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

*(Incorporated in Hong Kong with limited liability)*

**(Stock code: 900)**

**FINAL RESULTS FOR THE YEAR ENDED 20TH FEBRUARY 2011**

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 20th February 2011, together with the comparative figures as follows:

**CONSOLIDATED INCOME STATEMENT**

*For the year ended 20th February 2011*

		<b>Year ended 20th February</b>	
		<b>2011</b>	<b>2010</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	6	<b>1,112,592</b>	1,163,449
Interest income	8	<b>1,011,171</b>	1,048,905
Interest expense	9	<b>(131,772)</b>	(143,976)
Net interest income		<b>879,399</b>	904,929
Other operating income	10	<b>106,194</b>	120,022
Other gains and losses	11	<b>(556)</b>	5,405
Operating income		<b>985,037</b>	1,030,356
Operating expenses	12	<b>(381,061)</b>	(377,513)
Operating profit before impairment allowances		<b>603,976</b>	652,843
Impairment losses and impairment allowances		<b>(339,508)</b>	(410,754)
Recoveries of receivables written-off		<b>45,510</b>	75,717
Share of results of associates		<b>(6,182)</b>	(7,302)
Profit before tax		<b>303,796</b>	310,504
Income tax expense	13	<b>(51,614)</b>	(51,102)
Profit for the year		<b>252,182</b>	259,402
Attributable to:			
Owners of the Company		<b>252,182</b>	259,402
Earnings per share	15	<b>60.22 HK cents</b>	61.94 HK cents

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 20th February 2011

	Year ended 20th February	
	2011 HK\$'000	2010 HK\$'000
Profit for the year	<u>252,182</u>	<u>259,402</u>
<b>Other comprehensive income</b>		
Fair value gain on available-for-sale investments	6,958	22,348
Exchange difference arising from translation of foreign operations	1,067	260
Net adjustment on cash flow hedges	<u>27,157</u>	<u>2,033</u>
Other comprehensive income for the year	<u>35,182</u>	<u>24,641</u>
Total comprehensive income for the year	<u>287,364</u>	<u>284,043</u>
Total comprehensive income attributable to: Owners of the Company	<u>287,364</u>	<u>284,043</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th February 2011

		20th February 2011 HK\$'000	20th February 2010 HK\$'000 (restated)	21st February 2009 HK\$'000 (restated)
<b>Non-current assets</b>				
Property, plant and equipment	16	82,383	83,822	85,639
Investments in associates		25,941	31,056	38,098
Available-for-sale investments	17	87,156	80,198	57,851
Advances and receivables	18	1,196,394	1,145,108	952,097
Prepayments, deposits and other debtors	21	39,400	27,054	30,296
Derivative financial instruments	25	380	104,043	88,862
Deferred tax assets	22	850	300	6,200
Restricted deposits		68,000	68,000	68,000
		<u>1,500,504</u>	<u>1,539,581</u>	<u>1,327,043</u>
<b>Current assets</b>				
Advances and receivables	18	3,525,524	3,572,854	3,966,423
Prepayments, deposits and other debtors	21	21,276	21,775	23,021
Amount due from an associate		–	354	204
Derivative financial instrument	25	186,672	244	–
Restricted deposits		34,149	12,156	26,935
Time deposits		201,967	258,529	286,386
Fiduciary bank balances		2,596	1,133	–
Bank balances and cash		61,311	83,362	52,769
		<u>4,033,495</u>	<u>3,950,407</u>	<u>4,355,738</u>
<b>Current liabilities</b>				
Creditors and accruals	23	147,879	120,218	106,927
Amounts due to fellow subsidiaries		36,087	69,207	46,433
Amount due to immediate holding company		–	–	11
Amount due to ultimate holding company		45	52	60
Amount due to an associate		397	–	–
Bank borrowings	24	1,098,120	829,160	1,352,000
Bank overdrafts		2,614	1,829	4,671
Derivative financial instruments	25	5,633	7,103	3,127
Tax liabilities		17,200	363	15,924
		<u>1,307,975</u>	<u>1,027,932</u>	<u>1,529,153</u>
<b>Net current assets</b>		<u>2,725,520</u>	<u>2,922,475</u>	<u>2,826,585</u>
<b>Total assets less current liabilities</b>		<u>4,226,024</u>	<u>4,462,056</u>	<u>4,153,628</u>

