

AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 900)

FINAL RESULTS FOR THE YEAR ENDED 20TH FEBRUARY 2007

Percentage

Change

6.1

10.5

3 3

20.0

0.3

1,278,668 1,320,545

1,395,000

2,715,545

1,435,117

1,476,994

846 806

1,714,178 2,560,984 4,037,978

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" or "AEON Credit") for the year ended 20th February 2007 and the state of affairs of the Group as at that date together with the comparative

Year ended 20th February

2007

HK\$'000

1,020,351

987,351

(144,702)

842,649

115.875

18,819

977,343

(353,721)

623,622

2006

(Restated)

HK\$'000

955,079

930,325

(130,979)

799,346

112.212

916,248

(294,674)

621,574

4,690

CONSOLIDATED INCOME STATEMENT

Operating profit before impairment allowances

Interest income

Interest expense Net interest income

Other income

Operating income

Operating expenses

Non-current liabilities

Share premium and reserves

Collateralised debt obligation

Bank borrowings-repayable after one year

Other operating income

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Hedging reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 21st February 2005, as originally stated Effect of changes in accounting policies (<i>Note 2</i>)	41,877	227,330	270	_	(22,960)	992,811 (135,173)	1,239,328 (135,173
At 21st February 2005, as restated	41,877	227,330	270	_	(22,960)	857,638	1,104,155
Gain on available-for-sale investments Net adjustment on cash flow hedges	-	-	-	12,479	23,118	-	12,479 23,118
Net income recognised directly in equity Profit for the year				12,479	23,118	251,983	35,597 251,983
Total recognised income for the year Final dividend paid for 2004/05 Interim dividend paid for 2005/06	- - -	- - -	- - -	12,479 - -	23,118	251,983 (43,970) (27,220)	287,580 (43,970 (27,220
	_	_	-	12,479	23,118	180,793	216,390
At 20th February 2006, as restated Gain on available-for-sale investments Net adjustment on cash flow hedges	41,877	227,330	270 - -	12,479 3,730	158 - (6,682)	1,038,431	1,320,545 3,730 (6,682
Net income (expense) recognised directly in equity Profit for the year Transfer to consolidated income statement on	-	-	-	3,730 -	(6,682)	- 266,696	(2,952 266,696
sales of available-for-sale investments				(15,143)		(8,399)	(23,542
Total recognised income for the year Final dividend paid for 2005/06 Interim dividend paid for 2006/07				(11,413)	(6,682)	258,297 (48,158) (35,595)	240,202 (48,158 (35,595
				(11,413)	(6,682)	174,544	156,449
At 20th February 2007	41,877	227,330	270	1,066	(6,524)	1,212,975	1,476,994

Impairment losses and impairment allowances (303,058)(315,965) (4.1)Share of results in associates (814) 340 319,750 305,949 Profit before tax 4.5 (53,054)(53,966) (1.7)Income tax expense Profit for the year 266,696 251,983 5.8 Dividends 11 83,753 71,190 12 Earnings per share 63.69 Cents 60.17 Cents 11 **26.0** Cents 18.0 Cents Dividend per share CONSOLIDATED BALANCE SHEET 20th February 2007 20th February 2006

		,	(Restated)
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	13	98,452	97,199
Investments in associates		40,147	2,220
Available-for-sale investments		52,375	65,070
Credit card receivables	14	114,075	34,110
Instalment loans receivable	15	477,691	352,591
Hire purchase debtors	16	17,676	17,432
Deferred tax assets		1,000	7,017
Restricted cash		120,000	120,000
		921,416	695,639
Current assets			
Investments held for trading		_	2,377
Derivative financial instruments	21	7,115	12,894
Credit card receivables	14	2,688,578	2,421,535

Credit card receivables	14	2,688,578	2,421,535
Instalment loans receivable	15	823,640	704,343
Hire purchase debtors	16	104,454	117,804
Prepayments, deposits, interest receivable			
and other debtors	18	123,848	158,836
Time deposits		166,116	237,519
Bank balances and cash		114,195	72,445
		4,027,946	3,727,753
Current liabilities			
Creditors and accrued charges		121,938	124,528
Amount due to a fellow subsidiary		51,022	34,628
Amount due to immediate holding company		380	-
Amount due to ultimate holding company		60	52
Issued debt securities		-	848,139
Bank borrowings-repayable within one year	20	706,000	661,000
Bank overdrafts		1,695	2,079
Derivative financial instruments	21	13,639	2,794
Current tax liabilities		16,650	34,627
		911,384	1,707,847
Net current assets		3,116,562	2,019,906
Total assets less current liabilities		4,037,978	2,715,545
Capital and reserves			
Issued capital		41,877	41,877

