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AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 900)

FINAL RESULTS FOR THE YEAR ENDED 20TH FEBRUARY 2012

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 20th February 2012, together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 20th February 2012

		Year ended 20th February	
		2012	2011
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	6	1,116,357	1,112,592
Interest income	8	1,010,322	1,011,171
Interest expense	9	(117,886)	(131,772)
Net interest income		892,436	879,399
Other operating income	10	114,374	106,194
Other gains and losses	11	32,685	(556)
Operating income		1,039,495	985,037
Operating expenses	12	(403,304)	(381,061)
Operating profit before impairment allowances		636,191	603,976
Impairment losses and impairment allowances		(317,069)	(339,508)
Recoveries of advances and receivables written-off		41,544	45,510
Share of results of associates		(4,571)	(6,182)
Profit before tax		356,095	303,796
Income tax expense	13	(54,776)	(51,614)
Profit for the year		301,319	252,182
Attributable to:			
Owners of the Company		301,319	252,182
Earnings per share – Basic	15	71.95 HK cents	60.22 HK cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 20th February 2012

	Year ended 20th February	
	2012	2011
	HK\$'000	HK\$'000
Profit for the year	<u>301,319</u>	<u>252,182</u>
Other comprehensive (expense) income		
Fair value gain on available-for-sale investments	21,167	6,958
Release of investment revaluation reserve upon disposal of available-for-sale investments	(29,932)	–
Exchange difference arising from translation of foreign operations	2,453	1,067
Net adjustment on cash flow hedges	<u>(143,792)</u>	<u>27,157</u>
Other comprehensive (expense) income for the year	<u>(150,104)</u>	<u>35,182</u>
Total comprehensive income for the year	<u>151,215</u>	<u>287,364</u>
Total comprehensive income attributable to:		
Owners of the Company	<u>151,215</u>	<u>287,364</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th February 2012

	<i>Notes</i>	20th February 2012 HK\$'000	20th February 2011 HK\$'000
Non-current assets			
Property, plant and equipment	16	91,816	82,383
Investments in associates		22,389	25,941
Available-for-sale investments	17	72,664	87,156
Advances and receivables	18	1,252,061	1,196,394
Prepayments, deposits and other debtors	21	46,771	39,400
Derivative financial instruments	24	2,773	380
Deferred tax assets	25	–	850
Restricted deposits		68,000	68,000
		<u>1,556,474</u>	<u>1,500,504</u>
Current assets			
Advances and receivables	18	3,512,062	3,525,524
Prepayments, deposits and other debtors	21	54,690	21,276
Derivative financial instrument	24	–	186,672
Restricted deposits		–	34,149
Time deposits		233,367	201,967
Fiduciary bank balances		2,246	2,596
Bank balances and cash		124,121	61,311
		<u>3,926,486</u>	<u>4,033,495</u>
Current liabilities			
Creditors and accruals	22	155,991	147,879
Amounts due to fellow subsidiaries		50,273	36,087
Amount due to immediate holding company		123	–
Amount due to ultimate holding company		51	45
Amounts due to associates		878	397
Bank borrowings	23	277,000	1,098,120
Bank overdrafts		3,215	2,614
Derivative financial instruments	24	1,478	5,633
Tax liabilities		14,141	17,200
		<u>503,150</u>	<u>1,307,975</u>
Net current assets		<u>3,423,336</u>	<u>2,725,520</u>
Total assets less current liabilities		<u>4,979,810</u>	<u>4,226,024</u>

		20th February 2012	20th February 2011
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Issued capital		41,877	41,877
Share premium and reserves		<u>2,007,728</u>	<u>1,990,518</u>
Total equity		<u>2,049,605</u>	<u>2,032,395</u>
Non-current liabilities			
Collateralised debt obligation	26	1,098,035	1,098,963
Bank borrowings	23	1,630,240	1,060,000
Derivative financial instruments	24	200,530	34,666
Deferred tax liabilities	25	<u>1,400</u>	<u>–</u>
		<u>2,930,205</u>	<u>2,193,629</u>
		<u>4,979,810</u>	<u>4,226,024</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 20th February 2012

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2010	41,877	227,330	270	19,745	(77,670)	6,803	1,660,681	1,879,036
Profit for the year	-	-	-	-	-	-	252,182	252,182
Fair value gain on available-for-sale investments	-	-	-	6,958	-	-	-	6,958
Exchange difference arising from translation of foreign operations	-	-	-	-	-	1,067	-	1,067
Net adjustment on cash flow hedges	-	-	-	-	27,157	-	-	27,157
Total comprehensive income for the year	-	-	-	6,958	27,157	1,067	252,182	287,364
Final dividend paid for 2009/10	-	-	-	-	-	-	(67,003)	(67,003)
Interim dividend paid for 2010/11	-	-	-	-	-	-	(67,002)	(67,002)
	-	-	-	6,958	27,157	1,067	118,177	153,359
At 20th February 2011	41,877	227,330	270	26,703	(50,513)	7,870	1,778,858	2,032,395
Profit for the year	-	-	-	-	-	-	301,319	301,319
Fair value gain on available-for-sale investments	-	-	-	21,167	-	-	-	21,167
Release of investment revaluation reserve upon disposal of available-for-sale investments	-	-	-	(29,932)	-	-	-	(29,932)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	2,453	-	2,453
Net adjustment on cash flow hedges	-	-	-	-	(143,792)	-	-	(143,792)
Total comprehensive (expense) income for the year	-	-	-	(8,765)	(143,792)	2,453	301,319	151,215
Final dividend paid for 2010/11	-	-	-	-	-	-	(67,003)	(67,003)
Interim dividend paid for 2011/12	-	-	-	-	-	-	(67,002)	(67,002)
	-	-	-	(8,765)	(143,792)	2,453	167,314	17,210
At 20th February 2012	41,877	227,330	270	17,938	(194,305)	10,323	1,946,172	2,049,605

