

Enjoy Shopping inside Jusco Stores with your AEON cards

利用閣下之AEON 信用咭於吉之島享受購物樂趣



- AEON cardholders can now enjoy the Jusco card benefits during Thanksgiving Days and Jusco Private Sale
AEON 信用咭持咭人現時可在感謝日及吉日於吉之島內享用等同吉之島信用咭優惠
- Marketing programs with Jusco Stores like summer sale and AEON Card Festival will be launched
將推出市場推廣計劃如夏季大減價及 AEON 信用咭會員節
- Benefits like discount coupon and 1-day discount pass will be introduced to AEON cardholders
將提供優惠予 AEON 信用咭持咭人如折扣優惠券及全日折扣通
- Loyalty programs will be in place to retain quality customers
推出忠誠計劃以挽留優質客戶



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Corporate Information

Board of Directors

Executive Directors

Masanori KOSAKA (*Managing Director*)

LAI Yuk Kwong

KOH Yik Kung

Non-Executive Directors

Yoshiki MORI (*Chairman*)

Kazuhide KAMITANI

Yoichi KIMURA

Independent Non-Executive Directors

SHAO You Bao

TSANG Wing Hong

Company Secretary

KOH Yik Kung

Auditors

Deloitte Touche Tohmatsu

Certified Public Accountants

Major Bankers

Mizuho Corporate Bank, Ltd.

Hong Kong Branch

The Bank of Tokyo-Mitsubishi, Ltd.

Hong Kong Branch

UFJ Bank Limited

Hong Kong Branch

Share Registrars

Secretaries Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Registered Office

37th Floor, The World Trade Centre

280 Gloucester Road

Causeway Bay

Hong Kong

Internet Address

Homepage : <http://www.aeon.com.hk>

E-mail Address : info@aeon.com.hk

Board of Directors



Yoshiki MORI



Masanori KOSAKA



LAI Yuk Kwong



KOH Yik Kung



Kazuhide KAMITANI



Yoichi KIMURA



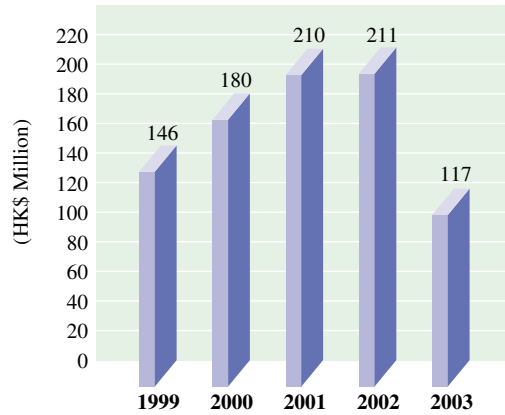
SHAO You Bao



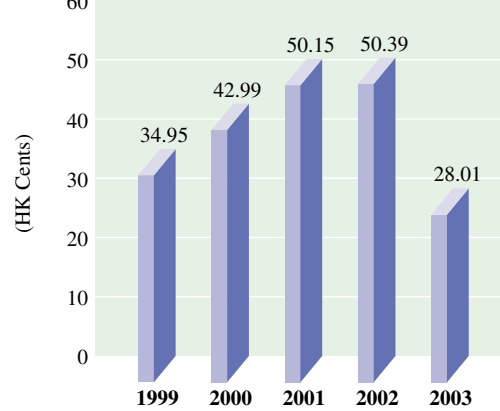
TSANG Wing Hong

Financial Summary

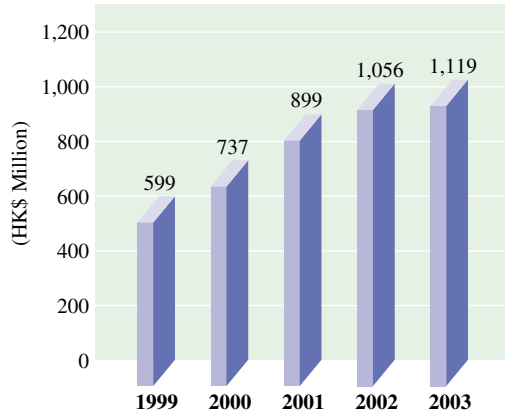
Net Profit (note 1)



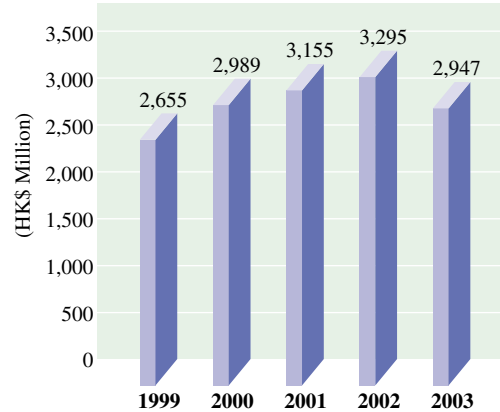
Earnings per Share (note 2)



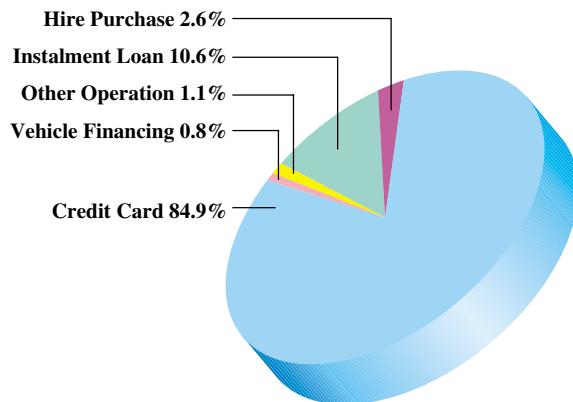
Shareholders' Funds (note 3)



Total Assets (note 4)



Turnover (note 5)



Notes:

1. Represents the net profit for the financial years ended 20th February 1999, 2000, 2001, 2002 and 2003.
2. Represents the earnings per share for the financial years ended 20th February 1999, 2000, 2001, 2002 and 2003.
3. Represents the shareholders' funds as at 20th February 1999, 2000, 2001, 2002 and 2003.
4. Represents the total assets as at 20th February 1999, 2000, 2001, 2002 and 2003.
5. Represents the respective percentage of finance charges from hire purchase contracts, interest earned on loans and credit card advances, fee, commission income, interest on bank deposits and investment income from the seller and subordinated interests by principal activities for the financial year ended 20th February 2003.

Financial Summary

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

RESULTS					
	For the year ended 20th February				
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Turnover	<u>717,900</u>	<u>795,222</u>	<u>817,140</u>	<u>849,205</u>	<u>789,201</u>
Profit before taxation	173,787	207,020	242,174	247,671	138,195
Income tax	<u>(27,397)</u>	<u>(27,000)</u>	<u>(32,170)</u>	<u>(36,669)</u>	<u>(20,890)</u>
Net profit for the year	<u>146,390</u>	<u>180,020</u>	<u>210,004</u>	<u>211,002</u>	<u>117,305</u>
ASSETS AND LIABILITIES					
	At 20th February				
	1999 HK\$'000	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000
Total assets	2,654,482	2,988,813	3,154,914	3,295,343	2,946,952
Total liabilities	<u>(2,055,957)</u>	<u>(2,252,145)</u>	<u>(2,255,639)</u>	<u>(2,239,506)</u>	<u>(1,828,247)</u>
Shareholders' funds	<u>598,525</u>	<u>736,668</u>	<u>899,275</u>	<u>1,055,837</u>	<u>1,118,705</u>

Chairman's Statement



Yoshiaki MORI
Chairman

The operating environment in Hong Kong was tough last year, with unemployment rate reaching a high level of over 7% and a significant drop in the property prices as well as deflation in asset value. Weak loan demands and pressure on margins have continued to affect the financial sector. Under such a difficult operating and challenging environment, AEON Credit Service (Asia) Company Limited (the “Company”) recorded a decline in net profit for the first time to HK\$117.3 million, representing a drop of 44.4% when compared with last year.

The Group's Philosophy

The Company is a member of the AEON Group and a subsidiary of AEON Credit Service Co., Ltd. (“AEON Credit Japan”), which is listed on the main section of the Tokyo Stock Exchange. Guided by the corporate philosophy of “Customer First”, AEON Credit Japan is dedicated to providing value-added financial services according to the lifestyle needs of individual customers. Looking back over the past twenty years, AEON Credit Japan had pursued a path of positive business expansion, posting a record of rapid continuous growth in both domestic and overseas markets. The support, loyalty and confidence of customers have enabled AEON Credit Japan to achieve an increase of 1.5 million cardholders in this financial year. Moreover, the set up of an Integrated Operation Centre in Japan has enabled AEON Credit Japan to put in place an infrastructure to cope with the expanded scale of operations and promote a low cost operating structure.

The core activities of AEON Credit Japan are credit card and personal loan business. At the same time, through its subsidiaries, AEON Credit Japan is also involved in other financial service activities, including loan management and recovery. Through its insurance agency business, AEON Credit Japan handles a variety of insurance products, including vehicle insurance, travel insurance and sports insurance. AEON Credit Japan also provides travel agency services, posting services and card processing services through the AEON World Desk.

To fulfill its mission as a good corporate citizen, AEON Credit Japan engages in a broad spectrum of social activities, ranging from volunteer activities in the regional community to challenging environmental problems from a worldwide perspective. Within Japan, AEON Credit Japan carries its unique charity initiatives with the support of its cardholders. On a global basis, AEON Group members support environmental conservation, international cultural and personal exchanges through the AEON 1% Club.

The Company's Performance

For the year under review, the Company followed the group policy in providing high quality and convenient service to the customers at low cost operation. On credit card business, the Company had successfully increased the card usage by having Jusco Stores (Hong Kong) Co., Limited extending the benefits of Jusco credit cards to AEON credit card members. On the credit judgment

Chairman's Statement

side, judgment accuracy had improved with the introduction of the auto-judgment system which had standardized the whole approval process and at the same time sped up the processing time. With the Shenzhen call centre taking up a more active role in tele-marketing, customer service and collection activities, the Company's back-office operational efficiency had improved resulting in the reduction of back-office operating cost. As a result, cost-to-income ratio continued to show an improvement in this financial year.

The Company continued to participate actively in environmental protection activities through the Home Environmental Ambassador Project and the Eco Living Club organized by AEON Jusco Education and Environment Fund Limited (the "AEON Jusco Fund"). Moreover, the Company also supported the development in education and environmental protection in the People's Republic of China through the set up of education and research funds and the participation in agro-forestry projects.

