ÆON

Annual Report 2005/06

AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

Planting Seeds of Growth
We are ÆON

Stock Code : 900

Contents

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Corporate Information

Board of Directors

Executive Directors
Masanori KOSAKA *(Managing Director)*
LAI Yuk Kwong
KOH Yik Kung

Non-Executive Directors
Yoshiki MORI *(Chairman)*
Kazuhide KAMITANI

Independent Non-Executive Directors
TSANG Wing Hong
WONG Hin Wing

Qualified Accountant

LAI Yuk Kwong

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 UFJ, Ltd.
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
Hong Kong Branch

Share Registrar

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

Registered Office

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

Internet Address

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

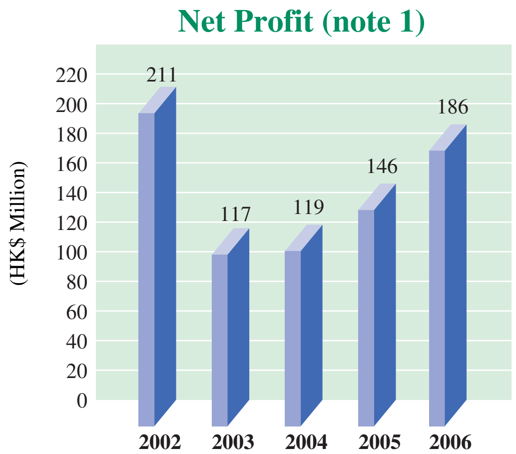
Stock Code

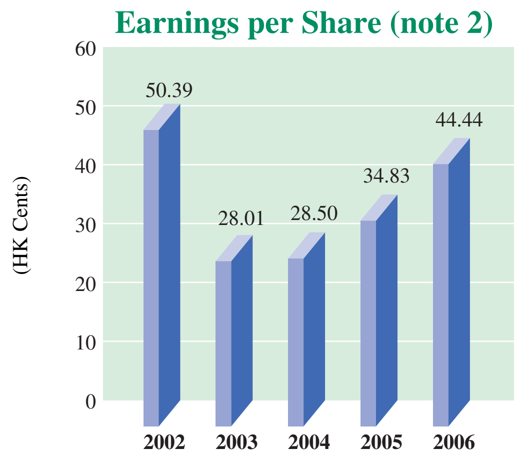
900

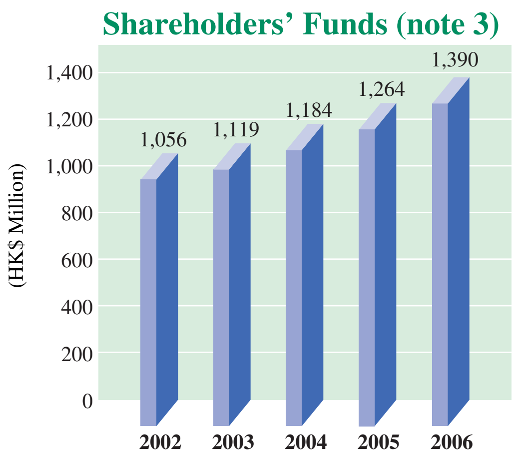
Shareholders' Calendar

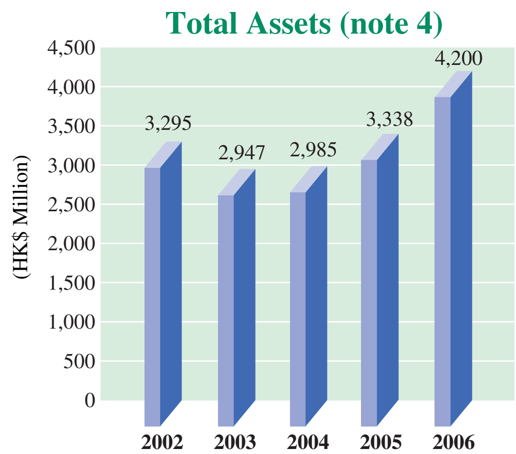
22nd September 2005	Announcement of interim results
7th October 2005	Despatch of Interim Report
7th-14th October 2005	Book closing dates for interim dividend
17th October 2005	Payment date for interim dividend of 6.5 HK cents per share
26th April 2006	Announcement of final results
19th May 2006	Despatch of Annual Report
8th-14th June 2006	Book closing dates for final dividend
14th June 2006	2006 Annual General Meeting
28th June 2006	Payment date for final dividend of 11.5 HK cents per share

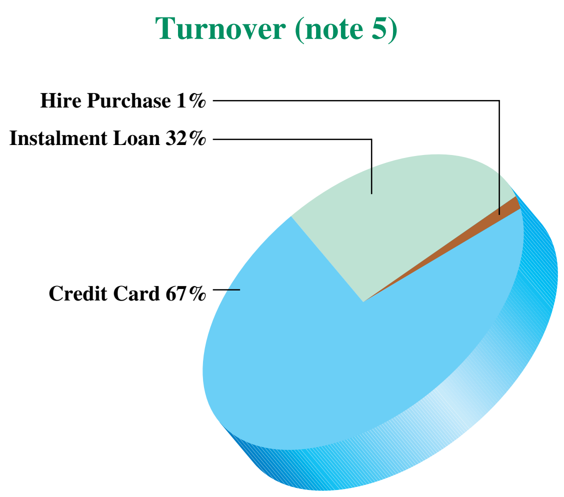
Financial Summary











Notes:

1. Represents the net profit for the financial years ended 20th February 2002, 2003, 2004, 2005 and 2006.

2. Represents the earnings per share for the financial years ended 20th February 2002, 2003, 2004, 2005 and 2006.

3. Represents the shareholders' funds at 20th February 2002, 2003, 2004, 2005 and 2006.

4. Represents the total assets at 20th February 2002, 2003, 2004, 2005 and 2006.

5. Represents the respective percentage of turnover by business segments for the financial year ended 20th February 2006.

Financial Summary

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

RESULTS

	For the year ended 20th February				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000 (restated)	**2006** **HK$'000**
Turnover	849,205	789,201	771,176	878,359	**912,529**
Profit before tax	247,671	138,195	145,699	177,284	**225,579**
Income tax expense	(36,669)	(20,890)	(26,337)	(31,411)	**(39,466)**
Profit for the year	211,002	117,305	119,362	145,873	**186,113**
Earnings per share	50.39 cents	28.01 cents	28.50 cents	34.83 cents	**44.44 cents**
Dividend per share	13.00 cents	13.00 cents	14.00 cents	16.00 cents	**18.00 cents**

ASSETS AND LIABILITIES

	At 20th February				
	2002 HK$'000	2003 HK$'000	2004 HK$'000	2005 HK$'000 (restated)	**2006** **HK$'000**
Total assets	3,295,343	2,946,952	2,984,547	3,338,206	**4,199,838**
Total liabilities	(2,239,506)	(1,828,247)	(1,800,920)	(2,073,814)	**(2,809,990)**
Shareholders' funds	1,055,837	1,118,705	1,183,627	1,264,392	**1,389,848**

Note: The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") that are effective for accounting periods beginning on or after 1st January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs is provided in note 2 to the financial statements on pages 51 to 57. Financial information for 2005 and 2006 has been restated for these new and revised policies in accordance with the transitional provisions and as disclosed in note 2 to the financial statements on pages 58 and 59. Financial information for earlier years has not been adjusted to take into account the effect on the adoption of these new and revised HKFRSs as the directors considered that it is not practicable to do so.

Chairman's Statement

Yoshiki MORI
Chairman

Despite the rising energy cost as well as interest rate, the global economy continued to grow in the year under review. The Japanese economy rebounded from the trough primarily due to the substantial increase in domestic demand and the resolve of banks' bad debt crisis. Moreover, the deflationary situation that has plagued Japan for years is beginning to ease off. In Hong Kong, the economic situation continued to perform well in the past one year. With the improvement of the economy, the number of unemployed people in Hong Kong dropped to a 4-year new low. Investment and consumption sentiments continued to improve. As for consumer loan business, fierce competition is still ever increasing amongst market players as financial institutions looked for lending opportunities with higher interest margin. Despite such a competitive and challenging operating environment, AEON Credit Service (Asia) Company Limited (the "Company") continued to expand its market segment and generate new receivables. With the joining as a China UnionPay member, the Company can now issue credit cards under the five popular brands in the market. I am pleased to report that the Company recorded a net profit of HK$186.1 million, an increase of 27.6% when compared with last year.

The Group's Philosophy

The Company is a member of the ÆON Group and a subsidiary of ÆON Credit Service Co., Ltd. ("ÆON Credit Japan"), which is listed on the main section of the Tokyo Stock Exchange. The unchanging corporate mission of ÆON Credit Japan is to constantly benefit its cardholders through quality financial services. In Japan and the rest of Asia, the management philosophy is to support cardholders' lifestyles and enable each individual to maximize future opportunities through effective use of credit. ÆON Credit Japan is determined to listen to the customers' voice and will continue to repay their trust and expectations by providing financial services that bear closely with their daily livings and needs. At the same time, ÆON Credit Japan seeks to earn customers' trust by striving hard to raise standards of corporate behaviour in the financial services industry, adhering to a strict code of corporate ethics and engaging in activities that conserve the environment and contribute to society. ÆON Credit Japan always follows the belief that customers are the starting point for management decisions. The aim is to let its customers, local communities, suppliers and business partners understand its belief and management philosophy and establish a stronger and trustworthy relationship.

The core activities of ÆON Credit Japan are credit card and personal loan business. At the same time, through its subsidiaries, ÆON Credit Japan is also involved in other financial service activities, including loan management, loan recovery and insurance agency business. ÆON Credit Japan aims to be a leading company in Asia's credit markets by continuing to develop and grow the business of overseas subsidiaries and by entering new markets. Besides Hong Kong, ÆON Credit Japan has overseas operations and offices in Thailand, Malaysia, Indonesia, Taiwan and the People's Republic of China (the "PRC").

Chairman's Statement

To promote corporate social responsibility, ÆON Credit Japan will continue to develop highly effective security systems - a reflection of the importance attached to protecting personal data. In the area of social contribution and environmental conservation, ÆON Credit Japan engages in a wide range of activities, from volunteer services at the local level, to global environmental protection work. Our belief is "To contribute to the local community" and make the local people live a happy life. Having obtained ISO14001 certification for environmental management systems, ÆON Credit Japan will continue to reduce the consumption of paper and energy. On a global basis, ÆON Group members support environmental conservation, international cultural and personal exchanges, regional cultural activities, and other causes through the ÆON 1% Club.

The Company's Performance

For the year under review, the Company continued striving to provide services tailored to customers' needs. To achieve this goal, we enhanced our bonus point system, extended our ATM and branch networks and launched new affinity card and loan products. We also stepped up our efforts to attract new customers and enhanced our card-issuing and loan approval process. With the extensive merchant networks, the Company organized various promotion activities to recruit new members and at the same time to increase our card usage. In view of the fact that more customers travel to China for work and leisure, the Company launched AEON UnionPay credit card, which offers cardholders a range of unique dining, entertainment and lifestyle benefits. Cardholders can enjoy discount shopping, dining, golfing, and entertainment privileges at over 1,000 merchants outlets in Shenzhen and Zhuhai. To strengthen our card benefits, we further extended our collaboration with other leading merchants to offer unique benefits to customers. On loan products, in addition to cross selling and up-selling loan products to selected inactive and sleeping customers, the Company continued to promote its existing loan programs and launch new purpose loan programs with its merchants.

With the view to grasp the opportunity to enter the consumer finance market in the PRC in the near future, more back-office jobs have been transferred to the call center in Shenzhen. The call center in Shenzhen is now taking an active role in telemarketing, customer service, collection, credit judgement and risk management activities. Moreover, the Company is in the process of building up a business alliance network to launch hire purchase products.

To contribute to the local community, the Company made donations to different charitable organizations and organized staff to participate in the "walk for your heart" walkathon to support cardiac patients. Moreover, through AEON Education and Environment Fund Limited ("AEON Fund"), the Company actively promoted the concept of environmental protection in Hong Kong and the PRC.

Chairman's Statement

Outlook

The year ahead will be a challenging year for consumer finance business. Realignment in the consumer finance industry is leading to intensified competition as emerging information technology and internet heavyweights enter the market, and major banking groups reinforce their retail strategies. In such an operating environment, we will strive to achieve the goals outlined in our basic management policy and medium-term vision by implementing the following strategies: (1) develop a range of financial service businesses focused on our cardholder base; (2) achieve a qualitative shift in our credit card business; (3) strengthen our capital and funding base; and (4) enhance efforts to promote corporate social responsibility.

We have already seen growth in consumer spending and borrowing. With the expected increase in job and investment opportunities in the market, the demand for consumer loans will continue to increase. In light of the declining bankruptcy trend and the drop in the unemployment rate of our market segment, the Company will utilise its branch and merchant networks and undertake a more aggressive marketing strategy to grow its core business. Notwithstanding this, the Company will continue to exercise a tight control on operating expenses and maintain a tight control on loan assessments and approvals.

Guided by the corporate philosophy of "Customer First", the Company will continue to develop innovative and convenient financial services and provide better services that accommodate the needs of an increasing number of customers. The Company understands its commitments and the importance of providing good returns to its shareholders. With regard to social contribution, we will continue to participate actively in environmental initiatives and educational programs and also will support other community activities and local causes.

Acknowledgement

On behalf of the Board, I wish to take this opportunity to extend my sincere gratitude to our customers, business partners and shareholders for their invaluable patronage, confidence in and support to the Company, and express my heartfelt thanks to the management and staff for their commitment and dedication.

森 美 樹

Yoshiki MORI
Chairman

Hong Kong, 26th April 2006

Managing Director's Operational Review

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 2006.

Hong Kong's consumer sentiment continued to improve in the past one year. The steady recovery of the property and stock markets, as well as the growth in inbound tourists and related retail industries, helped to gradually improve the unemployment rate. However, frequent new highs in oil prices and successive interest rate increases by banks have cast a shadow on the interest rate sensitive industries.

2005 was another fruitful year for the Company. On the financial side, the Company had benefited from the continued recovery in the economic situation and achieved a growth in sales volume by 13.2%, a drop in impairment losses and impairment allowances by 20.2% and a surge in net profit by 27.6%. To share this delightful results with our shareholders, the Board decided to increase the full year dividend amount to 18.0 HK cents. On the operating side, in developing new partners for credit card operation, the Company has launched AEON UnionPay credit card in March 2006 to offer customers discount privileges and convenience when travelling in China. The Company is now issuing the five popular brands of credit cards in the market. This provides both the merchants and customers with a wider choice and also facilitates us to issue more card types to capture different customer segments. On information security management, the Company has been awarded the BS7799 (information security management system) Certificate for credit card transaction processing in February 2006. This marks a milestone of the Company in ensuring quality service for our customers.

PERFORMANCE REVIEW

For the financial year ended 20th February 2006, on an audited basis, profit before tax was HK$225.6 million, an increase of 27.2% when compared with last year. After deducting income tax expense of HK$39.5 million, net profit for the year increased by 27.6%, or HK$40.2 million, from HK$145.9 million in 2004/05 to HK$186.1 million in 2005/06. The Board has recommended the payment of a final dividend of 11.5 HK cents per share and, together with the interim dividend of 6.5 HK cents, total dividend for the year was 18.0 HK cents per share.

