AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

AEON 信貸財務(亞洲)有限公司

(Incorporated in Hong Kong with limited liability)

Stock Code: 900

ANNUAL REPORT 2016/17

Planting Seeds of Growth

We are ÆON

Corporate Social Responsibility
企業社會責任

1

2

3

4

1 AEON Scholarship Ceremony in Lingnan University AEON獎學金頒獎典禮 - 嶺南大學

2 AEON Scholarship Ceremony in Tsinghua University AEON獎學金頒獎儀式 - 清華大學

3 UNICEF Young Envoys Programme 聯合國兒童基金會青年使者計劃

4 Hong Kong Tree Planting Day 香港植樹日

Contents

This report is printed on recycled paper

Corporate Information

Board of Directors

Executive Directors
Hideo Tanaka *(Managing Director)*
Koh Yik Kung
Kiyoshi Wada
Tomoharu Fukayama
Toru Hosokawa

Non-executive Director
Takamitsu Moriyama *(Chairman)*

Independent Non-executive Directors
Lee Ching Ming, Adrian
Wong Hin Wing
Kenji Hayashi

Company Secretary

Koh Yik Kung

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Share Registrar

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Major Bankers

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

Registered Office

20/F, Miramar Tower
132 Nathan Road
Tsimshatsui
Kowloon
Hong Kong

Internet Address

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

Stock Code

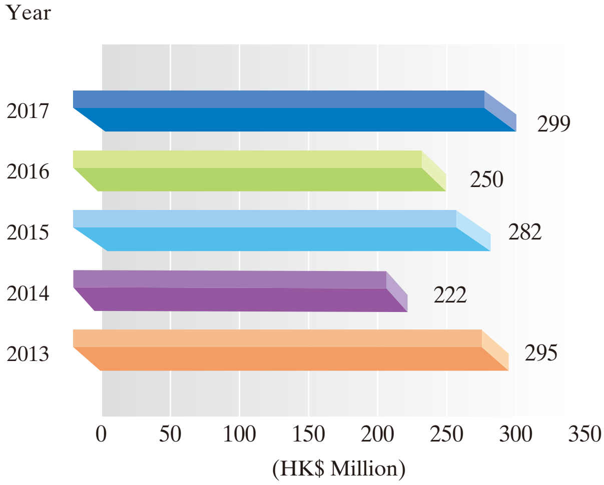
900

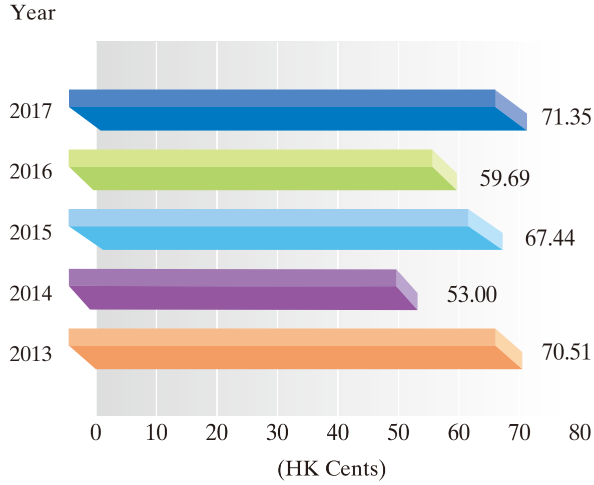
Shareholders' Calendar

30th September 2016	Announcement of interim results for the six months ended 31st August 2016
18th October 2016	Book closing dates for interim dividend
20th October 2016	Despatch of interim report for the six months ended 31st August 2016
31st October 2016	Payment of interim dividend of 18.0 HK cents per share
27th April 2017	Announcement of final results for the year ended 28th February 2017
19th May 2017	Despatch of annual report for the year ended 28th February 2017
19th – 23rd June 2017	Book closing dates for 2017 AGM
23rd June 2017	2017 AGM
29th June 2017	Book closing date for final dividend
13th July 2017	Payment of final dividend of 20.0 HK cents per share (subject to shareholders' approval at the 2017 AGM)

Financial Summary

CONSOLIDATED RESULTS



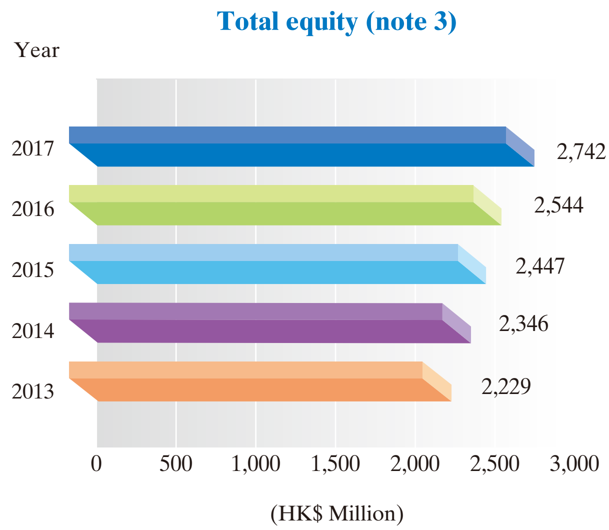


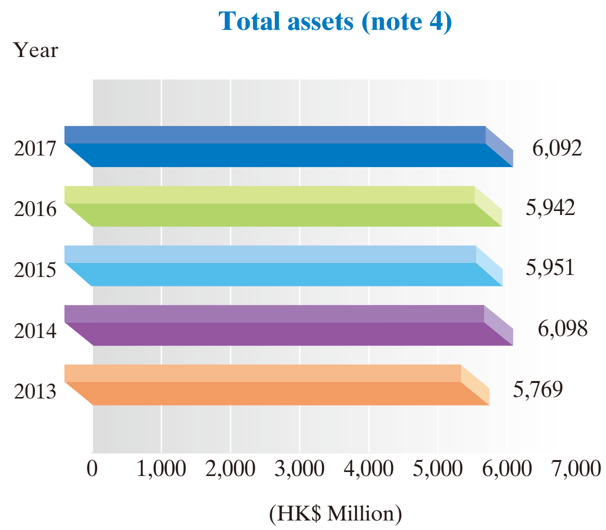
from 1.3.2016 to 28.2.2017
from 1.3.2015 to 29.2.2016
from 21.2.2014 to 28.2.2015
from 21.2.2013 to 20.2.2014
from 21.2.2012 to 20.2.2013

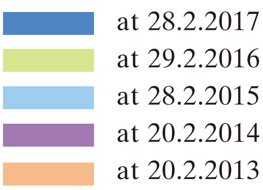
	20.2.2013 HK$'000	20.2.2014 HK$'000	28.2.2015 HK$'000	29.2.2016 HK$'000	**28.2.2017** **HK$'000**
Revenue	1,121,348	1,164,653	1,295,955	1,258,854	**1,228,100**
Profit before tax	355,361	274,490	346,680	307,355	**367,234**
Income tax expense	(60,089)	(52,542)	(64,276)	(57,388)	**(68,438)**
Profit for the year/period	295,272	221,948	282,404	249,967	**298,796**
Earnings per share	70.51 HK cents	53.00 HK cents	67.44 HK cents	59.69 HK cents	**71.35 HK cents**
Dividend per share	35.00 HK cents	35.00 HK cents	36.00 HK cents	36.00 HK cents	**38.00 HK cents**

Financial Summary

CONSOLIDATED ASSETS AND LIABILITIES







	At				
	20.2.2013 HK$'000	20.2.2014 HK$'000	28.2.2015 HK$'000	29.2.2016 HK$'000	**28.2.2017** **HK$'000**
Total assets	5,768,806	6,097,778	5,951,429	5,941,584	**6,091,800**
Total liabilities	(3,539,697)	(3,752,203)	(3,504,086)	(3,398,012)	**(3,349,729)**
Total equity	2,229,109	2,345,575	2,447,343	2,543,572	**2,742,071**

Notes:

1. Represents the consolidated profit for the financial years ended 20th February 2013, 2014 and for the financial periods from 21st February 2014 to 28th February 2015, from 1st March 2015 to 29th February 2016 and from 1st March 2016 to 28th February 2017.

2. Represents the consolidated earnings per share for the financial years ended 20th February 2013, 2014 and for the financial periods from 21st February 2014 to 28th February 2015, from 1st March 2015 to 29th February 2016 and from 1st March 2016 to 28th February 2017.

3. Represents the consolidated total equity at 20th February 2013, 2014, at 28th February 2015, at 29th February 2016 and at 28th February 2017.

4. Represents the consolidated total assets at 20th February 2013, 2014, at 28th February 2015, at 29th February 2016 and at 28th February 2017.

Managing Director's Operational Review

Hideo Tanaka
Managing Director

I am pleased to report that the Group delivered a good set of financial results for FY2016/17. The business delivered a good performance with strong growth in profit. We achieved this growth by adhering to a clear strategy which included improving operation efficiency, expanding into new customer segments, and delivering an excellent user experience to our customers. In addition, our disciplined approach to cost control and our focus on working capital further supported this performance.

In FY2016/17, apart from ensuring achievement of a worthy financial performance, the Board also focused on refining the Group's strategy for growth, involving detailed reviews of each business. This covered the market, our customer segments, competition, products, fintech, talent, and risks. The Board will continue to measure progress and make adjustments in FY2017/18.

The Group operates in an exceedingly competitive consumer finance market. Customer spending habits and technology are driving fundamental changes to this market and the Group's unique position and broad offerings enable us to capitalize on those changes.

Managing Director's Operational Review

The Group has grown our customers and markets from traditional local spenders to encompass faster growing segments, such as overseas spenders, online shoppers, and customers seeking premium services.

We continue to lead the market with our range of products and services. We have expanded our capabilities in instant card solutions, and inter-network ATM payment services.

A growth strategy focused on enhancing our existing customer base, developing new market segments, digitalization, and operation improvement should continue to deliver sustainable sales growth.

OPERATING AND FINANCIAL RESULTS

In spite of Hong Kong's lackluster economic growth and the visible decline in tourist arrivals in 2016, the Group has maintained the commitment to our long term strategy. Our card credit purchase sales recorded a growth of 4.3% in contrast to the 8.1% drop in the value of retail sales in Hong Kong. The Group's ongoing profit and balance sheet growth is the result of careful and consistent investments made over many years. At the same time, our emphasis on operation efficiency and productivity has ensured that cost reduction or budgetary growth is justified for the period.

The core of the Group's operation continued to benefit from the improvement and strengthening of our business model. Through disciplined cost control and improvement in operational efficiencies, the Group managed to reduce operation expenditure levels significantly. The business has also been improved through lean operating initiatives and has realized savings on previously restructured activities, such as advertising, and operational expenses.

The Group's impairment losses and impairment allowances during the year ended 28th February 2017 amounted to HK$283.9 million, compared with HK$301.9 million during the year ended 29th February 2016. The decrease was mainly due to the Group's continuous exercise of cautious credit judgment in both the Hong Kong and China markets.

The Group's net profit after tax for the year increased 20.0% on the prior comparative period to HK$298.8 million. Return on equity was 10.9% and earnings per share were 71.35 HK cents, an increase of 25.9% on the prior comparative period. The equity attributable to the owners of the Company was HK$2,864 million, an increase of 8.9% from the beginning of the period.

The Group continued to preserve, create and sustain value by using cutting-edge tools to manage risks, deliver business intelligence capabilities and execute events, all while building clarity, confidence, controls and consistency. The Group's financial position remains strong with a year-end net debt to equity ratio of 0.9 times that supports our growth strategy.

Managing Director's Operational Review

DIVIDEND

Given the Group's relative strength and commitment to create value for our shareholders, the Board has recommended a final dividend of 20.0 HK cents per share, bringing the total dividend for the year ended 28th February 2017 to 38.0 HK cents per share. This represents a dividend payout ratio of 53.3%.

BUSINESS REVIEW

The Group achieved an overall satisfactory performance with strong growth in net profits. As expected, during the period under review, the Federal Reserve increased interest rates, prompting consumers and businesses accessing credit to make purchases and plan their finances to tread prudently. However, the recent rate hikes have not had a significant negative impact on our results.

The Sales Team has brought further enhancements to our products and services. Continued growth in overseas sales and premium branded cards was partially offset by anticipated lower sales of personal loan products.

Exclusive member events such as the AEON Ocean Park Halloween Joyful Event, AEON Royal Caribbean International Promotion, and the AEON SKY100 were well received by the public and presented the Company with opportunities to reach out and engage our customers.

The Group's network comprises 21 branches and 181 ATMs. Instant card issuing capability has been rolled-out across our branch network and is available with four card types – Visa, MasterCard, JCB and UnionPay. Moreover, customers can now settle payment via JET PAYMENT at JETCO ATMs.

Complete remodeling work was carried out at the Company's Kornhill and Whampoa locations to better respond to the changing needs of today's customers, including the highly digital and premium segments. Transformation will continue across our branch network, with planning decisions continuing to evolve with modern technology positioned for improved customer experiences.

Location assessment and business performance is analyzed regularly to improve coverage and service efficiency.

The Group continued to pave the way towards digitalization. We have developed and invested in IT solutions to provide users with tailored products. New technologies for analyzing big data and networking vehicles have also been necessitated.

Managing Director's Operational Review

Data security is a key concern for the Group's IT function, therefore we insist on the highest security standards and state-of-the-art technical tools to minimize the risk of compromising data confidentiality.

PROSPECTS

The combination of geopolitical volatility and fragile economic recovery in parts of the world means the risk of market volatility, and economic shock, remains heightened. At the same time, recent trends in the Hong Kong economy are less negative. Our goal as a prominent consumer finance company is to maintain a focus on the long term, whilst ensuring that we can withstand nearer term impacts.

Our influence to the growth of Hong Kong's consumer finance sector must continue to be the combination of strength and innovation that has served us well through global volatility. We will continue to manage our balance sheet, and our expenditure, conservatively. Moreover, we will continue to invest confidently into new and faster growing segments and technologies to underpin future growth, so we can play our part in the bright future that we see in the local economy.

We are continuing to grow the Group. We are outperforming our markets by driving sales, investing in new technologies, and expanding our product offerings in this fast-moving market. A strong cash flow performance and our robust balance sheet support our well-defined growth strategy.

The Group has a unique and strong position in the market in which it operates, and the Board remains confident about future growth prospects. We are well-funded and look forward to a satisfactory performance in FY2017.

IT DEVELOPMENT

The Group has implemented a new financial system which helps to improve efficiency of financial operation, reduce manual effort in data validation and provide easier reporting functions for business management.

In FY2016, the Group has further expanded the instant card system functions from initially supporting China UnionPay only, to include 3 other card types, namely, Visa, MasterCard and JCB. Customers can now have these credit cards issued in 30 minutes at our branches when applied successfully.

To facilitate customer payments to the Company, the Group has implemented JET PAYMENT. Customers, who have JETCO member bank accounts, now have one more convenient choice to do the account payment through JETCO ATMs or online banking.

To provide better customer experiences in using AEON credit cards at AEON Stores, the Group has enhanced the backend systems and infrastructure for better retail terminal support, which significantly shortens the check-out time for our customers at AEON Store's cashiers.

Also, closed network MasterCard PayPass contactless function was implemented, where customers can use a faster contactless method to pay for their transactions at AEON Stores.

HUMAN RESOURCES

The total number of staff of the Group at 28th February 2017 and 29th February 2016 was 585 and 622 respectively. Employees are remunerated according to the job nature and market trends, with 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 Group.

The Group also provides in-house training programmes and external training programmes sponsorships to strengthen its human resources. The in-house training programmes include the yearly general training on AEON Code of Conduct, which reconfirms the necessity of corporate ethics to create a shared set of values among employees. Moreover, new appraisal and promotion systems have been implemented during the year to recognize individual performance and to provide career advancement opportunities to employees.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to acknowledge the hard work carried out with commitment and passion at every level within the Group. During the course of the financial period, the Group was faced with weak demand, strong competition, growing regulatory and compliance burden, but the entire team stayed focused and motivated to deliver respectable results. Moreover, I would like to wholeheartedly thank our customers, business partners, and shareholders for their long-standing trust in and support for the Group.

田中秀夫

Hideo Tanaka
Managing Director

Hong Kong, 27th April 2017

Management Discussion and Analysis

GENERAL

Following the reorientation of the world and China economies, Hong Kong also faced a slow-down in economic growth in the past one year. With the drop in the number of tourists from the Mainland, retail industry faced stagnant growth in the second half of the year. Coupled with the new policies imposed on property market and the drop in the commodity prices, the consumer finance market shifted from growth to risk-oriented.

OPERATIONAL REVIEW

In view of the change in the economic environment, the Group has put more emphasis on asset quality management, technology investment and process simplification. On marketing side, the Group captured new market segment through attractive marketing programmes. Moreover, the Group continued to review its strategy on branch and ATM network so as to provide convenient service to the customers. On operation side, the Group upgraded its information technology system and continued to streamline the operation procedures. On funding side, the Group maintained its strategy to enter more long-term borrowings to strengthen its funding base for future expansion. On corporate governance, the Group has strengthened its risk management system, legal and compliance functions and frequency of self-compliance checkings. On China side, the Group focused on the enhancement of operation efficiency and credit assessment over rapid expansion of sales.

KEY FINANCIAL HIGHLIGHTS

For the year ended 28th February 2017, on an audited basis, profit before tax was HK$367.2 million, an increase of HK$59.9 million when compared with the financial year ended 29th February 2016. After deducting income tax expense of HK$68.4 million, the Group recorded a profit increase of 19.5%, with profit after tax increased from HK$250.0 million in the previous financial year to HK$298.8 million in 2016/17. Earnings per share increased from 59.69 HK cents to 71.35 HK cents for the reporting year.

CONSOLIDATED PROFIT OR LOSS ANALYSIS

Revenue

Revenue for the year was HK$1,228.1 million, a decrease of HK$30.8 million when compared with HK$1,258.9 million in the previous financial year.

Net Interest Income

Under the uncertain economic environment, the Group continued to exercise cautious approach on credit approval and focus on asset quality management. This led to a slowdown on the growth of advances and receivables. As a result, the Group recorded a decrease in interest income of 3.0% or HK$32.7 million, from HK$1,107.6 million in the previous financial year to HK$1,074.9 million in the current year, whilst the Group's interest expense decreased mainly due to lower average funding costs. Consequently, the net interest income of the Group for 2016/17 was HK$984.2 million when compared with HK$1,012.9 million of 2015/16.

Operating Income

Following the restructuring of the Group's insurance business and coupled with the negative impact of bogus phone calls on telemarketing sales, the insurance commission decreased by 35.0% or HK$10.8 million for the current year. Notwithstanding the increase in handling and late charges, the overall other operating income in the current year was HK$162.5 million when compared with HK$162.6 million in the previous financial year.

Operating Expenses

During the current financial year, the Group exercised tight control on general administrative expenses and marketing and promotion expenses. Following the review of manpower requirement and the necessary adjustment made in the second half of last financial year, staff costs decreased by HK$18.7 million when compared with the previous financial year. This led to a decrease in overall operating expenses by 10.8% from HK$606.1 million in 2015/16 to HK$540.5 million in 2016/17.

Gain on Sale of Advances and Receivables

In order to avoid any adverse impact on the value of collateral arising from economic uncertainty and to improve the efficiency of the credit management manpower, the Group had sold all secured receivables and certain written-off portfolio and recorded a gain on sale of advances and receivables of HK$21.1 million in the current year.

Management Discussion and Analysis

Cost-to-Income Ratio

With the decrease in operating expenses, cost-to-income ratio for the year was 47.2%, as compared with 51.6% in the previous financial year.

At the operating level before impairment losses and impairment allowances, the Group recorded an increase in operating profit by 11.8% or HK$66.3 million, from HK$560.0 million in the previous financial year to HK$626.3 million 2016/17.

Impairment Losses and Impairment Allowances

During the year under review, the Group's cautious credit judgment and asset quality management has resulted in a decrease in impairment losses and impairment allowances of 6.0% or HK$18.1 million, from HK$301.9 million in the previous financial year to HK$283.9 million for the year ended 28th February 2017.

Impairment Loss on Investment in an Associate

As ACG, an associate company established in the PRC, has ceased to provide credit guarantee as part of its business since 2015 and is no longer having any substantive operation, the Board resolved to approve the winding up of ACG in January 2017 by way of voluntary liquidation under the law of PRC, Therefore, the Group recorded an impairment loss on the net investment of the Group in ACG of HK$8.6 million in the current year.

Share of Results of Associates

Due to the restructuring of ACG before the commencement of its voluntary liquidation, there was an increase in the share of losses of associates from HK$4.6 million in the previous financial year to HK$17.2 million for the year ended 28th February 2017.

Dividend

The Board proposed the payment of a final dividend of 20.0 HK cents per share. Together with an interim dividend of 18.0 HK cents per share already paid, the total dividend for the year amounted to 38.0 HK cents per share, representing a dividend payout ratio of 53.3%.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

The Group's total equity at 28th February 2017 was HK$2,742.1 million, representing a growth of 7.8% or HK$198.5 million, when compared with the balance at 29th February 2016.

Total assets at 28th February 2017 were HK$6,091.8 million, as compared with total assets of HK$5,941.6 million at 29th February 2016.

Property, Plant and Equipment

During the year, the Group spent approximately HK$22.9 million on computer equipment, HK$1.4 million on leasehold improvements and HK$6,000 on furniture and fixtures.

Advances and Receivables

The lackluster economic growth has affected the growth of instalment loan in both Hong Kong and China markets, with instalment loan receivables decreased by 13.4% from HK$1,697.2 million at 29th February 2016 to HK$1,469.7 million at 28th February 2017.

On the other hand, with our continuous investments in credit card products and services, our credit card receivables increased as compared with last year, being HK$3,611.0 million at 28th February 2017, as compared with HK$3,577.4 million at 29th February 2016.

Following the drop in bankruptcy cases and receivables overdue 4 months or above, impairment allowances decreased by HK$35.9 million, from HK$136.3 million at 29th February 2016 to HK$101.1 million at 28th February 2017.