		<b>20th February 2011</b>	20th February 2010	21st February 2009
	<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i> (restated)	<i>HK\$'000</i> (restated)
<b>Capital and reserves</b>				
Issued capital		<b>41,877</b>	41,877	41,877
Share premium and reserves		<b>1,990,518</b>	1,837,159	1,687,121
<b>Total equity</b>		<b><u>2,032,395</u></b>	<u>1,879,036</u>	<u>1,728,998</u>
<b>Non-current liabilities</b>				
Collateralised debt obligation	26	<b>1,098,963</b>	1,098,069	847,297
Bank borrowings	24	<b>1,060,000</b>	1,444,000	1,528,750
Derivative financial instruments	25	<b>34,666</b>	40,951	48,583
		<b><u>2,193,629</u></b>	<u>2,583,020</u>	<u>2,424,630</u>
		<b><u>4,226,024</u></b>	<u>4,462,056</u>	<u>4,153,628</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 20th February 2011*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2009	41,877	227,330	270	(2,603)	(79,703)	6,543	1,535,284	1,728,998
Profit for the year	-	-	-	-	-	-	259,402	259,402
Fair value gain on available-for-sale investments	-	-	-	22,348	-	-	-	22,348
Exchange difference arising from translation of foreign operations	-	-	-	-	-	260	-	260
Net adjustment on cash flow hedges	-	-	-	-	2,033	-	-	2,033
Total comprehensive income for the year	-	-	-	22,348	2,033	260	259,402	284,043
Final dividend paid for 2008/09	-	-	-	-	-	-	(67,003)	(67,003)
Interim dividend paid for 2009/10	-	-	-	-	-	-	(67,002)	(67,002)
	-	-	-	22,348	2,033	260	125,397	150,038
At 20th February 2010	41,877	227,330	270	19,745	(77,670)	6,803	1,660,681	1,879,036
Profit for the year	-	-	-	-	-	-	252,182	252,182
Fair value gain on available-for-sale investments	-	-	-	6,958	-	-	-	6,958
Exchange difference arising from translation of foreign operations	-	-	-	-	-	1,067	-	1,067
Net adjustment on cash flow hedges	-	-	-	-	27,157	-	-	27,157
Total comprehensive income for the year	-	-	-	6,958	27,157	1,067	252,182	287,364
Final dividend paid for 2009/10	-	-	-	-	-	-	(67,003)	(67,003)
Interim dividend paid for 2010/11	-	-	-	-	-	-	(67,002)	(67,002)
	-	-	-	6,958	27,157	1,067	118,177	153,359
At 20th February 2011	41,877	227,330	270	26,703	(50,513)	7,870	1,778,858	2,032,395

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 20th February 2011

	Year ended 20th February	
	2011	2010
	HK\$'000	HK\$'000
<b>Operating activities</b>		
Profit before tax	303,796	310,504
Adjustments for:		
Amortisation of upfront cost of collateralised debt obligation	894	888
Depreciation	34,447	35,677
Dividends received on available-for-sale investments	(1,808)	(1,821)
Impairment losses and impairment allowances recognised in respect of advances and receivables	339,508	410,754
Interest expense	130,878	143,088
Interest income	(1,011,171)	(1,048,905)
Net losses (gains) on disposal of property, plant and equipment	72	(5,863)
Share of results of associates	6,182	7,302
	<hr/>	<hr/>
Operating cash flows before movements in working capital	(197,202)	(148,376)
Increase in advances and receivables	(343,464)	(210,196)
Decrease in prepayments, deposits and other debtors	24,681	5,616
Decrease (increase) in amount due from an associate	354	(150)
Increase in fiduciary bank balances	(1,463)	(1,133)
Increase in creditors and accruals	28,618	15,436
(Decrease) increase in amounts due to fellow subsidiaries	(33,120)	22,774
Decrease in amount due to immediate holding company	–	(11)
Decrease in amount due to ultimate holding company	(7)	(8)
Increase in amount due to an associate	397	–
	<hr/>	<hr/>
Cash used in operations	(521,206)	(316,048)
Tax paid	(35,327)	(60,763)
Interest paid	(132,918)	(141,882)
Interest received	986,515	1,046,960
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>297,064</b>	<b>528,267</b>
	<hr/>	<hr/>
<b>Investing activities</b>		
Dividends received	1,808	1,821
Proceeds from disposal of property, plant and equipment	–	6,754
Purchase of property, plant and equipment	(19,653)	(18,555)
Deposits paid for acquisition of property, plant and equipment	(25,298)	(16,267)
	<hr/>	<hr/>
<b>Net cash used in investing activities</b>	<b>(43,143)</b>	<b>(26,247)</b>

	<b>Year ended 20th February</b>	
	<b>2011</b>	<b>2010</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financing activities</b>		
Placement of restricted deposits	<b>(1,502,319)</b>	(1,438,974)
Withdrawal of restricted deposits	<b>1,480,326</b>	1,453,753
Dividends paid	<b>(134,005)</b>	(134,005)
Increase in collateralised debt obligation	<b>–</b>	250,772
New bank loans raised	<b>16,946,191</b>	10,359,012
Repayment of bank loans	<b>(17,123,512)</b>	(10,987,000)
	<u><b>(333,319)</b></u>	<u>(496,442)</u>
<b>Net cash used in financing activities</b>		
	<b>(79,398)</b>	5,578
<b>Net (decrease) increase in cash and cash equivalents</b>		
	<b>340,062</b>	334,484
<b>Cash and cash equivalents at beginning of the year</b>		
	<u><b>260,664</b></u>	<u>340,062</u>
<b>Cash and cash equivalents at end of the year</b>		
	<u><b>260,664</b></u>	<u>340,062</u>
Being:		
Time deposits	<b>201,967</b>	258,529
Bank balances and cash	<b>61,311</b>	83,362
Bank overdrafts	<b>(2,614)</b>	(1,829)
	<u><b>260,664</b></u>	<u>340,062</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 20th February 2011

### 1. STATUTORY CONSOLIDATED FINANCIAL STATEMENTS

The financial information in this final results announcement does not constitute the Group's statutory consolidated financial statements for the year ended 20th February 2011 but is derived from those consolidated financial statements.

### 2. BASIS OF PREPARATION

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

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

#### New and revised Standards, Amendments and Interpretations applied in the current year

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

HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008

Except as described below, the application of the new and revised Standards, Amendments and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

#### **Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"**

Hong Kong Interpretation 5 "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause" ("HK – Int 5") clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. The Group has applied HK – Int 5 for the first time in the current year. HK – Int 5 requires retrospective application.

