and the effect that such changes have on the Company's assets, liabilities and commitments, thus causing profits and losses.

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

During the year, the Company maintained 65% (2003: 90%) of its bank borrowings in long-term with fixed interest rate. Moreover, the Company transacted in market risk related financial instruments mainly for hedging purposes. The market risk exposure from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk information is not disclosed.

# *Directors' Report*

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## **QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS (Cont'd)**

### **Liquidity management**

The Company will ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds.

The Company closely monitors its liquidity position with adequate standby facilities being maintained to meet loan demand in the ordinary course of business.

### **Capital management**

The Company's policy is to maintain a strong capital base to support the development of the Company's business. The Company relies principally on internally generated capital as well as bank borrowings and overdrafts for the working capital. The funding position is monitored and reviewed regularly to ensure it is within internally established limits and at reasonable costs.

## **TOTAL DEBT-TO-EQUITY RATIO**

At 20th February 2004, total debt-to-equity ratio was 1.52 (2003: 1.63).

## **RESULTS AND APPROPRIATIONS**

The results of the Company for the year ended 20th February 2004 are set out in the income statement on page 35 of the annual report.

An interim dividend of 5.0 HK cents (2003: 5.0 HK cents) per share amounting to HK\$20,938,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 9.0 HK cents (2003: 8.0 HK cents) per share to the shareholders on the register of members on 17th June 2004 amounting to HK\$37,689,000, and the retention of the remaining profit of HK\$60,735,000 for the year.

## **MAJOR CUSTOMERS**

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

# Directors' Report

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## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Company spent approximately HK\$13,929,000 on computer equipment, HK\$402,000 on furniture and fixtures and HK\$907,000 on leasehold improvements.

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

## **DIRECTORS**

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

### **Executive directors:**

Masanori KOSAKA (*Managing director*)  
LAI Yuk Kwong  
KOH Yik Kung  
Takuya MORIKAWA (resigned on 25th April 2003)

### **Non-executive directors:**

Yoshiki MORI (*Chairman*)  
Kazuhide KAMITANI  
Yoichi KIMURA

### **Independent non-executive directors:**

SHAO You Bao  
TSANG Wing Hong

In accordance with Article 101 of the Company's Articles of Association, all remaining directors shall retire at the forthcoming annual general meeting and shall be eligible for re-election. Accordingly, all directors shall retire and 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 Company within one year without payment of compensation, other than statutory compensation.

# Directors' Report

## DIRECTORS' INTERESTS IN SHARES

At 20th February 2004, the interests of the directors and chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under Section 352 of the SFO 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	440,000	0.11%
Masanori Kosaka	110,000	0.03%
Kazuhide Kamitani	1,045,000	0.25%
Shao You Bao	330,000	0.08%
Tsang Wing Hong	220,000	0.05%

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Credit Japan
Yoshiki Mori	14,042	0.03%
Masanori Kosaka	3,832	0.01%
Kazuhide Kamitani	4,215	0.01%

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Japan
Yoshiki Mori	3,000	0.01%
Yoichi Kimura	2,000	0.01%

# Directors' Report

## DIRECTORS' INTERESTS IN SHARES (Cont'd)

**(d) AEON Stores (Hong Kong) Co., Limited (formerly known as "Jusco Stores (Hong Kong) Co., Limited) ("AEON Stores") – a fellow subsidiary of the Company**

<b>Director</b>	<b>Number of shares held under personal interests</b>	<b>Percentage of the issued share capital of AEON Stores</b>
Shao You Bao	200,000	0.08%

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

<b>Directors</b>	<b>Number of shares held under personal interests</b>	<b>Percentage of the issued shares capital of AEON Thana</b>
Yoshiki Mori	300,000	0.60%
Masanori Kosaka	20,000	0.04%
Kazuhide Kamitani	100,000	0.20%

Save as disclosed above, none of the directors or chief executive nor their associates had any interests or short position in any shares, underlying shares or debentures of the Company or any associated corporations and none of the directors or chief executive, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

# Directors' Report

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## CONNECTED TRANSACTIONS

During the year, the Company had the following transactions:

- (i) The Company provided credit purchase facilities and hire purchase facilities to the customers of AEON Stores for which the Company received commission from this fellow subsidiary in respect of certain purchases made by customers with the use of the AEON Card, the AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card and certain purchases made by customers which were financed by interest-free hire purchase facilities provided by the Company, both at the stores of AEON Stores and through the call centre of the Company.

