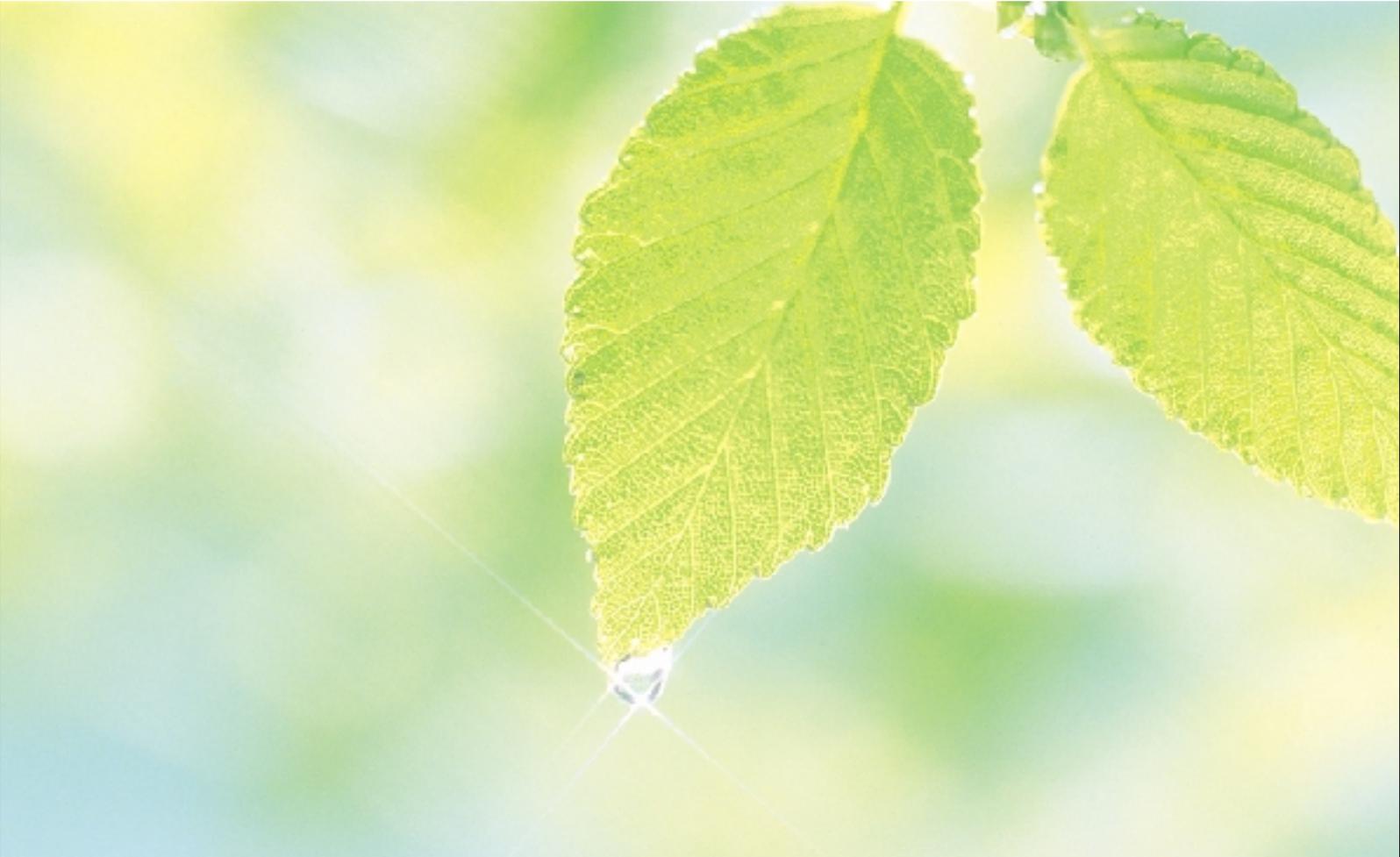




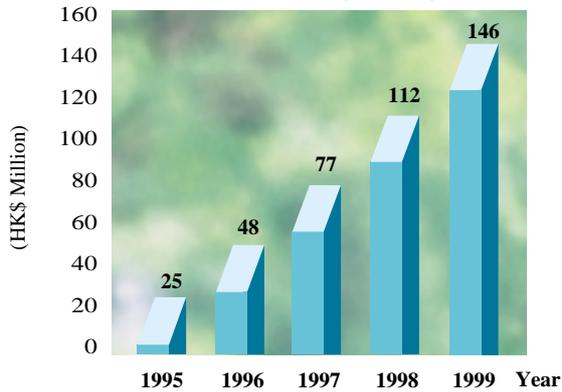
AEON CREDIT SERVICE (ASIA) COMPANY LIMITED



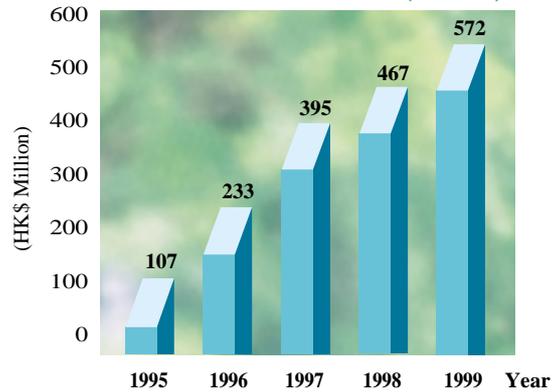
Annual Report

98/99

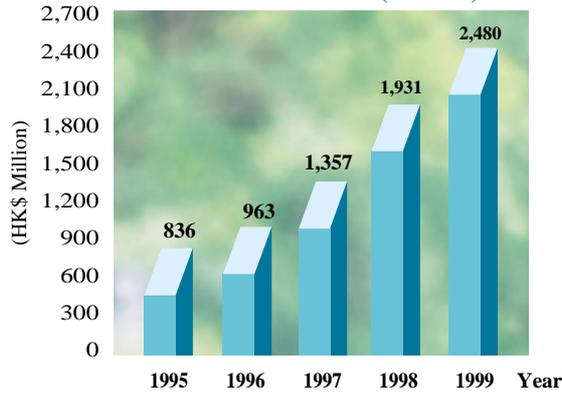
Net Profit (note 1)



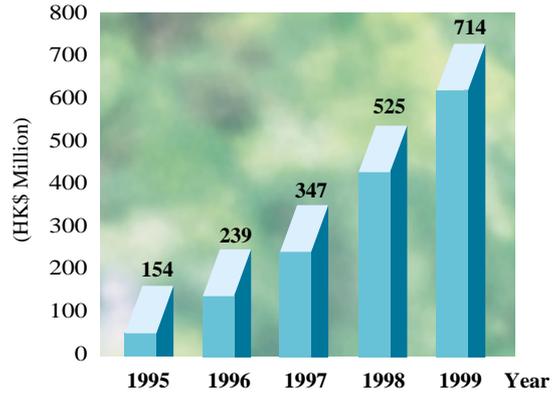
Shareholders' Funds (note 2)



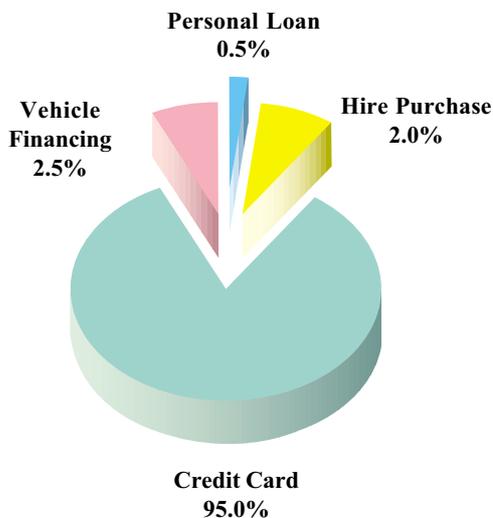
Debtor Balance (note 3)



Turnover (note 4)



Turnover (note 5)



Notes:

1. Represents the net profit for the financial years ended 20th February 1995, 1996, 1997, 1998 and 1999.
2. Represents the shareholders' funds as at 20th February 1995, 1996, 1997, 1998 and 1999.
3. Represents the total remaining outstanding balances of loan receivables from customers as at 20th February 1995, 1996, 1997, 1998 and 1999.
4. Represents the finance charges from hire purchase contracts, interest earned on loans and credit card advances and fee and commission income for the financial years ended 20th February 1995, 1996, 1997, 1998 and 1999.
5. Represents the respective percentage of finance charges from hire purchase contracts, interest earned on loans and credit card advances and fee and commission income by principal activities for the financial year ended 20th February 1999.

