



## Annual Report 2006/07



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



未来由你想!

Stock Code : 900



Planting Seeds of Growth

We are AEON



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# Corporate Information

## Board of Directors

### *Executive Directors*

Masanori KOSAKA (*Managing Director*)  
LAI Yuk Kwong (*Deputy Managing Director*)  
KOH Yik Kung  
PAN Shu Pin, Ban  
Tomoyuki KAWAHARA  
FUNG Kam Shing, Barry

### *Non-Executive Directors*

Yoshiki MORI (*Chairman*)  
Kazuhide KAMITANI

### *Independent Non-Executive Directors*

TSANG Wing Hong  
WONG Hin Wing  
HUI Ching Shan

## Qualified Accountant

LAI Yuk Kwong

## Company Secretary

KOH Yik Kung

## Auditor

Deloitte Touche Tohmatsu  
*Certified Public Accountants*

## Share Registrar

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

## Major Bankers

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

## Registered Office

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

## Internet Address

Homepage: <http://www.aeon.com.hk>  
E-mail address: [info@aeon.com.hk](mailto:info@aeon.com.hk)

## Stock Code

900

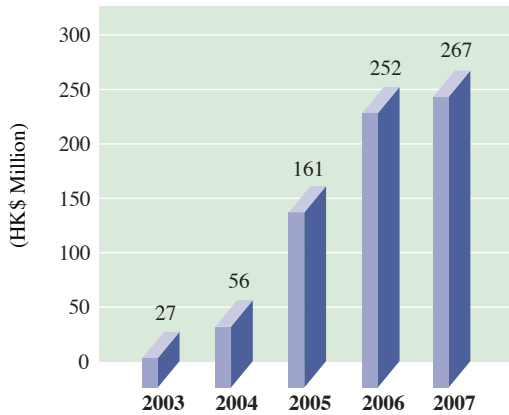
# Shareholders' Calendar

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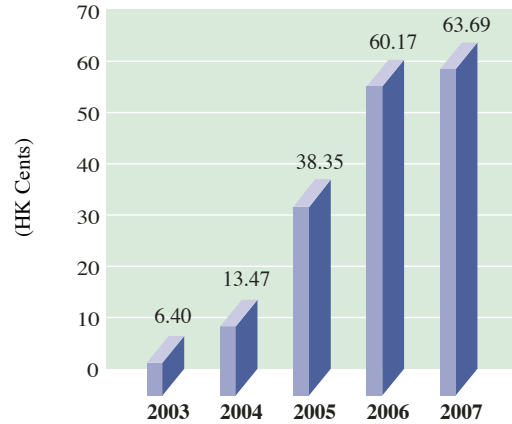
19th September 2006	Announcement of interim results
5th October 2006	Despatch of Interim Report
4th-11th October 2006	Book closing dates for interim dividend
13th October 2006	Payment of interim dividend of 8.5 HK cents per share
27th April 2007	Announcement of final results
18th May 2007	Despatch of Annual Report
11th-15th June 2007	Book closing dates for final dividend
15th June 2007	2007 Annual General Meeting
28th June 2007	Payment of final dividend of 17.5 HK cents per share

# Financial Summary

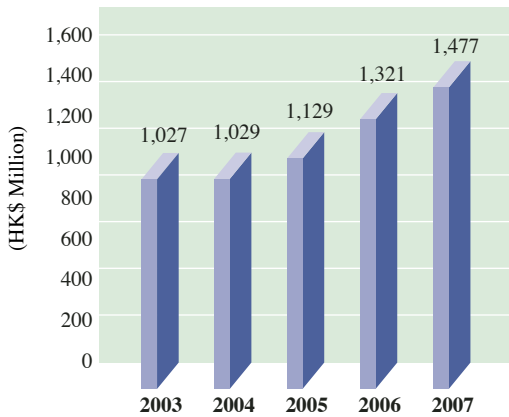
**Profit for the Year (note 1)  
ended 20th February**



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



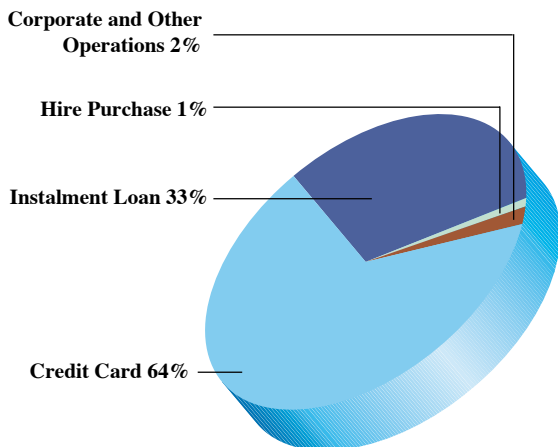
**Shareholders' Equity (note 3)  
at 20th February**



**Total Assets (note 4)  
at 20th February**



**Turnover (note 5)**



Notes:

1. Represents the consolidated profit for the financial years ended 20th February 2003, 2004, 2005, 2006 and 2007.
2. Represents the consolidated earnings per share for the financial years ended 20th February 2003, 2004, 2005, 2006 and 2007.
3. Represents the consolidated shareholders' equity at 20th February 2003, 2004, 2005, 2006 and 2007.
4. Represents the consolidated total assets at 20th February 2003, 2004, 2005, 2006 and 2007.
5. Represents the respective percentage of turnover by business segments for the financial year ended 20th February 2007.

# Financial Summary

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

<b>CONSOLIDATED RESULTS</b>					
	<b>For the year ended 20th February</b>				
	2003 (Restated) HK\$'000	2004 (Restated) HK\$'000	2005 (Restated) HK\$'000	2006 (Restated) HK\$'000	2007 HK\$'000
Turnover	<u>782,144</u>	<u>790,752</u>	<u>887,540</u>	<u>955,079</u>	<u>1,020,351</u>
Profit before tax	26,509	74,275	195,155	305,949	319,750
Income tax expense	<u>305</u>	<u>(17,888)</u>	<u>(34,538)</u>	<u>(53,966)</u>	<u>(53,054)</u>
Profit for the year	<u>26,814</u>	<u>56,387</u>	<u>160,617</u>	<u>251,983</u>	<u>266,696</u>
Earnings per share	<u>6.40 cents</u>	<u>13.47 cents</u>	<u>38.35 cents</u>	<u>60.17 cents</u>	<u>63.69 cents</u>
Dividend per share	<u>13.00 cents</u>	<u>14.00 cents</u>	<u>16.00 cents</u>	<u>18.00 cents</u>	<u>26.00 cents</u>
<b>CONSOLIDATED TOTAL ASSETS AND LIABILITIES</b>					
	<b>At 20th February</b>				
	2003 (Restated) HK\$'000	2004 (Restated) HK\$'000	2005 (Restated) HK\$'000	2006 (Restated) HK\$'000	2007 HK\$'000
Total assets	3,423,446	3,609,124	4,005,887	4,423,392	4,949,362
Total liabilities	<u>(2,396,250)</u>	<u>(2,579,981)</u>	<u>(2,876,668)</u>	<u>(3,102,847)</u>	<u>(3,472,368)</u>
Shareholders' equity	<u>1,027,196</u>	<u>1,029,143</u>	<u>1,129,219</u>	<u>1,320,545</u>	<u>1,476,994</u>

*Note:* The Hong Kong Institute of Certified Public Accountants has issued a number of new standards, amendments and interpretations ("new HKFRS") in the current year that are effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. Information on the change in accounting policy for the preparation of consolidated financial statements resulting from initial application of HKAS 27 (Revised) is provided in note 2 to the consolidated financial statements on pages 52 to 54. Financial information for 2003 to 2006 are restated to take into account the effect of the adoption of HKAS 27 (Revised).

# Chairman's Statement



**Yoshiki MORI**  
Chairman

In Japan, the credit card industry stands poised at a major turning point. Ongoing market expansion and increasing acceptance of new means of payment have gained momentum. At the same time, the Japanese Government has passed an amendment to the Money Lending Business Control and Regulation Law to standardise credit card charges in the market. These have posted both opportunity and challenges to the consumer finance industry in Japan.

In Hong Kong, the economy was robust in the past one year. Real GDP grew by 6.8% for the whole year and 7.0% for the fourth quarter, showing that the economy may still grow at a fast speed in the coming year. Under these circumstances, AEON Credit Service (Asia) Company

Limited (the "Company") has spared no efforts in strengthening its main business on one hand, and developing new business on the other. I am pleased to report that the Company and its subsidiaries (the "Group") reported a consolidated net profit of HK\$266.7 million, an increase of 5.8% when compared with last year.

## Performance of Core Business

As a result of the issuance of AEON UnionPay Credit Card and EGL JCB Card and together with the regular member recruitment exercises, number of active cards recorded a continuous increase in the past one year. Moreover, the Group has started to issue gold cards to widen its customer base targeting more prime customers. In addition, the Group has conducted a study on its competitiveness in card cashing service and follow up actions have been taken. We aim to be one of the most competitive service providers in the market.

During the year, sales channel has been widened through alliance with popular merchants to promote purpose loans. Together with its efforts in telemarketing and direct marketing, the Group is able to cross-sell different types of personal loans to existing customers to meet their needs.

It is the strategy of the Group to develop a strong merchant network which is the backbone for its business expansion. Intensive communication with merchants is crucial in creating synergy and developing products and services that fulfill customers' requirements. To facilitate such communication, the Group has opened seven new branches during the year, making a branch network of twenty-eight.

## New Business Development

Revenue from insurance related business has grown significantly during the year. Number of members who pay their insurance premium through credit cards has surpassed 20,000 and this number is still growing. The Group has recently set up a team specialising in the development of new insurance products and related business.



# Chairman's Statement

Servicer business is also gaining importance. The Group is now providing collection service to companies in the fields of telecommunications, banking, insurance, education and the like. We plan to extend this service to the People's Republic of China ("China") in the near future.

Meanwhile, China is a market that no one can ignore. As a first but important step to enter the consumer finance business in this market, the Group has set up a joint venture with its immediate holding company, *AEON* Credit Service Co., Ltd. ("ACS Japan"), to provide guarantee business in China. Service has been rolled out in April 2007 and necessary support has been given to this joint venture to ensure its successful operation.

## **Outlook**

The year ahead will be a challenging year for the Group. On one side, we have already noted growth in consumer spending and lending and also expected a continuous recovery in economic situation. On the other hand, realignment in the consumer finance industry has led to intensified competition following the emerging information technology and the reinforcement of retail strategies by major banking groups.

As the number of cardholders has reached a critical mass level, the Group will utilise this strong customer database to cross sell its products to different customer segments. The Group will also invest sufficiently to revamp its data warehouse. This is crucial to customer relationship management (CRM) which in turn is the platform for active direct marketing.

As part of its new marketing initiatives, the Group is intensely studying the feasibility of issuing 2-in-1 smartcard cum credit card and gift card. The Group will also reform its bonus point system to make its cards more attractive in the market. Moreover, the Group will continue to strengthen its alliance with its merchant to create a win-win situation. More branches will be opened during the year to give strong support to its merchants and to boost sales.

With all these measures, we aim to expand the Group's business further and increase its shareholders' value.

## **The Group's Philosophy**

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

# Chairman's Statement

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

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

We want to meet the expectations of our customers and shareholders, including important issues such as reliability, safety and security. For this reason, we are improving our systems for legal compliance and personal information protection.

We also promote social contribution through a broad range of activities, including forest protection, both in Japan and overseas. We conduct these activities through the *AEON* Environment Foundation, the *AEON* 1% Club and the Tokimeki Point Club, which are designed to promote charitable donations. Moreover, we will continue to implement other environmental protection measures by fostering employee-based volunteer activities and through our environmental management system.

With steady implementation of these major corporate strategies, we aim to offer more to our customers, shareholders and stakeholders.

## Acknowledgement

Achieving the growth of our Group over the years and at the same time upholding the public interest have always been the goals of the Board of Directors (the "Board") of the Company as well as the executives and staff. On behalf of the Board, I wish to extend my sincere thanks to our customers, business partners and shareholders for their continued support and for providing both incentive and inspiration to enhance the Group's competitiveness for long-term development.

森 美 樹

**Yoshiki MORI**

*Chairman*

Hong Kong, 27th April 2007

# Managing Director's Operational Review

## INTRODUCTION



**Masanori KOSAKA**  
*Managing Director*

On behalf of the Board, I am pleased to present to you the Annual Report of the Group for the year ended 20th February 2007.

The abundant liquidity in the stock market, the steady recovery of the property market, as well as the growth in inbound tourists and related retail industries, helped to further move the unemployment rate in Hong Kong to a six-year low of 4.4 per cent. Benefiting from this strong economic growth, the consumer market was on a steady upward trend in the past one year. However, the uncertain US interest rate outlook and growing domestic inflation in Hong Kong have posed additional challenges to the local financial industry.

For the year ended 20th February 2007, the Group reinforced its core business performance and strived for new business opportunities on strengthened foundations. On the financial side, benefiting from the continued recovery in the economic situation, the Group achieved a surge in sales volume by 16.0%, an increase in operating income by 6.7% and a growth in net profit by 5.8%. To mark the Company's 20th anniversary, the Board decided to increase the dividend amount to 26.0 HK cents, with 5.0 HK cents being ear-marked for this special event. On the operating side, to capture new market segment, AEON UnionPay Credit Card and EGL JCB Card were launched during the year targeting frequent China travellers and high spending travellers. On information security management, the Group has obtained the certifications of ISO9001 and ISO10002 for quality management on customer satisfaction and complaint handling.