Operating income before interest expense for the year was HK$880.0 million, as compared with HK$840.5 million in 2004/05. Interest income increased by 34.9% to HK$741.5 million and interest expense increased by 28.6% to HK$109.9 million.

Managing Director's Operational Review

The Company incurred more on advertising expenses to capture the growth of demand in consumer finance market. Together with the increase in management and facility expenses, cost-to-income ratio increased from 34.7% in the previous year to 38.1%. On the other hand, due to the improved market conditions, and lower unemployment rate, as well as the sharing of positive credit data, the total impairment losses and impairment allowances reduced by 20.2% from HK$315.0 million in 2004/05 to HK$251.3 million.

With the increase in demand for consumer loans and the adoption of new accounting standards, total debtor balance recorded an increase of HK$1,113.9 million to HK$3,391.0 million at 20th February 2006 from HK$2,277.1 million at 20th February 2005. At 20th February 2006, the Company had bank borrowings amounted to HK$2,056.0 million. Shareholders' funds were strengthened by 9.9% to HK$1,389.9 million at 20th February 2006 mainly due to the increase in retained earnings.

OPERATIONAL REVIEW

Marketing

The Company has issued seven new affinity cards in collaboration with five new partners in the retail, beauty and catering sectors. The G. Sushi credit cards were launched in July 2005 targeting young sushi lovers. The DR Visa Card, Suzuya Visa Card and Vertical Club Visa Card were launched in November 2005 and December 2005 targeting female self-image seekers. The Little Sheep MasterCard was launched in December 2005 targeting hot-pot lovers. The unique features of these cards have been widely accepted by the consumers and a total number of around 50,000 cards have been issued up to 20th February 2006.

New affinity cards

Managing Director's Operational Review

Marketing programs and products

In addition, the Company had also successfully launched different marketing programs with affinity members to boost up card sales. These include private sale, catalogue sale, lucky draws and spending campaigns. Card credit purchase sales had increased by 21.2% when compared with last year. With the continuous extension of ATM network in both Hong Kong and China, and together with promotion programs with convenience stores, card cash advance sales had gradually picked up and increased by 14.3% when compared with last year.

In view of the gradual recovery of the economic situation and the availability of positive data from credit bureau, the Company is active in further developing its personal loan business. Together with the use of new marketing channels, personal loan sales continued to record a growth of 22.7% in the reporting year.

Branch Operation

To extend the service coverage for card and personal loan business, five new branches have been opened in Chai Wan, Tsuen Wan, Sham Shui Po, Hung Hom and Tuen Mun, totalling a branch network of twenty at 20th February 2006. With the increasing number of customers using payment channel through convenience stores and bank's ATM network, the branch network has been utilised more efficiently in performing target marketing, cross selling and discount merchant recruitment.

Customer Service

AEON signboards

With the launch of card instalment plan in March 2005, which enables customers to enjoy flexible repayment terms, it has increased the credit purchase sales in the reporting year. To diversify its services, the Company has offered financial products related to insurance and travel such as home content, domestic helper and golfer insurance and tour packages at a special price to popular destinations. Following the co-operation with China UnionPay, which allows our cardholders to withdraw RMB through the China UnionPay ATM network and also enjoy credit purchases at China UnionPay's merchant network in Guangdong Province, big AEON signboards have been put up at strategic high traffic locations in Guangzhou and Shenzhen to stimulate card usage in China.

Managing Director's Operational Review

PROSPECTS

The current active stock market and the drop in unemployment rate are indicative signs of continued economic recovery in Hong Kong. The Hong Kong economy is expected to achieve solid growth in 2006, despite at a slower pace than that achieved in 2005. Although the high oil prices and interest rates will pose a potential threat, the continued strong growth in the Mainland China economy will provide Hong Kong with favourable local market conditions. With the expected increase in demand for consumer loans and the benefits from full access to positive credit data, the competition for consumer finance business in Hong Kong is expected to intensify amongst market players. Under this optimistic and competitive business environment, the Company will follow its existing marketing strategy to continue to develop new affinity partners to diversify its customer sector and increase its customer base, and simultaneously strengthen its credit assessment through stringent credit approval procedures.

Credit card business will continue to be the core business of the Company, with the primary aim to issue more affinity cards tailored to cardholders' lifestyles. By listening to customers' feedback, the Company can offer an extensive range of services to suit their needs. With additional new card benefits and convenient services provided to customers, the Company aims to increase the active ratio of new customers and retain the loyalty of existing cardholders. The Company will source for new products and cross-sell personal loan, trendy electronic products, insurance and investment-related products to this enlarged member base to ensure full service coverage. With the well-established infrastructure in Hong Kong and China, the Company will continue to secure more business from companies outsourcing their small debt recovery functions and other credit-related services.

Launch New Card and Loan Products for Customers' Selection

The launch of AEON UnionPay credit card is an exercise to strengthen the card benefits by offering cardholders a range of unique dining, entertainment and lifestyle benefits. By offering free membership of China UnionPay VIP club, cardholders can now enjoy shopping, dining, golfing and entertainment privileges at over 1,000 merchants outlets in Shenzhen and Zhuhai. The target market will be those frequent travellers to China looking for convenient cash advance and credit purchase networks in China.

Since affinity cards can offer value-added benefits to cardholders and create a unique image for merchants, the Company will line up with strong leading partners to launch new affinity credit card programs. Moreover, the Company plans to launch new card products and product features following further system upgrades to strengthen its competitiveness. At least five new cards will be launched in the coming financial year.

AEON MasterCard® 2006 FIFA Worldcup Credit Card

In order to satisfy different demands in the market for personal loans and to attract quality customers, the Company will develop more purpose loan products and cross-sell opportunities to achieve a stable growth in the personal loan business.

Offer Discount Benefits and Marketing Programs to Stimulate Card Usage

The average card spending per person on lifestyle items is expected to increase in the coming year. To capture this demand, the Company will design tailor-made programs for individual merchants, including issuing member discount passport and organizing festivals. Moreover, a series of marketing initiatives will be launched, directing towards card activation in the whole card portfolio through the offering of attractive year-round merchant offers, seasonal merchant discounts, lucky draws and bonus point system. In preparation for the upcoming soccer world cup event, the Company has launched AEON MasterCard® 2006 FIFA Worldcup Credit Card in March 2006 targeting soccer fans.

With the launch of AEON UnionPay credit card and AEON JCB card, cardholders are now able to select their favourite AEON cards from the five major card brands. To promote AEON cards, promotion program titled "Bring you around the world" was launched in the first quarter.

"Bring you around the world" promotion program

Promotion programs with leading merchants

The Company will further extend its collaboration with leading merchants to stimulate card spending. The Company has lined up with Hutchison 3G, KFC and Sun Holiday to launch new promotion programs in the coming few months. With AEON credit cards, cardholders can get a free mobile handset, enjoy extra free dining or luxury tour package at discounted values. Besides, the Company will continue to utilize its marketing forces to source new discount merchants in Hong Kong, Macau and China. The Company will also source for attractive products from overseas to be offered to our cardholders as bonus point redemption gifts or as special promotion items.

Improve the Service Quality and Expand the Service Coverage Areas

A new interactive voice telephone system (IVRS) was launched at the beginning of this year, which is equipped with new functions to satisfy customers' needs. The new IVRS will enable customers to check their bonus points, latest transaction and payment as well as to request for reissue of monthly statement. Moreover, new AEON web site with more functionalities and the offering of convenient services in a secured environment will be launched in the future.

Fifteen new branches have been scheduled to open in populated areas in the coming year which will serve as new channels for target marketing and closer co-operation with discount and affinity merchants.

New branch image

In order to increase cash advance sales volume, the Company will continue to extend its ATM network along the KCR and MTR areas and inside shopping centres. The Company's ATM network in Hong Kong is now open to China UnionPay members. With the increasing number of mainland visitors coming to Hong Kong, this will generate a new source of fee-based income.

Promote Recurrent Transactions

Based on our past experience, the cooperation with different partners, such as mobile phone and insurance companies, in promoting recurrent transactions using our credit cards, has successfully boosted up our credit purchase sales. A series of promotion programs on insurance premium payments, bill payments, and automatic add-value services will be launched in the coming months. This will increase the card active ratio and also retain the loyalty of existing customers. Our target is to increase the number of cardholders who use recurring services to 80,000 by the end of this financial year.

In addition to offering personal accident and health product insurance, the Company plans to promote new insurance products such as life, family, golden age and savings insurance to our card members. Our target is to increase the number of insurance policyholders to 35,000 by the end of this financial year.

Expand Credit-Related Business

Besides insurance products, the Company will cooperate with its partners to introduce investment products to our cardholders. By using our vast customer base, the Company has introduced catalogue sale on discounted products to our customers. This new source of business not only helps to generate additional revenue to the Company, it also helps to retain the loyalty of our customers.

The Company has been providing collection services to nine corporate clients in Hong Kong in the fields of telecommunications, insurance and education. The Company aims to expand its client base to twenty clients by the end of this financial year.

China Business – Establish Operation Model

The call center in Shenzhen now provides back-office operation support on collection, customer service, risk management and telemarketing. In the coming year, more operational process, including judgment and card retention, will be transferred to Shenzhen in preparation for the future consumer finance operation in China. The Company will make use of its expertise, know-how and experience by setting up credit-related companies in Guangdong Province to capture the potential business opportunities upon opening up of the consumer finance market in China.

Future

We are confident that the vast customer base and merchant networks that we have built over these years, coupled with the continuous improvement in customer service quality and product development, as well as the investment that we have made on the infrastructure and business model for future growth and expansion into the PRC market, will provide us with a strong driving force to grow in this competitive operating environment.

SYSTEMS DEVELOPMENT

The Company will continue to enhance its systems to cater for receivable growth, customers' needs and expectations and to improve on data and network security, risk detection and efficiencies within the Company. Moreover, the Company will revamp its enterprise-wide contingency plan to cater for any unforeseen circumstances and to ensure a continuous operating environment. 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 relocated its information systems division to a data center with improved physical security level. Critical operating machines have been shifted to the data center for better security control. Besides the installation of IP based telephone system, the Company has launched new interactive voice telephone system (IVRS) that is equipped with additional functions and is linked up with the hotline system to improve the efficiency of response to customers. For new card system, China UnionPay card brand and seven new affinity card types were successfully launched.

In the coming year, the Company will put efforts to integrate the database of credit card and hire purchase system to facilitate future enhancement. Moreover, operating systems for new product features and new functionalities for the web site will be completed in the coming year. To ensure high security for data protection, the Company will introduce IC card with fingerprint recognition device for PC login for staff in the head office and also cyber warning alert system to monitor the network operation to prevent unauthorized user access.

HUMAN RESOURCES

2005 excellent staff's visit to parent company in Japan

The total number of staff as at 20th February 2006 and 20th February 2005 was 320 and 272 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-housing training programs and external training sponsorships to strengthen its human resources.

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

CORPORATE SOCIAL RESPONSIBILITY

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.

Walk for your heart – support cardiac patients by walking a million steps

This year, the Company and staff volunteers had supported Cardiac Patients Mutual Support Association by attending "Walk For Your Heart – support cardiac patients by walking a million steps". The Company was honoured to receive the prize of "the highest number of participants" in this activity. Besides, 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.

Managing Director's Operational Review

Hong Kong Tree Planting Day 2006

The AEON Fund promotes environmental protection through organizing projects including the Green Pioneer Program, the Website on Green Horizon, and the Love of Earth 2005. Besides, the AEON Fund has sponsored a television episode "Challenge of Life II" and completed the second year support to the Hong Kong Tree Planting Day.

In the PRC, the AEON Fund has continued to involve in the green campus, the scholarship and research programs in Tsinghua University, and the village doctors training in Yunnan.

In the coming year, the Company will continue to provide support in community service to demonstrate the commitment and support for the local community and to help the less privileged and work towards a green living environment.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to wholeheartedly thank our customers, business partners, and shareholders for their long-standing trust in and support for the Company. I also 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, 26th April 2006

Management Discussion and Analysis

In the past one year, Hong Kong economy continued to recover, with a drop in the unemployment rate to 5.2% and an improvement in the investment and consumption sentiments, which was positive for the Company's business, especially as regards to receivable growth and credit quality. Interest rate conditions, however, remained challenging, with HIBOR continued in an upward trend throughout the year, resulting in an increase in the funding cost. During the year under review, there was an increase in both the card sales and personal loan sales despite more market players have moved aggressively into the consumer finance business, resulting in an increase in the overall sales volume by 13.2% when compared with last year.

KEY FINANCIAL HIGHLIGHTS

The Company achieved a profit growth of 27.6%, with net profit increased from HK$145.9 million in the previous year to HK$186.1 million. Earnings per share increased by 27.6% from 34.83 HK cents to 44.44 HK cents in 2005/06.

Operating income was HK$770.1 million, an increase of HK$15.1 million when compared with HK$755.0 million in 2004/05. Operating expenses increased by 11.9% from HK$262.3 million to HK$293.6 million, with cost-to-income ratio increased to 38.1% from 34.7% in the previous year.

The Company's impairment losses and impairment allowances decreased by 20.2% or HK$63.6 million to HK$251.3 million from HK$315.0 million in the previous year.

With the higher volume of consumer loan transactions and the adoption of HKAS 39 on the derecognition criteria, total debtor balance recorded an increase of 48.9% or HK$1,113.9 million, from HK$2,277.1 million at 20th February 2005 to HK$3,391.0 million at 20th February 2006.

Net asset value per share (after final dividend) at 20th February 2006 was HK$3.3, as compared to HK$3.0 at 20th February 2005.

The Board recommended the payment of a final dividend of 11.5 HK cents per share. Together with the interim dividend of 6.5 HK cents per share already paid, the total dividend for the year increased to 18.0 HK cents per share from 16.0 HK cents per share in 2004/05, with the dividend payout ratio being 40.5%.

INCOME STATEMENT ANALYSIS

Operating Income

The Company's net interest income recorded an increase of 36.1% from HK$464.2 million in 2004/05 to HK$631.6 million in 2005/06. With the pick up in sales transactions and the record of new credit card receivables transferred under asset securitizations in accordance with the new derecognition criteria in HKAS 39, interest income recorded an increase by 34.9% from HK$549.7 million in 2004/05 to HK$741.5 million in 2005/06.

Although there was an increase in HIBOR, with the fixing of interest rates through entering interest rate swaps and long-term bank loans, the average funding cost only moved marginally from 3.7% in the previous year to 4.7%. Interest expense for the year was HK$109.9 million, an increase of 28.6% or HK$24.4 million, when compared with last year.

Following the adoption of HKAS 39, no additional gain was recorded on new sales of credit card receivables transferred under asset securitizations. Together with an increase in the revaluation loss on interest-only strips, the Company recorded credit card securitization income of HK$1.0 million this year, as compared with HK$186.5 million in 2004/05. The higher usage of cash advance and the increase in late payment charges had resulted in an increase in other operating income by 25.9% from HK$105.6 million in 2004/05 to HK$132.9 million.