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Corporate Information

Board of Directors

Executive Directors

Kazuhide KAMITANI (*Managing Director*)
Yasuhiko KONDO

Non-Executive Directors

Yutaka SUGIHASHI (*Chairman*)
Yoshiki MORI
Eiji AKIYAMA

Independent Non-Executive Directors

SHAO You Bao
TSANG Wing Hong

Company Secretary

KOH Yik Kung

Auditors

Deloitte Touche Tohmatsu
Certified Public Accountants

Bankers

The Dai-Ichi Kangyo Bank, Ltd.
Hong Kong Branch
The Bank of Tokyo-Mitsubishi, Ltd.
Hong Kong Branch
The Sanwa Bank Limited
Hong Kong Branch

Share Registrars

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
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



Yutaka SUGHASHI



Kazuhide KAMITANI



Yasuhiko KONDO



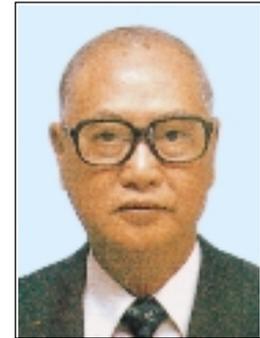
Yoshiki MORI



Eiji AKIYAMA



SHAO You Bao



TSANG Wing Hong

Chairman's Statement



Yutaka SUGIHASHI
Chairman

AEON Credit Service (Asia) Company Limited (the “Company”) reported another year of prominent growth in business and profitability despite a significant downturn in the economy in 1998. The Company achieved a growth in the net profit of 30.6% over that in the year ended 20th February 1998. On behalf of the Company, I would like to express our sincere appreciation to our loyal customers and shareholders for their confidence in and support to the Company.

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 mission to provide convenient and affluent lifestyles to the customers, **AEON** Credit Japan recognised the importance to have high-added-value financial services that truly reflect consumer needs. The support, loyalty and confidence of customers have enabled **AEON** Credit Japan to achieve steady expansion. More than 1.5 million new cardholders were recruited in this financial year, resulting in a cardholder base of 8.5 million spreading over 30 different types of cards. Including associated cash dispensing machines, **AEON** Credit Japan has now built up a cash advance network with more than 100,000 cash dispensing machines (“CDs”) in Japan. This is one of the biggest cash dispensing machine network in the country.

Today, **AEON** Credit Japan is cultivating the solid credit card customer base into other areas that bear close relationship with consumer lifestyles, such as insurance agency services.

To fulfill our 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.

The Company has followed the group policy of providing high quality and convenient service to our customers while at the same time maintaining a low cost. This greatly enhances the Company to maintain its growth after the Asian Currency Crisis in October 1997.

For the year under review, the Company continued to follow the group policy. The Company expanded its CD and branch network to ensure the extension of services to the whole population in Hong Kong. On the cost side, the Company has exercised a careful management to control the operating expenses. Cost to income ratio improved despite the fast expansion of the CD and branch network and the introduction of several new promotional programs.

To support the charitable activities in the community, the Company participated in the Great Wall Reforestation Project held in Beijing in July 1998 to arouse public awareness towards conservation of the global environment.

Chairman's Statement

Guided by the corporate philosophy of “serving the community through the credit business”, the Company will continue to provide a supportive response to the needs of the individual customer, and to improve its services continuously by always listening to customers. We see the dynamic development of our business as the key to our continuing evolution as a trustworthy partner in the community. The Company understands its responsibilities and the importance of providing good returns to its shareholders. With regard to social contribution, we will continue to be a good corporate citizen of Hong Kong and participate actively in the community activities and support local causes. As the Company continues to grow, I am confident that we will continue to earn the trust of the local community and achieve a fast growth in business and profits.

杉 橋 裕

Yutaka SUGIHASHI

Chairman

Hong Kong, 20th April 1999

Managing Director's Operational Review



Kazuhide KAMITANI
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 1999. Hong Kong witnessed a rapid deterioration of the economy in the past twelve months as a result of the Asian financial crisis. The volatility of the Hong Kong Inter-bank Offer Rate added a tremendous burden to the funding cost and adversely affected the interest margin of financial institutions. Despite this extremely unfavorable economic environment, the Company continued to experience a growth in earnings, with turnover and net profit increased by 36.0% and 30.6% respectively. The Company adopted a conservative bad debt provisioning approach by having full provision on debtor balance over three months as compared with four months in last year.

PERFORMANCE REVIEW

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.

Various aggressive promotion campaigns relating to our credit card business were launched this year. As a result, interest income, fee and commission income earned from credit card for the year ended 20th February 1999 rose to HK\$677.5 million, an increase of 41.0% over last financial year. Despite a keen competition, the Company has successfully built up its market niche as a second card in the market providing credit purchase and convenient cash advance services to our cardholders.

Total credit card receivables reached HK\$2,202.6 million as at 20th February 1999, an increase of 35.9% when compared with HK\$1,620.9 million as at 20th February 1998. Number of cardholders increased by 123,000 to reach 505,000 as at 20th February 1999. Total debtor balance increased by 28.4% to stand at HK\$2,479.6 million as at 20th February 1999.

Profit for the year was HK\$146.4 million, representing an increase of 30.6% or HK\$34.3 million from the year ended 20th February 1998. Despite the high volatility of interest rates, net interest income went up by 29.9% to reach HK\$524.8 million. Through the effective control of the operating expenses, cost to income ratio improved from 54.5% for the year ended 20th February 1998 to 51.5% for the year ended 20th February 1999.

In light of the general downturn of the economy, the Company adopted a more conservative bad debt provisioning policy by having full provision on debtor balance over three months as compared with four months in the past. Besides that, the Company maintained a general provision covering up to 1.0% of total debtor balance. The net charge arising from provision for bad and doubtful debts and from bad debts written off increased by HK\$44.5 million to HK\$113.7 million. The total

Managing Director's Operational Review

provision for bad and doubtful debts was HK\$83.1 million, representing 3.4% of total debtor balance as at 20th February 1999 and covered debtor balance overdue for more than two months.

Earnings per share increased by 31.5% to 38.45 HK cents as compared to last financial year.

BUSINESS DEVELOPMENT

Credit Cards

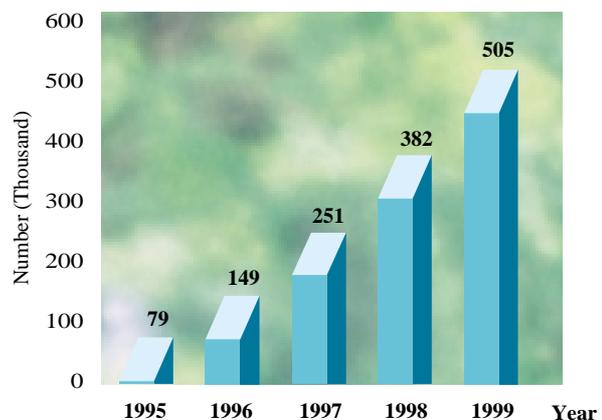
Credit card business continued to perform exceptionally well in this financial year. With an overwhelming response to the AEON Hello Kitty MasterCard and the AEON Jusco MasterCard launched this year, the number of cardholders increased by 123,000 to reach 505,000 as at 20th February 1999. Through AEON Hello Kitty MasterCard, a new customer base of female generation in the age of 20 to 40 with high spending power was developed. This new sector of customer information will be useful for the future business development of the Company.

Besides, the Company also launched four more new cards in the market, namely Rainbow Card, AEON Hong Kong Federation of Women MasterCard, AEON Macau Jockey Club MasterCard and AEON Baleno MasterCard. This not only widened our customer base but also allowed our customers to choose the card that most suited their spending behaviour.



New cards launched to suit customers' spending behaviour

Number of Cardholders



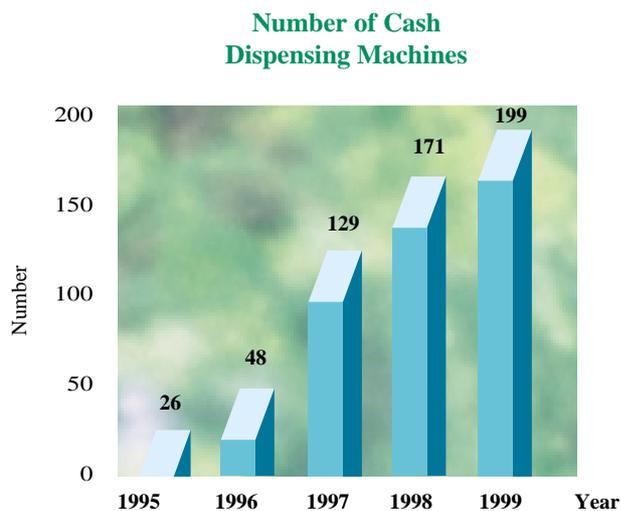
Managing Director's Operational Review

Branch and Cash Dispensing Machine Network

Capitalizing on the weak rental market and new business opportunities, the Company opened 8 new branches in the following locations: Central, Hunghom KCR, Lok Fu, Shatin, Shau Kei Wan, Sheung Shui, Tuen Mun and Whampoa, with the branch network reaching a total of 28 as at 20th February 1999. Expanding new services to meet the needs of cardholders, the Company is now offering video rental services to 70,000 cardholders at 20 branches. This has an added value to the traditional branch concept by creating a friendly environment to our customers.



Video rental service in branch



As part of its strategy to expand cash dispensing machine (“CD”) network, the Company installed 28 new CDs to reach a network of 199 as at 20th February 1999. With the well acceptance of the ferry ticketing service provided through our CD network, the Company is planning to provide other new services through the CD network to our cardholders. The network with banks in Macau and in the People’s Republic of China has provided a great convenience to our cardholders travelling outside Hong Kong.