For purchases made by customers at the stores of AEON Stores using the AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card, the commission rate was 0.8% except that the commission rate on thanksgiving days and private sale of AEON Stores was 0.6%. As for the AEON Card, the commission rate was 1.3%. For purchases made by customers at the stores of AEON Stores and financed by interest-free hire purchase facilities provided by the Company, the commission rates were 3%, 2.5%, 4.75%, 8.25% and 10% respectively for the 6 month, 9 month, 12 month, 18 month and 24 month interest-free hire purchase, which were subsequently standardised at 3% with effect from 5th January 2004.

For purchases made by customers which are processed through the call centre of the Company, the commission rates payable by AEON Stores were (i) 4% and 6% respectively for 6 month and 12 month interest-free hire purchase (3% with effect from 5th January 2004), (ii) 0.8% for credit purchase charged to the AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card and (iii) 1.3% for credit purchase charged to the AEON Card.

The total amount of commission received and receivable by the Company from AEON Stores for the year ended 20th February 2004 under these arrangements was HK\$13,543,000, representing 1.14% of the Company's net tangible assets at 20th February 2004.

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

The total amount of licence fees paid and payable by the Company to AEON Stores for the year ended 20th February 2004 was HK\$5,900,000, representing 0.50% of the Company's net tangible assets at 20th February 2004.



# Directors' Report

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## CONNECTED TRANSACTIONS (Cont'd)

- (iii) Under a name licence and territory agreement (and a supplementary agreement thereto) with **AEON** Japan, the Company has exclusive right to use the **AEON** trade mark and trade name (the "Trade Mark") in relation to the business and/or goods sold or services provided by the Company within Hong Kong, Macau and Guangdong province including Shenzhen of the People's Republic of China ("the territory"). The total amount of licence fee payable by the Company to **AEON** Japan for the year ended 20th February 2004 was HK\$45,000.
- (iv) Under a territory agreement (and a supplementary agreement thereto) with **AEON** Credit Japan, **AEON** Credit Japan and its affiliates will not carry on any business which competes with the Company within the territory. No fee was payable by the Company to **AEON** Credit Japan under this agreement.
- (v) The Company had entered into a service agreement with AEON Information Service (Shenzhen) Co., Ltd. ("AEON Shenzhen"), an associate, for the provision of call center services to the Company for which the Company paid service fees to AEON Shenzhen. The total amount of service fees paid and payable by the Company to AEON Shenzhen for the year ended 20th February 2004 amounted to HK\$8,663,000, representing 0.73% of the Company's net tangible assets at 20th February 2004.

The transactions mentioned in (i) to (v) above have been reviewed by the Company's independent non-executive directors. The independent non-executive directors have confirmed that these transactions were entered into by the Company in the ordinary and usual course of business and on normal commercial terms or terms that were fair and reasonable as far as the Company and the Company's shareholders are concerned.

The independent non-executive directors have also confirmed that the transactions were entered into in accordance with the terms of the agreements governing such transactions or on terms no less favourable than terms available to third parties.

## DISCLOSURE UNDER PRACTICE NOTE 19

A syndicated revolving credit facility up to the sum of HK\$360,000,000 made available to the Company for a term of 2 years on 18th October 2002 includes a condition that **AEON** Japan and **AEON** Credit Japan have to maintain not less than 51% of the issued share capital of the Company.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or 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.

# Directors' Report

## SUBSTANTIAL SHAREHOLDERS

At 20th February 2004, the register of substantial shareholders' interests in shares and short positions required to be maintained under Section 336 of the SFO showed that the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Number of shares	%
AEON Credit Service Co., Ltd. (Note 1)	217,514,000	51.94
AEON Co., Ltd. (Note 2)	277,288,000	66.22
FMR Corp.	22,975,600	5.49
Commonwealth Bank of Australia	22,035,000	5.26

### Notes:

- (1) Out of 217,514,000 shares, 213,114,000 shares were held by AEON Credit Japan and 4,400,000 shares were held by Nomura Securities (HK) Limited, as a nominee on behalf of AEON Credit Japan.
- (2) AEON 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 45.11% and 71.64% of the issued share capital of AEON Credit Japan and AEON Stores respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by AEON Credit Japan and AEON Stores respectively.

Save 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 2004.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or 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.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

## DONATIONS

During the year, the Company made charitable and other donations amounting to HK\$325,000.

## RETIREMENT BENEFITS SCHEME

Details of the Company's retirement benefits scheme are set out in note 38 to the financial statements.

# *Directors' Report*

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## **COMPLIANCE WITH CODE OF BEST PRACTICE**

The Company has complied throughout the year ended 20th February 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive directors are not appointed for specific terms. They are subject to retirement and re-election at the annual general meeting of the Company in accordance with Article 101 of the Company's Articles of Association.

