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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 2014

The board (the “Board”) of directors (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 (collectively referred to as the “Group”) for the year ended 20th February 2014, together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 20th February 2014

		Year ended 20th February	
		2014	2013
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	6	1,164,653	1,121,348
Interest income	8	1,033,863	998,674
Interest expense	9	(95,665)	(101,901)
Net interest income		938,198	896,773
Other operating income	10	136,862	130,054
Other gains and losses	11	(794)	11,839
Operating income		1,074,266	1,038,666
Operating expenses	12	(530,126)	(443,494)
Operating profit before impairment allowances		544,140	595,172
Impairment losses and impairment allowances		(314,723)	(282,456)
Recoveries of advances and receivables written-off		47,581	48,134
Share of results of associates		(2,508)	(5,489)
Profit before tax		274,490	355,361
Income tax expense	13	(52,542)	(60,089)
Profit for the year		221,948	295,272
Attributable to:			
Owners of the Company		221,948	295,272
Earnings per share – Basic	15	53.00 HK cents	70.51 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 20th February 2014

	Year ended 20th February	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the year	<u>221,948</u>	<u>295,272</u>
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss) gain on available-for-sale investments	(18,204)	711
Exchange difference arising from translation of foreign operations	6,421	1,763
Net adjustment on cash flow hedges	<u>52,869</u>	<u>28,326</u>
Other comprehensive income for the year	<u>41,086</u>	<u>30,800</u>
Total comprehensive income for the year	<u>263,034</u>	<u>326,072</u>
Total comprehensive income for the year attributable to:		
Owners of the Company	<u>263,034</u>	<u>326,072</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th February 2014

		20th February 2014	20th February 2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	16	111,368	96,642
Investments in associates		15,162	17,125
Available-for-sale investments	17	26,105	44,309
Advances and receivables	18	1,292,429	1,314,805
Prepayments, deposits and other debtors	21	44,183	42,540
Derivative financial instruments	24	1,025	32
Restricted deposits		68,000	68,000
		<u>1,558,272</u>	<u>1,583,453</u>
Current assets			
Advances and receivables	18	3,975,192	3,500,862
Prepayments, deposits and other debtors	21	39,718	35,450
Amount due from immediate holding company		1,395	–
Amounts due from fellow subsidiaries		73	–
Amount due from an associate		–	979
Restricted deposits		–	115,958
Time deposits		361,660	372,083
Fiduciary bank balances		3,074	3,712
Bank balances and cash		158,394	156,309
		<u>4,539,506</u>	<u>4,185,353</u>
Current liabilities			
Creditors and accruals	22	170,094	147,994
Amounts due to fellow subsidiaries		59,854	51,616
Amount due to intermediate holding company		–	2,963
Amount due to ultimate holding company		49	90
Amount due to an associate		1,434	–
Bank borrowings	23	797,500	711,130
Bank overdrafts		5,025	2,370
Derivative financial instruments	24	1,740	8,875
Tax liabilities		6,473	21,361
		<u>1,042,169</u>	<u>946,399</u>
Net current assets		<u>3,497,337</u>	<u>3,238,954</u>
Total assets less current liabilities		<u>5,055,609</u>	<u>4,822,407</u>

		20th February 2014	20th February 2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Capital and reserves			
Issued capital		41,877	41,877
Share premium and reserves		2,303,698	2,187,232
Total equity		2,345,575	2,229,109
Non-current liabilities			
Collateralised debt obligation	26	1,098,887	1,098,461
Bank borrowings	23	1,487,750	1,327,750
Derivative financial instruments	24	118,597	164,687
Deferred tax liabilities	25	4,800	2,400
		2,710,034	2,593,298
		5,055,609	4,822,407