Other income of HK$4.7 million was resulted from the gain on derivative financial instruments, unrealized gain on revaluation of investments held for trading and loss on disposal of computer equipment and leasehold improvements.

Operating Expenses

The Company incurred more on advertising expenses to capture the growth of demand in consumer finance market. In addition, following the launch of new products and marketing programs, the Company had incurred more on card and loan processing expenses. Together with the higher depreciation arising from the software development and hardware purchase to enhance the operating and security systems, total operating expenses increased by 11.9% from HK$262.3 million in 2004/05 to HK$293.6 million. Consequently, the Company's cost-to-income ratio increased to 38.1% in 2005/06 from 34.7% in 2004/05.

Impairment Losses and Impairment Allowances

As a result of the improved market conditions and lower unemployment rate, as well as the sharing of positive credit data in consumer finance, asset quality continued to improve during the year, with the total impairment losses and impairment allowances reduced by 20.2% from HK$315.0 million in 2004/05 to HK$251.3 million. Recoveries during the year increased by 72.7% from HK$9.5 million in 2004/05 to HK$16.4 million.

BALANCE SHEET ANALYSIS

The Company's shareholders' funds at 20th February 2006 were HK$1,389.9 million, representing a growth of 9.9%, or HK$125.5 million, when compared with the balance at 20th February 2005.

Debtor Balance

Since the new transfer of credit card receivables after 21st February 2005 were not derecognized and together with the increase in sales volume, credit card receivables increased by HK$1,102.5 million from HK$1,039.0 million at 20th February 2005 to HK$2,141.5 million at 20th February 2006. With the use of the Company's branch and merchant networks to cross-sell different loan products, instalment loans receivable reached HK$1,110.7 million, an increase of HK$105.6 million when compared with last year. Total debtor balance recorded an increase of 48.9% or HK$1,113.9 million, from HK$2,277.1 million at 20th February 2005 to HK$3,391.0 million at 20th February 2006.

Considering the drop in overdue debtor balance for 3 months or above, the Company reduced the amount of impairment allowances. Impairment allowances amounted to HK$128.2 million at 20th February 2006, a decrease of HK$46.0 million when compared with previous year and representing 3.7% of total debtor balance (including interest receivable and other debtors).

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

	20th February 2006		20th February 2005	
	HK$'000	**%***	HK$'000	%*
Over 1 month but less than 2 months	**64,785**	**1.9**	94,046	4.1
Over 2 months but less than 3 months	**24,396**	**0.7**	18,094	0.8
Over 3 months	**70,862**	**2.1**	84,570	3.7
	160,043	**4.7**	196,710	8.6

* *Percentage of total debtor balance*

Retained Interests in Securitisation Trust and Issued Debt Securities

The Company raised a total of HK$850.0 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.

The securitisation programme was originally treated as off balance sheet and the credit card receivables transferred are derecognized from the financial statements. 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.

With effect from 21st February 2005, any new transfer of credit card receivables to the special purpose entity has not been derecognized and remained as credit card receivables in the Company's financial statements. Funding for the credit card receivables was recorded as issued debt securities.

At 20th February 2006, 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$456.6 million, as compared with HK$937.5 million at 20th February 2005. The amount of issued debt securities at 20th February 2006 was HK$587.5 million.

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.

Besides the securitisation program mentioned above, at 20th February 2006, the Company had bank borrowings amounted to HK$2,056.0 million, with 77.4% being fixed in interest rates. Out of these borrowings, 32.1% will mature within one year, 15.7% between one and two years, 20.3% between two and three years, 14.2% between three and four years and 17.7% over four years. Moreover, the Company had available HK$360.0 million of undrawn committed borrowing facilities as at balance sheet date in respect of which all conditions precedent had been met. Besides, the HK$850.0 million credit card securitization had started amortisation in March 2006 and will be financed by bank borrowings and new structured finance.

The Company continued to maintain a strong financial position. At 20th February 2006, total debt-to-equity ratio was 2.02. All the Company's borrowings were denominated in Hong Kong dollars.

Management Discussion and Analysis

The net asset value of the Company at 20th February 2006 was HK$1,389.9 million, or HK$3.3 per share, as compared with HK$3.0 per share at 20th February 2005. Credit card receivables of HK$805.0 million were pledged for the issued debt securities at 20th February 2006.

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$54.1 million as compared to HK$43.9 million in the previous year. This was mainly related to the purchase of new ATMs and computer equipment as well as the software development to enhance the operating and security systems. At 20th February 2006, 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 2.0 HK cents. For the year ended 20th February 2006, the Board recommended the payment of a final dividend of 11.5 HK cents per share, which together with an interim dividend of 6.5 HK cents per share, making a total dividend of 18.0 HK cents per share and a payout ratio of 40.5%.

SEGMENT INFORMATION

The Company's business comprised mainly three operating divisions, namely credit card, hire purchase and instalment loan. In 2005/06, credit card operation accounted for 66.7% of the Company's turnover, as compared to 70.8% in 2004/05. For operating income after deducting impairment losses and impairment allowances, credit card operation accounted for 57.8% in 2005/06, as compared to 64.7% in 2004/05.

Following the adoption of HKAS 39 and the launch of more affinity cards and marketing programs, net interest income from credit card operation recorded an increase of HK$100.6 million, from HK$266.4 million in 2004/05 to HK$367.0 million in 2005/06. Since no additional gain was recorded on further sales of credit card receivables this year, coupled with the increase in revaluation loss on the interest-only strips, credit card securitisation income dropped from HK$186.5 million in 2004/05 to HK$1.0 million in 2005/06. The pick up of cash advance transactions and the increase in late payment charges had resulted in the increase in other operating income from credit card operation by 40.3% from HK$81.4 million in 2004/05 to HK$114.2 million. With a drop in the impairment losses and impairment allowances from HK$249.6 million in 2004/05 to HK$182.3 million in 2005/06, operating results from credit card operation recorded an increase by 5.3% from HK$284.8 million in 2004/05 to HK$299.9 million in 2005/06.

With the higher usage of card instalment plan, there was a decrease in hire purchase sales, resulting in the drop in interest income and other operating income from hire purchase transactions by 35.0% from HK$7.2 million in 2004/05 to HK$4.7 million in 2005/06. However, there was a release of impairment allowances of HK$1.4 million in 2005/06 as compared with an impairment loss of HK$4.4 million in 2004/05. As a result, the operating results from hire purchase operation increased from HK$2.8 million in 2004/05 to HK$6.1 million in 2005/06.

With the gradual recovery of the economic situation and the availability of positive data from credit bureau, the Company is active in further developing its personal loan business. Together with the use of new marketing channels, personal loan sales continued to record a stable growth in the reporting year. Net interest income from instalment loan operation recorded an increase of 24.8% or HK$51.7 million, from HK$208.4 million in 2004/05 to HK$260.1 million in 2005/06. The increase in sales also helped to boost up certain related charges, resulting in an increase in other operating income by 99.3% from HK$9.1 million in 2004/05 to HK$18.2 million in 2005/06. Although there was an increase in impairment losses and impairment allowances from HK$61.0 million in 2004/05 to HK$70.5 million in 2005/06, operating results from instalment loan operation recorded an increase of HK$51.2 million as compared with HK$156.6 million in 2004/05 to HK$207.8 million in 2005/06.

COMPETITIVE ADVANTAGES

Synergy

The Company continued to benefit from the strong connections with affiliated merchants by launching various affinity cards and using the merchants' networks as card acquisition base resulting in the continuous growth in the number of cardholders.

Know-how and Expertise

ÆON Credit Service Co., Ltd. has extensive know-how and expertise in the consumer finance industry and brings in innovative ideas on the marketing and card acquisition programs.

Customer Base

The customer base of the Company is widely diversified. Using merchant networks as the card acquisition base, the Company had launched several new affinity cards to capture new customer sectors. The new cardholders recruited in this financial year were mainly through the affinity cards related to merchants in the retail, catering and beauty sectors. Around 60% of the customers are in the age range of 26 to 45, out of which 40% are young generation. With the launch of more affinity cards, the percentage of female cardholders is 65%.

Convenient Service

In providing consumer credit services to customers, the Company emphasises on convenience. For ease of payment, customers can settle their payments via branch counters, convenience stores networks, phone banking, internet banking and ATM network. Customers can also have easy access to speedy and convenient cash advance and personal loan services via the extensive ATM networks in Hong Kong and Guangdong Province in China as well as the Company's branch network and the call centres in Hong Kong and Shenzhen. For card spending, 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

DIRECTORS

Mr. Yoshiki MORI, aged 55, 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 ÆON Co., Ltd., which he joined in 1973. He is the president and a founder of ÆON Credit Service Co., Ltd., established in 1981. He is also a director of AEON Thana Sinsap (Thailand) Co., Ltd. and AEON Information Service (Shenzhen) Co., Ltd. Mr. Mori graduated from Nanzan University with a Bachelor's degree in Economics.

Mr. Masanori KOSAKA, aged 49, was appointed an Executive Director of the Company on 25th April 2002 and 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 ÆON Credit Service Co., Ltd. in 1981. He is a director of AEON Information Service (Shenzhen) Co., Ltd. Mr. Kosaka graduated from Kyoto Sangyo University with a Bachelor's degree in Law.

Mr. LAI Yuk Kwong, aged 43, was appointed an Executive Director of the Company on 16th June 1999. Mr. Lai is also the qualified accountant of the Company. He joined the Company in July 1996. Mr. Lai graduated from Hong Kong Polytechnic University with a Professional Diploma in Accountancy. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and the ITAccountants Association, and an associate member of the Institute of Chartered Accountants in England & Wales. Mr. Lai had worked with an international audit firm for six years.

Ms. KOH Yik Kung, aged 50, was appointed an Executive Director of the Company on 21st June 2001. Ms. Koh is also the Company Secretary and in-house counsel. 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 49, was the Managing Director of the Company from June 1990 to June 2002 and re-designated as Non-executive Director of the Company on 20th June 2002. Mr. Kamitani is the senior managing director of ÆON Credit Service Co., Ltd., which he joined in 1982. He is also a director of AEON Thana Sinsap (Thailand) Co., Ltd. Mr. Kamitani graduated from Ritsumeikan University with a Bachelor's degree in Management.

Mr. TSANG Wing Hong, aged 79, was appointed an Independent Non-executive Director on 26th June 1995. Mr. Tsang was a member of the Banking Advisory Committee from 1991 to 1993. He is a member of the Board of Trustees of United College, Chinese University of Hong Kong. Mr. Tsang has over 35 years of experience in the banking industry.

Mr. WONG Hin Wing, aged 43, was appointed an Independent Non-executive Director on 13th October 2004. Mr. Wong holds a Master's degree in Executive Business Administration from Chinese University of Hong Kong. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Hong Kong Institute of Directors and the Association of Chartered Certified Accountants, as well as a member of the American Institute of Certified Public Accountants. He is also a fellow member of the Institute of Chartered Secretaries and Administrators and a member of the Securities Institute in the United Kingdom. Mr. Wong is currently the chief executive officer and responsible officer of Legend Capital Partners, Inc., a licensed corporation under the Securities and Futures Ordinance. Mr. Wong has over 22 years of experience in accounting, finance, investment management and advisory.

Directors and Senior Management Profile

SENIOR MANAGEMENT

Mr. Ivan S. C. WONG, aged 46, is the General Manager of the Internal Operations Division. He joined the Company in May 1996. He is a director of AEON Information Service (Shenzhen) Co., Ltd. Mr. Wong holds a Bachelor's degree in Business Administration from Royal Melbourne Institute of Technology University and a Diploma in Management Studies from Hong Kong Polytechnic University. Prior to joining the Company, he worked for a major bank in Hong Kong for 10 years.

Mr. Ban S. P. PAN, aged 38, 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 45, 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 47, is the General Manager of the Accounts Control Division. He joined the Company in April 1998. Mr. Lei holds a Bachelor's degree in Economics from St. Francis Xavier University. Prior to joining the Company, he worked for a major U.S. bank in Hong Kong.

Mr. Barry K. S. FUNG, aged 43, 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 44, is the General Manager of the Information Systems 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 42, 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 37, is the Financial Controller of the Company. She joined the Company in April 1995. Ms. Chan holds a Professional Diploma in Accountancy from Hong Kong Polytechnic University. She is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants.

Corporate Governance Report

The Company is committed to maintaining a high standard of corporate governance to balance the interests of shareholders, customers and employees. The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting year ended 20th February 2006, except for the deviations explained in the following relevant paragraphs.

Directors' Securities Transactions

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

Board of Directors

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

As at the date of this report, the Board comprises seven members, consisting of three executive directors and four non-executive directors, out of which two are independent non-executive directors. The number of independent non-executive directors falls below the minimum number required under Rule 3.10(1) of the Listing Rules following the demise of Dr. Shao You Bao, an independent non-executive director, on 12th March 2006. The Company will make every effort to appoint a sufficient number of independent non-executive directors within the prescribed period.

The non-executive directors bring a wide range of expertise and knowledge in the banking and consumer finance sector to the Company. The independent non-executive directors are persons with extensive experience as well as academic and professional qualifications in the fields of banking and accounting. They provide valuable advice to the Board towards the effective discharge of its duties and responsibilities. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

The Company has in place established Board process. Regular Board meetings are scheduled one year in advance and held at least four times a year, and, if necessary, additional meetings will be arranged. At least 14 days notice of all Board meetings is given to all directors and they can include matters for discussion in the agenda if the need arises. The agenda and the accompanying Board materials are normally sent to all directors three days in advance of the Board meetings to facilitate informed discussion and decision-making. Member of the senior management are invited to attend Board meetings to make presentations or answer the Board's enquiries.

The Company Secretary is responsible for taking minutes of the Board and committee meetings, which will be sent to all directors for their comments within a reasonable time after each meeting. Minutes of Board and committee meetings are kept by the Company Secretary and will be opened for inspection by the directors upon request. All directors have access to the advice and services of the Company Secretary, and are allowed to seek external professional advice if so required. The Company Secretary continuously updates all directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and maintain good corporate governance practice.

Newly appointed directors will be given an orientation package including key legal requirements and the Company's policies and guidelines. Executive directors and senior management will meet with the new directors to provide them with more detailed knowledge of the Company's business and operations.

During the year, five regular board meetings were held, and details of directors' attendance record are set out below:

Name of director	**Board meeting attended**
Executive directors:	
Masanori Kosaka *(Managing Director)*	5/5
Lai Yuk Kwong	5/5
Koh Yik Kung	5/5
Non-executive directors:	
Yoshiki Mori *(Chairman)*	1/5
Kazuhide Kamitani	0/5
Yoichi Kimura*	2/5
Independent non-executive directors:	
Shao You Bao**	5/5
Tsang Wing Hong	3/5
Wong Hin Wing	5/5

* *resigned on 26th April 2006*

** *passed away on 12th March 2006*

Chairman and Chief Executive

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

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

Appointment and Re-election of Directors

The Company does not have a Nomination Committee. The Board as a whole is responsible for the procedure for agreeing to the appointment of its members and for nominating appropriate person for election by shareholders at the annual general meeting, either to fill a casual vacancy or as an addition to the existing directors.