The Company established an Audit Committee comprising Messrs. Shao You Bao and Tsang Wing Hong, independent non-executive directors, and Messrs. Yoshiki Mori and Yoichi Kimura, non-executive directors.

## **AUDITORS**

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

On behalf of the Board



**Masanori KOSAKA**  
*Managing Director*

Hong Kong, 14th April 2004

# Auditors' Report

## 德勤·關黃陳方會計師行

Certified Public Accountants  
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**Deloitte  
Touche  
Tohmatsu**

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

We have audited the financial statements on pages 35 to 74 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

#### **Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the 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.

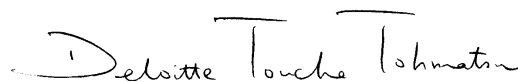
#### **Basis of opinion**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

#### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 20th February 2004 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.



**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*

# Income Statement

For the year ended 20th February 2004

	Notes	2004 HK\$'000	2003 HK\$'000
Turnover	4	<u>771,176</u>	<u>789,201</u>
Interest income		479,804	659,026
Interest expense	6	<u>(116,945)</u>	<u>(143,864)</u>
Net interest income		362,859	515,162
Credit card securitisation income	7	252,235	192,192
Other operating income	8	108,924	109,899
Other loss	9	<u>(632)</u>	<u>(1,500)</u>
Operating income		723,386	815,753
Operating expenses	10	<u>(233,756)</u>	<u>(274,144)</u>
Operating profit before charge for bad and doubtful debts		489,630	541,609
Charge for bad and doubtful debts	12	<u>(343,931)</u>	<u>(403,414)</u>
Profit before taxation		145,699	138,195
Income tax	13	<u>(26,337)</u>	<u>(20,890)</u>
Net profit for the year		<u>119,362</u>	<u>117,305</u>
Earnings per share	15	<u>28.50 cents</u>	<u>28.01 cents</u>

# Balance Sheet

At 20th February 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	72,601	85,744
Interest in associates	17	10,744	10,711
Investment securities	18	8,882	9,782
Hire purchase debtors	20	16,653	19,802
Instalment loans receivable	21	157,866	59,259
Retained interests in securitisation trust	24	261,195	231,984
Pledged time deposits	36(c)	–	100,494
		<u>527,941</u>	<u>517,776</u>
<b>Current assets</b>			
Other investments	19	697	383
Hire purchase debtors	20	155,486	196,284
Instalment loans receivable	21	470,759	279,818
Credit card receivables	22	944,317	1,085,708
Retained interests in securitisation trust	24	652,336	500,630
Prepayments, deposits, interest receivable and other debtors		125,934	124,344
Pledged time deposits	36(d)	–	6,000
Time deposits		29,000	153,580
Bank balances and cash		78,077	82,429
		<u>2,456,606</u>	<u>2,429,176</u>
<b>Current liabilities</b>			
Creditors and accrued charges	25	40,946	33,305
Amount due to securitisation trust	24	41,657	31,136
Amount due to immediate holding company	27	963	11
Amount due to a fellow subsidiary	28	32,159	32,928
Amount due to ultimate holding company	29	47	47
Issued debt securities	33	–	326,713
Bank borrowings – repayable within one year	30	809,910	651,245
Taxation		21,238	861
		<u>946,920</u>	<u>1,076,246</u>
<b>Net current assets</b>		<u>1,509,686</u>	<u>1,352,930</u>
<b>Total assets less current liabilities</b>		<u>2,037,627</u>	<u>1,870,706</u>

# Balance Sheet

At 20th February 2004

	Notes	2004 HK\$'000	2003 HK\$'000
<b>Capital and reserves</b>			
Issued capital	31	41,877	41,877
Share premium and reserves	32	<u>1,141,750</u>	<u>1,076,828</u>
		<u>1,183,627</u>	<u>1,118,705</u>
<b>Non-current liabilities</b>			
Bank borrowings – repayable after one year	30	835,000	750,000
Deferred taxation	34	<u>19,000</u>	<u>2,001</u>
		<u>854,000</u>	<u>752,001</u>
		<u><u>2,037,627</u></u>	<u><u>1,870,706</u></u>

The financial statements on pages 35 to 74 were approved and authorised for issue by the Board of Directors on 14th April 2004 and are signed on its behalf by:



DIRECTOR



DIRECTOR

# Statement of Changes in Equity

For the year ended 20th February 2004

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Dividend reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 21st February 2002	41,877	227,330	270	33,502	752,858	1,055,837
Net profit for the year	-	-	-	-	117,305	117,305
Final dividend paid for 2001/02	-	-	-	(33,502)	-	(33,502)
Interim dividend paid for 2002/03	-	-	-	-	(20,935)	(20,935)
Final dividend proposed for 2002/03	-	-	-	33,502	(33,502)	-
At 21st February 2003	41,877	227,330	270	33,502	815,726	1,118,705
Net profit for the year	-	-	-	-	119,362	119,362
Final dividend paid for 2002/03	-	-	-	(33,502)	-	(33,502)
Interim dividend paid for 2003/04	-	-	-	-	(20,938)	(20,938)
Final dividend proposed for 2003/04	-	-	-	37,689	(37,689)	-
<b>At 20th February 2004</b>	<b>41,877</b>	<b>227,330</b>	<b>270</b>	<b>37,689</b>	<b>876,461</b>	<b>1,183,627</b>



# Cash Flow Statement

For the year ended 20th February 2004

	2004 HK\$'000	2003 HK\$'000
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	145,699	138,195
Adjustments for:		
Gain on disposal of investment securities and other investments	–	(33,322)
Net loss (gain) on disposal of property, plant and equipment	46	(84)
Net unrealised loss on revaluation of investment securities and other investments	586	1,584
Interest expense	116,945	143,864
(Reversal of) increase in allowance for bad and doubtful debts	(45,480)	87,183
Dividends received on listed investments	(260)	(1,423)
Depreciation	28,331	25,931
Operating cash flows before movements in working capital	245,867	361,928
(Increase) decrease in amount due from an associate	(33)	140
Decrease in hire purchase debtors	45,922	59,176
Increase in instalment loans receivable	(300,345)	(73,374)
Decrease in credit card receivables	195,693	1,061,671
Increase in retained interests in securitisation trust	(141,667)	(653,614)
(Increase) decrease in prepayments, deposits, interest receivable and other debtors	(1,590)	37,725
Increase (decrease) in creditors and accrued charges	10,675	(10,941)
Increase in amount due to securitisation trust	10,521	31,136
Increase (decrease) in amount due to immediate holding company	952	(52)
Decrease in amount due to a fellow subsidiary	(769)	(9,571)
Increase in amount due to ultimate holding company	–	1
Cash generated from operations	65,226	804,225
Tax refunded (paid)	11,039	(35,032)
Interest paid	(111,288)	(138,459)
<b>NET CASH (USED IN) FROM OPERATING ACTIVITIES</b>	<b>(35,023)</b>	<b>630,734</b>
<b>INVESTING ACTIVITIES</b>		
Decrease in pledged time deposits	106,494	25,350
Dividends received	260	1,423
Proceeds from disposal of property, plant and equipment	4	403
Increase in cash reserve retained in securitisation trust	(39,250)	(79,000)
Purchase of property, plant and equipment	(15,238)	(31,754)
Net proceeds from disposal of investment securities and other investments	–	71,825
Investment in an associate	–	(9,593)
<b>NET CASH FROM (USED IN) INVESTING ACTIVITIES</b>	<b>52,270</b>	<b>(21,346)</b>

# Cash Flow Statement

For the year ended 20th February 2004

	2004 HK\$'000	2003 HK\$'000
<b>FINANCING ACTIVITIES</b>		
New bank loans raised	9,287,600	310,000
Repayment of bank loans	(9,043,000)	(517,800)
Repayment of issued debt securities	(335,403)	(204,597)
Dividends paid	(54,441)	(54,434)
	<u>(145,244)</u>	<u>(466,831)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
	<u>(145,244)</u>	<u>(466,831)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(127,997)</b>	142,557
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<b>234,764</b>	92,207
	<u>234,764</u>	<u>92,207</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>106,767</b>	234,764
	<u>106,767</u>	<u>234,764</u>
Being:		
Time deposits	29,000	153,580
Bank balances and cash	78,077	82,429
Bank overdrafts	(310)	(1,245)
	<u>106,767</u>	<u>234,764</u>
	<u>106,767</u>	<u>234,764</u>

# *Notes to the Financial Statements*

For the year ended 20th February 2004

## **1. GENERAL**

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

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

## **2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD**

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

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

## **3. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities. The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

### **Turnover**

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

# Notes to the Financial Statements

For the year ended 20th February 2004

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

### Revenue recognition

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

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

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

Commission income is recognised in the income statement when earned.