In order to comply with the requirements set out in HK – Int 5, the Group has changed its accounting policy on classification of term loans with a repayment on demand clause. In the past, the classification of such term loans were determined based on the agreed scheduled repayment dates set out in the loan agreements. Under HK – Int 5, term loans with a repayment on demand clause are classified as current liabilities.



As a result, bank loans that contain a repayment on demand clause with the aggregate carrying amounts of HK\$295,000,000 and HK\$105,000,000 have been reclassified from non-current liabilities to current liabilities at 21st February 2009 and 20th February 2010 respectively. At 20th February 2011, there is no bank loan that is repayable more than one year after the end of the reporting period but contains a repayment on demand clause.

The application of HK – Int 5 has had no impact on the reported profit or loss for the current and prior years.

*Summary of the effect of the changes in accounting policies*

The effects of changes in accounting policies described above on the consolidated statement of financial position of the Group at 21st February 2009 and 20th February 2010 are as follows:

	21.2.2009		21.2.2009 (restated) HK\$'000	20.2.2010		20.2.2010 (restated) HK\$'000
	(originally stated) HK\$'000	Reclassification HK\$'000		(originally stated) HK\$'000	Reclassification HK\$'000	
Bank borrowings due within one year	1,057,000	295,000	1,352,000	724,160	105,000	829,160
Bank borrowings due after one year	1,823,750	(295,000)	1,528,750	1,549,000	(105,000)	1,444,000
Total effects on net assets	<u>2,880,750</u>	<u>–</u>	<u>2,880,750</u>	<u>2,273,160</u>	<u>–</u>	<u>2,273,160</u>

Such term bank loans have been presented in the earliest time band in the maturity analysis for financial liabilities (see note 24).

The application of other new and revised HKFRSs in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

**New and revised Standards, Amendments and Interpretations issued but not yet effective**

The Group has not early applied the following new and revised Standards, Amendments or Interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets <sup>4</sup>
HKFRS 9	Financial Instruments <sup>6</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>5</sup>
HKAS 24 (as revised in 2009)	Related Party Disclosures <sup>3</sup>
HK(IFRIC) – Int 14 (Amendments)	Prepayment of a Minimum Funding Requirement <sup>3</sup>
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st July 2010 or 1st January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1st July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1st January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1st July 2011

<sup>5</sup> Effective for annual periods beginning on or after 1st January 2012

<sup>6</sup> Effective for annual periods beginning on or after 1st January 2013

HKFRS 9 “Financial Instruments” (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 “Financial Instruments” (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” (“HKAS 39”) are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1st January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 9 will be adopted in the Group’s consolidated financial statements for financial year ending 20th February 2014. The application of the new standard will affect the classification and measurement of the Group’s available-for-sale investments and may affect the classification and measurement of other financial assets. At the date of this report, the Directors are in the process of assessing the potential financial impact.

The amendments to HKFRS 7 titled “Disclosures – Transfers of Financial Assets” increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The Directors do not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group’s disclosures regarding transfers of advances previously effected.

The Directors anticipate that the application of other new and revised Standards, Amendments or Interpretations will have no material impact on the consolidated financial statements.

#### **4. PRINCIPAL ACCOUNTING POLICIES**

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

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 20th February 2010 except for the adoption of the new HKFRSs as disclosed in note 3 above.

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

### **Impairment allowances on advances and receivables**

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

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

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

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

## 6. REVENUE

	Year ended 20th February	
	2011 HK\$'000	2010 HK\$'000
Interest income	1,011,171	1,048,905
Fees and commissions	49,880	44,075
Handling and late charges	51,541	70,469
	<u>1,112,592</u>	<u>1,163,449</u>

## 7. SEGMENT INFORMATION

The Group's operating and reportable segments are as follows:

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

### Segment revenue and results

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

#### For the year ended 20th February 2011

	Credit card HK\$'000	Instalment loan HK\$'000	Hire purchase HK\$'000	Insurance HK\$'000	Consolidated HK\$'000
<b>REVENUE</b>	<u>759,922</u>	<u>322,171</u>	<u>5,564</u>	<u>24,935</u>	<u>1,112,592</u>
<b>RESULT</b>					
Segment results	<u>247,986</u>	<u>65,523</u>	<u>856</u>	<u>10,818</u>	325,183
Unallocated operating income					3,898
Unallocated expenses					(19,103)
Share of results of associates					<u>(6,182)</u>
Profit before tax					303,796
Income tax expense					<u>(51,614)</u>
Profit for the year					<u>252,182</u>

For the year ended 20th February 2010

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>763,785</u>	<u>372,016</u>	<u>7,247</u>	<u>20,401</u>	<u>1,163,449</u>
RESULT					
Segment results	<u>194,421</u>	<u>128,138</u>	<u>220</u>	<u>9,012</u>	331,791
Unallocated operating income					3,607
Unallocated expenses					(17,592)
Share of results of associates					<u>(7,302)</u>
Profit before tax					310,504
Income tax expense					<u>(51,102)</u>
Profit for the year					<u>259,402</u>

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

## 8. INTEREST INCOME

	Year ended 20th February	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Time deposits, bank balances and cash	235	284
Advances	1,008,241	1,040,776
Impaired advances	<u>2,695</u>	<u>7,845</u>
	<u>1,011,171</u>	<u>1,048,905</u>

## 9. INTEREST EXPENSE

	Year ended 20th February	
	2011	2010
	HK\$'000	HK\$'000
Interest on bank borrowings and overdrafts wholly repayable within five years	26,375	40,425
Interest on bank borrowings and overdrafts wholly repayable after five years	442	–
Interest on collateralised debt obligation wholly repayable within five years	50,329	48,811
Net interest expense on interest rate swap contracts	54,626	54,740
	<u>131,772</u>	<u>143,976</u>

Amortisation of upfront cost of **HK\$894,000** (2010: HK\$888,000) is included in the interest expense on collateralised debt obligation wholly repayable within five years.