FUTURE BUSINESS PLANS

Although the full blast of the Asian financial crisis may be over, its aftermath will still be felt for sometime to come. Hong Kong economy is expected to remain weak in 1999 and the operating environment for the Company would continue to be tough. Despite this, the Company will continue to capitalize on its niche in the credit card business and focus on selected market segments to capture a wider customer base. In view of the anticipated weak economy and higher unemployment in Hong Kong, the Company will adopt a stringent credit criteria and lending policy.

On the funding side, the Company is working towards securitizing certain credit card receivables with the aim to secure its funding base. Moreover, with the existing long-term bank loans committed, the management is able to secure its cost of funding from any possible volatile money market situation in the coming fiscal year. The Company will continue to build up banking relationships with local and international banks to diversify its funding sources.

Managing Director's Operational Review

To stay ahead of competition, the Company is committed to provide high quality service and launch innovative programme to retain the loyalty of the existing customers. At the same time, new customer base will be developed through different marketing strategy. Our principle is always "Customer Comes First". With the establishment of an easy access and customer-oriented branch network, the Company will continue to provide add-in services to our cardholders through the branches.

Credit Card Business

Credit card business will continue to be the growth sector of the Company in the coming year. Using the existing customer portfolio, a telephone promotion centre will be set up to market different products. This add-in service will provide additional benefits to our existing cardholders. Moreover, auto-dialing system will be implemented in the Collection Division. Through developing a network in internet, E-mail addresses of customers will be collected through which monthly statements will be sent and shopping information will be provided to the users. With different promotion campaigns including the cash advance instant lucky draw, the Hello Kitty Charming Reward and the recently launched Moonlight Music Reward, we envisage a good growth potential for our cardholder portfolio. More affinity cards with international MasterCard function will be launched to facilitate higher usage by the cardholders. We expect the cardholder base to increase to 600,000 by the end of the fiscal year 1999/2000.

To create an even more attractive card from the customer's point of view, in addition to the retail industry, where the need for credit card is great, we will pursue agreements with and expand the number of participating merchants in the travel, entertainment, dining, communication and other service industries.



Card promotion programme

Managing Director's Operational Review

Branch and Cash Dispensing Machine Network

The Company will continue to identify new locations to expand its branch network with the aim to improve branch visibility, accessibility and convenience to customers. The Company opened one more new branch in Pioneer Centre, Kowloon in April 1999 and we expect the branch network to reach a total of 33 by 20th February 2000.

Our CD network allows the cardholders to have easy access to the cash advance facilities. The management is committed to increase the number of CDs in Hong Kong to 220 by 20th February 2000. With this extensive network, we plan to provide service to other credit card companies so as to increase the return of our investment in these assets. The provision of ticketing service by our CD network is widely accepted by the cardholders and more services will be added to the CD network in the future.

Systems Development

The Company is planning ahead for further systems enhancement to meet the changing demands and expectations of customers for quality services. The set up of a telephone promotion centre and an auto-dialing system is priority in the coming year. To ensure that the computer systems can be Year 2000 compliant, all system enhancements relating to Year 2000 compliance are reviewed and monitored on a regular basis.

HUMAN RESOURCES COMMITMENT

The total number of staff as at 20th February 1999 and 20th February 1998 was 273 and 204 respectively. A series of programmes is in place to recruit personnel with suitable qualifications, to retain quality staff and to realise employees' career potential. Besides providing a competitive remuneration and other staff benefits, a discretionary bonus is also awarded to the staff based on individual performance.

The Company is positioned to face the challenges ahead with a resilient and dedicated workforce. Moreover, the Company will continue to provide an attractive and fair working environment for the staff.

CONTRIBUTION TO THE SOCIETY

We emphasize three key words, "peace", "people" and "community" in our Company's philosophy. Besides the growth in size and profits, the Company remains dedicated to civic responsibilities. During the year, contributions were made to the society through its charity cards by donating 25% of the annual fee plus a predetermined percentage of credit charges to support vital charity causes in the community. A certain portion of annual fee income from affinity cards was also reserved for charities.

Managing Director's Operational Review

In July 1998, senior executives of the Company joined the “Great Wall Reforestation Project” held in Beijing, a programme organized with the cooperation of the AEON Group Environment Foundation and the People’s Government of Beijing. As a founder of the AEON Jusco Education and Environment Fund Limited (the “Fund”), the Company donated HK\$1,755,000 to the Fund this year. The Fund has subsidized projects in Hong Kong and other parts of the People’s Republic of China in respect of promotion of environmental protection, cultural exchange and general welfare of the society.



Community support through AEON Jusco Education and Environment Fund

ACKNOWLEDGEMENT

Our concept of operation goes beyond size, growth and profits to embrace a commitment to customer satisfaction and as responsible corporate citizenship. Above all, we will continue to expand our business and improve our services based on our “Customer Comes First” philosophy as we work to lay new foundations for our future as an integrated financial enterprise in the 21st century.

On behalf of the Board, I would like to express our appreciation to the shareholders, our business partners and staff for their support, dedication and loyalty during the past year. They have contributed to a successful year for the Company. At the same time, I would like to extend our sincere thanks to our customers for their kind support to the Company.



Kazuhide Kamitani
Managing Director

Hong Kong, 20th April 1999

Management Discussion and Analysis

Despite facing a harsh economic environment, the Company recorded another year of growth in operating profits. The favourable result was attributable to the Company's continued focus on the expansion of the branch network, the successful cardholders recruiting exercise through the launching of new cards, and the adoption of prudent credit control and low cost operation policy.

KEY FINANCIAL HIGHLIGHTS

The Company achieved a profit of HK\$146.4 million for fiscal year 1998/99, representing a 30.6% increase over HK\$112.1 million for fiscal year 1997/98.

Total gross debtor balance increased by HK\$548.5 million to HK\$2,479.6 million as at 20th February 1999, representing a growth of 28.4% over the previous year.

Earnings per share increased by 31.5% from 29.25 HK cents per share for fiscal year 1997/98 to 38.45 HK cents per share for fiscal year 1998/99.

The directors recommended the payment of a final dividend of 7.0 HK cents per share. Together with the interim dividend of 3.5 HK cents per share already paid, the total dividends for the year increased to 10.5 HK cents per share from 10.0 HK cents per share in last year.

PERFORMANCE OF BUSINESS OPERATIONS

(a) Operating Income

Interest income for the year ended 20th February 1999 was HK\$680.1 million, an increase of 37.2% when compared with last year. The increase was attributable to the increase in the volume of cash advance activities for credit card business. Credit card interest income reached HK\$657.5 million, an increase of 39.8% when compared with last year. Interest expenses increased by HK\$63.5 million, or 69.2%, from HK\$91.8 million in last year to HK\$155.3 million in this year. By taking a relatively bearish view of the Hong Kong money market, the Company still maintained a high percentage of long-term bank loans with fixed interest rate as its funding base. Average interest rate for bank loans was 8.9% as compared with 7.4% in last year. The Company registered an increase in net interest income by 29.9% to reach HK\$524.8 million for this financial year. Other operating income increased by 53.9% to HK\$67.7 million, mainly attributed to the fee and commission income received and the handling charges on the credit card and hire purchase business.

Management Discussion and Analysis

(b) Operating Expenses

Operating expenses increased by 24.9%, or HK\$60.8 million, from HK\$244.3 million to HK\$305.1 million. This was attributable to the increase in advertising expenses, rental expenses and staff cost as a result of the continuous extension of cash dispensing machine (“CD”) and branch network, the issue of new cards and the launching of new promotion campaigns. The management noticed the depressing state of Hong Kong’s economy and took active measure to control operating expenses. Cost to income ratio improved from 54.5% for fiscal year 1997/98 to 51.5% for fiscal year 1998/99.

(c) Charge for Bad and Doubtful Debts

The Company’s net charge arising from provision for bad and doubtful debts and from bad debts written off was HK\$113.7 million for fiscal year 1998/99 as compared with HK\$69.2 million for fiscal year 1997/98. The specific charge for the year was HK\$101.0 million, attributable to the adoption of a more conservative provisioning policy by having full provision on all debtors over three months as compared with four months in last year. Should specific charge be made on balance overdue for more than four months, the amount of specific charge would be HK\$87.8 million. In view of the strong growth of its credit card portfolio, the Company still maintained a general provision covering up to 1% of total debtor balance. The total provision for bad and doubtful debts as at 20th February 1999 amounted to HK\$83.1 million and it represented 3.4% on the total debtor balance as at the end of the fiscal year 1998/99.

BALANCE SHEET ANALYSIS

The Company’s shareholders’ funds as at 20th February 1999 was HK\$571.9 million, representing a growth of 22.5%, or HK\$104.9 million, when compared with the balance as at 20th February 1998. The net asset value per share as at 20th February 1999 was HK\$1.50 per share.

(a) Debtor Balance

The Company continued its core business in both cash advance and credit purchase transactions through credit cards. Gross credit card receivables increased from HK\$1,620.9 million as at 20th February 1998 to HK\$2,202.6 million as at 20th February 1999. Gross debtor balance grew by 28.4% to HK\$2,479.6 million as at 20th February 1999 from HK\$1,931.1 million as at 20th February 1998.