The code provision A.4.1 of the Code provides that non-executive directors should be appointed for a specific term, subject to re-election. The code provision A.4.2 of the Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

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

The Company's Articles of Association provides that any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall hold office until the next following annual general meeting, which constitutes a deviation from the first sentence of the code provision A.4.2. The Company will put forward at the forthcoming annual general meeting a proposal to amend the Company's Articles of Association to comply with the first sentence of the code provision A.4.2 of the Code.

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

Remuneration Committee

The salary and annual incentive of the executive directors are determined by the Remuneration Committee. No director is involved in deciding his own remuneration.

As at the date of this report, the Remuneration Committee of the Company comprises one non-executive director and two independent non-executive directors, namely Mr. Yoshiki Mori, Mr. Tsang Wing Hong and Mr. Wong Hin Wing. The principal duties of the Remuneration Committee are to review and make recommendations to the Board for the individual remuneration packages for the executive directors and the senior management. The Remuneration Committee meets at least once a year, and its terms of reference are posted on the Company's website. The emoluments payable to the executive directors are decided with the objective to provide remuneration in form and amount, which will motivate and retain high calibre executives. Details of the directors' emoluments are set out in note 13 to the financial statements.

The Remuneration Committee held two meetings for the year ended 20th February 2006, during which the Committee determined the remuneration policy for the executive directors and senior management and reviewed the remuneration for the executive directors. Details of attendance record of members of the Remuneration Committee are set out below:

Name of member	Remuneration Committee meeting attended
Shao You Bao *(Chairman)*	2/2
Yoshiki Mori	1/2
Yoichi Kimura	1/2
Tsang Wing Hong	1/2
Wong Hin Wing	2/2

Audit Committee

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

The Audit Committee held four meetings for the year ended 20th February 2006, and the meetings were attended by external auditors and the qualified accountant for the purposes of assessing and reviewing the scope of audit work, the Company's financial statements, the external auditors' audit plan, the Company's internal control and recommending to the Board the appointment of external auditors. Details of attendance record of members of the Audit Committee are set out below:

Name of member	**Audit Committee meeting attended**
Shao You Bao *(Chairman)*	4/4
Yoshiki Mori	1/4
Yoichi Kimura	2/4
Tsang Wing Hong	2/4
Wong Hin Wing	4/4

Internal Control

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

The internal control system of the Company includes a defined management structure with specified limits of authority. The Board has clearly defined the authorities and key responsibilities of each division to ensure adequate checks and balances. The internal control system has been designed to safeguard the Company's assets against unauthorized use or disposition; to ensure the maintenance of proper accounting records for producing reliable financial information; and to ensure compliance with applicable laws, regulations and industry standard. Systems and procedures are laid down to identify, measure, manage and control different risks, including legal, credit, market, concentration, operational, environmental, behavioural and systematic risks that may have an impact on the consumer finance business in Hong Kong.

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

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

The Board is of the view that the system of internal controls in place for the year under review and up to the date of issuance of the annual report is sound and is sufficient to safeguard the interests of the shareholders, the customers, the employees and of the Company's assets.

Management of Risks

Credit risk management

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

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

Market risk management

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

The Company maintained a significant portion of its bank borrowings in long-term with fixed interest rates. 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.

Liquidity management

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

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

Capital management

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

Accountability and Audit

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Company and of the results and cash flow for that period. In preparing the accounts for the year ended 20th February 2006, the directors have selected suitable accounting policies and have applied them consistently, adopted appropriate Hong Kong Financial Reporting Standards which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable, and have prepared the accounts on the going concern basis.

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

Auditors' Remuneration

Deloitte Touche Tohmatsu has been reappointed as the Company's external auditors at the 2005 Annual General Meeting until the conclusion of the next Annual General Meeting.

During the year under review, a remuneration of HK$1,600,000 was paid to Deloitte Touche Tohmatsu for the provision of audit services. In addition, the following remunerations were paid to Deloitte Touche Tohmatsu for the provision of non-audit related services to the Company:

Services rendered	**Fees**
	HK$'000
Taxation compliance	310
Agreed upon procedures	90
Advisory services on financial reporting	180
Total	580

Communication with Shareholders and Investors

The Board recognizes the importance of good communications with all shareholders. The Company establishes and maintains different communication channels with its shareholders through the publication of annual and interim reports and press release. Such information is also available on the Company's website.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. Directors, senior management and external auditors make an effort to attend the annual general meeting to address shareholders' queries. Separate resolutions are proposed at general meetings on each substantially separate issue, including the re-election of directors. An annual general meeting circular is distributed to all shareholders together with the annual report at least 21 days before the annual general meeting. The circular sets out the procedures for demanding a poll and also includes relevant details of proposed resolutions, including biography of each director standing for re-election.

At the Company's 2005 Annual General Meeting, the Chairman of the Board did not attend the meeting but appointed the Managing Director to chair the meeting. This constitutes a deviation from the code provision E.1.2 of the Code, which provides that the chairman of the board should attend the annual general meeting. The Managing Director, who took the chair, together with majority of the members of the Board and the Chairman of the Audit and Remuneration Committees were present at the meeting to answer shareholders' questions. The Chairman of the meeting explained the procedures for demanding a poll at the commencement of the meeting. All the resolutions at the meeting were dealt with on a show of hands and the Chairman of the meeting also indicated to the meeting the level of proxies lodged on each resolution after it had been dealt with on a show of hands.

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

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 20th February 2006.

PRINCIPAL ACTIVITIES

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

TOTAL DEBT-TO-EQUITY RATIO

At 20th February 2006, total debt-to-equity ratio was 2.02.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 20th February 2006 are set out in the income statement on page 45 of the annual report.

An interim dividend of 6.5 HK cents (2005: 5.5 HK cents) per share amounting to HK$ 27,220,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 11.5 HK cents (2005: 10.5 HK cents) per share to the shareholders on the register of members on 14th June 2006 amounting to HK$48,158,000, and the retention of the remaining profit of HK$110,735,000 for the year.

MAJOR CUSTOMERS

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

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately HK$45,722,000 on computer equipment, HK$2,515,000 on furniture and fixtures and HK$5,595,000 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 17 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

Non-executive directors:

Yoshiki Mori *(Chairman)*
Kazuhide Kamitani
Yoichi Kimura (Resigned on 26th April 2006)

Independent non-executive directors:

Shao You Bao (Passed away on 12th March 2006)
Tsang Wing Hong
Wong Hin Wing

In accordance with Article 102 of the Company's Articles of Association, all 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' INTERESTS IN SHARES

At 20th February 2006, 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, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, were as follows:

(a) The Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of the Company
Yoshiki Mori	280,000	0.07%
Masanori Kosaka	110,000	0.03%
Kazuhide Kamitani	1,045,000	0.25%
Shao You Bao	330,000	0.08%
Tsang Wing Hong	220,000	0.05%

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of ÆON Credit Japan
Yoshiki Mori	14,042	0.03%
Masanori Kosaka	3,032	0.01%
Kazuhide Kamitani	4,215	0.01%

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of ÆON Japan
Yoshiki Mori	6,000	0.01%
Yoichi Kimura	5,400	0.01%

DIRECTORS' INTERESTS IN SHARES (Cont'd)

(d) AEON Stores (Hong Kong) Co., Limited ("AEON Stores") – a fellow subsidiary of the Company

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

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Thana
Yoshiki Mori	1,500,000	0.60%
Masanori Kosaka	100,000	0.04%
Kazuhide Kamitani	500,000	0.20%

Other than the holdings disclosed above, none of the directors, chief executive and their associates, had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 20th February 2006.

CONNECTED TRANSACTIONS

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

(a) Pursuant to an agreement entered into between the Company and AEON Stores on 15th April 2005, the Company provided credit purchase facilities and hire purchase facilities to 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 certain credit cards issued by the Company, including AEON Jusco MasterCard, AEON Jusco American Express Credit Card, AEON Jusco Visa Card and other co-branded credit cards, and certain purchases made by customers which are financed by interest-free hire purchase facilities provided by the Company.

The total amount of commission received and receivable by the Company from AEON Stores for the year ended 20th February 2006 was HK$11,823,000, of which HK$9,358,000 is classified as interest income following the adoption of HKAS 39. The commission amount did not exceed the cap of HK$20,890,000 as disclosed in the Company's announcement dated 20th April 2005.

(b) The Company had entered into a service agreement with AEON Information Service (Shenzhen) Co., Ltd. ("AEON Shenzhen"), an associate, on 21st May 2003 and a supplemental agreement on 15th April 2005 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 2006 amounted to HK$11,066,000, which did not exceed the cap of HK$16,400,000 as disclosed in the Company's announcement dated 20th April 2005.

(c) The Company had entered into a number of licence agreements with AEON Stores for the operation of branches and ATMs inside the stores of AEON Stores under which the Company paid to AEON Stores a fixed monthly licence fee.

The total amount of licence fees paid and payable by the Company to AEON Stores for the year ended 20th February 2006 was HK$5,728,000.

CONNECTED TRANSACTIONS (Cont'd)

(d) The Company subscribed for 550 new shares in ACS Credit Management Co., Ltd. ("ACMC"), a fellow subsidiary, for a total cash consideration of HK$3,862,000 on 25th August 2005. Upon completion of the subscription, the Company owns 4.6% of the issued share capital of ACMC. The purpose of the transaction is to provide an opportunity for the acquisition of ACMC's know-how and expertise in the credit management industry, as well as providing for future co-operation between the Company and ACMC in expanding the Company's credit management business. Details of the transaction were disclosed in the Company's announcement dated 29th August 2005.

(e) The Company subscribed for 300,000 new shares in AEON Credit Service (M) Sdn. Bhd. ("ACSM"), a fellow subsidiary, for a total cash consideration of HK$1,865,000 on 12th September 2005. Upon completion of the subscription, the Company owns 2.5% of the issued share capital of ACSM. The purpose of the transaction is to bring good returns to the Company in the long run and thus enhancing the shareholders' value of the Company. Details of the transaction were disclosed in the Company's announcement dated 14th September 2005.

(f) The Company owns 12.2% of the issued share capital of AEON Credit Card (Taiwan) Co., Ltd. ("AEON Taiwan"), a fellow subsidiary. On 13th February 2006, the Company subscribed for 3,450,000 new shares in AEON Taiwan, which is in proportion to its shareholding in AEON Taiwan, for a total cash consideration of HK$8,365,000. The purpose of the transaction is to bring good returns to the Company in the long run and thus enhancing the shareholders' value of the Company. Details of the transaction were disclosed in the Company's announcement dated 13th February 2006.

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

The related party transactions as disclosed in note 45 to the financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.21 OF LISTING RULES

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 15th October 2004 includes a condition that ÆON Japan and ÆON 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.

SUBSTANTIAL SHAREHOLDERS

At 20th February 2006, the register of substantial shareholders' interests in shares and short positions required to be maintained under Section 336 of the SFO shows that the following shareholders had notified the Company to have an interest of 5% or more in the issued share capital of the Company:

Name	Number of shares	%
ÆON Co., Ltd. *(Note 1)*	277,288,000	66.22
ÆON Credit Service Co., Ltd. *(Note 2)*	217,514,000	51.94
Aberdeen Asset Management Plc and its Associates	25,486,000	6.09
Commonwealth Bank of Australia	25,163,000	6.01
FMR Corp.	22,975,600	5.49

Notes:

(1) ÆON Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 45.28% and 71.64% of the issued share capital of ÆON Credit Japan and AEON Stores respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by ÆON Credit Japan and AEON Stores respectively.

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

Other than as disclosed above, the Company has not been notified of any other interests representing 5% or more in the Company's issued share capital at 20th February 2006.

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$30,000.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

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

RETIREMENT BENEFITS SCHEME

Details of the Company's retirement benefits scheme are set out in note 43 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained a sufficient public float throughout the year ended 20th February 2006.

EVENT AFTER THE BALANCE SHEET DATE

Details of an event after the balance sheet date are set out in note 47 to the financial statements.

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

M. Kosaka

Masanori KOSAKA
Managing Director

Hong Kong, 26th April 2006

Auditors' Report

Deloitte.
德勤

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

We have audited the financial statements on pages 45 to 110 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 Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public 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 affairs of the Company as at 20th February 2006 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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 26th April 2006

Income Statement

For the year ended 20th February 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Turnover	6	**912,529**	878,359
Interest income		**741,447**	549,659
Interest expense	8	**(109,861)**	(85,421)
Net interest income		**631,586**	464,238
Credit card securitisation income	9	**983**	186,501
Other operating income	10	**132,847**	105,551
Other income (loss)	11	**4,690**	(1,251)
Operating income		**770,106**	755,039
Operating expenses	12	**(293,549)**	(262,341)
Operating profit before impairment allowances/ charge for bad and doubtful debts		**476,557**	492,698
Impairment losses and impairment allowances/ charge for bad and doubtful debts		**(251,318)**	(314,946)
Share of results in associates		**340**	(4,331)
Gain on deemed disposal of an associate		**–**	3,863
Profit before tax		**225,579**	177,284
Income tax expense	14	**(39,466)**	(31,411)
Profit for the year		**186,113**	145,873
Earnings per share	16	**44.44 cents**	34.83 cents

Balance Sheet

At 20th February 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Non-current assets			
Property, plant and equipment	17	**97,199**	84,848
Investment in an associate	18	**2,220**	1,971
Available-for-sale investments	19	**65,070**	–
Investment securities	19	**–**	11,295
Hire purchase debtors	21	**17,432**	25,773
Instalment loans receivable	22	**352,591**	283,309
Credit card receivables	23	**34,110**	3,450
Retained interests in securitisation trust	27	**–**	228,319
		568,622	638,965
Current assets			
Investments held for trading	20	**2,377**	–
Other investments	20	**–**	1,239
Derivative financial instruments	37	**12,894**	–
Hire purchase debtors	21	**117,804**	198,155
Instalment loans receivable	22	**704,343**	649,030
Credit card receivables	23	**2,039,438**	943,247
Prepayments, deposits, interest receivable and other debtors	25	**118,205**	100,878
Retained interests in securitisation trust	27	**456,639**	709,181
Time deposits	28	**107,071**	–
Bank balances and cash	29	**72,445**	97,511
		3,631,216	2,699,241
Current liabilities			
Creditors and accrued charges	30	**88,908**	79,356
Amount due to securitisation trust	27	**–**	45,855
Amount due to immediate holding company	32	**–**	4,440
Amount due to a fellow subsidiary	33	**34,628**	40,685
Amount due to ultimate holding company	34	**52**	50
Issued debt securities	35	**587,452**	–
Bank borrowings – repayable within one year	36	**661,000**	619,200
Bank overdrafts		**2,079**	1,356
Derivative financial instruments	37	**2,794**	–
Current tax liabilities		**33,077**	25,772
		1,409,990	816,714
Net current assets		**2,221,226**	1,882,527
Total assets less current liabilities		**2,789,848**	2,521,492