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 20th February 2012

	Year ended 20th February	
	2012	2011
	HK\$'000	HK\$'000
Operating activities		
Profit before tax	356,095	303,796
Adjustments for:		
Amortisation of upfront cost of collateralised debt obligation	1,072	894
Depreciation	34,058	34,447
Dividends received on available-for-sale investments	(2,336)	(1,808)
Gain on disposal of available-for-sale investments	(34,459)	–
Impairment losses and impairment allowances recognised in respect of advances and receivables	317,069	339,508
Interest expense	116,814	130,878
Interest income	(1,010,322)	(1,011,171)
Net losses on disposal of property, plant and equipment	102	72
Share of results of associates	4,571	6,182
Operating cash flows before movements in working capital	(217,336)	(197,202)
Increase in advances and receivables	(359,274)	(343,464)
(Increase) decrease in prepayments, deposits and other debtors	(20,276)	24,681
Decrease in amount due from an associate	–	354
Decrease (increase) in fiduciary bank balances	350	(1,463)
Increase in creditors and accruals	10,497	28,618
Increase (decrease) in amounts due to fellow subsidiaries	14,186	(33,120)
Increase in amount due to immediate holding company	123	–
Increase (decrease) in amount due to ultimate holding company	6	(7)
Increase in amounts due to associates	481	397
Cash used in operations	(571,243)	(521,206)
Tax paid	(55,585)	(35,327)
Interest paid	(120,564)	(132,918)
Interest received	1,022,042	986,515
Net cash generated from operating activities	274,650	297,064

	Year ended 20th February	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Investing activities		
Dividends received	2,336	1,808
Proceeds from disposal of available-for-sale investment	8,343	–
Purchase of property, plant and equipment	(31,095)	(19,653)
Deposits paid for acquisition of property, plant and equipment	(14,730)	(25,298)
	<u>(35,146)</u>	<u>(43,143)</u>
Financing activities		
Placement of restricted deposits	(2,302,614)	(1,502,319)
Withdrawal of restricted deposits	2,336,763	1,480,326
Dividends paid	(134,005)	(134,005)
New collateralised debt obligation raised	1,100,000	–
Repayment of collateralised debt obligation	(1,100,000)	–
New bank loans raised	34,846,150	16,946,191
Repayment of bank loans	(34,893,469)	(17,123,512)
	<u>(147,175)</u>	<u>(333,319)</u>
Net increase (decrease) in cash and cash equivalents	92,329	(79,398)
Effect of changes in exchange rate	1,280	–
Cash and cash equivalents at beginning of the year	260,664	340,062
Cash and cash equivalents at end of the year	354,273	260,664
Being:		
Time deposits	233,367	201,967
Bank balances and cash	124,121	61,311
Bank overdrafts	(3,215)	(2,614)
	<u>354,273</u>	<u>260,664</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 20th February 2012

1. STATUTORY CONSOLIDATED FINANCIAL STATEMENTS

The financial information in this final results announcement does not constitute the Group's statutory consolidated financial statements for the year ended 20th February 2012 but is derived from those consolidated financial statements.

2. BASIS OF PREPARATION

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

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HK(IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

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

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

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets ¹
Amendments to HKFRS 7 HKFRS 9	Disclosures – Offsetting Financial Assets and Financial Liabilities ⁴ Financial Instruments ⁶
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁶
HKFRS 10	Consolidated Financial Statements ⁴
HKFRS 11	Joint Arrangements ⁴
HKFRS 12	Disclosure of Interests in Other Entities ⁴
HKFRS 13	Fair Value Measurement ⁴
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ³
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets ²
HKAS 19 (as revised in 2011)	Employee Benefits ⁴
HKAS 27 (as revised in 2011)	Separate Financial Statements ⁴
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ⁴
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁵
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine ⁴

¹ Effective for annual periods beginning on or after 1st July 2011

² Effective for annual periods beginning on or after 1st January 2012

³ Effective for annual periods beginning on or after 1st July 2012

⁴ Effective for annual periods beginning on or after 1st January 2013

⁵ Effective for annual periods beginning on or after 1st January 2014

⁶ Effective for annual periods beginning on or after 1st January 2015

Amendments to HKFRS 7 Disclosures – Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The Directors anticipate that the application of the amendments to HKFRS 7 will be applied in the Group's consolidated financial statements for its financial year ending 20th February 2013. The application will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for the Group's financial periods beginning on or after 21st February 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until the Group's financial year ending 20th February 2015, with retrospective application required.