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the year ended 20th February 2007

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 2007 but is derived from those consolidated financial statements

BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs"), the Hong Kong Accounting Standard ("HKAS") and Interpretations (hereinafter collectively referred to as "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting policies generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRS") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The application of the new HKFRSs had no material effect on how the Group's results for the current or prior accounting years have been prepared and presented, except for the HKAS 27 (Revised), which has been revised as a consequence of the Companies (Amendment) Ordinance 2005 (the "Amendment Ordinance"). The Amendment Ordinance amended the statutory definition of a "subsidiary" to make it more closely aligned with HKAS 27. As a result of the Amendment Ordinance, the Company is required to consolidate the special purpose entities under asset backed financing transactions and prepare consolidated financial statements for the current year. Comparative figures have been amended to conform to the current year's presentation

The effects of adopting the HKAS 27 (Revised) on the consolidated income statement for the years ended 20th February 2007 and 20th February 2006 were as follows:

	Year ended	l 20th February
	2007	2006
	HK\$'000	HK\$'000
Increase in operating income	54,278	146,142
Decrease (increase) in operating expenses	4,238	(1,125)
Decrease (increase) in impairment losses and impairment allowances	25,488	(64,647)
Increase in income tax expense	(14,701)	(14,500)
Total increase in profit	69,303	65,870
Increase in earnings per share	16.55 cents	15.73 cents

The effects of adopting the HKAS 27 (Revised) on the consolidated balance sheet at 20th February 2007 and 20th February 2006 were as follows

	20th February	20th February
	2007	2006
	HK\$'000	HK\$'000
Increase (decrease) in assets		
Restricted cash and time deposits	10,000	250,448
Credit card receivables	_	382,097
Prepayments, deposits, interest receivable and other debtors	17	42,492
Retained interests in securitisation trust	(10,017)	(456,639)
Deferred tax assets		7,017
Increase (decrease) in liabilities/equity		
Creditors and accrued charges	_	37,170
Issued debt securities	_	262,548
Deferred tax liabilities	=	(5,000)
Share premium and reserves	=	(69,303)
Snare premium and reserves		(69,30

The effects of adopting the HKAS 27 (Revised) on the Group's equity at 21st February 2005 are summarised below:

	At		At
	21st February		21st February
	2005		2005
	(Originally stated)	Adjustment	(Restated)
	HK\$'000	HK\$'000	HK\$'000
ated profits, total effects on equity	992,811	(135,173)	857,638

The Group has not early applied the following new standards, amendment or interpretations that have been issued but are not yet effective. The Directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures1
HKFRS 8	Operating Segments ²
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS 29
	Financial Reporting in Hyperinflationary Economies ³
HK(IFRIC)-INT 8	Scope of HKFRS 2 ⁴
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives ⁵
HK(IFRIC)-INT 10	Interim Financial Reporting and Impairment ⁶
HK(IFRIC)-INT 11	HKFRS 2 - Group and Treasury Share Transactions7
HK(IFRIC)-INT 12	Service Concession Arrangements ⁸

SIGNIFICANT ACCOUNTING POLICIES

The condensed 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 condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 20th February 2006 except for an additional accounting policy described below.

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

	Year ended 2	Year ended 20th February		
	2007	2006		
		(Restated)		
	HK\$'000	HK\$'000		
Interest income	987,351	930,325		
Fees and commissions	33,000	24,754		
	1,020,351	955,079		

For management purposes, the Group is currently organised into three operating divisions – credit card, instalment loan 8. and hire purchase. These divisions are the basis on which the Group reports its primary segment information.