Indebtedness

Following the shifting of short-term funding to long-term, and coupled with the continuous renewal of long-term bank borrowings with low interest rate and the entering of new tranche for collateralised debt obligation, the duration of indebtedness extended from 2.4 years at 29th February 2016 to 2.8 years at 28th February 2017. Net debt to equity ratio was 0.9 at 28th February 2017, as compared with 1.0 at 29th February 2016.

Net asset value per share (after final dividend), compared with the net asset value per share at 29th February 2016, has increased from HK$5.7 to HK$5.9.

FUNDING AND CAPITAL MANAGEMENT

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 28th February 2017, 48.0% of its funding was derived from total equity, 30.1% from direct borrowings from financial institutions and 21.9% from structured finance.

The principal source of internally generated capital was from accumulated profits. At 28th February 2017, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK$1,721.3 million, with 16.8% being fixed in interest rates and 83.2% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 8.1% of these indebtedness will mature within one year, 11.3% between one and two years, 78.1% between two and five years and 2.5% over five years.

The Group's bank borrowings and collateralised debt obligation were denominated in HKD, except for a syndicated term loan of USD50.0 million which was hedged by cross-currency interest rate swap.

The net asset of the Group at 28th February 2017 was HK$2,742.1 million, as compared with HK$2,543.6 million at 29th February 2016. 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.

The Group's principal operations were transacted and recorded in HKD and therefore its core assets did not subject to any exposure on exchange rate fluctuation. During the year under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings. At 28th February 2017, capital commitments entered were mainly related to the purchase of property, plant and equipment.

In determining the dividend payment, the objective is to reward shareholders with dividend income while retaining funds for the business growth in both Hong Kong and China. Shareholders generally expect a reasonable return on their investments and a stable share price. In order to meet shareholders' expectation, the Board decided to maintain the full year absolute dividend amount at 38.0 HK cents for the year ended 28th February 2017, with a pay-out out ratio of 53.3%.

SEGMENT INFORMATION

The Group's business comprises mainly four operating segments, namely, credit card, instalment loan, insurance and hire purchase. For the year ended 28th February 2017, credit card operation accounted for 69.2% of the Group's revenue, as compared to 67.6% in the previous financial year. For segment results, credit card operation in 2016/17 accounted for 79.3% of the Group's whole operations, as compared to 83.3% in the previous financial year.

During the year under review, the Group continued to focus on strengthening the customer value for our credit card customers and maintain our competitive in the credit card market. Notwithstanding the sluggish economic growth, the revenue from credit card operation maintained at similar level in this financial year as compared to previous financial year, being HK$850.1 million in 2016/17 as compared with HK$851.2 million in 2015/16. With our effective control on operating expenses, coupled with the gain on sale of advances and receivables during the year, the result for credit card segment recorded an increase of 18.8% or HK$51.4 million from HK$273.5 million in previous financial year to HK$324.9 million in 2016/17.

The stagnant growth of loan portfolio in Hong Kong resulted in the decrease of revenue by 5.0% or HK$18.9 million from HK$376.7 million in the previous financial year to HK$357.7 million in 2016/17. However, with the improvement in impairment losses and impairment allowances and disciplined control on operational costs, the segment result for the year from instalment loan operation recorded an increase of HK$31.2 million from HK$48.7 million in 2015/16 to HK$79.9 million in the current financial year.

Following the restructuring of the Group's insurance business and coupled with the negative impact of bogus phone calls on telemarketing sales, revenue from insurance operation recorded a drop of 34.5% or HK$10.7 million from HK$30.9 million in the previous financial year to HK$20.3 million in 2016/17. Although there was a decrease in operating expenses, the insurance segment result for the year ended 28th February 2017 still recorded a decrease of 21.0% or HK$1.3 million from HK$6.0 million in the previous financial year to HK$4.8 million for the year ended 28th February 2017.

With a continuous shift from hire purchase to card instalment plan, the contribution from hire purchase operation accounted for an insignificant portion of the Group's revenue and segment results.

In relation to the geographical information, revenue from Hong Kong operations decreased from HK$1,201.9 million in 2015/16 to HK$1,170.2 million in 2016/17 mainly attributable to the continuous focus on asset quality management. Nevertheless, the segment results recorded an increase of HK$64.0 million from HK$361.1 million in 2015/16 to HK$425.1 million in 2016/17 mainly due to the exercise of tight cost control and improvement on impairment losses and impairment allowances. In 2016/17, the Group's China business prioritized the improvement of asset quality and focused on the enhancement of operation efficiency over rapid expansion of sales. Despite the prudent goal of controlling debt quality, revenue from China operations increased by HK$0.9 million from HK$57.0 million in 2015/16 to HK$57.9 million in 2016/17, and the segment results showed significant improvement with a year-over-year reduction in loss of HK$17.4 million.

COMPETITIVE ADVANTAGES

Business Model and Strategy

It is the Group's strategy to ride on co-branded cards to recruit new card members and cross-sell other consumer finance products and services to these new members. The Group continues to benefit from the strong connections with affiliated merchants and launching new co-branded cards. By using the merchants' networks as card acquisition base and cross-selling channels, the Group continues to explore fee based income business opportunities.

Customer Base

The customer base of the Group is widely diversified. Around 60% of the customers are in the age range of 40 to 60. The new cardholders recruited in this financial year were mainly related to merchants in the retail and travel industries. Meanwhile, female cardholders represent 70% of our card portfolio at 28th February 2017.

Convenient Service

The Group enhanced the issuing capability for instant card services during the year and is now available with four card types – Visa, MasterCard, JCB and UnionPay. For ease of payment, customers can settle their payments via branch counters, convenience stores networks, phone banking, internet banking, our own ATM networks and any JETCO ATMs in Hong Kong. Customers can also have easy access to speedy and convenient cash advance and personal loan services via the Group's 181 ATMs as well as its branch network and call centres. For card spending, the extensive discount merchant network continues to provide convenience and wide-ranging choices to cardholders.

Quality of Service

The Group obtained ISO 27001 certification for Information Security Management System, ISO 9001 certification for Quality Management System, ISO 10002 certification for Customer Satisfaction – Complaints Management System and ISO 14001 certification for Environmental Management System. These certifications help ensure that the highest level of quality service is being offered to customers.

ABOUT THIS REPORT

Reporting Objectives

The Company is a subsidiary of AFS and a member of the AEON Group and recognizes the importance of transparency and integrity as a key factor of corporate sustainability. This first Environmental, Social and Governance (ESG) report intends to give insight into the approach adopted and actions taken by the Company with regard to its operations and sustainability that have implications for the Group that should be of interest to stakeholders.

Reporting Scope and Period

The content of this report was defined after taking into account the materiality of sustainability issues arising from the Group's operations. As a substantial part of the income of the Group comes from the Company's operations in Hong Kong, this report mainly highlights the ESG performance of the Hong Kong head office and branches for the period from 1st March 2016 to 28th February 2017. This reporting timeframe is consistent with the Company's financial year ended 28th February 2017.

Reporting Principles

The Company expects to disclose its progress with regard to ESG issues annually, and this report has followed the ESG Reporting Guide in Appendix 27 of the Listing Rules.

MANAGEMENT APPROACH TO CORPORATE SUSTAINABILITY

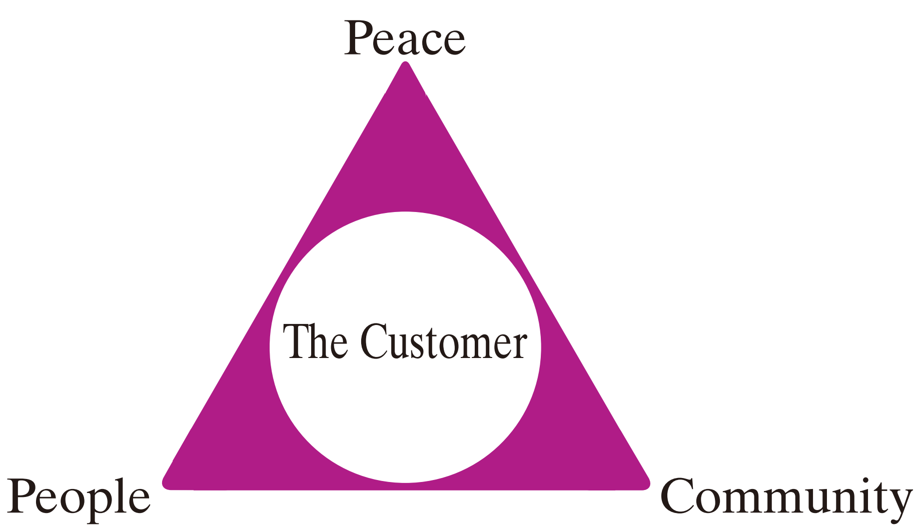
Everything we do, we do for our customers!

As a member of the AEON Group, the Company has inherited the AEON DNA as manifested in management philosophy. Together with our Board, top management and staff of all departments and functions, we strive to provide the best support to customers' lifestyles and enable them to maximize future opportunities primarily through effective use of credit.

Corporate Governance from ESG Perspective

AEON Code of Conduct of AEON Japan reflects our commitment to guide and direct the future course of the Group. Every member of the AEON family of companies has taken on the challenge of promoting business innovation under the guiding principle that "everything we do, we do for our customers".

AEON's Basic Principles



The word "AEON" means "Eternity" in Latin and our basic principles have illustrated our eternal mission to benefit our customers, and our operations are thus CUSTOMER-focused to the highest degree:

Peace – Our operations are dedicated to the pursuit of peace through prosperity.

People – We respect human dignity and value personal relationships.

Community – We are rooted in local community life and dedicated to making a continuing contribution to the community.

AEON Code of Conduct charts the course for our future and helps us interpret our basic principles to know what actions we may need to take for the benefit of our "customers of the era ahead."

Determined to be a socially responsible entity which actively promotes environmental protection and makes social contribution, the Company is committed to both providing quality service and preserving the environment for the benefit and further development of our community. We aim to do everything within our power to promote and apply our AEON Code of Conduct into practice in our daily operations. It is our hope that all our stakeholders will join us in sharing this sense of purpose, thereby developing stronger bonds of trust amongst all of us.

Stakeholder Engagement

We value the importance of engaging with stakeholders in identifying material sustainability issues of relevance and importance, formulating business decisions, managing business operations, enhancing efficiency and identifying new business opportunities and the needs for community investment. We seek to develop long-term constructive relationships with our key stakeholders and engage with them through various formal and informal communication channels as well as independent and internal stakeholder exercises.

We keep stakeholders informed of our business activities through our annual and interim reports, press releases, announcements and circulars and utilize e-communications that are easily accessible through the Internet. We regularly review and relay stakeholder feedback to relevant departments for corresponding follow-up actions.

OUR KEY STAKEHOLDERS AND COMMUNICATION CHANNELS

Stakeholder	Major Concerns	Primary Communications Channels
Customers	• Business Procedures • Information Security • Product/Service Quality	• Surveys • Loyalty events • Interaction at branch level • Newsletters and leaflets • Monthly statement inserts • Company website • Year-round publicity & donation campaigns • Customer service hotline • Social media: Facebook fan page • AEON smartphone app
Employees	• Salary and Welfare • Training & Development • Health & Safety	• Employee surveys • Newsletters and intranet • Meetings with employees • Orientation and exit interviews • Performance assessment
Investors	• Corporate Operations • Economic Performance • Information Disclosure	• Annual general meetings and investors' briefings • Interim and annual reports • Announcements, circulars and other corporate communications
Business Partners	• Brand Development	• Ongoing audits • Regular management meetings • Corporate events • Mass communications
Community Partners	• Resolving Social Issues • Philanthropy	• Community programmes • Volunteer service programmes • Year-round green partnership programmes • Visits and meetings
Government & Regulators	• Legal and Regulatory Compliance • Employment Protection • Business Ethics	• Correspondence • On-site inspection • Compliance reporting • Enquiries and clarifications
Industry Associations	• Industry Development	• Regular meetings and correspondence

AEON recognises that our people, business partners, community partners and other stakeholders are keys to our sustainability. We strive to achieve corporate sustainability through providing quality products and services to our customers, engaging with our people, collaborating with business partners and supporting our community. For this report, we conduct our engagement exercise with employees through sharing sessions facilitated by an external party. Essential feedback collected in this exercise are briefly summarised as follows:

- Provision of professional training and capacity building programmes to employees at different organisational levels helps ensure continuing compliance with the latest legal and regulatory requirements in the financial service industry;
- Practical corporate social responsibility programmes organised regularly are well received by employees and their participating family members. These programmes improve teamwork as well as work-life balance;
- Environmental initiatives and awareness are effectively reinforced through regular reminders to employees.

Awards Achieved and other Recognitions

ISO 9001 - QMS / FS 513193

ISO 9001 Standard for Quality Management System

This is awarded for implementing the best practices according to the ISO 9001 Standard for continuous improvement in customer service quality.

Scope of certification: Head office and branches since 2007

ISO 14001 - EMS 538444

ISO 14001 Certification for implementation of Environmental Management System

This is awarded for implementation of energy-efficient methods in operational processes such as reduction in paper and electricity.

Scope of certification: Head office and branches since 2009

ISO 27001 - ISMS / IS 500955

ISO 27001 Certification for Information Security

This is awarded to the IT Division of the Company for implementation of the most stringent computer security policies and procedures for

- protection of customers' personal data;
- maintenance of confidentiality and integrity of customer data;
- availability of service to the satisfaction of customers.

Scope of certification: IT Division since 2006

Customer Satisfaction
ISO 10002 / CMS 513194

ISO 10002:2004 Certification for Customer Satisfaction – Complaints Management System

This is awarded to the Company for its complaint management system.

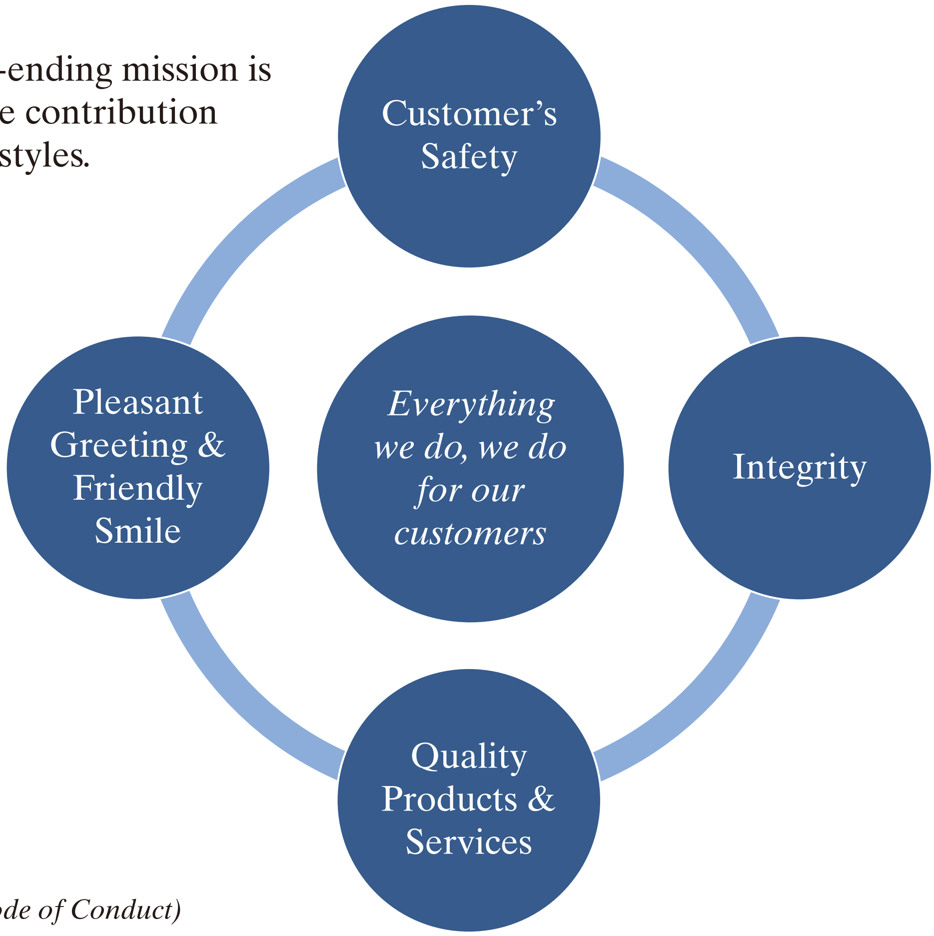
Scope of certification: Departments that handle complaints since 2007

Named Caring Company for 10 consecutive years – Hong Kong Council of Social Services

Manpower Developers of Employees Retraining Board – Manpower Developer Award Scheme

COMMITMENT TO OUR CUSTOMERS

AEON's never-ending mission is to make a positive contribution to customers' lifestyles.



(Source: The AEON Code of Conduct)

Being one of the Hong Kong's leading credit card issuers and consumer finance service providers, we are committed to providing an exceptional customer experience and a consistently high standard of service to our customers in the hope of building long-lasting relations. Customer focus is a core value of AEON and we always put our customers as the top priority. Not only do we keep our promises to our customers and always act with integrity, we also offer our customers quality services at reasonable prices.

To earn and maintain the confidence and trust of our customers, we strive to uphold our professional quality services for our customers.

Quality Services for Customers and Responsible Marketing

Since 2007, the Company has been certified to ISO 9001 standard for Quality Management System, which is conducive to the provision of efficient services and improvement of our customer satisfaction through establishment and continuous maintenance of a quality management system.

Responsible departments of the Company are from time to time updated on the latest legal and regulatory changes relevant to the Company's businesses and operations. Advertisements of the Company are internally reviewed to ensure that they are not in breach of applicable laws or regulations, including but not limited to the Trade Descriptions Ordinance and the Competition Ordinance.

Listening to Our Customers

We serve our customers through our 21 branch offices, 181 ATMs, customer service hotline, online enquiry forms and other channels. It is vital for us to manage and respond to customer feedback professionally and in a timely manner. We have developed Complaints Management System under ISO 10002 standard since 2007, and corresponding complaint handling flows have been constructed and further improved upon from then onwards for various settings (Branches or Customer Service Hotlines) and levels (from level 1 to level 5).

Types of Complaint	**2015/16**	**2016/17**
Service/product promotion	3	6
Service/product delivery	40	25

Protecting Customer Privacy

With a growing number of transactions through online and offline platforms, we have to handle an increasing amount personal data of our customers with care. We have met the standard required for ISO 27001 Certification for Information Security Management System since 2006.

Each year, our staff members are required to attend relevant training on personal data protection and we have designated the Head of the Risk Management Department to serve as our Data Protection Manager.

In addition to the internal measures introduced, we have implemented a number of preventive measures to protect the personal data of our customers. For example, our ATMs have been fitted with keypad covers for greater privacy and some are installed with CCTV to ensure our customers' property and their privacy.

In 2016/17, the Company did not receive any complaints related to the loss of customer data. However, it is noticeable that the sharp rise in phone scams has adverse impact on our customer confidence in telemarketing promotion.

COMMITMENT TO OUR PEOPLE

Together with ÆON People

You are ÆON.

When you deal with our business partners, you demonstrate to them through your sincere attitude and actions the "ÆON like" spirit – something that cannot be imitated by other companies. This spirit should guide the attitude you project as you meet with other members of the community.

When you are assisting your customers, and when you spend time with your co-workers, you actions – even those that seem casual and inconspicuous – will accumulate to build the ÆON Culture.

(Source: The ÆON Code of Conduct)

We regard our staff as our most valuable asset and we place significant emphasis on human capital. The total number of staff of the Group as at 29th February 2016 and 28th February 2017 was 622 and 584 respectively, in which 52% to 57% of them are stationed in Hong Kong.

Year	2015/16	2016/17
No. of Staff	622	584
No. of Staff stationed in HK	321 (52%)	334 (57%)
Sex Distribution in HK		
– Male (M)	158	164
– Female (F)	163	170
Term of Employment in HK		
– Full Time	321	334
– Part Time	–	–
– Contract	–	–
Categories of Employees in HK		
– Senior Management	19	16
– Middle Manager	101	114
– Junior/Frontline Staff	201	204
Age Groups in HK		
– ≤17	–	–
– 18-25	49	65
– 26-35	128	111
– 36-45	83	92
– 46-55	40	42
– ≥56	21	24
Total Turnover Rate in HK	32%	20%
– by gender (M/F)	30%/39%	24%/18%
– by age group (18≤25/26-35/36-45/46-55/≥56)	55%/42%/25%/23%/5%	40%/21%/14%/14%/13%

We have been regularly reviewing our Employee Handbook (with the latest version released in March 2016 as its 21st edition). This Handbook provides detailed information for our employees about our Employment Policy, Welfare and Benefits, Leave and Rest days, Conduct and Discipline, Occupational Health and Safety Policy, Personal Data (Privacy) Policy, Equal Opportunity Policy and Guidelines related to Gifts, Entertainment, Prevention of Bribery as well as Conflict of Interests. All the employees are provided with a copy of the Employee Handbook upon joining the Company and they are regularly informed of any revisions and updates. They are aware of the measures to prevent and identify money laundering activities as well as the whistleblowing channels for reporting inappropriate conduct and other irregularities through training on the Company’s relevant policies and guidelines.

All aspects of the Company’s human resource policies and practices are determined and implemented in a manner strictly in compliance with all applicable laws and regulations.

Staff Remuneration and Benefits

Competitive staff benefits are keys to building an efficient team and work force that help deliver a high standard of service to customers. Our employees are remunerated according to the job nature, market trends and individual performance. Apart from medical insurance and provident fund, discretionary bonuses are awarded to employees and based on individual performance as well as our financial performance. New appraisal and self-assessment systems are implemented in stages to support our human resources development.

Training and Development

In our effort to ensure consistent delivery of a high standard of service from our employees, we have formulated our Training and Development Policy in 2008 which had been revised to the current 5th version in 2011. This Policy is reviewed regularly to meet the changing training needs across frontline and backend departments and set out the approach to provide vital support to our executives along their career path.