Balance Sheet

At 20th February 2006

	Notes	2006 HK$'000	2005 HK$'000 (restated)
Capital and reserves			
Issued capital	38	**41,877**	41,877
Share premium and reserves	39	**1,347,971**	1,222,515
		1,389,848	1,264,392
Non-current liabilities			
Bank borrowings – repayable after one year	36	**1,395,000**	1,255,000
Deferred tax liabilities	40	**5,000**	2,100
		1,400,000	1,257,100
		2,789,848	2,521,492

The financial statements on pages 45 to 110 were approved and authorised for issue by the Board of Directors on 26th April 2006 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Statement of Changes in Equity

For the year ended 20th February 2006

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Dividend reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 21st February 2004, as originally stated	41,877	227,330	270	–	–	37,689	876,461	1,183,627
Effect of changes in accounting policies *(Note 2A)*	–	–	–	–	–	–	(4,387)	(4,387)
As restated	41,877	227,330	270	–	–	37,689	872,074	1,179,240
Profit for the year, restated	–	–	–	–	–	–	145,873	145,873
Final dividend paid for 2003/04	–	–	–	–	–	(37,689)	–	(37,689)
Interim dividend paid for 2004/05	–	–	–	–	–	–	(23,032)	(23,032)
Final dividend proposed for 2004/05	–	–	–	–	–	43,970	(43,970)	–
At 20th February 2005, as restated	41,877	227,330	270	–	–	43,970	950,945	1,264,392
At 20th February 2005, as originally stated	41,877	227,330	270	–	–	43,970	955,800	1,269,247
Effect of changes in accounting policies *(Note 2A)*	–	–	–	–	–	–	(4,855)	(4,855)
As restated	41,877	227,330	270	–	–	43,970	950,945	1,264,392
Effect of changes in accounting policies *(Note 2A)*	–	–	–	–	(22,960)	–	(2,104)	(25,064)
At 21st February 2005, as restated	41,877	227,330	270	–	(22,960)	43,970	948,841	1,239,328
Gain on available-for-sale investments	–	–	–	12,479	–	–	–	12,479
Gain on cash flow hedges	–	–	–	–	23,118	–	–	23,118
Net income recognised directly in equity	–	–	–	12,479	23,118	–	–	35,597
Profit for the year	–	–	–	–	–	–	186,113	186,113
Total recognised income for the year	–	–	–	12,479	23,118	–	186,113	221,710
Final dividend paid for 2004/05	–	–	–	–	–	(43,970)	–	(43,970)
Interim dividend paid for 2005/06	–	–	–	–	–	–	(27,220)	(27,220)
Final dividend proposed for 2005/06	–	–	–	–	–	48,158	(48,158)	–
	–	–	–	12,479	23,118	4,188	110,735	150,520
At 20th February 2006	**41,877**	**227,330**	**270**	**12,479**	**158**	**48,158**	**1,059,576**	**1,389,848**

Cash Flow Statement

For the year ended 20th February 2006

	2006 HK$'000	2005 HK$'000 (restated)
OPERATING ACTIVITIES		
Profit before tax	**225,579**	177,284
Adjustments for:		
Interest income	**(22,564)**	–
Interest expense	**106,267**	85,421
Dividends received on available-for-sale investments/ investment securities	**(428)**	(433)
Net loss on disposal of property, plant and equipment	**558**	443
Unrealised gain on revaluation of investments held for trading/ other investments	**(1,138)**	(542)
Impairment loss recognised on investment securities	**–**	1,350
Gain on derivative financial instruments	**(4,110)**	–
Depreciation	**41,143**	31,240
Reversal of impairment allowances/allowance for bad and doubtful debts	**(45,992)**	(16,235)
Share of results in associates	**(340)**	4,331
Gain on deemed disposal of an associate	**–**	(3,863)
Operating cash flows before movements in working capital	**298,975**	278,996
Decrease in amount due from an associate	**91**	155
Decrease (increase) in hire purchase debtors	**94,125**	(53,874)
Increase in instalment loans receivable	**(105,559)**	(328,998)
(Increase) decrease in credit card receivables	**(1,102,460)**	41,224
Decrease (increase) in retained interests in securitisation trust	**480,861**	(22,219)
(Increase) decrease in prepayments, deposits, interest receivable and other debtors	**(20,195)**	25,056
Increase in creditors and accrued charges	**338**	38,372
(Decrease) increase in amount due to securitisation trust	**(45,855)**	4,198
(Decrease) increase in amount due to immediate holding company	**(4,440)**	3,477
(Decrease) increase in amount due to a fellow subsidiary	**(6,057)**	8,526
Increase in amount due to ultimate holding company	**2**	3
Cash used in operations	**(410,174)**	(5,084)
Tax paid	**(29,261)**	(43,777)
Interest paid	**(109,629)**	(85,386)
NET CASH USED IN OPERATING ACTIVITIES	**(549,064)**	(134,247)
INVESTING ACTIVITIES		
Dividends received	**428**	433
Proceeds from disposal of property, plant and equipment	**3**	2
Increase in cash reserve retained in securitisation trust	**–**	(1,750)
Purchase of property, plant and equipment	**(54,055)**	(43,932)
Increase in available-for-sale investments	**(14,092)**	–
NET CASH USED IN INVESTING ACTIVITIES	**(67,716)**	(45,247)

Cash Flow Statement

For the year ended 20th February 2006

	2006 HK$'000	2005 HK$'000 (restated)
FINANCING ACTIVITIES		
New bank loans raised	**8,552,700**	9,599,800
Repayment of bank loans	**(8,370,900)**	(9,370,200)
Increase in issued debt securities	**587,452**	–
Dividends paid	**(71,190)**	(60,718)
NET CASH FROM FINANCING ACTIVITIES	**698,062**	168,882
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**81,282**	(10,612)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**96,155**	106,767
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**177,437**	96,155
Being:		
Time deposits	**107,071**	–
Bank balances and cash	**72,445**	97,511
Bank overdrafts	**(2,079)**	(1,356)
	177,437	96,155

Notes to the Financial Statements

For the year ended 20th February 2006

1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. Its immediate holding company is ÆON Credit Service Co., Ltd. and its ultimate holding company is ÆON Co., Ltd., both companies are incorporated in Japan and listed on the main section of the Tokyo Stock Exchange. The address of the registered office and principal place of business of the Company is 37/F, The World Trade Center, 280 Gloucester Road, Causeway Bay, Hong Kong.

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

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

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Company has adopted all of the new and revised standards and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for accounting periods beginning on or after 1st January 2005. The adoption of these new and revised standards and interpretations has resulted in changes to the Company's accounting policies in the following areas that have affected the amounts reported for the current or prior years:

- financial instruments (HKAS 32 and HKAS 39); and
- investments in associates (HKAS 28).

The impact of these changes in accounting policies is discussed below. The impact on basic earnings per share is discussed in note 16.

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

HKAS 32 Financial Instruments: Disclosure and Presentation &
HKAS 39 Financial Instruments: Recognition and Measurement

In the current year, the Company has applied HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Company. HKAS 39, which is effective for annual periods beginning on or after 1st January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Interest income

In prior years, interest income was recognised in the income statement on an accrual basis, except in the case where a debt became doubtful at which stage interest ceased to be accrued. Interest income on instalment loans receivable was accounted for using the sum-of-digit method. Fees on loan origination were accounted for as and when they were receivable.

HKAS 39 requires loans and receivables to be subsequently measured at amortised cost after initial recognition. Interest income is recognised on a time-proportion basis using the effective interest method. The calculation includes all origination fees and commissions paid between parties to the contract that are an integral part of the effective interest rate, and transaction costs.

Interest income will continue to be recognised on impaired financial assets using the original rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

On application of HKAS 39, a reduction of HK$22,564,000 on interest income has been made to the Company's accumulated profits to reflect the adjustment on the principal of instalment loan and other receivables of HK$5,909,000 and HK$16,655,000 respectively. Moreover, this change has resulted in a decrease in interest income of HK$2,082,000 for the current year.

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

HKAS 32 Financial Instruments: Disclosure and Presentation &
HKAS 39 Financial Instruments: Recognition and Measurement (Cont'd)

Classification and measurement of financial assets

The Company has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 20th February 2005, the Company classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in the income statement. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 21st February 2005 onwards, the Company classifies and measures its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale investments", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale investments" are carried at fair value, with changes in fair values recognised in the income statement and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 21st February 2005, the Company classified and measured its investments in equity securities in accordance with the requirements of HKAS 39. Investment securities of HK$11,295,000 previously carried at cost are reclassified to available-for-sale investments and re-measured at fair value at 21st February 2005 upon the adoption of HKAS 39. An adjustment of HK$27,204,000 to the previous carrying amounts of assets at 21st February 2005 has been made to the Company's accumulated profits and will be included in the income statement upon disposal. Further revaluation gain of HK$12,479,000 has been made to the Company's investment revaluation reserve in the current year. Other investments of HK$1,239,000 are reclassified to investments held for trading and measured at fair value with fair value changes through the income statement.

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

HKAS 32 Financial Instruments: Disclosure and Presentation &
HKAS 39 Financial Instruments: Recognition and Measurement (Cont'd)

Derivatives and hedging

Derivatives arise from swap transactions are undertaken by the Company in the interest rate markets. By 20th February 2005, transactions undertaken for hedging purposes were accounted for on the same basis as the assets, liabilities or net positions that they were hedging. Any profit or loss was recognised in the income statement on the same basis as that arising from the related assets, liabilities or positions.

From 21st February 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments and, if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in the income statement for the year in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Company designates certain derivatives as hedging instruments to hedge against its exposure of interest rate movements. For cash flow hedges, changes in fair value of the effective portion of hedging instruments are recognised in equity and "recycled" into the income statement when the hedged items affect profit or loss. Changes in the fair value of the ineffective portion of hedging instruments are recognised directly in the income statement.

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

HKAS 32 Financial Instruments: Disclosure and Presentation &
HKAS 39 Financial Instruments: Recognition and Measurement (Cont'd)

Derivatives and hedging (Cont'd)

The Company has applied the relevant transitional provisions in HKAS 39. For hedges that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Company has, from 21st February 2005 onwards, discontinued the previous accounting treatments. For hedges that meet the requirements of hedge accounting set out in HKAS 39, the Company has, from 21st February 2005 onwards, applied hedge accounting in accordance with HKAS 39 to account for such hedges. For cash flow hedges that meet the requirements of hedge accounting set out in HKAS 39, the Company has, from 21st February 2005 onwards, applied cash flow hedge accounting. Interest rate swaps designated as effective cash flow hedging instruments are measured at fair value on 21st February 2005, and the difference between the previous carrying amount recognised on the balance sheet and the fair value on 21st February 2005, amounting to HK$22,960,000 is included in the Company's hedging reserve. On subsequent revaluation, HK$23,118,000 change in fair value of the effective portion of hedging instruments is recognised in equity in the current year. For derivatives that do not meet the requirements of hedge accounting, on 21st February 2005, the Company recognised the difference between the previous carrying amount recognised on the balance sheet and the fair value on 21st February 2005, amounting to HK$6,744,000, in the Company's accumulated profits which has subsequently been included in the current year's income statement upon the maturity of the swaps during the year.

Derecognition

HKSA 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous years. Under HKAS 39, a financial asset is derecognised, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Company has applied the relevant transitional provision and applied the revised accounting policy prospectively for transfers of financial assets under asset securitisations on or after 21st February 2005. As a result, the Company's credit card receivables transferred to a special purpose entity ("SPE") under asset securitisation, which were derecognised prior to 20th February 2005, have not been restated. Any new transfer of credit card receivables to the SPE after 21st February 2005 has not been derecognised and remained as credit card receivables in the Company's financial statements. This has resulted in a decrease in credit card securitisation income of HK$23,700,000 in the current year.

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

HKAS 32 Financial Instruments: Disclosure and Presentation &
HKAS 39 Financial Instruments: Recognition and Measurement (Cont'd)

Impairment of financial assets

In prior years, allowances for bad and doubtful debts were made against loans and receivables as and when they were considered doubtful by the management. In addition, an amount was set aside as a general allowance for bad and doubtful debts.

On adoption of HKAS 39, the Company assesses at each balance sheet date whether there is objective evidence that a loan/receivable or group of loans/receivables is impaired. Impairment allowances are made on loans and receivables when there is objective evidence of impairment as a result of the occurrence of certain loss events after the initial recognition of the loans and receivables, and these loss events will have impact on the estimated future cash flows of the loans and receivables.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan/receivable, whether significant or not, it includes the loan/receivable in a group of loans and receivables and collectively assesses them for impairment. Evaluation is made on a portfolio basis by reference to the credit risk characteristics that are indicative of borrowers' ability to pay all amounts in accordance with the contractual terms. Expected future cash flows of loans and receivables that are assessed collectively for impairment are estimated on the basis of prior loan loss experience.

This change has had no material effect on the results of the previous and current years.

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

HKAS 28 Investments in Associates

In prior years, investments in associates were stated at cost, as reduced by any identified impairment loss, and the results of associates were accounted for on the basis of dividends received or receivable during the year. On adoption of HKAS 28, investments in associates are accounted for using the equity method, with the cost of investments being adjusted by the share of the associates' post acquisition change in net assets. The Company's income statement reflects its share of the associates' post acquisition profit or loss. Dividends received from the associates reduce the carrying amount of the investments in associates. HKAS 28 has been adopted retrospectively and the comparative figures for 2004 have been restated to conform with the changed policy. Given that an investment in associate was reclassified to investment securities in the prior year upon dilution of the Company's interest from 20% to 12.2%, cumulative share of losses of an associate amounted to HK$5,829,000 has been adjusted to the carrying amount of investment securities. An adjustment to the previous carrying amount of investment in an associate of HK$974,000 on 20th February 2005 in respect of share of net asset with effect of equity accounting for an associate has been made to the Company's accumulated profits. Share of losses of associates of HK$4,331,000 have been restated in prior year's income statement. Share of current year's profit of an associate of HK$340,000 is recorded in the income statement.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effect of the application of the new HKFRSs on the balance sheet at 20th February 2005 and 21st February 2005 are summarised below:

	At 20th February 2005 (originally stated)	Effect of HKAS 28	At 20th February 2005 (restated)	Effect of HKAS 39	At 21st February 2005 (restated)
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Investment in an associate	997	974	1,971	–	1,971
Investment securities	17,124	(5,829)	11,295	(11,295)	–
Available-for-sale investments	–	–	–	38,499	38,499
Other investments	1,239	–	1,239	(1,239)	–
Investments held for trading	–	–	–	1,239	1,239
Instalment loans receivable	932,339	–	932,339	(5,909)	926,430
Prepayments, deposits, interest receivable and other debtors	100,878	–	100,878	(16,655)	84,223
Derivative financial instruments	–	–	–	(29,704)	(29,704)
Total effects on assets and liabilities	1,052,577	(4,855)	1,047,722	(25,064)	1,022,658
Hedging reserve	–	–	–	(22,960)	(22,960)
Accumulated profits	955,800	(4,855)	950,945	(2,104)	948,841
Total effects on equity	955,800	(4,855)	950,945	(25,064)	925,881

The financial effects of the application of the new HKFRSs to the Company's equity at 21st February 2004 are summarised below:

	At 21st February 2004 (As originally stated)	Effect of HKAS 28	At 21st February 2004 (restated)
	HK$'000	HK$'000	HK$'000
Accumulated profits	876,461	(4,387)	872,074

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Cont'd)

The effects of the changes in the accounting policies on the results for the current and prior years are as follows:

	2006 **HK$'000**	2005 HK$'000
Gains arising from fair value changes of derivative financial instruments	**6,744**	–
Net effect on fair value changes of interest-only strips and cash reserve account in the securitisation trust	**(23,700)**	–
Decrease in interest income upon adoption of effective interest method on hire purchase debtors, instalment loans receivable and credit card receivables	**(2,082)**	–
Share of results in associates using equity method	**340**	(468)
Decrease in income tax expense	**3,272**	–
Decrease in profit for the year	**(15,426)**	(468)
Decrease in earnings per share		
Basic	**3.68 cents**	0.12 cents

Analysis of the increase (decrease) in profit for the years ended 20th February 2006 and 2005 by line items presented according to their function:

	2006 **HK$'000**	2005 HK$'000
Decrease in interest income	**(2,082)**	–
Decrease in interest expense	**2,634**	–
Decrease in credit card securitisation income	**(23,700)**	–
Increase in other income	**4,110**	–
Share of results in associates	**340**	(468)
Decrease in income tax expense	**3,272**	–
Decrease in profit for the year	**(15,426)**	(468)

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES (Cont'd)

The Company has not early applied the following standards, interpretations and amendments that have been issued but are not yet effective. The directors anticipate that the application of the standards or interpretations will have no or any material impact on the financial statements of the Company.