Principal activities 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

Segment information about these businesses is presented below:

and equipment

	Credit Card HK\$'000	Instalment loan HK\$'000	Hire Purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
CONSOLIDATED INCOME STATEMENT					
TURNOVER	657,816	338,455	8,296	15,784	1,020,351
RESULT Net interest income (expense) Other operating income Other income Impairment losses and impairment allowances	538,707 97,711 - (173,771)	299,708 16,923 - (126,063)	4,448 15 - (3,224)	(214) 1,226 18,819	842,649 115,875 18,819 (303,058)
Segment results	462,647	190,568	1,239	19,831	674,285
Unallocated operating expenses					(353,721)
Share of results in associates					(814)
Profit before tax Income tax expense					319,750 (53,054)
Profit for the year					266,696
CONSOLIDATED BALANCE SHEET					
ASSETS Segment assets	3,138,428	1,331,877	122,228	355,829	4,948,362
Unallocated corporate assets					1,000
Consolidated total assets					4,949,362
LIABILITIES Consolidated total liabilities	2,498,100	833,208	37,289	103,771	3,472,368
OTHER INFORMATION Additions to property, plant and equipment Depreciation Net loss on disposal of property, plant			-	44,145 42,828	44,145 42,828

2006 (Restated)

2006 (Restated)					
	Credit Card HK\$'000	Instalment loan HK\$'000	Hire Purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
CONSOLIDATED INCOME STATEMENT					
TURNOVER	650,794	292,381	9,703	2,201	955,079
RESULT Net interest income (expense) Other operating income Other income (Increase in) reversal of impairment losses and impairment allowances	534,780 93,517 - (246,911)	260,066 18,220 – (70,472)	4,646 47 -	(146) 428 4,690	799,346 112,212 4,690 (315,965
•			6,111	4,972	
Segment results	381,386	207,814	0,111	4,972	600,283
Unallocated operating expenses Share of results in an associate					(294,674 340
Profit before tax					305,949
Income tax expense					(53,966)
Profit for the year					251,983
CONSOLIDATED BALANCE SHEET					
ASSETS Segment assets	2,805,683	1,083,192	135,427	392,073	4,416,375
Unallocated corporate assets					7,017
Consolidated total assets					4,423,392
LIABILITIES Consolidated total liabilities	2,299,285	659,614	33,811	110,137	3,102,847
OTHER INFORMATION Additions to property, plant and equipment Depreciation Net loss on disposal of property, plant	<u>-</u>	- -	- -	54,055 41,143	54,055 41,143
and equipment				558	558
OTHER OPERATING INCOME			<u> </u>	Year ended 20t	h February

	rear ended	20th rebruary
	2007	2006
		(Restated)
	HK\$'000	HK\$'000
Dividends received on available-for-sale investments	983	428
Net foreign exchange gain	243	_
Fees and commissions	33,000	24,754
Handling and late charges	79,735	82,633
Others	1,914	4,397
	115,875	112,212

OTHER INCOME

7.

	Year ended 2	zotn February
	2007	2006
	HK\$'000	HK\$'000
Gain on disposal of available-for-sale investments	19,206	-
Loss on disposal of investments held for trading	(323)	-
Gain on derivative financial instruments	=	4,110
Net loss on disposal of property, plant and equipment	(64)	(558)
Unrealised gain on revaluation of investments held for trading		1,138
	18,819	4,690

Year ended 20th February

OPERATING EXPENSES

	2007	2006
		(Restated)
	HK\$'000	HK\$'000
Administrative expenses	84,113	71,333
Advertising expenses	39,445	28,147
Auditors' remuneration	1,790	1,600
Depreciation	42,828	41,143
Net foreign exchange loss	_	61
Operating lease rentals in respect of rented premises,		
advertising space and equipment	56,537	46,462
Other operating expenses	34,334	29,884
Staff costs including directors' emoluments	94,674	76,044
	353,721	294,674

10.

Starr costs including directors emoraments	74,074	70,044
	353,721	294,674
INCOME TAX EXPENSE		
	Year ended	20th February
	2007	2006
		(Restated)
	HK\$'000	HK\$'000
The charge comprises:	πιώ σου	ΠΑΦ 000
Current taxation		
Hong Kong Profits Tax		
- Current year	53,917	36,687
- Overprovision in respect of prior years	(6,880)	(121)
	47,037	36,566
Deferred tax		
- Current year	_	17,400
- Reversal of deferred tax	6,017	
	53,054	53,966

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

DIVIDENDS

On 13th October 2006, a dividend of 8.5 HK cents (2005/06: 6.5 HK cents) per share amounting to a total of HK\$35,595,000 (2005/06: HK\$27,220,000) was paid to shareholders as the interim dividend for 2006/07.