Management Discussion and Analysis

Analysis of overdue debtor balance and provision for bad and doubtful debts as at 20th February 1999 and 20th February 1998 are as follows:-

	1999		1998	
	HK\$'000	%*	HK\$'000	%*
Over 1 month but less than 2 months	63,810	2.6	81,390	4.2
Over 2 months but less than 3 months	23,069	0.9	31,158	1.6
Over 3 months	60,367	2.4	48,389	2.5
	<u>147,246</u>	<u>5.9</u>	<u>160,937</u>	<u>8.3</u>
Total provision for bad and doubtful debts	<u>83,099</u>	<u>3.4</u>	<u>56,915</u>	<u>2.9</u>

* Percentage of total debtor balance

As at 20th February 1999, the Company had made provision for bad and doubtful debts amounted to HK\$83.1 million, sufficient to cover debtor balance overdue for more than two months.

(b) Bank Borrowings and Capital Financing

As at 20th February 1999, the Company had bank loans amounted to HK\$1,880.0 million, out of which HK\$775 million are repayable after one year. The good and long established relationship between the AEON Group and the Japanese banks has ensured sufficient funding for the continuous growth of the Company's business. To diversify its funding sources, the Company will build up banking relationships with local and international banks.

In view of the unclear economic situation ahead, in determining the dividend payments, the directors had taken into account the Company's future working capital requirements. The objective of the Company is to provide the shareholders with increasing dividend income while at the same time possessing a capital structure appropriate to support the Company's business growth. The Company's dividend payout ratio for the fiscal year 1998/99 was 27.3%.

Management Discussion and Analysis

COMPETITIVE ADVANTAGES

Synergy

The Company continued to benefit from the launching of various well-accepted credit cards to the public. Through the direct customer contact at different promotion counters set up in the various shopping centres and department stores, the number of cardholders recruited continued to grow significantly in this financial year.

Through the good and long established relationships with major Japanese banks in Hong Kong, the Company continued to enjoy favourable funding sources from the bankers to support the growth of its business in the coming one year.

Know-how and Expertise

AEON Credit Service Co., Ltd. has extensive know-how and expertise in the consumer finance industry and has assisted the Company in tackling the turbulent market situation and bringing in innovative ideas on the credit card marketing and cardholder recruitment programmes.

Targeted Customer Base

The targeted customer base of the Company is widely diversified. With the launch of AEON Hello Kitty MasterCard, the Company has built up a customer base of female generation in the age group of 20 to 40 with high spending power and strong repayment abilities. The percentage of female cardholders is expected to increase in view of the successful marketing strategy. Cardholders of affinity cards mainly comprise housewives and the white-collar who maintain a high active ratio in using the cards.

With this targeted customer base, the Company is confident that the number of new cardholders, the active ratio and the credit limit will continue to increase.

Convenient Service

Provision of our service is emphasized on convenience to our customers. With our extensive CD and branch network, our cardholders can have easy access to our cash advance service. For credit purchase, the add-in of MasterCard merchant network to the existing house and affinity cards merchant network has provided additional convenience to our cardholders.

FOUR ELEMENTS OF SUCCESS

The four key elements of success continued to result in remarkable performance of the Company. They are (1) ongoing product and service innovation; (2) comprehensive consumer credit services; (3) operational cost effectiveness; and (4) a strong network of affiliated companies. Consumers in Hong Kong have widely accepted and appreciated the innovative consumer credit finance services provided at low costs by the Company.



Management Discussion and Analysis

YEAR 2000 ISSUE

The operation of the Company depends heavily on the normal processing of the computer systems, which consist of host computer applications, PC-LAN applications and a network that supports the Company's CDs, point of sale terminals, MasterCard and branch operations. The management has considered Year 2000 issue as a vital task for ensuring these elements are all Year 2000 compliant. The Company understands that with the turn of this century, if it is not Year 2000 compliant, it will not only cause serious financial loss from the incorrect computation of interest and maturity position of loans, but also ultimately cause business interruptions to the Company.

In mid 1997, the Year 2000 issue was formalized as a special project with the involvement of the senior management. Our in-house applications were developed in early 1990s and most Year 2000 compliance features were included in the initial system design. Only minor enhancements are required to fix the remaining Year 2000 issue. A compliant version is usually available for upgrade on external supplied software that is not Year 2000 compliant. Periodic reviews are being and will continue to be held to monitor the progress in accordance with the action plans. We have completed all Year 2000 compliance modifications for the core card system. Moreover, we have successfully completed the mandatory Year 2000 testing required by MasterCard International. All the interface systems are now certified to be Year 2000 compliant. For external supplied software that is not Year 2000 compliant, we expect the upgrading to be completed in June 1999. In 1999, the Company will continue its effort to confirm with external counter-parties on their status of Year 2000 compliance so that contingency measures and remedial actions can be undertaken. A contingency plan would be implemented to cover possible risk that may arise during the transition.

The project cost is estimated to be HK\$2.5 million, of which HK\$1.5 million is expenses authorized and contracted for and HK\$1.0 million is capital expenditure authorized but not yet contracted for. About 60% of total costs have already been incurred and included in the profit and loss account.

Senior Management Profile

DIRECTORS

Mr. Yutaka SUGIHASHI, aged 66, is the Chairman of the Company. He joined the **AEON** Group in 1974 and was transferred to **AEON** Credit Service Co., Ltd. as Senior Managing Director in 1982. In May 1992, he was appointed as the President of **AEON** Credit Service Co., Ltd. At present, Mr Sugihashi is the Chairman of **AEON** Credit Service Co., Ltd.

Mr. Kazuhide KAMITANI, aged 42, is the Managing Director of the Company, as well as a Director of **AEON** Credit Service Co., Ltd. He graduated from Ritsumeikan University with a Bachelor of Arts Degree in Management. Mr. Kamitani joined **AEON** Credit Service Co., Ltd. in February 1982. He has been the Company's Managing Director since its commencement in June 1990.

Mr. Yasuhiko KONDO, aged 38, is an Executive Director of the Company. He has been working for the Company since March 1992 and was appointed Director of the Company in June 1996. Mr. Kondo holds a Bachelor Degree from Chukyo University.

Mr. Yoshiki MORI, aged 48, is a Non-Executive Director of the Company. He is the President and one of the founders of **AEON** Credit Service Co., Ltd. in 1981. He joined the **AEON** Group in 1973 and has held various senior positions within the **AEON** Group. Mr. Mori graduated from Nanzan University, Japan with a Bachelor Degree in Economics.

Mr. Eiji AKIYAMA, aged 67, graduated from the Hitotsubashi University, Japan with a Bachelor Degree in Commerce. Prior to joining the **AEON** Group in 1989, he was a Managing Director of a major bank in Japan. He is a Non-Executive Director of the Company, Vice-Chairman of Jusco Co., Ltd., and a Director of Jusco Stores (Hong Kong) Co., Limited.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. SHAO You Bao, aged 78, graduated from Kobe University with a Bachelor 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 a member of the Preparatory Committee for the Hong Kong Special Administrative Region ("HKSAR"). Dr. Shao has been awarded the Silver Bauhinia Star (SBS) Medal 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 72, is a member of the Board of Trustees of United College, the Chinese University of Hong Kong. Mr. Tsang joined the Company in June 1995.

Senior Management Profile

SENIOR MANAGEMENT

Mr. Gerald C. L. FONG, aged 35, is the General Manager of the Credit Control Division and the Sales and Operation Division. He joined the Company in July 1988 and left the Company for a period of less than 2 years and rejoined the Company in May 1991. Mr. Fong holds a Bachelor Degree in Social Science in Economics from the Chinese University of Hong Kong, a Master Degree in Business Administration from the Chinese University of Hong Kong and a Master Degree in Science in Information Systems from the Hong Kong Polytechnic University.

Mr. Derek Y. K. LAI, aged 36, is the General Manager of the Finance and Administration Division. 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. Monica Y. K. Koh, aged 42, is the General Manager of the Legal and Company Secretarial Division 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. K. H. MAK, aged 42, is the General Manager of the Branch Control and Marketing Division. He joined the Company in September 1997. Prior to joining the Company, Mr. Mak has over 20 years' experience in the sales and marketing field.

Mr. Jackson S. Y. LI, aged 38, is the General Manager of the Collection Division. He joined the Company in March 1999. Mr. Li holds a Diploma in Management Studies from the Hong Kong Polytechnic University. Prior to joining the Company, Mr. Li has over 10 years experience in authorization, credit, collection and risk management field.

Ms. Dorothy F. K. CHAN, aged 30, is the Financial Controller of the Company. She joined the Company in April 1995. Miss Chan 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 1999 Annual General Meeting of AEON Credit Service (Asia) Company Limited (“the Company”) will be held at Marriott Ballroom, JW Marriott Hotel, Pacific Place, No. 88 Queensway, Hong Kong on Wednesday, 16th June 1999 at 11:30 a.m. for the following purposes:

1. To receive and consider the audited Financial Statements and the Directors’ Report and the Auditors’ Report of the Company for the year ended 20th February 1999.
2. To declare a Final Dividend for the year ended 20th February 1999.
3. To elect Directors and authorize the Board of Directors to fix their remuneration.
4. To re-appoint Auditors and authorize 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 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 in the capital of the Company 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 authorization given to the Directors and shall authorize 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), and (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the articles of association of the Company, shall not exceed 20% 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

Notice of Annual General Meeting

(d) for the purpose 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 recognized 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 recognized by the Securities & Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or 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 be no more than 10% 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 the 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 Ordinary Resolution 5 and Ordinary Resolution 6 as 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 Ordinary 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 Ordinary Resolution 6 set out in the notice convening this meeting, provided that such amount of shares so repurchased shall not exceed 10% of the aggregate nominal amount of the issued share capital of the Company at the date of passing the said Resolution.”