The Directors anticipate that the application of the amendments to HKAS 32 and HKFRS 7 may affect the Group's disclosure regarding offsetting financial assets and financial liabilities in the future.

HKFRS 9 Financial Instrument

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 included the requirements for classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” (“HKAS 39”) 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. All other debt investments and equity investments are measured at their fair values 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.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liabilities (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January 2015, with earlier application permitted.

The Directors anticipate that HKFRS 9 will be adopted in the Group’s consolidated financial statements for its financial year ending 20th February 2016. Based on the Group’s financial assets and financial liabilities as at 20th February 2012, the Directors anticipate that the application of the new standard will affect the classification and measurement of the Group’s available-for-sale equity investments that are currently at cost less impairment. At the date of this report, the Directors are in the process of assessing the potential financial impact.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and HK(SIC) – Int 12 “Consolidation – Special Purpose Entities” has been withdrawn upon the issuance of HKFRS 10. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1st January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The Directors anticipate that these standards will be adopted in the Group's consolidated financial statements for the Group's financial year ending 20th February 2014. However, the Directors anticipate that the application of these standards will have no significant impact on amounts reported in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards.

HKFRS 13 is effective for annual periods beginning on or after 1st January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for its financial year ending 20th February 2014. However, the application of the standard is not expected to have significant impact on amounts reported in the consolidated financial statements but may result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis. The amendments to HKAS 1 are effective for the Group for its financial year ending 20th February 2014. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Except as described above, the Directors anticipate that the application of other new and revised HKFRSs issued but not yet effective has had no material impact on the Group's financial performance and the Group's financial positions for the future and/or on the disclosures set out in the financial statements of the Group.

4. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 20th February 2011 except for the adoption of the new HKFRSs as disclosed in note 3 above.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

Impairment allowances on advances and receivables

The Group establishes, through charges against the consolidated income statement, 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 estimated net recoverable value.

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.

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.

6. REVENUE

	Year ended 20th February	
	2012	2011
	HK\$'000	HK\$'000
Interest income	1,010,322	1,011,171
Fees and commissions	57,336	49,880
Handling and late charges	48,699	51,541
	<u>1,116,357</u>	<u>1,112,592</u>

7. SEGMENT INFORMATION

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 broking and agency services
Hire purchase	–	Provide vehicle financing and hire purchase financing for household products and other consumer products to individuals

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 20th February 2012

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	746,590	338,531	28,652	2,584	1,116,357
RESULT					
Segment results	235,709	90,316	12,069	394	338,488
Unallocated operating income					41,649
Unallocated expenses					(19,471)
Share of results of associates					(4,571)
Profit before tax					356,095

For the year ended 20th February 2011

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	759,922	322,171	24,935	5,564	1,112,592
RESULT					
Segment results	247,986	65,523	10,818	856	325,183
Unallocated operating income					3,898
Unallocated expenses					(19,103)
Share of results of associates					(6,182)
Profit before tax					303,796

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of certain income (including gain on disposal of available-for-sale investments and dividend income), unallocated head office expenses 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.

8. INTEREST INCOME

	Year ended 20th February	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Time deposits and bank balances	425	235
Advances	1,006,243	1,008,241
Impaired advances	3,654	2,695
	<u>1,010,322</u>	<u>1,011,171</u>

9. INTEREST EXPENSE

	Year ended 20th February	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank borrowings and overdrafts wholly repayable within five years	22,880	26,375
Interest on bank borrowings wholly repayable after five years	673	442
Interest on collateralised debt obligation wholly repayable within five years	50,212	50,329
Net interest expense on interest rate swap contracts	44,121	54,626
	<u>117,886</u>	<u>131,772</u>

Amortisation of upfront cost of **HK\$1,072,000** (2011: HK\$894,000) is included in the interest expense on collateralised debt obligation wholly repayable within five years.

10. OTHER OPERATING INCOME

	Year ended 20th February	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends received on available-for-sale investments		
Listed equity securities	2,118	1,565
Unlisted equity securities	218	243
Fees and commissions		
Credit card	28,684	24,945
Insurance	28,652	24,935
Handling and late charges	48,699	51,541
Others	6,003	2,965
	<u>114,374</u>	<u>106,194</u>

11. OTHER GAINS AND LOSSES

	Year ended 20th February	
	2012	2011
	HK\$'000	HK\$'000
Exchange (losses) gains		
Exchange (losses) gains on hedging instruments released from cash flow hedging reserve	(203,561)	62,281
Exchange gains (losses) on bank loans	203,561	(62,281)
Exchange losses, net	(1,304)	–
Gain on disposal of available-for-sale investments	34,459	–
Hedge ineffectiveness on cash flow hedges	(368)	(484)
Net losses on disposal of property, plant and equipment	(102)	(72)
	<u>32,685</u>	<u>(556)</u>