## 10. OTHER OPERATING INCOME

	Year ended 20th February	
	2011	2010
	HK\$'000	HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	1,565	1,319
Unlisted equity securities	243	502
Fees and commissions		
Credit card	24,945	23,674
Insurance	24,935	20,401
Handling and late charges	51,541	70,469
Others	2,965	3,657
	<u>106,194</u>	<u>120,022</u>

## 11. OTHER GAINS AND LOSSES

	Year ended 20th February	
	2011	2010
	HK\$'000	HK\$'000
Exchange gains (losses)		
Exchange gains on hedging instruments released from cash flow hedge reserve	62,281	20,398
Exchange losses on bank loans	(62,281)	(20,398)
Hedge ineffectiveness on cash flow hedges	(484)	(458)
Net (losses) gains on disposal of property, plant and equipment	(72)	5,863
	<u>(556)</u>	<u>5,405</u>

## 12. OPERATING EXPENSES

	Year ended 20th February	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Auditor's remuneration	1,930	1,850
Depreciation	34,447	35,677
General administrative expenses	113,267	106,975
Marketing and promotion expenses	39,824	42,499
Operating lease rentals in respect of rented premises, advertising space and equipment	54,714	60,337
Other operating expenses	38,329	38,757
Staff costs including Directors' emoluments	98,550	91,418
	<u>381,061</u>	<u>377,513</u>

## 13. INCOME TAX EXPENSE

	Year ended 20th February	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Current tax:		
Hong Kong		
– Current year	51,644	44,980
– Underprovision in respect of prior years	520	222
	<u>52,164</u>	<u>45,202</u>
Deferred tax		
– Current year	(550)	5,900
	<u>51,614</u>	<u>51,102</u>

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

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

	<b>Year ended 20th February</b>	
	<b>2011</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before tax	<b>303,796</b>	310,504
Tax at the applicable rate of 16.5% (2010: 16.5%)	<b>50,126</b>	51,233
Tax effect of share of results of associates	<b>1,020</b>	1,205
Tax effect of expenses not deductible for tax purpose	<b>2</b>	3
Tax effect of income not taxable for tax purpose	<b>(329)</b>	(340)
Tax effect of deferred tax assets previously not recognised	<b>(129)</b>	(523)
Underprovision in respect of prior years	<b>520</b>	222
Others	<b>404</b>	(698)
Tax charge for the year	<b>51,614</b>	51,102

#### 14. DIVIDENDS

	<b>Year ended 20th February</b>	
	<b>2011</b>	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Final dividend paid in respect of 2010 of 16.0 HK cents (2009: 16.0 HK cents) per share	<b>67,003</b>	67,003
Interim dividend paid in respect of 2011 of 16.0 HK cents (2010: 16.0 HK cents) per share	<b>67,002</b>	67,002
	<b>134,005</b>	134,005
Final dividend proposed in respect of 2011 of 16.0 HK cents (2010: 16.0 HK cents) per share	<b>67,003</b>	67,003

The final dividend of 16.0 HK cents per share has been proposed by the Directors and will be paid to shareholders on 30th June 2011. This dividend is subject to approval by shareholders at the forthcoming annual general meeting and has not been included as a liability in these consolidated financial statements. The proposed dividend is payable to all shareholders on the Register of Members of the Company on 17th June 2011.

#### 15. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of **HK\$252,182,000** (2010: HK\$259,402,000) and on the number of shares of **418,766,000** (2010: 418,766,000) in issue during the year.

#### 16. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$31,103,000 on computer equipment, HK\$1,883,000 on leasehold improvements and HK\$94,000 on furniture and fixtures.



## 17. AVAILABLE-FOR-SALE INVESTMENTS

	20th February 2011 <i>HK\$'000</i>	20th February 2010 <i>HK\$'000</i>
Listed equity securities, at fair value		
Hong Kong	27,883	21,845
Overseas	17,202	16,282
	<u>45,085</u>	<u>38,127</u>
Unlisted equity securities, at cost	42,071	42,071
	<u>87,156</u>	<u>80,198</u>

## 18. ADVANCES AND RECEIVABLES

	20th February 2011 <i>HK\$'000</i>	20th February 2010 <i>HK\$'000</i>
Credit card receivables	3,112,312	3,100,810
Instalment loans receivable	1,567,169	1,570,960
Hire purchase debtors	43,084	70,051
	<u>4,722,565</u>	<u>4,741,821</u>
Accrued interest and other receivables	133,626	114,098
Gross advances and receivables	4,856,191	4,855,919
Impairment allowances ( <i>note 19</i> )		
– individually assessed	(54,974)	(60,290)
– collectively assessed	(79,299)	(77,667)
	<u>(134,273)</u>	<u>(137,957)</u>
Current portion included under current assets	4,721,918	4,717,962
	<u>(3,525,524)</u>	<u>(3,572,854)</u>
Amount due after one year	<u>1,196,394</u>	<u>1,145,108</u>

Included in the advances and receivables of the Group, there are secured credit card receivables and instalment loans receivable of **HK\$78,587,000** (20th February 2010: HK\$47,100,000) and **HK\$15,053,000** (20th February 2010: HK\$5,797,000) respectively. The Group hold collateral over these balances. Other advances and receivables are unsecured.