By the Order of the Board

KOH Yik Kung

Company Secretary

Hong Kong, 6th May 1999

Notes:

- (1) A member entitled to attend and vote at the meeting convened by the above notice 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 5th Floor, Wing On Centre, 111 Connaught Road Central, 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 Wednesday, 9th June 1999 to Wednesday, 16th June 1999 (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 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, not later than 4:00 p.m. on Tuesday, 8th June 1999.
- (4) An explanatory statement containing further details regarding Resolutions 5, 6 and 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 1999.

PRINCIPAL ACTIVITIES

The Company is 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 Company's interest income, fee and commission income for the year ended 20th February 1999 analysed by principal activities are as follows:

	HK\$'000
Interest income	
Credit card	657,526
Vehicle financing	18,092
Hire purchase	816
Personal loan	3,678
	<hr/>
	680,112
	<hr/>
Fee and commission	
Credit card	20,008
Hire purchase	13,531
	<hr/>
	33,539
	<hr/>
Total turnover	<u>713,651</u>

Contributions analysed by product types have not been presented as their ratios to turnover are substantially in line with the overall ratio of profit to turnover.

Over 90% of the Company's interest income, fee and commission income and profit are derived from operations carried out in Hong Kong.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 20th February 1999 are set out in the profit and loss account on page 34 of the annual report.

An interim dividend of 3.5 HK cents (1998: 3.0 HK cents) per share amounting to HK\$13,324,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 7.0 HK cents (1998: 7.0 HK cents) per share to the shareholders on the register of members on 16th June 1999 amounting to HK\$26,649,000, and the retention of the remaining profit for the year of HK\$106,417,000.

Directors' Report

MAJOR CUSTOMERS

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

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company for the last five financial years is set out on page 54 of the annual report.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 24 to the financial statements.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 25 to the financial statements.

BORROWINGS

Details of bank loans of the Company are set out in note 23 to the financial statements.

No interest was capitalised by the Company during the year.

FIXED ASSETS

During the year, the Company spent approximately HK\$13.7 million on computer equipment and HK\$6.8 million on leasehold improvements.

Details of these and other movements in fixed assets of the Company during the year are set out in note 14 to the financial statements.

Directors' Report

DIRECTORS

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

Executive directors:

Kazuhide KAMITANI (*Managing director*)
Yasuhiko KONDO

Non-executive directors:

Yutaka SUGIHASHI (*Chairman*)
Yoshiki MORI
Eiji AKIYAMA

Independent non-executive directors:

SHAO You Bao
TSANG Wing Hong

In accordance with Article 101 of the Company's Articles of Association, all directors shall retire at the forthcoming annual general meeting and shall be eligible for re-election. All non-executive and independent non-executive directors have been appointed for a term of one year subject to the requirement of the above Article to retire.

DIRECTORS' SERVICE CONTRACTS

Mr. Kazuhide Kamitani and Mr. Yasuhiko Kondo have entered into service contracts with the Company with no specific tenure; in which the contracts can be terminated by either party with not less than 90 days' notice in writing to the other.

Other than disclosed above, 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 1999, 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
Yutaka Sugihashi	500,000
Kazuhide Kamitani	950,000
Yoshiki Mori	300,000
Eiji Akiyama	300,000
Yasuhiko Kondo	130,000
Shao You Bao	300,000
Tsang Wing Hong	200,000

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

Directors	Number of shares held under personal interests
Yutaka Sugihashi	13,939
Kazuhide Kamitani	1,742
Yoshiki Mori	5,803
Eiji Akiyama	1,742
Yasuhiko Kondo	1,440

(c) Jusco Co., Ltd. – ultimate holding company of the Company

Directors	Number of shares held under personal interests
Yoshiki Mori	3,000
Eiji Akiyama	12,000

Directors' Report

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

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

Directors	Number of shares held under personal interests
Eiji Akiyama	100,000
Shao You Bao	200,000

(e) Other associated corporations

Eiji Akiyama has interests in the following companies which are all associated corporations of the Company within the meaning of Section 2(1) of the SDI Ordinance.

	Number of shares held under personal interests
Ministop Co., Ltd.	2,853
NuStep Co., Ltd.	2,000
The Talbots Inc.	2,000
Jaya Jusco Stores Bhd.	50,000
Jus-Photo Co., Ltd.	6,000
Tohoku Wellmart Co., Ltd.	2,000
Nishikyushu Wellmart Co., Ltd.	3,000
Ogiya Jusco Co., Ltd.	2,000
Hokuriku Jusco Co., Ltd.	300
Kyushu Jusco Co., Ltd.	2,000
Midori Co., Ltd.	2,000
Laura Ashley Japan Co., Ltd.	5
ÆON Forest Co., Ltd.	3
Certo Co., Ltd.	4
Taiwan Jusco Co., Ltd.	1
ÆON Kosan Co., Ltd.	1,000
Kitanihon Wellmart Co., Ltd.	2,000
Zwei Co., Ltd.	3
Reform Studio Co., Ltd.	3
ÆON Techno Service Co., Ltd.	2

Other than 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.

Directors' Report

CONNECTED TRANSACTIONS

During the year, the Company had the following transactions:

- (i) The Company provides credit facilities to the customers of Jusco Stores (Hong Kong) Co., Limited ("Jusco HK"), a fellow subsidiary, under which Jusco HK pays commission to the Company in respect of certain purchases made by customers with the use of the Jusco Card, the AEON Jusco MasterCard and the AEON Card and certain purchases which are financed by interest free hire purchase credit facilities provided by the Company. There is no formal agreement between the Company and Jusco HK except for the use of the Jusco Card and the AEON Jusco MasterCard.

To strengthen the co-operation with Jusco HK, the commission rate payable by Jusco HK to the Company in relation to the use of Jusco Card was changed from 1.3% to 1.0% on 1st March 1998 and further reduced to 0.8% on 1st November 1998. AEON Jusco MasterCard was launched on 30th October 1998 with the commission rate charged to Jusco HK of 0.8%. The Company believes that with the additional MasterCard merchant network, AEON Jusco MasterCard will increase the number of cardholders and the utilisation ratio. For AEON Card, the commission rate is 1.3% for the year ended 20th February 1999. For purchases financed by interest-free hire purchase credit facilities, commission rates for the 6 month and 9 month interest-free hire purchase are 3.0% and 2.5% respectively for the year ended 20th February 1999. The Company launched the 12 month interest-free hire purchase program on 29th May 1998 with commission rate of 2.5%, which was subsequently changed to 5.0% on 19th July 1998. The extension of interest-free hire purchase period is for marketing purpose.

The total amount of commission received by the Company for the year ended 20th February 1999 under these arrangements was HK\$10,359,000, representing 1.8% of the Company's net tangible assets for the year ended 20th February 1999.

- (ii) On 1st March 1998, the Company entered into a new licence agreement with Jusco HK for the operation of a branch inside the Jusco store located at Tsz Wan Shan Shopping Centre, with a licence area of 520 sq.ft. at a licence fee of HK\$43,000 per month. The licence period is from 1st March 1998 to 29th February 2000.

On 6th November 1998, the Company entered into a new licence agreement with Jusco HK for the operation of a branch inside the Whampoa Jusco Store, with a licence area of 1,193 sq.ft. at a licence fee of HK\$100,000 per month. The licence period is from 7th November 1998 to 6th November 2000.

Directors' Report

CONNECTED TRANSACTIONS (Cont'd)

- (ii) On the same date, the Company also renewed three other licence agreements with Jusco HK for the operation of branches inside the Jusco stores located at Tai Po Centre Shopping Arcade, Lok Fu Shopping Centre II and Kornhill Plaza (South) with a licence fee of HK\$30,000 per month, HK\$72,000 per month and HK\$92,000 per month respectively. The licence area for the Tai Po branch is 200 sq.ft. and the licence period is from 20th November 1998 to 19th November 2000. The licence area for the Lok Fu branch is 603 sq.ft. and the licence period is from 20th November 1998 to 28th April 2000. The licence area for the Kornhill branch is 455 sq.ft. and the licence period is from 20th November 1998 to 19th November 1999.

However, with the need of a bigger space to include video rental service in the Kornhill branch, on 4th February 1999, the Company, with the agreement with Jusco HK, terminated the licence agreement of the Kornhill branch and entered into a new licence agreement for a shop unit in the same location. The new licence area is 878 sq.ft. at a licence fee of HK\$132,000 per month. The licence period is from 5th February 1999 to 19th November 1999.

On 1st December 1998, the Company entered into a new licence agreement with Jusco HK for the operation of a branch inside the Jusco store located at the Tuen Mun Town Plaza, with a licence area of 418 sq.ft. at licence fee of HK\$63,000 per month. The licence period is from 1st December 1998 to 30th November 2000.