## OPERATIONAL REVIEW

### Marketing

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

On credit card business, the Group had designed tailor-made card acquisition programs with its affinity partners to increase card base and card usage. To capture new market segment, AEON UnionPay Credit Card and EGL JCB Card were launched during the year targeting frequent China travellers and high spending travellers. The unique features of these cards have been widely accepted by the consumers.



*New cards issued during the year*

# Managing Director's Operational Review



*Marketing programs with leading merchants*

In addition to private sale, catalogue sale and lucky draws, the Group had also launched new spending campaigns with leading merchants, such as Hutchison 3G, KFC, Delifrance and SUNDAY, to boost up recurrent transactions and activate sleeping customers. Card credit purchase sales had increased by 20.0% when compared with last year. With the continuous extension of ATM network

along transportation areas, inside shopping centres and also in China, and together with promotion programs, card cash advance sales had continued to pick up and recorded a growth of 5.4% in the reporting year.

With the recovery of the economic situation, the Group saw a strong growth in the turnover of personal loans. The Group has stepped up its efforts in telemarketing and direct marketing and has widened its sales channel through alliance with popular merchants to promote different types of purpose loans to suit customers' needs. As a result, personal loan sales recorded another year of increase by 24.1% when compared with the previous year.

## **Branch and ATM network**

To extend the service coverage for card and personal loan business, seven new branches have been opened in Aberdeen, Yau Ma Tei, Cheung Sha Wan, Sheung Wan, Tsim Sha Tsui, Sheung Shui and Sky Plaza in Chek Lap Kok Airport, bringing the branch network to twenty-eight branches at 20th February 2007. Moreover, new branches at Sheung Wan, Tsim Sha Tsui and Sky Plaza have adopted new branch design elements to strengthen brand image. These newly set up branches are additional sales force to perform target marketing, cross selling and discount merchant recruitment.



*Sky Plaza branch*

In addition, the Group has successfully entered the MTR area and so far installed new ATMs in seven stations. Together with other ATMs in convenience stores and shopping centres, this creates a widely extended network for customers' easy access to cash advance service.

# Managing Director's Operational Review

## Customer Service



*Customer service*

With the installation of new interactive voice telephone system (IVRS) in the first half of 2006, the Group has automated the distribution of calls received based on skill level of operators and perform real time monitoring to improve the accuracy and efficiency of response to customers' enquiries. Moreover, the Group has successfully obtained the certifications of ISO 9001 for quality management on customer satisfaction and ISO 10002 for complaint handling management. This marks a step forward for the Group in ensuring quality service for its customers.

To diversify its services, the Group has offered personal accident and health products insurance at a special price to its customers. In addition, the Group has set up automated telephone registration service for lucky draw activities and provides flexibility for customers to enjoy these programs.

## PROSPECTS

It is anticipated that the healthy upward trend of domestic consumption will continue to improve the labour market and maintain a low unemployment rate. With the strengthening economy and capital market, together with the tax relief, demand for consumer finance is forecast to escalate. On the other hand, the challenges ahead for the market players will be the keen competition and increasing operating costs. Under this optimistic and competitive business environment, the Group will continue to expand its market segment for credit card and loan products, improve service quality, expand service coverage areas and maximize the returns of its shareholders.

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

Moreover, this year is the 20th anniversary of the Company. The Group will actively strengthen its brand image in the market as providing better life quality for customers and also as a responsible corporate citizen. To this end, the Group will continue to launch new innovative products and services in the market.

# Managing Director's Operational Review

## Diversification of Market Segments

Besides offering the facilities to finance the purchase of consumer products and dining, the Group will extend new card and loan products to cover service and events. Since co-branded cards can offer value-added benefits to cardholders and create a unique image for merchants, the Group will continue tie up with leading business partners to issue new co-branded cards to capture new customer segments and widen its distribution network. The launch of EGL JCB Card is an exercise to strengthen the card benefits offered to customers when they travel overseas. This year, the Group will line up with other service providers and issue co-branded cards to facilitate the cardholders to settle their service charges through credit cards at a special price.

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



*Purpose loan products*

## 20th Anniversary Promotion Programs



*20th anniversary lucky draw promotion*

This year marks the 20th anniversary of the Company's operation in Hong Kong. To celebrate this big event, the Group will launch a series of marketing initiatives directing towards card activation through the offering of lucky draws, attractive year-round merchant offers, seasonal merchant discounts and bonus point system. The first phase of 20th anniversary lucky draw promotion has commenced and is well-accepted by the customers.

Besides the above promotion activities, the Group will also hold tailor-made marketing programs with individual merchants to stimulate sales on the co-branded cards. These include private sale, spending campaigns and new member referrals.

The Group will further extend its collaboration with leading merchants to stimulate card spending. The Group has lined up with KFC, Hedgren and Hong Kong Student Travel to launch various sales programs on credit purchase in the coming months. Besides, the Group will continue to utilise its marketing forces to source new discount merchants in Hong Kong, Macau and China. The Group will also source for attractive products from overseas to be offered to our cardholders as bonus point redemption gifts or as special promotion items.



*Marketing programs on co-branded cards*

# *Managing Director's Operational Review*

## **Customer Satisfaction and Service Coverage Expansion**

A new hotline system will be implemented by the first half of 2007 and come with various enhancements including instant pop-up of customer information, call forwarding, real time customer contact history sharing and monitoring reports. This enables the operators to deliver courteous openings and share updated requests from customers. Moreover, AEON web site will further be enhanced with more functionalities and the offering of services in a secured environment will be added in the future.

For customers' convenience, the Group plans to launch 2-in-1 smartcard cum credit card to enable cardholders to perform credit purchase transactions at retail chains and vending machines in Hong Kong. The Group also plans to launch gift card to enable recipients to use the card to make purchases at any merchant outlets.

In the coming year, the Group plans to open four more branches, which will bring the branch network to thirty-two branches. This will create new channels for target marketing and foster closer co-operation with discount and affiliated merchants. To create a convenient network for cash advance usage, the Group will continue to extend its ATM network along the KCR and MTR areas and inside shopping centres. Moreover, the Group will enhance the functionality of its ATMs to perform instant cash advance instalment plans through credit cards.

## **Recurrent Transaction Promotions**

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

## **New Business Development**

By using its vast customer base, the Group has introduced catalogue sale on discounted products to its customers. This new source of business not only helps to generate additional revenue to the Group, it also helps to retain the loyalty of its customers. For insurance products, besides the existing personal accident and health products insurance plans, the Group will cooperate with its partners to introduce investment products, as well as new insurance products like child savings plan, family, golden age and ladies protection plans to cardholders.

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

# Managing Director's Operational Review

## China Business

The operation centre in Shenzhen now provides back-office operation on collection, customer service, risk management, telemarketing and judgment. As part of the Group's business continuity plan, an additional operation centre has been set up in Guangzhou as a back-up for the Shenzhen and Hong Kong call centres and also to provide 24 hour hot-line service.

Moreover, AEON Credit Guarantee (China) Co., Ltd., an associate, has commenced its operation on hire purchase guarantee business in April 2007. The Group will continue to make use of its expertise, know-how and experience in Hong Kong to assist those operations in Guangdong Province so as to capture the potential business opportunities upon opening up of the consumer finance market in China.



*Hire purchase guarantee business in China*

## Future

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

## SYSTEMS DEVELOPMENT



*Operation centres in Shenzhen and Guangzhou*

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

During the year under review, the Group has initiated a project to develop and implement a comprehensive business continuity plan strategy and arrangement, with the first phase covering major accounting operations being completed. Besides, the Group has enhanced the sharing of customer information between different operating systems and also the customer statements. To create a paperless operating environment and to strengthen data security, the Group has implemented application status management system (ASMS) and reduces the physical delivery of application forms from promotion counters to judgement centres. Other operating systems launched this year include card instalment plan for cash advance transactions and the set up of IC card with fingerprint recognition device for PC login.



# Managing Director's Operational Review

In the coming year, the Group will put continuous efforts to enhance the security of its operating systems. This includes the introduction of cyber warning alert system (CWAT) to monitor the network operation to prevent unauthorized user access and the set up of operating sub-systems to avoid unnecessary access to the core system. Moreover, operating systems for new product features in ATMs and new functionalities for the web site will be completed this year. Further upgrade is planned in judgement and data-warehouse so as to improve the operating efficiencies.

## HUMAN RESOURCES



*Corporate Games Competition*

The total number of staff as at 20th February 2007 and 20th February 2006 was 376 and 320 respectively. Employees are remunerated according to the job nature and market trends, with a built-in-merit component incorporated in the annual increment to reward and motivate individual performance. Apart from medical insurance and provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Company. The Company also provides in-house training 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 organise and promote various activities for the staff.

## CORPORATE SOCIAL RESPONSIBILITY

Over the years, we emphasise on three key words, “peace”, “people” and “community” in our Group’s philosophy. Besides striving hard to provide a reasonable return to our shareholders, the Group also aspires to be a responsible corporate citizen placing special attention on local community and environmental needs.

This year, the Company and staff volunteers had supported ORBIS by attending “ORBIS Pin Day Campaign 2006”. The Company was honored to receive the prize of “the third runner-up for the top five fund raising organisations” and our staff has received “the top individual fund raiser” under organisation category in this activity. To carry on the mission of planting seeds of growth, our staff joined the Hong Kong Tree Planting Day – the biggest tree planting event of Hong Kong attended by dignitaries and citizens from local and China. 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 AEON Education and Environment Fund (the “AEON Fund”).



*ORBIS Pin Day Campaign 2006*

To carry on the mission of planting seeds of growth, our staff joined the Hong Kong Tree Planting Day – the biggest tree planting event of Hong Kong attended by dignitaries and citizens from local and China. 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 AEON Education and Environment Fund (the “AEON Fund”).

# Managing Director's Operational Review



*Hong Kong Tree Planting Day*

Besides participating in the Hong Kong Tree Planting Day, the AEON Fund continued to support the Village Doctors Training Program in Yunnan Province and the partnership projects on campus greening, scholarship and research programs with Tsinghua University. A cheque presentation ceremony in January 2007 highlighted our commitment of sponsorship to World Vision Hong Kong for the construction of a high school in the rural area of Shanxi Province of China.

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 Group. I also wish to acknowledge the exemplary hard work carried out with commitment and passion at every level within the Group, especially the members of the Board for their diligent guidance and support. This work attitude and spirit bode well for the Group's long term prospects.



**Masanori KOSAKA**  
*Managing Director*

Hong Kong, 27th April 2007

# Management Discussion and Analysis

The private consumption in Hong Kong was on a steady upward trend throughout the year, on the back of improving employment incomes, along with a buoyant stock market and a stable property market. Consumer sentiment remained optimistic, especially with the pause in interest rate hikes. During the year under review, the Group continued to record a growth in credit card and personal loan business, despite market players moved aggressively into these sectors, resulting in an increase in the overall sales volume by 16.0% when compared with last year.

## CONSOLIDATED FINANCIAL STATEMENTS

As a consequence of the Companies (Amendment) Ordinance 2005 which amended the statutory definition of a “subsidiary” to make it more closely aligned with HKAS 27 (Revised), the Company is required to consolidate the special purpose entities under asset backed financing transactions and prepare consolidated financial statements for the current year. Comparative figures have been restated to conform to current year’s presentation.

## KEY FINANCIAL HIGHLIGHTS

For the financial year ended 20th February 2007, on an audited basis, profit before taxation was HK\$319.8 million, an increase of 4.5% when compared with last year. After deducting income tax expense of HK\$53.1 million, the Group achieved a profit growth of 5.8%, with net profit increased from HK\$252.0 million in the previous year to HK\$266.7 million. Earnings per share increased by 5.8% from 60.17 HK cents to 63.69 HK cents in 2006/07.

Operating revenue before interest expense for the year was HK\$1,122.1 million, as compared with HK\$1,047.2 million in 2005/06.

Operating income was HK\$977.3 million, an increase of HK\$61.1 million when compared with HK\$916.2 million in 2005/06. Operating expenses increased by 20.0% from HK\$294.7 million to HK\$353.7 million, with cost-to-income ratio increased to 36.2% from 32.2% in the previous year.

The Group’s impairment losses and impairment allowances decreased by 4.1% or HK\$12.9 million to HK\$303.1 million from HK\$316.0 million in the previous year.

With the higher volume of consumer loan transactions, total debtor balance increased by 14.5% or HK\$552.0 million, from HK\$3,803.1 million at 20th February 2006 to HK\$4,355.1 million at 20th February 2007.

Net asset value per share (after final dividend) at 20th February 2007 was HK\$3.4, as compared to HK\$3.0 at 20th February 2006.

The Board proposed the payment of a final dividend of 17.5 HK cents per share, out of which 5.0 HK cents per share is a special dividend to mark the Company’s 20th anniversary. Together with the interim dividend of 8.5 HK cents per share already paid, the total dividend for the year increased to 26.0 HK cents per share from 18.0 HK cents per share in 2005/06, representing a dividend payout ratio of 40.8%.

# Management Discussion and Analysis

## CONSOLIDATED INCOME STATEMENT ANALYSIS

### Operating Income

With the pick up in sales transactions, interest income increased by 6.1% from HK\$930.3 million in 2005/06 to HK\$987.4 million in 2006/07. With a slight drop in long term interest rate in the second half, the average funding cost moved down from 4.9% in the first half to 4.7% in the second half. The full year average funding cost was 4.8%, as compared to 4.7% in the previous year. With increase in funding requirement, interest expense was HK\$144.7 million, an increase of 10.5% or HK\$13.7 million, when compared with last year. The Group's net interest income increased by 5.4% from HK\$799.3 million in 2005/06 to HK\$842.6 million in 2006/07.