Outlook

With the unstable political situation in the Middle East, the outbreak of atypical pneumonia in Hong Kong coupled with the increase in tax rates and the launching of positive credit data sharing in the second half, Year 2003 is expected to remain a tough operating year for consumer finance business in Hong Kong. Guided by the corporate philosophy of "Customer First", the Company will continue to provide a supportive response to the needs of individual customers, and to improve its services steadily by always listening to customers. The Company understands its responsibilities and the importance of providing good returns to its shareholders. With regard to social contribution, the Company will continue to be a good corporate citizen of Hong Kong and participate actively in the community activities and support local causes.

Acknowledgement

I would like to take this opportunity to express my appreciation to the Board of Directors and all staff for their dedication and hard work and to our loyal customers for their invaluable support and to the shareholders for their confidence in and support to the Company.

森 美 樹

Yoshiki MORI
Chairman

Hong Kong, 25th April 2003

Managing Director's Operational Review



Masanori KOSAKA
Managing Director

INTRODUCTION

On behalf of the Board of Directors, I am pleased to present to you the Annual Report of the Company for the year ended 20th February 2003. During the year under review, Hong Kong's economy was faced with structural problems with high unemployment and declining property prices, causing the number of personal bankruptcy cases to soar to a new high of 27,000, being two times the figure of last year. In view of this adverse situation, the Company had implemented various measures to tackle the increase in personal bankruptcy cases, including the implementation and use of the auto-judgment system with improved judgment accuracy to underwrite new applications and the start on the development of a fraud detection system. The Company had also carried out branch restructuring exercise to tighten up its control on costs, especially on branch-related expenses including rental.

REVIEW OF FINANCIAL RESULTS

At the operating level, the Company recorded an increase in operating profit before allowances by 12.1% from HK\$483.1 million in 2001/02 to HK\$541.6 million in 2002/03. However, the high level of personal bankruptcies had resulted in the significant increase in the bad debt expenses as well as the allowance for bad and doubtful debts, with charge for bad and doubtful debts increased sharply by 71.4% or HK\$168.0 million to HK\$403.4 million from HK\$235.4 million in the previous year. Even with the implementation of various cost-cutting measures, the Company did not manage to achieve a profit growth for the first time, with net profit dropped by 44.4% from HK\$211.0 million to HK\$117.3 million and earnings per share dropped from 50.39 HK cents to 28.01 HK cents. We have recommended a final dividend of 8.0 HK cents per share and, together with the interim dividend of 5.0 HK cents, the total dividend for the year was 13.0 HK cents. The dividend payout ratio for this year was 46.4%, as compared with 25.8% in 2001/02.

Operating income before interest expenses for the year was HK\$959.6 million, an increase of 1.0% when compared with HK\$950.3 million in 2001/02. Interest income decreased by 18.0% to HK\$659.0 million, and with the drop in interest expense by 15.8% to HK\$143.9 million, the Company's net interest income recorded a drop of 18.7% to HK\$515.2 million.

The Company recorded securitisation income of HK\$192.2 million in 2002/03, representing the gains on sale of credit card receivables, investment income from the seller and subordinated interests and unrealised gains on interest-only strips. Other operating income increased by 40.1% to HK\$109.9 million from HK\$78.5 million in 2001/02, mainly resulted from the servicer fee on credit card securitisation and the gain on disposal of investment securities and other investments. During the year, the Company exercised stringent cost control and implemented cost reduction programs such as closing down street level branches, cutting back in staff number and advertising expenses, which resulted in a further drop of cost-to-income ratio to 33.6%.

Managing Director's Operational Review

With the transfer of credit card receivables to a special purpose entity under the new securitisation program, total debtor balance as at 20th February 2003 was HK\$1,876.7 million, when compared with HK\$2,924.2 million as at 20th February 2002. As at 20th February 2003, the Company had bank borrowings amounted to HK\$1,401.2 million and HK\$326.7 million issued debt securities backed by credit card receivables. Shareholders' funds were strengthened by 6.0% to HK\$1,118.7 million as at 20th February 2003 mainly due to the increase in retained earnings. Total debt-to-equity ratio improved from 2.1 in 2001/02 to 1.6 in 2002/03.

REVIEW OF OPERATION

Marketing, Credit Control and Collection

To maintain the quality of new members, instead of recruiting members through street level branches, members were recruited through affinity member-stores. Moreover, the implementation of the auto-judgment system had improved the judgment accuracy due to the standardisation of the approval process. To further control the credit risk, the Company analysed the utilisation history of its delinquent customers and applied the findings to its credit judgment process on new and existing customers. With the outdoor visit collection activities carried out by its outdoor visit team, the Company was able to take prompt collection actions on risk-identified customers at the earliest opportunity. In addition, the Company had set up a special account control team to recover amounts due under long outstanding delinquent and written-off accounts.



*Member recruitment
inside affinity member-stores*

Cost Control



*Shenzhen call centre –
provides collection and customer service*

During the year, the Company carried out branch restructuring exercise along with the change in its members recruitment strategy, resulting in the closure of 14 street level branches and merger of some of the branches. The operation in the head office was also streamlined to increase efficiency and productivity which included the shifting of collection activities and customer service to the Shenzhen call centre. As a result, the number of staff had reduced by 54. The cost reduction exercise would be expected to continue in the coming year.

Managing Director's Operational Review

Credit Card Business

On credit card business, the Company continued to partner with different affinity member-stores to issue new credit cards. The newly launched AEON Jusco Visa Card, AEON Watami Visa Card and AEON Mega Warehouse MasterCard were aimed at our inactive customers to stimulate usage so as to increase the overall active ratio. We plan to issue at least three affinity cards in the coming year.



Launching of new affinity cards



*Hire purchase counter
inside Jusco store in Shenzhen*

Shenzhen Call Centre

The Shenzhen call centre has been providing support to our collection, tele-marketing and customer service operation since 2000. Last year, it started to provide consultancy services to third parties on hire purchase financing and accounts management. The know-how and experience gained from the Shenzhen call centre will be useful for our entry into the consumer finance business in the future.

PROSPECTS

Year 2003 is expected to remain a tough operating year for consumer finance business. Notwithstanding all the challenges and uncertainties ahead, the Company will continue to reinforce its foundation and prepare for further business growth. In Year 2003, the Company aims to accomplish three main tasks, namely to improve the quality of its core business, to implement a low cost operation and to explore a new source of revenue.

Credit card business will continue to be the core business of the Company, with the primary target on strengthening its customer database and increasing its receivables. The Company will make use of its customer database, customer relationship management tools and existing infrastructure, including its call centre, branch and cash dispensing machine network to grow its core business and to extend to a new line of business, so as to retain existing cardholders and increase the card active ratio. The Company plans to increase the number of cash dispensing machines from 270 to 290. New machines will be installed along the West Rail Line and also inside convenience stores.

Marketing Activities

The Company will strengthen its co-operation with Jusco stores to boost its credit card sales. With the existing customer database, the Company will launch marketing programs like summer sale, AEON Card Festival and discount coupon to increase its credit purchase transactions. In launching these programs, the Company will be able to differentiate cash advance customers from credit

Managing Director's Operational Review

purchase transactors. With these available data, the Company will launch loyalty programs to retain quality customers while at the same time to boost up credit purchase sales. In addition, the Company will partner with other service providers to promote recurrent transactions like mobile bill payment and insurance premium payment through AEON credit cards which provides convenience to the customers while increasing the card active ratio. Following the joint



Joint promotions with convenience stores

promotion programs on the usage of cash dispensing machines inside convenience stores, other programs to boost cash advance transactions will be launched to target sleeping and inactive customers and also to convert non AEON-cardholders to become our members.



Purpose loan products

Different discount programs will be launched within the Company's merchant network to boost up both credit purchase and hire purchase sales. As female customers comprise the bulk of our customer database and are generally considered to have lower credit risks, the Company will line up with merchants in the fields of beauty and fitness, fashion and cosmetics to capture this customer segment progressively.

On personal loan business, the Company will continue to focus on cross selling and up selling member's loan, web loan to our selected low risk, inactive and sleeping customers. Moreover, different purpose loan products, such as study loan, decoration loan, insurance loan and health product instalment loans, will be developed to satisfy the different demand in the market and at the same time to attract quality customer database.

Positive Credit Data Sharing

On customer quality, following the launch of positive credit data sharing in the second half, the Company will be able to obtain more information on new applications which will be incorporated into the auto-judgment system to enable the Company to arrive at a more accurate credit judgment. By offering minimal credit limit, the management believes that there is room to grow the receivables even though keen competition will intensify after the launch of positive credit data sharing.

New Business

The Company will ride on its existing customer database to move into insurance agency business, selling tailor-made insurance products through its call centre and branch network and thereby generating a new source of revenue to the Company.



Tailor-made insurance products

Managing Director's Operational Review

China Business

With China being admitted to the World Trade Organisation, the Company is actively exploring different scenarios to enter the consumer finance business in China. The Shenzhen call centre offers a solid foundation for our operation in China and with the plan to set up another branch in Guangzhou, the Company intends to establish its base in the Guangdong Province for future expansion.

Future

The solid business foundation that we have built over these years, the active steps that we have taken to constantly improve our services and products and the investment that we have made on the infrastructure for our future growth and expansion will steer us through the current economic difficulties and open up new horizons.

SYSTEMS DEVELOPMENT

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

During the year under review, the Company had completed the development of the data warehouse and the operating systems for the auto-judgment system as well as the launching of the AEON Jusco Visa Card and AEON Watami Visa Card.

In the coming year, the Company will put its efforts in developing the hire purchase instant approval system, the business intelligence system and the fraud detection system. In addition, modification work will be carried out on the existing auto-judgment system to cope with the launching of the positive credit data sharing in the second half of the year.

HUMAN RESOURCES COMMITMENT

The total number of staff as at 20th February 2003 and 20th February 2002 was 286 and 340 respectively. A series of programs is in place to retain quality staff and to realise employees' career potential. The Company will continue to put emphasis on staff training and development, with training being provided on both new product knowledge and servicing skills. The Company is well positioned to face the challenges ahead with a resilient and dedicated workforce.