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 20th February 2014

	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 2012	41,877	227,330	270	17,938	(194,305)	10,323	1,946,172	2,049,605
Profit for the year	-	-	-	-	-	-	295,272	295,272
Fair value gain on available-for-sale investments	-	-	-	711	-	-	-	711
Exchange difference arising from translation of foreign operations	-	-	-	-	-	1,763	-	1,763
Net adjustment on cash flow hedges	-	-	-	-	28,326	-	-	28,326
Total comprehensive income for the year	-	-	-	711	28,326	1,763	295,272	326,072
Final dividend paid for 2011/12	-	-	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for 2012/13	-	-	-	-	-	-	(71,190)	(71,190)
	-	-	-	711	28,326	1,763	148,704	179,504
At 20th February 2013	41,877	227,330	270	18,649	(165,979)	12,086	2,094,876	2,229,109
Profit for the year	-	-	-	-	-	-	221,948	221,948
Fair value loss on available-for-sale investments	-	-	-	(18,204)	-	-	-	(18,204)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	6,421	-	6,421
Net adjustment on cash flow hedges	-	-	-	-	52,869	-	-	52,869
Total comprehensive (expense) income for the year	-	-	-	(18,204)	52,869	6,421	221,948	263,034
Final dividend paid for 2012/13	-	-	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for 2013/14	-	-	-	-	-	-	(71,190)	(71,190)
	-	-	-	(18,204)	52,869	6,421	75,380	116,466
At 20th February 2014	41,877	227,330	270	445	(113,110)	18,507	2,170,256	2,345,575

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 20th February 2014

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Operating activities		
Profit before tax	274,490	355,361
Adjustments for:		
Amortisation of upfront cost of collateralised debt obligation	426	426
Depreciation	40,665	36,293
Dividends received on available-for-sale investments	(171)	(966)
Gain on disposal of available-for-sale investments	–	(14,100)
Impairment losses and impairment allowances recognised in respect of advances and receivables	314,723	282,456
Interest expense	95,239	101,475
Interest income	(1,033,863)	(998,674)
Net losses on disposal of property, plant and equipment	561	37
Share of results of associates	2,508	5,489
Operating cash flows before movements in working capital	(305,422)	(232,203)
Increase in advances and receivables	(766,774)	(334,001)
Increase in prepayments, deposits and other debtors	(7,787)	(12,752)
Increase in amount due from immediate holding company	(1,395)	–
Increase in amounts due from fellow subsidiaries	(73)	–
Decrease (increase) in amount due from an associate	979	(979)
Decrease (increase) in fiduciary bank balances	638	(1,466)
Increase (decrease) in creditors and accruals	23,573	(6,397)
Increase in amounts due to fellow subsidiaries	8,238	1,343
Decrease in amount due to immediate holding company	–	(123)
(Decrease) increase in amount due to intermediate holding company	(2,963)	2,963
(Decrease) increase in amount due to ultimate holding company	(41)	39
Increase (decrease) in amount due to an associate	1,434	(878)
Cash used in operations	(1,049,593)	(584,454)
Tax paid	(65,030)	(51,869)
Interest paid	(97,811)	(100,395)
Interest received	1,035,985	997,523
Net cash (used in) generated from operating activities	(176,449)	260,805

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Investing activities		
Dividends received	171	966
Proceeds from disposal of available-for-sale investments	–	74,882
Proceeds from disposal of property, plant and equipment	10	–
Purchase of property, plant and equipment	(45,816)	(24,395)
Deposits paid for acquisition of property, plant and equipment	(10,222)	(11,371)
Increase in time deposit with maturity of more than three months	(3,845)	–
Net cash (used in) generated from investing activities	(59,702)	40,082
Financing activities		
Placement of restricted deposits	(2,509,669)	(2,543,928)
Withdrawal of restricted deposits	2,625,627	2,427,970
Dividends paid	(146,568)	(146,568)
New bank loans raised	65,731,636	21,762,080
Repayment of bank loans	(65,485,516)	(21,630,500)
Net cash generated from (used in) financing activities	215,510	(130,946)
Net (decrease) increase in cash and cash equivalents	(20,641)	169,941
Effect of changes in exchange rate	5,803	1,808
Cash and cash equivalents at beginning of the year	526,022	354,273
Cash and cash equivalents at end of the year	511,184	526,022
Being:		
Time deposits with maturity of three months or less	357,815	372,083
Bank balances and cash	158,394	156,309
Bank overdrafts	(5,025)	(2,370)
	511,184	526,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 20th February 2014

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 2014 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 (the "Companies Ordinance").

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

The Group has applied the following new and revised HKFRSs issued by HKICPA for the first time in the current year.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10,	Consolidated Financial Statements, Joint Arrangements and
HKFRS 11 and HKFRS 12	Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the other new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and/or on the disclosures set out in these financial statements.