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

### Property, plant and equipment

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

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

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

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

### Interest in associates

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

# *Notes to the Financial Statements*

For the year ended 20th February 2004

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

### **Investments in securities**

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

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

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

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

### **Impairment**

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

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

### **Hire purchase contracts**

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

# *Notes to the Financial Statements*

For the year ended 20th February 2004

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

### **Allowances for bad and doubtful debts**

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

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

### **Issued debt securities**

Issued debt securities are recorded at the consideration received on the issue of the certificates after deduction of costs in connection with the issue. The issue costs are taken as part of finance costs to the income statement at a constant rate on the carrying amount over the term of the certificates.

### **Operating leases**

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

### **Foreign currencies**

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

### **Income tax**

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

# *Notes to the Financial Statements*

For the year ended 20th February 2004

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

### **Income tax (Cont'd)**

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

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

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

### **Asset securitisations**

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

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

# *Notes to the Financial Statements*

For the year ended 20th February 2004

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

### **Asset securitisations (Cont'd)**

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

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

### **Derivative financial instruments**

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

### **Retirement benefit costs**

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



# Notes to the Financial Statements

For the year ended 20th February 2004

## 4. TURNOVER

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

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

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

Principal activities are as follows:

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

### (a) Business segments (Cont'd)

Segment information about these businesses is presented below:

2004

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
<b>INCOME STATEMENT</b>					
<b>TURNOVER</b>	<u>613,242</u>	<u>16,943</u>	<u>139,213</u>	<u>1,778</u>	<u>771,176</u>
<b>RESULT</b>					
Net interest income	270,738	(8,688)	108,992	(8,183)	362,859
Credit card					
securitisation income	252,235	-	-	-	252,235
Other operating income	87,738	14,722	6,204	260	108,924
Other loss	-	-	-	(632)	(632)
Charge for bad and doubtful debts	<u>(285,147)</u>	<u>(2,038)</u>	<u>(56,746)</u>		<u>(343,931)</u>
Segment results	<u>325,564</u>	<u>3,996</u>	<u>58,450</u>		
Unallocated operating expenses				(233,756)	<u>(233,756)</u>
Profit before taxation					<u>145,699</u>
<b>BALANCE SHEET</b>					
<b>ASSETS</b>					
Total assets	<u>1,939,149</u>	<u>172,315</u>	<u>644,998</u>	<u>228,085</u>	<u>2,984,547</u>
<b>LIABILITIES</b>					
Segment liabilities	893,871	195,992	484,097	-	1,573,960
Unallocated corporate liabilities	-	-	-	226,960	<u>226,960</u>
Total liabilities	<u>893,871</u>	<u>195,992</u>	<u>484,097</u>	<u>226,960</u>	<u>1,800,920</u>

# Notes to the Financial Statements

For the year ended 20th February 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

### (a) Business segments (Cont'd)

2003

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

### (b) Geographical segments

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

## 6. INTEREST EXPENSE

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

Included in the interest expense on issue of debt securities wholly repayable within five years are amortisation of costs in connection with issue of debt securities of HK\$8,687,000 (2003: HK\$7,256,000).

## 7. CREDIT CARD SECURITISATION INCOME

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 8. OTHER OPERATING INCOME

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

## 9. OTHER LOSS

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 10. OPERATING EXPENSES

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

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

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

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

# Notes to the Financial Statements

For the year ended 20th February 2004

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

The emoluments of the directors were within the following bands:

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

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

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

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

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

## 12. CHARGE FOR BAD AND DOUBTFUL DEBTS

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 13. INCOME TAX

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

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

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

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



# Notes to the Financial Statements

For the year ended 20th February 2004

## 14. DIVIDENDS

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

The final dividend of 9.0 HK cents (2003: 8.0 HK cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

## 15. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$119,362,000 (2003: HK\$117,305,000) and on the number of 418,766,000 (2003: 418,766,000) shares in issue during the year.

## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>					
At 21st February 2003	18,325	13,831	153,241	227	185,624
Additions	907	402	13,929	–	15,238
Disposals	(4,271)	(732)	(4,841)	–	(9,844)
<b>At 20th February 2004</b>	<u><b>14,961</b></u>	<u><b>13,501</b></u>	<u><b>162,329</b></u>	<u><b>227</b></u>	<u><b>191,018</b></u>
<b>DEPRECIATION</b>					
At 21st February 2003	15,998	7,856	75,854	172	99,880
Provided for the year	1,826	2,155	24,317	33	28,331
Eliminated on disposals	(4,221)	(732)	(4,841)	–	(9,794)
<b>At 20th February 2004</b>	<u><b>13,603</b></u>	<u><b>9,279</b></u>	<u><b>95,330</b></u>	<u><b>205</b></u>	<u><b>118,417</b></u>
<b>NET BOOK VALUES</b>					
<b>At 20th February 2004</b>	<u><b>1,358</b></u>	<u><b>4,222</b></u>	<u><b>66,999</b></u>	<u><b>22</b></u>	<u><b>72,601</b></u>
At 20th February 2003	<u>2,327</u>	<u>5,975</u>	<u>77,387</u>	<u>55</u>	<u>85,744</u>