The Directors have recommended a final dividend of 17.5 HK cents (2005/06: 11.5 HK cents) per share payable on 28th June 2007 to all shareholders whose names appear on the Register of Members on 15th June 2007

EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK\$266,696,000 (2005/06: HK\$251,983,000) and on the number of 418,766,000 (2005/06: 418,766,000) shares in issue during the year.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately HK\$37.4 million on computer equipment, HK\$5.6 million on leasehold improvements and HK\$1.1 million on furniture and fixtures.

¹ Effective for annual periods beginning on or after 1st January 2007
² Effective for annual periods beginning on or after 1st January 2009
³ Effective for annual periods beginning on or after 1st March 2006
⁴ Effective for annual periods beginning on or after 1st May 2006
⁵ Effective for annual periods beginning on or after 1st June 2006
⁶ Effective for annual periods beginning on or after 1st March 2007
⁶ Effective for annual periods beginning on or after 1st March 2007
⁸ Effective for annual periods beginning on or after 1st January 2008

20th February 2007	20th February 2006
zotn residung zoo.	(Restated)
HK\$'000	HK\$'000
2,755,391	2,518,328
116,909	35,227
2,872,300	2,553,555
	1
(45,466)	(56,533)
(69,647)	(97,910)
2,802,653	2,455,645
(2,688,578)	(2,421,535)
114,075	34,110
HK\$'000	HK\$'000
0.50 44.5	#40.440
	740,148
498,441	370,515
1,357,858	1,110,663
(37,175)	(20,422)
(56,527)	(53,729)
1,301,331	1,056,934
(823,640)	(704,343)
477,691	352,591
	2,755,391 116,909 2,872,300 (24,181) (45,466) (69,647) 2,802,653 (2,688,578) 114,075 20th February 2007 HK\$'000 859,417 498,441 1,357,858 (19,352) (37,175) (56,527) 1,301,331 (823,640)

	HK\$'000	HK\$'000
Due:		
Within one year	106,831	121,023
In the second to fifth year inclusive	18,078	17,832
	124,909	138,855
Impairment allowances		
- individually assessed	(1,142)	(2,282)
- collectively assessed	(1,637)	(1,337)
	(2,779)	(3,619)
	122,130	135,236
Current portion included under current assets	(104,454)	(117,804)
Amount due after one year	17,676	17,432

OVERDUE DEBTOR BALANCE

ow is an analysis of gross debtor balance of credit card receivables, instalment loans receivable and hire purchase debtors, excluding impairment allowances, which is overdue for more than 1 month

	20th February 2007		20th February 2006 (Restated)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	96,448	2.2	86,871	2.3
Overdue 2 months but less than 3 months	27,859	0.6	34,468	0.9
Overdue 3 months or above	57,051	1.3	81,902	2.1
	181,358	4.1	203,241	5.3

PREPAYMENTS, DEPOSITS, INTEREST RECEIVABLE AND OTHER DEBTORS

	20th February 2007	(Restated)
	HK\$'000	HK\$'000
Within one year	129,105	162,276
Impairment allowances	(5,257)	(3,440)
	123,848	158,836

IMPAIRMENT ALLOWANCES	20th February 2007	•
	HK\$'000	(Restated) HK\$'000
At 21st February	158,698	199,017
Net charge to the consolidated income statement for the year	303,058	315,965
Amounts written off during the year	(358,473)	(374,177)
Recoveries during the year	30,927	17,893
At 20th February	134,210	158,698
Analysis by products as:		
Credit card receivables (note 14)	69,647	97,910
Instalment loans receivable (note 15)	56,527	53,729
Hire purchase debtors (note 16)	2,779	3,619
Prepayments, deposits, interest receivable and other debtors (note 18)	5,257	3,440
	134,210	158,698
DANK BORDOWINGS		