12. OPERATING EXPENSES

	Year ended 20th February	
	2012	2011
	HK\$'000	HK\$'000
Auditor's remuneration	2,079	1,930
Depreciation	34,058	34,447
General administrative expenses	119,659	113,267
Marketing and promotion expenses	39,523	39,824
Operating lease rentals in respect of rented premises, advertising space and equipment	56,947	54,714
Other operating expenses	42,261	38,329
Staff costs including Directors' emoluments	108,777	98,550
	<u>403,304</u>	<u>381,061</u>

13. INCOME TAX EXPENSE

	Year ended 20th February	
	2012	2011
	HK\$'000	HK\$'000
Current tax:		
Hong Kong		
– Current year	52,952	51,644
– (Over) underprovision in respect of prior years	(426)	520
	<u>52,526</u>	<u>52,164</u>
Deferred tax		
– Current year	2,250	(550)
	<u>54,776</u>	<u>51,614</u>

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 People's Republic of China ("China") subsidiary is 25% for the year.

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

	Year ended 20th February	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	356,095	303,796
Tax at the applicable rate of 16.5% (2011: 16.5%)	58,756	50,126
Tax effect of share of results of associates	754	1,020
Tax effect of expenses not deductible for tax purpose	17	2
Tax effect of income not taxable for tax purpose	(6,155)	(329)
Tax effect of deferred tax assets previously not recognised	–	(129)
(Over) underprovision in respect of prior years	(426)	520
Tax effect of tax loss in current year not recognised	1,755	–
Tax effect of different tax rate of subsidiary operating in China	(597)	–
Others	672	404
Income tax expense for the year	54,776	51,614

14. DIVIDENDS

	Year ended 20th February	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Final dividend paid in respect of 2011 of 16.0 HK cents (2010: 16.0 HK cents) per share	67,003	67,003
Interim dividend paid in respect of 2012 of 16.0 HK cents (2011: 16.0 HK cents) per share	67,002	67,002
	134,005	134,005
Final dividend proposed in respect of 2012 of 18.0 HK cents (2011: 16.0 HK cents) per share	75,378	67,003

The final dividend of 18.0 HK cents per share has been proposed by the Directors and will be paid to shareholders on 29th June 2012. This dividend is subject to approval by shareholders at the forthcoming annual general meeting and has not been included as a liability in the consolidated financial statements. The proposed dividend is payable to all shareholders on the Register of Members of the Company on 22nd June 2012.

15. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the profit for the year of **HK\$301,319,000** (2011: HK\$252,182,000) and on the number of shares of **418,766,000** (2011: 418,766,000) in issue during the year.

16. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$33,361,000 on computer equipment, HK\$9,575,000 on leasehold improvements and HK\$654,000 on furniture and fixtures.

17. AVAILABLE-FOR-SALE INVESTMENTS

	20th February 2012 HK\$'000	20th February 2011 HK\$'000
Listed equity securities, at fair value		
Hong Kong	34,454	27,883
Overseas	–	17,202
	34,454	45,085
Unlisted equity securities, at cost	38,210	42,071
	72,664	87,156

18. ADVANCES AND RECEIVABLES

	20th February 2012 HK\$'000	20th February 2011 HK\$'000
Credit card receivables	3,099,466	3,112,312
Instalment loans receivable	1,657,194	1,567,169
Hire purchase debtors	18,716	43,084
	4,775,376	4,722,565
Accrued interest and other receivables	118,203	133,626
Gross advances and receivables	4,893,579	4,856,191
Impairment allowances (<i>note 19</i>)		
– individually assessed	(62,768)	(54,974)
– collectively assessed	(66,688)	(79,299)
	(129,456)	(134,273)
	4,764,123	4,721,918
Current portion included under current assets	(3,512,062)	(3,525,524)
Amount due after one year	1,252,061	1,196,394

Included in the advances and receivables of the Group, there are secured credit card receivables and instalment loans receivable of **HK\$87,515,000** (20th February 2011: HK\$78,587,000) and **HK\$57,008,000** (20th February 2011: HK\$15,053,000) respectively. The Group holds collateral over these balances. The Directors consider the exposure of credit risk of these 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. Other advances and receivables are unsecured.

19. IMPAIRMENT ALLOWANCES

	20th February 2012	20th February 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysis by products as:		
Credit card receivables	63,995	64,825
Instalment loans receivable	59,460	57,308
Hire purchase debtors	475	823
Accrued interest and other receivables	5,526	11,317
	129,456	134,273
	Individual assessment	Collective assessment
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 21st February 2011	54,974	79,299
Impairment losses and impairment allowances	329,680	(12,611)
Amounts written-off as uncollectable	(321,886)	–
At 20th February 2012	62,768	66,688
	Individual assessment	Collective assessment
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 21st February 2010	60,290	77,667
Impairment losses and impairment allowances	337,876	1,632
Amounts written-off as uncollectable	(343,192)	–
At 20th February 2011	54,974	79,299
	Total	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>