Although there was a drop in handling and late charges, the increase in commission income had resulted in the increase in other operating income by 3.3% from HK\$112.2 million in 2005/06 to HK\$115.9 million for the year.

Other income of HK\$18.8 million mainly represents net gain on disposal of investments. During the year, the Group disposed of its investments in shares listed overseas, resulting in a gain of HK\$19.2 million for available-for-sale investments and loss of HK\$0.3 million for investments held for trading. The proceeds are for general working capital requirements.

### Operating Expenses

The Group incurred more on advertising expenses to capture the growth of demand in consumer finance market. In addition, following the recruitment of more members and the launch of new promotion programs, the Group had spent more on card and loan processing expenses. Together with the employment of more staff and entering into new leases as a result of the expansion of branch network, operating expenses increased by 20.0% to HK\$353.7 million.

### Impairment Losses and Impairment Allowances

The Group lent conservatively and strived to continually improve its asset quality. Even though there was an increase in the sales transactions and debtor balance, charge to the consolidated income statement maintained at around HK\$334.0 million in both years. With the great effort contributed by the Group's recovery team, recoveries from bad debts increased by 72.8% from HK\$17.9 million in 2005/06 to HK\$30.9 million in 2006/07. Total impairment losses and impairment allowances reduced by 4.1% from HK\$316.0 million in 2005/06 to HK\$303.1 million in 2006/07.

# Management Discussion and Analysis

## CONSOLIDATED BALANCE SHEET ANALYSIS

The Group's shareholders' equity at 20th February 2007 were HK\$1,477.0 million, representing a growth of 11.9%, or HK\$156.5 million, when compared with the balance at 20th February 2006.

### Debtor Balance

With the issue of more cards and launch of new marketing programs, credit card receivables increased by HK\$318.7 million from HK\$2,553.6 million at 20th February 2006 to HK\$2,872.3 million at 20th February 2007. The opening of new branches had expanded the Group's distribution network to cross-sell loan products. Together with the introduction of new purpose loan products, instalment loans receivable reached HK\$1,357.9 million, an increase of HK\$247.2 million when compared with last year. Although there was a slight drop in hire purchase debtors to HK\$124.9 million, total debtor balance increased by 14.5% or HK\$552.0 million, from HK\$3,803.1 million at 20th February 2006 to HK\$4,355.1 million at 20th February 2007.

Considering the drop in overdue debtor balance for 3 months or above, the Group reduced the amount of impairment allowances. Impairment allowances amounted to HK\$134.2 million at 20th February 2007, a decrease of HK\$24.5 million when compared with previous year and representing 3.1% of total debtor balance.

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

	20th February 2007		20th February 2006	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	96,448	2.2	86,871	2.3
Overdue 2 months but less than 3 months	27,859	0.6	34,468	0.9
Overdue 3 months or above	57,051	1.3	81,902	2.1
	<u>181,358</u>	<u>4.1</u>	<u>203,241</u>	<u>5.3</u>

\* Percentage of total debtor balance

# Management Discussion and Analysis

## **Investments in Associates and Available-for-Sale Investments**

During the year, the Group injected HK\$38,946,000 into AEON Credit Guarantee (China) Co., Ltd. (“ACG China”), a guarantee company set up in Beijing mainly engaged in the provision of credit guarantee services. ACG China is owned as to 50% by the Group and is accounted for as an associate of the Group using equity method. This investment will facilitate the Group’s plan to launch hire purchase service in major cities in China. With an emergence of the middle class in major cities in China who endeavour to improve their living quality and with increasing consumption power, this investment is expected to bring good returns to the Group in the long run.

The Group also increased its investment in AEON Credit Card (Taiwan) Co., Ltd. (“ACC Taiwan”) by subscribing 4.2 million new shares at HK\$10,120,000. ACC Taiwan is owned as to 12.2% by the Group and is accounted for as available-for-sale investments measured at fair value at each balance sheet date subsequent to initial recognition. With the anticipated recovery in the economy in Taiwan in the near future, ACC Taiwan will grow faster in the coming years and the investment is expected to bring good returns to the Group in the long run.

## **Collateralised Debt Obligation**

During the year under review, the Company entered into a HK\$850,000,000 collateralised debt obligation transaction (the “Transaction”) to refinance the securitisation programme which had been fully paid off in October 2006. Pursuant to this Transaction, the Company transferred credit card receivables to a trust established solely for this financing purpose. The Company is the sole beneficiary of the trust and holds the entire undivided interest in the credit card receivables transferred to the trust. The Transaction is for a period of five years and will commence amortisation in 2012. According to HKAS 39, both assets transferred and debt issued under this Transaction have not been derecognised and remained in the Group’s consolidated financial statements.

The collateralised debt obligation amounted to HK\$846.8 million at 20th February 2007 and carried a fixed interest coupon. This was secured by credit card receivables of HK\$1,284.8 million and restricted cash of HK\$120.0 million.

## **Bank Borrowings and Capital Financing**

The Group relied principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th February 2007, 31.1% of its funding is derived from shareholders’ equity, 17.9% from structured finance and 51.0% from direct borrowings with financial institutions.

# Management Discussion and Analysis

The principal source of internally generated capital is from accumulated profits. Besides the collateralised debt obligation transaction mentioned above, at 20th February 2007, the Group had bank borrowings, bank overdrafts and cross-currency syndicated term loan amounted to HK\$2,421.9 million, with 86.7% being fixed in interest rates.

Including the collateralised debt obligation, 21.6% of those indebtedness will mature within one year, 12.7% between one and two years, 11.0% between two and three years, 11.2% between three and four years, 16.6% between four and five years and 26.9% over five years. The average duration of indebtedness is around three years. The Group's bank borrowings were denominated in Hong Kong dollars, except for a syndicated term loan of Yen 7.5 billion which was hedged by a cross-currency interest rate swap.

The Group continued to maintain a strong financial position. At 20th February 2007, total debt-to-equity ratio was 2.35. The net asset value of the Group at 20th February 2007 was HK\$1,477.0 million, as compared with HK\$1,320.5 million at 20th February 2006.

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

Capital expenditure for the year amounted to HK\$44.1 million as compared to HK\$54.1 million in the previous year. This was mainly related to the software development on the enhancement of the operating and security systems. At 20th February 2007, capital commitments entered were related to the purchase of property, plant and equipment and the purchase of available-for-sale investments.

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

In determining the dividend payment, the objective is to reward shareholders with dividend income while retaining funds for future business development and expansion. As the current growing economic situation is expected to continue in the coming year, demand for consumer finance will increase. On the other hand, under the present surging stock market, shareholders generally expect a reasonable return on their investments and a higher dividend amount when the share price goes up. In order to meet shareholders' expectation and to mark the Company's 20th anniversary, the Board decided to increase the dividend amount by 8.0 HK cents, out of which 5.0 HK cents represents a special dividend. For the year ended 20th February 2007, the Board recommended the payment of a final dividend of 17.5 HK cents per share, which together with the interim dividend of 8.5 HK cents per share, making a total dividend of 26.0 HK cents per share and a payout ratio of 40.8%.

# Management Discussion and Analysis

## SEGMENT INFORMATION

The Group's business comprised mainly three operating divisions, namely credit card, instalment loans and hire purchase. In 2006/07, credit card operation accounted for 64.5% of the Group's turnover, as compared to 68.1% in 2005/06. For operating income after deducting impairment losses and impairment allowances, credit card operation accounted for 68.6% in 2006/07, as compared to 63.5% in 2005/06.

Notwithstanding a reduction in cash advance interest rate during the year, net interest income from credit card operation increased by HK\$3.9 million, from HK\$534.8 million in 2005/06 to HK\$538.7 million in 2006/07. Although there was a drop in handling and late charges, the increase in commission income had resulted in the increase in other operating income from credit card operation by HK\$4.2 million from HK\$93.5 million in 2005/06 to HK\$97.7 million. With a drop in the impairment losses and impairment allowances by HK\$73.1 million from HK\$246.9 million in 2005/06 to HK\$173.8 million in 2006/07, operating results from credit card operation recorded an increase of 21.3% or HK\$81.2 million from HK\$381.4 million in 2005/06 to HK\$462.6 million in 2006/07.

With the gradual recovery of the economic situation and the availability of positive data from credit bureau, the Group is active in exploring new instalment loan products and widening its distribution channels for personal loan business. Instalment loan sales continued to record a stable growth in the reporting year. Net interest income from instalment loans operation recorded an increase of HK\$39.6 million, from HK\$260.1 million in 2005/06 to HK\$299.7 million in 2006/07. However, with the waiver of certain related charges to maintain competitiveness in the market, other operating income dropped by HK\$1.3 million from HK\$18.2 million in 2005/06 to HK\$16.9 million in 2006/07. There was an increase in impairment losses and impairment allowances by HK\$55.6 million from HK\$70.5 million in 2005/06 to HK\$126.1 million in 2006/07. As a result, the operating results from instalment loans operation decreased by 8.3% or HK\$17.2 million from HK\$207.8 million in 2005/06 to HK\$190.6 million in 2006/07.

With the higher usage of card instalment plan, there was a continuous decrease in hire purchase sales, resulting in the drop in interest income and other operating income from hire purchase transactions by HK\$0.2 million from HK\$4.7 million in 2005/06 to HK\$4.5 million in 2006/07. Impairment losses and impairment allowances amounted to HK\$3.2 million in 2006/07 as compared with a release of impairment allowances of HK\$1.4 million in 2005/06. As a result, the operating results from hire purchase operation decreased from HK\$6.1 million in 2005/06 to HK\$1.2 million in 2006/07.



# Management Discussion and Analysis

## COMPETITIVE ADVANTAGES

### Synergy

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

### Know-how and Expertise

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

### Customer Base

The customer base of the Group is widely diversified. Using merchant networks as the card and loan acquisition base, the Group had launched several new co-branded cards and loan products to capture new customer sectors. The new cardholders recruited in this financial year were mainly through the co-branded cards related to merchants in the retail, catering and travel industries. 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 co-branded cards, the percentage of female cardholders has reached 70%.

### Convenient Service

In providing consumer credit services to customers, the Group emphasises on convenience. For ease of payment, customers can settle their payments through branch counters, convenience stores networks, phone banking, internet banking and ATM networks. Customers can also have easy access to speedy and convenient cash advance and personal loan services through the extensive ATM networks in Hong Kong and Guangdong Province in China as well as the Group's branch network and 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 Group's growth philosophy are (1) ongoing product and service innovation; (2) total consumer credit services; (3) operational cost effectiveness; and (4) a strong network of affiliated companies. Consumers in Hong Kong have widely accepted and appreciated the innovative consumer credit finance services provided at low costs by the Group.

# Directors and Senior Management Profile

## DIRECTORS

*Mr. Yoshiki MORI*, aged 56, was appointed the Chairman of the Company on 16th June 1999. Mr. Mori has been a Non-executive Director of the Company since 1992. He is a director of AEON Co., Ltd., which he joined in 1973. He is the president and a founder of AEON 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 holds a Bachelor's degree in Economics from Nanzan University.

*Mr. Masanori KOSAKA*, aged 50, was appointed an Executive Director and Managing Director of the Company on 25th April 2002 and 20th June 2002 respectively. He was formerly with the Company from March 1993 to June 1996 and rejoined the Company in April 2002. He joined AEON Credit Service Co., Ltd. in 1981. He is a director of AEON Information Service (Shenzhen) Co., Ltd. and AEON Credit Guarantee (China) Co., Ltd. Mr. Kosaka holds a Bachelor's degree in Law from Kyoto Sangyo University.

*Mr. LAI Yuk Kwong*, aged 44, was appointed an Executive Director and Deputy Managing Director of the Company on 16th June 1999 and 14th June 2006 respectively. He is also the qualified accountant of the Company. He joined the Company in July 1996. Mr. Lai holds a Professional Diploma in Accountancy from Hong Kong Polytechnic University. He is a fellow of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and the IT Accountants 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 51, was appointed an Executive Director of the Company on 21st June 2001. She is also the Company Secretary and in-house counsel. She is in charge of the Corporate Affairs Division of the Company. She was formerly with the Company from August 1992 to June 1994 and rejoined the Company in November 1998. Ms. Koh holds a Bachelor's degree in Law from South Bank University. She is a barrister.

*Mr. PAN Shu Pin, Ban*, aged 39, was appointed an Executive Director of the Company on 14th June 2006. He is in charge of the Marketing Division of the Company. 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 from University of Lethbridge and a Master's degree in Business Administration from South Eastern University.

*Mr. Tomoyuki KAWAHARA*, aged 46, was appointed an Executive Director of the Company on 14th June 2006. He is in charge of the Branch Business Division of the Company. He joined the Company in September 2000. Mr. Kawahara holds a Bachelor's degree in Business Administration from Hokkaido University.

*Mr. FUNG Kam Shing, Barry*, aged 44, was appointed an Executive Director of the Company on 14th June 2006. He is in charge of the Accounts and Finance Division of the Company. He joined the Company in May 2002. 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.

# Directors and Senior Management Profile

*Mr. Kazuhide KAMITANI*, aged 50, was the Managing Director of the Company from June 1990 to June 2002 and re-designated as Non-executive Director of the Company on 20th June 2002. He is the senior managing director of *AEON Credit Service Co., Ltd.*, which he joined in 1982. He is also a director of *AEON Thana Sinsap (Thailand) Co., Ltd.* Mr. Kamitani holds a Bachelor's degree in Management from Ritsumeikan University.