Prepayments, deposits, interest receivable and other debtors (note 18)	5,257	3,440
	134,210	158,698
BANK BORROWINGS		
	20th February 2007 HK\$'000	20th February 2006 HK\$'000
Bank loans, unsecured	2,420,178	2,056,000
The maturity of bank borrowings is as follows:		
Within one year	706,000	661,000
Between one and two years	415,000	325,000
Between two and five years	1,269,178	1,070,000
Over five years	30,000	
	2,420,178	2,056,000
Amount repayable within one year included under current liabilities	(706,000)	(661,000)
Amount repayable after one year	1,714,178	1,395,000
DERIVATIVE FINANCIAL INSTRUMENTS	<u></u>	

	20th Febru	ary 2007	20th Febru	ary 2006
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps Cross-currency interest rate swap	7,115 -	3,506 10,133	12,894	2,794
	7,115	13,639	12,894	2,794

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rate Hong Kong dollar the Croup uses interest rate swaps on minimise to exposure to cash now changes of its fraung-rate long Rong contains bank borrowings by swapping a proportion of the floating-rate bank borrowings from floating rates to fixed rates. The interest rate swaps and the corresponding bank borrowings have the same terms and the Directors of the Company consider that the interest rate swaps are highly effective hedging instruments.

The fair value of the interest rate swaps are based on HIBOR yield curves at balance sheet date estimated by using the discounted cash flow method

Cross-currency interest rate swap

During the year, the Group had entered into a cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposure to foreign currency risk of its floating-rate Yen syndicated bank borrowing by swapping the floating-rate Yen bank borrowing to fixed-rate Hong Kong dollar bank borrowing. The cross-currency interest rate swap and the corresponding syndicated bank borrowing have the same terms and the Directors of the Company consider that the cross-currency interest rate swap is highly effective hedging instrument.

The fair value of the cross-currency interest rate swap is based on JPY-LIBOR-BBA yield curve at balance sheet date estimated by using the discounted cash flow method.

22. COLLATERALISED DEBT OBLIGATION

During the year, the Company entered into a HK\$850,000,000 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 and holds the entire undivided interest in the credit card receivables transferred. In accordance with HKAS-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.

The collateralised debt obligation is backed by the credit card receivables transferred (see note 23) and with the carrying amount denominated in Hong Kong dollars. The revolving period of the Transaction will end in February 2012. The monthly interest of the collateralised debt obligation is fixed at 4.9% during the revolving period, thus exposing the Group to fair value interest rate risk. The effective interest rate is 4.9% during the year.

PLEDGE OF ASSETS

At 20th February 2007, the Group's collateralised debt obligation was secured by credit card receivables of HK\$1,284,786,000 (20th February 2006: HK\$1,217,639,000).

FINAL DIVIDEND

The Directors will recommend at the forthcoming Annual General Meeting to be held on Friday, 15th June 2007 a final dividend of 17.5 HK cents per share, out of which 5.0 HK cents per share is a special dividend to mark the Company's 20th anniversary. This final dividend, if approved, will be paid on Thursday, 28th June 2007 to shareholders whose names appear on the Register of Members of the Company on Friday, 15th June

Together with the interim dividend of 8.5 HK cents per share, the total dividend per share for the year is 26.0 HK cents, representing a dividend payout ratio of 40.8%.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 11th June 2007 to Friday, 15th June 2007, 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, Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on Friday, 8th June 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The private consumption in Hong Kong was on a steady upward trend throughout the year, on the back of improving employment incomes, along with a buoyant stock market and a stable property market. Consumer sentiment remained optimistic, especially with the pause in interest rate hikes. During the year under review, the Group continued to record a growth in credit card and personal loan business despite market players moved aggressively into these sectors.

The Group recorded a net profit of HK\$266.7 million for the year ended 20th February 2007, representing an increase of 5.8% or HK\$14.7 million when compared to HK\$252.0 million in the previous year. The Group's earnings per share improved from 60.17 HK cents per share in 2005/06 to 63.69 HK cents per share.

On the sales front, the launch of new marketing programs and the recruit of more co-branded cardholders have boosted up credit card sales. With the use of the Group's branch and merchant networks to cross-sell different loan products, personal loan sales continued to maintain a healthy growth. The overall sales volume increased by 16.0% when compared with last year.