20. OVERDUE ADVANCES AND RECEIVABLES

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

	20th February 2012		20th February 2011	
	<i>HK\$'000</i>	%*	<i>HK\$'000</i>	%*
Overdue 1 month but less than 2 months	126,028	2.6	137,153	2.8
Overdue 2 months but less than 3 months	23,845	0.5	32,508	0.7
Overdue 3 months but less than 4 months	13,987	0.3	18,234	0.4
Overdue 4 months or above	64,042	1.3	55,131	1.1
	227,902	4.7	243,026	5.0

* Percentage of gross advances and receivables

21. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	20th February 2012 HK\$'000	20th February 2011 HK\$'000
Deposits for property, plant and equipment	36,283	34,048
Rental deposits	13,712	13,224
Prepaid operating expenses	11,283	8,298
Other debtors	40,183	5,106
	101,461	60,676
Current portion included under current assets	(54,690)	(21,276)
Amount due after one year	46,771	39,400

22. CREDITORS AND ACCRUALS

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

	20th February 2012 HK\$'000	20th February 2011 HK\$'000
Current	50,494	54,840
Over 1 month but less than 3 months	6,401	1,944
Over 3 months	9,242	2,807
	66,137	59,591

Included in creditors and accruals, there is deferred revenue in relation to customer loyalty programmes of **HK\$6,152,000** (20th February 2011: HK\$5,141,000).

23. BANK BORROWINGS

	20th February 2012	20th February 2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank loans, unsecured	1,907,240	2,158,120
Carrying amount repayable (<i>Note</i>)		
Within one year	277,000	993,120
Between one and two years	472,540	170,000
Between two and five years	1,037,700	800,000
Over five years	120,000	90,000
	1,907,240	2,053,120
Carrying amount of unsecured bank loans that contain a repayment on demand clause – repayable within one year	–	105,000
	1,907,240	2,158,120
Amount repayable within one year included under current liabilities	(277,000)	(1,098,120)
Amount repayable after one year	1,630,240	1,060,000

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	20th February 2012		20th February 2011	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Interest rate swaps	–	169,697	380	40,255
Cross-currency interest rate swaps	2,773	32,311	186,672	44
	2,773	202,008	187,052	40,299
Current portion	–	(1,478)	(186,672)	(5,633)
Non-current portion	2,773	200,530	380	34,666

All derivative financial instruments entered by the Group that remain outstanding at 20th February 2012 and 20th February 2011 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.

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 and collateralised debt obligation by swapping certain Hong Kong Dollar (“HKD”) floating-rate bank borrowings and collateralised debt obligation from floating rates to fixed rates. The interest rate swaps, corresponding bank borrowings and collateralised debt obligation have the same 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.

Cross-currency interest rate swaps

The Group uses cross-currency interest rate swaps designated as highly effective hedging instruments to minimise its exposures to foreign currency and cash flow interest rate risk of its floating-rate Japanese Yen (“JPY”) syndicated bank borrowing and United States Dollars (“USD”) bank borrowings to fixed-rate HKD bank borrowings. The cross-currency interest rate swaps and the corresponding bank borrowings have the same terms and the Directors consider that the cross-currency interest rate swaps are highly effective hedging instruments.

25. DEFERRED TAX LIABILITIES (ASSETS)

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during each of the two years ended 20th February 2012 and 2011:

	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2010	12,600	(12,900)	(300)
Credit to profit or loss for the year	(300)	(250)	(550)
At 20th February 2011	12,300	(13,150)	(850)
Charge to profit or loss for the year	100	2,150	2,250
At 20th February 2012	12,400	(11,000)	1,400

26. COLLATERALISED DEBT OBLIGATION

- a) At 20th February 2011, the Company had a HK\$1,100,000,000 collateralised debt obligation financing transaction (the “Previous Transaction”) which revolving period ended in February 2012. Interest rate of the Previous Transaction was fixed at 4.5% per annum during the revolving period, thus exposing the Group to fair value interest rate risk. In February 2012, the Company entered into a HK\$1,100,000,000 new collateralised debt obligation financing transaction (the “New Transaction”) to repay the Previous Transaction. The New Transaction consists of two Tranches – Tranche A and Tranche B. The amount under Tranche A and Tranche B is HK\$550,000,000 each. The revolving periods for Tranche A and Tranche B of the New Transaction will end in January 2016 and January 2017 respectively. The two Tranches are arranged at floating interest rates of 0.35% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Two 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 two Tranches from floating rates to fixed rates at 3.7% to 3.9% per annum respectively. The effective interest rate taking into account the interest rate swaps was 3.8% per annum during the year.
- b) Pursuant to the Previous Transaction and the New Transaction (collectively the “Transactions”), the Company transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006–1) (the “Trust”) established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Company is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HK(SIC)-Int 12, the Trust is deemed to be controlled by the Company and the results thereof are consolidated by the Company in its consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under the Transactions have not been derecognised and remained in the Group’s financial statements. The Transactions are backed by the credit card receivables transferred and with the carrying amount denominated in HKD.