Sharing with Executives on AEON Code of Conduct

Training on Security Features of HK ID Card

We advocate cooperation and enable our employees to develop their full potential and contribute their diverse range of skills and experiences. Adequate training programmes are offered to assist their personal and professional growth. In addition, optimizing synergy among teams and departments has always been management's focus as an efficient way to enhance staff productivity and operational efficiency.

Internship programme was first launched in July and August 2016 to give tertiary students or recent graduates a taster what a working life can be like in the financial service industry. 8 of them took part in this programme.

Year	**2015/16**	**2016/17**
Types of employee training		
– Major categories	8	10
– No. of training programmes	15	30
– No. of training sessions	100	114
– Total training hours	278	489
– Total number of attendees	1,943	1,680
Gender of employees		
– Male – Attendance/Percentage	875/45%	806/48%
– Female – Attendance/Percentage	1,068/55%	874/52%
Training Hours for Employee Categories/Percentage		
– Frontline and Junior Staff	2,545/65%	3,255/68%
– Middle Management	789/20%	957/20%
– Senior Management	224/6%	199/4%
– Top Management/Board of Directors	–/–	220/5%
– Non-specific target groups	340/9%	139/3%

In order to meet the ever-changing financial market and external environment, we have strengthened our training programmes in 2016/17 in order to enhance our capacity for ongoing development, as well as to accommodate and better support the continuing business growth. Additional and tailor-made training programmes have been provided to support the operation of various departments and employees at different developmental stages.

In late 2016, we had introduced various workshops to further familiarise our employees with AEON Code of Conduct and help internalise the guiding principles.

Occupational Health and Safety

The Company endeavours to provide a safe and healthy working environment and we have issued Occupational Safety and Health Guidelines for the benefit of every employee. As most of the employees are office-based workers spending long working hours at their work station, we have offered training on health and safety awareness in an office setting. We have also conducted spot checks on work station arrangement to review the placement of monitor, keyboard and chair, in an attempt to prevent work-related injuries.

	2015/16	**2016/17**
No. of work-related fatalities	0	0
Rate of work-related fatalities	0	0
Lost days due to work injury/cases	365 days/2 cases	2 days/1 case

Diversity, Inclusion and Equal Opportunities

AEON upholds the principles of diversity, inclusive work environment and equal employment opportunities to eliminate discrimination, harassment and vilification on the grounds of age, sex, marital status, disability, family status, race, colour, descent, national or ethnic origins, or religion. We are committed to provide equal opportunities among all employees in adopting an open and fair attitude when evaluating employees' performance in connection with all employment matters such as promotion, transfer, salary adjustment, training, dismissal and redundancy.

We provide training and other awareness-raising activities to promote respectful behaviour and tolerant attitudes among staff, and have a formal complaint procedure for any employee who feels that they have been subject to discrimination, harassment and vilification.

Employee Engagement

In order to build a harmonic workplace, we encourage regular communication between staff at all levels. Employees are regularly updated on the development of the Company and the wider AEON group through diversified channels activities such as annual dinner to boost office morale.

We conduct regular employee surveys on topics such as career aspiration and training needs to provide information for the Company to make better development plans.

In 2016/17, 21 staff members have been recognized by our senior management for serving in the Company for more than 10 and 20 years.

All employees who resign are asked to participate in an exit interview for the Company to find out more about their reasons for leaving. The Company may take appropriate action in case of identification of any significant emerging trend.

COMMITMENT TO OUR COMMUNITY

ÆON aims to set an example as a good corporate citizen, working together with the community for its growth and the improvement of quality of life.

(Source : The ÆON Code of Conduct)

The Company not only strives to provide a satisfactory return to our shareholders, but also takes pride in making charitable contributions to the local community.

We recognize the importance of local communities to the continued success and growth of our business. We believe in working closely with local partners to enhance the positive impacts we can make to the development of the Hong Kong community.

Volunteering

Tree Planting Day 2016

Under our adopted philosophy of "peace", "people" and "community", we have been organising and lining up our employees as well as their family members to participate in volunteering programmes. We take part in local community activities, including those for the benefit of the elderly and the deprived groups.

Other than serving the needy in the community, we have been contributing to the conservation of our environment through our 13th participation in Hong Kong Tree Planting Day to fulfill our mission of "Planting Seeds of Growth". 29 employees together with their family members have joined us for the year 2016. This activity helps reduction of carbon emissions. It also raises our awareness about climate change and the importance of conserving our environment with concerted efforts.

Giving

During the year, we have donated in total HK$760,766 – to support educational projects through our AEON Scholarship. We believe our financial support to outstanding students can help nurture the future leaders for the community.

This year, we have supported a total of 54 students from the following universities:

Universities in Mainland China

Peking University	Nankai University
Sun Yat-Sen University	Beijing International Studies University
Tsinghua University	Qingdao University
Shenzhen University	Ocean University of China

University in Hong Kong

Lingnan University

Community Partnership

AEON believes that partnership with community organisations can create synergy and produce knock-on effects in creating a more caring community. In recent years we have developed local partnership in Hong Kong to help people in need.

One of the major partnership programmes is “UNICEF Young Envoys Programme”. Through our continuous sole sponsorship, Hong Kong Committee for UNICEF can provide a valuable opportunity for local youngsters to explore global and local issues in relation to children’s rights to survival, protection, development and participation. The participating youngsters can go through a comprehensive training and participatory journey including Leadership Training Camp, workshops, school project, social service project, community project and field visit. We believe that our sponsorship can widen the horizon and provide the future leaders with an opportunity for holistic development through this well-developed youth programme.

UNICEF Young Envoys Programme 2016

In addition to driving our support to some meaningful programmes, the Company also encourages our customers to support community development through their credit card bonus point donation. 106 credit card holders have channeled their HK$17,300 – worth of donation via this bonus point scheme to support the conservation work of the World Wide Fund – Hong Kong.

The Company’s efforts and contributions to the local community have been recognized as one of the “Caring Companies” for the 10th years by the Hong Kong Council of Social Service. This label reflects our unfailing contribution and supports to various community programmes on environmental protection, education and cultural exchange.

COMMITMENT TO OUR ENVIRONMENT

- ♻ AEON will implement all possible measures to use environmentally friendly materials in its operations. AEON is committed to reduce air pollution and aims to conserve resources and energy such as electricity, gas etc. by using these resources efficiently. AEON will comply with applicable laws and regulations of the HKSAR government regarding environmental protection.
- ♻ AEON will establish environmental goals and targets, which will be reviewed periodically to continually advance and improve its efforts towards environmental protection.
- ♻ AEON will encourage and support environmental protection activities, reforestation and other related social programmes.
- ♻ All employees are made aware of this Policy through educational and training programmes.

AEON Environmental Policy

The Company is committed to support good environmental standards and to ensure implementation of environmentally friendly measures. Apart from the ISO 14001 Certification on Environmental Management System, Environmental Instruction, EMS Manual and Environmental Procedure Manual are regularly reviewed and updated with our relevant employees to facilitate regular environmental aspect evaluation at both head office and branch levels.

Energy Consumption

We are committed to reducing energy consumption across our head office and branches. Knowing that our operations at various premises consume a significant amount of energy, we have introduced a number of measures to reduce our energy consumption. In addition to replacing the old facilities with energy-efficient equipment, we have encouraged our employees to join us in building a greener office, such as turning off all of the electrical appliances after office hours or not in use or setting them in energy-saving mode.

Green Office Measures in our Operation

Our major electricity consumption for Hong Kong operations have been summarised in the following table. Our ATMs have extended our service network to support the service needs of our territory-wide customers. We have estimated the electricity consumption incurred from 181 ATMs (of which 9 ATMs are located in our branches) accordingly.

Year	2015/16	2016/17
Office Areas	522,253	495,070
ATMs	206,123	206,123
Total Electricity Consumption/kWh	728,376	701,193

As our estimated electricity consumption amongst our ATMs are rather stable, the drop of electricity consumption in 2016/17 was mainly caused by our effective energy saving policies and concerted efforts from our employees. The 5% decrease in electricity consumption in office and branches may help reduce the adverse impacts on climate change.

Carbon Emissions

Other than electricity consumption, transportation also contributed to the major source of carbon emissions to the environment. Our use of vehicles for local commutation and flight to overseas destinations for business trips had led to both direct and some indirect carbon emissions:

Major Sources of Carbon Emissions in AEON/tonne CO2-e*	2015/16	2016/17
Vehicle	5.962	5.793
Tree planting	(5.290)	(1.334)
Electricity consumption	418.399	403.498
Staff travel by air flights	7.032	17.238
Total carbon emissions from major sources	426.103	425.195

Major Sources of Carbon Emissions in AEON Operation

* *Calculated in accordance with "Carbon Audit Toolkit for Small and Medium Enterprises in Hong Kong" issued by The University of Hong Kong and City University of Hong Kong. Other reference: "Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong" by EPD and EMSD of the Government of the HKSAR.*

Paper Consumption and Waste

It is inevitable that significant amount of paper has to be consumed in our daily operation. We need to use paper for purposes ranging from forms, customer communication, legal documents, internal documentation and record keeping. We have made use of information technology to reduce our paper consumption and safeguard our required documentation process. Our paper reduction approaches involve the analysis of our workflows for reducing or eliminating paper and opting for paper from alternative or sustainable sources where possible.

Since 2011, we have introduced green statement to all our customers and replaced these printed documents with PDF files and we have gained much support from customers as 20% of them have opted for electronic statements instead. We shall continue to promote this greener practice with our customers in the years ahead.

Our office paper consumption for daily operation in 2016/17 was 0.419 tonne which was 26% lower than the consumption rate in 2015/16. We have been encouraging all employees to reduce paper consumption for the sake of protecting the environment.

Recycling

As part of our endeavour to reduce pollution caused by landfills, we have recycling facilities in place to collect wastes and encourage separation of wastes at sources at our head office.

In 2016/17, we have donated 2.013 tonnes of unwanted computer and IT related products to a charitable organization. We have been recycling a total of 0.243 tonne of plastic bottles collected from employees in the recent 2 years.

Board of Directors

DIRECTORS

Mr. Takamitsu Moriyama, aged 64, was appointed as a Non-executive Director and the Chairman on 24th June 2016. He is currently an Executive Vice President of AEON Financial Service Co., Ltd. He was formerly the President of AEON Bank Ltd. and Nippon Computer Systems Co., Ltd. and an Executive Director of Komeri Co., Ltd. He was previously with Saitama Bank for 23 years. He has extensive experience in the banking industry. All the companies mentioned above, except AEON Bank Ltd., are listed public companies. He holds a Bachelor's degree in Japanese History from Tohoku University.

Mr. Hideo Tanaka, aged 46, was appointed as an Executive Director and the Managing Director on 26th June 2015. He was previously with the Company from April 1997 to March 1999 and rejoined the Company in June 2015. He joined AEON Financial Service Co., Ltd. in April 1995 and has worked for AEON financial group in Japan, Hong Kong, Malaysia and Vietnam. He was the General Director of ACS Trading Vietnam Co., Ltd. from May 2008 to May 2015. He has over 20 years of experience in the consumer finance industry. He holds a Bachelor's degree in Commerce from Waseda University.

Ms. Koh Yik Kung, aged 61, was appointed as an Executive Director on 21st June 2001. She is also the Company Secretary and in-house counsel. She is in charge of the Legal and Compliance 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. Kiyoshi Wada, aged 57, was appointed as an Executive Director on 26th June 2015. He is in charge of HR/GA Division of the Company. He joined AEON Co., Ltd. in April 1983 and has 29 years of experience in the retail industry before his transfer to AEON Financial Service Co., Ltd. in October 2012. Prior to joining the Company, he was the Chief General Manager of the Human Resources Department of AEON Financial Service Co., Ltd. He was also a director of AEON S.S. Insurance Co., Ltd. He has 29 years of experience in human resources. Mr. Wada holds a Bachelor's degree in Economics from Shinshu University.

Board of Directors

Mr. Tomoharu Fukayama, aged 43, was appointed as an Executive Director on 24th June 2016. He joined AEON Credit Service Co., Ltd. in March 1997 after he graduated from Waseda University with a Bachelor's degree in Literature. He has 13 years of experience in the consumer finance industry before his transfer to AEON Co., Ltd. in March 2010. He joined the Company in April 2015 as General Manager in charge of the Business Development, Sales and Marketing Division of the Company. He is currently in charge of the Sales and Operation Division of the Company. He is a Director of AEON Insurance Brokers (HK) Ltd., a subsidiary of the Company.

Mr. Toru Hosokawa, aged 46, was appointed as an Executive Director on 24th June 2016. He joined AEON Credit Service Co., Ltd. in November 2004. Prior to joining the Company, he was an Executive Officer in charge of the Finance and Accounting Department and the Human Resources Department of AEON Credit Service Co., Ltd. He was previously with Daiei Finance Co., Ltd. for 10 years. He is in charge of the Corporate Management Division of the Company. He holds a Bachelor's degree in Accounting from Chuo University.

Mr. Lee Ching Ming, Adrian, aged 65, was appointed as an Independent Non-executive Director on 1st October 2016. He was the Chief Executive Officer and an Executive Director of Eagle Asset Management (CP) Limited, the manager of Champion REIT from 2008 till he retired on 30th June 2016. Mr. Lee has acquired extensive property and banking industry experience over a career spanning over 43 years. Mr. Lee held senior management positions for more than 22 years in the Great Eagle Group of companies, a major listed real estate company in Hong Kong, where his responsibilities included the management of marketing, leasing and sale activities, banking relationships, corporate communications and investor relations, as well as the management of Champion REIT. Mr. Lee also had over two decades of corporate real estate lending and advisory experience with a multinational banking institution. Mr. Lee was a Non-executive Director of Cinderalla Media Group Limited, a listed public company, from June 2002 to September 2015. Mr. Lee graduated from the University of Hong Kong with a Bachelor of Social Sciences degree.

Board of Directors

Mr. WONG Hin Wing, aged 54, was appointed as an Independent Non-executive Director on 13th October 2004. He holds a Master's degree in Executive Business Administration from the Chinese University of Hong Kong. He is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in England & Wales, the Association of Chartered Certified Accountants, the Hong Kong Institute of Directors and the Institute of Chartered Secretaries and Administrators. He is also a member of the American Institute of Certified Public Accountants and a chartered member of the Chartered Institute for Securities & Investment. He is an Independent Non-executive Director of Dongjiang Environmental Company Limited (a public company with A shares listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange and H shares listed on the Stock Exchange), CRCC High-Tech Equipment Corporation Limited (a public company with H shares listed on the Stock Exchange) and China Agri-Products Exchange Limited (a public company listed on the Stock Exchange). He is also a Member of Anhui Provincial Committee of the Chinese People's Political Consultative Conference, a panel member of Securities and Futures Appeals Tribunal, a Member of the Nursing Council of Hong Kong and a Council member of Hong Kong Institute of Certified Public Accountants. He is the Managing Director and has been responsible officer of China Silk Road International Capital Limited (formerly known as Legend Capital Partners, Inc.), a licensed corporation under the SFO since 1997. Prior to this, he had worked with an international audit firm for four years and then a listed company as Chief Financial Officer for seven years. He has 33 years of experience in accounting, finance, investment management and advisory.

Mr. Kenji Hayashi, aged 66, was appointed as an Independent Non-executive Director on 24th June 2016. He is currently an Adviser of Institute of Corporate Governance, Japan. He is an Outside Director of AEON Credit Service Co., Ltd. and an Independent Director of AEON Thana Sinsap (Thailand) Public Company Limited, a listed public company. He was formerly the President and Representative Director of Plusum Co., Ltd., the President of Fisco Financial College and the President and CEO of Sigma Base Capital Corporation. He had held senior positions in Nippon Credit Bank Ltd., Deutsche Bank, Deutsche Securities Inc. and Westdeutsche Landesbank. He holds a Bachelor's degree in German Language from Tokyo University of Foreign Studies.

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 CG Code throughout the year ended 28th February 2017, with the exceptions of code provisions A.4.1 and A.4.2 which are explained below.

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

The Company's Non-executive Directors are not appointed for a specific term and Directors are not subject to retirement by rotation. However, all Directors, including the executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the Articles. 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 CG Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code for securities transactions by Directors. 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

Role of the Board

The Company is headed by an effective Board which assumes responsibility for its leadership and control and is collectively responsible for promoting its success by directing and supervising its affairs. The Board has a formal schedule of matters reserved for its approval. Matters reserved for the Board's decision include, among others, long-term objectives and strategy; oversight of operations ensuring competent and prudent management, sound planning, adequate systems of risk management and internal control, adequate accounting records and compliance with relevant statutory and regulatory obligations; annual budgets; capital management; annual and interim financial reporting; declaration of dividends; Board membership; and corporate governance matters. 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.

Composition

As at the date of this report, the Board comprises nine members, consisting of five Executive Directors, one Non-executive Director and three Independent Non-executive Directors. The Company has complied with Rules 3.10 and 3.10A of the Listing Rules regarding the appointment of at least three independent non-executive directors (including at least one independent non-executive director with appropriate professional qualifications or accounting or related financial management expertise) and that the number of independent non-executive directors must be at least one-third (1/3) of the board of directors. The name and biographical details of each Director are set out on pages 38 to 40 of this annual report.

Independent Non-executive Directors are identified in all corporate communications containing the names of the Directors. An updated list of the Directors identifying the Independent Non-executive Directors and the role and function of the Directors is maintained on the Company's website and the Stock Exchange's website.

Members of the Board come from diverse backgrounds. They have a diverse range of business, banking and professional expertise. The Board possesses relevant experience, competencies and personal qualities to discharge its responsibilities adequately and effectively.

There is no relationship (including financial, business, family or other material/relevant relationship(s)) between the Board members.

Independence of Independent Non-executive Directors

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-executive Directors are independent in accordance with the guidelines set out in Rule 3.13 of the Listing Rules. The Nomination Committee reviews and assesses the independence of the three Independent Non-executive Directors on an annual basis.

Board Process

Board meetings are scheduled one year in advance and held once a month. The date of the next Board meeting is fixed at the close of each Board meeting. At least 14 days' notice is given to all Directors before each Board meeting and all Directors are given an opportunity to include matters for discussion in the agenda. The agenda and accompanying Board papers are sent to all Directors at least three days in advance of every Board meeting 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 may be invited to attend Board meetings to make presentations or answer the Board's and individual Directors' enquiries.

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.

Under the Articles, a Director shall not vote or be counted in the quorum in respect of any contract, arrangement or other proposal in which he/she or any of his/her associates is/are materially interested.

Appropriate liability insurance is in place to indemnify the Directors in respect of legal action against them.

Attendance at Board Meetings

During the year, eleven Board meetings were held at which important matters discussed included, among others, material capital investments; business strategies; financial and business performance; annual budget; proposals for final and interim dividends; and connected transactions. The attendance records of the Directors are set out below:

Directors	**Attendance**
Executive Directors:	
Hideo Tanaka *(Managing Director)*	11/11
Koh Yik Kung	11/11
Kiyoshi Wada	11/11
Tomoharu Fukayama*	7/8
Toru Hosokawa*	8/8
Lai Yuk Kwong$^{\Delta}$	2/2
Non-executive Director:	
Takamitsu Moriyama *(Chairman)**	8/8
Masanori Kosaka *(Chairman)*$^{\Delta}$	2/2
Independent Non-executive Directors:	
Lee Ching Ming, Adrian$^{\clubsuit}$	5/5
Ip Yuk Keung$^{\blacklozenge}$	6/6
Wong Hin Wing	11/11
Kenji Hayashi*	8/8
Tong Jun$^{\Delta}$	2/2

* *appointed on 24th June 2016*
Δ *retired on 24th June 2016*
$\clubsuit$ *appointed on 1st October 2016*
$\blacklozenge$ *resigned on 1st October 2016*

Directors' Training

Every newly appointed Director will receive an induction package including key legal requirements, the Articles and the Company's relevant 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. The Company continuously updates Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the year, the Company organized a formal training session for all Directors on impacts of cyber security and risk management on company development, and disclosure of inside information. The Company also organized AEON Code of Conduct training for the Executive Directors. Individual Directors also attended seminars/conferences/forums relevant to his/her profession and duties as Directors. All Directors had provided the Company Secretary with their training records for the year under review.

During the year ended 28th February 2017, the Directors received trainings on the following areas:

Directors	Corporate Governance	Legal & Regulatory Development	Financial/ Management/ Business Skills & Knowledge
Executive Directors			
Hideo Tanaka	✓	✓	✓
Koh Yik Kung	✓	✓	✓
Kiyoshi Wada	✓	✓	✓
Tomoharu Fukayama	✓	✓	✓
Toru Hosokawa	✓	✓	✓
Non-executive Director			
Takamitsu Moriyama	✓	✓	✓
Independent Non-executive Directors			
Lee Ching Ming, Adrian	✓	✓	
Wong Hin Wing	✓	✓	✓
Kenji Hayashi	✓	✓	✓

CHAIRMAN AND MANAGING DIRECTOR

The Chairman of the Board is Mr. Takamitsu Moriyama and the Managing Director is Mr. Hideo Tanaka. The respective roles of the Chairman and the Managing Director are segregated and assumed by two separate individuals who have no relationship with each other to ensure the power and authority are not concentrated in any one individual. The division of responsibilities between the Chairman and the Managing Director have been clearly established and set out in writing.

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

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board adopts a nomination procedure for the appointment of new Directors. A proposal for the appointment of a new Director will be first reviewed by the Nomination Committee. Upon recommendation by the Nomination Committee, the Board will make the final decision.

In accordance with the Articles, all Directors are subject to retirement at each annual general meeting of the Company. Any Director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

On 24th June 2016, the Board approved (i) the appointment of Mr. Takamitsu Moriyama as a Non-executive Director and the Chairman; (ii) the appointment of Mr. Tomoharu Fukayama and Mr. Toru Hosokawa as Executive Directors; and (iii) the appointment of Mr. Kenji Hayashi as an Independent Non-executive Director. On 1st October 2016, the Board approved the appointment of Mr. Lee Ching Ming, Adrian as an Independent Non-executive Director. Mr. Takamitsu Moriyama, Mr. Tomoharu Fukayama, Mr. Toru Hosokawa, Mr. Kenji Hayashi and Mr. Lee Ching Ming, Adrian will retire at the 2017 AGM in accordance with the Articles and shall be eligible for re-election.