## 19. IMPAIRMENT ALLOWANCES

	<b>20th February 2011</b>	20th February 2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysis by products as:		
Credit card receivables	<b>64,825</b>	66,155
Instalment loans receivable	<b>57,308</b>	55,939
Hire purchase debtors	<b>823</b>	1,240
Accrued interest and other receivables	<b>11,317</b>	14,623
	<b>134,273</b>	137,957
	<b>Individual assessment</b>	<b>Collective assessment</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 21st February 2010	<b>60,290</b>	<b>77,667</b>
Impairment losses and impairment allowances	<b>337,876</b>	<b>1,632</b>
Amounts written-off as uncollectable	<b>(343,192)</b>	<b>–</b>
At 20th February 2011	<b>54,974</b>	<b>79,299</b>
	<b>Individual assessment</b>	<b>Collective assessment</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 21st February 2009	53,029	115,998
Impairment losses and impairment allowances	449,085	(38,331)
Amounts written-off as uncollectable	(441,824)	–
At 20th February 2010	60,290	77,667
	<b>60,290</b>	<b>77,667</b>
	<b>137,957</b>	<b>137,957</b>

## 20. OVERDUE ADVANCES AND RECEIVABLES

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

	<b>20th February 2011</b>		20th February 2010	
	<i>HK\$'000</i>	%*	<i>HK\$'000</i>	%*
Overdue 1 month but less than 2 months	<b>137,153</b>	<b>2.8</b>	128,158	2.6
Overdue 2 months but less than 3 months	<b>32,508</b>	<b>0.7</b>	29,463	0.6
Overdue 3 months but less than 4 months	<b>18,234</b>	<b>0.4</b>	20,490	0.4
Overdue 4 months or above	<b>55,131</b>	<b>1.1</b>	55,877	1.2
	<b>243,026</b>	<b>5.0</b>	233,988	4.8

\* Percentage of gross advances and receivables

## 21. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	<b>20th February 2011 HK\$'000</b>	20th February 2010 HK\$'000
Prepaid cost for property, plant and equipment	<b>34,048</b>	22,177
Rental deposits	<b>13,224</b>	13,444
Prepaid operating expenses	<b>8,298</b>	9,705
Other debtors	<b>5,106</b>	3,503
	<b>60,676</b>	48,829
Current portion included under current assets	<b>(21,276)</b>	(21,775)
Amount due after one year	<b>39,400</b>	27,054

## 22. DEFERRED TAX ASSETS

The following are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during each of the two years ended 20th February 2011 and 2010:

	<b>Accelerated tax depreciation HK\$'000</b>	<b>Impairment allowances HK\$'000</b>	<b>Total HK\$'000</b>
At 21st February 2009	(12,300)	18,500	6,200
Charge to profit or loss for the year	(300)	(5,600)	(5,900)
<b>At 21st February 2010</b>	<b>(12,600)</b>	<b>12,900</b>	<b>300</b>
<b>Credit to profit or loss for the year</b>	<b>300</b>	<b>250</b>	<b>550</b>
<b>At 20th February 2011</b>	<b>(12,300)</b>	<b>13,150</b>	<b>850</b>

## 23. CREDITORS AND ACCRUALS

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

	<b>20th February 2011 HK\$'000</b>	20th February 2010 HK\$'000
Current	<b>54,840</b>	43,055
Over 1 month but less than 3 months	<b>1,944</b>	736
Over 3 months	<b>2,807</b>	2,361
	<b>59,591</b>	46,152

Included in creditors and accruals, there is deferred revenue in relation to customer loyalty programmes of **HK\$5,141,000** (20th February 2010: HK\$3,920,000).

## 24. BANK BORROWINGS

	<b>20th February 2011 HK\$'000</b>	20th February 2010 HK\$'000 (restated)	21st February 2009 HK\$'000 (restated)
Bank loans, unsecured	<b><u>2,158,120</u></b>	<u>2,273,160</u>	<u>2,880,750</u>
Carrying amount repayable ( <i>Note</i> )			
Within one year	<b>993,120</b>	534,160	737,000
Between one and two years	<b>170,000</b>	799,000	365,000
Between two and five years	<b>800,000</b>	645,000	1,163,750
Over five years	<b>90,000</b>	–	–
	<b><u>2,053,120</u></b>	<u>1,978,160</u>	<u>2,265,750</u>
Carrying amount of unsecured bank loans that contain a repayment on demand clause			
– repayable within one year	<b>105,000</b>	190,000	320,000
– repayable after one year (shown under current liabilities)	–	105,000	295,000
	<b><u>105,000</u></b>	<u>190,000</u>	<u>320,000</u>
	<b><u>2,158,120</u></b>	<u>2,273,160</u>	<u>2,880,750</u>
Amount repayable within one year included under current liabilities	<b><u>(1,098,120)</u></b>	<u>(829,160)</u>	<u>(1,352,000)</u>
Amount repayable after one year	<b><u>1,060,000</u></b>	<u>1,444,000</u>	<u>1,528,750</u>

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

## 25. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>20th February 2011</b>		20th February 2010	
	<b>Assets</b>	<b>Liabilities</b>	Assets	Liabilities
	<b>HK\$'000</b>	<b>HK\$'000</b>	HK\$'000	HK\$'000
Interest rate swaps	<b>380</b>	<b>40,255</b>	–	48,054
Cross-currency interest rate swaps	<b>186,672</b>	<b>44</b>	104,287	–
	<b><u>187,052</u></b>	<b><u>40,299</u></b>	<u>104,287</u>	<u>48,054</u>
Current portion	<b><u>(186,672)</u></b>	<b><u>(5,633)</u></b>	<u>(244)</u>	<u>(7,103)</u>
Non-current portion	<b><u>380</u></b>	<b><u>34,666</u></b>	<u>104,043</u>	<u>40,951</u>

All derivative financial instruments entered by the Group that remain outstanding at 20th February 2011 and 20th February 2010 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current / non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings, the designated hedged items.