The growth in sales transactions had resulted in the increase in interest income by 6.1% from HK\$930.3 million in 2005/06 to HK\$987.4 million. With a slight drop in long term interest rate in the second half, the average funding cost moved down from 4.9 % in the first half to 4.7% in the second half. The full year average funding cost was 4.8%, as compared to 4.7% in the brevious year. With increase in funding requirement, interest expense was HK\$144.7 million, an increase of 10.5% when compared with last year. The Group's net interest income recorded an increase of 5.4% to HK\$842.6 million from HK\$799.3 million in 2005/06. Although there was a drop in handling and late charges, the increase in commission income had resulted in the increase in other operating income by 3.3% from HK\$112.2 million in 2005/06 to HK\$115.9 million for the year.

The Group incurred more on advertising expenses to capture the growth of demand in consumer finance market. In addition, following the recruitment of more members and the launch of new promotion programs, the Group had spent more on card and loan processing expenses. Together with the employment of more staff and the entering into new leases as a result of the expansion of branch network, operating expenses increased by 20.0% from HK\$294.7 million in 2005/06 to HK\$353.7 million. Consequently, the Group's cost-to-income ratio increased to 36.2% from 32.2% in 2005/06.

At the operating level before impairment losses and impairment allowances, the Group recorded a slight increase in operating profit by HK\$2.0 million from HK\$621.6 million in 2005/06 to HK\$623.6 million. During the year under review, asset quality continued to improve, with impairment losses and impairment allowances stood at HK\$303.1 million, a decrease of 4.1% when compared with HK\$316.0 million in the previous year. Impairment allowances amounted to HK\$134.2 million at 20th February 2007, as compared with HK\$158.7 million at 20th February 2006.

With a solid infrastructure and customer base, the Group was able to capitalize on market growth opportunities despite the keen competition in the market. At 20th February 2007, total debtor balance stood at HK\$4,355.1 million, an increase of 14.5%, or HK\$552.0 million, when compared with HK\$3,803.1 million at 20th February 2006. On funding side, the Group entered into a HK\$850.0 million collateralised debt obligation transaction to refinance the securitisation programme which had been fully paid off in October 2006. Besides collateralised debt obligation transaction, at 20th February 2007, the Group had bank borrowings and bank overdrafts amounted to HK\$2,421.9 million.

Shareholders' equity was strengthened by 11.9% to HK\$1,477.0 million at 20th February 2007 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 at 20th February 2006, rose 10.2% to HK\$3.4.

During the year under review, the Group had launched a series of marketing initiatives to boost up card and personal loan sales, including the introduction of new products and line up with new partners. On credit card business, the Group had designed tailor-made card acquisition programs with its affinity partners to increase card base and card usage. In addition to private sale, catalogue sale and lucky draws, the Group had also launched new spending campaigns with leading merchants to boost up recurrent transactions and activate sleeping customers. To increase card cash advance sales, the Group extended its ATM network along transportation areas and inside shopping centres, and also launched new promotion programs. With the enlarged customer base and distribution outlets, the Group had been active in cross-selling its personal loan products.

To boost the Group's competitiveness and increase its market share, the Group put efforts in brand strengthening. Besides using new image on AEON signboards and promotional materials, the Group used TV commercial to build its brand acceptance by linking AEON cards to daily usage. Moreover, the Group's new branches at Sheung Wan, Tsim Sha Tsui and Sky Plaza in Chek Lap Kok Airport have adopted new branch design elements.

Seven new branches have been opened in Aberdeen, Yau Ma Tei, Cheung Sha Wan, Sheung Wan, Tsim Sha Tsui, Sheung Shui and Chek Lap Kok Airport to extend the service coverage. In addition, the Group has successfully entered the MTR area and installed ATMs in seven stations.

It is anticipated that the healthy upward trend of domestic consumption will continue to improve the labour market and maintain a low unemployment rate. With the strengthening economy and capital market, together with the tax relief, demand for consumer finance is forecast to escalate. On the other hand, the challenges ahead for the market players will be the keen competition and increasing operating costs. Under this optimistic and competitive business environment, the Group will continue to expand its market segment for credit card and loan products, improve service quality, expand service coverage areas and maximize the returns of its shareholders.

Moreover, this year is the 20th anniversary of the Company. 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. To this end, the Group will continue to launch new innovative products and services in the market.