HKAS 1 (Amendment)	Capital disclosures[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: Disclosures[1]
HK(IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK(IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK(IFRIC) – INT 6	Liabilities arising from participating in a specific market – waste electrical and electronic equipment[3]
HK(IFRIC) – INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[4]

[1] *Effective for annual periods beginning on or after 1st January 2007.*
[2] *Effective for annual periods beginning on or after 1st January 2006.*
[3] *Effective for annual periods beginning on or after 1st December 2005.*
[4] *Effective for annual periods beginning on or after 1st March 2006.*

In accordance with the provisions of paragraph 21A of HKAS 27 "Consolidated and Separate Financial Statements", only entities that fell within the definition of a subsidiary as set out in section 2(4) of the Companies Ordinance may be consolidated. Therefore, a special purpose entity which is not construed as the Company's subsidiary has not been consolidated. The effects on consolidation of the special purpose entity are presented in note 44 to the financial statements. The Companies (Amendment) Ordinance (the "Amendment Ordinance") amended the statutory definition of a "subsidiary" to make it more closely aligned with HKAS 27. As a result of the Amendment Ordinance, which will be effective for annual periods beginning on or after 1st January 2006, the Company will require to consolidate the special purpose entity for the financial year beginning on 21st February 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. In addition, the financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

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

Revenue recognition

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

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

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

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

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

Property, plant and equipment

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

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

Property, plant and equipment (Cont'd)

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

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

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

Investments in associates

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

The results and assets and liabilities of associates are incorporated in the financial statements using the equity method of accounting. Under the equity method, investments in associates are carried at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. The Company's income statement reflects its share of the associates' post-acquisition profit or loss. Dividends received from the associates reduce the carrying amount of the investments in associates.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing

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

The Company as lessee

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

The Company as lessor

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

Foreign currencies

Transactions in foreign currencies are recorded in the Company's functional currency at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. At the balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the income statement in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the income statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in associates, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated 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 that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Financial instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets

The Company's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss, loans and receivables, and available-for-sale investments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including investments held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in the income statement in the period in which they arise.

Loans and receivables

Loans and receivables (including instalment loans receivable, credit card receivables, prepayments, deposits, interest receivable and other debtors and bank deposits) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in the income statement when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan/receivable, whether significant or not, it includes the loan/receivable in a group of loans and receivables and collectively assesses them for impairment. Evaluation is made on a portfolio basis by reference to the credit risk characteristics that are indicative of borrowers' ability to pay all amounts in accordance with the contractual terms. Expected future cash flows of loans and receivables that are assessed collectively for impairment are estimated on the basis of prior loan loss experience.

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

Financial instruments (Cont'd)

Financial assets (Cont'd)

Loans and receivables (Cont'd)

Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale investments

Available-for-sale investments are non-derivatives that are either designated or not classified as any of the other categories under HKAS 39. At each balance sheet date subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognised in equity, with fair value adjustments on initial application of HKAS 39 accounted for in the accumulated profits and subsequent movements in fair value accounted for in the investment revaluation reserve. When the investment is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in the accumulated profits or investment revaluation reserve is removed and recognised in the income statement. Any impairment losses on available-for-sale investments are recognised in the income statement. Impairment losses on available-for-sale equity investments will not be reversed to the income statement in subsequent periods.

Financial liabilities and equity

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

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

Other financial liabilities including bank borrowings, issued debt securities, creditors and accrued charges, amounts due to immediate holding company, fellow subsidiary and ultimate holding company are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derivative financial instruments and hedging

The Company uses derivative financial instruments arise from swap transactions to hedge its exposure against interest rate movements. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

Hedges are classified as cash flow hedges when hedges are made to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

For cash flow hedges that qualify for hedge accounting, the effective portion of the gains or losses arising on the changes in fair value of hedging instruments is initially recognised in equity and "recycled" into the income statement when the hedged item affects profit or loss. The ineffective portion is recognised immediately in the income statement.

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

Derivatives that do not qualify for hedge accounting are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in the income statement.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in the income statement.

For financial liabilities, they are removed from the Company's balance sheet. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in the income statement.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Fair value measurement principles

The fair value of financial assets is based on their quoted market bid prices at the balance sheet date without any deduction for estimated future selling costs. If a quoted market price is not available, the fair value of financial assets is estimated using the discounted cash flow technique that provides a reliable estimate of prices, which could be obtained in actual market transactions. In applying the discounted cash flow technique, estimated future cash flows are based on management's best estimates of critical assumptions, which may include future income and expenses, credit losses, discount rates, yield curves and other factors.

Impairment losses on tangible assets

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

Impairment losses associated with securitised and derecognised credit card receivables are not reflected in the Company's impairment allowances. Such impairment 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 impairment allowances.

Asset securitisations

The Company securities various consumer financial assets, which generally results in the sale of these assets to a special-purpose entity, which in turn, issues securities to investors. Financial assets transferred on or before 20th February 2005 are partially or wholly derecognised when the Company gives up control of the contractual rights that comprise the financial assets.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Asset securitisations (Cont'd)

Interests in the securitised and derecognised 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.

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.

Retirement benefit costs

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical judgments in applying the Company's accounting policies

There are no significant effects on amounts recognised in the financial statements arising from the judgments used by the management in the process of applying the Company's accounting policies, which are described in note 3.

Key sources of estimation uncertainty

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

Impairment allowances on loans and receivables

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

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

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

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

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

Key sources of estimation uncertainty (Cont'd)

Asset securitisations

The Company securitised credit card receivables through a special purpose entity that was specifically set up for this transaction in 2002. For credit card receivables transferred under this transaction on or before 20th February 2005, the Company's retained residual interests are recorded as retained interests in securitisation trust and are comprised of interest-only strips, subordinated interests, seller interests and cash reserve account.

The interest-only strips and other residual interests recorded as retained interests in securitisation trust are carried at fair value. The key assumptions used in determining the fair value of interest-only strips and other residual interests as at the balance sheet date included the weighted average ranges for charge-off rates, principal repayment rates, lives of receivables and discount rates. The charge-off rates are determined using historical net-charge-offs for the pool calculated consistently with the Company's basis of charge-off computation. The principal repayment rate assumptions are determined using actual pool average principal repayment rates. The lives of receivables are determined as the number of months necessary to pay off the investors given the principal repayment rate assumptions. The discount rates are determined as reflective of what market participants would use in a similar valuation.

The key assumptions and estimates used in determining the value of interest-only strips and other residual interests are periodically reviewed to reduce any differences between estimates and actual experience.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's major financial instruments include equity investments, loans receivable, other assets, bank deposits, bank borrowings, other liabilities and issued debt securities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) ***Currency risk***

Certain equity investments of the Company are denominated in foreign currencies. As the amount is not material, the directors of the Company consider that the exposure on currency fluctuation is insignificant and the Company currently does not enter into any hedging activities to hedge for the foreign currency exposure.

(ii) ***Interest rate risk***

Fair value interest rate risk

The Company is exposed to fair value interest rate risk through the impact of rate changes on interest-bearing financial assets and interest-bearing bank borrowings. The fair value interest rate risk relates primarily to fixed-rate lending and borrowings. All interest-bearing financial assets are exposed to fair value interest rates risk only. The interest rates and terms of repayment of financial assets and bank borrowings of the Company are disclosed in notes 21, 22, 23 and 36.

Cash flow interest rate risk

The Company's cash flow interest rate risk primarily relates to floating-rate financial liabilities (see notes 35 & 36).

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Cont'd)

Market risk (Cont'd)

(iii) ***Price risk***

The Company's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. The Company is exposed to equity price risk through its available-for-sale investments and investments held for trading. The management will monitor the price movements and take appropriate actions when it is required.

Credit risk

The Company's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 20th February 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. The Company's credit risk is primarily attributable to its credit card receivables, instalment loans receivable and hire purchase debtors. In order to minimise the credit risk, the Company has established policies and systems for the monitoring and control of credit risk. The management of the Company has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of loans and receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Company's credit risk is significantly reduced.

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

The Company has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

6. TURNOVER

	2006	2005
	HK$'000	HK$'000
Interest income	**741,447**	549,659
Fees and commissions	**24,754**	37,436
Investment income from the seller and subordinated interests in securitisation trust	**146,328**	291,264
	912,529	878,359

7. 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

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

Segment information about these businesses is presented below:

2006

	Credit card HK$'000	Hire purchase HK$'000	Instalment loan HK$'000	Corporate and other operations HK$'000	Combined HK$'000
INCOME STATEMENT					
TURNOVER	608,244	9,703	292,381	2,201	912,529
RESULT					
Net interest income (expense)	367,020	4,646	260,066	(146)	631,586
Credit card securitisation income	983	–	–	–	983
Other operating income	114,152	47	18,220	428	132,847
Other income	–	–	–	4,690	4,690
(Increase in) reversal of impairment losses and impairment allowances	(182,264)	1,418	(70,472)	–	(251,318)
Segment results	299,891	6,111	207,814	4,972	518,788
Unallocated operating expenses					(293,549)
Share of results in an associate					340
Profit before tax					225,579
Income tax expense					(39,466)
Profit for the year					186,113
BALANCE SHEET					
ASSETS					
Total assets	2,587,285	135,427	1,083,192	393,934	4,199,838
LIABILITIES					
Segment liabilities	2,001,428	33,811	659,614	110,137	2,804,990
Unallocated corporate liabilities					5,000
Total liabilities					2,809,990
OTHER INFORMATION					
Additions to property, plant and equipment	–	–	–	54,055	54,055
Depreciation	–	–	–	41,143	41,143
Net loss on disposal of property, plant and equipment	–	–	–	558	558

7. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

2005 (restated)

	Credit card HK$'000	Hire purchase HK$'000	Instalment loan HK$'000	Corporate and other operations HK$'000	Combined HK$'000
INCOME STATEMENT					
TURNOVER	621,476	15,472	241,089	322	878,359
RESULT					
Net interest income (expense)	266,421	(7,363)	208,408	(3,228)	464,238
Credit card securitisation income	186,501	–	–	–	186,501
Other operating income	81,390	14,587	9,141	433	105,551
Other loss	–	–	–	(1,251)	(1,251)
Charge for bad and doubtful debts	(249,557)	(4,424)	(60,965)	–	(314,946)
Segment results	284,755	2,800	156,584	(4,046)	440,093
Unallocated operating expenses					(262,341)
Share of results in associates					(4,331)
Gain on deemed disposal of an associate					3,863
Profit before tax					177,284
Income tax expense					(31,411)
Profit for the year					145,873
BALANCE SHEET					
ASSETS					
Total assets	1,934,272	224,016	961,526	218,392	3,338,206
LIABILITIES					
Segment liabilities	956,152	214,767	743,658	157,137	2,071,714
Unallocated corporate liabilities					2,100
Total liabilities					2,073,814
OTHER INFORMATION					
Additions to property, plant and equipment	–	–	–	43,932	43,932
Depreciation	–	–	–	31,240	31,240
Net loss on disposal of property, plant and equipment	–	–	–	443	443

7. 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.

8. INTEREST EXPENSE

	2006 HK$'000	2005 HK$'000
Interest on bank borrowings and overdrafts wholly repayable within five years	**93,197**	85,421
Interest on issued debt securities wholly repayable within five years	**19,298**	–
	112,495	85,421
Gain arising on derivative financial instruments not in a designated hedge accounting relationship	**(2,634)**	–
	109,861	85,421

Included in the interest expense on issued debt securities wholly repayable within five years are amortisation of upfront costs of HK$3,594,000 (2005: HK$2,992,000 is included in interest on bank borrowings and overdrafts).

9. CREDIT CARD SECURITISATION INCOME

Credit card securitisation income represents the combined effect of 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. In prior year, credit card securitisation income includes gains on derecognition of credit card receivables upon sale.

10. OTHER OPERATING INCOME

	2006 HK$'000	2005 HK$'000
Fees and commissions	**24,754**	37,436
Handling and late charges	**86,013**	38,083
Servicer fee on credit card securitisation	**17,255**	26,714
Dividends received on available-for-sale investments/ investment securities	**428**	433
Others	**4,397**	2,885
	132,847	105,551

11. OTHER INCOME (LOSS)

	2006 HK$'000	2005 HK$'000
Net loss on disposal of property, plant and equipment	**(558)**	(443)
Unrealised gain on revaluation of investments held for trading/other investments	**1,138**	542
Gain on derivative financial instruments	**4,110**	–
Impairment loss recognised on investment securities	**–**	(1,350)
	4,690	(1,251)

12. OPERATING EXPENSES

	2006 HK$'000	2005 HK$'000 (restated)
Administrative expenses	**70,209**	61,068
Advertising expenses	**28,147**	20,934
Auditors' remuneration	**1,600**	1,280
Depreciation	**41,143**	31,240
Exchange loss	**61**	17
Operating lease rentals in respect of rented premises, advertising space and equipment	**46,462**	47,845
Other operating expenses	**29,883**	25,920
Staff costs	**76,044**	74,037
	293,549	262,341

Operating lease rentals in respect of staff quarters of HK$553,000 (2005: HK$505,000) are included in staff costs.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2005: nine) directors were as follows:

Name of director	Fees	Salaries and other benefits	Discretionary bonus	Mandatory provident fund contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2006					
Yoshiki Mori	–	–	–	–	–
Masanori Kosaka *(Note)*	–	1,422	400	12	1,834
Lai Yuk Kwong	–	1,188	120	12	1,320
Koh Yik Kung	–	1,560	20	12	1,592
Kazuhide Kamitani	–	–	–	–	–
Yoichi Kimura	150	–	–	–	150
Shao You Bao	260	–	–	–	260
Tsang Wing Hong	230	–	–	–	230
Wong Hin Wing	200	–	–	–	200
	840	4,170	540	36	5,586

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

(a) Directors' emoluments (Cont'd)

Name of director	Fees	Salaries and other benefits	Discretionary bonus	Mandatory provident fund contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2005					
Yoshiki Mori	–	–	–	–	–
Masanori Kosaka *(Note)*	–	1,302	500	11	1,813
Lai Yuk Kwong	–	1,152	200	12	1,364
Koh Yik Kung	–	1,560	–	12	1,572
Kazuhide Kamitani	–	–	–	–	–
Yoichi Kimura	150	–	–	–	150
Shao You Bao	250	–	–	–	250
Tsang Wing Hong	220	–	–	–	220
Wong Hin Wing	71	–	–	–	71
	691	4,014	700	35	5,440

Note: Operating lease rentals in respect of the director's accommodation of HK$342,000 (2005: HK$342,000) are included under salaries and other benefits.