## Cash flow hedges:

### *Interest rate swaps*

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rate bank borrowings by swapping certain Hong Kong Dollar (“HKD”) floating-rate bank borrowings from floating rates to fixed rates. The interest rate swaps and the corresponding bank borrowings have the same terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, and the Directors consider that the interest rate swaps are highly effective hedging instruments.

### *Cross-currency interest rate swaps*

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

## 26. COLLATERALISED DEBT OBLIGATION

- (a) The Company entered into a HK\$1,100,000,000 collateralised debt obligation financing transaction (the “Transaction”). Pursuant to this Transaction, the Company transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the “Trust”) established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Company is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HK(SIC) – Int 12, the Trust is deemed to be controlled by the Company and the results thereof are consolidated by the Company in its consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under this Transaction have not been derecognised and remained in the Group’s consolidated financial statements.
- (b) The collateralised debt obligation is backed by the credit card receivables transferred and with the carrying amount denominated in HKD. The revolving period of the Transaction will end in February 2012. The interest of the collateralised debt obligation is fixed at 4.5% per annum during the revolving period, thus exposing the Group to fair value interest rate risk. The effective interest rate is 4.5% (year ended 20th February 2010: 4.5%) per annum during the year.

## 27. PLEDGE OF ASSETS

At 20th February 2011, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,873,521,000 and HK\$102,149,000** respectively (20th February 2010: HK\$2,095,187,000 and HK\$80,156,000).

## 28. EVENTS AFTER THE REPORTING PERIOD

The Company entered into two committed borrowing facilities after the reporting date:

- (a) On 29th March 2011, the Company entered into a new collateralised debt obligation financing transaction for a HK\$1,100,000,000 financing facility (the “New Collateralised Debt Obligation Transaction”). The New Collateralised Debt Obligation Transaction consists of two Tranches – Tranche A and Tranche B. The transaction amount under each Tranche is HK\$550,000,000 each. The New Collateralised Debt Obligation Transaction will be drawn down on 6th February 2012, with revolving periods for Tranche A and Tranche B ending on 20th January 2016 and 20th January 2017 respectively.
- (b) On 31st March 2011, the Company entered into a syndicated term loan agreement for a US\$50,000,000 new term loan facility (the “New Facility”). The New Facility will be drawn down on 20th September 2011 and repaid on 20th September 2016.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Monday, 13th June 2011 to Friday, 17th June 2011, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 10th June 2011.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the accounting year ended 20th February 2011, except for the deviations from code provisions A.4.1, A.4.2 and E.1.2 which are explained below.

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

The Company's Non-executive Directors are not appointed for a specific term and Directors are not subject to retirement by rotation. However, all Directors, including executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. The Chairman of the Board did not attend the annual general meeting of the Company held on 18th June 2010 as he was overseas.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the year under review.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Economic Review

For the year under review, Hong Kong's economy experienced a steady recovery with unemployment rate continued to improve further. A low interest rate environment prevailed, stimulating the already heated Hong Kong asset market. As other nations globally still experienced slow growth and economic uncertainties, there remained uncertainties in the economic and market conditions in Hong Kong and the Mainland. Under these circumstances, the consumers generally took a cautious approach in their spending and borrowing activities. With intense competition for the loan business, the overall operating environment for consumer finance business in Hong Kong was challenging in the year under review. Moreover, the keen competition put pressure on net interest margins for market participants. Participants had to strive for innovative products and service quality to attract new customers while at the same time monitor the possible deteriorating in credit quality.

### Financial Review

The Group faced the challenge of slow recovery in demand for loans from its customer segment. The growth in sales was mainly derived from spending on card credit purchase. As a result, total advances remained similar to that of last year.

The Group recorded a profit attributable to owners of HK\$252.2 million for the year ended 20th February 2011, representing a decrease of 2.8% or HK\$7.2 million when compared to HK\$259.4 million in the previous year. The Group's earnings per share changed from 61.94 HK cents per share in 2009/10 to 60.22 HK cents per share.

A series of new marketing programs had been launched directing towards card acquisition and card activation. The AEON Ocean Park Halloween Promotion Night 2010 and new store opening promotion of AEON Stores (Hong Kong) Co., Limited ("AEON Stores") had received overwhelming response in the market. As a result, the Group recorded an overall increase in credit card sales when compared with last year.

Although there was an increase in interest income generating from credit card sales, the change in interest rate mix for instalment loans in order to maintain the Group's market share had resulted in a decrease of 3.6% in the overall interest income for the year from HK\$1,048.9 million in 2009/10 to HK\$1,011.2 million. With the continuous renewal of long-term borrowings with lower funding cost, interest expense for the year was HK\$131.8 million, a decrease of 8.5% or HK\$12.2 million when compared with last year, with average funding cost being 3.9% as compared with 4.1% in the previous year. Net interest income of the Group recorded a drop of 2.8% or HK\$25.5 million to HK\$879.4 million from HK\$904.9 million in 2009/10. The drop in handling and late charges received as well as annual fee had resulted in the decrease in other operating income by 11.5% from HK\$120.0 million in 2009/10 to HK\$106.2 million in 2010/11.