# Notes to the Financial Statements

For the year ended 20th February 2004

## 17. INTEREST IN ASSOCIATES

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

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

Details of the Company's associates at 20th February 2004 are as follows:

Name of associate	Form of business structure	Place of incorporation and operation	Proportion of ownership interest	Principal activity
AEON Information Service (Shenzhen) Co., Ltd.	Incorporated	People's Republic of China	50%	Provision of call centre services
AEON Credit Card (Taiwan) Co., Ltd.	Incorporated	Taiwan	20%	Consumer credit finance services

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

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

Share of the associates' post acquisition results:

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

The above associates are also fellow subsidiaries of the Company.

# Notes to the Financial Statements

For the year ended 20th February 2004

## 18. INVESTMENT SECURITIES

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

## 19. OTHER INVESTMENTS

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

## 20. HIRE PURCHASE DEBTORS

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 20. HIRE PURCHASE DEBTORS (Cont'd)

Analysed as:

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

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

## 21. INSTALMENT LOANS RECEIVABLE

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

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 22. CREDIT CARD RECEIVABLES

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

## 23. OVERDUE DEBTOR BALANCE

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

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

\* Percentage of total debtor balance

# Notes to the Financial Statements

For the year ended 20th February 2004

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

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

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

Amount due to securitisation trust of HK\$41,657,000 (2003: HK\$31,136,000) on the balance sheet represents collections received by the Company from the securitised credit card receivables and related interests but payable to the securitisation trust after the balance sheet date.

# Notes to the Financial Statements

For the year ended 20th February 2004

## 25. CREDITORS AND ACCRUED CHARGES

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

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

## 26. MATURITY PROFILE

	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	2004 4 years or less but over 1 year HK\$'000	Over 4 years HK\$'000	Total HK\$'000
<b>ASSETS</b>					
Credit card receivables	1,080,251	-	-	-	1,080,251
Hire purchase debtors	69,240	92,470	17,396	-	179,106
Instalment loans receivable	166,743	339,574	168,020	1,769	676,106
Retained interests in securitisation trust	365,977	286,359	261,195	-	913,531
Time deposits	29,000	-	-	-	29,000
	<u>1,711,211</u>	<u>718,403</u>	<u>446,611</u>	<u>1,769</u>	<u>2,877,994</u>
<b>LIABILITIES</b>					
Bank borrowings	454,910	355,000	695,000	140,000	1,644,910

# Notes to the Financial Statements

For the year ended 20th February 2004

## 26. MATURITY PROFILE (Cont'd)

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

## 27. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

## 28. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

## 29. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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



# Notes to the Financial Statements

For the year ended 20th February 2004

## 30. BANK BORROWINGS

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

## 31. ISSUED CAPITAL

	Number of shares 2004 & 2003	Share capital 2004 & 2003 HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised		
At beginning and end of year	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid		
At beginning and end of year	<u>418,766,000</u>	<u>41,877</u>

## 32. SHARE PREMIUM AND RESERVES

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 33. ISSUED DEBT SECURITIES

In 1999, the Company raised financing of HK\$540,000,000 through the issue of certificates backed by credit card receivables in Hong Kong (the "Transaction") for funding its operations. The monthly interest of the debt securities is determined at 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.75% per annum. On 21st August 2003 the Company exercised the option to cause the revolving period of the Transaction to terminate pursuant to the terms of the Transaction and the amount has been fully repaid as at 20th February 2004.

## 34. DEFERRED TAXATION

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

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

	2004 HK\$'000	2003 HK\$'000
Tax effect of temporary differences because of:		
Excess of tax allowances over depreciation	11,682	–
General allowance for bad and doubtful debts	(8,948)	–
Gains on sales of credit card receivables and unrealised gains and losses on interest-only strips and cash reserve account in the securitisation trust	16,266	–
Unamortised cost in connection with issue of debt securities	–	2,001
	<u>19,000</u>	<u>2,001</u>
Net deferred tax liabilities	<u>19,000</u>	<u>2,001</u>

*Note:* The amount represented current income tax provided in prior year and was included in tax payable as at 20th February 2003. During the year, this amount was transferred from tax payable to deferred tax to recognise the tax effect of the temporary differences due to gains on sales of credit card receivables and unrealised gains and losses on interest-only strips and cash reserve account in the securitisation trust.