Amendments to HKFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKFRS 7 "Disclosures – Offsetting Financial Assets and Financial Liabilities" for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

- a) recognised financial instruments that are set off in accordance with HKAS 32 "Financial Instruments: Presentation"; and
- b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The amendments to HKFRS 7 have been applied retrospectively. The application of the amendments has had no impact on the amounts reported in the Group's consolidated financial statements but has resulted in more disclosures relating to the Group's master netting agreements or similar agreements.

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

In the current year, the Group has applied for the first time the package of five standards on consolidation, joint arrangements, associates and disclosures comprising HKFRS 10 “Consolidated Financial Statements”, HKFRS 11 “Joint Arrangements”, HKFRS 12 “Disclosure of Interests in Other Entities”, HKAS 27 (as revised in 2011) “Separate Financial Statements” and HKAS 28 (as revised in 2011) “Investments in Associates and Joint Ventures”, together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding transitional guidance.

HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of the relevant standards is set out below.

Impact of the application of HKFRS 10

HKFRS 10 replaces the parts of HKAS 27 “Consolidated and Separate Financial Statements” that deal with consolidated financial statements and HK(SIC) Int-12 “Consolidation – Special Purpose Entities”. HKFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

The Directors have made an assessment of the application of HKFRS 10 and concluded that the application of the standard has had no significant impact on the financial results or position of the Group for the current and prior years.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 “Share-based Payment”, leasing transactions that are within the scope of HKAS 17 “Leases”, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012/13 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 “Presentation of Items of Other Comprehensive Income”. Upon the adoption of the amendments to HKAS 1, the Group’s ‘consolidated statement of comprehensive income’ is renamed as the ‘consolidated statement of profit or loss and other comprehensive income’ and the ‘consolidated income statement’ is renamed as the ‘consolidated statement of profit or loss’. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. Furthermore, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ¹
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions ²
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets ¹
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle ⁴
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle ²
HKFRS 9	Financial Instruments ³
HKFRS 14	Regulatory Deferral Accounts ⁵
HK(IFRIC)-Int 21	Levies ¹

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

² Effective for annual periods beginning on or after 1st July 2014

³ Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

⁴ Effective for annual periods beginning on or after 1st July 2014, with limited exceptions

⁵ Effective for first annual HKFRS financial statements beginning on or after 1st January 2016

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

All recognised financial assets that are within the scope of HKAS 39 “Financial Instruments: Recognition and Measurement” are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The Directors anticipate that the adoption of HKFRS 9 in the future will affect the classification and measurement of the Group’s available-for-sale equity investments that are currently stated at cost less impairment. At the date of issuance of these financial statements, the Directors are in the process of assessing the potential financial impact.

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

4. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 20th February 2013 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 statement of profit or loss, 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	
	2014	2013
	HK\$'000	HK\$'000
Interest income	1,033,863	998,674
Fees and commissions	80,013	74,287
Handling and late charges	50,777	48,387
	<u>1,164,653</u>	<u>1,121,348</u>

7. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

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

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

Segment revenue and results

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

For the year ended 20th February 2014

	Credit card HK\$'000	Instalment loan HK\$'000	Insurance HK\$'000	Hire purchase HK\$'000	Consolidated HK\$'000
REVENUE	763,139	364,069	37,066	379	1,164,653
RESULT					
Segment results	255,664	15,652	16,073	86	287,475
Unallocated operating income					4,614
Unallocated expenses					(15,091)
Share of results of associates					(2,508)
Profit before tax					274,490

For the year ended 20th February 2013

	Credit card HK\$'000	Instalment loan HK\$'000	Insurance HK\$'000	Hire purchase HK\$'000	Consolidated HK\$'000
REVENUE	732,615	347,011	40,800	922	1,121,348
RESULT					
Segment results	260,339	84,227	15,045	536	360,147
Unallocated operating income					20,963
Unallocated expenses					(20,260)
Share of results of associates					(5,489)
Profit before tax					355,361

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

8. INTEREST INCOME

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Advances	1,026,886	993,712
Impaired advances	4,607	3,239
Time deposits and bank balances	2,370	1,723
	<u>1,033,863</u>	<u>998,674</u>

9. INTEREST EXPENSE

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Interest on bank borrowings and overdrafts wholly repayable within five years	10,805	16,456
Interest on bank borrowings wholly repayable after five years	538	455
Interest on collateralised debt obligation wholly repayable within five years	6,432	6,915
Net interest expense on interest rate swap contracts	77,890	78,075
	<u>95,665</u>	<u>101,901</u>

Amortisation of upfront cost of **HK\$426,000** (2013: HK\$426,000) is included in the interest expense on collateralised debt obligation wholly repayable within five years.