Following the recruit of more staff for its insurance and China business and the launch of a series of new direct sales and marketing programs directing towards card acquisition and card activation, the Group had spent more on both staff expenses and management expenses. On the other hand, the Group exercised tight control on advertising expenses and facility expenses. As a result, operating expenses slightly increased by 0.9% or HK\$3.5 million from HK\$377.5 million in 2009/10 to HK\$381.1 million in 2010/11. The Group's cost-to-income ratio was 38.7% in 2010/11.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$604.0 million for the year, representing a decrease of 7.5% or HK\$48.9 million from HK\$652.8 million in the previous year. During the year under review, the Group lent conservatively and strived to continually maintain its asset quality. With a steady decline in the number of personal bankruptcies, coupled with prompt collection actions and exercise of cautious approval process, there were noticeable improvements in the collection ratios and write-off amount when compared with last year. Impairment losses and impairment allowances for the year decreased by 17.3% or HK\$71.2 million from HK\$410.8 million in 2009/10 to HK\$339.5 million. Recoveries of receivables written-off was HK\$45.5 million, a decrease of 39.9% or HK\$30.2 million when compared with HK\$75.7 million in 2009/10. Impairment allowances amounted to HK\$134.3 million at 20th February 2011, as compared with HK\$138.0 million at 20th February 2010.

With the aggressive marketing activities to boost up card credit purchase receivables, the Group recorded an increase in card credit purchase receivables. However, given the slow recovery in demand for consumer loans, there was a reduction in gross advances of 0.4% during the year, mainly in instalment loans receivables and hire purchase debtors. Gross advances and receivables at 20th February 2011 was HK\$4,856.2 million, as compared to HK\$4,855.9 million at 20th February 2010. Total equity was strengthened by 8.2% to HK\$2,032.4 million at 20th February 2011, mainly due to the increase in accumulated profits and reserves. Net asset value per share (after final dividend), compared with the net asset value per share as at 20th February 2010, increased from HK\$4.3 to HK\$4.7.

## **Segment Information**

The Group's business comprises mainly four operating divisions, namely credit card, instalment loans, hire purchase and insurance. In 2010/11, credit card operation accounted for 68.3% of the Group's revenue, as compared to 65.6% in 2009/10. For segment results, credit card operation accounted for 76.3% of the Group's whole operations in 2010/11, as compared to 58.6% in 2009/10.

With the increase in sales from credit card operation, interest income recorded an increase when compared with last year. However, the improved economic situation had reduced the penalty and late charges, which resulted in a drop in revenue from credit card operation of 0.5% or 3.9 million from HK\$763.8 million in 2009/10 to HK\$759.9 million in 2010/11. With the improvement in personal bankruptcies and delinquencies, there was a noticeable decrease in the impairment losses and impairment allowances. Although there was a drop in recoveries of receivables written-off, the segment result for the year from credit card operation increased from HK\$194.4 million in 2009/10 to HK\$248.0 million in 2010/11.



Following the change in interest rate mix for instalment loan business to maintain its market share, interest income recorded a decrease when compared with last year. Together with a drop in late charges, revenue from instalment loan operation recorded a decrease of 13.4% or HK\$49.9 million from HK\$372.0 million in 2009/10 to HK\$322.1 million in 2010/11. With the exercise of a cautious credit assessment, impairment losses and impairment allowances increased moderately. Although there was a drop in interest expense, the segment result for the year from instalment loan operation decreased from HK\$128.1 million in 2009/10 to HK\$65.5 million in 2010/11.

With a continuous shift from hire purchase to card instalment plan, revenue for hire purchase operation recorded a decrease of HK\$1.7 million, from HK\$7.2 million in 2009/10 to HK\$5.6 million in 2010/11. On the other hand, there was a drop in operating expenses and impairment losses and impairment allowances. As a result, segment result for the year from hire purchase operation was HK\$0.9 million in 2010/11 as compared with HK\$0.2 million in 2009/10.

Revenue for insurance operation recorded an increase of HK\$4.5 million from HK\$20.4 million in 2009/10 to HK\$24.9 million in 2010/11. Although there was an increase in operating expenses in running the insurance broking company, segment result for the year from insurance operation increased from HK\$9.0 million in 2009/10 to HK\$10.8 million in 2010/11.

## **Business Review**

The Group had launched a series of marketing activities to enhance the competitiveness of its card business, which included the AEON Ocean Park Halloween Promotion Night 2010, AEON Stores new store opening promotion, five times bonus point promotion, Watami movie ticket promotion and Visa card promotion. In addition, the Group had strengthened its card acquisition activities inside co-brand card partners outlets to increase its card base. For brand building, the Group had revamped its branch image to become a service and information centre, with branch staff starting to wear uniform since the beginning of this year. All these changes have received positive feedback from the customers. The Group also launched instant credit card in Kowloon Bay branch in the second half to allow customers to enjoy immediate card benefits. This service will be extended to other branches in the coming year. To maintain the credit quality, new members were mainly recruited through merchant outlets. Following the launch of new co-brand card and mortgage products, the Group had secured new customer base for future cross-selling opportunities. On corporate social responsibility, the Group had extended the certification of ISO 14001 Environmental Management System to head office, data centre and branches.