*Mr. TSANG Wing Hong*, aged 80, was appointed an Independent Non-executive Director of the Company on 26th June 1995. He was a member of the Banking Advisory Committee from 1991 to 1993. He is a member of the Board of Trustees of United College, Chinese University of Hong Kong. Mr. Tsang has over 35 years of experience in the banking industry.

*Mr. WONG Hin Wing*, aged 44, was appointed an Independent Non-executive Director of the Company 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 has over 20 years of experience in accounting, finance, investment management and advisory.

*Dr. HUI Ching Shan*, aged 56, was appointed an Independent Non-executive Director of the Company on 26th June 2006. He holds a Bachelor's degree in Social Science from University of Hong Kong, a Master's degree in Business Administration from University of Toronto and a Doctorate in Business Administration from University of South Australia. He is also a Certified Management Accountant of Canada and a member of the Hong Kong Institute of Chartered Secretaries. Dr. Hui has over 15 years of experience in commercial and merchant banking and had held senior positions in a number of local and international merchant banks.

## SENIOR MANAGEMENT

*Mr. Ivan S. C. WONG*, aged 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. Jamie S. S. LEI*, aged 48, 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. Yukio MATSUMOTO*, aged 45, is the General Manager of the Systems Development 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.

*Ms. Dorothy F. K. CHAN*, aged 38, 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 2007, except for the deviations from code provisions A.4.1, A.4.2 and E.1.2 which are 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, they confirmed that they have complied with the required standard set out in the Model Code throughout the year under review.

## **Board of Directors**

The Board is charged with leading the Company in a responsible and effective manner. The Board has adopted formal terms of reference, which detail the functions and responsibilities of the Board. 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.

At the date of this report, the Board comprises eleven members, consisting of six executive directors and five non-executive directors, out of whom three are independent non-executive directors. During the period from 12th March 2006 to 25th June 2006, the number of independent non-executive directors fell below the minimum number required under Rule 3.10(1) of the Listing Rules due to the demise of an independent non-executive director. The Company has been in compliance with Rule 3.10(1) of the Listing Rules following the appointment of a replacement independent non-executive director on 26th June 2006.

The non-executive directors bring a wide range of expertise and knowledge in the consumer finance sector to the Company. The independent non-executive directors are persons with extensive experience as well as academic and professional qualifications in the fields of banking and accounting. They provide valuable advice to the Board towards the effective discharge of its duties and responsibilities. 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.

# *Corporate Governance Report*

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

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

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

# Corporate Governance Report

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

Name of director	Board meeting attended
<i>Executive directors:</i>	
Masanori Kosaka	4/4
Lai Yuk Kwong	4/4
Koh Yik Kung	4/4
Pan Shu Pin, Ban*	2/2
Tomoyuki Kawahara*	2/2
Fung Kam Shing, Barry*	2/2
<i>Non-executive directors:</i>	
Yoshiki Mori (Chairman)	2/4
Kazuhide Kamitani	1/4
Yoichi Kimura**	0/0
<i>Independent non-executive directors:</i>	
Tsang Wing Hong	3/4
Wong Hin Wing	4/4
Hui Ching Shan***	1/2
Shao You Bao****	0/0

\* appointed on 14th June 2006

\*\* resigned on 26th April 2006

\*\*\* appointed on 26th June 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.

# Corporate Governance Report

## **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 Board will identify individuals suitably qualified to become its members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account his experience, qualification and other relevant factors. All candidates must also meet the standards set out in the Listing Rules. A candidate who is to be appointed as an independent non-executive director should also meet the independence criteria set out in Rule 3.13 of the Listing Rules.

During the year, the Board considered and approved the appointment of three additional executive directors and an independent non-executive director.

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 Articles of Association of the Company was amended in 2006 to comply with the first sentence of the code provision A.4.2 to the effect that any director appointed by the Board to fill a casual vacancy or as an addition to the Board shall be subject to election by shareholders at the first general meeting after his appointment.

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.

# Corporate Governance Report

## Remuneration Committee

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

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

The Remuneration Committee held one meeting for the year ended 20th February 2007, during which the Committee reviewed the salaries and performance bonuses for the executive directors and senior management and recommended to the Board the directors' fees for the independent non-executive directors. Details of attendance record of members of the Remuneration Committee are set out below:

<b>Name of member</b>	<b>Remuneration Committee meeting attended</b>
Tsang Wing Hong ( <i>Chairman</i> )	1/1
Yoshiki Mori	1/1
Kazuhide Kamitani*	0/0
Wong Hin Wing	1/1
Hui Ching Shan*	0/0
Yoichi Kimura**	0/0
Shao You Bao***	0/0

\* *appointed on 8th September 2006*

\*\* *resigned on 26th April 2006*

\*\*\* *passed away on 12th March 2006*



# Corporate Governance Report

## Audit Committee

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

The Audit Committee held three meetings for the year ended 20th February 2007, and the meetings were attended by external auditors and the qualified accountant. The work performed by the Audit Committee included:

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

# Corporate Governance Report

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

Name of member	Audit Committee meeting attended
Tsang Wing Hong ( <i>Chairman</i> )	3/3
Yoshiki Mori	2/3
Kazuhide Kamitani*	0/2
Wong Hin Wing	3/3
Hui Ching Shan*	1/2
Yoichi Kimura**	0/0
Shao You Bao***	0/0

\* *appointed on 8th September 2006*

\*\* *resigned on 26th April 2006*

\*\*\* *passed away on 12th March 2006*

## 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 Group'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 Group's objectives.

The internal control system of the Group 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 Group'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. Management accounting system is in place to provide financial and operational performance indicators to the management and the relevant financial information for reporting and disclosure purpose. Systems and procedures are laid down to identify, measure, manage and control different risks, including legal, credit, market, concentration, operational, environmental, behavioral and systemic 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-yearly basis with reference to the market situation, and the business and financial performance.

# Corporate Governance Report

The Group's internal audit function plays an important role in monitoring the Group'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. During the year under review, no major issue was found but areas for improvement have been identified and appropriate measures taken. 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 Group's assets.

## **Management of Risks**

### ***Credit risk management***

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

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

### ***Market risk management***

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

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

# Corporate Governance Report

The Group maintained a significant portion of its borrowings in long-term with fixed interest rate. Moreover, the Group transacted in market risk related financial instruments solely for hedging purposes. The market risk exposure from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk information is not disclosed.

## ***Liquidity management***

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

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

## **Accountability and Audit**

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

The directors are responsible for overseeing the preparation of accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year ended 20th February 2007, 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.

# Corporate Governance Report

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

## Auditor's Remuneration

Deloitte Touche Tohmatsu has been reappointed as the Company's external auditor at the 2006 Annual General Meeting until the conclusion of the next Annual General Meeting.

During the year under review, a remuneration of HK\$1,790,000 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:

<b>Services rendered</b>	<b>Fees</b> HK\$'000
Taxation compliance	110
Agreed upon procedures	235
Advisory services on financial reporting	100
	<hr/>
Total	445
	<hr/> <hr/>

## Communication with Shareholders and Investors

The Board recognises 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 and the availability of such information 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 auditor make an effort to attend the annual general meeting to address shareholders' queries. Separate resolutions are proposed at general meetings on each substantially separate issue, including the re-election of directors. An annual general meeting circular is distributed to all shareholders together with the annual report at least twenty one days before the annual general meeting. Details of the rights of shareholders to demand a poll were included in the circular. The circular also included relevant details of proposed resolutions, including biography of each director standing for re-election.

# *Corporate Governance Report*

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At the Company's 2006 annual general meeting, the Chairman of the Board did not attend the meeting as he was overseas but he 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 was 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 consolidated financial statements for the year ended 20th February 2007.

## **PRINCIPAL ACTIVITIES**

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

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

At 20th February 2007, total debt-to-equity ratio was 2.35 (2006: 2.35).

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year ended 20th February 2007 are set out in the consolidated income statement on page 46 of the annual report.

An interim dividend of 8.5 HK cents (2006: 6.5 HK cents) per share amounting to HK\$35,595,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 17.5 HK cents (2006: 11.5 HK cents) per share to the shareholders on the register of members on 15th June 2007 amounting to HK\$73,284,000, and the retention of the remaining profit of HK\$157,817,000 for the year.

## **MAJOR CUSTOMERS**

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

## **PROPERTY, PLANT AND EQUIPMENT**

During the year, the Group spent approximately HK\$37,395,000 on computer equipment, HK\$5,612,000 on leasehold improvements and HK\$1,138,000 on furniture and fixtures.

Details of these and other movements in the property, plant and equipment of the Group during the year are set out in note 18 to the consolidated financial statements.

# Directors' Report

## DIRECTORS

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

### Executive directors:

Masanori KOSAKA (*Managing director*)

LAI Yuk Kwong (*Deputy managing director*)

KOH Yik Kung

PAN Shu Pin, Ban

(Appointed on 14th June 2006)

Tomoyuki KAWAHARA

(Appointed on 14th June 2006)

FUNG Kam Shing, Barry

(Appointed on 14th June 2006)

### Non-executive directors:

Yoshiki MORI (*Chairman*)

Kazuhide KAMITANI

Yoichi KIMURA

(Resigned on 26th April 2006)

### Independent non-executive directors:

TSANG Wing Hong

WONG Hin Wing

HUI Ching Shan

(Appointed on 26th June 2006)

SHAO You Bao

(Passed away on 12th March 2006)

In accordance with Article 102 of the Company's Articles of Association, all remaining directors shall retire at the forthcoming annual general meeting and shall be eligible for re-election. Accordingly, all remaining 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 Group within one year without payment of compensation (other than statutory compensation).



# Directors' Report

## DIRECTORS' INTERESTS IN SHARES

At 20th February 2007, 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, were as follows:

### (a) The Company

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

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

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

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

Director	Number of shares held under personal interests	Percentage of the issued share capital of AEON Japan
Yoshiki Mori	6,000	0.01

# Directors' Report

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

**(d) 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	1,450,000	0.58
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 2007.

## CONNECTED TRANSACTIONS

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

- (a) Pursuant to an agreement entered into between the Company and AEON Stores (Hong Kong) Co., Limited ("AEON Stores") on 15th April 2005, the Company may from time to time provide credit purchase facilities and hire purchase facilities to customers of AEON Stores for which the Company will receive commission from this fellow subsidiary in respect of certain purchases made by the customers with the use of certain credit cards issued by the Company and certain purchases made by the 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 2007 was HK\$12,006,000, of which HK\$9,255,000 is classified as interest income under HKAS 39. The commission amount did not exceed the cap of HK\$20,890,000 as disclosed in the Company's announcement dated 20th April 2005.

- (b) The Company had entered into a service agreement with AEON Information Service (Shenzhen) Co., Ltd. ("AIS Shenzhen"), an associate, on 21st May 2003 and a supplemental agreement on 15th April 2005 for the provision of call centre services to the Company for which the Company paid service fees to AIS Shenzhen.

The total amount of service fees paid and payable by the Company to AIS Shenzhen for the year ended 20th February 2007 amounted to HK\$14,952,000, which did not exceed the cap of HK\$16,400,000 as disclosed in the Company's announcement dated 20th April 2005.

# Directors' Report

## CONNECTED TRANSACTIONS (Cont'd)

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

The total amount of licence fees paid and payable by the Company to AEON Stores for the year ended 20th February 2007 was HK\$5,888,000.

- (d) The Company entered into a shareholder's agreement on 6th March 2006 with ACS Japan for the establishment of AEON Credit Guarantee (China) Co., Ltd. ("ACG China"), a guarantee company in China. On 8th August 2006, the Company injected HK\$38,946,000 into ACG China, representing 50% of the registered capital of ACG China. The purpose of the transaction is to facilitate the Group's plan to launch hire purchase service in major cities in China, which in return is expected to bring good returns to the Group in the long run and thus enhancing the shareholders' value of the Group. Details of the transaction were disclosed in the Company's announcement dated 6th March 2006.
- (e) The Company owns 12.2% of the issued share capital of AEON Credit Card (Taiwan) Co., Ltd. ("ACC Taiwan"), a fellow subsidiary. On 7th February 2007, the Company subscribed for 4,200,000 new shares in ACC Taiwan, which is in proportion to its shareholding in ACC Taiwan, for a total cash consideration of HK\$10,120,000. The purpose of the transaction is to bring good returns to the Group in the long run and thus enhancing the shareholders' value of the Group. Details of the transaction were disclosed in the Company's announcement dated 8th February 2007.

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

The related party transactions as disclosed in note 47 to the consolidated financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Group has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

# Directors' Report

## DISCLOSURE PURSUANT TO RULE 13.18 OF LISTING RULES

A syndicated term loan of ¥7,500,000,000 made available to the Company for a term of 5 years on 27th September 2006 includes a condition that the Company is a consolidated subsidiary of ACS Japan.

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

## SUBSTANTIAL SHAREHOLDERS

At 20th February 2007, 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	%
AEON Co., Ltd. (Note 1)	277,288,000	66.22
AEON 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	20,963,000	5.01

Notes:

- (1) AEON Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 45.28% and 71.64% of the issued share capital of ACS Japan and AEON Stores respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by ACS Japan and AEON Stores respectively.
- (2) Out of 217,514,000 shares, 213,114,000 shares were held by ACS Japan and 4,400,000 shares were held by Nomura Securities (HK) Limited, as a nominee on behalf of ACS Japan.

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 as at 20th February 2007.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

# Directors' Report

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

## **DONATIONS**

During the year, the Group made charitable and other donations amounting to HK\$180,000.

## **EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT**

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

## **RETIREMENT BENEFITS SCHEME**

Details of the Company's retirement benefits scheme are set out in note 46 to the consolidated financial statements.