On 4th January 1999, the Company renewed one licence agreement with Jusco HK for the operation of a branch inside the Jusco store located at Tsuen Wan Plaza, with a licence area of 800 sq.ft. The new licence fee is HK\$70,000 per month and the licence period is from 3rd January 1999 to 17th January 2000.

The Company currently has an existing licence agreement with Jusco HK for the operation of a branch inside the Jusco store located at East Point City of Tseung Kwan O, with a licence area of 818 sq.ft. at a licence fee of HK\$65,000 per month. The licence period is from 11th October 1997 to 10th October 1999.

All licences above are for a fixed term only and will expire on the dates stated above. There are no option for renewal included.

The total amount of licence fees paid by the Company for the year ended 20th February 1999 was HK\$5,053,000, representing 0.9% of the Company's net tangible assets for the year ended 20th February 1999.

Directors' Report

CONNECTED TRANSACTIONS (Cont'd)

- (iii) Under a name licence and territory agreement (and a supplementary agreement thereto) with Jusco Co., Ltd. (“Jusco Japan”), the Company’s ultimate holding company, 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”) and the grant of non-exclusive right to use the Trade Mark in relation to the business and/or goods sold or services provided by the Company outside the territory. The name licence and territory agreement also provides that Jusco Japan (and its affiliates) will not carry on any business which competes with the Company within the same territory. The total amount of licence fee paid by the Company for the year ended 20th February 1999 was HK\$35,000.
- (iv) Under a territory agreement (and a supplementary agreement thereto) with AEON Credit Service Co., Ltd. (“AEON Japan”), the Company’s immediate holding company, AEON Japan (and its affiliates) will not carry on any business which competes with the Company within the same territory. No consideration has been paid by the Company under the terms of this agreement during the year.
- (v) The Company and Jusco HK established the AEON Jusco Education and Environment Fund Limited (the “Fund”), a company limited by guarantee and not having a share capital on 18th February 1998. The objective of the Fund is to promote environmental protection, cultural exchange and education in the Hong Kong Special Administrative Region and other parts of the People’s Republic of China. The amount of donation made to the Fund by the Company for the year ended 20th February 1999 was HK\$1,755,000, representing 0.3% of the Company’s net tangible assets for the year ended 20th February 1999.

The transactions mentioned in (i) to (iv) above have been reviewed by the Company’s independent non-executive directors. The independent non-executive directors confirm 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.

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

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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 20th February 1999, 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)	197,740,000	51.9
Jusco Co., Ltd. (Note 2)	252,080,000	66.2

Notes:

- (1) Out of the 197,740,000 shares, 193,740,000 shares are held by AEON Credit Service Co., Ltd. and 4,000,000 shares are held by Nomura Securities (HK) Limited.
- (2) Jusco Co., Ltd. was the direct beneficial owner of 50,900,000 shares in the capital of the Company and, by virtue of its ownership of approximately 41.50% and 70.96% of the issued share capital of AEON Credit Service Co., Ltd. and Jusco Stores (Hong Kong) Co., Limited respectively, was deemed, for the purposes of the SDI Ordinance, to be interested in the 197,740,000 and 3,440,000 shares owned by AEON Credit Service Co., Ltd. and Jusco Stores (Hong Kong) Co., Limited respectively.

Other than disclosed above, the Company has not been notified of any other interests representing 10% or more in the Company's issued share capital as at 20th February 1999.

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.

Directors' Report

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, the Company repurchased certain of its own shares on The Stock Exchange of Hong Kong Limited, all of which had been cancelled. Details of the repurchases were as set out below:

Month of repurchase	Number of ordinary shares of HK\$0.10 each	Price per ordinary share paid		Aggregate price paid HK\$'000
		Highest HK\$	Lowest HK\$	
February 1998	120,000	1.56	1.49	192
March 1998	790,000	1.56	1.54	1,229
July 1998	120,000	1.14	1.03	136

The repurchases noted above were made for the enhancement of the net assets and earnings per share of the Company. Further details are included in note 24 to the financial statements.

Other than disclosed above, there is no other 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\$2,299,000.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 20th February 1999 with those paragraphs of 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, with which it is required to report compliance. The Company established an Audit Committee comprising Messrs. Shao You Bao and Tsang Wing Hong, independent non-executive directors and Messrs. Yoshiki Mori and Eiji Akiyama, non-executive directors. In establishing the terms of reference for this committee, the directors have had regard to the "Guide for the Formation of an Audit Committee" issued by the Hong Kong Society of Accountants in December 1997.

Directors' Report

AUDITORS

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board



Kazuhide KAMITANI
Managing Director

Hong Kong, 20th April 1999

Auditors' Report

**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 53 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 1999 and of its profit and cash flows for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Deloitte Touche Tohmatsu

Deloitte Touche Tohmatsu
Certified Public Accountants

20th April 1999

Profit and Loss Account

For the year ended 20th February 1999

	<i>Notes</i>	1999 HK\$'000	1998 HK\$'000
TURNOVER	4	<u>713,651</u>	<u>524,634</u>
INTEREST INCOME		680,112	495,759
INTEREST EXPENSE	5	<u>(155,275)</u>	<u>(91,778)</u>
NET INTEREST INCOME		524,837	403,981
OTHER OPERATING INCOME	6	<u>67,737</u>	<u>44,012</u>
OPERATING INCOME		592,574	447,993
OPERATING EXPENSES	7	<u>(305,056)</u>	<u>(244,279)</u>
OPERATING PROFIT BEFORE PROVISIONS		287,518	203,714
CHARGE FOR BAD AND DOUBTFUL DEBTS	10	<u>(113,731)</u>	<u>(69,245)</u>
PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION		173,787	134,469
TAXATION	11	<u>(27,397)</u>	<u>(22,350)</u>
PROFIT FOR THE YEAR		146,390	112,119
DIVIDENDS	12	<u>(39,973)</u>	<u>(38,159)</u>
PROFIT FOR THE YEAR, RETAINED		<u>106,417</u>	<u>73,960</u>
EARNINGS PER SHARE	13	<u>38.45 cents</u>	<u>29.25 cents</u>

Balance Sheet

At 20th February 1999

	Notes	1999 HK\$'000	1998 HK\$'000
FIXED ASSETS	14	43,296	41,243
INVESTMENTS	15	6,881	3,821
HIRE PURCHASE DEBTORS	17	72,328	65,121
INSTALMENT LOANS RECEIVABLE	18	18	107
NET CURRENT ASSETS	16	<u>1,224,353</u>	<u>1,122,724</u>
		<u>1,346,876</u>	<u>1,233,016</u>
Financed by:			
SHARE CAPITAL	24	38,070	38,173
RESERVES	25	<u>533,806</u>	<u>428,843</u>
SHAREHOLDERS' FUNDS		571,876	467,016
BANK LOANS – REPAYABLE AFTER ONE YEAR	23	<u>775,000</u>	<u>766,000</u>
		<u>1,346,876</u>	<u>1,233,016</u>

The financial statements on pages 34 to 53 were approved by the Board of Directors on 20th April 1999 and are signed on its behalf by:



Director



Director

Cash Flow Statement

For the year ended 20th February 1999

	Notes	1999 HK\$'000	1998 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	27	<u>(146,123)</u>	<u>(314,144)</u>
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest received on bank deposits		4,249	1,877
Interest paid		(147,776)	(83,880)
Dividends received on listed investments		124	186
Dividends paid		<u>(39,981)</u>	<u>(32,590)</u>
NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		<u>(183,384)</u>	<u>(114,407)</u>
TAXATION			
Hong Kong Profits Tax paid		(26,131)	(20,515)
Hong Kong Profits Tax refunded		113	–
NET CASH OUTFLOW FROM TAXATION		<u>(26,018)</u>	<u>(20,515)</u>
INVESTING ACTIVITIES			
Purchase of fixed assets		(21,951)	(21,706)
Increase in time deposits		(5,042)	(379)
Purchase of investments		<u>(3,060)</u>	<u>–</u>
CASH OUTFLOW FROM INVESTING ACTIVITIES		<u>(30,053)</u>	<u>(22,085)</u>
NET CASH OUTFLOW BEFORE FINANCING		<u>(385,578)</u>	<u>(471,151)</u>
FINANCING	28		
Shares repurchased and cancelled		(1,557)	(1,555)
New bank loans		1,677,500	1,380,300
Repayment of bank loans		(1,359,500)	(615,300)
New short term loans		–	209
Repayment of short term loans		<u>–</u>	<u>(264)</u>
NET CASH INFLOW FROM FINANCING		<u>316,443</u>	<u>763,390</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		<u>(69,135)</u>	<u>292,239</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		<u>(218,167)</u>	<u>(510,406)</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		<u><u>(287,302)</u></u>	<u><u>(218,167)</u></u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Time deposits		64,499	39,638
Bank balances and cash		66,653	60,443
Bank loans		(416,000)	(314,000)
Bank overdrafts		<u>(2,454)</u>	<u>(4,248)</u>
		<u><u>(287,302)</u></u>	<u><u>(218,167)</u></u>

Notes to the Financial Statements

For the year ended 20th February 1999

1. GENERAL

The Company is a listed public limited company incorporated in Hong Kong. Its immediate holding company is AEON Credit Service Co., Ltd. and its ultimate holding company is Jusco Co., Ltd., both companies are incorporated and listed in Japan.