# Notes to the Financial Statements

For the year ended 20th February 2004

## 35. OPERATING LEASE COMMITMENTS

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>21,825</b>	30,676
In the second to fifth year inclusive	<b>11,533</b>	17,717
	<u><b>33,358</b></u>	<u>48,393</u>

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

In the prior year, the Company disposed of certain computer equipment and entered into lease agreements to lease back the equipment for a basic term of twelve months, with an option to renew the lease for two twelve-month terms, at a fixed monthly rental throughout the lease period. The Company has been granted an option to purchase the equipment at the end of each twelve-month term at an amount equal to the higher of the market price or the fixed purchase price as stipulated in the lease agreements. During the year, the Company exercised the option to renew the lease for a twelve-month term and at the balance sheet date, the Company had commitments for minimum future lease payments in respect of the above leasing arrangements falling due within one year of HK\$6,994,000 (2003: HK\$11,151,000). Lease payments under the renewal option for two twelve-month terms which fall due within one year and in the second to fifth year inclusive are HK\$2,310,000 (2003: HK\$1,161,000) and HK\$12,260,000 (2003: HK\$11,151,000) respectively.

## 36. PLEDGE OF ASSETS

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

# Notes to the Financial Statements

For the year ended 20th February 2004

## 36. PLEDGE OF ASSETS (Cont'd)

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

## 37. FINANCIAL INSTRUMENTS

### (a) Derivatives

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

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

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

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

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

# *Notes to the Financial Statements*

For the year ended 20th February 2004

## **38. RETIREMENT BENEFITS SCHEME**

The Company operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualifying employees. The assets of the MPF Scheme are held separately from those of the Company, in funds under the control of trustees. The Company contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees. The total cost charged to income of HK\$1,486,000 (2003: HK\$3,349,000) represents contributions payable to the MPF Scheme by the Company in respect of the current accounting period. As at 20th February 2004, contributions of HK\$181,000 (2003: HK\$193,000) due in respect of the reporting period had not been paid over to the MPF Scheme.

## **39. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (“SPE”)**

The Company securitised credit card receivables through the SPE that was specifically set up for this transaction in 2002. Proceeds received in this transaction were HK\$600,000,000. The Company’s continuing involvement was primarily limited to the retention of various security interests and servicing rights. During the year ended 20th February 2004, the Company securitised additional credit card receivables through the same SPE and received a further proceeds of HK\$250,000,000. During the year, related pre-tax gains, including unrealised gains on retained interests (interest only strips and cash reserve accounts), recognised at the time of both securitisations and subsequent sales of credit card receivables were HK\$108,122,000 (2003: HK\$175,861,000).

At 20th February 2004, the Company had retained interests of HK\$913,531,000 (2003: HK\$732,614,000) in the securitisation trust.

Although the Company has retained significant exposures to returns from the securitised assets, the SPE is not construed as the Company’s subsidiary under Section 2(4) of the Hong Kong Companies Ordinance. Accordingly, the SPE has not been consolidated into the Company’s financial statements for the year ended 20th February 2004 in accordance with the provisions of paragraph 27 of SSAP 32 “Consolidated Financial Statements And Accounting For Investments In Subsidiaries”.

In accordance with paragraph 46 of SSAP 32, the Company has set out below the details of the effect on the consolidated financial statements of the Company and the SPE for the year ended 20th February 2004 had the exemption given in paragraph 27 of SSAP 32 not applied:

# Notes to the Financial Statements

For the year ended 20th February 2004

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

### Proforma consolidated income statement:

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
Turnover	<u>771,176</u>	19,576		<u>790,752</u>
Interest income	479,804	243,651		723,455
Interest expense	<u>(116,945)</u>	(10,975)		<u>(127,920)</u>
Net interest income	362,859			595,535
Credit card securitisation income	252,235	(252,235)		–
Other operating income	108,924	13,875		122,799
Other loss	<u>(632)</u>			<u>(632)</u>
Operating income	723,386			717,702
Operating expenses	<u>(233,756)</u>	(1,181)		<u>(234,937)</u>
Operating profit before charge for bad and doubtful debts	489,630			482,765
Charge for bad and doubtful debts	(343,931)	(61,574)		(405,505)
Share of results of associates	<u>–</u>		(2,985)	<u>(2,985)</u>
Profit before taxation	145,699			74,275
Income tax	<u>(26,337)</u>	8,449		<u>(17,888)</u>
Net profit for the year	<u>119,362</u>			<u>56,387</u>