(b) Employees' emoluments

During the year, the five highest paid individuals included three directors (2005: three directors), details of whose emoluments are set out above. The emoluments paid to the remaining two individuals (2005: two individuals) were as follows:

	2006	2005
	HK$'000	HK$'000
Salaries and other benefits	**1,698**	1,620
Discretionary bonus	**140**	159
	1,838	1,779

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

(b) Employees' emoluments (Cont'd)

The emoluments of the remaining two individuals (2005: two individuals) were within the following bands:

	2006	2005
	Number of employees	
Nil to HK$1,000,000	**2**	2

14. INCOME TAX EXPENSE

	2006	2005
	HK$'000	HK$'000
Provision for the year		
Hong Kong	**36,687**	47,712
(Over)underprovision in prior years		
Hong Kong	**(121)**	599
Deferred tax liabilities		
Current year *(note 40)*	**2,900**	(16,900)
	39,466	31,411

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

14. INCOME TAX EXPENSE (Cont'd)

The total charge for the year can be reconciled to the accounting profit as follows:

	2006	2005
	HK$'000	HK$'000
		(restated)
Profit before taxation	**225,579**	177,284
Taxation at the applicable rate of 17.5% (2005: 17.5%)	**39,476**	31,025
Tax effect of share of profit of an associate	**(59)**	82
Tax effect of expenses not deductible for tax purposes	**17**	147
Tax effect of income not taxable for tax purposes	**(659)**	(132)
(Over)underprovision in prior years	**(121)**	599
Others	**812**	(310)
Taxation for the year	**39,466**	31,411

15. DIVIDENDS

	2006	2005
	HK$'000	HK$'000
Paid:		
Final	**43,970**	37,689
Interim	**27,220**	23,032
	71,190	60,721
Proposed:		
Final	**48,158**	43,970

The final dividend of 11.5 HK cents (2005: 10.5 HK cents) per share has been proposed by the directors and will be paid to shareholders on 28th June 2006. This dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The proposed dividend is payable to all shareholders on the Register of Members on 14th June 2006.

16. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK$186,113,000 (2005: HK$145,873,000) and on the number of 418,766,000 (2005: 418,766,000) shares in issue during the year.

Impact of changes in accounting policies

Changes in the Company's accounting policies during the year are described in detail in note 2. To the extent that those changes have had an impact on results reported for 2006 and 2005, they have had an impact on the amounts reported for earnings per share. The following table summarises that impact on the basic earnings per share:

	2006	2005
	HK cents	HK cents
Figures before adjustments	**48.12**	34.95
Adjustments arising from changes in accounting policies	**(3.68)**	(0.12)
As reported/restated	**44.44**	34.83

17. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 21st February 2004	14,961	13,501	162,329	227	191,018
Additions	1,580	912	41,311	129	43,932
Disposals	(4,193)	(24)	(4,157)	(24)	(8,398)
At 21st February 2005	12,348	14,389	199,483	332	226,552
Additions	5,595	2,515	45,722	223	54,055
Disposals	(5,216)	(1,074)	(28,104)	(203)	(34,597)
At 20th February 2006	**12,727**	**15,830**	**217,101**	**352**	**246,010**
ACCUMULATED DEPRECIATION					
At 21st February 2004	13,603	9,279	95,330	205	118,417
Charge for the year	1,161	1,976	28,052	51	31,240
Eliminated on disposals	(4,110)	(24)	(3,795)	(24)	(7,953)
At 21st February 2005	10,654	11,231	119,587	232	141,704
Charge for the year	1,442	1,894	37,689	118	41,143
Eliminated on disposals	(4,866)	(1,019)	(27,948)	(203)	(34,036)
At 20th February 2006	**7,230**	**12,106**	**129,328**	**147**	**148,811**
CARRYING AMOUNT					
At 20th February 2006	**5,497**	**3,724**	**87,773**	**205**	**97,199**
At 20th February 2005	1,694	3,158	79,896	100	84,848

Following the adoption of HKAS 16 Property, Plant and Equipment, which is effective for the current accounting year, the Company has reviewed the residual values used for the purposes of depreciation calculations in the light of the amended definition of residual value in the standard. The review did not highlight any requirement for an adjustment to the residual values used in the current or prior periods. In line with the new requirements, these residual values will be reviewed and updated annually in the future.

18. INVESTMENT IN AN ASSOCIATE

	2006 HK$'000	2005 HK$'000 (restated)
Cost of unlisted investment in an associate	**1,000**	1,000
Share of post-acquisition profit	**1,314**	974
	2,314	1,974
Amount due to an associate	**(94)**	(3)
	2,220	1,971

Details of the Company's associate at 20th February 2006 are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
AEON Information Service (Shenzhen) Co., Ltd.	People's Republic of China	50%	25%	Provision of call center services

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

Summarised financial information in respect of the Company's associate is set out below:

Balance sheet	2006 HK$'000	2005 HK$'000
Total assets	**7,536**	6,796
Total liabilities	**(2,908)**	(2,848)
Net assets	**4,628**	3,948
Share of associate's net assets	**2,314**	1,974

Notes to the Financial Statements

For the year ended 20th February 2006

18. INVESTMENT IN AN ASSOCIATE (Cont'd)

Income statement	**2006**	2005
	HK$'000	HK$'000
Revenue	**13,669**	11,878
Profit for the year	**680**	1,288
Share of associate's profit for the year	**340**	644

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES

	2006	2005
	HK$'000	HK$'000
		(restated)
At fair value:		
Issued by corporate entities		
Listed shares		
Hong Kong	**13,853**	–
Overseas	**26,545**	–
Unlisted shares	**24,672**	–
	65,070	–
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	**–**	3,541
Overseas	**–**	2,753
Unlisted shares	**–**	5,001
	–	11,295
	65,070	11,295

19. AVAILABLE-FOR-SALE INVESTMENTS/INVESTMENT SECURITIES (Cont'd)

The investments included above represent investments in both listed and unlisted equity securities that offer the Company the opportunity for return through dividend income and fair value gains. They have no fixed maturity or coupon rate. The fair values of listed shares are based on quoted market prices. The fair values of unlisted shares are calculated by using discounted cash flow method based on the latest financial budgets prepared by the investees' management covering a period of 3 to 5 years. Budgeted net profits projections have been determined based on the historical records and the management's expectations for the growth potential and market development.

20. INVESTMENTS HELD FOR TRADING/OTHER INVESTMENTS

Investments held for trading/other investments represent shares listed overseas and are stated at fair value based on quoted market prices.

21. HIRE PURCHASE DEBTORS

	Minimum payments		Present value of minimum payments	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under hire purchase contracts:				
Within one year	**121,875**	206,790	**121,023**	206,123
In the second to fifth year inclusive	**18,157**	27,008	**17,832**	26,857
	140,032	233,798	**138,855**	232,980
Unearned finance income	**(1,177)**	(818)	**–**	–
Present value of minimum payments receivable	**138,855**	232,980	**138,855**	232,980

21. HIRE PURCHASE DEBTORS (Cont'd)

Analysed as:

	2006 HK$'000	2005 HK$'000
Due:		
Within one year	**121,023**	206,123
In the second to fifth year inclusive	**17,832**	26,857
	138,855	232,980
Impairment allowances/allowance for bad and doubtful debts		
– individually assessed	**(2,282)**	(3,516)
– collectively assessed	**(1,337)**	(5,536)
	(3,619)	(9,052)
	135,236	223,928
Current portion included under current assets	**(117,804)**	(198,155)
Amount due after one year	**17,432**	25,773

The Company enters into the hire purchase arrangements for customers. All hire purchase agreements are denominated in Hong Kong dollars. The term of hire purchase contracts ranges from 5 months to 3 years. The hire purchase debtors carry interest ranging from 11.1% to 14.8%. The directors consider the fair value of hire purchase debtors at 20th February 2006 approximates to the corresponding carrying amount.

22. INSTALMENT LOANS RECEIVABLE

	2006	2005
	HK$'000	HK$'000
Due:		
Within one year	**740,148**	699,684
In the second to fifth year inclusive	**370,515**	305,420
	1,110,663	1,005,104
Impairment allowances/allowance for bad and doubtful debts		
– individually assessed	**(33,307)**	(48,884)
– collectively assessed	**(20,422)**	(23,881)
	(53,729)	(72,765)
	1,056,934	932,339
Current portion included under current assets	**(704,343)**	(649,030)
Amount due after one year	**352,591**	283,309

The term of instalment loans ranges from 6 months to 5 years. All instalment loans receivable are denominated in Hong Kong dollars. The instalment loans receivable carry interest ranging from 10.3% to 48.8%. The directors consider the fair value of instalment loans receivable at 20th February 2006 approximates to the corresponding carrying amount.

23. CREDIT CARD RECEIVABLES

	2006	2005
	HK$'000	HK$'000
Due:		
Within one year	**2,106,260**	1,035,241
In the second to fifth year inclusive	**35,227**	3,786
	2,141,487	1,039,027
Impairment allowances/allowance for bad and doubtful debts		
– individually assessed	**(30,678)**	(67,642)
– collectively assessed	**(37,261)**	(24,688)
	(67,939)	(92,330)
	2,073,548	946,697
Current portion included under current assets	**(2,039,438)**	(943,247)
Amount due after one year	**34,110**	3,450

The Company enters into card instalment plans for customers. The term of card instalment plans ranges from 3 months to 2.5 years.

All credit card receivables are denominated in Hong Kong dollars. The credit card receivables carry interest ranging from 18.1% to 42.6%. The directors consider the fair value of credit card receivables at 20th February 2006 approximates to the corresponding carrying amount.

24. OVERDUE DEBTOR BALANCE

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

	2006		2005	
	HK$'000	**%***	HK$'000	%*
Overdue 1 month but less than 2 months	**64,785**	**1.9**	94,046	4.1
Overdue 2 months but less than 3 months	**24,396**	**0.7**	18,094	0.8
Overdue 3 months or above	**70,862**	**2.1**	84,570	3.7
	160,043	**4.7**	196,710	8.6

* *Percentage of total debtor balance*

25. PREPAYMENTS, DEPOSITS, INTEREST RECEIVABLE AND OTHER DEBTORS

	2006	2005
	HK$'000	HK$'000
Within one year	**121,073**	100,878
Impairment allowances	**(2,868)**	–
	118,205	100,878

The directors consider that the fair value of the Company's interest receivable and other debtors of HK$86,373,000 (2005: HK$85,786,000) at 20th February 2006 approximates to the corresponding carrying amount.

26. IMPAIRMENT ALLOWANCES/ALLOWANCE FOR BAD AND DOUBTFUL DEBTS

	2006	2005
	HK$'000	HK$'000
Balance at 21st February	**174,147**	190,382
Net charge to the income statement	**251,318**	314,946
Amounts written off	**(313,673)**	(340,655)
Recoveries	**16,363**	9,474
Balance at 20th February	**128,155**	174,147
Analysis by products as:		
Hire purchase debtors *(note 21)*	**3,619**	9,052
Instalment loans receivable *(note 22)*	**53,729**	72,765
Credit card receivables *(note 23)*	**67,939**	92,330
Prepayments, deposits, interest receivable and other debtors *(note 25)*	**2,868**	–
	128,155	174,147

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

	2006	2005
	HK$'000	HK$'000
Due:		
Within one year	**456,639**	709,181
In the second to fifth year inclusive	**–**	228,319
	456,639	937,500
Analysed as:		
Seller interest	**213,001**	316,317
Subordinated interest	**68,632**	284,643
Interest-only strips	**55,006**	216,540
Cash reserve account	**120,000**	120,000
	456,639	937,500

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

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

Amount due to securitisation trust of Nil (2005: HK$45,855,000) 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.

The directors consider that the fair value of the Company's seller interest and subordinated interest at 20th February 2006, estimated based on the present value of the estimated future cash flows discounted using prevailing market rate at the balance sheet date, approximates to the corresponding carrying amount.

28. TIME DEPOSITS

Time deposits carry fixed rates ranging from 3.6% to 3.7%. The fair value of time deposits at 20th February 2006 approximates to the corresponding carrying amount.

29. BANK BALANCES AND CASH

Certain bank balances carry prevailing market interest and the directors consider that the fair value of the Company's bank balances and cash at 20th February 2006 approximates to the corresponding carrying amount.

30. CREDITORS AND ACCRUED CHARGES

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

	2006	2005
	HK$'000	HK$'000
Current	**88,306**	78,695
Over 1 month but less than 3 months	**273**	309
Over 3 months	**329**	352
	88,908	79,356

The fair value of the Company's trade creditors and accrued charges at 20th February 2006 approximates to the corresponding carrying amount.

31. MATURITY PROFILE

	2006				
	3 months or less HK$'000	1 year or less but over 3 months HK$'000	4 years or less but over 1 year HK$'000	Over 4 years HK$'000	Total HK$'000
ASSETS					
Credit card receivables	2,012,043	94,217	35,227	–	2,141,487
Hire purchase debtors	46,628	74,395	17,832	–	138,855
Instalment loans receivable	226,932	513,216	364,822	5,693	1,110,663
Retained interests in securitisation trust	156,502	300,137	–	–	456,639
Time deposits	107,071	–	–	–	107,071
	2,549,176	981,965	417,881	5,693	3,954,715
LIABILITIES					
Issued debt securities	96,605	490,847	–	–	587,452
Bank borrowings	386,000	275,000	1,030,000	365,000	2,056,000
Bank overdrafts	2,079	–	–	–	2,079
	484,684	765,847	1,030,000	365,000	2,645,531

31. MATURITY PROFILE (Cont'd)

	2005				
	3 months or less HK$'000	1 year or less but over 3 months HK$'000	4 years or less but over 1 year HK$'000	Over 4 years HK$'000	Total HK$'000
ASSETS					
Credit card receivables	1,015,043	20,198	3,786	–	1,039,027
Hire purchase debtors	72,081	134,042	26,857	–	232,980
Instalment loans receivable	226,238	473,446	303,219	2,201	1,005,104
Retained interests in securitisation trust	423,832	285,349	228,319	–	937,500
	1,737,194	913,035	562,181	2,201	3,214,611
LIABILITIES					
Bank borrowings	439,200	180,000	965,000	290,000	1,874,200
Bank overdrafts	1,356	–	–	–	1,356
	440,556	180,000	965,000	290,000	1,875,556

32. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

The fair value of the amount due to immediate holding company at 20th February 2006 approximates to the corresponding carrying amount.

33. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

The fair value of the amount due to a fellow subsidiary at 20th February 2006 approximates to the corresponding carrying amount.

34. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

The fair value of the amount due to ultimate holding company at 20th February 2006 approximates to the corresponding carrying amount.

35. ISSUED DEBT SECURITIES

The issued debt securities are backed by credit card receivables in Hong Kong (the "Transaction"), with the carrying amount denominated in Hong Kong dollars. The revolving period of the Transaction will end in March 2006. The monthly interest of the issued debt securities is determined at 1-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.91% per annum during the revolving period, thus exposing the Company to cash flow interest rate risk. The average interest rates are 4.3% during the year.

The directors consider that the fair value of the Company's issued debt securities at 20th February 2006 approximates to the corresponding carrying amount.

36. BANK BORROWINGS

	2006	2005
	HK$'000	HK$'000
Bank loans, unsecured	**2,056,000**	1,874,200
The maturity of bank loans is as follows:		
Within one year	**661,000**	619,200
Between one and two years	**325,000**	275,000
Between two to five years	**1,070,000**	980,000
	2,056,000	1,874,200
Amount repayable within one year included under current liabilities	**(661,000)**	(619,200)
Amount repayable after one year	**1,395,000**	1,255,000

The carrying amounts of the Company's borrowings are denominated in Hong Kong dollars. The average interest rates are 5.1% during the year.

36. BANK BORROWINGS (Cont'd)

Bank loans of HK$850,000,000 (2005: HK$1,380,000,000) are arranged at fixed interest rates and expose the Company to fair value interest rate risk. Other borrowings are arranged at floating interest rates ranging from HIBOR plus 0.5% to 0.75% per annum, thus exposing the Company to cash flow interest rate risk.

The directors estimate the fair value of the Company's bank borrowings, by discounting their future cash flows at the market rate, to be as follows:

	2006	2005
	HK$'000	HK$'000
Bank loans	**2,032,137**	1,886,172

At 20th February 2006, the Company had available HK$360,000,000 (2005: HK$360,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

37. DERIVATIVE FINANCIAL INSTRUMENTS

Interest rate swaps

	2006		2005	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Interest rate swaps	**12,894**	**2,794**	–	–

The interest rate swaps with aggregate notional amount of HK$895,000,000 have fixed interest payments at an average rate of 4.3% for periods up until February 2011 and have floating interest receipts at an average rate of 0.3% plus HIBOR. Interest rate swaps are designated as cash flow hedging instruments from floating rates to fixed rates.

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

37. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Forward sale contracts

As a result of the securitisation transaction entered in September 2002, the Company has entered into forward sale 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 at fair values to the SPE from time to time in accordance with the terms of the agreement.

38. ISSUED CAPITAL

	Number of shares 2006 & 2005	Share capital 2006 & 2005 HK$'000
Ordinary shares of HK$0.1 each		
Authorised		
At beginning and end of year	1,000,000,000	100,000
Issued and fully paid		
At beginning and end of year	418,766,000	41,877

39. SHARE PREMIUM AND RESERVES

The Company's reserves available for distribution to shareholders at 20th February 2006 amounted to HK$1,107,734,000 (2005: HK$994,915,000), representing the aggregate of the dividend reserve and the accumulated profits.

40. DEFERRED TAX LIABILITIES

	2006	2005
	HK$'000	HK$'000
At 21st February	**2,100**	19,000
Charge (credit) for the year	**2,900**	(16,900)
At 20th February	**5,000**	2,100

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

	2006	2005
	HK$'000	HK$'000
Tax effect of temporary differences because of:		
Excess of tax allowances over depreciation	**16,000**	13,636
Impairment allowances/allowance for bad and doubtful debts	**(11,000)**	(9,468)
Gains on sales of credit card receivables and unrealised gains and losses on interest-only strips and cash reserve account in the securitisation trust	**–**	(2,068)
Net deferred tax liabilities	**5,000**	2,100

41. 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, advertising space and computer equipment which fall due as follows:

	2006	2005
	HK$'000	HK$'000
Within one year	**35,840**	21,931
In the second to fifth year inclusive	**44,641**	7,413
After five years	**3,132**	–
	83,613	29,344

41. OPERATING LEASE COMMITMENTS (Cont'd)

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

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. Last year, the Company exercised the option to purchase the computer equipment under one of the leases at HK$8,600,000. During the year, the Company exercised the option to renew the remaining 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 remaining lease falling due within one year of HK$1,650,000 (2005: HK$1,650,000). 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$1,650,000 (2005: HK$2,310,000) and Nil (2005: HK$3,300,000) respectively.

42. PLEDGE OF ASSETS

At 20th February 2006, the Company's issued debt securities were secured by credit card receivables of HK$804,999,000 (2005: Nil).

43. 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 statement of HK$2,348,000 (2005: HK$2,421,000) represents contributions payable to the MPF Scheme by the Company in respect of the current accounting period. At 20th February 2006, contributions of HK$415,000 (2005: HK$359,000) due in respect of the reporting period had not been paid over to the MPF Scheme.

44. EFFECTS ON CONSOLIDATION OF SPECIAL PURPOSE ENTITY ("SPE")

The Company securitised credit card receivables through the SPE that was specifically set up for this transaction. Proceeds received in this transaction were HK$850,000,000. The Company's continuing involvement was primarily limited to the retention of various security interests and servicing rights. With the adoption of HKAS 39, any new transfer of credit card receivables to the SPE after 21st February 2005 has not been derecognised and remained as credit card receivables in the Company's financial statements. As a result, related pre-tax gains during the year, including unrealised gains on retained interests (interest only strips and cash reserve accounts), recognised at the time of subsequent sales of credit card receivables were Nil (2005: HK$110,199,000).

At 20th February 2006, the Company had retained interests of HK$456,639,000 (2005: HK$937,500,000) 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 2006 in accordance with the provisions of paragraph 21A of HKAS 27 "Consolidated and Separate Financial Statements ".

In accordance with paragraph 42A of HKAS 27, 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 2006 had the exemption given in paragraph 21A of HKAS 27 not applied. In preparing the consolidated financial statements, the SPE has adopted all the new HKFRSs and there are no material effect on the results of the previous and current years.

44. EFFECTS ON CONSOLIDATION OF SPECIAL PURPOSE ENTITY ("SPE") (Cont'd)

Adjusted consolidated income statement for the year ended 20th February 2006:

	The Company HK$'000	Effect of consolidation of SPE HK$'000	Consolidated HK$'000
Turnover	912,529	42,550	955,079
Interest income	741,447	188,878	930,325
Interest expense	(109,861)	(21,118)	(130,979)
Net interest income	631,586		799,346
Credit card securitisation income	983	(983)	–
Other operating income	132,847	(20,635)	112,212
Other income	4,690		4,690
Operating income	770,106		916,248
Operating expenses	(293,549)	(1,125)	(294,674)
Operating profit before impairment allowances	476,557		621,574
Impairment losses and impairment allowances	(251,318)	(64,647)	(315,965)
Share of results in an associate	340		340
Profit before tax	225,579		305,949
Income tax expense	(39,466)	(14,500)	(53,966)
Profit for the year	186,113		251,983

44. EFFECTS ON CONSOLIDATION OF SPECIAL PURPOSE ENTITY ("SPE") (Cont'd)

Adjusted consolidated balance sheet at 20th February 2006:

	The Company HK$'000	Effect of consolidation of SPE HK$'000	Consolidated HK$'000
Non-current assets			
Property, plant and equipment	97,199		97,199
Investment in an associate	2,220		2,220
Available-for-sale investments	65,070		65,070
Hire purchase debtors	17,432		17,432
Instalment loans receivable	352,591		352,591
Credit card receivables	34,110		34,110
Pledged time deposits	–	120,000	120,000
	568,622		688,622
Current assets			
Investments held for trading	2,377		2,377
Derivative financial instruments	12,894		12,894
Hire purchase debtors	117,804		117,804
Instalment loans receivables	704,343		704,343
Credit card receivables	2,039,438	382,097	2,421,535
Prepayments, deposits, interest receivable and other debtors	118,205	42,492	160,697
Retained interests in securitisation trust	456,639	(456,639)	–
Deferred tax assets	–	7,017	7,017
Time deposits	107,071	130,448	237,519
Bank balances and cash	72,445		72,445
	3,631,216		3,736,631
Current liabilities			
Creditors and accrued charges	88,908	37,170	126,078
Amount due to a fellow subsidiary	34,628		34,628
Amount due to ultimate holding company	52		52
Issued debt securities	587,452	262,548	850,000
Bank borrowings – repayable within one year	661,000		661,000
Bank overdrafts	2,079		2,079
Derivative financial instruments	2,794		2,794
Current tax liabilities	33,077		33,077
	1,409,990		1,709,708
Net current assets	2,221,226		2,026,923
Total assets less current liabilities	2,789,848		2,715,545

44. EFFECTS ON CONSOLIDATION OF SPECIAL PURPOSE ENTITY ("SPE") (Cont'd)

	The Company HK$'000	Effect of consolidation of SPE HK$'000	Consolidated HK$'000
Capital and reserves			
Issued capital	41,877		41,877
Share premium and reserves	1,347,971	(69,303)	1,278,668
	1,389,848		1,320,545
Non-current liabilities			
Bank borrowings – repayable after one year	1,395,000		1,395,000
Deferred tax liabilities	5,000	(5,000)	–
	1,400,000		1,395,000
	2,789,848		2,715,545

44. EFFECTS ON CONSOLIDATION OF SPECIAL PURPOSE ENTITY ("SPE") (Cont'd)

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

	The Company HK$'000 (restated)	Effect of consolidation of SPE HK$'000	Consolidated HK$'000 (restated)
Turnover	878,359	9,181	887,540
Interest income	549,659	268,234	817,893
Interest expense	(85,421)	(11,722)	(97,143)
Net interest income	464,238		720,750
Credit card securitisation income	186,501	(186,501)	–
Other operating income	105,551	5,497	111,048
Other loss	(1,251)		(1,251)
Operating income	755,039		830,547
Operating expenses	(262,341)	(852)	(263,193)
Operating profit before charge for bad and doubtful debts	492,698		567,354
Charge for bad and doubtful debts	(314,946)	(56,785)	(371,731)
Share of results in associates	(4,331)		(4,331)
Gain on deemed disposal of an associate	3,863		3,863
Profit before tax	177,284		195,155
Income tax expense	(31,411)	(3,127)	(34,538)
Profit for the year	145,873		160,617

44. EFFECTS ON CONSOLIDATION OF SPECIAL PURPOSE ENTITY ("SPE") (Cont'd)

Adjusted consolidated balance sheet at 20th February 2005:

	The Company HK$'000 (restated)	Effect of consolidation of SPE HK$'000	Consolidated HK$'000 (restated)
Non-current assets			
Property, plant and equipment	84,848		84,848
Investment in an associate	1,971		1,971
Investment securities	11,295		11,295
Hire purchase debtors	25,773		25,773
Instalment loans receivable	283,309		283,309
Credit card receivables	3,450		3,450
Retained interests in securitisation trust	228,319	(228,319)	–
Deferred tax assets	–	24,417	24,417
Pledged time deposits	–	120,000	120,000
	638,965		555,063
Current assets			
Other investments	1,239		1,239
Hire purchase debtors	198,155		198,155
Instalment loans receivable	649,030		649,030
Credit card receivables	943,247	1,245,241	2,188,488
Prepayments, deposits, interest receivable and other debtors	100,878	33,620	134,498
Retained interests in securitisation trust	709,181	(709,181)	–
Time deposits	–	181,903	181,903
Bank balances and cash	97,511		97,511
	2,699,241		3,450,824
Current liabilities			
Creditors and accrued charges	79,356	809	80,165
Amount due to securitisation trust	45,855	(45,855)	–
Amount due to immediate holding company	4,440		4,440
Amount due to a fellow subsidiary	40,685		40,685
Amount due to ultimate holding company	50		50
Bank borrowings – repayable within one year	619,200		619,200
Bank overdrafts	1,356		1,356
Current tax liabilities	25,772		25,772
	816,714		771,668
Net current assets	1,882,527		2,679,156
Total assets less current liabilities	2,521,492		3,234,219

44. EFFECTS ON CONSOLIDATION OF SPECIAL PURPOSE ENTITY ("SPE") (Cont'd)

Adjusted consolidated balance sheet at 20th February 2005:

	The Company HK$'000 (restated)	Effect of consolidation of SPE HK$'000	Consolidated HK$'000 (restated)
Capital and reserves			
Issued capital	41,877		41,877
Share premium and reserves	1,222,515	(135,173)	1,087,342
	1,264,392		1,129,219
Non-current liabilities			
Bank borrowings – repayable after one year	1,255,000		1,255,000
Issued debt securities	–	850,000	850,000
Deferred tax liabilities	2,100	(2,100)	–
	1,257,100		2,105,000
	2,521,492		3,234,219

45. RELATED PARTY TRANSACTIONS

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

	Fellow subsidiaries		Immediate holding company		Ultimate holding company		Associate		AEON Education and Environment Fund Limited	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest received	**9,358**	–	**–**	–	**–**	–	**–**	–	**–**	–
Commission received	**2,465**	11,216	**–**	–	**–**	–	**–**	–	**–**	–
Dividend received	**249**	301	**–**	–	**–**	–	**–**	–	**–**	–
Licence fees received	**–**	–	**203**	203	**–**	–	**–**	–	**–**	–
Licence fees paid	**5,728**	5,385	**181**	–	**45**	45	**–**	–	**–**	–
Service fees paid	**–**	–	**–**	–	**–**	–	**11,066**	9,386	**–**	–
Donation	**–**	–	**–**	–	**–**	–	**–**	–	**–**	1,800
Subscription of new shares	**14,092**	–	**–**	–	**–**	–	**–**	–	**–**	–
Purchase of motor vehicle	**–**	–	**233**	–	**–**	–	**–**	–	**–**	–

Compensation of key management personnel

The remunerations of directors and other members of key management during the year were as follows:

	2006	2005
	HK$'000	HK$'000
Short-term benefits	**12,341**	11,842

The remunerations of directors and key executives are determined by the Remuneration Committee having regard to the Company's operating results, performance of individuals and market trends.

46. CAPITAL COMMITMENTS

	2006 HK$'000	2005 HK$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	**21,081**	8,789

47. EVENT AFTER THE BALANCE SHEET DATE

The Company entered into a shareholders' agreement on 6th March 2006 with ÆON Credit Japan for the establishment of a guarantee company in Beijing to mainly engage in the provision of credit guarantee services. The total capital commitment of the Company is approximately HK$39,000,000.