The Group will tie up with strong leading partners to issue new co-branded cards to capture new customer segments and widen its distribution network. A series of marketing programs will also be launched which will direct towards card activation in the whole card portfolio through the offering of appealing cardholder privileges, co-branded card member benefits and bonus point system. Moreover, new product initiatives such as gift card and ladies protection insurance plan will be launched to promote recurrent transactions.

In the coming year, the Group plans to open four more branches, which will bring the branch network to thirty-two branches. This will create new channels for target marketing and foster closer co-operation with discount and affinity merchants. To create a convenient network for cash advance usage, the Group will continue to extend its ATM network along the KCR and MTR areas and inside shopping centres. Moreover, the Group will enhance the functionality of its ATMs to perform instant cash advance instalment plans through credit cards

As part of the Group's business continuity plan, an operation centre has been set up in Guangzhou as a back-up for the Shenzhen and Hong Kong call centres and also to provide 24 hour hot-line service. Moreover, the Group has set up a data back-up centre in Kwai Chung to enhance disaster recovery.

In addition, following the technology upgrade in judgement and data-warehouse, operating efficiencies will further be improved through the relocation of judgement and direct marketing functions to the Group's call centre in Shenzhen.

FUNDING AND CAPITAL FINANCING

The Group relies principally on its internally generated capital, structured finance and bank borrowings to fund its business. At 20th February 2007, 31.1% of the funding is derived from shareholders' equity, 17.9% from structured finance and 51.0% from direct borrowings with financial institutions.

The principal source of internally generated capital is from accumulated profits. For structured finance, the Group entered into a HK\$850,000,000 collateralised debt obligation transaction. The transaction is for a period of five years and will commence amortisation in 2012. The collateralised debt obligation amounted to HK\$846.8 million at 20th February 2007 and carried a fixed interest coupon. This was secured by credit card receivables of HK\$1,284.8 million and restricted cash of HK\$120.0 million.

At 20th February 2007, the Group had bank borrowings and bank overdrafts amounted to HK\$2,421.9 million. Including the collateralised debt obligation, 21.6% of these indebtedness will mature within one year, 12.7% between one and two years, 11.0% between two and three years, 11.2% between three and four years, 16.6% between four and five years and 26.9% over five years. The average duration of indebtedness is around 3.0 years. The Group's bank borrowings were denominated in Hong Kong dollars, except for a syndicated term loan of Yen 7.5 billion which was hedged by a cross-currency interest rate swap.

The Group continued to maintain a strong financial position. At 20th February 2007, total debt-to-equity ratio was 2.35. 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 Hong Kong dollars. During the year under review, the Group engaged in derivative financial instruments mainly to hedge its exposure on interest rate and exchange rate fluctuations. At 20th February 2007, capital commitments entered were mainly related to the purchase of property, plant and equipment, and the purchase of available-forsale investment.

The total number of staff at 20th February 2007 and 20th February 2006 was 376 and 320 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 establishes Staff Social

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the accounting year ended 20th February 2007, except for the deviation from the code provisions A.4.1, A.4.2 and E.1.2 which are explained below.

The code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The code provision A.4.2 provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. 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 Code.

The Articles of Association of the Company was amended in 2006 to comply with the first sentence of the code provision A.4.2 to the effect that any Director appointed by the Board to fill a casual vacancy or as an addition to the Board shall be subject to election by shareholders at the first annual general meeting after his appointment.

At the Company's 2006 Annual General Meeting, the Chairman of the Board did not attend the meeting as he was overseas but he appointed the Managing Director to chair the meeting. This constitutes a deviation from the code provision E.1.2, which provides that the chairman of the board should attend the annual general meeting.

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. 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.

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 balance sheet, consolidated income statement and the related notes thereto for the year ended 20th February 2007 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT ON THE STOCK EXCHANGE'S WEBSITE

The 2006/07 annual report of the Group will be published on the Stock Exchange's website 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), Ms. Koh Yik Kung, Mr. Pan Shu Pin, Ban, Mr. Tomoyuki Kawahara and Mr. Fung Kam Shing, Barry; the Non-executive Directors are Mr. Yoshiki Mori (Chairman) and Mr. Kazuhide Kamitani; and the Independent Non-executive Directors are Mr. Tsang Wing Hong, Mr. Wong Hin Wing and Dr. Hui Ching Shan.

> By order of the Board MASANORI KOSAKA Managing Director