27. PLEDGE OF ASSETS

At 20th February 2012, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,825,513,000** and **HK\$68,000,000** respectively (20th February 2011: HK\$1,873,521,000 and HK\$102,149,000).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 13th June 2012 to Friday, 15th June 2012, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the entitlement to attend and vote at the forthcoming annual general meeting, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 12th June 2012.

The Register of Members of the Company will be closed from Thursday, 21st June 2012 to Friday, 22nd June 2012, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 20th June 2012.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the accounting year ended 20th February 2012, except for the deviations from code provisions A.4.1, A.4.2 and E.1.2 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 executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. The Chairman of the Board did not attend the annual general meeting of the Company held on 17th June 2011 as he was overseas.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code for securities transactions by the 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Review

During the year under review, stock markets around the world were volatile and global economies slowed down as the European sovereign debt crisis deepened. Further impacts were felt as a gigantic earthquake had shaken some of the important manufacturing facilities in Japan in March and the prolonged flooding in Thailand during the third quarter had also slowed down the output of agricultural products and many electronic products.

On the other hand, record number of tourist arrivals in 2011 boosted up overall consumption in Hong Kong which in turn pushed unemployment rate down from 3.4% at the beginning of the year to 3.2% at the end of the year.

As HKD continued its depreciation during 2011 as a result of its peg with the USD, and overall consumption increased from HK\$325 billion in 2010 to HK\$406 billion in 2011, inflation rose from 2010's 2.4% to 2011's 5.3%. Both low unemployment rate and inflation put pressure on staff costs as well as other operating expenses.

Meanwhile, as there was abundant liquidity in the market on one hand, and a slowdown in trade finance as a result of the sluggish world economy on the other, banks in Hong Kong were more eager to expand into the consumer finance sector, thus intensifying competition.

Financial Review

Through the launch of new services and co-brand cards, the Group overcame the challenges of keen competition and slow recovery in demand for consumer loans from its customer segment. Despite the overall difficult conditions experienced during the year, the Group continued to record a growth in sales and total advances.

The Group recorded a profit attributable to owners of HK\$301.3 million for the year ended 20th February 2012, representing an increase of 19.5% or HK\$49.1 million when compared to HK\$252.2 million in the previous year. The Group's basic earnings per share changed from 60.22 HK cents per share in 2010/11 to 71.95 HK cents per share.

Despite the keen competition and customers' cautious approach to revolving transactions, the Group still maintained similar level of interest income as last year of HK\$1,010.3 million. With the renewal of long-term borrowings, including syndicated term loans and collateralised debt obligation, coupled with lower funding cost, interest expense for the year was HK\$117.9 million, a decrease of 10.5% or HK\$13.9 million when compared with last year, with average funding cost being 3.5% as compared with 3.9% in the previous year. Net interest income of the Group recorded a growth of 1.5% or HK\$13.0 million to HK\$892.4 million from HK\$879.4 million in 2010/11. The increase in fees and commissions from credit card and insurance had resulted in the increase in other operating income by 7.7% from HK\$106.2 million in 2010/11 to HK\$114.4 million in 2011/12. Other gains and losses of HK\$32.7 million represented mainly the gain on disposal of available-for-sale investments.

Following the recruit of more staff for the expansion of branch network and insurance business, coupled with the opening of a micro-finance company in Shenyang, the Group had spent more on staff expenses, rentals and administrative expenses. As a result, operating expenses increased by 5.8% or HK\$22.2 million from HK\$381.1 million in 2010/11 to HK\$403.3 million in 2011/12. The Group's cost-to-income ratio was 38.8% in 2011/12.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$636.2 million for the year, representing an increase of 5.3% or HK\$32.2 million from HK\$604.0 million in the previous year. During the year under review, the Group lent conservatively and strived to continually maintain its asset quality. With a steady decline in the number of personal bankruptcies, coupled with prompt collection actions and exercise of cautious approval process, there were noticeable improvements in the collection ratios and write-off amount when compared with last year. Impairment losses and impairment allowances for the year decreased by 6.6% or HK\$22.4 million from HK\$339.5 million in 2010/11 to HK\$317.1 million. Recoveries of advances and receivables written-off was HK\$41.5 million, a decrease of 8.7% or HK\$4.0 million when compared with HK\$45.5 million in 2010/11. Impairment allowances amounted to HK\$129.5 million at 20th February 2012, as compared with HK\$134.3 million at 20th February 2011.

With the aggressive marketing activities to boost up card credit purchase sales and instalment loans sales, there was an increase in card credit purchase receivables and instalment loans receivables. The Group recorded an increase in gross advances of 1.1% during the year. Including accrued interest and other receivables, gross advances and receivables at 20th February 2012 was HK\$4,893.6 million, as compared to HK\$4,856.2 million at 20th February 2011.

Segment Information

The Group's business comprises mainly four operating divisions, namely credit card, instalment loans, insurance and hire purchase. In 2011/12, credit card operation accounted for 66.9% of the Group's revenue, as compared to 68.3% in 2010/11. For segment results, credit card operation accounted for 69.6% of the Group's whole operations in 2011/12, as compared to 76.3% in 2010/11.