## **SUFFICIENCY OF PUBLIC FLOAT**

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

## **AUDITORS**

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

On behalf of the Board



**Masanori KOSAKA**  
*Managing Director*

Hong Kong, 27th April 2007

# *Independent Auditor's Report*

## **Deloitte.**

## **德勤**

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

We have audited the consolidated financial statements of AEON Credit Service (Asia) Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 46 to 97, which comprise the consolidated balance sheet as at 20th February 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' responsibility for the consolidated financial statements**

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

### **Auditor's responsibility**

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

# *Independent Auditor's Report*

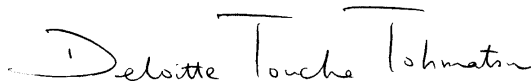
## **Auditor's responsibility (Cont'd)**

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

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

## **Opinion**

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 20th February 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.



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

Hong Kong, 27th April 2007

# Consolidated Income Statement

For the year ended 20th February 2007

		2007	2006
	<i>Notes</i>	HK\$'000	(Restated) HK\$'000
Turnover	6	<u>1,020,351</u>	<u>955,079</u>
Interest income	8	987,351	930,325
Interest expense	9	<u>(144,702)</u>	<u>(130,979)</u>
Net interest income		842,649	799,346
Other operating income	10	115,875	112,212
Other income	11	<u>18,819</u>	<u>4,690</u>
Operating income		977,343	916,248
Operating expenses	12	<u>(353,721)</u>	<u>(294,674)</u>
Operating profit before impairment allowances		623,622	621,574
Impairment losses and impairment allowances	14	<u>(303,058)</u>	<u>(315,965)</u>
Share of results in associates		<u>(814)</u>	<u>340</u>
Profit before tax		319,750	305,949
Income tax expense	15	<u>(53,054)</u>	<u>(53,966)</u>
Profit for the year		<u>266,696</u>	<u>251,983</u>
Dividends	16	<u>83,753</u>	<u>71,190</u>
Earnings per share	17	<u>63.69 cents</u>	<u>60.17 cents</u>



# Consolidated Balance Sheet

At 20th February 2007

		2007	2006
	<i>Notes</i>	HK\$'000	(Restated) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	18	98,452	97,199
Investments in associates	19	40,147	2,220
Available-for-sale investments	20	52,375	65,070
Credit card receivables	22	114,075	34,110
Instalment loans receivable	23	477,691	352,591
Hire purchase debtors	24	17,676	17,432
Deferred tax assets	28	1,000	7,017
Restricted cash	29	120,000	120,000
		<u>921,416</u>	<u>695,639</u>
<b>Current assets</b>			
Investments held for trading	21	–	2,377
Derivative financial instruments	39	7,115	12,894
Credit card receivables	22	2,688,578	2,421,535
Instalment loans receivable	23	823,640	704,343
Hire purchase debtors	24	104,454	117,804
Prepayments, deposits, interest receivable and other debtors	26	123,848	158,836
Time deposits	30	166,116	237,519
Bank balances and cash	31	114,195	72,445
		<u>4,027,946</u>	<u>3,727,753</u>
<b>Current liabilities</b>			
Creditors and accrued charges	32	121,938	124,528
Amount due to a fellow subsidiary	34	51,022	34,628
Amount due to immediate holding company	35	380	–
Amount due to ultimate holding company	36	60	52
Issued debt securities	37	–	848,139
Bank borrowings – repayable within one year	38	706,000	661,000
Bank overdrafts		1,695	2,079
Derivative financial instruments	39	13,639	2,794
Current tax liabilities		16,650	34,627
		<u>911,384</u>	<u>1,707,847</u>
<b>Net current assets</b>		<u>3,116,562</u>	<u>2,019,906</u>
<b>Total assets less current liabilities</b>		<u>4,037,978</u>	<u>2,715,545</u>



# Consolidated Balance Sheet

At 20th February 2007

		2007	2006
	Notes	HK\$'000	(Restated) HK\$'000
<b>Capital and reserves</b>			
Issued capital	40	41,877	41,877
Share premium and reserves		<u>1,435,117</u>	<u>1,278,668</u>
		<u>1,476,994</u>	<u>1,320,545</u>
<b>Non-current liabilities</b>			
Collateralised debt obligation	42	846,806	–
Bank borrowings – repayable after one year	38	<u>1,714,178</u>	<u>1,395,000</u>
		<u>2,560,984</u>	<u>1,395,000</u>
		<u>4,037,978</u>	<u>2,715,545</u>

The consolidated financial statements on pages 46 to 97 were approved and authorised for issue by the Board of Directors on 27th April 2007 and are signed on its behalf by:

DIRECTOR

DIRECTOR

# Consolidated Statement of Changes in Equity

For the year ended 20th February 2007

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Hedging reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 21st February 2005, as originally stated	41,877	227,330	270	-	(22,960)	992,811	1,239,328
Effect of changes in accounting policies (Note 2)	-	-	-	-	-	(135,173)	(135,173)
At 21st February 2005, as restated	41,877	227,330	270	-	(22,960)	857,638	1,104,155
Gain on available-for-sale investments	-	-	-	12,479	-	-	12,479
Net adjustment on cash flow hedges	-	-	-	-	23,118	-	23,118
Net income recognised directly in equity	-	-	-	12,479	23,118	-	35,597
Profit for the year	-	-	-	-	-	251,983	251,983
Total recognised income for the year	-	-	-	12,479	23,118	251,983	287,580
Final dividend paid for 2004/05	-	-	-	-	-	(43,970)	(43,970)
Interim dividend paid for 2005/06	-	-	-	-	-	(27,220)	(27,220)
	-	-	-	12,479	23,118	180,793	216,390
At 20th February 2006, as restated	41,877	227,330	270	12,479	158	1,038,431	1,320,545
Gain on available-for-sale investments	-	-	-	3,730	-	-	3,730
Net adjustment on cash flow hedges	-	-	-	-	(6,682)	-	(6,682)
Net income (expense) recognised directly in equity	-	-	-	3,730	(6,682)	-	(2,952)
Profit for the year	-	-	-	-	-	266,696	266,696
Transfer to consolidated income statement on sales of available-for-sale investments	-	-	-	(15,143)	-	(8,399)	(23,542)
Total recognised income for the year	-	-	-	(11,413)	(6,682)	258,297	240,202
Final dividend paid for 2005/06	-	-	-	-	-	(48,158)	(48,158)
Interim dividend paid for 2006/07	-	-	-	-	-	(35,595)	(35,595)
	-	-	-	(11,413)	(6,682)	174,544	156,449
At 20th February 2007	41,877	227,330	270	1,066	(6,524)	1,212,975	1,476,994

# Consolidated Cash Flow Statement

For the year ended 20th February 2007

	2007	2006 (Restated)
	HK\$'000	HK\$'000
<b>Operating activities</b>		
Profit before tax	319,750	305,949
Adjustments for:		
Interest income	–	(22,564)
Interest expense	142,770	128,102
Amortisation of upfront cost of issued debt securities	1,861	2,877
Amortisation of upfront cost of collateralised debt obligation	71	–
Dividends received on available-for-sale investments	(983)	(428)
Net loss on disposal of property, plant and equipment	64	558
Unrealised gain on revaluation of investments held for trading	–	(1,138)
Gain on disposal of available-for-sale investments	(19,206)	–
Loss on disposal of investments held for trading	323	–
Gain on derivative financial instruments	–	(4,110)
Depreciation	42,828	41,143
Impairment losses and impairment allowances recognised in respect of debtor balance	333,985	333,858
Share of results in associates	814	(340)
Operating cash flows before movements in working capital	822,277	783,907
Increase in amount due to an associate	205	91
Increase in instalment loans receivable	(372,756)	(196,897)
Decrease in hire purchase debtors	9,194	89,608
Increase in credit card receivables	(546,905)	(522,739)
Decrease (increase) in prepayments, deposits, interest receivable and other debtors	29,906	(32,516)
(Decrease) increase in creditors and accrued charges	(323)	36,086
Increase (decrease) in amount due to a fellow subsidiary	16,394	(6,057)
Increase (decrease) in amount due to immediate holding company	380	(4,440)
Increase in amount due to ultimate holding company	8	2
Cash (used in) generated from operations	(41,620)	147,045
Tax paid	(65,014)	(29,261)
Interest paid	(135,095)	(130,851)
<b>Net cash used in operating activities</b>	<b>(241,729)</b>	<b>(13,067)</b>

# Consolidated Cash Flow Statement

For the year ended 20th February 2007

	2007 HK\$'000	2006 (Restated) HK\$'000
<b>Investing activities</b>		
Dividends received	983	428
Proceeds from disposal of property, plant and equipment	–	3
Proceeds from disposal of available-for-sale investments	22,209	–
Proceeds from disposal of investments held for trading	2,054	–
Purchase of property, plant and equipment	(44,145)	(54,055)
Increase in investment in an associate	(38,946)	–
Purchase of available-for-sale investments	(10,120)	(14,092)
<b>Net cash used in investing activities</b>	<u>(67,965)</u>	<u>(67,716)</u>
<b>Financing activities</b>		
New bank loans raised	17,614,678	8,552,700
Repayment of bank loans	(17,250,500)	(8,370,900)
Repayment of issued debt securities	(850,000)	–
Collateralised debt obligation raised	850,000	–
Dividends paid	(83,753)	(71,190)
<b>Net cash from financing activities</b>	<u>280,425</u>	<u>110,610</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(29,269)</u>	<u>29,827</u>
<b>Cash and cash equivalents at beginning of the year</b>	<u>307,885</u>	<u>278,058</u>
<b>Cash and cash equivalents at end of the year</b>	<u><u>278,616</u></u>	<u><u>307,885</u></u>
Being:		
Time deposits	166,116	237,519
Bank balances and cash	114,195	72,445
Bank overdrafts	(1,695)	(2,079)
	<u><u>278,616</u></u>	<u><u>307,885</u></u>

# *Notes to the Consolidated Financial Statements*

*For the year ended 20th February 2007*

## **1. GENERAL**

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

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

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

## **2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)**

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as “new HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The application of the new HKFRSs had no material effect on how the Group’s results for the current or prior accounting years have been prepared and presented, except for the Hong Kong Accounting Standard (“HKAS”) 27 (Revised), which has been revised as a consequence of the Companies (Amendment) Ordinance 2005 (the “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, the Company is required to consolidate the special purpose entities under asset backed financing transactions and prepare consolidated financial statements for the current year. Comparative figures have been amended to conform to the current year’s presentation.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

The effects of adopting the HKAS 27 (Revised) on the consolidated income statement for the years ended 20th February 2007 and 20th February 2006 were as follows:

	2007 HK\$’000	2006 HK\$’000
Increase in operating income	54,278	146,142
Decrease (increase) in operating expenses	4,238	(1,125)
Decrease (increase) in impairment losses and impairment allowances	25,488	(64,647)
Increase in income tax expense	(14,701)	(14,500)
	<u>69,303</u>	<u>65,870</u>
Total increase in profit	<u>69,303</u>	<u>65,870</u>
Increase in earnings per share	<u>16.55 cents</u>	<u>15.73 cents</u>

The effects of adopting the HKAS 27 (Revised) on the consolidated balance sheet at 20th February 2007 and 20th February 2006 were as follows:

	2007 HK\$’000	2006 HK\$’000
<b>Increase (decrease) in assets</b>		
Restricted cash and time deposits	10,000	250,448
Credit card receivables	–	382,097
Prepayments, deposits, interest receivable and other debtors	17	42,492
Retained interests in securitisation trust	(10,017)	(456,639)
Deferred tax assets	–	7,017
	<u>–</u>	<u>7,017</u>
<b>Increase (decrease) in liabilities/equity</b>		
Creditors and accrued charges	–	37,170
Issued debt securities	–	262,548
Deferred tax liabilities	–	(5,000)
Share premium and reserves	–	(69,303)
	<u>–</u>	<u>(69,303)</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Cont’d)

The effects of adopting the HKAS 27 (Revised) on the Group’s equity at 21st February 2005 are summarised below:

	<b>At 21st February 2005 (Originally stated) HK\$’000</b>	<b>Adjustment HK\$’000</b>	<b>At 21st February 2005 (Restated) HK\$’000</b>
Accumulated profits, total effects on equity	<u>992,811</u>	<u>(135,173)</u>	<u>857,638</u>

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>2</sup>
HK(IFRIC) - INT 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies <sup>3</sup>
HK(IFRIC) - INT 8	Scope of HKFRS 2 <sup>4</sup>
HK(IFRIC) - INT 9	Reassessment of Embedded Derivatives <sup>5</sup>
HK(IFRIC) - INT 10	Interim Financial Reporting and Impairment <sup>6</sup>
HK(IFRIC) - INT 11	HKFRS 2 - Group and Treasury Share Transactions <sup>7</sup>
HK(IFRIC) - INT 12	Service Concession Arrangements <sup>8</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2007

<sup>2</sup> Effective for annual periods beginning on or after 1st January 2009

<sup>3</sup> Effective for annual periods beginning on or after 1st March 2006

<sup>4</sup> Effective for annual periods beginning on or after 1st May 2006

<sup>5</sup> Effective for annual periods beginning on or after 1st June 2006

<sup>6</sup> Effective for annual periods beginning on or after 1st November 2006

<sup>7</sup> Effective for annual periods beginning on or after 1st March 2007

<sup>8</sup> Effective for annual periods beginning on or after 1st January 2008



# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

### **Basis of consolidation**

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

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

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

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

### **Revenue recognition**

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

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

### Property, plant and equipment

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

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

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

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

### Investments in associates

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

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

### Leasing

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

#### *The Group as lessee*

Rentals payable under operating leases are charged to the consolidated 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 Group as lessor*

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

### Foreign currencies

Transactions in foreign currencies are recorded in each individual group entity'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. Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in the consolidated income statement in the period in which they arise.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

### Taxation

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

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

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the 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. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled. Deferred tax is charged or credited to the consolidated 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 consolidated balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in the consolidated income statement.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

### Financial instruments (Cont'd)

#### *Financial assets*

The Group'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 settlement date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. 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 are investments held for trading. 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 consolidated income statement in the period in which they arise.