Managing Director's Operational Review

CONTRIBUTION TO THE SOCIETY



Launching ceremony for organic plant growing competition

Over the years, the Company has been working hard to be a responsible corporate citizen placing special attention on local community and environment needs. We emphasize on three key words, “peace”, “people” and “community” in our Company’s philosophy. Besides the donation through its seven charity cards to support vital charity causes in the community, the Company has also participated in the activities of environmental conservation, education and cultural exchange through the AEON Jusco Fund.

The AEON Jusco Fund had recently organized an event known as “Green Flea Market” to arouse the attention of general public to reuse second hand items and to reduce waste. The proceeds received from this activity were donated to a beneficiary engaged in carrying out environmental project. In Hong Kong, the AEON Jusco Fund has made donations to support the charitable activities including the green community pilot scheme and the organic plant growing competition for primary and secondary schools. In China, the AEON Jusco Fund has continued to support to the agro-forestry project in Panyang of Ningxia, the set up of Tsinghua-AEON Jusco Research and Education Funds and quality teaching for remote minority regions in China.



Agro-forestry trip to Panyang, Ningxia

ACKNOWLEDGEMENT

I am most grateful to our customers, business partners, and shareholders whose generous support has helped the Company to prevail over the existing adverse economic conditions. On behalf of the Board, I would like to take this opportunity to express our sincere thanks to our customers, our business partners and our shareholders for their continuous support, dedication and loyalty in the past one year. Our appreciation also goes to our dedicated management and staff who have continued their commitment and perseverance in delivering the highest customer satisfaction to the public even under the current tough operating environment.



Masanori KOSAKA
Managing Director

Hong Kong, 25th April 2003

Management Discussion and Analysis

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

The operating environment in Hong Kong remained tough last year, with a continuous high unemployment rate, a decline in property prices, deflation in asset value and a record personal bankruptcy cases. As a result, there was a significant increase in the charge-off for credit cards. At the same time, credit demand in the consumer finance field continued to fall and industry competition became fierce.

KEY FINANCIAL HIGHLIGHTS

The Company recorded a profit of HK\$117.3 million for the year ended 20th February 2003, representing a drop of HK\$93.7 million or 44.4% when compared with the previous year. Accordingly, the Company's earnings per share dropped to 28.01 HK cents per share from 50.39 HK cents per share.

Operating income before interest expenses for the year was HK\$959.6 million, an increase of 1.0% when compared with HK\$950.3 million in 2001/02. Net interest income recorded a drop of 18.7% to HK\$515.2 million from HK\$633.3 million in 2001/02.

Operating expenses decreased from HK\$296.4 million in 2001/02 to HK\$274.1 million, with cost-to-income ratio being 33.6% for this fiscal year.

The Company's charge for bad and doubtful debts increased sharply by 71.4% or HK\$168.0 million to HK\$403.4 million from HK\$235.4 million in the previous year.

With the transfer of credit card receivables to a special purpose entity under the new securitisation program, total debtor balance as at 20th February 2003 was HK\$1,876.7 million, when compared with HK\$2,924.2 million as at 20th February 2002.

The Board recommended the payment of a final dividend of 8.0 HK cents per share. Together with the interim dividend of 5.0 HK cents per share already paid, the total dividend for the year was 13.0 HK cents per share, with dividend payout ratio increased to 46.4% from 25.8% in 2001/02.

Management Discussion and Analysis

INCOME STATEMENT ANALYSIS

Operating Income

Operating income before interest expenses for the year was HK\$959.6 million, an increase of 1.0% when compared with HK\$950.3 million in 2001/02. Under the new securitisation program backed by credit card receivables entered in September 2002, the Company is required to sell from time to time certain designated credit card receivables to a special purpose entity. Interest income and fees and commissions of these credit card receivables will be distributed back to the Company in the form of investment income from the seller and subordinated interests in the securitisation trust. Interest income decreased by 18.0% to HK\$659.0 million from HK\$804.1 million in 2001/02.

With HIBOR continued to remain low, the average funding cost for the year was 6.1%, with average funding cost in the fourth quarter even moved down to 5.6%. Interest expense amounted to HK\$143.9 million, representing a decrease of 15.8% or HK\$26.9 million from HK\$170.8 million in 2001/02. The Company's net interest income recorded a drop of 18.7% to HK\$515.2 million from HK\$633.3 million in 2001/02.

The Company recorded securitisation income of HK\$192.2 million in 2002/03, representing the gains on sale of credit card receivables, investment income from the seller and subordinated interests and unrealised gains on interest-only strips. Besides securitisation income, the Company also recorded other operating income of HK\$109.9 million, representing an increase of 40.1% or HK\$31.4 million from HK\$78.5 million in 2001/02. The increase was mainly resulted from the servicer fee on credit card securitisation and the gain on disposal of investment securities and other investments.

Operating Expenses

In view of the tough operating environment, the Company exercised stringent cost control and implemented cost reduction programs such as closing down street level branches, cutting back in staff number and advertising expenses. Operating expenses for the year amounted to HK\$274.1 million, a drop of 7.5% or HK\$22.3 million when compared with HK\$296.4 million in 2001/02, with cost-to-income ratio at 33.6%. Staff cost represented 82.6% when compared with last year, resulting from the retrenchment of branch network, the restructuring in the head office and the cut down of promoter cost. Advertising fee represented 76.5% when compared with last year and a further cut down would be expected in the coming year.

Management Discussion and Analysis

Charge for Bad and Doubtful Debts

Considering the murky economic prospects and the high level of personal bankruptcies, the Company increased the amount of allowance for bad and doubtful debts. During the year, the Company's charge for bad and doubtful debts increased sharply by 71.4% or HK\$168.0 million to HK\$403.4 million from HK\$235.4 million in the previous year, with HK\$360.7 million for specific allowance and HK\$42.7 million for general allowance.

BALANCE SHEET ANALYSIS

The Company's shareholders' funds as at 20th February 2003 was HK\$1,118.7 million, representing a growth of 6.0%, or HK\$62.9 million, when compared with the balance as at 20th February 2002. Net asset value (before final dividend) per share as at 20th February 2003 was HK\$2.67 per share, compared with HK\$2.52 per share as at 20th February 2002.

Debtor Balance

With the transfer of credit card receivables to a special purpose entity under the new securitisation program, credit card receivables as at 20th February 2003 was HK\$1,275.9 million, as compared to HK\$2,337.6 million as at 20th February 2002. With the launching of new purpose loan products, instalment loans receivable reached HK\$375.8 million as at 20th February 2003, an increase of 24.3% when compared with HK\$302.4 million as at 20th February 2002. Total debtor balance as at 20th February 2003 was HK\$1,876.7 million, when compared with HK\$2,924.2 million as at 20th February 2002.

Allowance for bad and doubtful debts amounted to HK\$235.9 million as at 20th February 2003, an increase of HK\$87.2 million when compared with previous year and representing 12.6% of total outstanding receivables.

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

	20th February 2003		20th February 2002	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	176,250	9.4	116,692	4.0
Overdue 2 months but less than 3 months	34,420	1.8	32,177	1.1
Overdue 3 months or above	129,332	6.9	127,444	4.3
	<u>340,002</u>	<u>18.1</u>	<u>276,313</u>	<u>9.4</u>

* Percentage of total debtor balance

Management Discussion and Analysis

RETAINED INTERESTS IN SECURITISATION TRUST

During the year, the Company raised HK\$600 million through the realisation of credit card receivables originated and selected by the Company to a special purpose entity, which issued trust certificates backed by such receivables.

Under this transaction, the entitlements to interest spread and cash reserve accounts are stated at fair values whereas seller interest and subordinated interest are stated at their allocated amounts and subject to amortisation. The interest-only strips, which are retained by the Company, represent the net present value of the projected cash flows expected to be produced from the securitised credit card receivables during their estimated lives.

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

Bank Borrowings and Capital Financing

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

During the year, the Company had a major fund raising exercise. With the commencement of the amortization period of the HK\$540 million on balance sheet credit card securitisation, the Company had entered into an off balance sheet asset securitisation in September 2002. As a result, the Company managed to reduce its interest-bearing liabilities by HK\$600 million.

As at 20th February 2003, the Company had borrowings amounted to HK\$1,727.9 million, which included on balance sheet issued debt securities of HK\$326.7 million. Out of these borrowings, 56.6% will mature within one year whilst 28.1% between one to two years and 15.3% over two years. The Company had further strengthened its financial position as compared with 2001/02. As at 20th February 2003, total debt-to-equity ratio was 1.6, as compared with 2.1 in 2001/02. All the Company's borrowings were denominated in Hong Kong dollars.

The net asset value of the Company as at 20th February 2003 was HK\$1,118.7 million, or HK\$2.67 per share. Assets were pledged to secure structured finance facilities, short term general banking facilities and the sharing of ATM network. There was no major change in assets pledged when compared to that disclosed in the Company's 2001/02 Annual Report.

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

Management Discussion and Analysis

Capital expenditure for the year amounted to HK\$31.8 million as compared to HK\$53.1 million in the previous year. This was mainly related to the system development on different operating systems, including the auto-judgment system. As at 20th February 2003, capital commitments entered were mainly related to the purchase of property, plant and equipment.

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

In determining the dividend payment, the objective is to reward shareholders with dividend income while retaining funds for future business development and expansion. Due to the unstable economic situation, a moderate growth in debtor balance was anticipated in the coming year. Moreover, shareholders have generally expected a higher dividend amount to compensate for the thin trading in the stock market. In view of this, the Board decided to maintain the absolute dividend payment amount despite a drop in net profit. For the year ended 20th February 2003, the Board recommended the payment of a final dividend of 8.0 HK cents per share, which together with an interim dividend of 5.0 HK cents per share, making a total dividend of 13.0 HK cents per share and a payout ratio of 46.4%.

SEGMENT INFORMATION

The Company's business comprised mainly three operating divisions, namely credit card, hire purchase and instalment loan. In 2002/03 and 2001/02, 85% of the Company's turnover was contributed from credit card operation. In 2002/03, 94.1% of the Company's operating income after deducting charge for bad and doubtful debts was contributed from credit card operation, as compared to 77.2% in 2001/02.

The operating income for credit card operation increased by 13.3% from HK\$623.2 million in 2001/02 to HK\$706.2 million in 2002/03. However, with the significant increase in charge for bad and doubtful debts by 56.7% to HK\$318.4 million, the operating income after deducting charge for bad and doubtful debts for credit card operation was dropped by 7.7% from HK\$420.0 million in 2001/02 to HK\$387.8 million in 2002/03.