Although there was an increase in credit card sales, interest income on credit card operation recorded a drop when compared with last year due to customers' cautious approach to revolving transactions. Additionally, the improved economic situation had reduced the penalty and late charges, which resulted in an overall drop in revenue from credit card operation of 1.8% or 13.3 million from HK\$759.9 million in 2010/11 to HK\$746.6 million in 2011/12. With the exercise of prompt collection actions, there was a moderate decrease in the impairment losses and impairment allowances. The segment result for the year from credit card operation decreased by 5.0% or HK\$12.3 million from HK\$248.0 million in 2010/11 to HK\$235.7 million in 2011/12.

To attract new instalment loan customers, the Group offered competitive interest rates with reference to customer background. This successfully boosted up the instalment loan sales and interest income recorded an increase when compared with last year. Together with an increase in late charges, revenue from instalment loan operation recorded an increase of 5.1% or HK\$16.3 million from HK\$322.2 million in 2010/11 to HK\$338.5 million in 2011/12. With the exercise of cautious credit approval process, there was a noticeable decrease in impairment losses and impairment allowances. Notwithstanding the additional operation cost incurred for a newly set-up micro-finance company in Shenyang, the segment result for the year from instalment loan operation still recorded an increase of 37.8% or HK\$24.8 million from HK\$65.5 million in 2010/11 to HK\$90.3 million in 2011/12.

Revenue for insurance operation recorded an increase of HK\$3.7 million from HK\$24.9 million in 2010/11 to HK\$28.6 million in 2011/12. With the exercise of tight control on the operating expenses, segment result for the year from insurance operation increased by 11.6% or HK\$1.3 million from HK\$10.8 million in 2010/11 to HK\$12.1 million in 2011/12.

With a continuous shift from hire purchase to card instalment plan, revenue for hire purchase operation recorded a decrease of HK\$3.0 million, from HK\$5.6 million in 2010/11 to HK\$2.6 million in 2011/12. Even though there was a drop in operating expenses and impairment losses and impairment allowances, segment result for the year from hire purchase operation was HK\$0.4 million in 2011/12 as compared with HK\$0.9 million in 2010/11.

Business Review

It has been the strategy of the Group to build up a strong relationship with its business partners and utilize their networks as the backbone for its member acquisition and provision of services. In the past year, the Group had launched a series of marketing activities to enhance the competitiveness of its card business, which included the AEON Happy Family Day at Ocean Park, point club promotion, JUSCO 25 times bonus point promotion and Watami summer set menu promotion. In addition, the Group had designed tailor-made card acquisition programmes with its co-branding partners to increase card base and card usage. To diversify the market segment, the Group launched two new co-brand cards and supplementary card. This not only had attracted new customer segment but also increased the card usage. To maintain the credit quality, new members were mainly recruited through affinity member-stores. To widen the service coverage, the Group opened three new branches in Central, Tsim Sha Tsui and Lai Chi Kok, and extended the instant credit card service to 7 branches. For web services, internet corners have been set up in 7 branches to facilitate net-member registration and also enable customers to use net-member services such as e-statement, bill payment, on-line shopping and card application. Moreover, the Group has recently launched mobile web service and e-statement promotion to encourage web usage and promote environmental protection.

During the year under review, AEON Insurance Brokers (HK) Limited (“AEON Brokers”) continued to expand the customer base by introducing company insurance to business partners and corporate clients, and promoting life protection and savings insurance to individual customers by its insurance consultants. Moreover, AEON Brokers also organised seminars and road-shows to promote insurance products on life, general and MPF scheme.

AEON Information Service (Shenzhen) Co., Ltd (“AIS”), an associate, has been acting as processing agent for China AEON Card operation in different provinces, including Guangdong, Beijing and Shandong. At the same time, AIS continues to extend its collection services to new clients in China in the fields of auto, finance and insurance. In order to conduct business directly with Chinese consumers, the Group has started its micro-finance business in Shenyang which offers instalment loans for purchasing durable consumer goods. More micro-finance companies will be established in coming few years. The experience and operation knowledge gained from the AEON Card and micro-finance operations will provide the Group with a strong driving force to capture the growth potential in the China consumer finance market.

Prospects

The economic outlook for 2012 will be mixed. The European sovereign debts issue presents a threat to global economic growth in 2012. Asia is expected to maintain a growth momentum, especially in those emerging markets such as China, where there is still a strong demand for consumer finance. Going forward, the Group will ride on the growth momentum in Asia and further optimize its allocation of resources, enhance asset and liability management, and broaden the range of financial services provided to customers in both Hong Kong and China. Given the uncertainty in 2012, the Group maintains a cautious outlook, and anticipates that business will grow steadily. As the number of cardholders of the Group has reached a significant mass level, the Group has to reposition its corporate image to tap new market segment. Moreover, the Group also has to widen its customer base and develop new revenue sources by offering new services.