BOARD COMMITTEES

The Board has three committees, namely, the Nomination Committee, the Remuneration Committee and the Audit Committee. All the Board committees are empowered by the Board under their own respective terms of reference which have been posted on the Company's website and the Stock Exchange's website.

Nomination Committee

The Nomination Committee comprises one Non-executive Director and three Independent Non-executive Directors. The Nomination Committee is chaired by Mr. Takamitsu Moriyama. The other members are Mr. Lee Ching Ming, Adrian, Mr. Wong Hin Wing and Mr. Kenji Hayashi.

The Nomination Committee was established with specific written terms of reference which deal clearly with its authority and duties. Its duties include, among others, assessing the independence of Independent Non-executive Directors and making recommendations to the Board all new appointments and re-election of Directors. It shall consider the suitability of a candidate to act as a Director on the basis of the candidate's qualification, experience and other relevant factors, and assess the independence of Independent Non-executive Directors taking into account the independence requirements set out in Rule 3.13 of the Listing Rules. The Nomination Committee meets at least once a year, and its terms of reference are posted on the Company's website and the Stock Exchange's website.

The Nomination Committee held three meetings for the year ended 28th February 2017 to (i) review the structure, size and composition of the Board and consider the suitability of candidates for directorship; (ii) assess the independence of Independent Non-executive Directors; (iii) review the time commitment required from a Director; and (iv) recommend to the Board the Directors for re-election at the 2016 AGM.

The attendance records of members of the Nomination Committee are set out below:

Members	**Attendance**
Takamitsu Moriyama *(Chairman)**	1/1
Masanori Kosaka *(Chairman)*$^{\Delta}$	2/2
Lee Ching Ming, Adrian$^{\clubsuit}$	0/0
Ip Yuk Keung$^{\blacklozenge}$	3/3
Wong Hin Wing	3/3
Kenji Hayashi*	1/1
Tong Jun$^{\Delta}$	2/2

* *appointed on 24th June 2016*
$^{\Delta}$ *retired on 24th June 2016*
$^{\clubsuit}$ *appointed on 1st October 2016*
$^{\blacklozenge}$ *resigned on 1st October 2016*

The Board has adopted a Board Diversity Policy which aims to set out the approach to achieve diversity on the Board. The Company recognizes and embraces the benefits of diversity of Board members. It endeavours to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the Company's business. All Board appointments will be based on merit while taking into account diversity. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its effectiveness.

Remuneration Committee

The Remuneration Committee comprises one Non-executive Director and three Independent Non-executive Directors. The Remuneration Committee is chaired by Mr. Lee Ching Ming, Adrian. The other members are Mr. Takamitsu Moriyama, Mr. Wong Hin Wing and Mr. Kenji Hayashi. The duties of the Remuneration Committee include, among others, determining the remuneration packages of individual Executive Directors and making recommendation to the Board on the fees of the Independent Non-executive Directors. The Remuneration Committee meets at least once a year, and its terms of reference are posted on the Company's website and the Stock Exchange's website. The objective of the Company's remuneration policy is to provide remuneration in form and amount which will motivate and retain high calibre executives. The principal elements of executive remuneration package include basic salary and discretionary bonus. The emoluments of the Executive Directors are decided by the Remuneration Committee, having regards to the Group's operating results, individual performance and comparable market statistics. No Director is involved in deciding his own remuneration. Details of the Directors' emoluments are set out in note 12 to the financial statements.

The Remuneration Committee held one meeting for the year ended 28th February 2017 to review the salaries and performance bonuses for the Executive Directors and recommend to the Board the Directors' fees for the Independent Non-executive Directors. The attendance records of members of the Remuneration Committee are set out below:

Members	**Attendance**
Lee Ching Ming, Adrian *(Chairman)*♣	0/0
Ip Yuk Keung *(Chairman)*♦	1/1
Takamitsu Moriyama*	0/0
Masanori Kosaka∆	1/1
Wong Hin Wing	1/1
Kenji Hayashi*	0/0
Tong Jun∆	1/1

* *appointed on 24th June 2016*
∆ *retired on 24th June 2016*
♣ *appointed on 1st October 2016*
♦ *resigned on 1st October 2016*

Audit Committee

The Audit Committee comprises one Non-executive Director and three Independent Non-executive Directors. The Audit Committee is chaired by Mr. Lee Ching Ming, Adrian. The other members are Mr. Takamitsu Moriyama, Mr. Wong Hin Wing and Mr. Kenji Hayashi. Members of the Audit Committee possess appropriate professional qualifications or accounting or related financial management expertise. The duties of the Audit Committee include, among others, reviewing the nature and scope of audit performed by external auditor, reviewing the financial information of the Group, overseeing the Group's financial reporting, risk management and internal control systems, and reviewing and monitoring the effectiveness of the internal audit function. The Audit Committee is delegated by the Board with the responsibility of overseeing the corporate governance functions of the Company as set out in code provision D.3.1 of the CG Code. 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 and the Stock Exchange's website.

The Audit Committee held four meetings for the year ended 28th February 2017, and the meetings were attended by the external auditor. The work performed by the Audit Committee included:

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

- Recommended to the Board the appointment of external auditor;
- Reviewed the continuing connected transactions;
- Reviewed the training and continuous professional development of the Directors; and
- Reviewed the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The attendance records of members of the Audit Committee are set out below:

Members	**Attendance**
Lee Ching Ming, Adrian *(Chairman)*♣	1/1
Ip Yuk Keung *(Chairman)*♦	3/3
Takamitsu Moriyama*	2/2
Masanori Kosaka∆	2/2
Wong Hin Wing	4/4
Kenji Hayashi*	2/2
Tong Jun∆	2/2

* *appointed on 24th June 2016*
∆ *retired on 24th June 2016*
♣ *appointed on 1st October 2016*
♦ *resigned on 1st October 2016*

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems and reviewing their effectiveness. The Board is also responsible for overseeing the design, implementation and monitoring of the risk management and internal control systems. The risk management and internal control systems are 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 or in achievement of the Group's business objectives.

The Board, through the Audit Committee, assesses the effectiveness of the Group's risk management and internal control systems, which covers all material controls, including financial, operational and compliance controls, on an annual basis, and also considers the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. 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.

Each division across the Company embraces the Company's Enterprise Risk Management (the "ERM") framework for their process management in day-to-day business activities. The ERM framework includes strategic, credit, operational (administrative, system, human resources, tangible and reputation, personal data protection and business continuity), market, liquidity, compliance, legal and regulatory risks. There are risk management policies, regulations and guidelines issued for operating units to identify, access, manage, and control across the Company. Exposure to these risks is continuously monitored by the Board through the management-level Risk Management Committee comprising Executive Directors and members of senior management on an on-going basis.

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.

The key processes that have been established under the risk management and internal control systems include the following:

- Three lines of defence model is set up as per the Enterprise Risk Management Policy:
  - 1st line of defence consists of all operating units;
  - 2nd line of defense consists of the Risk Management Department and the Legal and Compliance Department; and
  - 3rd line of defense consists of internal audit which provides independent assurance on the effectiveness of our systems.

- In 2016, the policies, regulations and guidelines for enterprise risk management, operational risk management, credit risk management, and business continuity management had been revised and updated to cope with the organization change in the Company.

- Each division has to follow the relevant policies, regulations and guidelines to conduct risk assessment and control in their areas and report any incidents or findings to the Risk Management Committee.

- The Risk Management Department will monitor the key risk indicators and risk events occurred to ensure effective controls are in place in operating units.

- The Legal and Compliance Department will monitor compliance and regulatory requirements to ensure adherence by operating units.

- The members of the Risk Management Committee consist of the Executive Directors, Heads of Divisions and Head of the Risk Management Department. Department Heads of the Credit Assessment, Customer Relationship Management, IT Infrastructure and Operation, and Internal Audit regularly attend the Risk Management Committee monthly meetings.

- Significant risk events, material losses, internal control weaknesses and relevant changes in legal and regulatory compliance requirements are reported at the Risk Management Committee meetings.

- The members of the Risk Management Committee are responsible for ensuring the effectiveness of the implementations and adequacy of the ERM framework and ensuring significant risks are mitigated with preventive measures.

- The risk management and internal control report is presented to the Audit Committee on quarterly basis.

- Ongoing trainings on risk management and internal control are provided to relevant employees.

During the year under review, no major issue but areas for improvement have been identified by the Risk Management Committee and both the internal and external auditors and appropriate measures taken. The Board is of the view that the risk management and internal control systems in place for the year and up to the date of issuance of the annual report is effective and adequate.

Whistleblowing Policy

The Company is committed to achieving and maintaining a high standard of probity, openness, and accountability. A Whistleblowing Policy is in place to create a system for the employees and other stakeholders of the Company to raise concerns, in confidence, about possible improprieties. The identity of each whistleblower and all information provided in connection with a whistleblowing report will be treated with the strictest confidence.

Continuous Disclosure Policy

A Continuous Disclosure Policy is in place to ensure potential inside information as defined in the SFO is identified and confidentiality of such information is maintained until timely and appropriate disclosure is made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- Roles and responsibilities of the divisions/departments of the Company in identifying and escalating any potential inside information within the Company;

- Procedures for determining the necessity, means and/or extent of disclosure of such information; and

- Designation of persons to act as spokespersons to speak on behalf of the Company and to respond to external enquiries.

Internal Audit Function

The Company's Internal Audit Department monitors the Group's internal governance and strives to provide objective assurance to the Board that appropriate, adequate and effective risk management and internal control systems are maintained and operated by the management in compliance with agreed processes and standards by performing periodic checking. 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. This is further supplemented by the J-SOX audit performed by internal and external auditors of which risk management and internal control systems and procedures for key operating areas have been evaluated and tested for adequacy and effectiveness.

FINANCIAL REPORTING

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 sufficient 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. Furthermore, Directors are provided with monthly updates on the Group's performance to assist the Directors to discharge their duties.

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 28th February 2017, 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 a going concern basis. A statement by the external auditor of the Company about their reporting responsibilities on the Group's financial statements is set out in the Independent Auditor's Report on pages 67 to 72 of this annual report.

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

EXTERNAL AUDITOR'S REMUNERATION

Deloitte Touche Tohmatsu has been reappointed as the Company's external auditor at the 2016 AGM until the conclusion of the 2017 AGM.

During the year under review, a remuneration of HK$2.9 million was paid or payable to Deloitte Touche Tohmatsu for the provision of audit services. In addition, the following remunerations were paid or payable to Deloitte Touche Tohmatsu for the provision of non-audit related services to the Group:

Services rendered	**Fees HK$'000**
Taxation compliance	76
Interim review	150
Agreed upon procedures	450
J-SOX annual compliance review	590
Total	1,266

COMPANY SECRETARY

The Company Secretary's role is to support the Board by ensuring good information flow within the Board and that Board policy and procedures are followed. The Company Secretary is responsible for advising the Board on governance matters and facilitating induction and professional development of Directors. The Company Secretary is an employee of the Company and reports to the Chairman and the Managing Director. All Directors have access to the advice and services of the Company Secretary. The Company Secretary is delegated with the responsibility for drawing up the agenda for each Board meeting and ensures that, where applicable, matters proposed by other Directors are included in the agenda and that all applicable rules and regulations are followed. All Directors may ask for matters to be included in the agenda for regular board meetings by request to the Company Secretary. For the year under review, the Company Secretary has taken over 15 hours of relevant professional training to update her skills and knowledge.

CONSTITUTIONAL DOCUMENTS

During the year ended 28th February 2017, there was no change in the Company's constitutional documents. A copy of the latest consolidated version of the Articles is posted on the Company's and the Stock Exchange's respective websites.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

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

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Board welcomes shareholders to express their opinions at the annual general meeting. Directors, senior management and external auditor 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 individual Directors. The notice of the meeting, the annual report and the circular containing information on the proposed resolutions are sent to shareholders at least 20 clear business days before the meeting. Voting at the annual general meeting is by way of a poll. Details of the poll voting procedures are explained to shareholders at the annual general meeting to ensure that shareholders are familiar with such procedures. The results of the poll are published on the Company's website and the Stock Exchange's website.

The Company's 2016 AGM was held on Friday, 24th June 2016. The notice of the 2016 AGM, the annual report and the circular containing relevant information of the proposed resolutions were sent to shareholders more than 20 clear business days before the 2016 AGM. All Board members together with the key executives and the external auditor attended the 2016 AGM. The Company Secretary explained the poll voting procedures at the 2016 AGM. Separate resolutions for each substantially separate issue, including the re-election of individual Directors, were proposed at the 2016 AGM. All the resolutions at the 2016 AGM were dealt with by poll. The poll results of the 2016 AGM are available on the Company's website and the Stock Exchange's website.

The attendance records of the Directors at the 2016 AGM are set out below:

Directors	**Attendance**
Executive Directors:	
Hideo Tanaka *(Managing Director)*	1/1
Koh Yik Kung	1/1
Kiyoshi Wada	1/1
Tomoharu Fukayama*	0/0
Toru Hosokawa*	0/0
Lai Yuk Kwong^Δ^	1/1
Non-executive Director:	
Takamitsu Moriyama *(Chairman)**	0/0
Masanori Kosaka *(Chairman)*^Δ^	1/1
Independent Non-executive Directors:	
Lee Ching Ming, Adrian♣	0/0
Ip Yuk Keung♦	1/1
Wong Hin Wing	1/1
Tong Jun^Δ^	1/1
Kenji Hayashi*	0/0

* *appointed on 24th June 2016*
Δ *retired on 24th June 2016*
♣ *appointed on 1st October 2016*
♦ *resigned on 1st October 2016*

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

The market capitalization of the Company as at 28th February 2017 was HK$2,353 million (issued share capital: 418,765,600 shares at closing market price: HK$5.62 per share).

The 2017 AGM will be held at 20/F, Miramar Tower, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Friday, 23rd June 2017 at 10:00 a.m.

SHAREHOLDERS' RIGHTS

Calling a general meeting of the Company

Shareholder(s) representing at least 5% of the total voting rights of all shareholders having the right to vote at general meetings may request the Directors to call a general meeting of the Company. The requisition, duly signed by the shareholder(s) concerned, must clearly state the objects of the meeting and must be deposited at the registered office of the Company for the attention of the Company Secretary. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under sections 566 to 568 of the Companies Ordinance once a valid requisition is received.

Putting forward proposals at a general meeting of the Company

Shareholder(s) representing at least 2.5% of the total voting rights of all shareholders who have the right to vote or at least 50 shareholders who have a relevant right to vote may by requisition in writing to the Company either put forward a proposal at a general meeting or circulate to other shareholders a written statement with respect to matter to be dealt with at a general meeting. The requisition specifying the proposal, duly signed by the shareholders concerned, together with a statement of not more than 1,000 words with respect to the matter referred to in the proposal must be deposited at the registered office of the Company for the attention of the Company Secretary not less than six weeks before the general meeting. The Company would take appropriate actions and make necessary arrangements in accordance with the requirements under sections 581 to 583 of the Companies Ordinance once valid documents are received.

Proposing a candidate for election as a Director at an annual general meeting of the Company ("AGM")

Pursuant to Article 88 of the Articles, if a shareholder of the Company intends to propose a person other than a Director for election as a Director at an AGM, the shareholder concerned shall lodge with the registered office of the Company for the attention of the Company Secretary (i) a written notice of his intention to propose that person for election as a Director; and (ii) a notice in writing by that person of his/her willingness to be elected together with the necessary information within the period commencing no earlier than the day after the despatch of the AGM notice and ending no later than seven days prior to the date of the AGM. Detailed procedures can be found in the document titled "Procedures for Shareholder to propose a person for election as a Director" which is available on the Company's website.

Enquiries to the Board

Enquiries may be put forward to the Board through the Company Secretary at 20/F, Miramar Tower, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Directors' Report

The Directors present their annual report and the audited consolidated financial statements for the year ended 28th February 2017.

PRINCIPAL ACTIVITIES

The Group is engaged in the consumer finance business, which includes the issuance of credit cards and the provision of personal loan financing and hire purchase financing, insurance brokerage and agency business and microfinance business.

BUSINESS REVIEW

A review of the business of the Group during the year and a discussion on the Group's future business development are provided in the Managing Director's Operational Review on pages 6 to 10 and in the Management Discussion and Analysis on pages 11 to 17 of the annual report. Description of possible risks and uncertainties that the Group may be facing can be found in the Managing Director's Operational Review on pages 6 to 10 and in the Management Discussion and Analysis on pages 11 to 17 of the annual report. Also, the financial risk management objective and policies of the Group can be found in note 39 to the consolidated financial statements. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Group Financial Highlights on pages 4 to 5 of the annual report, in the Management Discussion and Analysis on pages 11 to 17 of the annual report and in note 6 to the consolidated financial statements.

To the best knowledge of the Directors, the Group was in compliance with the relevant laws and regulations that were significant to the Group for the year ended 28th February 2017.

Discussion on the Company's policies and practices on different aspects of corporate sustainability that are of material impact as well as its relationships with key stakeholders are covered in the Environmental, Social and Governance Report on page 18 to 37.

NET DEBT TO EQUITY RATIO

At 28th February 2017, the net debt to equity ratio was 0.9 (2016: 1.0).

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 28th February 2017 and the Group's financial position at that date are set out in the Group's consolidated financial statements on pages 73 to 76.

An interim dividend of 18.0 HK cents (2016: interim dividend of 18.0 HK cents) per share amounting to HK$75,378,000 (2016: HK$75,378,000) was paid to the shareholders during the year. The Directors now recommend the payment of a final dividend of 20.0 HK cents (2016: 18.0 HK cents) per share in respect of the current year to the shareholders on the register of members on 29th June 2017 amounting to HK$83,753,000 (2016: HK$75,378,000).

MAJOR CUSTOMERS

During the year, none of the Group's single customer attributed to more than 10% of the Group's total external revenue.

DIRECTORS OF THE COMPANY

The Directors of the Company during the year ended 28th February 2017 and up to the date of this report were:

Executive Directors:

Hideo Tanaka *(Managing Director)*	
Koh Yik Kung	
Kiyoshi Wada	
Tomoharu Fukayama	(Appointed on 24th June 2016)
Toru Hosokawa	(Appointed on 24th June 2016)
Lai Yuk Kwong	(Retired on 24th June 2016)

Non-executive Directors:

Takamitsu Moriyama *(Chairman)*	(Appointed on 24th June 2016)
Masanori Kosaka	(Retired on 24th June 2016)

Independent Non-executive Directors:

Lee Ching Ming, Adrian	(Appointed on 1st October 2016)
Wong Hin Wing	
Kenji Hayashi	(Appointed on 24th June 2016)
Ip Yuk Keung	(Resigned on 1st October 2016)
Tong Jun	(Retired on 24th June 2016)

At the 2016 AGM, Mr. Masanori Kosaka, Mr. Lai Yuk Kwong and Prof. Tong Jun retired and did not stand for re-election. Mr. Ip Yuk Keung resigned on 1st October 2016. The above mentioned Directors have no disagreement with the Board and nothing relating to the affairs of the Company needed to be brought to the attention of the shareholders of the Company.

In accordance with Article 102 of the Articles, all Directors shall retire at the 2017 AGM and shall be eligible of re-election. With the exception of Mr. Takamitsu Moriyama and Mr. Kiyoshi Wada who will not stand for re-election, all the other Directors will offer themselves for re-election at the 2017 AGM.

DIRECTORS OF SUBSIDIARIES

The names of all directors who have served on the board of directors of the subsidiaries of the Company during the year and up to the date of this report are as follows:

AEON Insurance Brokers (HK) Limited

Lai Yuk Kwong	(Appointed on 23rd December 2016)
Tomoharu Fukayama	
Yasuhiko Minakata	(Appointed on 24th June 2016 and resigned on 23rd December 2016)
Fong Chung Leung, Gerald	(Resigned on 12th October 2016)
Lui Pui Yee	(Resigned on 25th April 2016)

AEON Micro Finance (Shenyang) Co., Ltd.

Yasunori Narabayashi	(Appointed on 30th September 2016)
Motoo Tamada	(Appointed on 24th June 2016)
Toru Narita	(Appointed on 24th June 2016)
Fung Kam Shing, Barry	(Resigned on 30th September 2016)
Junji Murakami	(Resigned on 24th June 2016)
Bao Yi	(Resigned on 24th June 2016)

AEON Micro Finance (Tianjin) Co., Ltd.

Yasunori Narabayashi	(Appointed on 24th June 2016)
Atsushi Azuma	(Appointed on 24th June 2016)
Hideki Nagashima	
Fung Kam Shing, Barry	(Resigned on 24th June 2016)
Wei Ai Guo	(Resigned on 24th June 2016)

DIRECTORS OF SUBSIDIARIES (Cont'd)

AEON Micro Finance (Shenzhen) Co., Ltd.

Yasunori Narabayashi	
Koji Teramoto	(Appointed on 24th June 2016)
Terunori Yamamoto	(Appointed on 24th June 2016)
Hideo Tanaka	(Resigned on 24th June 2016)
Jin Hua Shu	(Resigned on 24th June 2016)

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the 2017 AGM has a service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 28th February 2017, the interests of the Directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) The Company

Director	Number of shares held under personal interests	Percentage of the issued share capital of the Company
Hideo Tanaka	28,600	0.01

(b) AFS – intermediate holding company of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AFS
Hideo Tanaka	779	0.01
Kiyoshi Wada	868	0.01
Tomoharu Fukayama	3,955	0.01
Toru Hosokawa	735	0.01

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Cont'd)

(c) AEON Japan – ultimate holding company of Company

Director	Number of shares held under personal interests	Percentage of the issued share capital of AEON Japan
Kiyoshi Wada	4,500	0.01

(d) ACS Malaysia – a fellow subsidiary of the Company

Director	Number of shares held under personal interests	Percentage of the issued share capital of ACS Malaysia
Hideo Tanaka	14,400	0.01

Other than the holdings disclosed above, none of the Directors nor their associates had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 28th February 2017.