There was a drop in net interest income and other operating income for hire purchase operation due to the keen competition in the market. With the increase in the charge for bad and doubtful debts, the operating income after deducting charge for bad and doubtful debts for hire purchase operation was decreased from HK\$22.7 million in 2001/02 to HK\$4.6 million in 2002/03.

The operating income for instalment loan operation recorded a slight increase of 1.4% from HK\$65.6 million in 2001/02 to HK\$66.5 million in 2002/03. However, this operation recorded an operating loss of HK\$6.1 million after deducting charge for bad and doubtful debts, due to the significant increase in charge for bad and doubtful debts.

Management Discussion and Analysis

COMPETITIVE ADVANTAGES

Synergy

The launching of various well-accepted credit cards and personal loan products in the market had resulted in a continuous though a moderate growth in the number of cardholders and personal loan customers.

Know-how and Expertise

AEON Credit Japan has extensive know-how and expertise in the consumer finance industry and has assisted the Company in tackling the changing market environment by imparting innovative ideas on marketing and recruitment programs.

Targeted Customer Base

The targeted customer base of the Company is widely diversified. The new cardholders recruited in this financial year were mainly through the newly launched affinity cards, including the AEON Jusco Visa Card and the AEON Watami Visa Card. Around 80% of the customer database is in the age range of 21 to 40 years old and 50% of them are female cardholders.

Convenient Service

In providing consumer credit services to customers, the Company emphasizes on convenience. With the Company's extensive cash dispensing machine network supported by its branch network and call centres in Hong Kong and Shenzhen, customers can enjoy cash advance and personal loan services at a speedy and convenient way. As for credit purchase, the combined merchant network of MasterCard, Visa and American Express continues to provide convenience and wide-ranging choice to our cardholders.

GROWTH PHILOSOPHY

The four key elements of the Company's growth philosophy are (1) ongoing product and service innovation; (2) total consumer credit services; (3) operational cost effectiveness; and (4) a strong network of affiliated merchants. Consumers in Hong Kong have widely accepted and appreciated the innovative consumer credit finance services provided at low costs by the Company.

Senior Management Profile

DIRECTORS

Mr. Yoshiki MORI, aged 52, is the Chairman of the Company. He joined the **AEON** Group in 1973. He is a director of **AEON Co., Ltd.** and also the President and one of the founders of **AEON Credit Service Co., Ltd.** Mr. Mori graduated from Nanzan University, Japan with a Bachelor's Degree in Economics.

Mr. Masanori KOSAKA, aged 46, is the Managing Director of the Company. He joined **AEON Credit Service Co., Ltd.** in 1981. He was formerly with the Company from March 1993 to June 1996 and rejoined the Company in April 2002. Mr. Kosaka graduated from Kyoto Sangyo University, Japan with a Bachelor's Degree in Law.

Mr. LAI Yuk Kwong, aged 40, is an Executive Director of the Company. He joined the Company in July 1996. Mr. Lai holds a Professional Diploma in Accountancy from the Hong Kong Polytechnic University. He is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.

Ms. KOH Yik Kung, aged 47, is an Executive Director of the Company and also the Company Secretary. She was formerly with the Company from August 1992 to June 1994 and rejoined the Company in November 1998. Ms. Koh is a barrister.

Mr. Kazuhide KAMITANI, aged 46, is a Non Executive Director of the Company. He was the Managing Director of the Company from June 1990 to June 2002 and is now a Managing Director of **AEON Credit Service Co., Ltd.** He joined **AEON Credit Service Co., Ltd.** in February 1982. Mr. Kamitani graduated from Ritsumeikan University, Japan with a Bachelor of Arts Degree in Management.

Mr. Yoichi KIMURA, aged 58, is a Non Executive Director of the Company. He is also a Director of **AEON Co., Ltd.** Prior to joining the **AEON** Group in 1998, he held various senior positions in a major bank in Japan. Mr. Kimura graduated from Hitotsubashi University, Japan with a Bachelor's Degree in Economics.

INDEPENDENT NON EXECUTIVE DIRECTORS

Dr. SHAO You Bao, aged 82, graduated from Kobe University with a Bachelor's Degree in Economics and received an Honorary Doctorate of Law from Ohio University. He was appointed Director of the Company in June 1995. Dr. Shao is a Director of Jusco Stores (Hong Kong) Co., Limited and the Chairman of Van Yu Trading Co. Ltd., Van Yu Holding Co. Ltd., and Van Fung Co. Ltd. He is also a Hong Kong Affairs Advisor to the People's Republic of China and was a member of the Preparatory Committee for the Hong Kong Special Administrative Region ("HKSAR"). Dr. Shao was awarded the Silver Bauhinia Star (SBS) Medal in October 1998. It is a fitting recognition of his distinguished public service in Hong Kong and of his valuable contribution to the preparatory work for the establishment of the HKSAR.

Mr. TSANG Wing Hong, aged 76, is a member of the Board of Trustees of United College, the Chinese University of Hong Kong. Mr. Tsang was appointed Director of the Company in June 1995.

Senior Management Profile

SENIOR MANAGEMENT

Mr. Ivan S. C. WONG, aged 42, is the General Manager of the Internal Operation Division. He joined the Company in May 1996. Mr. Wong holds a Diploma in Management Studies from the Hong Kong Polytechnic University. Prior to joining the Company, he worked for a major bank in Hong Kong for ten years.

Mr. Ban S. P. PAN, aged 35, is the General Manager of the Marketing Division. He was formerly with the Company from April 1993 to September 1996 and rejoined the Company in April 1998. Mr. Pan holds a Bachelor's Degree in Computer Science and a Management Certificate in Management Information System both from the University of Lethbridge, Canada and a Master's Degree in Business Administration from South Eastern University, Washington D.C., U.S.A.

Mr. Tomoyuki KAWAHARA, aged 42, is the General Manager of the Branch Business Department. He joined the Company in September 2000. Mr. Kawahara holds a Bachelor of Arts Degree in Business Administration from Hokkaido University, Japan.

Mr. Jamie S. S. LEI, aged 44, is the General Manager of the Business Development Department. He joined the Company in April 1998. Mr. Lei holds a Bachelor in Arts Major Degree in Economics from St. Francis Xavier University, Canada. Prior to joining the Company, he worked for a major U.S. bank.

Mr. Barry K. S. FUNG, aged 40, is the General Manager of the Marketing and Financial Control Department. He joined the Company in May 2002. Mr. Fung holds a Bachelor's Degree in Business Administration from the Yokohama National University in Japan. He is also a Chartered Financial Analyst. Prior to joining the Company, he worked for a number of major international banks in Hong Kong, Singapore and Japan.

Mr. Yukio MATSUMOTO, aged 41, is the General Manager of the Information System Division. He was formerly with the Company from October 1996 to March 2001 and rejoined the Company in January 2003. Mr. Matsumoto holds a Bachelor's Degree in Economics from Dokkyo University, Japan.

Ms. Dorothy F. K. CHAN, aged 34, is the Financial Controller of the Company. She joined the Company in April 1995 and holds a Professional Diploma in Accountancy from the Hong Kong Polytechnic University. She is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Society of Accountants.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2003 Annual General Meeting of AEON Credit Service (Asia) Company Limited (the “Company”) will be held at Marriott Ballroom, JW Marriott Hotel Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Thursday, 19th June 2003 at 11:30 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Reports of the Directors and Auditors for the year ended 20th February 2003.
2. To declare a Final Dividend for the year ended 20th February 2003.
3. To re-elect Directors and authorise the Board of Directors to fix their remuneration.
4. To re-appoint Auditors and authorise the Board of Directors to fix their remuneration.

To consider as special business and, if thought fit, pass with or without amendments, the following resolutions as Ordinary Resolutions:

5. “**THAT:**
 - (a) subject to paragraph (c) below, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (d) below) of all the powers of the Company to allot, issue and deal with additional shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares, and to make or grant offers, agreements and options which would or might require the exercise of such powers, be and is hereby generally and unconditionally approved;
 - (b) the approval in paragraph (a) above shall be in addition to any other authorisation given to the Directors and shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which would or might require the exercise of such powers after the end of the Relevant Period;
 - (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as defined in paragraph (d) below), (ii) the exercise of the rights of subscription or conversion attaching to any warrants issued by the Company or any securities which are convertible into shares, (iii) any option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or its subsidiaries of shares or rights to acquire shares of the Company and (iv) any scrip dividend scheme or similar arrangement providing for the allotment of shares of the Company in lieu of the whole or part of a dividend on shares in accordance with the articles of association of

Notice of Annual General Meeting

the Company, shall not exceed 20 per cent of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and

- (d) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; and
- (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.

“Rights Issue” means an offer of shares open for a period fixed by the Directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

6. **“THAT:**

- (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as defined in paragraph (c) below) of all powers of the Company to repurchase shares of HK\$0.10 each in the capital of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the shares of the Company may be listed and recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and the requirements of the Listing Rules as amended from time to time, be and is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of the shares of the Company which the Company is authorised to repurchase pursuant to the approval in paragraph (a) above, shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution and the said approval shall be limited accordingly; and

Notice of Annual General Meeting

(c) for the purposes of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by law or the articles of association of the Company to be held; and
- (iii) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the Directors of the Company by this Resolution.”

7. “**THAT** conditional upon the passing of Resolutions 5 and 6 set out in the notice convening this meeting, the general mandate granted to the Directors of the Company to issue and dispose of additional shares pursuant to Resolution 5 set out in the notice convening this meeting be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution 6 set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10 per cent of the aggregate nominal amount of the issued share capital of the Company at the date of passing this Resolution.”

By Order of the Board
KOH Yik Kung
Company Secretary

Hong Kong, 25th April 2003

Notes:

- (1) A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) In order to be valid, a form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the office of the Company’s Share Registrars, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
- (3) The Register of Members of the Company will be closed from Friday, 13th June 2003 to Thursday, 19th June 2003 (both days inclusive) during which period no transfer of shares can be registered. In order to qualify for the final dividend to be approved at the annual general meeting, all share transfers, accompanied by the relevant share certificates, must be lodged for registration with the Company’s Share Registrars, Secretaries Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Thursday, 12th June 2003.
- (4) A circular containing further details regarding Resolutions 5 to 7 above will be sent to members shortly.