2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted the following Statements of Standard Accounting Practice (SSAPs) issued by the Hong Kong Society of Accountants:

SSAP 5 (<i>Revised</i>)	Earnings Per Share
SSAP 20	Related Party Disclosures

The adoption of SSAP 5 (Revised) does not have a material effect on the Company to the basis of calculation of earnings per share amounts and to the disclosures presented for earnings per share.

SSAP 20 requires the disclosure of details of transactions with specified related parties (See note 31).

3. SIGNIFICANT ACCOUNTING POLICIES

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:

Revenue recognition

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

Annual fees on credit cards are recognised in the profit and loss account on a time proportion basis.

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

Dividend income from investments is recognised in the profit and loss account when the Company's right to receive payment has been established.

Commission income is recognised in the profit and loss account when earned.

Notes to the Financial Statements

For the year ended 20th February 1999

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Fixed assets and depreciation

Fixed assets are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of the fixed asset.

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

Depreciation is provided to write off the costs of fixed assets 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 $\frac{1}{3}$ %

Investments

Investments held for long-term purpose are stated at cost less provision for any permanent diminution in value, if any.

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 profit and loss account to produce an approximate constant periodic rate of return on the net cash investment.

Provision for bad and doubtful debts

Provision for bad and doubtful debts is 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 provision for bad and doubtful debts. Loans and receivables are stated in the financial statements net of these provisions.

Notes to the Financial Statements

For the year ended 20th February 1999

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Operating leases

Rental expenses under operating leases are charged to the profit and loss account on a straight line basis over the lease terms.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling 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 ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the profit and loss account.

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 under 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.

Cash equivalents

Cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Notes to the Financial Statements

For the year ended 20th February 1999

4. TURNOVER

Turnover represents the finance charges from hire purchase contracts, interest earned on loans and credit card advances and fee and commission income and is summarised as follows:

	1999 HK\$'000	1998 HK\$'000
Interest income		
Credit card	657,526	470,284
Vehicle financing	18,092	18,928
Hire purchase	816	1,697
Personal loan	3,678	4,850
	<u>680,112</u>	<u>495,759</u>
Fee and commission		
Credit card	20,008	10,193
Hire purchase	13,531	18,682
	<u>33,539</u>	<u>28,875</u>
Total	<u><u>713,651</u></u>	<u><u>524,634</u></u>

5. INTEREST EXPENSE

	1999 HK\$'000	1998 HK\$'000
Interest on		
Bank loans and overdrafts wholly repayable within five years	155,275	91,774
Other short term loans	—	4
	<u>155,275</u>	<u>91,778</u>

Notes to the Financial Statements

For the year ended 20th February 1999

6. OTHER OPERATING INCOME

	1999 HK\$'000	1998 HK\$'000
Dividends received on listed investments	124	186
Exchange gain	–	17
Fee and commission		
Credit card	20,008	10,193
Hire purchase	13,531	18,682
Handling, late and storage charges	22,808	11,054
Interest on bank deposits	4,249	1,877
Others	7,017	2,003
	<u>67,737</u>	<u>44,012</u>

7. OPERATING EXPENSES

	1999 HK\$'000	1998 HK\$'000
Auditors' remuneration	769	698
Depreciation	19,743	14,241
Directors' emoluments (<i>note 8</i>)	4,147	3,940
Loss on disposal of fixed assets	155	–
Operating lease rentals in respect of rented premises and advertising space	52,014	41,580
Other operating expenses	158,117	130,242
Staff costs	70,111	53,578
	<u>305,056</u>	<u>244,279</u>

Operating lease rentals in respect of directors' accommodation of HK\$822,000 (1998: HK\$720,000) are included under directors' other emoluments which are disclosed in note 8.

Notes to the Financial Statements

For the year ended 20th February 1999

8. DIRECTORS' EMOLUMENTS

	1999 HK\$'000	1998 HK\$'000
Directors' fees:		
Executive	–	–
Non-executive	480	480
Independent non-executive	300	300
	<u>780</u>	<u>780</u>
Other emoluments to executive directors:		
Salaries, housing benefits, other allowances and benefits	2,837	2,660
Discretionary bonus	530	500
	<u>4,147</u>	<u>3,940</u>

Emoluments of the directors were within the following bands:

	1999 No. of directors	1998
HK\$ nil to HK\$1,000,000	5	5
HK\$1,000,001 to HK\$1,500,000	1	1
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	1	–
	<u>1</u>	<u>–</u>

9. EMPLOYEES' EMOLUMENTS

The five highest paid individuals included two directors, details of whose emoluments are set out in note 8 above. The emoluments paid to the remaining three individuals are as follows:

	1999 HK\$'000	1998 HK\$'000
Salaries, housing benefits, other allowances and benefits	3,086	2,870
Discretionary bonus	448	435
	<u>3,534</u>	<u>3,305</u>

Notes to the Financial Statements

For the year ended 20th February 1999

9. EMPLOYEES' EMOLUMENTS (Cont'd)

Emoluments of the employees were within the following bands:

	1999	1998
	No. of employees	
HK\$ nil to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	<u>2</u>	<u>2</u>

10. CHARGE FOR BAD AND DOUBTFUL DEBTS

	1999	1998
	HK\$'000	
Specific charge	101,023	49,221
General charge	<u>12,708</u>	<u>20,024</u>
	<u>113,731</u>	<u>69,245</u>

Specific charge was made on debtor balance overdue for more than three months for the year ended 20th February 1999. Should specific charge be made on balance overdue for more than four months as that for the year ended 20th February 1998, charge for bad and doubtful debts would be as follows:

	1999	1998
	HK\$'000	
Specific charge	87,751	49,221
General charge	<u>25,980</u>	<u>20,024</u>
	<u>113,731</u>	<u>69,245</u>

Notes to the Financial Statements

For the year ended 20th February 1999

11. TAXATION

Hong Kong Profits Tax is calculated at 16% (1998: 16.5%) of the estimated assessable profit for the year.

Details of the deferred tax (credit) charge not provided for during the year are set out in note 26.

12. DIVIDENDS

	1999 HK\$'000	1998 HK\$'000
Interim dividend of 3.5 HK cents (1998: 3.0 HK cents) per share	13,324	11,502
Final dividend proposed of 7.0 HK cents (1998: 7.0 HK cents) per share	<u>26,649</u>	<u>26,657</u>
	<u>39,973</u>	<u>38,159</u>

The amount of final dividend proposed has been calculated on the basis of 380,696,000 shares in issue at 20th April 1999.

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK\$146,390,000 (1998: HK\$112,119,000) and on weighted average number of 380,770,000 (1998: 383,297,000) shares in issue during the year.

Notes to the Financial Statements

For the year ended 20th February 1999

14. FIXED ASSETS

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Computer equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST					
At 21st February 1998	11,403	3,428	59,404	698	74,933
Additions	6,805	1,478	13,668	–	21,951
Disposals	(249)	(99)	(205)	–	(553)
At 20th February 1999	17,959	4,807	72,867	698	96,331
DEPRECIATION					
At 21st February 1998	5,239	1,333	26,620	498	33,690
Provided for the year	4,409	633	14,559	142	19,743
Eliminated on disposals	(136)	(64)	(198)	–	(398)
At 20th February 1999	9,512	1,902	40,981	640	53,035
NET BOOK VALUES					
At 20th February 1999	8,447	2,905	31,886	58	43,296
At 20th February 1998	6,164	2,095	32,784	200	41,243

15. INVESTMENTS

	1999 HK\$'000	1998 HK\$'000
At cost:		
Listed shares in Hong Kong	3,541	3,541
Unlisted shares	3,340	280
	6,881	3,821
Market value of listed shares	906	2,646

The directors consider that the unlisted investments are worth at least their cost.

Notes to the Financial Statements

For the year ended 20th February 1999

16. NET CURRENT ASSETS

	<i>Notes</i>	1999 HK\$'000	1998 HK\$'000
CURRENT ASSETS			
Hire purchase debtors	17	194,079	228,585
Instalment loans receivable	18	7,384	13,036
Credit card receivables	19	2,122,649	1,567,335
Prepayments, deposits and other debtors		58,413	55,033
Time deposits	20	82,781	52,878
Bank balances and cash		66,653	60,443
		<u>2,531,959</u>	<u>1,977,310</u>
CURRENT LIABILITIES			
Creditors and accrued charges		88,614	69,034
Amount due to immediate holding company	21	86	44
Amount due to a fellow subsidiary	22	72,319	49,498
Proposed dividend		26,649	26,657
Taxation		12,484	11,105
Bank loans, unsecured	23	1,105,000	694,000
Bank overdrafts, unsecured		2,454	4,248
		<u>1,307,606</u>	<u>854,586</u>
NET CURRENT ASSETS		<u><u>1,224,353</u></u>	<u><u>1,122,724</u></u>

Notes to the Financial Statements

For the year ended 20th February 1999

17. HIRE PURCHASE DEBTORS

	1999 HK\$'000	1998 HK\$'000
Due:		
Within one year	196,019	230,890
Thereafter	73,052	65,778
	<u>269,071</u>	<u>296,668</u>
Provision for bad and doubtful debts	(2,664)	(2,962)
	<u>266,407</u>	<u>293,706</u>
Current portion included under current assets	(194,079)	(228,585)
	<u>72,328</u>	<u>65,121</u>

The total costs of assets acquired for leasing to customers under hire purchase contracts during the year and the aggregate rentals receivable amounted to HK\$412,050,000 and HK\$440,494,000 (1998: HK\$450,492,000 and HK\$416,398,000) respectively.