STATUS OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the Independent Non-executive Directors are independent.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

SUBSTANTIAL SHAREHOLDERS

At 28th February 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short position in the issued share capital of the Company:

Name	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
AEON Japan *(Note 1)*	280,588,000	67.00
AFS *(Note 2)*	220,814,000	52.73
AFS (HK) *(Note 3)*	220,814,000	52.73
Aberdeen Asset Management Plc and its Associates	29,284,000	6.99

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 41.59% of the issued share capital of AFS, the holding company of AFS (HK) and 71.64% of the issued share capital of AEON Stores respectively, was deemed to be interested in the 220,814,000 shares and 3,784,000 shares owned by AFS (HK) and AEON Stores respectively.

2. AFS owned 100% of the issued share capital of AFS (HK) and was deemed to be interested in the 220,814,000 shares owned by AFS (HK).

3. Out of 220,814,000 shares, 213,114,000 shares were held by AFS (HK) and 7,700,000 shares were held by the Hongkong and Shanghai Banking Corporation Limited, as a nominee on behalf of AFS (HK).

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the share capital of the Company at 28th February 2017.

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) On 16th April 2014, the Company and AEON Stores entered into a renewal agreement to extend the terms of the master agreement for a further term of three years whereby the Company would receive commission from this fellow subsidiary in respect of purchases made by customers using credit purchase facilities, card instalment facilities, hire purchase facilities and payment solutions provided by the Company. The total amount of commission received by the Company from AEON Stores for the year ended 28th February 2017 was HK$12,929,000 of which HK$5,889,000 is classified as interest income under HKAS 39. The commission amount did not exceed the cap of HK$21,300,000 as disclosed in the Company's announcement dated 16th April 2014.

CONNECTED TRANSACTIONS (Cont'd)

(b) Pursuant to a master agreement – gift certificate dated 1st March 2016 entered into between the Company and AEON Stores, the Company may from time to time place purchase orders with AEON Stores for cash certificates issued by AEON Stores.

The total amount of consideration paid by the Company to AEON Stores for the year ended 28th February 2017 amounted to HK$7,310,000, which did not exceed the cap of HK$7,320,000 as disclosed in the Company's announcement dated 1st March 2016.

(c) Pursuant to a master service agreement dated 1st March 2016 entered into between the Company and AIS, the Company would pay service fees to AIS for the provision of business process outsourcing services.

The total amount of service fees paid by the Group to AIS for the year ended 28th February 2017 was HK$37,402,000, which did not exceed the cap of HK$49,810,000 as disclosed in the Company's announcement dated 1st March 2016.

(d) On 31st October 2016, the Company and ACSS entered into a new master service agreement (the "2016 Master Service Agreement") to renew the previous master service agreement (the "2013 Master Service Agreement") whereby the Company would pay service fees to ACSS for the provision of IT-related services.

The total amount of service fees paid by the Company to ACSS for the year ended 28th February 2017 amounted to HK$6,981,000, of which HK$5,774,000 was paid under the 2013 Master Service Agreement and HK$1,207,000 was paid under the 2016 Master Service Agreement. The amount paid by the Company did not exceed the respective caps of HK$10,164,000 and HK$3,500,000 as disclosed in the Company's announcements dated 30th October 2013 and 31st October 2016 respectively.

(e) Pursuant to a business advisory service agreement dated 1st March 2016 entered into between the Company and AFS (HK), the Company would pay an advisory fee to AFS (HK) for the provision of consultation and advisory services.

The total amount of advisory fee paid by the Company to AFS (HK) for the year ended 28th February 2017 amounted to HK$11,566,000, which did not exceed the cap of HK$12,500,000 as disclosed in the Company's announcement dated 1st March 2016.

CONNECTED TRANSACTIONS (Cont'd)

Pursuant to Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors have reviewed the transactions in (a), (b), (c), (d) and (e) 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 or on terms no less favourable to the Company than terms available to or from independent third parties; 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 Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The related party transactions as disclosed in note 44 to the consolidated financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Group has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

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

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the Directors reported below the loan facility which exists during the year and includes a condition relating to specific performance of the controlling shareholder of the Company.

On 9th September 2016, the Company obtained a term loan of USD50,000,000 (the "Facility") from a syndicate of banks, with the repayment date on 20th September 2021.

Under the Facility, the Company has given an undertaking to the lenders that the Company would continue to be a consolidated subsidiary of AFS, which is a controlling shareholder of the Company currently holding approximately 52.73% of the issued share capital of the Company. A breach of the above undertaking will constitute an event of default. If the event occurs, the Facility may become due and payable on demand.

During the year of review, no repayment was made under the Facility.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

No transactions, arrangements and contract of significance, to which the Company's holding company, fellow subsidiaries or subsidiaries was a party and in which a Director or a connected entity of a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in the execution of his duties or otherwise in relation thereto. A Directors Liability Insurance has been arranged to indemnify the Directors.

EQUITY-LINKED AGREEMENTS

For the year ended 28th February 2017, the Company has not entered into any equity-linked agreements.

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$779,000.

EMOLUMENT POLICY

The emoluments of the Directors 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 43 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 28th February 2017.

AUDITOR

A resolution will be submitted to the 2017 AGM to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

田中秀夫

Hideo Tanaka
Managing Director

Hong Kong, 27th April 2017

Independent Auditor's Report

Deloitte. 德勤

To the Members of AEON Credit Service (Asia) Company Limited
(incorporated in Hong Kong with limited liability)

OPINION

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 73 to 166, which comprise the consolidated statement of financial position as at 28th February 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 28th February 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of advances and receivables	
We identified impairment assessment of advances and receivables as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the judgements associated with determining the impairment allowances. As at 28th February 2017, advances and receivables are unsecured and amounted to approximately HK$5,070,324,000, representing approximately 83% of the Group's total assets. During the year ended 28th February 2017, impairment losses and impairment allowances of approximately HK$283,885,000 have been charged to the consolidated statement of profit or loss. As at 28th February 2017, the balance of impairment allowance is approximately HK$101,073,000. As set out in note 39b to the consolidated financial statements, impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. Also, collectively assessed impairment allowances are provided for: i) portfolios of homogenous assets that are not assessed individually: and ii) losses incurred but not yet identified based on historical loss experience, experienced judgment and statistical techniques.	Our procedures in relation to impairment assessment of the advances and receivables included: – Obtaining an understanding of the Group's credit loss policy and evaluating management's controls over delinquency assessment and impairment of advances and receivables; – Testing the automated controls over the delinquency data capture; – Assessing the appropriateness of the methodologies applied by the management for identification of loss events and estimation of individual and collective impairment allowances; – Re-performing the year-end delinquency computations for selected credit card type and instalment loan type; and – Checking the accuracy of management's calculation of the impairment allowance based on historical loss experience for assets with credit risk characteristics similar to those in the portfolio.

KEY AUDIT MATTERS (Cont'd)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition	
We have identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group. In addition, due to the significant volume of transaction and heavy reliance on the information technology systems, minor errors could, in aggregate, have a material impact to the consolidated financial statements that could be subject to manipulation. An analysis of the Group's revenue for the year is set out in note 5 to the consolidated financial statements.	Our procedures in relation to revenue recognition included: – Understanding the revenue business process of the Group; – Evaluating and testing the operating effectiveness of key controls on the recognition of interest income; – Testing automated controls related to the calculation of interest income and the completeness and accuracy of information capture; and – Using regression analysis techniques based on historical data on advances and receivables and interest income to test interest income.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Cont'd)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Tan Wei Ming.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
27th April 2017

Consolidated Statement of Profit or Loss

For the year ended 28th February 2017

	NOTES	2017 HK$'000	2016 HK$'000
Revenue	5	**1,228,100**	1,258,854
Interest income	7	**1,074,905**	1,107,583
Interest expense	8	**(90,736)**	(94,665)
Net interest income		**984,169**	1,012,918
Other operating income	9	**162,544**	162,649
Other gains and losses	10	**(961)**	(1,307)
Operating income		**1,145,752**	1,174,260
Operating expenses	11	**(540,523)**	(606,072)
Gain on sale of advances and receivables		**21,114**	–
Other expenses	11	**–**	(8,158)
Operating profit before impairment allowances		**626,343**	560,030
Impairment losses and impairment allowances		**(283,885)**	(301,938)
Impairment loss on investment in an associate	17	**(8,637)**	–
Recoveries of advances and receivables written-off		**50,635**	53,846
Share of results of associates	17	**(17,222)**	(4,583)
Profit before tax		**367,234**	307,355
Income tax expense	13	**(68,438)**	(57,388)
Profit for the year		**298,796**	249,967
Profit for the year attributable to:			
Owners of the Company		**298,796**	249,967
Earnings per share – Basic	15	**71.35 HK cents**	59.69 HK cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 28th February 2017

	2017	2016
	HK$'000	HK$'000
Profit for the year	**298,796**	249,967
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on available-for-sale investments	**(906)**	(2,362)
Exchange difference arising from translation of foreign operations	**(16,087)**	(15,581)
Net adjustment on cash flow hedges	**67,452**	14,961
Other comprehensive income (expense) for the year	**50,459**	(2,982)
Total comprehensive income for the year	**349,255**	246,985
Total comprehensive income for the year attributable to:		
Owners of the Company	**349,255**	246,985

Consolidated Statement of Financial Position

At 28th February 2017

	NOTES	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	16	**100,494**	123,177
Investments in associates	17	**11,374**	39,598
Available-for-sale investments	18	**21,239**	22,145
Advances and receivables	19	**1,034,366**	1,186,140
Prepayments, deposits and other debtors	23	**16,772**	30,298
Derivative financial instruments	33	**10,354**	1,244
Restricted deposits	24	**38,000**	38,000
		1,232,599	1,440,602
Current assets			
Advances and receivables	19	**4,035,958**	4,059,463
Prepayments, deposits and other debtors	23	**40,436**	34,092
Amounts due from fellow subsidiaries	29	**1,180**	5
Amount due from immediate holding company	30	**7**	6
Amount due from intermediate holding company	30	**191**	423
Amount due from an associate	31	**73**	–
Derivative financial instruments	33	**44**	241
Tax recoverable		**–**	1,465
Restricted deposits	24	**145,216**	–
Time deposits	25	**165,763**	98,105
Fiduciary bank balances	26	**76**	238
Bank balances and cash	27	**470,257**	306,944
		4,859,201	4,500,982
Current liabilities			
Creditors and accruals	28	**219,948**	244,130
Amounts due to fellow subsidiaries	29	**49,460**	49,830
Amount due to intermediate holding company	30	**202**	58
Amount due to ultimate holding company	30	**35**	52
Amount due to an associate	31	**3,095**	1,358
Bank borrowings	32	**240,000**	560,786
Collateralised debt obligation	37	**–**	549,782
Derivative financial instruments	33	**650**	22,364
Tax liabilities		**31,762**	8,895
		545,152	1,437,255
Net current assets		**4,314,049**	3,063,727
Total assets less current liabilities		**5,546,648**	4,504,329

Consolidated Statement of Financial Position

At 28th February 2017

	NOTES	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	*35*	**269,477**	269,477
Reserves	*36*	**2,472,594**	2,274,095
Total equity		**2,742,071**	2,543,572
Non-current liabilities			
Collateralised debt obligation	*37*	**1,250,000**	700,000
Bank borrowings	*32*	**1,481,281**	1,145,000
Derivative financial instruments	*33*	**66,724**	106,214
Deferred tax liabilities	*34*	**6,572**	9,543
		2,804,577	1,960,757
		5,546,648	4,504,329

The consolidated financial statements on pages 73 to 166 were approved and authorised for issue by the Board on 27th April 2017 and are signed on its behalf by:

田中秀夫
HIDEO TANAKA
MANAGING DIRECTOR

細川 徹
TORU HOSOKAWA
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 28th February 2017

	Share capital HK$'000	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1st March 2015	269,477	(1,153)	(136,064)	13,179	2,301,904	2,447,343
Profit for the year	–	–	–	–	249,967	249,967
Fair value loss on available-for-sale investments	–	(2,362)	–	–	–	(2,362)
Exchange difference arising from translation of foreign operations	–	–	–	(15,581)	–	(15,581)
Net adjustment on cash flow hedges	–	–	14,961	–	–	14,961
Total comprehensive (expense) income for the year	–	(2,362)	14,961	(15,581)	249,967	246,985
Final dividend paid for 2014/15	–	–	–	–	(75,378)	(75,378)
Interim dividend paid for 2015/16	–	–	–	–	(75,378)	(75,378)
	–	(2,362)	14,961	(15,581)	99,211	96,229
At 29th February 2016	**269,477**	**(3,515)**	**(121,103)**	**(2,402)**	**2,401,115**	**2,543,572**
Profit for the year	**–**	**–**	**–**	**–**	**298,796**	**298,796**
Fair value loss on available-for-sale investments	**–**	**(906)**	**–**	**–**	**–**	**(906)**
Exchange difference arising from translation of foreign operations	**–**	**–**	**–**	**(16,087)**	**–**	**(16,087)**
Net adjustment on cash flow hedges	**–**	**–**	**67,452**	**–**	**–**	**67,452**
Total comprehensive (expense) income for the year	**–**	**(906)**	**67,452**	**(16,087)**	**298,796**	**349,255**
Final dividend paid for 2015/16	**–**	**–**	**–**	**–**	**(75,378)**	**(75,378)**
Interim dividend paid for 2016/17	**–**	**–**	**–**	**–**	**(75,378)**	**(75,378)**
	–	**(906)**	**67,452**	**(16,087)**	**148,040**	**198,499**
At 28th February 2017	**269,477**	**(4,421)**	**(53,651)**	**(18,489)**	**2,549,155**	**2,742,071**

Consolidated Statement of Cash Flows

For the year ended 28th February 2017

	2017 HK$'000	2016 HK$'000
Operating activities		
Profit before tax	**367,234**	307,355
Adjustments for:		
Amortisation of upfront cost of collateralised debt obligation	**218**	459
Depreciation	**45,167**	46,879
Dividends received on available-for-sale investments	**(916)**	(705)
Impairment losses and impairment allowances recognised in respect of advances and receivables	**283,885**	301,938
Interest expense	**90,518**	94,206
Interest income	**(1,074,905)**	(1,107,583)
Losses on disposal/write-off of property, plant and equipment	**737**	871
Impairment loss on investment in an associate	**8,637**	–
Share of results of associates	**17,222**	4,583
Operating cash flows before movements in working capital	**(262,203)**	(351,997)
Increase in advances and receivables	**(117,180)**	(264,313)
Increase in prepayments, deposits and other debtors	**(3,618)**	(4,053)
(Increase) decrease in amounts due from fellow subsidiaries	**(1,175)**	485
Increase in amount due from immediate holding company	**(1)**	(6)
Decrease (increase) in amount due from intermediate holding company	**232**	(125)
Increase in amount due from an associate	**(73)**	–
Decrease in fiduciary bank balances	**162**	656
(Decrease) increase in creditors and accruals	**(25,209)**	22,015
(Decrease) increase in amounts due to fellow subsidiaries	**(370)**	928
Decrease in amount due to immediate holding company	**–**	(6)
Increase in amount due to intermediate holding company	**144**	58
(Decrease) increase in amount due to ultimate holding company	**(17)**	2
Increase (decrease) in amount due to an associate	**1,737**	(219)
Cash used in operations	**(407,571)**	(596,575)
Tax paid	**(47,077)**	(59,046)
Interest paid	**(91,685)**	(94,339)
Interest received	**1,078,664**	1,110,016
Net cash from operating activities	**532,331**	360,056

Consolidated Statement of Cash Flows

For the year ended 28th February 2017

	2017 HK$'000	2016 HK$'000
Investing activities		
Dividends received	**916**	705
Purchase of property, plant and equipment	**(8,026)**	(2,757)
Deposits paid for acquisition of property, plant and equipment	**(5,601)**	(16,471)
Decrease (increase) in time deposits with maturity of more than three months	**19,227**	(8,306)
Net cash from (used in) investing activities	**6,516**	(26,829)
Financing activities		
Placement of restricted deposits	**(1,515,588)**	(997,010)
Withdrawal of restricted deposits	**1,370,372**	997,010
Dividends paid	**(150,756)**	(150,756)
Increase in collateralised debt obligation	**550,000**	550,000
Repayment of collateralised debt obligation	**(550,000)**	(550,000)
New bank loans raised	**1,362,527**	7,628,449
Repayment of bank loans	**(1,347,408)**	(7,751,914)
Net cash used in financing activities	**(280,853)**	(274,221)
Net increase in cash and cash equivalents	**257,994**	59,006
Effect of changes in exchange rate	**(5,187)**	(4,257)
Cash and cash equivalents at beginning of the year	**349,283**	294,534
Cash and cash equivalents at end of the year	**602,090**	349,283
Being:		
Time deposits with maturity of three months or less	**131,833**	42,339
Bank balances and cash	**470,257**	306,944
	602,090	349,283

1. GENERAL

The Company is a public limited liability company incorporated in Hong Kong and its shares are listed on the Stock Exchange. Its immediate holding company is AFS (HK), incorporated in Hong Kong and its ultimate holding company is AEON Japan, 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 20/F, Miramar Tower, 132 Nathan Road, Tsimshatsui, Kowloon, Hong Kong.

The Group is engaged in the consumer finance business, which includes the issuance of credit cards and the provision of personal loan financing and hire purchase financing, insurance brokerage and agency business and microfinance business.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

The application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Cont'd)

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instrument[1]
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments[1]
HKFRS 16	Leases[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 7	Disclosure Initiative[4]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[4]
Amendments to HKAS 40	Transfer of Investment Properties[1]

1 *Effective for annual periods beginning on or after 1st January 2018.*
2 *Effective for annual periods beginning on or after 1st January 2019.*
3 *Effective for annual periods beginning on or after a date to be determined.*
4 *Effective for annual periods beginning on or after 1st January 2017.*
5 *Effective for annual periods beginning on or after 1st January 2017 or 1st January 2018, as appropriate.*

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Cont'd)

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Cont'd)

HKFRS 9 Financial Instruments (Cont'd)

Based on the Group's financial instruments and risk management policies as at 28th February 2017, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria). In addition, the expected credit loss model may result in early provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised cost and irrevocable credit commitments.

The Director anticipate that the application of new hedging requirements may not have a material impact on the Group's current hedge designation and hedge accounting as most hedging instruments are expected to meet hedge designation and hedge effectiveness upon the application of new hedging requirements.

However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Cont'd)

HKFRS 15 Revenue from Contracts with Customers (Cont'd)

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition and the allocation of total consideration to respective performance obligations based on relative fair values may be affected, and more disclosures relating to revenue is required. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Cont'd)

HKFRS 16 Leases (Cont'd)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows, respectively.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 28th February 2017, the Group has non-cancellable operating lease commitments of HK$99,426,000 as disclosed in note 40. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the Group complete a detailed review.

2. APPLICATION OF NEW AND AMENDMENTS TO HKFRSs (Cont'd)

Amendments to HKAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments apply prospectively for annual periods beginning on or after 1st January 2017 with earlier application permitted. The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

Except as described above, the Directors do not anticipate that the application of these new and amendments to HKFRSs will have a material effect on the amounts recognised in the Group's consolidated financial statements in the future.

3. SIGNIFICANT ACCOUNTING POLICIES

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 Companies Ordinance.

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in associates

An associate is an entity over which the Group has significant influence. 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 these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Interest income 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 on initial recognition.

Commission income, handling and late charges are recognised when services are provided.

Credit card transactions that result in award credits (often called "bonus points") for customers, under the Group's customer loyalty programmes, are accounted for a separately identifiable component and the fair value of the commission received or receivable is allocated between the credit card transactions and the award credits granted. The commission allocated to the award credits is measured by reference to their fair value of the awards for which they could be redeemed. Such commission is not recognised as revenue at the time of the initial credit card transactions – but is deferred and recognised as revenue when the award credits are redeemed and the Group's obligations have been fulfilled.

Annual fee is recognised on a time proportion basis.

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

Insurance brokerage income and agency fee received or receivable is recognised as revenue when the underlying transaction has been completed.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Leasing (Cont'd)

The Group as lessor

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

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 before tax' as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years and 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 end of the reporting period.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Taxation (Cont'd)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual value over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment losses – non-financial assets

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Impairment losses – non-financial assets (Cont'd)

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 immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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 immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or 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 profit or loss.

Financial assets

Financial assets are classified into one of the two categories, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

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

Financial instruments (Cont'd)

Financial assets (Cont'd)

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. The Group designated listed and unlisted equity securities as available-for-sale investments on initial recognition of those items.

Equity securities held by the Group that are classified as available-for-sale financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Changes in the carrying amount of available-for-sale financial assets at fair value are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment of financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including credit card receivables and instalment loan receivables, accrued interest and other receivables, other debtors, amounts due from fellow subsidiaries, immediate holding company, intermediate holding company and an associate, restricted deposits, time deposits, fiduciary bank balances, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets (including hire purchase debtors)

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (including hire purchase debtors) (Cont'd)

For certain categories of financial assets, such as advances and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial assets (Cont'd)

Impairment of financial assets (including hire purchase debtors) (Cont'd)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Financial liabilities and equity instruments (Cont'd)

Financial liabilities at amortised cost

Financial liabilities including bank borrowings, collateralised debt obligation, creditors, amounts due to fellow subsidiaries, intermediate holding company, ultimate holding company and an associate, are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments

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

Hedge accounting

The Group designates certain derivatives as hedging instruments for cash flow hedges.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Hedge accounting (Cont'd)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated under the heading of hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the "other gains and losses" line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line of the consolidated statement of profit or loss as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Financial instruments (Cont'd)

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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 in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Insurance intermediary assets and liabilities

The Group acts as an agent in placing the insurable risks of their clients with insurers and, as such, generally is not liable as principal for amounts arising from such transactions. Other than the receivable for fees and commissions earned on the transaction which is recognised within trade receivables, no recognition of the insurance transaction occurs until the Group receives cash in respect of premiums or claims, at which time the amount is recognised in fiduciary bank balances and a corresponding deposit liability is established in favour of the insurer or the policyholder and recognised on the consolidated statement of financial position as a financial liability under the trade payables line item. Fiduciary cash arising from insurance broking deposits is settled over a short term and do not yield any interest for the insurer or the policyholder. Discounting is omitted given the effect of discounting is immaterial. The Group is entitled to retain the interest income on any cash balances arising from these transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefit scheme in China are recognised as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment allowances on advances and receivables

The Group establishes, through charges against the consolidated statement of profit or loss, impairment allowances in respect of estimated incurred loss in advances 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 statement of financial position at its present value of estimated future cash flows discounted at the original effective interest rate.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

Impairment allowances on advances and receivables (Cont'd)

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

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

Details of advances and receivables and the impairment allowances movements are disclosed in notes 19 and 20.