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 20th February 2003.

PRINCIPAL ACTIVITIES

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

QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS

Credit risk management

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

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

Market risk management

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

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

During the year, the Company maintained 90% (2002: 70%) of its bank borrowings in long term with fixed interest rate. Moreover, the Company traded in market risk related financial instruments mainly for hedging purposes. The market risk exposure from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk information is not disclosed.

Directors' Report

QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS (Cont'd)

Liquidity management

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

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

Capital management

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

TOTAL DEBT-TO-EQUITY RATIO

At 20th February 2003, total debt-to-equity ratio was 1.6 (2002: 2.1).

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 20th February 2003 are set out in the income statement on page 34 of the annual report.

An interim dividend of 5.0 HK cents (2002: 5.0 HK cents) per share amounting to HK\$20,935,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 8.0 HK cents (2002: 8.0 HK cents) per share to the shareholders on the register of members on 19th June 2003 amounting to HK\$33,502,000, and the retention of the remaining profit for the year.

MAJOR CUSTOMERS

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

ISSUED CAPITAL

Details of the issued capital of the Company are set out in note 30 to the financial statements.

Directors' Report

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately HK\$30.5 million on computer equipment, HK\$0.2 million on furniture and fixtures and HK\$1.1 million on leasehold improvements.

Details of these and other movements in the property, plant and equipment of the Company during the year are set out in note 15 to the financial statements.

DIRECTORS

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

Executive directors:

Masanori KOSAKA (<i>Managing director</i>)	(<i>appointed on 25th April 2002</i>)
LAI Yuk Kwong	
KOH Yik Kung	
Takuya MORIKAWA	(<i>appointed on 25th April 2002 and resigned on 25th April 2003</i>)

Non executive directors:

Yoshiaki MORI (<i>Chairman</i>)	
Kazuhide KAMITANI	(<i>re-designated on 20th June 2002</i>)
Kazuro ASANO	(<i>resigned on 25th April 2002</i>)
Yoichi KIMURA	

Independent non executive directors:

SHAO You Bao
TSANG Wing Hong

In accordance with Article 101 of the Company's Articles of Association, all remaining directors shall retire at the forthcoming annual general meeting and shall be eligible for re-election. Accordingly, all directors shall retire and offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Report

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

At 20th February 2003, the interests of the directors and chief executives and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(a) The Company

Directors	Number of shares held under personal interests
Yoshiki Mori	440,000
Masanori Kosaka	110,000
Kazuhide Kamitani	1,045,000
Shao You Bao	330,000
Tsang Wing Hong	220,000

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

Directors	Number of shares held under personal interests
Yoshiki Mori	12,766
Masanori Kosaka	3,484
Kazuhide Kamitani	3,832
Takuya Morikawa	3,000

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

Directors	Number of shares held under personal interests
Yoshiki Mori	3,000
Yoichi Kimura	2,000

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

Director	Number of shares held under personal interests
Shao You Bao	200,000

Directors' Report

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

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

Directors	Number of shares held under personal interests
Yoshiki Mori	300,000
Masanori Kosaka	20,000
Kazuhide Kamitani	100,000

Other than as disclosed above, none of the directors or chief executives, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in Section 29 of the SDI Ordinance, and none of the directors or chief executives, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

CONNECTED TRANSACTIONS

During the year, the Company had the following transactions:

- (i) The Company provided credit purchase facilities and hire purchase facilities to customers of Jusco HK for which the Company received commission from this fellow subsidiary in respect of certain purchases made by customers with the use of the AEON Card, the Jusco Card, the AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card (launched on 26th August 2002) and certain purchases made by customers which were financed by interest-free hire purchase facilities provided by the Company, both through the call centre of the Company and at the stores of Jusco HK.

For purchases made by customers at the stores of Jusco HK using the Jusco Card, the AEON Jusco MasterCard, the AEON Jusco American Express Card and the AEON Jusco Visa Card, the commission rate was 0.8% except that the commission rate on Jusco Thanksgiving Days and Jusco Private Sale was 0.6%. As for the AEON Card, the commission rate was 1.3%. For purchases made by customers at the stores of Jusco HK and financed by interest-free hire purchase facilities provided by the Company, the commission rates were 3%, 2.5%, 4.75%, 8.25% and 10% respectively for the 6 month, 9 month, 12 month, 18 month and 24 month interest-free hire purchase.

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

Directors' Report

CONNECTED TRANSACTIONS (Cont'd)

The total amount of commission received and receivable by the Company from Jusco HK for the year ended 20th February 2003 under these arrangements was HK\$18,252,000, representing 1.6% of the Company's net tangible assets at 20th February 2003.

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

The total amount of licence fees paid and payable by the Company to Jusco HK for the year ended 20th February 2003 was HK\$6,292,000, representing 0.6% of the Company's net tangible assets at 20th February 2003.

- (iii) Under the name licence and territory agreement (and a supplementary agreement thereto) with *AEON* Japan, the Company has exclusive right to use the *AEON* trade mark and trade name (the "Trade Mark") in relation to the business and/or goods sold or services provided by the Company within Hong Kong, Macau and Guangdong province including Shenzhen of the People's Republic of China ("the territory"). The total amount of licence fee payable by the Company to *AEON* Japan for the year ended 20th February 2003 was HK\$45,000.
- (iv) Under the territory agreement (and a supplementary agreement thereto) with *AEON* Credit Japan, *AEON* Credit Japan and its affiliates will not carry on any business which competes with the Company within the territory. No fee was payable by the Company to *AEON* Credit Japan under this agreement.
- (v) The Company had entered into a service agreement with AEON Information Service (Shenzhen) Co., Ltd. ("AEON Shenzhen"), an associate, for the provision of call centre services to the Company for which the Company paid service fees to AEON Shenzhen. The total amount of service fees paid and payable by the Company to AEON Shenzhen for the year ended 20th February 2003 amounted to HK\$8,371,000, representing 0.7% of the Company's net tangible assets at 20th February 2003.
- (vi) The Company sold 2,880,000 shares of AEON Thana Sinsap (Thailand) Public Company Limited, a company incorporated in Thailand with limited liability the shares of which are listed on the Stock Exchange of Thailand Limited, to *AEON* Credit Japan and NCS Kosan Co., Ltd, a fellow subsidiary of the Company for a total consideration of HK\$72,431,000.

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

Directors' Report

CONNECTED TRANSACTIONS (Cont'd)

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

DISCLOSURE UNDER PRACTICE NOTE 19

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

A revolving credit facility up to the sum of HK\$200 million made available to the Company with the final date of maturity falling on 20th August 2003 includes a condition that the Company will procure that there is no change in the control of the Company by **AEON** Credit Japan.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

SUBSTANTIAL SHAREHOLDERS

As at 20th February 2003, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name	Number of shares	%
AEON Credit Service Co., Ltd. (Note 1)	217,514,000	51.9
AEON Co., Ltd. (Note 2)	277,288,000	66.2

Notes:

- (1) Out of 217,514,000 shares, 213,114,000 shares were held by **AEON** Credit Japan and 4,400,000 shares were held by Nomura Securities (HK) Limited, as a nominee on behalf of **AEON** Credit Japan.
- (2) **AEON** Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 45.11% and 71.64% of the issued share capital of **AEON** Credit Japan and Jusco HK respectively, was deemed, for the purposes of the SDI Ordinance, to be interested in the 217,514,000 shares and 3,784,000 shares owned by **AEON** Credit Japan and Jusco HK respectively.

Other than disclosed above, the Company had not been notified of any other interests representing 10% or more in the Company's issued share capital as at 20th February 2003.

Directors' Report

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DONATIONS

During the year, the Company made charitable and other donations amounting to HK\$2,760,000.

RETIREMENT BENEFITS SCHEME

Details of the Company's retirement benefits scheme are set out in note 37 to the financial statements.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 20th February 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non executive directors are not appointed for specific terms. They are subject to retirement and re-election at the annual general meeting of the Company in accordance with Article 101 of the Company's Articles of Association.

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

AUDITORS

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

On behalf of the Board



Masanori KOSAKA
Managing Director

Hong Kong, 25th April 2003

Auditors' Report

德勤·關黃陳方會計師行

Certified Public Accountants
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**Deloitte
Touche
Tohmatsu**

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

We have audited the financial statements on pages 34 to 70 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

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

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

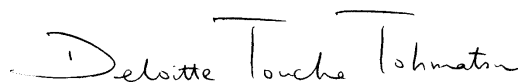
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 20th February 2003 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.



Deloitte Touche Tohmatsu
Certified Public Accountants

25th April 2003

Income Statement

For the year ended 20th February 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Turnover	3	<u>789,201</u>	<u>849,205</u>
Interest income		659,026	804,115
Interest expense	5	<u>(143,864)</u>	<u>(170,798)</u>
Net interest income		515,162	633,317
Credit card securitisation income	6	192,192	–
Other operating income	7	109,899	78,471
Other (loss) income	8	<u>(1,500)</u>	<u>67,734</u>
Operating income		815,753	779,522
Operating expenses	9	<u>(274,144)</u>	<u>(296,444)</u>
Operating profit before charge for bad and doubtful debts		541,609	483,078
Charge for bad and doubtful debts	11	<u>(403,414)</u>	<u>(235,407)</u>
Profit before taxation		138,195	247,671
Income tax	12	<u>(20,890)</u>	<u>(36,669)</u>
Net profit for the year		<u>117,305</u>	<u>211,002</u>
Earnings per share	14	<u>28.01 cents</u>	<u>50.39 cents</u>

Balance Sheet

At 20th February 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Non-current assets			
Property, plant and equipment	15	85,744	80,240
Interest in associates	16	10,711	2,246
Investment securities	17	9,782	10,224
Hire purchase debtors	19	19,802	44,166
Instalment loans receivable	20	59,259	35,002
Retained interests in securitisation trust	23	231,984	–
Pledged time deposits	35(c)	100,494	120,774
		<u>517,776</u>	<u>292,652</u>
Current assets			
Other investments	18	383	39,040
Hire purchase debtors	19	196,284	237,375
Instalment loans receivable	20	279,818	254,021
Credit card receivables	21	1,085,708	2,204,963
Retained interests in securitisation trust	23	500,630	–
Prepayments, deposits, interest receivable and other debtors		124,344	162,069
Pledged time deposits	35(d)	6,000	11,070
Time deposits		153,580	6,700
Bank balances and cash		82,429	87,453
		<u>2,429,176</u>	<u>3,002,691</u>
Current liabilities			
Creditors and accrued charges	24	33,305	46,094
Amount due to securitisation trust	23	31,136	–
Amount due to immediate holding company	26	11	63
Amount due to a fellow subsidiary	27	32,928	42,499
Amount due to ultimate holding company	28	47	46
Issued debt securities	32	326,713	–
Bank borrowings – repayable within one year	29	651,245	519,746
Taxation		861	9,007
		<u>1,076,246</u>	<u>617,455</u>
Net current assets		<u>1,352,930</u>	<u>2,385,236</u>
Total assets less current liabilities		<u>1,870,706</u>	<u>2,677,888</u>