#### *Loans and receivables*

Loans and receivables (including credit card receivables, instalment loans receivable, hire purchase debtors, 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 consolidated 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 Group 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 Group 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.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 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 financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. 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 consolidated income statement. Any impairment losses on available-for-sale investments are recognised in the consolidated income statement. Impairment losses on available-for-sale equity investments will not be reversed to the consolidated income statement in subsequent periods.

### **Financial liabilities and equity**

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

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

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

### Financial instruments (Cont'd)

#### *Derivative financial instruments and hedging*

The Group uses derivative financial instruments arise from swap transactions to hedge its exposure against foreign exchange and 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 consolidated income statement when the hedged item affects profit or loss. The ineffective portion is recognised immediately in the consolidated 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 consolidated income statement.

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in the consolidated income statement. If a transaction does not result in derecognition because the Group has retained substantially all the risks and rewards of ownership of the transferred asset, the Group continues to recognise the transferred asset and recognise a financial liability for the consideration received.

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

### Impairment losses on tangible assets

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

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

### Retirement benefit costs

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

## 4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

### Critical judgement in applying the Group's accounting policies

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



# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

### Key sources of estimation uncertainty (Cont'd)

#### *Impairment allowances on loans and receivables*

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

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

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.

## 5. FINANCIAL INSTRUMENTS

### 5A. Financial risk management objectives and policies

The Group's major financial instruments include equity investments, loans receivable, interest receivable, bank deposits, bank borrowings, creditors, issued debt securities and collateralised debt obligation. 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.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 5. FINANCIAL INSTRUMENTS (Cont'd)

### 5A. Financial risk management objectives and policies (Cont'd)

#### *Market risk*

##### *(i) Currency risk*

Certain equity investments and a bank borrowing of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk.

To minimise the foreign currency risk in relation to the bank borrowing, the Group has been using currency swap to convert the foreign currency debt to the functional currency of the relevant group entity. The critical term of this currency swap is similar to those of hedged borrowings.

As the amount in relation to equity investments is not material, the management considers that the exposure is insignificant and the Group currently does not enter into any hedging activities to hedge for the foreign currency risk.

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

#### Fair value interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest-bearing financial assets and interest-bearing 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 rate risk only. The interest rates and terms of repayment of financial assets and bank borrowings of the Group are disclosed in notes 22, 23, 24, 37, 38 and 42.

#### Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to floating-rate financial liabilities (see notes 37 and 38).

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 5. FINANCIAL INSTRUMENTS (Cont'd)

### 5A. Financial risk management objectives and policies (Cont'd)

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

##### *(iii) Price risk*

The Group 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 Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 20th February 2007 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group's credit risk is primarily attributable to its credit card receivables, instalment loans receivable and hire purchase debtors. In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of loans and receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 5. FINANCIAL INSTRUMENTS (Cont'd)

### 5B. Fair value of financial instruments

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid (if only for financial assets) prices;
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and
- the fair value of derivative instruments is estimated using discounted cash flow analysis and the applicable yield curve.

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

	2007		2006	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Bank borrowings	<u>2,420,178</u>	<u>2,406,021</u>	<u>2,056,000</u>	<u>2,032,137</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 6. TURNOVER

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Interest income	987,351	930,325
Fees and commissions	33,000	24,754
	<u>1,020,351</u>	<u>955,079</u>

## 7. BUSINESS AND GEOGRAPHICAL SEGMENTS

### (a) Business segments

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

Principal activities are as follows:

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

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

Segment information about these businesses is presented below:

2007

	Credit card HK\$'000	Instalment loan HK\$'000	Hire purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
<b>CONSOLIDATED INCOME STATEMENT</b>					
<b>TURNOVER</b>	<u>657,816</u>	<u>338,455</u>	<u>8,296</u>	<u>15,784</u>	<u>1,020,351</u>
<b>RESULT</b>					
Net interest income (expense)	538,707	299,708	4,448	(214)	842,649
Other operating income	97,711	16,923	15	1,226	115,875
Other income	-	-	-	18,819	18,819
Impairment losses and impairment allowances	<u>(173,771)</u>	<u>(126,063)</u>	<u>(3,224)</u>	-	<u>(303,058)</u>
Segment results	<u>462,647</u>	<u>190,568</u>	<u>1,239</u>	<u>19,831</u>	<u>674,285</u>
Unallocated operating expenses					(353,721)
Share of results in associates					<u>(814)</u>
Profit before tax					319,750
Income tax expense					<u>(53,054)</u>
Profit for the year					<u>266,696</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

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

	Credit card HK\$'000	Instalment loan HK\$'000	Hire purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
<b>CONSOLIDATED BALANCE SHEET</b>					
<b>ASSETS</b>					
Segment assets	<u>3,138,428</u>	<u>1,331,877</u>	<u>122,228</u>	<u>355,829</u>	<u>4,948,362</u>
Unallocated corporate assets					<u>1,000</u>
Consolidated total assets					<u>4,949,362</u>
<b>LIABILITIES</b>					
Consolidated total liabilities	<u>2,498,100</u>	<u>833,208</u>	<u>37,289</u>	<u>103,771</u>	<u>3,472,368</u>
<b>OTHER INFORMATION</b>					
Additions to property, plant and equipment	-	-	-	44,145	44,145
Depreciation	-	-	-	42,828	42,828
Net loss on disposal of property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>64</u>	<u>64</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

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

2006 (Restated)

	Credit card HK\$'000	Instalment loan HK\$'000	Hire purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
CONSOLIDATED INCOME STATEMENT					
TURNOVER	<u>650,794</u>	<u>292,381</u>	<u>9,703</u>	<u>2,201</u>	<u>955,079</u>
RESULT					
Net interest income (expense)	534,780	260,066	4,646	(146)	799,346
Other operating income	93,517	18,220	47	428	112,212
Other income	-	-	-	4,690	4,690
(Increase in) reversal of impairment losses and impairment allowances	<u>(246,911)</u>	<u>(70,472)</u>	<u>1,418</u>	<u>-</u>	<u>(315,965)</u>
Segment results	<u>381,386</u>	<u>207,814</u>	<u>6,111</u>	<u>4,972</u>	600,283
Unallocated operating expenses					(294,674)
Share of results in an associate					<u>340</u>
Profit before tax					305,949
Income tax expense					<u>(53,966)</u>
Profit for the year					<u>251,983</u>



# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

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

	Credit card HK\$'000	Instalment loan HK\$'000	Hire purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
<b>CONSOLIDATED BALANCE SHEET</b>					
<b>ASSETS</b>					
Segment assets	<u>2,805,683</u>	<u>1,083,192</u>	<u>135,427</u>	<u>392,073</u>	4,416,375
Unallocated corporate assets					<u>7,017</u>
Consolidated total assets					<u>4,423,392</u>
<b>LIABILITIES</b>					
Consolidated total liabilities	<u>2,299,285</u>	<u>659,614</u>	<u>33,811</u>	<u>110,137</u>	<u>3,102,847</u>
<b>OTHER INFORMATION</b>					
Additions to property, plant and equipment	-	-	-	54,055	54,055
Depreciation	-	-	-	41,143	41,143
Net loss on disposal of property, plant and equipment	<u>-</u>	<u>-</u>	<u>-</u>	<u>558</u>	<u>558</u>

### (b) Geographical segments

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 8. INTEREST INCOME

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Time deposits, bank balances and cash	15,784	10,037
Credit card receivables, instalment loans receivable and hire purchase debtors	940,617	888,894
Impaired credit card receivables, instalment loans receivable and hire purchase debtors	30,950	31,394
	<u>987,351</u>	<u>930,325</u>

## 9. INTEREST EXPENSE

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Interest on bank borrowings and overdrafts wholly repayable within five years	123,552	93,197
Interest on bank borrowings and overdrafts wholly repayable after five years	1,040	–
Interest on issued debt securities wholly repayable within five years	18,220	40,416
Interest on collateralised debt obligation wholly repayable after five years	1,890	–
	<u>144,702</u>	<u>133,613</u>
Gain arising on derivative financial instruments not in a designated hedge accounting relationship	–	(2,634)
	<u>144,702</u>	<u>130,979</u>

Included in the interest expense on issued debt securities wholly repayable within five years and collateralised debt obligation wholly repayable after five years are amortisation of upfront costs of HK\$1,861,000 and HK\$71,000 respectively. (2006: HK\$2,877,000 and Nil).

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 10. OTHER OPERATING INCOME

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Dividends received on available-for-sale investments	983	428
Net foreign exchange gain	243	–
Fees and commissions	33,000	24,754
Handling and late charges	79,735	82,633
Others	1,914	4,397
	<u>115,875</u>	<u>112,212</u>

## 11. OTHER INCOME

	2007	2006
	HK\$'000	HK\$'000
Gain on disposal of available-for-sale investments	19,206	–
Loss on disposal of investments held for trading	(323)	–
Gain on derivative financial instruments	–	4,110
Net loss on disposal of property, plant and equipment	(64)	(558)
Unrealised gain on revaluation of investments held for trading	–	1,138
	<u>18,819</u>	<u>4,690</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 12. OPERATING EXPENSES

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Administrative expenses	84,113	71,334
Advertising expenses	39,445	28,147
Auditor's remuneration	1,790	1,600
Depreciation	42,828	41,143
Net foreign exchange loss	–	61
Operating lease rentals in respect of rented premises, advertising space and equipment	56,537	46,462
Other operating expenses	34,334	29,883
Staff costs including directors' emoluments	94,674	76,044
	<u>353,721</u>	<u>294,674</u>

Operating lease rentals in respect of staff quarters of HK\$747,000 (2006: HK\$553,000) are included under staff costs.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### (a) Directors' emoluments

The emoluments paid or payable to each of the thirteen (2006: nine) directors were as follows:

Name of director	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonus HK\$'000	Mandatory provident fund contributions HK\$'000	Total HK\$'000
<b>2007</b>					
Yoshiki Mori	-	-	-	-	-
Masanori Kosaka ( <i>Note</i> )	-	1,482	470	12	1,964
Lai Yuk Kwong	-	1,224	130	12	1,366
Koh Yik Kung	-	1,560	30	12	1,602
Pan Shu Pin, Ban (14.6.2006 - 20.2.2007)	-	576	100	8	684
Tomoyuki Kawahara (14.6.2006 - 20.2.2007)	-	588	100	8	696
Fung Kam Shing, Barry (14.6.2006 - 20.2.2007)	-	617	100	8	725
Kazuhide Kamitani	-	-	-	-	-
Yoichi Kimura (21.2.2006 - 26.4.2006)	38	-	-	-	38
Shao You Bao (21.2.2006 - 12.3.2006)	22	-	-	-	22
Tsang Wing Hong	240	-	-	-	240
Wong Hin Wing	210	-	-	-	210
Hui Ching Shan (26.6.2006 - 20.2.2007)	131	-	-	-	131
	<u>641</u>	<u>6,047</u>	<u>930</u>	<u>60</u>	<u>7,678</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

### (a) Directors' emoluments (Cont'd)

Name of director	Fees HK\$'000	Salaries and other benefits HK\$'000	Discretionary bonus HK\$'000	Mandatory provident fund contributions HK\$'000	Total HK\$'000
2006					
Yoshiki Mori	-	-	-	-	-
Masanori Kosaka ( <i>Note</i> )	-	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
	<u>840</u>	<u>4,170</u>	<u>540</u>	<u>36</u>	<u>5,586</u>

*Note:* Operating lease rentals in respect of director's accommodation of HK\$342,000 (2006: HK\$342,000) are included under salaries and other benefits.

### (b) Employees' emoluments

During the year, the five highest paid individuals were all directors (2006: three directors), details of whose emoluments are set out above. The emoluments paid to the remaining two individuals in 2006 were within the band of Nil to HK\$1,000,000 and as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries and other benefits	-	1,698
Discretionary bonus	-	140
	<u>-</u>	<u>1,838</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 14. IMPAIRMENT LOSSES AND IMPAIRMENT ALLOWANCES

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Charge to the consolidated income statement	333,985	333,858
Recoveries	<u>(30,927)</u>	<u>(17,893)</u>
	<u><b>303,058</b></u>	<u><b>315,965</b></u>

## 15. INCOME TAX EXPENSE

	2007	2006 (Restated)
	HK\$'000	HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current year	53,917	36,687
– Overprovision in respect of prior years	<u>(6,880)</u>	<u>(121)</u>
	47,037	36,566
Deferred tax (note 28)		
– Current year	–	17,400
– Reversal of deferred tax assets	<u>6,017</u>	<u>–</u>
	<u><b>53,054</b></u>	<u><b>53,966</b></u>

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 15. INCOME TAX EXPENSE (Cont'd)

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

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Profit before tax	<u>319,750</u>	<u>305,949</u>
Tax at the applicable rate of 17.5% (2006: 17.5%)	55,956	53,541
Tax effect of share of results in associates	143	(59)
Tax effect of expenses not deductible for tax purpose	5	17
Tax effect of income not taxable for tax purpose	(3,881)	(659)
Overprovision in respect of prior years	(6,880)	(121)
Reversal of deferred tax	6,017	–
Others	<u>1,694</u>	<u>1,247</u>
Tax charge for the year	<u>53,054</u>	<u>53,966</u>

## 16. DIVIDENDS

	2007	2006
	HK\$'000	HK\$'000
Dividend recognised as distribution during the year:		
Final dividend paid in respect of 2006 of 11.5 cents (2005: 10.5 cents) per share	48,158	43,970
Interim dividend paid in respect of 2007 of 8.5 cents (2006: 6.5 cents) per share	<u>35,595</u>	<u>27,220</u>
	<u>83,753</u>	<u>71,190</u>
Final dividend proposed in respect of 2007 of 17.5 cents (2006: 11.5 cents) per share	<u>73,284</u>	<u>48,158</u>

The final dividend of 17.5 HK cents per share has been proposed by the directors and will be paid to shareholders on 28th June 2007. This dividend is subject to approval by shareholders at the forthcoming annual general meeting and has not been included as a liability in these consolidated financial statements. The proposed dividend is payable to all shareholders on the register of members on 15th June 2007.



# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 17. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK\$266,696,000 (2006: HK\$251,983,000) and on the number of 418,766,000 (2006: 418,766,000) shares in issue during the year.

### Impact of changes in accounting policies

Changes in 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 2007 and 2006, 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:

	<b>2007</b>	2006
	<b>HK cents</b>	HK cents
Figures before adjustments	<b>47.14</b>	44.44
Adjustments arising from changes in accounting policies	<b>16.55</b>	15.73
As reported/restated	<b><u>63.69</u></b>	<u>60.17</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 18. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
<b>COST</b>					
At 21st February 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)
<b>At 20th February 2006</b>	<b>12,727</b>	<b>15,830</b>	<b>217,101</b>	<b>352</b>	<b>246,010</b>
<b>Additions</b>	<b>5,612</b>	<b>1,138</b>	<b>37,395</b>	<b>-</b>	<b>44,145</b>
<b>Disposals</b>	<b>-</b>	<b>(1,276)</b>	<b>(2,215)</b>	<b>-</b>	<b>(3,491)</b>
<b>At 20th February 2007</b>	<b>18,339</b>	<b>15,692</b>	<b>252,281</b>	<b>352</b>	<b>286,664</b>
<b>DEPRECIATION</b>					
At 21st February 2005	10,654	11,231	119,587	232	141,704
Provided for the year	1,442	1,894	37,689	118	41,143
Eliminated on disposals	(4,866)	(1,019)	(27,948)	(203)	(34,036)
<b>At 20th February 2006</b>	<b>7,230</b>	<b>12,106</b>	<b>129,328</b>	<b>147</b>	<b>148,811</b>
<b>Provided for the year</b>	<b>3,376</b>	<b>1,034</b>	<b>38,301</b>	<b>117</b>	<b>42,828</b>
<b>Eliminated on disposals</b>	<b>-</b>	<b>(1,276)</b>	<b>(2,151)</b>	<b>-</b>	<b>(3,427)</b>
<b>At 20th February 2007</b>	<b>10,606</b>	<b>11,864</b>	<b>165,478</b>	<b>264</b>	<b>188,212</b>
<b>CARRYING VALUES</b>					
<b>At 20th February 2007</b>	<b>7,733</b>	<b>3,828</b>	<b>86,803</b>	<b>88</b>	<b>98,452</b>
At 20th February 2006	5,497	3,724	87,773	205	97,199

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 19. INVESTMENTS IN ASSOCIATES

	2007 HK\$'000	2006 HK\$'000
Cost of unlisted investments in associates	39,946	1,000
Share of post-acquisition results	500	1,314
	<u>40,446</u>	<u>2,314</u>
Amount due to an associate	(299)	(94)
	<u><u>40,147</u></u>	<u><u>2,220</u></u>

Details of the Group's associates at 20th February 2007 are as follows:

Name of associates	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activities
AEON Credit Guarantee (China) Co., Ltd.	People's Republic of China ("China")	50%	33 $\frac{1}{3}$ %	Provision of guarantee business
AEON Information Service (Shenzhen) Co., Ltd.	China	50%	33 $\frac{1}{3}$ %	Provision of call centre services

The above associates are also fellow subsidiaries of the Company.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 19. INVESTMENTS IN ASSOCIATES (Cont'd)

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

<b>Balance sheet</b>	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Total assets	<b>84,658</b>	7,536
Total liabilities	<b>(3,766)</b>	(2,908)
Net assets	<b>80,892</b>	4,628
Share of associates' net assets	<b>40,446</b>	2,314
<b>Income statement</b>	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
Revenue	<b>18,440</b>	13,669
(Loss) profit for the year	<b>(1,628)</b>	680
Share of associates' (loss) profit for the year	<b>(814)</b>	340

## 20. AVAILABLE-FOR-SALE INVESTMENTS

	<b>2007</b>	2006
	<b>HK\$'000</b>	HK\$'000
At fair value:		
Issued by corporate entities		
Listed shares		
Hong Kong	<b>17,583</b>	13,853
Overseas	–	26,545
Unlisted shares	<b>34,792</b>	24,672
	<b>52,375</b>	65,070

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 20. AVAILABLE-FOR-SALE INVESTMENTS (Cont'd)

The investments included above represent investments in both listed and unlisted equity securities that offer the Group the opportunity for return through dividend income and fair value gains. The fair values of listed shares are based on quoted market bid 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 9 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.

## 21. INVESTMENTS HELD FOR TRADING

Investments held for trading at 20th February 2006 represented shares listed overseas and were stated at fair value based on quoted market bid prices.

## 22. CREDIT CARD RECEIVABLES

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Due:		
Within one year	2,755,391	2,518,328
In the second to fifth year inclusive	116,909	35,227
	<u>2,872,300</u>	<u>2,553,555</u>
Impairment allowances		
– individually assessed	(24,181)	(41,377)
– collectively assessed	(45,466)	(56,533)
	<u>(69,647)</u>	<u>(97,910)</u>
	2,802,653	2,455,645
Current portion included under current assets	<u>(2,688,578)</u>	<u>(2,421,535)</u>
	114,075	34,110
	<u>114,075</u>	<u>34,110</u>

The term of card instalment plans entered with customers 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 19.6% to 43.6%.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 22. CREDIT CARD RECEIVABLES (Cont'd)

### Asset backed financing transactions

During the year, the Group entered into asset backed financing transactions, which are collateralised by the Group's revolving credit card receivables portfolio. The transactions do not meet the "transfer of assets" tests under HKAS 39 Financial Instruments: Recognition and Measurement. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received as collateralised debt obligation (see note 42) (2006: issued debt securities (see note 37)). At 20th February 2007, the carrying amount of the credit card receivables under these financing transactions is HK\$1,284,786,000 (2006: HK\$1,217,639,000). The carrying amount of the collateralised debt obligation is HK\$850,000,000 (2006: issued debt securities – HK\$850,000,000).

## 23. INSTALMENT LOANS RECEIVABLE

	2007 HK\$'000	2006 HK\$'000
Due:		
Within one year	859,417	740,148
In the second to fifth year inclusive	<u>498,441</u>	<u>370,515</u>
	1,357,858	1,110,663
Impairment allowances		
– individually assessed	<span style="border: 1px solid black;">(19,352)</span>	<span style="border: 1px solid black;">(33,307)</span>
– collectively assessed	<span style="border: 1px solid black;">(37,175)</span>	<span style="border: 1px solid black;">(20,422)</span>
	<u>(56,527)</u>	<u>(53,729)</u>
	1,301,331	1,056,934
Current portion included under current assets	<u>(823,640)</u>	<u>(704,343)</u>
	<u>477,691</u>	<u>352,591</u>

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 24. HIRE PURCHASE DEBTORS

	Minimum payments		Present value of minimum payments	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Amounts receivable under hire purchase contracts:				
Within one year	<b>107,682</b>	121,875	<b>106,831</b>	121,023
In the second to fifth year inclusive	<b>18,367</b>	18,157	<b>18,078</b>	17,832
	<b>126,049</b>	140,032	<b>124,909</b>	138,855
Unearned finance income	<b>(1,140)</b>	(1,177)	–	–
Present value of minimum payments receivable	<b>124,909</b>	138,855	<b>124,909</b>	138,855
Analysed as:				
			2007 HK\$'000	2006 HK\$'000
Due:				
Within one year			<b>106,831</b>	121,023
In the second to fifth year inclusive			<b>18,078</b>	17,832
			<b>124,909</b>	138,855
Impairment allowances				
– individually assessed			<b>(1,142)</b>	(2,282)
– collectively assessed			<b>(1,637)</b>	(1,337)
			<b>(2,779)</b>	(3,619)
Current portion included under current assets			<b>122,130</b> <b>(104,454)</b>	135,236 (117,804)
Amount due after one year			<b>17,676</b>	17,432

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

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

The term of hire purchase contracts entered with customers ranges from 5 months to 3 years. All hire purchase agreements are denominated in Hong Kong dollars. Hire purchase debtors of HK\$116,311,000 (2006: HK\$129,990,000) are non-interest bearing. The remaining hire purchase debtors carry interest ranging from 11.1% to 14.8%.

## 25. OVERDUE DEBTOR BALANCE

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

	2007		2006 (Restated)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	96,448	2.2	86,871	2.3
Overdue 2 months but less than 3 months	27,859	0.6	34,468	0.9
Overdue 3 months or above	57,051	1.3	81,902	2.1
	<u>181,358</u>	<u>4.1</u>	<u>203,241</u>	<u>5.3</u>

\* Percentage of total debtor balance

## 26. PREPAYMENTS, DEPOSITS, INTEREST RECEIVABLE AND OTHER DEBTORS

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Within one year	129,105	162,276
Impairment allowances	(5,257)	(3,440)
	<u>123,848</u>	<u>158,836</u>



# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 27. IMPAIRMENT ALLOWANCES

	2007	2006 (Restated)
	HK\$'000	HK\$'000
At 21st February	158,698	199,017
Net charge to the consolidated income statement for the year	303,058	315,965
Amounts written off during the year	(358,473)	(374,177)
Recoveries during the year	30,927	17,893
	<u>134,210</u>	<u>158,698</u>
At 20th February	<u>134,210</u>	<u>158,698</u>
Analysis by products as:		
Credit card receivables (note 22)	69,647	97,910
Instalment loans receivable (note 23)	56,527	53,729
Hire purchase debtors (note 24)	2,779	3,619
Prepayments, deposits, interest receivable and other debtors (note 26)	5,257	3,440
	<u>134,210</u>	<u>158,698</u>

## 28. DEFERRED TAX ASSETS

	2007	2006 (Restated)
	HK\$'000	HK\$'000
At 21st February	7,017	24,417
Charge to consolidated income statement for the year	–	(17,400)
Reversal	(6,017)	–
	<u>1,000</u>	<u>7,017</u>
At 20th February	<u>1,000</u>	<u>7,017</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 28. DEFERRED TAX ASSETS (Cont'd)

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

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Tax effect of temporary differences because of:		
Impairment allowances	15,800	23,017
Excess of tax allowances over depreciation	<u>(14,800)</u>	<u>(16,000)</u>
Net deferred tax assets	<u>1,000</u>	<u>7,017</u>

## 29. RESTRICTED CASH

The Group's restricted cash is in relation to collateralised debt obligation at 20th February 2007 and issued debt securities at 20th February 2006. This represents time deposits carrying at fixed rates ranging from 3.7% to 4.5% (0.3% to 4.1% for the year ended 20th February 2006) during the year.

## 30. TIME DEPOSITS

Time deposits carry fixed rates ranging from 3.0% to 5.0% (0.3% to 4.1% for the year ended 20th February 2006) during the year.

## 31. BANK BALANCES AND CASH

Bank balances carry prevailing market interest rate.

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

	Hong Kong dollars HK\$'000	Yen HK\$'000	Total HK\$'000
<b>2007</b>			
Bank balances and cash	<u>93,032</u>	<u>21,163</u>	<u>114,195</u>
<b>2006</b>			
Bank balances and cash	<u>72,258</u>	<u>187</u>	<u>72,445</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 32. CREDITORS AND ACCRUED CHARGES

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

	2007	2006 (Restated)
	HK\$'000	HK\$'000
Current	121,078	123,926
Over 1 month but less than 3 months	653	273
Over 3 months	207	329
	<u>121,938</u>	<u>124,528</u>

## 33. MATURITY PROFILE

	2007				Total HK\$'000
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	4 years or less but over 1 year HK\$'000	Over 4 years HK\$'000	
<b>ASSETS</b>					
Credit card receivables	2,531,812	223,579	116,909	-	2,872,300
Instalment loans receivable	245,083	614,334	487,404	11,037	1,357,858
Hire purchase debtors	36,566	70,265	18,078	-	124,909
Restricted cash	-	-	-	120,000	120,000
Time deposits	166,116	-	-	-	166,116
	<u>2,979,577</u>	<u>908,178</u>	<u>622,391</u>	<u>131,037</u>	<u>4,641,183</u>
<b>LIABILITIES</b>					
Collateralised debt obligation	-	-	-	846,806	846,806
Bank borrowings	411,000	295,000	1,140,000	574,178	2,420,178
Bank overdrafts	1,695	-	-	-	1,695
	<u>412,695</u>	<u>295,000</u>	<u>1,140,000</u>	<u>1,420,984</u>	<u>3,268,679</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 33. MATURITY PROFILE (Cont'd)

	2006				Total HK\$'000
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	(Restated) 4 years or less but over 1 year HK\$'000	Over 4 years HK\$'000	
<b>ASSETS</b>					
Credit card receivables	2,424,111	94,217	35,227	–	2,553,555
Instalment loans receivable	226,932	513,216	364,822	5,693	1,110,663
Hire purchase debtors	46,628	74,395	17,832	–	138,855
Restricted cash	–	120,000	–	–	120,000
Time deposits	237,519	–	–	–	237,519
	<u>2,935,190</u>	<u>801,828</u>	<u>417,881</u>	<u>5,693</u>	<u>4,160,592</u>
<b>LIABILITIES</b>					
Issued debt securities	131,659	716,480	–	–	848,139
Bank borrowings	386,000	275,000	1,030,000	365,000	2,056,000
Bank overdrafts	2,079	–	–	–	2,079
	<u>519,738</u>	<u>991,480</u>	<u>1,030,000</u>	<u>365,000</u>	<u>2,906,218</u>

## 34. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

## 35. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

## 36. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 37. ISSUED DEBT SECURITIES

The issued debt securities are backed by credit card receivables in Hong Kong (see notes 22 and 45) and with the carrying amount denominated in Hong Kong dollars. The issued debt securities have been fully repaid on 20th February 2007. 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 and 0.45% per annum afterwards. The effective interest rate is 4.5% during the year.