5. REVENUE

	2017	2016
	HK$'000	HK$'000
Interest income	**1,074,905**	1,107,583
Fees and commissions	**74,043**	81,999
Handling and late charges	**79,152**	69,272
	1,228,100	1,258,854

6. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

The Group's operating and reportable segments 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
Insurance	–	Provide insurance brokerage and agency services
Hire purchase	–	Provide vehicle financing and hire purchase financing for household products and other consumer products for individuals

6. SEGMENT INFORMATION (Cont'd)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

For the year ended 28th February 2017

	Credit card HK$'000	Instalment loan HK$'000	Insurance HK$'000	Hire purchase HK$'000	Consolidated HK$'000
REVENUE	850,105	357,727	20,255	13	1,228,100
RESULT					
Segment results	324,939	79,905	4,753	12	409,609
Unallocated operating income					7,222
Unallocated expenses					(23,738)
Impairment loss on investment in an associate					(8,637)
Share of results of associates					(17,222)
Profit before tax					367,234

6. **SEGMENT INFORMATION (Cont'd)**

Segment revenue and results (Cont'd)

For the year ended 29th February 2016

	Credit card HK$'000	Instalment loan HK$'000	Insurance HK$'000	Hire purchase HK$'000	Consolidated HK$'000
REVENUE	851,168	376,675	30,939	72	1,258,854
RESULT					
Segment results	273,515	48,739	6,013	12	328,279
Unallocated operating income					6,777
Unallocated expenses					(23,118)
Share of results of associates					(4,583)
Profit before tax					307,355

The accounting policies of operating and reportable segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit before tax earned by each segment without allocation of certain other operating income (including dividend income), unallocated head office expenses, impairment loss on investment in an associate and share of results of associates. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

6. SEGMENT INFORMATION (Cont'd)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by operating and reportable segments:

At 28th February 2017

	Credit card HK$'000	Instalment loan HK$'000	Insurance HK$'000	Hire purchase HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	4,254,878	1,753,144	51,134	31	6,059,187
Investments in associates					11,374
Available-for-sale investments					21,239
Consolidated total assets					6,091,800
LIABILITIES					
Segment liabilities	2,736,353	573,163	1,831	48	3,311,395
Unallocated liabilities					38,334
Consolidated total liabilities					3,349,729

6. SEGMENT INFORMATION (Cont'd)

Segment assets and liabilities (Cont'd)

At 29th February 2016

	Credit card HK$'000	Instalment loan HK$'000	Insurance HK$'000	Hire purchase HK$'000	Consolidated HK$'000
ASSETS					
Segment assets	3,955,720	1,865,261	58,088	772	5,879,841
Investments in associates					39,598
Available-for-sale investments					22,145
Consolidated total assets					5,941,584
LIABILITIES					
Segment liabilities	2,761,872	614,873	2,649	180	3,379,574
Unallocated liabilities					18,438
Consolidated total liabilities					3,398,012

For the purposes of monitoring segment performance and allocating resources amongst segments:

- all assets are allocated to operating and reportable segments other than investments in associates and available-for-sale investments.
- all liabilities are allocated to operating and reportable segments other than tax liabilities and deferred tax liabilities.

6. SEGMENT INFORMATION (Cont'd)

Other segment information

Amounts included in the measure of segment results or segment assets:

2017

	Credit card HK$'000	Instalment loan HK$'000	Insurance HK$'000	Hire purchase HK$'000	Consolidated HK$'000
Additions to non-current assets *(Note)*	**20,473**	**3,301**	**–**	**–**	**23,774**
Depreciation	**31,566**	**13,446**	**155**	**–**	**45,167**
Impairment losses and impairment allowances	**149,786**	**134,074**	**25**	**–**	**283,885**
Recoveries of advances and receivables written-off	**(37,831)**	**(12,647)**	**–**	**(157)**	**(50,635)**

2016

	Credit card HK$'000	Instalment loan HK$'000	Insurance HK$'000	Hire purchase HK$'000	Consolidated HK$'000
Additions to non-current assets *(Note)*	47,565	10,473	108	–	58,146
Depreciation	31,172	15,540	167	–	46,879
Impairment losses and impairment allowances	152,742	149,190	–	6	301,938
Recoveries of advances and receivables written-off	(39,708)	(14,025)	–	(113)	(53,846)

Note: Non-current assets exclude investments in associates and derivative financial instruments.

6. SEGMENT INFORMATION (Cont'd)

Geographical information

The following is an analysis of the Group's revenue and results by geographical segments:

For the year ended 28th February 2017

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
REVENUE	**1,170,184**	**57,916**	**1,228,100**
RESULT			
Segment results	**425,069**	**(15,460)**	**409,609**
Unallocated operating income			**7,222**
Unallocated expenses			**(23,738)**
Impairment loss on investment in an associate			**(8,637)**
Share of results of associates			**(17,222)**
Profit before tax			**367,234**

For the year ended 29th February 2016

	Hong Kong HK$'000	PRC HK$'000	Consolidated HK$'000
REVENUE	1,201,879	56,975	1,258,854
RESULT			
Segment results	361,089	(32,810)	328,279
Unallocated operating income			6,777
Unallocated expenses			(23,118)
Share of results of associates			(4,583)
Profit before tax			307,355

Most of the Group's non-current assets (excluding financial assets) are located in Hong Kong. Accordingly, no geographical analysis is presented.

Information about major customers

During the years ended 28th February 2017 and 29th February 2016, none of the Group's single customer attributed to more than 10% of the Group's total external revenue.

7. INTEREST INCOME

	2017	2016
	HK$'000	HK$'000
Advances	**1,067,994**	1,100,906
Impaired advances	**3,344**	3,611
Time deposits, restricted deposits and bank balances	**3,567**	3,066
	1,074,905	1,107,583

8. INTEREST EXPENSE

	2017	2016
	HK$'000	HK$'000
Interest on bank borrowings	**30,978**	30,425
Interest on collateralised debt obligation	**9,182**	7,743
Net interest expense on interest rate swap contracts	**50,576**	56,497
	90,736	94,665

Amortisation of upfront cost of **HK$218,000** (2016: HK$459,000) is included in the interest expense on collateralised debt obligation.

9. OTHER OPERATING INCOME

	2017 HK$'000	2016 HK$'000
Dividends received on available-for-sale investments		
Listed equity securities	**849**	645
Unlisted equity securities	**67**	60
Fees and commissions		
Credit card	**53,935**	51,060
Insurance	**20,108**	30,939
Handling and late charges	**79,152**	69,272
Others	**8,433**	10,673
	162,544	162,649

10. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Exchange gain (loss)		
Exchange gain on hedging instrument released from cash flow hedge reserve	**255**	951
Exchange loss on a bank loan	**(255)**	(951)
Other exchange losses, net	**(53)**	(226)
Hedge ineffectiveness on cash flow hedges	**(171)**	(210)
Losses on disposal/write-off of property, plant and equipment	**(737)**	(871)
	(961)	(1,307)

11. OPERATING EXPENSES / OTHER EXPENSES

	2017	2016
	HK$'000	HK$'000
Operating expenses		
Auditor's remuneration	**2,900**	2,946
Depreciation	**45,167**	46,879
General administrative expenses	**159,359**	175,828
Marketing and promotion expenses	**55,915**	76,667
Minimum operating lease rentals in respect of rented premises, advertising space and equipment	**72,888**	72,342
Other operating expenses	**46,453**	54,911
Staff costs including Directors' emoluments	**157,841**	176,499
	540,523	606,072

Operating lease rentals in respect of Directors' and staff quarters of **HK$3,283,000** (2016: HK$2,968,000) are included under staff costs.

Other expenses

During the year ended 29th February 2016, the Company invested in the establishment of prepaid card business. However, due to the uncertainty and various other considerations surrounding the proposed regulatory regime for stored-value facilities, this project had been suspended and all incurred expenses of **HK$8,158,000** were included under other expenses.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the thirteen (2016: eleven) Directors were as follows:

2017

Name of Directors	Fees	Salaries and other benefits	Discretionary bonus *(Note a)*	Mandatory provident fund contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors					
Hideo Tanaka *(Note b)*	–	1,857	180	–	2,037
Koh Yik Kung	–	1,789	82	18	1,889
Kiyoshi Wada *(Note b)*	–	1,303	173	–	1,476
Tomoharu Fukayama (24.6.2016–28.2.2017)	–	907	–	–	907
Toru Hosokawa (24.6.2016–28.2.2017)	–	1,102	–	–	1,102
Lai Yuk Kwong (1.3.2016–24.6.2016)	–	552	136	6	694
Sub-total	–	7,510	571	24	8,105

The executive directors' emoluments shown above were for their services in connection with management of the affairs of the Company and the Group.

Non-executive Directors	Fees	Salaries and other benefits	Discretionary bonus	Mandatory provident fund contributions	Total
Takamitsu Moriyama (24.6.2016–28.2.2017)	–	–	–	–	–
Masanori Kosaka (1.3.2016–24.6.2016)	–	–	–	–	–

The non-executive director's emoluments shown above were for his services as director of the Company and the Group.

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

(a) Directors' emoluments (Cont'd)

2017

Name of Directors	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus *(Note a)* HK$'000	Mandatory provident fund contributions HK$'000	Total HK$'000
Independent Non-executive Directors					
Lee Ching Ming, Adrian (1.10.2016–28.2.2017)	125	–	–	–	125
Wong Hin Wing	300	–	–	–	300
Kenji Hayashi (24.6.2016–28.2.2017)	200	–	–	–	200
Ip Yuk Keung (1.3.2016–1.10.2016)	75	–	–	–	75
Tong Jun (1.3.2016–24.6.2016)	–	–	–	–	–
Sub-total	700	–	–	–	700

The independent non-executive directors' emoluments shown above were for their services as directors of the Company and of the Group.

Total	8,805

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

(a) Directors' emoluments (Cont'd)

2016

Name of Directors	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus *(Note a)* HK$'000	Mandatory provident fund contributions HK$'000	Total HK$'000
Executive Directors					
Hideo Tanaka *(Note b)* (26.6.2015–29.2.2016)	–	1,052	–	–	1,052
Koh Yik Kung	–	1,782	110	18	1,910
Kiyoshi Wada *(Note b)* (26.6.2015–29.2.2016)	–	898	–	–	898
Fung Kam Shing, Barry (1.3.2015–26.6.2015)	–	440	718	7	1,165
Tomoyuki Kawahara (1.3.2015–26.6.2015)	–	354	263	7	624
Fong Chung Leung, Gerald (1.3.2015–26.6.2015)	–	462	368	7	837
Lai Yuk Kwong *(Note c)*	–	1,124	–	12	1,136
Sub-total	–	6,112	1,459	51	7,622

The executive directors' emoluments shown above were for their services in connection with management of the affairs of the Company and the Group.

Non-executive Director					
Masanori Kosaka	–	–	–	–	–

The non-executive director's emoluments shown above were for his services as director of the Company and the Group.

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

(a) Directors' emoluments (Cont'd)

2016

Name of Directors	Fees HK$'000	Salaries and other benefits HK$'000	Discretionary bonus *(Note a)* HK$'000	Mandatory provident fund contributions HK$'000	Total HK$'000
Independent Non-executive Directors					
Ip Yuk Keung	284	–	–	–	284
Wong Hin Wing	284	–	–	–	284
Tong Jun	284	–	–	–	284
Sub-total	852	–	–	–	852

The independent non-executive directors' emoluments shown above were for their services as directors of the Company and of the Group.

Total	8,474

Notes:

(a) The discretionary bonus is determined by the Remuneration Committee of the Company with reference to the financial performance of the Group and the performance of the individual Director.

(b) Operating lease rentals in respect of Directors' accommodations of **HK$1,600,000** (2016: HK$576,000) are included under salaries and other benefits.

(c) With effect from 26th June 2015, Lai Yuk Kwong started to receive remuneration from the Company following his re-designation as an executive director of the Company.

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

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, four (2016: three) were Directors, one of whom with total emoluments of **HK$1,387,000** of which HK$907,000 as disclosed above was newly appointed during the year. Details of the emoluments of the other three (2016: two) Directors were set out as above. The emoluments of the remaining one (2016: two) individuals and the newly appointed Director (2016: one resigned Director) were as follows:

	2017 **HK$'000**	2016 HK$'000
Salaries and other benefits	**2,421**	2,558
Discretionary bonus	**77**	919
Mandatory provident fund contributions	**18**	45
	2,516	3,522

Their emoluments were within the following bands:

	No. of employees **2017**	 2016
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**2**	3
	2	3

13. INCOME TAX EXPENSE

	2017 HK$'000	2016 HK$'000
Current tax:		
– Current year	**72,224**	54,538
– Overprovision in respect of prior years	**(815)**	(724)
	71,409	53,814
Deferred tax *(Note 34)*		
– Current year	**(2,971)**	3,574
	68,438	57,388

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss as follows:

	2017 HK$'000	2016 HK$'000
Profit before tax	**367,234**	307,355
Tax at the applicable rate of 16.5% (2016: 16.5%)	**60,594**	50,714
Tax effect of share of results of associates	**2,842**	756
Tax effect of expenses not deductible for tax purpose	**4,830**	3,879
Tax effect of income not taxable for tax purpose	**(321)**	(177)
Overprovision in respect of prior years	**(815)**	(724)
Tax effect of tax losses in current year not recognised	**1,485**	1,995
Utilisation of tax losses previously not recognised	**(1,362)**	–
Others	**1,185**	945
Income tax expense for the year	**68,438**	57,388

14. DIVIDENDS

	2017 **HK$'000**	2016 HK$'000
Dividends recognised as distribution during the year:		
Final dividend paid of 18.0 HK cents in respect of 2016 (2016: 18.0 HK cents in respect of 2015) per share	**75,378**	75,378
Interim dividend paid of 18.0 HK cents in respect of 2017 (2016: 18.0 HK cents in respect of 2016) per share	**75,378**	75,378
	150,756	150,756
Final dividend proposed of 20.0 HK cents in respect of 2017 (2016: 18.0 HK cents in respect of 2016) per share	**83,753**	75,378

The Directors have recommended a final dividend of 20.0 HK cents per share. Subject to the approval of the shareholders at the 2017 AGM, the final dividend will be paid on 13th July 2017 to shareholders whose names appear on the register of members of the Company on 29th June 2017. This dividend has not been included as a liability in the consolidated financial statements.

15. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the profit for the year of **HK$298,796,000** (2016: HK$249,967,000) and on the number of shares of **418,766,000** (2016: 418,766,000) in issue during the year.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
COST					
At 1st March 2015	26,151	12,102	333,005	226	371,484
Additions	1,497	213	54,149	–	55,859
Disposals/write-off	(358)	–	(31,126)	–	(31,484)
Exchange realignment	(160)	(44)	(246)	–	(450)
At 29th February 2016	**27,130**	**12,271**	**355,782**	**226**	**395,409**
Additions	**1,430**	**6**	**22,899**	**–**	**24,335**
Disposals/write-off	**–**	**–**	**(1,705)**	**–**	**(1,705)**
Exchange realignment	**(202)**	**(53)**	**(1,511)**	**–**	**(1,766)**
At 28th February 2017	**28,358**	**12,224**	**375,465**	**226**	**416,273**
DEPRECIATION					
At 1st March 2015	18,870	8,224	228,919	226	256,239
Provided for the year	4,150	1,152	41,577	–	46,879
Eliminated on disposals/write-off	(60)	–	(30,553)	–	(30,613)
Exchange realignment	(113)	(17)	(143)	–	(273)
At 29th February 2016	**22,847**	**9,359**	**239,800**	**226**	**272,232**
Provided for the year	**2,897**	**1,116**	**41,154**	**–**	**45,167**
Eliminated on disposals/write-off	**–**	**–**	**(968)**	**–**	**(968)**
Exchange realignment	**(141)**	**(30)**	**(481)**	**–**	**(652)**
At 28th February 2017	**25,603**	**10,445**	**279,505**	**226**	**315,779**
CARRYING VALUES					
At 28th February 2017	**2,755**	**1,779**	**95,960**	**–**	**100,494**
At 29th February 2016	4,283	2,912	115,982	–	123,177

16. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Leasehold improvements	$33^{1}/_{3}$% or over the lease term, if shorter
Furniture and fixtures	20%
Computer equipment	20% – $33^{1}/_{3}$%
Motor vehicles	20% – $33^{1}/_{3}$%

17. INVESTMENTS IN ASSOCIATES

	2017	2016
	HK$'000	HK$'000
Cost of unlisted investments in associates	**79,335**	79,335
Share of post-acquisition results	**(64,675)**	(47,453)
Exchange difference arising from translation	**5,351**	7,716
Impairment loss recognised in profit or loss	**(8,637)**	–
	11,374	39,598

At 28th February 2017 and 29th February 2016, the Group had interests in the following associates:

Name of associates	Place of incorporation and operation	Proportion of ownership interest deemed to be held by the Company		Proportion of board member representative		Principal activities
		2017	2016	**2017**	2016	
AEON Information Service (Shenzhen) Co., Ltd.	China	**50%**	50%	**25%**	33.3%	Provision of business process outsourcing services
AEON Credit Guarantee (China) Co., Ltd.	China	**50%**	50%	**33.3%**	33.3%	Liquidation in progress

The other shareholder of AIS and ACG is the Group's intermediate holding company and hence the Group considers that the Group is able to participate in the financial and operating policy decisions of AIS and ACG but does not control or jointly control over those policies.

17. INVESTMENTS IN ASSOCIATES (Cont'd)

The above associates are also fellow subsidiaries of the Group.

All of these associates' financial statements are prepared in accordance with HKFRSs and are accounted for using the equity method in these consolidated financial statements.

Aggregate information of associates that are not individually material

The summarised financial information below represents the aggregate amount of the Group's share of its interests in associates which are not individually material.

	2017	2016
	HK$'000	HK$'000
Loss and other comprehensive expense for the year	**(17,222)**	(4,583)

In January 2017, the shareholders of ACG resolved to approve the winding up of ACG by way of voluntary liquidation under the law of the PRC. At 28th February 2017, in view of the commencement of liquidation process, its financial status and prevailing market conditions, the Directors has performed a review on impairment on the carrying value of its interest in ACG. Based on the assessment, the Directors determined that impairment loss of HK$8,637,000 is recognised in the consolidated statement of profit or loss for the year ended 28th February 2017.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK$'000	HK$'000
Listed equity securities, at fair value		
Hong Kong	**12,095**	13,001
Unlisted equity securities, at cost	**9,144**	9,144
	21,239	22,145

The investments included above represent investments in both listed and unlisted equity securities that offer the Group the opportunity for return through dividend income and fair value gains. The fair values of listed equity securities are based on quoted market bid prices. The above unlisted investments represent equity interest in three (2016: three) private entities incorporated overseas engaged in consumer credit finance services and related business. The unlisted investments are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

The Directors also conducted a review of those unlisted investments by using discounted cash flow method based on the latest financial budgets prepared by investees' management covering a period of 3 to 5 years. Budgeted net profit projections have been determined based on the historical records and the management's expectations for the growth potential and stable market development. No impairment loss was charged for both years.

19. ADVANCES AND RECEIVABLES

	2017	2016
	HK$'000	HK$'000
Credit card receivables	**3,611,021**	3,577,431
Instalment loan receivables	**1,469,708**	1,697,234
Hire purchase debtors	**26**	749
	5,080,755	5,275,414
Accrued interest and other receivables	**90,642**	106,515
Gross advances and receivables	**5,171,397**	5,381,929
Impairment allowances *(Note 20)*		
– individually assessed	**(58,146)**	(90,723)
– collectively assessed	**(42,927)**	(45,603)
	(101,073)	(136,326)
	5,070,324	5,245,603
Current portion included under current assets	**(4,035,958)**	(4,059,463)
Amount due after one year	**1,034,366**	1,186,140

As at 29th February 2016, included in the advances and receivables were secured credit card receivables and instalment loan receivables of HK$5,444,000 and HK$12,570,000 respectively. The Group held collateral over these balances. The Directors consider the exposure of credit risk of the secured receivables, after taking into account the value of the collateral, is insignificant, as the fair value of the collateral (property interests) is higher than the outstanding amount of these receivables at the end of the reporting period. As at 28th February 2017, all advances and receivables are unsecured. The credit risk exposures of the advances and receivables are disclosed in note 39(b).

19. ADVANCES AND RECEIVABLES (Cont'd)

(a) Credit card receivables

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

All credit card receivables are denominated in HKD. The credit card receivables carry effective interest ranging from 26.8% to 43.5% (2016: 26.8% to 43.5%) per annum.

Asset backed financing transaction

The Group entered into asset backed financing transaction, which is collateralised by the Group's revolving credit card receivables portfolio. Under the revolving structure, as the excess cash flows collected in respect of the transferred credit card receivables are to be reinvested, the transaction does not meet the "transfer of asset" tests under HKAS 39 for the derecognition of financial assets. Accordingly, the Group continues to recognise the full amount of the transferred credit card receivables and related deposits and recognised the cash receipt as collateralised debt obligation.

The trust is controlled by the Group as the Group is the sole beneficiary of the trust which holds the entire undivided interest in the credit card receivables transferred, and therefore, the trust is consolidated by the Group. The transaction is accounted for as a collateralised borrowing arrangement in the Group's consolidated financial statements (see note 37).

The Group is restricted to sell, pledge, assign or transfer any of the transferred receivables and related deposits to any person other than the bank. As at 28th February 2017, the principal amount of the collateralised debt obligation is **HK$1,250,000,000** (2016: HK$1,250,000,000).