10. OTHER OPERATING INCOME

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	171	928
Unlisted equity securities	–	38
Fees and commissions		
Credit card	42,947	33,487
Insurance	37,066	40,800
Handling and late charges	50,777	48,387
Others	5,901	6,414
	<u>136,862</u>	<u>130,054</u>

11. OTHER GAINS AND LOSSES

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Exchange (losses) gains		
Exchange (losses) gains on hedging instruments released from cash flow hedge reserve	(30)	60
Exchange gains (losses) on bank loans	30	(60)
Exchange losses, net	(23)	(2,014)
Gain on disposal of available-for-sale investments	–	14,100
Hedge ineffectiveness on cash flow hedges	(210)	(210)
Net losses on disposal of property, plant and equipment	(561)	(37)
	<u>(794)</u>	<u>11,839</u>

12. OPERATING EXPENSES

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Auditor's remuneration	2,813	2,351
Depreciation	40,665	36,293
General administrative expenses	147,117	123,329
Marketing and promotion expenses	75,583	54,629
Operating lease rentals in respect of rented premises, advertising space and equipment	64,876	55,123
Other operating expenses	59,693	46,967
Staff costs including Directors' emoluments	139,379	124,802
	<u>530,126</u>	<u>443,494</u>

13. INCOME TAX EXPENSE

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Current tax:		
– Current year	50,942	60,482
– Overprovision in respect of prior years	(800)	(1,393)
	<u>50,142</u>	<u>59,089</u>
Deferred tax		
– Current year	2,400	1,000
	<u>52,542</u>	<u>60,089</u>

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

Under the Law of China on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the China subsidiaries is 25% for both years.

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

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Profit before tax	274,490	355,361
Tax at the applicable rate of 16.5% (2013: 16.5%)	45,291	58,635
Tax effect of share of results of associates	414	906
Tax effect of expenses not deductible for tax purpose	33	364
Tax effect of income not taxable for tax purpose	(116)	(2,690)
Overprovision in respect of prior years	(800)	(1,393)
Tax effect of tax losses in current year not recognised	7,050	2,478
Others	670	1,789
Income tax expense for the year	52,542	60,089

14. DIVIDENDS

	Year ended 20th February	
	2014	2013
	HK\$'000	HK\$'000
Dividends recognised as distribution during the year:		
Final dividend paid in respect of 2013 of 18.0 HK cents (2012: 18.0 HK cents) per share	75,378	75,378
Interim dividend paid in respect of 2014 of 17.0 HK cents (2013: 17.0 HK cents) per share	71,190	71,190
	146,568	146,568
Final dividend proposed in respect of 2014 of 18.0 HK cents (2013: 18.0 HK cents) per share	75,378	75,378

The Directors have recommended a final dividend of 18.0 HK cents per share. Subject to the approval of the shareholders at the forthcoming annual general meeting of the Company to be held on 17th June 2014 (the “2014 AGM”), the final dividend will be paid on 3rd July 2014 to shareholders whose names appear on the register of members of the Company (the “Register of Members”) on 23rd June 2014. This dividend has not been included as a liability in the consolidated financial statements.

15. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the profit for the year of **HK\$221,948,000** (2013: HK\$295,272,000) and on the number of shares of **418,766,000** (2013: 418,766,000) in issue during the year.

16. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately **HK\$45,965,000** on computer equipment, **HK\$5,931,000** on leasehold improvements and **HK\$3,895,000** on furniture and fixtures.