## 38. BANK BORROWINGS

	2007 HK\$'000	2006 HK\$'000
Bank loans, unsecured	<u>2,420,178</u>	<u>2,056,000</u>
The maturity of bank borrowings is as follows:		
Within one year	706,000	661,000
Between one and two years	415,000	325,000
Between two and five years	1,269,178	1,070,000
Over five years	<u>30,000</u>	<u>–</u>
	2,420,178	2,056,000
Amount repayable within one year included under current liabilities	<u>(706,000)</u>	<u>(661,000)</u>
Amount repayable after one year	<u>1,714,178</u>	<u>1,395,000</u>

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

	Hong Kong dollars HK\$'000	Yen HK\$'000	Total HK\$'000
<b>2007</b>			
Bank loans	<u>1,921,000</u>	<u>499,178</u>	<u>2,420,178</u>
<b>2006</b>			
Bank loans	<u>2,056,000</u>	<u>–</u>	<u>2,056,000</u>

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 38. BANK BORROWINGS (Cont'd)

Hong Kong dollar bank loans of HK\$615,000,000 (2006: HK\$850,000,000) are arranged at fixed interest rates ranging from 3.7% to 7.0% (2006: 3.4% to 7.0%) and expose the Group to fair value interest rate risk. Other Hong Kong dollar bank borrowings are arranged at floating interest rates ranging from HIBOR plus 0.5% to 0.75% per annum while the Yen borrowing is arranged at floating interest rate of JPY-LIBOR-BBA plus 0.4% per annum, thus exposing the Group to cash flow interest rate risk.

At 20th February 2007, the Group did not have available (2006: HK\$360,000,000) undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

## 39. DERIVATIVE FINANCIAL INSTRUMENTS

	2007		2006	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	7,115	3,506	12,894	2,794
Cross-currency interest rate swap	–	10,133	–	–
	<u>7,115</u>	<u>13,639</u>	<u>12,894</u>	<u>2,794</u>

### Cash flow hedges:

#### *Interest rate swaps*

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rate Hong Kong dollar bank borrowings by swapping a proportion of the floating-rate bank borrowings from floating rates to fixed rates. The interest rate swaps of the Group with aggregate notional amount of HK\$ 925,000,000 have fixed interest payments at an average rate of 4.6% and floating interest receipts at an average rate of 0.7% plus HIBOR for periods up until July 2013. The interest rate swaps and the corresponding bank borrowings have the same terms and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments.

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 39. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

### Cash flow hedges: (Cont'd)

#### *Cross-currency interest rate swap*

During the year, the Group had the following cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposure to foreign currency risk of its floating-rate Yen syndicated bank borrowing by swapping the floating-rate Yen bank borrowing to fixed-rate Hong Kong dollar bank borrowing. The cross-currency interest rate swap of the Group with notional amount of HK\$499,178,000 has fixed currency payments in Japanese Yen at an exchange rate of 15.0, fixed interest payments at 4.9% and floating interest receipts at 0.4% plus JPY-LIBOR-BBA for periods up until September 2011. The cross-currency interest rate swap and the corresponding syndicated bank borrowing have the same terms and the directors of the Company consider that the cross-currency interest rate swap is highly effective hedging instrument.

The fair value of the cross-currency interest rate swap is based on JPY-LIBOR-BBA yield curve at balance sheet date estimated by using the discounted cash flow method.

## 40. ISSUED CAPITAL

	Number of shares 2007 & 2006	Share capital 2007 & 2006 HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised		
At beginning and end of year	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid		
At beginning and end of year	<u>418,766,000</u>	<u>41,877</u>

## 41. SHARE PREMIUM AND RESERVES

The Group's reserves available for distribution to shareholders at 20th February 2007 amounted to HK\$1,212,975,000 (2006: HK\$1,038,431,000), representing the accumulated profits.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 42. COLLATERALISED DEBT OBLIGATION

- (a) During the year, the Company entered into a HK\$850,000,000 collateralised debt obligation financing transaction (the “Transaction”). Pursuant to this Transaction, the Company transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the “Trust”) established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Company is the sole beneficiary of the Trust and holds the entire undivided interest in the credit card receivables transferred. In accordance with HKAS-INT-12, the Trust is deemed to be controlled by the Company and the results thereof are consolidated by the Company in its consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under this Transaction have not been derecognised and remained in the Group’s consolidated financial statements.
- (b) The collateralised debt obligation is backed by the credit card receivables transferred (see notes 22 and 45) and with the carrying amount denominated in Hong Kong dollars. The revolving period of the Transaction will end in February 2012. The monthly interest of the collateralised debt obligation is fixed at 4.9% during the revolving period, thus exposing the Group to fair value interest rate risk. The effective interest rate is 4.9% during the year.

## 43. OPERATING LEASE COMMITMENTS

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

	<b>2007</b>	2006
	<b>HK\$’000</b>	HK\$’000
Within one year	<b>40,710</b>	35,840
In the second to fifth year inclusive	<b>44,820</b>	44,641
After five years	–	3,132
	<u><b>85,530</b></u>	<u>83,613</u>

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



# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 43. OPERATING LEASE COMMITMENTS (Cont'd)

In prior year, the Group 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 Group had 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. All leases were expired during the year and the Group did not exercise further option to renew the remaining lease. At balance sheet date, the Group did not have any commitments for minimum future lease payments in respect of the lease (2006: HK\$1,650,000 falling due within one year).

## 44. CAPITAL COMMITMENTS

	2007 HK\$'000	2006 HK\$'000
Contracted for, but not provided in the consolidated financial statements:		
Purchase of property, plant and equipment	11,946	21,081
Authorised but not contracted for in the consolidated financial statements:		
Purchase of available-for-sale investments	2,273	–
	<u>14,219</u>	<u>21,081</u>

## 45. PLEDGE OF ASSETS

At 20th February 2007, the Group's collateralised debt obligation was secured by credit card receivables of HK\$1,284,786,000 (2006: HK\$1,217,639,000) (see note 22).

## 46. RETIREMENT BENEFITS SCHEME

The Company operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees. The assets of the MPF Scheme are held separately from those of the Company, in funds under the control of trustees. The Company contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees. The total cost charged to income of HK\$2,950,000 (2006: HK\$2,348,000) represents contributions payable to the MPF Scheme by the Company in respect of the current accounting year. As at 20th February 2007, contributions of HK\$496,000 (2006: HK\$415,000) due in respect of the reporting year had not been paid over to the MPF Scheme.

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 47. RELATED PARTY TRANSACTIONS

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

	Fellow subsidiaries		Immediate holding company		Ultimate holding company		Associates	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income received	<u>9,255</u>	<u>9,358</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Commission received	<u>2,751</u>	<u>2,465</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Dividends received	<u>729</u>	<u>249</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees received	<u>-</u>	<u>-</u>	<u>-</u>	<u>203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees paid	<u>5,888</u>	<u>5,728</u>	<u>148</u>	<u>181</u>	<u>50</u>	<u>45</u>	<u>-</u>	<u>-</u>
Service fees paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,952</u>	<u>11,066</u>
Subscription of new shares	<u>10,120</u>	<u>14,092</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital injected in an incorporated associate	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,946</u>	<u>-</u>
Purchase of motor vehicle	<u>-</u>	<u>-</u>	<u>-</u>	<u>223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### Compensation of key management personnel

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

	2007	2006
	HK\$'000	HK\$'000
Short-term benefits	<u>12,268</u>	<u>12,341</u>

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

# Notes to the Consolidated Financial Statements

For the year ended 20th February 2007

## 48. PARTICULARS OF A SUBSIDIARY AND A MASTER TRUST OF THE COMPANY

### (a) Subsidiary

Name of subsidiary	Place of incorporation and operation	Issued share capital/paid-up capital	Proportion of ownership interest deemed to be held by the Company	Principal activities
Nihon (Hong Kong) Company Limited (note)	Hong Kong	HK\$1,000	100%	Investment holding

*Note:* Nihon (Hong Kong) Company Limited is a special purpose entity set up for a securitisation program. At 20th February 2007, assets in this special purpose entity consist of time deposit.

### (b) Master trust

Horizon Master Trust (AEON 2006-1) is a special purpose entity set up for a collateralised debt obligation financing transaction. At 20th February 2007, assets in this special purpose entity mainly consist of credit card receivables, restricted cash, time deposits, subordinated beneficiary and seller beneficiary.

# Branches and ATMs

At 11th May 2007

Branches		Telephone
<i>Hong Kong Island</i>		
Aberdeen	Shop 1A & 1B, 1/F, Site 5, Aberdeen Centre	2239 9747
Causeway Bay	37/F, The World Trade Centre, 280 Gloucester Road	2577 6377
Causeway Bay	Net branch, 37/F, The World Trade Centre, 280 Gloucester Road	2239 9825
Central	Room 1203, Century Square, 1 – 13 D’Aguilar Street	2537 1672
Chai Wan	Shop 31, Level 4, New Jade Shopping Arcade, No. 233 Chai Wan Road	2896 2971
Kornhill	Shop L302, 3/F, Kornhill Plaza (South), 2 Kornhill Road	2886 5307
Sheung Wan	Shop 296B, 2/F, Shun Tak Centre (Podium), Nos. 168 – 200 Connaught Road	3628 4110
<i>Kowloon</i>		
Cheung Sha Wan	Unit 105, 1/F, Cheung Sha Wan Plaza, Tower 2, No. 833 Cheung Sha Wan Road	3628 4115
Hung Hom	Shop 12, Chuang’s Hung Hom Plaza, 83 Wuhu Street	3586 3041
Jordan	Shop 108, 1/F, Chuang’s London Plaza, 219 Nathan Road	2732 2206
Kwun Tong	G/F, Hong Ning Building, 7 Mut Wah Street	2763 9698

# *Branches and ATMs*

At 11th May 2007

## **Branches (Cont'd)**

Telephone

### *Kowloon*

Lok Fu	Shop 302, 3/F, Lok Fu Shopping Centre II, Junction Road	2336 1193
Mongkok	Shop 4-5, G/F, 168 Sai Yeung Choi Street	2388 9149
Sham Shui Po	Unit No. 210A, 2/F, Dragon Centre, 37K Yen Chow Street	3586 3518
Tseung Kwan O	Shop L206, Level 2, East Point City, 8 Chung Wa Road	2628 5618
Tsim Sha Tsui	G/F, Karlock Building, No. 7A Lock Road	3628 4105
Whampoa	Shop G5 - 16, G/F, Site 5 & 6 Whampoa Garden	2142 9193
Yau Ma Tei	Room 502, 5/F, Kelly Commercial Centre, Nos. 570 - 572 Nathan Road	3628 4100

### *New Territories*

Kwai Chung	Shop No 27, G/F, Kwai Chung Plaza, 7 - 11 Kwai Foo Road	2619 9846
Nan Fung	Unit No. 803, 8/F, Nan Fung Centre, 264 - 298 Castle Peak Road	2111 5950
Shatin	Shop 10 B&C, G/F, Lucky Plaza, 1 - 15 Wang Pok Street	2687 4348
Sheung Shui	Shop E, G/F, Lung Ha Building, Nos. 122 - 130 San Fung Avenue	3628 4120
Sky Plaza	Shop 112, Level 3, SkyPlaza, Hong Kong International Airport	3628 4125

# Branches and ATMs

At 11th May 2007

## Branches (Cont'd)

Telephone

### *New Territories*

Tai Po	Shop 101, Level 1, Zone B, Tai Po Mega Mall, 8 – 10 On Pong Road	2658 1382
Tsuen Wan	Shop FL405, Level 4, Tsuen Wan Plaza, 4 – 30 Tai Pa Street	2415 5448
Tuen Mun	Units C and D, G/F, Ming Wai Building, Nos. 4 – 26 Tuen Mun Heung Sze Wui Road	2618 7325
Tuen Mun	Shop 219A, UG/F, Tuen Mun Town Plaza, Phase 1, 1 Tuen Shun Street	2404 9627
Yuen Long	Shop 6, 1/F, Prosper Centre, 29 Sau Fu Street	2442 0404

## ATMs (Total: 305)

	Hong Kong Island	Kowloon	New Territories
Branches	11	21	18
Shopping Centres	10	25	23
Convenience Stores	30	57	68
KCR and MTR	3	13	19
Others	2	5	–
	<hr/>	<hr/>	<hr/>
Total	<u>56</u>	<u>121</u>	<u>128</u>