Balance Sheet

At 20th February 2003

	Notes	2003 HK\$'000	2002 HK\$'000
Capital and reserves			
Issued capital	30	41,877	41,877
Share premium and reserves	31	1,076,828	1,013,960
		<u>1,118,705</u>	<u>1,055,837</u>
Non-current liabilities			
Bank borrowings – repayable after one year	29	750,000	1,090,000
Issued debt securities	32	–	524,054
Deferred taxation	33	2,001	7,997
		<u>752,001</u>	<u>1,622,051</u>
		<u><u>1,870,706</u></u>	<u><u>2,677,888</u></u>

The financial statements on pages 34 to 70 were approved and authorised for issue by the Board of Directors on 25th April 2003 and are signed on its behalf by:



DIRECTOR



DIRECTOR

Statement of Changes in Equity

For the year ended 20th February 2003

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Dividend reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 21st February 2001	41,877	227,330	270	33,502	596,296	899,275
Net profit for the year	-	-	-	-	211,002	211,002
Final dividend paid for 2000/01	-	-	-	(33,502)	-	(33,502)
Interim dividend paid for 2001/02	-	-	-	-	(20,938)	(20,938)
Final dividend proposed for 2001/02	-	-	-	33,502	(33,502)	-
At 21st February 2002	41,877	227,330	270	33,502	752,858	1,055,837
Net profit for the year	-	-	-	-	117,305	117,305
Final dividend paid for 2001/02	-	-	-	(33,502)	-	(33,502)
Interim dividend paid for 2002/03	-	-	-	-	(20,935)	(20,935)
Final dividend proposed for 2002/03	-	-	-	33,502	(33,502)	-
At 20th February 2003	41,877	227,330	270	33,502	815,726	1,118,705

Cash Flow Statement

For the year ended 20th February 2003

	2003 HK\$'000	2002 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	138,195	247,671
Adjustments for:		
Gain on disposal of investment securities and other investments	(33,322)	–
Net gain on disposal of property, plant and equipment	(84)	(34,005)
Net unrealised loss (gain) on revaluation of other investments	1,584	(33,729)
Interest expense	143,864	170,798
Dividends received on listed investments	(1,423)	(1,136)
Depreciation	25,931	26,082
Operating cash flows before movements in working capital	274,745	375,681
Increase in allowance for bad and doubtful debts	87,183	58,196
Decrease in amount due from an associate	140	392
Decrease in hire purchase debtors	59,176	36,322
Increase in instalment loans receivable	(73,374)	(135,220)
Decrease (increase) in credit card receivables	1,061,671	(84,588)
Increase in retained interests in securitisation trust	(653,614)	–
Decrease (increase) in prepayments, deposits, interest receivable and other debtors	37,725	(51,824)
Decrease in creditors and accrued charges	(10,941)	(9,588)
Increase in amount due to securitisation trust	31,136	–
(Decrease) increase in amount due to immediate holding company	(52)	14
Decrease in amount due to a fellow subsidiary	(9,571)	(883)
Increase in amount due to ultimate holding company	1	–
Cash generated from operations	804,225	188,502
Tax paid	(35,032)	(35,657)
Interest paid	(138,459)	(170,593)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	630,734	(17,748)
INVESTING ACTIVITIES		
Net proceeds from disposal of investment securities and other investments	71,825	–
Dividends received	1,423	1,136
Proceeds from disposal of property, plant and equipment	403	25,000
Decrease in pledged time deposits	25,350	–
Cash reserves retained in securitisation trust	(79,000)	–
Purchase of property, plant and equipment	(31,754)	(53,146)
Investment in an associate	(9,593)	–
NET CASH USED IN INVESTING ACTIVITIES	(21,346)	(27,010)

Cash Flow Statement

For the year ended 20th February 2003

	2003 HK\$'000	2002 HK\$'000
FINANCING ACTIVITIES		
Dividends paid	(54,434)	(54,439)
New bank loans raised	310,000	627,800
Repayment of bank loans	(517,800)	(635,000)
Repayment of issued debt securities	(204,597)	–
NET CASH USED IN FINANCING ACTIVITIES	(466,831)	(61,639)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	142,557	(106,397)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	92,207	198,604
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	234,764	92,207
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and cash equivalents as previously reported	–	(230,593)
Effect of reclassification of short term bank loans	–	322,800
	–	92,207
Being:		
Time deposits	153,580	6,700
Bank balances and cash	82,429	87,453
Bank overdrafts	(1,245)	(1,946)
	234,764	92,207

Notes to the Financial Statements

For the year ended 20th February 2003

1. GENERAL

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

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

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants. The adoption of these SSAPs has resulted in the introduction of the statement of changes in equity and a change in the format of presentation of the cash flow statement, but has had no impact on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

Presentation of Financial Statements

SSAP 1 (Revised) has introduced the format of presentation of the statement of changes in equity.

Cash Flow Statements

In the current year, the Company has adopted SSAP 15 (Revised) "Cash Flow Statements". Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest and dividends paid, which were previously presented under separate headings, are classified as operating and financing cash flows respectively, while dividends received are classified as investing cash flows. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. In addition, the amounts presented for cash and cash equivalents have been amended to exclude short term loans that are financing in nature. The re-definition of cash and cash equivalents has resulted in a restatement of the comparative amounts shown in the cash flow statement.

Notes to the Financial Statements

For the year ended 20th February 2003

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Cont'd)

Employee Benefits

In the current year, the Company has adopted SSAP 34 "Employee Benefits", which introduces measurement rules for employee benefits, including retirement benefit plans. Because the Company participates only in defined contribution retirement benefit schemes, the adoption of SSAP 34 has not had any material impact on the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

Turnover

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

	2003 HK\$'000	2002 HK\$'000
Interest income	659,026	804,115
Fees and commissions	37,786	45,090
Investment income from the seller and subordinated interests in securitisation trust	92,389	–
	<u>789,201</u>	<u>849,205</u>

Notes to the Financial Statements

For the year ended 20th February 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Revenue recognition

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

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

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

Commission income is recognised in the income statement when earned.

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

Property, plant and equipment

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

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

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

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

Interest in associates

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

Notes to the Financial Statements

For the year ended 20th February 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in securities

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

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

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

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

Impairment

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

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

Hire purchase contracts

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

Notes to the Financial Statements

For the year ended 20th February 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Allowance for bad and doubtful debts

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

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

Issued debt securities

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

Operating leases

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

Foreign currencies

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

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Notes to the Financial Statements

For the year ended 20th February 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Asset securitisations

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

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

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

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

Derivative financial instruments

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

Retirement benefit costs

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

Notes to the Financial Statements

For the year ended 20th February 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

2003

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Other operation HK\$'000	Combined HK\$'000
INCOME STATEMENT					
TURNOVER	<u>669,736</u>	<u>26,995</u>	<u>83,487</u>	<u>8,983</u>	<u>789,201</u>
RESULT					
Net interest income	461,496	(4,161)	64,987	(7,160)	515,162
Credit card securitisation income	192,192	–	–	–	192,192
Other operating income	52,550	21,091	1,512	34,746	109,899
Other loss	–	–	–	(1,500)	(1,500)
Charge for bad and doubtful debts	<u>(318,418)</u>	<u>(12,364)</u>	<u>(72,632)</u>	–	<u>(403,414)</u>
Segment results	<u>387,820</u>	<u>4,566</u>	<u>(6,133)</u>	<u>26,086</u>	412,339
Unallocated operating expenses					<u>(274,144)</u>
Profit before taxation					<u>138,195</u>
BALANCE SHEET					
ASSETS					
Total assets	<u>1,988,875</u>	<u>216,672</u>	<u>351,324</u>	<u>390,081</u>	<u>2,946,952</u>
LIABILITIES					
Total liabilities	<u>1,240,029</u>	<u>164,694</u>	<u>211,064</u>	<u>212,460</u>	<u>1,828,247</u>

Notes to the Financial Statements

For the year ended 20th February 2003

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

2002

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Other operation HK\$'000	Combined HK\$'000
INCOME STATEMENT					
TURNOVER	<u>722,892</u>	<u>39,073</u>	<u>77,742</u>	<u>9,498</u>	<u>849,205</u>
RESULT					
Net interest income	574,983	2,078	61,777	(5,521)	633,317
Other operating income	48,220	25,314	3,801	1,136	78,471
Other income	–	–	–	67,734	67,734
Charge for bad and doubtful debts	<u>(203,160)</u>	<u>(4,739)</u>	<u>(27,508)</u>	<u>–</u>	<u>(235,407)</u>
Segment results	<u>420,043</u>	<u>22,653</u>	<u>38,070</u>	<u>63,349</u>	<u>544,115</u>
Unallocated operating expenses					<u>(296,444)</u>
Profit before taxation					<u>247,671</u>
BALANCE SHEET					
ASSETS					
Total assets	<u>2,428,976</u>	<u>282,573</u>	<u>297,875</u>	<u>285,919</u>	<u>3,295,343</u>
LIABILITIES					
Total liabilities	<u>1,612,636</u>	<u>233,023</u>	<u>179,761</u>	<u>214,086</u>	<u>2,239,506</u>

(b) Geographical segments

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

Notes to the Financial Statements

For the year ended 20th February 2003

5. INTEREST EXPENSE

	2003 HK\$'000	2002 HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	120,187	137,700
Finance costs on issue of debt securities wholly repayable within five years	23,677	33,098
	<u>143,864</u>	<u>170,798</u>

Included in the interest expense on issue of debt securities wholly repayable within five years are amortisation of costs in connection with issue of debt securities of HK\$7,256,000 (2002: HK\$6,177,000).