# Notes to the Financial Statements

For the year ended 20th February 2004

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

### Proforma consolidated balance sheet:

	The Company HK\$’000	Effect of consolidation of SPE HK\$’000	Effect of equity accounting for associates HK\$’000	The proforma group HK\$’000
<b>Non-current assets</b>				
Property, plant and equipment	72,601			72,601
Interest in associates	10,744		(4,567)	6,177
Investment securities	8,882			8,882
Hire purchase debtors	16,653			16,653
Instalment loans receivable	157,866			157,866
Retained interests in securitisation trust	261,195	(261,195)		–
Pledged time deposits	–	118,000		118,000
	<u>527,941</u>			<u>380,179</u>
<b>Current assets</b>				
Other investments	697			697
Hire purchase debtors	155,486			155,486
Instalment loans receivables	470,759			470,759
Credit card receivables	944,317	1,247,551		2,191,868
Retained interests in securitisation trust	652,336	(652,336)		–
Prepayments, deposits, interest receivable and other debtors	125,934	32,050		157,984
Time deposits	29,000	145,074		174,074
Bank balances and cash	78,077			78,077
	<u>2,456,606</u>			<u>3,228,945</u>
<b>Current liabilities</b>				
Creditors and accrued charges	40,946	362		41,308
Amount due to securitisation trust	41,657	(41,657)		–
Amount due to immediate holding company	963			963
Amount due to a fellow subsidiary	32,159			32,159
Amount due to ultimate holding company	47			47
Bank borrowings – repayable within one year	809,910			809,910
Taxation	21,238	(13,378)		7,860
	<u>946,920</u>			<u>892,247</u>
Net current assets	<u>1,509,686</u>			<u>2,336,698</u>
Total assets less current liabilities	<u>2,037,627</u>			<u>2,716,877</u>

# Notes to the Financial Statements

For the year ended 20th February 2004

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

### Proforma consolidated balance sheet: (continued)

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



# Notes to the Financial Statements

For the year ended 20th February 2004

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

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

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
Turnover	<u>789,201</u>	(7,057)		<u>782,144</u>
Interest income	659,026	92,200		751,226
Interest expense	<u>(143,864)</u>	(5,998)		<u>(149,862)</u>
Net interest income	515,162			601,364
Credit card securitisation income	192,192	(192,192)		–
Other operating income	109,899	(786)		109,113
Other loss	<u>(1,500)</u>			<u>(1,500)</u>
Operating income	815,753			708,977
Operating expenses	<u>(274,144)</u>			<u>(274,144)</u>
Operating profit before charge for bad and doubtful debts	541,609			434,833
Charge for bad and doubtful debts	(403,414)	(4,345)		(407,759)
Share of results of associates	–		(565)	(565)
Profit before taxation	138,195			26,509
Income tax	<u>(20,890)</u>	21,195		<u>305</u>
Net profit for the year	<u>117,305</u>			<u>26,814</u>

# Notes to the Financial Statements

For the year ended 20th February 2004

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

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

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

# Notes to the Financial Statements

For the year ended 20th February 2004

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

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

	The Company HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group HK\$'000
Capital and reserves				
Issued capital	41,877			41,877
Share premium and reserves	1,076,828	(89,927)	(1,582)	985,319
	<u>1,118,705</u>			<u>1,027,196</u>
Non-current liabilities				
Bank borrowings – repayable after one year	750,000			750,000
Issued debt securities	–	600,000		600,000
Deferred taxation	2,001			2,001
	<u>752,001</u>			<u>1,352,001</u>
	<u><u>1,870,706</u></u>			<u><u>2,379,197</u></u>

# Notes to the Financial Statements

For the year ended 20th February 2004

## 40. RELATED PARTY TRANSACTIONS

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

		Fellow subsidiary		Immediate holding company		Ultimate holding company		Associate		AEON Education and Environment Fund Limited	
		2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission received	a)	<u>13,543</u>	<u>18,252</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees received	b)	<u>-</u>	<u>-</u>	<u>203</u>	<u>203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees paid	b)	<u>5,900</u>	<u>6,292</u>	<u>-</u>	<u>-</u>	<u>45</u>	<u>45</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Service fees paid	c)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,663</u>	<u>8,371</u>	<u>-</u>	<u>-</u>
Donation	d)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>265</u>	<u>2,477</u>

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

## 41. CAPITAL COMMITMENTS

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