18. INSTALMENT LOANS RECEIVABLE

	1999 HK\$'000	1998 HK\$'000
Due:		
Within one year	7,832	13,386
Thereafter	19	110
	<u>7,851</u>	<u>13,496</u>
Provision for bad and doubtful debts	(449)	(353)
	<u>7,402</u>	<u>13,143</u>
Current portion included under current assets	(7,384)	(13,036)
	<u>18</u>	<u>107</u>

Notes to the Financial Statements

For the year ended 20th February 1999

19. CREDIT CARD RECEIVABLES

	1999 HK\$'000	1998 HK\$'000
Credit card receivables	2,202,635	1,620,935
Provision for bad and doubtful debts	(79,986)	(53,600)
	<u>2,122,649</u>	<u>1,567,335</u>

20. TIME DEPOSITS

Included in time deposits are amounts of HK\$18,282,000 (1998: HK\$13,240,000) which are pledged to banks and a licensor of a credit card to secure the general banking facilities, the sharing of ATM network and a credit card licence granted to the Company.

21. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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

22. AMOUNT DUE TO A FELLOW SUBSIDIARY

The amount due to Jusco Stores (Hong Kong) Co., Limited is unsecured, non-interest bearing and is repayable on demand.

23. BANK LOANS

	1999 HK\$'000	1998 HK\$'000
The maturity of bank loans is as follows:		
Within one year	1,105,000	694,000
Between one and two years	610,000	416,000
Between two and five years	165,000	350,000
	<u>1,880,000</u>	<u>1,460,000</u>
Amount repayable within one year included under current liabilities	<u>(1,105,000)</u>	<u>(694,000)</u>
Amount repayable after one year	<u>775,000</u>	<u>766,000</u>

Notes to the Financial Statements

For the year ended 20th February 1999

24. SHARE CAPITAL

	1999 HK\$'000	1998 HK\$'000
<i>Authorised:</i>		
500,000,000 ordinary shares of HK\$0.10 each	<u>50,000</u>	<u>50,000</u>
<i>Issued and fully paid:</i>		
At the beginning of the year	38,173	38,340
Shares repurchased and cancelled	<u>(103)</u>	<u>(167)</u>
At the end of the year	<u>38,070</u>	<u>38,173</u>

During the year, a total of 1,030,000 ordinary shares of HK\$0.10 each were repurchased on The Stock Exchange of Hong Kong Limited and cancelled by the Company.

At the same time, an amount of HK\$103,000 was transferred from retained profits to the capital redemption reserve as set out in note 25.

25. RESERVES

	Share premium HK\$'000	Capital redemption reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 21st February 1998	231,138	167	197,538	428,843
Shares repurchased and cancelled	–	103	(1,557)	(1,454)
Profit for the year, retained	<u>–</u>	<u>–</u>	<u>106,417</u>	<u>106,417</u>
At 20th February 1999	<u>231,138</u>	<u>270</u>	<u>302,398</u>	<u>533,806</u>

The Company's reserves available for distribution to shareholders as at 20th February 1999 amounted to HK\$302,398,000 (1998: HK\$197,538,000).

Notes to the Financial Statements

For the year ended 20th February 1999

26. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of the deferred tax asset (liability) unprovided are as follows:

	1999 HK\$'000	1998 HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	(3,681)	(3,767)
General provision for bad and doubtful debts	5,765	4,906
	<u>2,084</u>	<u>1,139</u>
Net deferred tax asset	<u>2,084</u>	<u>1,139</u>

The net deferred tax asset has not been recognised in the financial statements on a prudent basis.

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

	1999 HK\$'000	1998 HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	(86)	389
General provision for bad and doubtful debts	(859)	(150)
Change in tax rate	-	43
	<u>(945)</u>	<u>282</u>

Notes to the Financial Statements

For the year ended 20th February 1999

27. RECONCILIATION OF PROFIT FROM ORDINARY ACTIVITIES BEFORE TAXATION TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

	1999 HK\$'000	1998 HK\$'000
Profit from ordinary activities before taxation	173,787	134,469
Interest on bank deposits	(4,249)	(1,877)
Interest expenses	155,275	91,778
Dividends received on listed investments	(124)	(186)
Depreciation	19,743	14,241
Loss on disposal of fixed assets	155	–
Increase in provision for bad and doubtful debts	26,184	27,188
Decrease (increase) in hire purchase debtors	27,597	(35,756)
Decrease in instalment loans receivable	5,645	5,043
Increase in credit card receivables	(581,700)	(543,251)
Increase in prepayments, deposits and other debtors	(3,380)	(21,729)
Increase (decrease) in creditors and accrued charges	12,081	(7,375)
Increase in amount due to immediate holding company	42	11
Increase in amount due to a fellow subsidiary	22,821	23,300
	<u> </u>	<u> </u>
Net cash outflow from operating activities	<u>(146,123)</u>	<u>(314,144)</u>

28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Bank loans HK\$'000
Balance at 21st February 1998	1,146,000
New loans raised	1,677,500
Repayment of loans	<u>(1,359,500)</u>
Balance at 20th February 1999	<u><u>1,464,000</u></u>

Notes to the Financial Statements

For the year ended 20th February 1999

29. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Company had commitments payable within the next twelve months under non-cancellable operating leases in respect of rented premises and advertising space as follows:

	1999 HK\$'000	1998 HK\$'000
Operating leases which expire:		
Within one year	7,382	17,201
In the second to fifth years inclusive	38,881	17,351
	<u>46,263</u>	<u>34,552</u>

30. FINANCIAL INSTRUMENTS

At the balance sheet date, the Company had interest rate cap agreements which were for hedging purpose for an aggregate notional principal amount of HK\$80,000,000 with a major financial institution.

31. RELATED PARTY TRANSACTIONS

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

		Fellow		Ultimate		AEON Jusco Education and Environment Fund Limited	
		subsidiary company		holding company		Fund Limited	
		1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000	1999 HK\$'000	1998 HK\$'000
Commission received	a)	<u>10,359</u>	<u>6,263</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Licence fee paid	b)	<u>5,053</u>	<u>3,381</u>	<u>35</u>	<u>35</u>	<u>–</u>	<u>–</u>
Donation	c)	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>1,755</u>	<u>1,000</u>

Notes to the Financial Statements

For the year ended 20th February 1999

31. RELATED PARTY TRANSACTIONS (Cont'd)

- a) Commission received was in respect of certain credit purchases made by customers at the stores of the fellow subsidiary company and certain purchases which are financed by interest free hire purchase credit facilities provided by the Company.
- b) Licence fee paid to fellow subsidiary company was in respect of the operation of branches inside the stores of the fellow subsidiary company.

Licence fee paid to the ultimate holding company was in respect of a name licence and territory agreement.

- c) The donation made in 1999 was calculated based on the 1% of the year end profit before taxation of the Company. The donation made in 1998 was as for the initial set up fund.

Details of these transactions are set out under “connected transactions” section in the directors’ report.

32. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year’s presentation.

Financial Summary

RESULTS

	For the year ended 20th February				
	1995 HK\$'000	1996 HK\$'000	1997 HK\$'000	1998 HK'000	1999 HK\$'000
Turnover	<u>154,312</u>	<u>238,509</u>	<u>347,101</u>	<u>524,634</u>	<u>713,651</u>
Profit from ordinary activities before taxation	31,273	57,552	92,697	134,469	173,787
Taxation	<u>(6,096)</u>	<u>(10,038)</u>	<u>(15,806)</u>	<u>(22,350)</u>	<u>(27,397)</u>
Profit for the year	<u>25,177</u>	<u>47,514</u>	<u>76,891</u>	<u>112,119</u>	<u>146,390</u>

ASSETS AND LIABILITIES

	At 20th February				
	1995 HK\$'000	1996 HK\$'000	1997 HK\$'000	1998 HK'000	1999 HK\$'000
Total assets	874,293	1,030,500	1,518,245	2,087,602	2,654,482
Total liabilities	<u>(767,395)</u>	<u>(797,857)</u>	<u>(1,123,634)</u>	<u>(1,620,586)</u>	<u>(2,082,606)</u>
Shareholders' funds	<u>106,898</u>	<u>232,643</u>	<u>394,611</u>	<u>467,016</u>	<u>571,876</u>

Notes:

1. The results for the year ended 20th February 1995 have been extracted from the Company's Prospectus dated 29th August 1995. These results differ from those shown in the audited financial statements for that year because of the adjustments made for the purpose of preparing the Accountants' Report for inclusion in the Prospectus.
2. The results for the three years ended 20th February 1998 have been extracted from the Company's audited financial statements.
3. The results for the year ended 20th February 1999 have been extracted from the audited financial statements as set out on page 34 of the annual report.
4. The assets and liabilities of the balance sheet date has been extracted from the audited financial statements, after making certain adjustments as mentioned above in respect of the year ended 20th February 1995.