6. CREDIT CARD SECURITISATION INCOME

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

7. OTHER OPERATING INCOME

	2003 HK\$'000	2002 HK\$'000
Fees and commissions		
Credit card	17,183	20,017
Hire purchase	20,603	25,073
Handling, late and storage charges	24,708	23,744
Gain on disposal of investment securities and other investments	33,322	–
Servicer fee on credit card securitisation	8,196	–
Dividends received on listed investments	1,423	1,136
Others	4,464	8,501
	<u>109,899</u>	<u>78,471</u>

Notes to the Financial Statements

For the year ended 20th February 2003

8. OTHER (LOSS) INCOME

	2003 HK\$'000	2002 HK\$'000
Net gain on disposal of property, plant and equipment	84	34,005
Net unrealised (loss) gain on revaluation of other investments	(1,584)	33,729
	<u>(1,500)</u>	<u>67,734</u>

9. OPERATING EXPENSES

	2003 HK\$'000	2002 HK\$'000
Administrative expenses	60,842	64,338
Advertising expenses	17,301	22,628
Auditors' remuneration	1,364	1,350
Depreciation	25,931	26,082
Exchange loss	43	100
Operating lease rentals in respect of rented premises, advertising space and equipment	67,129	58,802
Other operating expenses	27,723	33,810
Staff costs	73,811	89,334
	<u>274,144</u>	<u>296,444</u>

Operating lease rentals in respect of directors' accommodation and staff quarters of Nil (2002: HK\$715,000) and HK\$1,424,000 (2002: HK\$1,545,000) are included under directors' other emoluments which are disclosed in note 10 and staff costs respectively.

Notes to the Financial Statements

For the year ended 20th February 2003

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
Directors' fees:		
Non-executive		
– Current year	150	500
– Waived for prior year	(262)	–
Independent non-executive	<u>420</u>	<u>410</u>
	308	910
Other emoluments to executive directors:		
Salaries, housing benefits, other allowances and benefits	2,647	5,083
Discretionary bonus	440	700
Mandatory provident fund contributions	<u>24</u>	<u>20</u>
	<u>3,419</u>	<u>6,713</u>

The emoluments of the directors were within the following bands:

	2003 No. of directors	2002
Nil to HK\$1,000,000	8	7
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	<u>–</u>	<u>1</u>
	<u>10</u>	<u>10</u>

Notes to the Financial Statements

For the year ended 20th February 2003

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

During the year, the five highest paid individuals included two directors (2002: four directors), details of whose emoluments are set out in above. The emoluments paid to the remaining three individuals (2002: one individual) were as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries and other benefits	2,232	786
Discretionary bonus	—	15
	<u>2,232</u>	<u>801</u>

The emoluments of the remaining three individuals (2002: one individual) were within the following bands:

	2003 No. of employees	2002
Nil to HK\$1,000,000	<u>3</u>	<u>1</u>

11. CHARGE FOR BAD AND DOUBTFUL DEBTS

	2003 HK\$'000	2002 HK\$'000
Specific allowances made	360,673	222,614
Increase in general allowances	42,741	12,793
	<u>403,414</u>	<u>235,407</u>

Notes to the Financial Statements

For the year ended 20th February 2003

12. INCOME TAX

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% (2002: 16%) of the estimated assessable profit	26,886	32,272
Deferred taxation	<u>(5,996)</u>	<u>4,397</u>
	<u>20,890</u>	<u>36,669</u>

Details of the deferred tax charge provided and not provided for during the year are set out in note 33.

13. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim paid:		
5.0 HK cents (2002: 5.0 HK cents) per share	20,935	20,938
Final proposed:		
8.0 HK cents (2002: 8.0 HK cents) per share	<u>33,502</u>	<u>33,502</u>
	<u>54,437</u>	<u>54,440</u>

The final dividend of 8.0 HK cents (2002: 8.0 HK cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

14. EARNINGS PER SHARE

The calculation of earnings per share is based on the net profit for the year of HK\$117,305,000 (2002: HK\$211,002,000) and on the number of 418,766,000 (2002: 418,766,000) shares in issue during the year.

Notes to the Financial Statements

For the year ended 20th February 2003

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST					
At 21st February 2002	23,075	14,337	129,891	1,155	168,458
Additions	1,084	196	30,474	–	31,754
Disposals	(5,834)	(702)	(7,124)	(928)	(14,588)
At 20th February 2003	18,325	13,831	153,241	227	185,624
DEPRECIATION					
At 21st February 2002	19,435	6,288	61,710	785	88,218
Provided for the year	2,328	2,269	21,254	80	25,931
Eliminated on disposals	(5,765)	(701)	(7,110)	(693)	(14,269)
At 20th February 2003	15,998	7,856	75,854	172	99,880
NET BOOK VALUES					
At 20th February 2003	2,327	5,975	77,387	55	85,744
At 20th February 2002	3,640	8,049	68,181	370	80,240

16. INTEREST IN ASSOCIATES

	2003 HK\$'000	2002 HK\$'000
Unlisted shares at cost	10,592	1,987
Amount due from an associate	119	259
	10,711	2,246

During the year, interest in AEON Credit Service (Taiwan) Co., Ltd. was diluted from 20% to 8% upon the issue of new shares to the other shareholder. Accordingly, the investment cost of HK\$988,000 was reclassified to investment securities as at 20th February 2003.

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

Notes to the Financial Statements

For the year ended 20th February 2003

16. INTEREST IN ASSOCIATES (Cont'd)

Details of the Company's associates at 20th February 2003 are as follows:

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

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

	2003 HK\$'000	2002 HK\$'000
Share of loss of associates	<u>(565)</u>	<u>(27)</u>
Share of net assets	<u>9,011</u>	<u>575</u>

Share of the associate's post acquisition results:

	2003 HK\$'000	2002 HK\$'000
Accumulated loss brought forward	(1,421)	(1,394)
Share of loss for the year	<u>(565)</u>	<u>(27)</u>
Accumulated loss carried forward	<u>(1,986)</u>	<u>(1,421)</u>

Notes to the Financial Statements

For the year ended 20th February 2003

17. INVESTMENT SECURITIES

	2003 HK\$'000	2002 HK\$'000
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	6,041	6,041
Overseas	2,753	4,183
Unlisted shares	988	–
	<u>9,782</u>	<u>10,224</u>
Market value of listed shares	<u>7,898</u>	<u>41,573</u>

During the year, the Company disposed of investment securities with carrying value of HK\$1,429,000 with a gain of HK\$31,740,000.

18. OTHER INVESTMENTS

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

19. HIRE PURCHASE DEBTORS

	Minimum lease payments		Present value of minimum lease payments	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Amounts receivable under hire purchase contracts:				
Within one year	206,908	246,536	204,097	239,164
In the second to fifth year inclusive	22,141	49,895	20,931	45,040
	<u>229,049</u>	<u>296,431</u>	<u>225,028</u>	<u>284,204</u>
Unearned finance income	(4,021)	(12,227)	–	–
Present value of minimum lease payments receivable	<u>225,028</u>	<u>284,204</u>	<u>225,028</u>	<u>284,204</u>

Notes to the Financial Statements

For the year ended 20th February 2003

19. HIRE PURCHASE DEBTORS (Cont'd)

Analysed as:

	2003 HK\$'000	2002 HK\$'000
Due:		
Within one year	204,097	239,164
Thereafter	20,931	45,040
	<u>225,028</u>	<u>284,204</u>
Allowance for bad and doubtful debts	(8,942)	(2,663)
	<u>216,086</u>	<u>281,541</u>
Current portion included under current assets	(196,284)	(237,375)
	<u>19,802</u>	<u>44,166</u>

The Company enters into the hire purchase arrangements for customers. The term of hire purchase contracts ranges from 3 months to 5 years.

20. INSTALMENT LOANS RECEIVABLE

	2003 HK\$'000	2002 HK\$'000
Due:		
Within one year	310,091	265,767
In the second to fifth year inclusive	65,670	36,620
	<u>375,761</u>	<u>302,387</u>
Allowance for bad and doubtful debts	(36,684)	(13,364)
	<u>339,077</u>	<u>289,023</u>
Current portion included under current assets	(279,818)	(254,021)
	<u>59,259</u>	<u>35,002</u>

The term of instalment loans ranges from 6 months to 4 years.

Notes to the Financial Statements

For the year ended 20th February 2003

21. CREDIT CARD RECEIVABLES

	2003 HK\$'000	2002 HK\$'000
Credit card receivables	1,275,944	2,337,615
Allowance for bad and doubtful debts	(190,236)	(132,652)
	<u>1,085,708</u>	<u>2,204,963</u>

22. OVERDUE DEBTOR BALANCE

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

	2003		2002	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	176,250	9.4	116,692	4.0
Overdue 2 months but less than 3 months	34,420	1.8	32,177	1.1
Overdue 3 months or above	129,332	6.9	127,444	4.3
	<u>340,002</u>	<u>18.1</u>	<u>276,313</u>	<u>9.4</u>

* Percentage of total debtor balance

Notes to the Financial Statements

For the year ended 20th February 2003

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

	2003 HK\$'000	2002 HK\$'000
Due:		
Within one year	500,630	–
In the second to fifth year inclusive	231,984	–
	<u>732,614</u>	<u>–</u>
Analysed as:		
Seller interest	258,700	–
Subordinated interest	193,866	–
Interest-only strips	201,048	–
Cash reserve account	79,000	–
	<u>732,614</u>	<u>–</u>

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

Amount due to securitisation trust of HK\$31,136,000 (2002: Nil) on the balance sheet represents collections received by the Company from the securitised credit card receivables and related interests but payable to the securitisation trust after the balance sheet date.