On credit card business, the Group will continue to collaborate with potential merchants with sizable customer base and issue new co-brand cards to tap new market segments and to widen its merchant network. Since the Group has been taking prudent approach to extend credit, its asset quality remains fundamentally sound. At the same time, the Group will actively strengthen its brand image in the market by providing high quality service to its customers and exercising corporate social responsibilities.

This year marks the 25th anniversary of the Group’s operation in Hong Kong. The Group will organise mass promotions jointly with AEON Stores (Hong Kong) Co., Limited to increase the usage and strengthen the benefits of AEON JUSCO Card, which is always the core card for card member growth and usage stimulation. Under the current economic situation, the Group will line up with new types of merchants to issue co-brand cards in order to extend its reach to new market segments. The Group intends to issue 2 or more new co-brand cards during the year. On the other hand, the Group will study the marketing strategies of its existing co-brand cards and implement re-positioning if necessary in order to develop new customer base.

For convenient and efficient services, the Group will continue to set up new branches to extend its geographic coverage and expand the instant card operation to different branches. To extend its marketing channels, the Group will install more sophisticated ATMs which can offer new services to its cardholders. Another major growth strategy is to ride on new technologies for card acquiring, product promotions and service improvements. The Group will launch smartphone apps this year. This will extend our reach to new customer segments, the young generation in particular.

For web business, the Group will organize on-line events and offer incentives to attract customers to register as its net-members. More frequent visits to our homepage means more opportunities for cross-selling. The Group will offer on-line group purchase so that customers can buy popular goods at a preferential price which in turn will increase its card sales. In addition, customers can enjoy special benefits when making on-line purchase at JUSCO City. The Group will also explore new fee income sources by venturing into the acquiring business. Meanwhile, the Group is studying the feasibility of opening up its ATM network to other institutions.

To ride on the existing operating platform, the Group will continue to explore other fee-based income business opportunities in the areas of insurance, travel and collection services. Moreover, the Group will continue to utilise its on-line marketing channels to promote recurrent transactions through credit cards to its net members. For China business, riding on the experience and operation knowledge gained from China AEON Card operation, the Group will expand its current micro-finance business in Shenyang to other provinces to tap into the huge and fast growing consumer finance market in China.

FUNDING AND CAPITAL MANAGEMENT

The Group manages its capital to ensure that:

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

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

Net debt to equity ratio

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt to equity ratio of 1.5 to 2.0 determined as the proportion of net debt to equity.

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

	20th February 2012	20th February 2011
	HK\$'000	HK\$'000
Debt (<i>Note a</i>)	3,005,275	3,257,083
Cash and cash equivalents	(354,273)	(260,664)
Net debt	2,651,002	2,996,419
Equity (<i>Note b</i>)	2,049,605	2,032,395
Net debt to equity ratio	1.3	1.5

Notes:

- (a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 23 and 26 respectively.
- (b) Equity includes all capital and reserves of the Group.

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th February 2012, 40.6% of its funding was derived from total equity, 21.7% from structured finance and 37.7% from direct borrowings from financial institutions.

The principal source of internally generated capital was from accumulated profits. At 20th February 2012, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK\$1,907.2 million, with 14.2% being fixed in interest rates and 85.8% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 9.2% of these indebtedness will mature within one year, 15.7% between one and two years, 71.1% between two and five years and 4.0% over five years. The duration of indebtedness was around 3.4 years.

The Group's bank borrowings and collateralised debt obligation were denominated in HKD, except for a syndicated term loan of USD50.0 million and a term loan of USD10.0 million which were hedged by cross-currency interest rate swaps.

The net asset of the Group at 20th February 2012 was HK\$2,049.6 million, as compared with HK\$2,032.4 million at 20th February 2011. 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 thereby 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 20th February 2012, capital commitments entered were mainly related to the purchase of property, plant and equipment.

HUMAN RESOURCES

The total number of staff at 20th February 2012 and 20th February 2011 was 431 and 355 respectively. Employees are remunerated according to the job nature and market trends, with a built-in-merit component incorporated in the annual increment to reward and motivate individual performance. Apart from medical insurance and provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Group. The Group also provides in-housing training programmes and external training sponsorships to strengthen its human resources.

To foster a sense of belonging and team spirit among staff members, the Group issues staff newsletters and organize various activities for the staff.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the annual results.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 20th February 2012 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The 2011/12 annual report of the Group, containing the relevant information required by the Listing Rules, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

BOARD OF DIRECTORS

At the date of this announcement, the Executive Directors are Mr. Fung Kam Shing, Barry (Managing Director), Mr. Lai Yuk Kwong, Mr. Tomoyuki Kawahara, Ms. Koh Yik Kung, Mr. Toshiya Shimakata and Ms. Chan Fung Kuen, Dorothy; the Non-executive Directors are Mr. Masao Mizuno (Chairman) and Mr. Masanori Kosaka; and the Independent Non-executive Directors are Dr. Hui Ching Shan, Mr. Wong Hin Wing and Professor Tong Jun.

By order of the Board
Fung Kam Shing, Barry
Managing Director

Hong Kong, 20th April 2012