During the year under review, AEON Insurance Brokers (HK) Limited (“AEON Brokers”) utilised insurance consultants to promote insurance products to customers, and also focused on introducing corporate insurance to corporate clients and business partners. Besides using insurance consultants, AEON Brokers also organised various seminars to promote insurance products on life, general and MPF scheme.

Moving on to China business, AEON Information Service (Shenzhen) Co., Ltd. (“AIS”), an associate, has been acting as processing agent for AEON Card operation in different provinces, including Guangdong, Beijing and Shandong. In addition, AIS continued to expand its collection services to new corporate clients in China in the fields of auto, finance and insurance.

## Prospects

In the first quarter of 2011, the economic and labour market conditions in Hong Kong continued to improve thereby strengthening consumer confidence. In the coming year, better job and income prospects are expected to be the key drivers for further growth in consumption and investment. The positive economic policies and measures implemented in Hong Kong and the Mainland are expected to continue benefiting the targeted market segment of the Group and thus create more sales opportunities. With an expected increase in demand for loan products, the Group expects a gradual recovery in the sales of personal loan and card cash advance. However, the aftermath of the recent earthquake in Japan may affect Hong Kong consumer sentiments on Japan related products and service sectors, which in turn may affect consumption and sales. In light of the prevailing low interest rate situation, it is expected that the operating environment for consumer finance will continue to be challenging.

In the coming year, the Group will focus on expanding its credit card business through its enlarged merchant network, innovative product development and aggressive marketing strategies, while at the same time minimizing its credit risks and implementing appropriate cost savings measures. In order to increase its market share, the Group will strengthen its marketing efforts to expand its customer base and provide convenient and efficient services to the customers. In expanding its card base, the Group will widen card recruitment channels by issuing different new co-brand cards to recruit new members. For convenient and efficient services, the Group will set up new branches to extend its geographic coverage and expand the instant card operation to different branches. On the other hand, the Group will continue closely monitor its portfolio and take a prudent approach to extend credit. Moreover, the Group will actively strengthen its brand image in the market as providing better life quality for customers and also as a responsible corporate citizen. Apart from launching supplementary card, the Group will also develop other marketing programs to promote a “Family” theme. In order to increase card usage by means of customer satisfaction, the Group will give top priority to customer voice. Given the low interest-rate environment, margins are expected to remain stable while cost-to-income ratio is likely to fall even under current inflationary environment.

With the progressive change in customers’ behaviour in purchasing through internet, the Group will continue to enhance its net functions and develop new products to capture small amount purchases for daily usage. Moreover, to facilitate the customers’ needs for overseas remittance and foreign exchange services, the Group will extend its remittance service to cover more countries. For loan products, the Group will create more purpose loan products to satisfy customers’ marriage and property needs. The Group will continue to explore other fee-based income business opportunities in the areas of insurance, travel and collection services. For China business, riding on the experience and operation knowledge gained from AEON Card operation, the Group will explore new business opportunities with potential partners to enter the consumer finance market in the Mainland.

## FUNDING AND CAPITAL MANAGEMENT

The Group manages its capital to ensure that:

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

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

### Net debt to equity ratio

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

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

	<b>20th February 2011 HK\$'000</b>	20th February 2010 HK\$'000
Debt ( <i>note a</i> )	<b>3,257,083</b>	3,371,229
Cash and cash equivalents	<b>(260,664)</b>	(340,062)
Net debt	<b>2,996,419</b>	3,031,167
Equity ( <i>note b</i> )	<b>2,032,395</b>	1,879,036
Net debt to equity ratio	<b>1.5</b>	1.6

*Notes:*

- (a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 24 and 26 respectively.
- (b) Equity includes all capital and reserves of the Group.

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th February 2011, 38.4% of its funding was derived from total equity, 20.8% from structured finance and 40.8% from direct borrowings from financial institutions.

The principal source of internally generated capital was from accumulated profits. At 20th February 2011, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK\$2,158.1 million, with 12.0% being fixed in interest rates and 88.0% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 33.7% of these indebtedness will mature within one year, 39.0% between one and two years, 24.5% between two and five years and 2.8% over five years. The duration of indebtedness was around 1.7 years.

The Group's bank borrowings and collateralised debt obligation were denominated in HKD, except for a syndicated term loan of JPY7.5 billion and a term loan of USD10.0 million which were hedged by cross-currency interest rate swaps.

The net asset of the Group at 20th February 2011 was HK\$2,032.4 million, as compared with HK\$1,879.0 million at 20th February 2010. Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

The Group's principal operations were transacted and recorded in HKD and thereby its core assets did not subject to any exposure on exchange rate fluctuation. During the year under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings. At 20th February 2011, capital commitments entered were mainly related to the purchase of property, plant and equipment.

## **HUMAN RESOURCES**

The total number of staff at 20th February 2011 and 20th February 2010 was 355 and 334 respectively. Employees are remunerated according to the job nature and market trends, with a built-in-merit component incorporated in the annual increment to reward and motivate individual performance. Apart from medical insurance and provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Company. The Company also provides in-housing training programs and external training sponsorships to strengthen its human resources.

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

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

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

## **REVIEW OF ANNUAL RESULTS**

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

## **SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU**

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 20th February 2011 as set out in this Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on this Preliminary Announcement.

## **PUBLICATION OF ANNUAL REPORT**

The 2010/11 annual report of the Group, containing the relevant information required by the Listing Rules, will be published on the websites of the Stock Exchange and the Company in due course.

## **BOARD OF DIRECTORS**

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

By order of the Board  
**MASANORI KOSAKA**  
*Managing Director*

Hong Kong, 20th April 2011