Notes to the Financial Statements

For the year ended 20th February 2003

24. CREDITORS AND ACCRUED CHARGES

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

	2003 HK\$'000	2002 HK\$'000
Current	32,372	44,189
Over 1 month but less than 3 months	739	1,642
Over 3 months	194	263
	<u>33,305</u>	<u>46,094</u>

25. MATURITY PROFILE

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

Notes to the Financial Statements

For the year ended 20th February 2003

25. MATURITY PROFILE (Cont'd)

	2002				Total HK\$'000
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	4 years or less but over 1 year HK\$'000	Over 4 years HK\$'000	
ASSETS					
Credit card receivables	2,337,615	–	–	–	2,337,615
Hire purchase debtors	96,517	142,647	45,040	–	284,204
Instalment loans receivable	97,057	168,710	36,620	–	302,387
Pledged time deposits	126,844	5,000	–	–	131,844
Time deposits	6,700	–	–	–	6,700
	<u>2,664,733</u>	<u>316,357</u>	<u>81,660</u>	<u>–</u>	<u>3,062,750</u>
LIABILITIES					
Issued debt securities	–	–	524,054	–	524,054
Bank borrowings	324,746	195,000	1,090,000	–	1,609,746
	<u>324,746</u>	<u>195,000</u>	<u>1,614,054</u>	<u>–</u>	<u>2,133,800</u>

26. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

27. AMOUNT DUE TO A FELLOW SUBSIDIARY

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

28. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

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

Notes to the Financial Statements

For the year ended 20th February 2003

29. BANK BORROWINGS

	2003 HK\$'000	2002 HK\$'000
Bank overdraft, unsecured	1,245	1,946
Bank loans, unsecured	1,350,000	1,477,800
Bank loans, secured	50,000	130,000
	<u>1,401,245</u>	<u>1,609,746</u>
The maturity of bank borrowings is as follows:		
Within one year	651,245	519,746
Between one and two years	485,000	530,000
Between two to five years	265,000	560,000
	<u>1,401,245</u>	<u>1,609,746</u>
Amount repayable within one year included under current liabilities	<u>(651,245)</u>	<u>(519,746)</u>
Amount repayable after one year	<u>750,000</u>	<u>1,090,000</u>

30. ISSUED CAPITAL

	Number of shares 2003 & 2002	Share capital 2003 & 2002 HK\$'000
Ordinary shares of HK\$0.1 each		
Authorised		
At beginning and end of year	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid		
At beginning and end of year	<u>418,766,000</u>	<u>41,877</u>

Notes to the Financial Statements

For the year ended 20th February 2003

31. SHARE PREMIUM AND RESERVES

The Company's reserves available for distribution to shareholders as at 20th February 2003 amounted to HK\$849,228,000 (2002: HK\$786,360,000), representing the aggregate of the dividend reserve and the accumulated profits.

32. ISSUED DEBT SECURITIES

	2003 HK\$'000	2002 HK\$'000
Consideration received on the issue	540,000	540,000
Repayment during the year	(204,597)	—
	<u>335,403</u>	<u>540,000</u>
Unamortised portion of costs in connection with issue of debt securities	(8,690)	(15,946)
	<u>326,713</u>	<u>524,054</u>
Analysed as:		
Repayable within one year	326,713	—
Repayable after one year	—	524,054
	<u>326,713</u>	<u>524,054</u>

The Company raised financing of HK\$540 million through the issue of certificates backed by credit card receivables in Hong Kong (the "Transaction") for funding its operations. The monthly interest of the debt securities is determined at 3-month Hong Kong Interbank Offered Rate ("HIBOR") plus 0.75% per annum. On 21st August 2002, the Company exercised the option to cause the revolving period of the Transaction to terminate pursuant to the terms of the Transaction.

Notes to the Financial Statements

For the year ended 20th February 2003

33. DEFERRED TAXATION

	2003	2002
	HK\$'000	HK\$'000
At 21st February	7,997	3,600
(Credit) charge for the year	(5,996)	4,397
	<u> </u>	<u> </u>
At 20th February	2,001	7,997
	<u> </u>	<u> </u>

At the balance sheet date, the major components of the deferred tax liabilities provided and unprovided are as follows:

	Provided		Unprovided	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	–	–	11,847	10,022
General allowance for bad and doubtful debts	–	–	(8,873)	(3,123)
Unamortised cost in connection with issue of debt securities	2,001	2,600	–	–
Net unrealised gain on revaluation of other investments	–	5,397	–	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	2,001	7,997	2,974	6,899
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The deferred tax liability of the Company amounting to HK\$2,974,000 (2002: HK\$6,899,000) has not been provided in the financial statements as, in the opinion of the directors, the timing differences are not expected to crystallise in the foreseeable future, after taking into account of the Company's medium term financial plans and projections.

Notes to the Financial Statements

For the year ended 20th February 2003

33. DEFERRED TAXATION (Cont'd)

The amount of the unprovided deferred tax credit for the year is as follows:

	2003	2002
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	1,825	810
Increase in general allowance for bad and doubtful debts	(5,750)	(2,047)
	<u>(3,925)</u>	<u>(1,237)</u>

34. OPERATING LEASE COMMITMENTS

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

	2003	2002
	HK\$'000	HK\$'000
Within one year	30,676	37,972
In the second to fifth year inclusive	17,717	17,646
	<u>48,393</u>	<u>55,618</u>

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

In the prior year, the Company disposed of certain computer equipment and entered into lease agreements to lease back the equipment for a basic term of twelve months, with an option to renew the lease for two twelve-month terms, at a fixed monthly rental throughout the lease period. The Company has been granted an option to purchase the equipment at the end of each twelve-month term at an amount equal to the higher of the market price or the fixed purchase price as stipulated in the lease agreements. During the year, the Company exercised the option to renew the lease for a twelve-month term and at the balance sheet date, the Company had commitments for minimum future lease payments in respect of the above leasing arrangements falling due within one year of HK\$11,151,000 (2002: HK\$11,151,000). Lease payments under the renewal option for two twelve-month terms which fall due within one year and in the second to fifth year inclusive are HK\$1,161,000 (2002: HK\$1,161,000) and HK\$11,151,000 (2002: HK\$23,463,000) respectively.

Notes to the Financial Statements

For the year ended 20th February 2003

35. PLEDGE OF ASSETS

- (a) At 20th February 2003, the Company's issued debt securities were secured by credit card receivables of HK\$550,167,000 (2002: HK\$663,813,000).
- (b) At 20th February 2003, the Company's bank facilities of HK\$200,000,000 (2002: HK\$200,000,000) were secured by hire purchase debtors of HK\$102,854,000 (2002: HK\$214,014,000). At 20th February 2003, HK\$50,000,000 (2002: HK\$130,000,000) out of the total was utilised by the Company.
- (c) The pledged time deposits include special deposits amounting to HK\$100,494,000 (2002: HK\$100,494,000) maintained pursuant to the terms of the securitisation agreements for the issued debt securities. In 2002, the remaining balance of HK\$20,280,000 represents a pledge to a licensor of a credit card to secure a credit card license granted to the Company.
- (d) The Company also pledged time deposits of HK\$6,000,000 (2002: HK\$11,070,000) to banks to secure the short-term general banking facilities and the sharing of ATM network.

36. FINANCIAL INSTRUMENTS

(a) Derivatives

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

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

	2003	2002
	HK\$'000	HK\$'000
Interest rate contracts:		
Swaps	440,000	480,000
Caps	570,000	570,000
Exchange rate contracts:		
Swaps	—	65,000
	<u>1,010,000</u>	<u>1,115,000</u>

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

Notes to the Financial Statements

For the year ended 20th February 2003

36. FINANCIAL INSTRUMENTS (Cont'd)

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

37. RETIREMENT BENEFITS SCHEME

The Company operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees. The assets of the MPF Scheme are held separately from those of the Company, in funds under the control of trustees. The Company contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees. The total cost charged to income of HK\$3,349,000 (2002: HK\$2,408,000) represents contributions payable to the MPF Scheme by the Company in respect of the current accounting period. As at 20th February 2003, contributions of HK\$193,000 (2002: Nil) due in respect of the reporting period had not been paid over to the MPF Scheme.

38. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY

During the year ended 20th February 2003, the Company securitised credit card receivables through the SPE that was specifically set up for this transaction. The Company's continuing involvement in this transaction was primarily limited to the retention of various security interests and servicing rights. Proceeds received at the time of securitisation were HK\$600 million. Related pre-tax gains, including unrealised gains on retained interests (interest only strips and cash reserve accounts), recognised at the time of securitisation and subsequent sales of credit card receivables were HK\$175 million.

At 20th February 2003, the Company retained HK\$733 million in the securitisation trust.

Although the Company has retained significant exposures to returns from the securitised assets, the SPE is not construed as the Company's subsidiary under Section 2(4) of the Hong Kong Companies Ordinance. Accordingly, the SPE has not been consolidated into the Company's financial statements for the year ended 20th February 2003 in accordance with the provisions of paragraph 27 of SSAP 32 "Consolidated Financial Statements And Accounting For Investments In Subsidiaries".

Notes to the Financial Statements

For the year ended 20th February 2003

38. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (Cont'd)

In accordance with paragraph 46 of SSAP 32, the Company has set out below the details of the effect on the consolidated financial statements of the Company and the SPE for the year ended 20th February 2003 had the exemption given in paragraph 27 of SSAP 32 not applied:

Proforma consolidated income statement:

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

Notes to the Financial Statements

For the year ended 20th February 2003

38. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (Cont'd)

Proforma consolidated balance sheet:

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

Notes to the Financial Statements

For the year ended 20th February 2003

38. EFFECTS ON CONSOLIDATED FINANCIAL STATEMENTS OF SPECIAL PURPOSE ENTITY (Cont'd)

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

39. RELATED PARTY TRANSACTIONS

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

		Fellow subsidiary		Immediate holding company		Ultimate holding company		Associate		AEON Jusco Education and Environment Fund Limited	
		2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Commission received	a)	<u>18,252</u>	20,392	–	–	–	–	–	–	–	–
Licence fees received	b)	–	–	<u>203</u>	–	–	–	–	–	–	–
Licence fees paid	b)	<u>6,292</u>	6,723	–	–	<u>45</u>	45	–	–	–	–
Service fees paid	c)	–	–	–	–	–	–	<u>8,371</u>	6,098	–	–
Donation	d)	–	–	–	–	–	–	–	–	<u>2,477</u>	<u>2,422</u>

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



Notes to the Financial Statements

For the year ended 20th February 2003

39. RELATED PARTY TRANSACTIONS (Cont'd)

- (b) In addition, the Company sold 2,880,000 shares of AEON Thana Sinsap (Thailand) Public Company Limited, a company incorporated in Thailand with limited liability the shares of which are listed on the Stock Exchange of Thailand Limited, to the immediate holding company and a fellow subsidiary of the Company for a total consideration of HK\$72,431,000.

40. CAPITAL COMMITMENTS

	2003	2002
	HK\$'000	HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	<u>1,963</u>	<u>18,981</u>