The financial assets and associated liabilities being transferred but not derecognised are carried at amortised cost in the Group's consolidated statement of financial position and the amounts are set out below.

	2017	2016
	HK$'000	HK$'000
Carrying amount and fair value		
Credit card receivables	**1,488,199**	1,670,046
Restricted deposits	**183,216**	38,000
Collateralised debt obligation	**(1,250,000)**	(1,249,782)
	421,415	458,264

(b) Instalment loan receivables

Most of the instalment loan receivables entered with customers ranges from 6 months to 4 years and are denominated in HKD. The instalment loan receivables carry effective interest ranging from 3.1% to 50.7% (2016: 3.1% to 47.4%) per annum.

19. ADVANCES AND RECEIVABLES (Cont'd)

(c) Hire purchase debtors

	Minimum payments		Present value of minimum payments	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts receivable under hire purchase contracts:				
Within one year	**26**	723	**26**	710
In the second to fifth year inclusive	**–**	39	**–**	39
	26	762	**26**	749
Unearned finance income	**–**	(13)	**–**	–
Present value of minimum payments receivable	**26**	749	**26**	749

The term of hire purchase contracts entered with customers ranges from 6 months to 1.5 years. All hire purchase agreements are denominated in HKD.

20. IMPAIRMENT ALLOWANCES

	2017	2016
	HK$'000	HK$'000
Analysis by products as:		
Credit card receivables	**41,034**	34,235
Instalment loan receivables	**57,377**	100,643
Hire purchase debtors	**–**	6
Accrued interest and other receivables	**2,662**	1,442
	101,073	136,326

20. IMPAIRMENT ALLOWANCES (Cont'd)

	Individual assessment HK$'000	Collective assessment HK$'000	Total HK$'000
At 1st March 2016	**90,723**	**45,603**	**136,326**
Impairment losses and impairment allowances	**286,561**	**(2,676)**	**283,885**
Amounts written-off as uncollectable	**(315,084)**	**–**	**(315,084)**
Exchange realignment	**(4,054)**	**–**	**(4,054)**
At 28th February 2017	**58,146**	**42,927**	**101,073**

	Individual assessment HK$'000	Collective assessment HK$'000	Total HK$'000
At 1st March 2015	92,403	55,914	148,317
Impairment losses and impairment allowances	312,249	(10,311)	301,938
Amounts written-off as uncollectable	(311,716)	–	(311,716)
Exchange realignment	(2,213)	–	(2,213)
At 29th February 2016	90,723	45,603	136,326

21. OVERDUE ADVANCES AND RECEIVABLES

Set out below is an analysis of gross balance of advances and receivables (excluding impairment allowances) which is overdue for more than 1 month:

	2017		2016	
	HK$'000	**%***	HK$'000	%*
Overdue 1 month but less than 2 months	**77,933**	**1.5**	89,934	1.7
Overdue 2 months but less than 3 months	**43,281**	**0.8**	45,420	0.8
Overdue 3 months but less than 4 months	**31,806**	**0.6**	27,229	0.5
Overdue 4 months or above	**60,967**	**1.2**	89,738	1.7
	213,987	**4.1**	252,321	4.7

* *Percentage of gross advances and receivables*

22. IMPAIRED ADVANCES

Details of the advances assessed for impairment individually are as follows:

	2017 **HK$'000**	2016 HK$'000
Gross impaired advances		
– Overdue for more than 1 month *(included in note 21)*	**62,733**	93,356
– Current	**44**	539
Impairment allowances under individual assessment	**(58,146)**	(90,723)
Net impaired advances	**4,631**	3,172
Gross impaired advances as a percentage of gross advances	**1.2%**	1.8%

23. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	2017 **HK$'000**	2016 HK$'000
Deposits for property, plant and equipment	**1,275**	15,338
Rental and other deposits	**22,507**	19,664
Prepaid operating expenses	**29,150**	23,198
Other debtors	**4,276**	6,190
	57,208	64,390
Current portion included under current assets	**(40,436)**	(34,092)
Amount due after one year	**16,772**	30,298

24. RESTRICTED DEPOSITS

The restricted deposits are in relation to the arrangement under collateralised debt obligation. This represents time deposits carrying fixed rates ranging from 0.08% to 0.70% (2016: 0.04% to 0.33%) per annum during the year. Restricted deposits of **HK$145,216,000** (2016: HK$nil) will mature within 1 year from 28th February 2017.

25. TIME DEPOSITS

Time deposits are denominated in RMB with maturity of three months or less carry fixed rates ranging from 1.32% to 1.76% (2016: 0.01% to 4.20%) per annum during the year.

Time deposits are denominated in RMB with maturity of more than three months carry fixed rates ranging from 1.55% to 2.02% (2016: 1.55% to 2.99%) per annum during the year.

	HK$'000
At 28th February 2017	
Time deposits with maturity of three months or less	**131,833**
Time deposits with maturity of more than three months	**33,930**
	165,763
At 29th February 2016	
Time deposits with maturity of three months or less	42,339
Time deposits with maturity of more than three months	55,766
	98,105

26. FIDUCIARY BANK BALANCES

The fiduciary bank balances are in relation to the money deposited by clients in the course of the conduct of the regulated activities under insurance brokerage business. These clients' monies are maintained in one or more segregated bank accounts. The Group has recognised the corresponding payables to respective clients. However, the Group does not have a currently enforceable right to offset those payables with the deposits placed.

27. BANK BALANCES AND CASH

Bank balances carry prevailing market interest rate.

The carrying amounts of the bank balances and cash are denominated in the following currencies:

	HKD HK$'000	RMB HK$'000	USD HK$'000	Total HK$'000
At 28th February 2017				
Bank balances and cash	**452,587**	**17,304**	**366**	**470,257**
At 29th February 2016				
Bank balances and cash	284,508	21,950	486	306,944

28. CREDITORS AND ACCRUALS

The aged analysis of creditors presented based on the invoice date at the end of the reporting period is as follows:

	2017 **HK$'000**	2016 HK$'000
Less than 1 month	**64,151**	68,355
Over 1 month but less than 3 months	**1,794**	1,877
Over 3 months	**3,172**	5,895
	69,117	76,127

Included in creditors and accruals is deferred revenue in relation to customer loyalty programmes of **HK$8,091,000** (2016: HK$8,143,000).

29. AMOUNTS DUE FROM / TO FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand except for **HK$42,791,000** (2016: HK$42,220,000) which is trade-related.

The aged analysis of amounts due to fellow subsidiaries that are trade-related based on the invoice date at the end of the reporting period is as follows:

	2017	2016
	HK$'000	HK$'000
Less than 1 month	**42,791**	42,220

30. AMOUNTS DUE FROM / TO IMMEDIATE/INTERMEDIATE/ULTIMATE HOLDING COMPANY

The amounts are unsecured, non-interest bearing and repayable on demand.

31. AMOUNTS DUE FROM / TO AN ASSOCIATE

The amounts are unsecured, non-interest bearing and repayable on demand.

32. BANK BORROWINGS

	2017	2016
	HK$'000	HK$'000
Bank loans, unsecured	**1,721,281**	1,705,786
Carrying amount repayable *(Note)*		
Within one year	**240,000**	560,786
Between one and two years	**335,000**	190,000
Between two and five years	**1,071,281**	870,000
Over five years	**75,000**	85,000
	1,721,281	1,705,786
Amount repayable within one year included under current liabilities	**(240,000)**	(560,786)
Amount repayable after one year	**1,481,281**	1,145,000

Note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

32. BANK BORROWINGS (Cont'd)

Functional currency of relevant group entity is HKD. The carrying amounts of the bank borrowings are denominated in the following currencies:

	HKD HK$'000	USD HK$'000	RMB HK$'000	Total HK$'000
At 28th February 2017				
Bank loans	**1,335,000**	**386,281**	**–**	**1,721,281**
At 29th February 2016				
Bank loans	1,285,950	387,800	32,036	1,705,786

HKD bank loans of **HK$290,000,000** (2016: HK$240,000,000) are arranged at fixed interest rates ranging from 0.65% to 2.57% (2016: 1.40% to 3.10%) per annum and expose the Group to fair value interest rate risk. Other HKD bank loans are arranged at floating interest rates ranging from 0.60% plus HIBOR to 0.85% plus HIBOR (2016: 0.42% plus HIBOR to 0.85% plus HIBOR) per annum and the USD borrowing is arranged at floating interest rate at 0.90% plus LIBOR (2016: 0.70% plus LIBOR) per annum, thus exposing the Group to cash flow interest rate risk. At 29th February 2016, the RMB borrowings were arranged at floating interest rates at 85% of PBOC per annum.

At 28th February 2017, the Group has available unutilised overdrafts of **HK$658,620,000** (2016: HK$705,620,000).

At 28th February 2017, the Group has available unutilised non-committed short term bank loan facilities of **HK$672,842,000** (2016: HK$645,109,000).

33. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	**HK$'000**	HK$'000	HK$'000
Interest rate swaps	**813**	**67,374**	57	128,578
Cross-currency interest rate swap	**9,482**	**–**	241	–
Interest rate caps	**103**	**–**	1,187	–
	10,398	**67,374**	1,485	128,578
Current portion	**(44)**	**(650)**	(241)	(22,364)
Non-current portion	**10,354**	**66,724**	1,244	106,214

All derivative financial instruments entered by the Group that remain outstanding at 28th February 2017 and 29th February 2016 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings and collateralised debt obligation, the designated hedged items.

Details of major derivative financial instruments for hedging purposes are as follows:

Cash flow hedges:

Interest rate swaps

The Group uses interest rate swaps to minimise its exposures to cash flow changes of its floating-rate bank borrowings by swapping certain HKD floating-rate bank borrowings with aggregate principal of **HK$1,045,000,000** (2016: HK$1,065,000,000) from floating rates to fixed rates. The interest rate swaps with aggregate notional amount of **HK$1,045,000,000** (2016: HK$1,065,000,000) have fixed interest payments quarterly at fixed interest rates ranging from 1.8% to 3.5% (2016: 1.8% to 3.5%) per annum and floating interest receipts quarterly ranging from 0.60% plus HIBOR to 0.85% plus HIBOR (2016: 0.35% plus HIBOR to 0.85% plus HIBOR) per annum for periods up until March 2022 (2016: until April 2021).

33. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cash flow hedges: (Cont'd)

Interest rate swaps (Cont'd)

Besides bank borrowings, the Group also entered into interest rate swaps to minimise its exposures to cash flow changes of its collateralised debt obligation transaction. Two interest rate swaps with notional amounts of **HK$550,000,000** each and one interest rate swap with notional amount of **HK$150,000,000** (2016: two interest rate swaps for HK$550,000,000 each and one interest rate swap for HK$150,000,000) were entered by the Group to swap its **HK$1,250,000,000** (2016: HK$1,250,000,000) floating-rate financing facility from floating rates to fixed rates. The interest rate swaps have fixed interest payments monthly at fixed interest rates ranging from 3.2% to 3.9% (2016: 3.2% to 3.9%) per annum and floating interest receipts monthly from 0.35% plus HIBOR to 0.55% plus HIBOR (2016: 0.35% plus HIBOR to 0.55% plus HIBOR) per annum for periods up until February 2016, February 2017 and July 2020 (2016: until February 2016, February 2017 and July 2020) respectively.

In addition, the Group entered into another two new interest rate swaps with notional amounts of HK$550,000,000 each to extend the maturity dates of above-mentioned two interest rate swaps to 2019. The interest rate swaps have fixed interest payments monthly at fixed interest rates ranging from 3.5% to 3.8% (2016: 3.5% to 3.8%) per annum and floating interest receipts monthly at 0.4% plus HIBOR (2016: 0.4% plus HIBOR) per annum for periods up until August 2019 (2016: until August 2019) respectively.

The interest rate swaps, the corresponding bank borrowings and the collateralised debt obligation have similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, and the Directors consider that the interest rate swaps are highly effective hedging instruments. Interest rate swaps are designated as cash flow hedging instruments from floating interest rates to fixed interest rates.

During the year, net adjustment on the above-mentioned cash flow hedges amounted to **HK$59,549,000** (2016: HK$14,725,000) and is included in other comprehensive income.

The fair values of the interest rate swaps are determined by using the discounted cash flow method based on HIBOR yield curves at the end of the reporting period.

33. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

Cash flow hedges: (Cont'd)

Cross-currency interest rate swap

The Group uses cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposures to foreign currency and cash flow interest rate risk of its USD bank borrowing by swapping the floating-rate USD bank borrowing to fixed-rate HKD bank borrowing.

The cross-currency interest rate swap with notional amount of **USD50,000,000** (2016: USD50,000,000) (equivalent to HK$387,795,000 (2016: HK$388,750,000) at the date of inception of the bank borrowing) has fixed currency payments in HKD at exchange rate of USD to HKD at 7.76 (2016: USD to HKD at 7.78), fixed interest payments quarterly in HKD at 2.27% (2016: 3.28%) per annum and floating interest receipts quarterly in USD at 0.95% plus LIBOR (2016: 0.70% plus LIBOR) per annum for periods up until September 2021 (2016: until September 2016).

The cross-currency interest rate swap and the corresponding bank borrowing have the same terms and the Directors consider that the cross-currency interest rate swap is highly effective hedging instrument.

During the year, net adjustment on the above-mentioned cash flow hedges amounted to **HK$8,987,000** (2016: HK$82,000) and is included in other comprehensive income.

The fair value of the cross-currency interest rate swap is determined by using the discounted cash flow method based on LIBOR yield curves and the forward exchange rates between USD and HKD estimated at the end of the reporting period.

34. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the years ended 28th February 2017 and 29th February 2016:

	Accelerated tax depreciation HK$'000	**Impairment allowances HK$'000**	**Total HK$'000**
At 1st March 2015	15,308	(9,339)	5,969
Charge to profit or loss for the year	1,760	1,814	3,574
At 29th February 2016	**17,068**	**(7,525)**	**9,543**
(Credit) charge to profit or loss for the year	**(3,413)**	**442**	**(2,971)**
At 28th February 2017	**13,655**	**(7,083)**	**6,572**

At the end of the reporting period, the Group had unused tax losses of **HK$65,368,000** (2016: HK$72,774,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The tax losses of **HK$57,650,000** (2016: HK$70,028,000) will expire in 2017 to 2021 (2016: 2016 to 2020) and the remaining tax losses may be carried forward indefinitely.

35. SHARE CAPITAL

	Number of shares	**Share capital HK$'000**
Issued and fully paid		
At 1st March 2015, 29th February 2016 and 28th February 2017		
– Ordinary shares with no par value	418,766,000	269,477

36. RESERVES

The reserves available for distribution to shareholders at 28th February 2017 amounted to **HK$2,549,155,000** (2016: HK$2,401,115,000), representing the accumulated profits.

37. COLLATERALISED DEBT OBLIGATION

	2017	2016
	HK$'000	HK$'000
Tranche A	**550,000**	550,000
Tranche B	**550,000**	550,000
Tranche C	**150,000**	150,000
	1,250,000	1,250,000
Less: Upfront cost	**–**	(218)
	1,250,000	1,249,782
Amount repayable within one year included under current liabilities	**–**	(549,782)
Amount repayable after one year	**1,250,000**	700,000

a) The Group entered into a HK$1,250,000,000 collateralised debt obligation financing transaction (the "Transaction"). The Transaction consists of three tranches – Tranche A, Tranche B and Tranche C. The revolving period for Tranche A and Tranche B ended in January 2016 and January 2017 respectively while the revolving periods for Tranche C will end in July 2020. The three tranches are arranged at floating interest rates from 0.35% plus HIBOR per annum to 0.55% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Three corresponding interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, are arranged to swap these three tranches from floating rates to fixed rates from 3.2% to 3.9% per annum.

b) In September 2014, the Group extended the revolving periods of Tranche A and Tranche B by entering into two new tranches – New Tranche A and New Tranche B. The revolving period for New Tranche A and New Tranche B started from February 2016 and February 2017 respectively and both end in August 2019. The two tranches under New Tranche A and New Tranche B are arranged at floating interest rates of 0.40% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Two corresponding new interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, are arranged to swap these two new tranches from floating rates to fixed rates at 3.5% to 3.8% per annum. The effective interest rate after taking into account the executed interest rate swaps was 3.7% (2016: 3.7%) per annum during the year.

37. COLLATERALISED DEBT OBLIGATION (Cont'd)

c) Pursuant to the Transaction, the Group 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 Group is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HKFRS 10 *Consolidated Financial Statements*, the Trust is controlled by the Group and the results thereof are consolidated by the Group in its consolidated financial statements. According to HKAS 39 *Financial Instruments: Recognition and Measurement*, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group's consolidated financial statements. The Transaction is backed by the credit card receivables transferred and with the carrying amount denominated in HKD.

38. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that:

- the Group will continue as going concern;
- maintain healthy capital ratio to instil confidence during periods of uncertainty and turmoil in financial markets; and
- funds are available at competitive costs to meet all contractual financial commitments, to fund debtor balance growth and to generate reasonable funds from available facilities.

The capital structure of the Group consists of debt (which includes bank borrowings and collateralised debt obligation) and equity attributable to owners of the Group (comprising share capital and reserves).

Net debt to equity ratio

The Group's management review the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

38. CAPITAL RISK MANAGEMENT (Cont'd)

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

	2017 HK$'000	2016 HK$'000
Debt *(Note a)*	**2,971,281**	2,955,568
Cash and cash equivalents	**(602,090)**	(349,283)
Net debt	**2,369,191**	2,606,285
Equity *(Note b)*	**2,742,071**	2,543,572
Net debt to equity ratio	**0.9**	1.0

Notes:

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 32 and 37 respectively.

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

39. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK$'000	2016 HK$'000
Financial assets		
Available-for-sale investments	**21,239**	22,145
Loans and receivables (excluding hire purchase debtors)	**5,895,337**	5,694,751
Derivative instruments in designated hedge accounting relationships	**10,398**	1,485
Financial liabilities		
Amortised cost	**3,098,248**	3,084,371
Derivative instruments in designated hedge accounting relationships	**67,374**	128,578

39. FINANCIAL INSTRUMENTS (Cont'd)

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, credit card receivables and instalment loan receivables, accrued interest and other receivables, other debtors, amounts due from fellow subsidiaries, immediate holding company, intermediate holding company and an associate, restricted deposits, time deposits, fiduciary bank balances, bank balances and cash and derivative financial assets, bank borrowings, collateralised debt obligation, creditors, amounts due to fellow subsidiaries, intermediate holding company, ultimate holding company and an associate and derivative financial liabilities. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

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

Market risk

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

- currency swap to convert the foreign currency debt to the functional currency of the relevant group entity; and
- interest rate swaps to mitigate the cash flow interest rate risk.

Market risk exposures are measured using sensitivity analysis.

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Market risk (Cont'd)

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

(i) Currency risk

Currency risk is the risk that the holding of foreign currency assets and liabilities will affect the Group's position as a result of a change in foreign currency exchange rates. Certain bank deposits and balances and bank borrowings of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk.

As at 28th February 2017, the Group's currency risk exposure primarily relates to its USD denominated bank borrowing with the notional amount of **HK$388,050,000** (2016: HK$387,800,000). To minimise the currency risk in relation to the USD bank borrowing, the Group has been using cross-currency interest rate swap designed to hedge against the debt which is highly effective to convert the foreign currency debt to the functional currency of the relevant group entity. The critical terms of this currency swap is similar to those of hedged borrowing. Hence, the net foreign currency risk after taking the derivative financial instrument into consideration is not material to the Group. In this regard, no sensitivity analysis is presented.

(ii) Interest rate risk

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

The Group's exposures to fair value interest rate risk relates primarily to fixed-rate lendings and borrowings including variable rate borrowings under hedge accounting to change from variable rate to fixed rate. All interest-bearing financial assets are exposed to fair value interest rate risk only. The interest rates and terms of repayment of financial assets and bank borrowings of the Group are disclosed in notes 19, 32 and 37.

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Market risk (Cont'd)

(ii) Interest rate risk (Cont'd)

The Group's cash flow interest rate risk relates primarily to floating-rate financial liabilities except those under hedge accounting to change from variable rate to fixed rate (see note 32).

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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative variable rate financial instruments (excluding variable rate borrowings which are hedged by interest rate swaps) and interest component of derivative financial instruments at the end of the reporting period. For variable-rate borrowings, the analysis is prepared assuming the amount of liability outstanding at the reporting date was outstanding for the whole period. A 100 basis point increase in HIBOR is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2016: 100 basis points) higher and all other variables were held constant:

- profit for the year would decrease by **HK$nil** (2016: HK$267,000); and
- other comprehensive income would decrease by **HK$30,298,000** (2016: HK$48,992,000) mainly as a result of the changes in the fair value of derivative financial instruments, excluding the impact of foreign exchange component for the cross-currency interest rate swap.

In management's opinion, the sensitivity analysis is unrepresentative of the interest rate risk inherent in the financial liabilities as the period end exposure does not reflect the exposure during the year.

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Market risk (Cont'd)

(iii) Other price risk

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

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk on equity securities at the end of the reporting period.

If equity prices had been **10%** (2016: 10%) higher/lower:

- other comprehensive income would increase/decrease by **HK$1,210,000** (2016: increase/decrease by HK$1,300,000) as a result of the changes in fair value of listed equity securities.

In management's opinion, the sensitivity analysis is unrepresentative of the other price risk as the period end exposure does not reflect the exposure during the year.

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

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Credit risk

As at 28th February 2017, financial assets whose carrying amounts best represent the maximum exposure to credit risk. The Group's maximum exposure to credit risk which will cause a financial loss to the Group is arising from the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets as stated in the consolidated statements of financial position. The Group's credit risk is primarily attributable to its advances and receivables. In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. The Board has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's advance portfolio. In addition, management reviews the recoverable amount of loans and receivables individually or collectively at each reporting 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.

As at 28th February 2017, unused credit card limit of **HK$29,336,638,000** (2016: HK$34,393,559,000) unrecorded in the consolidated statement of financial position.

The Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group's policy requires the review of individual financial assets that are above materiality thresholds on quarterly basis. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Credit risk (Cont'd)

Collectively assessed impairment allowances are provided for: i) portfolios of homogenous assets that are not assessed individually: and ii) losses incurred but not yet identified, by using the historical loss experience, experienced judgment and statistical techniques to provide.

Credit quality

Credit quality of advances and receivables of the Group are summarised as follows:

	2017	2016
	HK$'000	HK$'000
Neither past due nor individually impaired	**4,957,366**	5,129,069
Past due but not individually impaired	**151,254**	158,965
Individually impaired	**62,777**	93,895
	5,171,397	5,381,929
Less: impairment allowances *(Note 20)*	**(101,073)**	(136,326)
	5,070,324	5,245,603

(i) Advances and receivables neither past due nor individually impaired

Included in collectively assessed impairment allowances, there is **HK$6,008,000** (2016: HK$8,833,000) in relation to collective impairment in advances and receivables that were not past due at the end of the reporting period.

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Credit quality (Cont'd)

(ii) Advances and receivables past due but not individually impaired

Gross amount of advances and receivables that were past due but not individually impaired, of which assessment for impairment has been performed on collective basis, were as follows:

	2017		
	Credit card HK$'000	**Instalment loan HK$'000**	**Total HK$'000**
Overdue for:			
Over 1 month but less than 2 months	**34,161**	**43,528**	**77,689**
Over 2 months but less than 3 months	**16,381**	**26,809**	**43,190**
Over 3 months but less than 4 months	**10,282**	**19,524**	**29,806**
Over 4 months or above	**308**	**261**	**569**
	61,132	**90,122**	**151,254**
Less: collectively impaired	**(16,089)**	**(20,830)**	**(36,919)**
	45,043	**69,292**	**114,335**

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Credit quality (Cont'd)

(ii) Advances and receivables past due but not individually impaired (Cont'd)

	2016		
	Credit card HK$'000	Instalment loan HK$'000	Total HK$'000
Overdue for:			
Over 1 month but less than 2 months	33,561	55,242	88,803
Over 2 months but less than 3 months	14,782	30,330	45,112
Over 3 months but less than 4 months	7,102	17,136	24,238
Over 4 months or above	812	–	812
	56,257	102,708	158,965
Less: collectively impaired	(14,668)	(22,102)	(36,770)
	41,589	80,606	122,195

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Credit quality (Cont'd)

(iii) Advances and receivables individually impaired

The breakdown of the gross amount of individually impaired advances and receivables by class are as follows:

	Credit card HK$'000	Instalment loan HK$'000	Total HK$'000
At 28th February 2017			
Individually impaired	**26,333**	**36,444**	**62,777**
At 29th February 2016			
Individually impaired	18,030	75,865	93,895

Impairment allowances of **HK$58,146,000** (2016: HK$90,723,000) have been provided (Note 20).

Liquidity risk

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

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The tables below have been drawn up based on the contractual maturities of the undiscounted financial liabilities including interest that will accrue to those liabilities except where the Group is entitled and intends to repay the liabilities before their maturities. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest yield curve at the end of the reporting period.

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Liquidity risk (Cont'd)

	2017					
	On demand or less than 1 month HK$'000	1–3 months HK$'000	3–12 months HK$'000	1–4 years HK$'000	Over 4 years HK$'000	Total HK$'000
Collateralised debt obligation	3,720	7,439	33,476	1,318,271	–	1,362,906
Bank borrowings						
– fixed rate	100,444	729	13,212	130,574	63,351	308,310
– variable rate	3,128	6,155	155,650	829,031	549,710	1,543,674
Other financial liabilities	126,248	719	–	–	–	126,967
Total undiscounted financial liabilities	233,540	15,042	202,338	2,277,876	613,061	3,341,857
Unused credit card limit	29,336,638	–	–	–	–	29,336,638

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Liquidity risk (Cont'd)

	2016					
	On demand or less than 1 month HK$'000	1–3 months HK$'000	3–12 months HK$'000	1–4 years HK$'000	Over 4 years HK$'000	Total HK$'000
Collateralised debt obligation	3,747	7,494	582,307	610,561	151,684	1,355,793
Bank borrowings						
– fixed rate	501	60,801	13,023	78,178	101,387	253,890
– variable rate	25,472	22,402	477,952	675,934	363,089	1,564,849
Other financial liabilities	126,675	1,126	–	–	–	127,801
Total undiscounted financial liabilities	156,395	91,823	1,073,282	1,364,673	616,160	3,302,333
Unused credit card limit	34,393,559	–	–	–	–	34,393,559

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

The following tables detail the Group's contractual maturity for its derivative financial instruments. The tables have been drawn up based on the undiscounted net cash inflows (outflows) on the derivative financial instruments that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

39. FINANCIAL INSTRUMENTS (Cont'd)

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

Liquidity risk (Cont'd)

	2017				
	Up to 3 months HK$'000	**3–12 months HK$'000**	**1–4 years HK$'000**	**Over 4 years HK$'000**	**Total HK$'000**
Derivative financial instruments					
Net cash outflow	**(12,398)**	**(36,078)**	**(76,614)**	**(1,557)**	**(126,647)**

	2016				
	Up to 3 months HK$'000	3–12 months HK$'000	1–4 years HK$'000	Over 4 years HK$'000	Total HK$'000
Derivative financial instruments					
Net cash outflow	(20,141)	(54,344)	(123,710)	(6,067)	(204,262)

(c) Fair value measurements of financial instruments

Fair value measurements recognised in the statements of financial position

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used, as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

39. FINANCIAL INSTRUMENTS (Cont'd)

(c) Fair value measurements of financial instruments (Cont'd)

Fair value measurements recognised in the statements of financial position (Cont'd)

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market date (unobservable inputs).

	2017			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Financial assets at FVTPL				
Derivative financial assets	**–**	**10,398**	**–**	**10,398**
Available-for-sale financial assets				
Listed equity securities	**12,095**	**–**	**–**	**12,095**
Total	**12,095**	**10,398**	**–**	**22,493**
Financial liabilities at FVTPL				
Derivative financial liabilities	**–**	**67,374**	**–**	**67,374**

39. FINANCIAL INSTRUMENTS (Cont'd)

(c) Fair value measurements of financial instruments (Cont'd)

Fair value measurements recognised in the statements of financial positions (Cont'd)

	2016			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets at FVTPL				
Derivative financial assets	–	1,485	–	1,485
Available-for-sale financial assets				
Listed equity securities	13,001	–	–	13,001
Total	13,001	1,485	–	14,486
Financial liabilities at FVTPL				
Derivative financial liabilities	–	128,578	–	128,578

There were no transfers between Level 1 and 2 in the current year.

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 Group's financial statements approximate to their fair values:

	2017		2016	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Bank borrowings	**1,721,281**	**1,730,178**	1,705,786	1,713,664

The fair value of listed equity securities is determined with reference to quoted market bid price from Stock Exchange.

The fair value of interest rate swaps and cross-currency interest rate swap are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between USD and HKD (for cross-currency interest rate swap), which is observable at the end of the reporting period.

39. FINANCIAL INSTRUMENTS (Cont'd)

(d) Financial assets and financial liabilities subject to offsetting, enforceable master netting agreements or similar agreements

The Group has entered certain derivative transactions that are covered by the ISDA Agreements signed with various banks. These derivative instruments are not offset in the consolidated statement of financial position as the ISDA Agreements are in place with a right of set off only in the event of default, insolvency or bankruptcy so that the Group currently has no legally enforceable right to set off the recognised amounts. Other than derivatives transactions mentioned above, the Group has no other financial assets and financial liabilities which are offset in the Group's consolidated statements of financial position or are subject to similar netting arrangements.

(a) Financial assets subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial assets HK$'000	Gross amounts of recognised financial liabilities set off in the statements of financial position HK$'000	Net amounts of financial assets presented in the statements of financial position HK$'000
At 28th February 2017			
Derivative financial instruments	**10,398**	**–**	**10,398**
At 29th February 2016			
Derivative financial instruments	1,485	–	1,485

39. FINANCIAL INSTRUMENTS (Cont'd)

(d) Financial assets and financial liabilities subject to offsetting, enforceable master netting agreements or similar agreements (Cont'd)

(b) Net financial assets subject to enforceable master netting arrangements or similar agreements, by counterparty

	Net amounts of financial assets presented in the statements of financial position HK$'000	Financial liabilities not set off in the statements of financial position HK$'000	Net amount HK$'000
At 28th February 2017			
Counterparty A	**9,835**	**(2,535)**	**7,300**
Counterparty B	**187**	**(187)**	**–**
Counterparty C	**376**	**–**	**376**
Total	**10,398**	**(2,722)**	**7,676**
At 29th February 2016			
Counterparty A	298	(298)	–
Counterparty B	1,187	(1,187)	–
Total	1,485	(1,485)	–

39. FINANCIAL INSTRUMENTS (Cont'd)

(d) Financial assets and financial liabilities subject to offsetting, enforceable master netting agreements or similar agreements (Cont'd)

(c) Financial liabilities subject to enforceable master netting arrangements or similar agreements

	Gross amounts of recognised financial liabilities HK$'000	Gross amounts of recognised financial assets set off in the statements of financial position HK$'000	Net amounts of financial liabilities presented in the statements of financial position HK$'000
At 28th February 2017			
Derivative financial instruments	**(67,374)**	**–**	**(67,374)**
At 29th February 2016			
Derivative financial instruments	(128,578)	–	(128,578)

39. FINANCIAL INSTRUMENTS (Cont'd)

(d) Financial assets and financial liabilities subject to offsetting, enforceable master netting agreements or similar agreements (Cont'd)

(d) Net financial liabilities subject to enforceable master netting arrangements or similar agreements, by counterparty

	Net amounts of financial liabilities presented in the statements of financial position HK$'000	Financial assets not set off in the statements of financial position HK$'000	Net amount HK$'000
At 28th February 2017			
Counterparty A	**(2,535)**	**2,535**	**–**
Counterparty B	**(64,839)**	**187**	**(64,652)**
Counterparty C	**–**	**–**	**–**
Total	**(67,374)**	**2,722**	**(64,652)**
At 29th February 2016			
Counterparty A	(14,794)	298	(14,496)
Counterparty B	(112,892)	1,187	(111,705)
Counterparty C	(892)	–	(892)
Total	(128,578)	1,485	(127,093)

40. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017	2016
	HK$'000	HK$'000
Within one year	**51,957**	54,887
In the second to fifth year inclusive	**47,469**	29,752
	99,426	84,639

Leases for rented premises and equipment are negotiated for an average term of two to three years and rentals are fixed for an average of one year.

41. CAPITAL COMMITMENTS

	2017	2016
	HK$'000	HK$'000
Contracted for but not provided in the consolidated financial statements:		
Purchase of property, plant and equipment	**11,216**	11,533

42. PLEDGE OF ASSETS

At 28th February 2017, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK$1,488,199,000** and **HK$183,216,000** respectively (2016: HK$1,670,046,000 and HK$38,000,000) (see notes 19 and 24).

43. RETIREMENT BENEFITS SCHEME

The Group 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 Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs (limited to HK$18,000 (2016: HK$18,000) per annum of each individual employee) to the MPF Scheme, which contribution is matched by employees. The total cost charged to profit or loss of **HK$4,190,000** (2016: HK$4,729,000) represents contribution payable to MPF Scheme by the Group in respect of the current accounting year. At 28th February 2017, contributions of the Group amounting to **HK$630,000** (2016: HK$685,000) due in respect of the reporting year had not been paid over to the MPF Scheme.

The employees employed in China subsidiaries are members of the state-managed retirement benefits schemes operated by the China government. The China subsidiaries are required to contribute to the retirement benefits schemes based on a certain percentage of their payroll to fund the benefits. The only obligation of the Group with respect to these retirement benefits schemes is to make the required contributions under the schemes.

44. 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	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest income received	**5,889**	6,231	**–**	–	**–**	–	**–**	–
Commission received	**7,041**	7,723	**–**	–	**–**	–	**–**	–
Dividends received	**849**	645	**–**	–	**–**	–	**–**	–
Service fees received	**–**	–	**1,827**	3,288	**–**	–	**–**	–
Licence fees paid	**8,872**	8,756	**–**	–	**35**	35	**690**	878
Service fees paid	**–**	–	**11,566**	5,817	**–**	–	**37,402**	44,989
Gift certificate paid	**7,310**	–	**–**	–	**–**	–	**–**	–
Development fees paid *(Note)*	**6,981**	11,344	**–**	–	**–**	–	**–**	–

Note: For the computer system development fees paid during the year, **HK$8,088,000** (2016: HK$7,867,000) is recognised as administrative expenses, **HK$4,636,000** (2016: HK$6,161,000) is capitalised under property, plant and equipment of which **HK$5,743,000** (2016: HK$2,684,000) is included in prepayments, deposits and other debtors.

44. RELATED PARTY TRANSACTIONS (Cont'd)

Compensation of key management personnel

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

	2017	2016
	HK$'000	HK$'000
Short-term benefits	**8,081**	7,571
Post-employment benefits	**24**	51
	8,105	7,622

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.

45. FINANCIAL POSITION OF THE COMPANY

Below is the financial position of the Company at the end of the reporting period:

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property, plant and equipment	**96,191**	116,985
Investments in subsidiaries	**432,853**	372,989
Investments in associates	**11,374**	39,598
Available-for-sale investments	**21,239**	22,145
Advances and receivables	**1,012,996**	1,150,720
Prepayments, deposits and other debtors	**16,408**	29,966
Derivative financial instruments	**10,354**	1,244
Restricted deposits	**38,000**	38,000
	1,639,415	1,771,647
Current assets		
Advances and receivables	**3,940,958**	3,957,944
Prepayments, deposits and other debtors	**31,199**	22,505
Amount due from a subsidiary	**435**	4
Amounts due from fellow subsidiaries	**1,159**	–
Amount due from immediate holding company	**7**	6
Amount due from intermediate holding company	**159**	386
Amount due from an associate	**73**	–
Derivative financial instruments	**44**	241
Restricted deposits	**145,216**	–
Bank balances and cash	**445,088**	233,319
	4,564,338	4,214,405
Current liabilities		
Creditors and accruals	**211,623**	237,048
Amounts due to fellow subsidiaries	**48,514**	46,368
Amount due to intermediate holding company	**177**	54
Amount due to ultimate holding company	**35**	52
Amount due to an associate	**2,387**	1,191
Bank borrowings	**240,000**	528,750
Collateralised debt obligation	**–**	549,782
Derivative financial instruments	**650**	22,364
Tax liabilities	**31,762**	8,895
	535,148	1,394,504
Net current assets	**4,029,190**	2,819,901
Total assets less current liabilities	**5,668,605**	4,591,548

45. FINANCIAL POSITION OF THE COMPANY (Cont'd)

	2017 HK$'000	2016 HK$'000
Capital and reserves		
Share capital	**269,477**	269,477
Reserves *(Note)*	**2,594,568**	2,361,355
Total equity	**2,864,045**	2,630,832
Non-current liabilities		
Collateralised debt obligation	**1,250,000**	700,000
Bank borrowings	**1,481,281**	1,145,000
Derivative financial instruments	**66,724**	106,214
Deferred tax liabilities	**6,555**	9,502
	2,804,560	1,960,716
	5,668,605	4,591,548

The financial statements of the Company were approved and authorised for issue by the Board on 27th April 2017 and are signed on its behalf by:

田中秀夫

HIDEO TANAKA
MANAGING DIRECTOR

細川 徹

TORU HOSOKAWA
DIRECTOR

45. FINANCIAL POSITION OF THE COMPANY (Cont'd)

Note: The movements in reserve are present below:

	Investment revaluation reserve HK$'000	Hedging reserve HK$'000	Translation reserve HK$'000	Accumulated profits HK$'000	Total HK$'000
At 1st March 2015	(1,153)	(136,064)	13,181	2,343,149	2,219,113
Profit for the year	–	–	–	285,926	285,926
Fair value loss on available-for-sale investments	(2,362)	–	–	–	(2,362)
Exchange difference arising from translation of foreign operations	–	–	(5,527)	–	(5,527)
Net adjustment on cash flow hedges	–	14,961	–	–	14,961
Total comprehensive (expense) income for the year	(2,362)	14,961	(5,527)	285,926	292,998
Final dividend paid for 2014/15	–	–	–	(75,378)	(75,378)
Interim dividend paid for 2015/16	–	–	–	(75,378)	(75,378)
	(2,362)	14,961	(5,527)	135,170	142,242
At 29th February 2016	**(3,515)**	**(121,103)**	**7,654**	**2,478,319**	**2,361,355**
Profit for the year	**–**	**–**	**–**	**319,804**	**319,804**
Fair value loss on available-for-sale investments	**(906)**	**–**	**–**	**–**	**(906)**
Exchange difference arising from translation of foreign operations	**–**	**–**	**(2,381)**	**–**	**(2,381)**
Net adjustment on cash flow hedges	**–**	**67,452**	**–**	**–**	**67,452**
Total comprehensive (expense) income for the year	**(906)**	**67,452**	**(2,381)**	**319,804**	**383,969**
Final dividend paid for the 2015/16	**–**	**–**	**–**	**(75,378)**	**(75,378)**
Interim dividend paid for 2016/17	**–**	**–**	**–**	**(75,378)**	**(75,378)**
	(906)	**67,452**	**(2,381)**	**169,048**	**233,213**
At 28th February 2017	**(4,421)**	**(53,651)**	**5,273**	**2,647,367**	**2,594,568**

46. PARTICULARS OF THE SUBSIDIARIES

At 28th February 2017 and 29th February 2016, the Company had interests in the following subsidiaries:

Name of subsidiaries	Place of incorporation/ registration and operation	Share capital/ paid-up capital		Proportion of ownership interest directly held by the Company		Principal activities
		28.2.2017	29.2.2016	**28.2.2017**	29.2.2016	
AEON Insurance Brokers (HK) Limited	Hong Kong	**HK$1,000,000**	HK$1,000,000	**100%**	100%	Insurance brokerage service
AEON Micro Finance (Shenyang) Co., Ltd	China	**HK$124,221,000**	HK$124,221,000	**100%**	100%	Microfinance business
AEON Micro Finance (Tianjin) Co., Ltd	China	**RMB100,000,000**	RMB100,000,000	**100%**	100%	Microfinance business
AEON Micro Finance (Shenzhen) Co., Ltd	China	**RMB150,000,000**	RMB100,000,000	**100%**	100%	Microfinance business

47. PARTICULARS OF A MASTER TRUST OF THE COMPANY

Horizon Master Trust (AEON 2006-1) is a special purpose entity set up for a collateralised debt obligation financing transaction. At 28th February 2017, assets in this special purpose entity mainly consist of credit card receivables, restricted deposits, time deposits, subordinated beneficiary and seller beneficiary.

In respect to the collateralised debt obligation financing transaction entered by the Group, the Group is committed to maintain a minimum level of collaterals in the form of credit card receivables and restricted deposits. As at 28th February 2017, the Group has no contractual arrangements that would require it to provide financial or other support to the Trust; the Group has no intention to provide such support.

GLOSSARY

2016 AGM	the annual general meeting of the Company held on 24th June 2016
2017 AGM	the annual general meeting of the Company to be held on 23rd June 2017
ACG	AEON Credit Guarantee (China) Co., Ltd.
ACS Malaysia	AEON Credit Service (Malaysia) Berhad
ACS Thailand	AEON Thana Sinsap (Thailand) Public Company Limited
ACSS	AEON Credit Service Systems (Philippines) Inc.
AEON Japan	AEON Co., Ltd.
AEON Stores	AEON Stores (Hong Kong) Co., Limited
AFS	AEON Financial Service Co., Ltd.
AFS (HK)	AEON Financial Service (Hong Kong) Co., Limited
AIS	AEON Information Service (Shenzhen) Co., Ltd.
Articles	the articles of association of the Company
Board	the board of Directors of the Company
CG Code	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
China or Mainland or PRC	the People's Republic of China
Companies Ordinance	Companies Ordinance (Chapter 622 of the laws of Hong Kong) as amended from time to time
Company	AEON Credit Service (Asia) Company Limited
Director(s)	the director(s) of the Company
FVTOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss

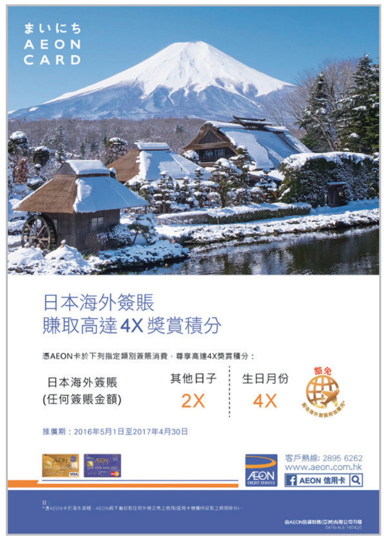
GLOSSARY

Group	the Company and its subsidiaries
HIBOR	Hong Kong Interbank Offered Rate
HKAS	Hong Kong Accounting Standards
HKD or HK$	Hong Kong dollars, the lawful currency of Hong Kong
HKFRSs	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	Hong Kong Special Administrative Region of the People's Republic of China
ISDA Agreements	International Swaps and Derivatives Association Master Agreements
JPY	Japanese Yen, the lawful currency of Japan
LIBOR	London Interbank Offered Rate
Listing Rules	The Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by the Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
RMB	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) as amended from time to time
Stock Exchange	The Stock Exchange of Hong Kong Limited
USD	United States Dollars, the lawful currency of the United States of America

Product Launch and Promotion
產品發行及推廣

AEON Card JAL全新登場
AEON Card JAL Revamp

AEON消費獎賞 - 本地食肆
AEON Loyalty Program
Local Food and Beverage



AEON消費獎賞 - 日本旅遊
AEON Loyalty Program Japan Travel

AEON卡皇家加勒比國際遊輪推廣
AEON Royal Caribbean Cruise Promotion

AEON海洋公園哈囉喂會員同樂日
AEON Ocean Park Halloween Joyful Event

AEON新春行運大派對
AEON Lunar New Year Joyful Event