17. AVAILABLE-FOR-SALE INVESTMENTS

	20th February 2014 HK\$'000	20th February 2013 HK\$'000
Listed equity securities, at fair value		
Hong Kong	16,961	35,165
Unlisted equity securities, at cost	9,144	9,144
	<u>26,105</u>	<u>44,309</u>

18. ADVANCES AND RECEIVABLES

	20th February 2014 HK\$'000	20th February 2013 HK\$'000
Credit card receivables	3,520,833	3,055,112
Instalment loans receivable	1,775,736	1,762,881
Hire purchase debtors	2,545	6,118
	<u>5,299,114</u>	<u>4,824,111</u>
Accrued interest and other receivables	115,867	118,392
	<u>5,414,981</u>	<u>4,942,503</u>
Gross advances and receivables		
Impairment allowances (<i>Note 19</i>)		
– individually assessed	(81,207)	(56,365)
– collectively assessed	(66,153)	(70,471)
	<u>(147,360)</u>	<u>(126,836)</u>
	<u>5,267,621</u>	<u>4,815,667</u>
Current portion included under current assets	(3,975,192)	(3,500,862)
	<u>1,292,429</u>	<u>1,314,805</u>

Included in the advances and receivables of the Group, there are secured credit card receivables and instalment loans receivable of **HK\$29,700,000** (20th February 2013: HK\$73,437,000) and **HK\$47,191,000** (20th February 2013: HK\$53,275,000) respectively. The Group holds collateral over these balances. The Directors consider the exposure of credit risk of these secured receivables, after taking into account the value of the collateral, is insignificant, as the fair value of the collateral (property interest) is higher than the outstanding amount of these receivables at the end of the reporting period. Other advances and receivables are unsecured.

19. IMPAIRMENT ALLOWANCES

	20th February 2014 HK\$'000	20th February 2013 HK\$'000	
Analysis by products as:			
Credit card receivables	61,084	58,979	
Instalment loans receivable	84,058	62,434	
Hire purchase debtors	57	266	
Accrued interest and other receivables	2,161	5,157	
	147,360	126,836	
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 21st February 2013	56,365	70,471	126,836
Impairment losses and impairment allowances	319,041	(4,318)	314,723
Amounts written-off as uncollectable	(294,199)	–	(294,199)
At 20th February 2014	81,207	66,153	147,360
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 21st February 2012	62,768	66,688	129,456
Impairment losses and impairment allowances	278,673	3,783	282,456
Amounts written-off as uncollectable	(285,076)	–	(285,076)
At 20th February 2013	56,365	70,471	126,836

20. OVERDUE ADVANCES AND RECEIVABLES

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

	20th February 2014 HK\$'000	%*	20th February 2013 HK\$'000	%*
Overdue 1 month but less than 2 months	142,006	2.6	146,499	3.0
Overdue 2 months but less than 3 months	46,056	0.9	30,970	0.6
Overdue 3 months but less than 4 months	30,204	0.6	21,618	0.4
Overdue 4 months or above	84,384	1.5	61,959	1.3
	302,650	5.6	261,046	5.3

* Percentage of gross advances and receivables

21. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	20th February 2014 HK\$'000	20th February 2013 HK\$'000
Deposits for property, plant and equipment	31,150	30,903
Rental and other deposits	22,543	18,405
Prepaid operating expenses	22,022	12,553
Other debtors	8,186	16,129
	83,901	77,990
Current portion included under current assets	(39,718)	(35,450)
	44,183	42,540

22. CREDITORS AND ACCRUALS

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

	20th February 2014 HK\$'000	20th February 2013 HK\$'000
Current	53,842	46,221
Over 1 month but less than 3 months	4,169	6,550
Over 3 months	5,770	4,507
	63,781	57,278

Included in creditors and accruals, there is deferred revenue in relation to customer loyalty programmes of **HK\$7,591,000** (20th February 2013: HK\$6,818,000).

23. BANK BORROWINGS

	20th February 2014 HK\$'000	20th February 2013 HK\$'000
Bank loans, unsecured	2,285,250	2,038,880
Carrying amount repayable (<i>Note</i>)		
Within one year	797,500	711,130
Between one and two years	330,000	235,000
Between two and five years	1,042,750	1,047,750
Over five years	115,000	45,000
	2,285,250	2,038,880
Amount repayable within one year included under current liabilities	(797,500)	(711,130)
	1,487,750	1,327,750

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

24. DERIVATIVE FINANCIAL INSTRUMENTS

	20th February 2014		20th February 2013	
	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate swaps	1,025	119,034	–	172,886
Cross-currency interest rate swaps	–	1,303	32	676
	<u>1,025</u>	<u>120,337</u>	<u>32</u>	<u>173,562</u>
Current portion	–	(1,740)	–	(8,875)
	<u>–</u>	<u>(1,740)</u>	<u>–</u>	<u>(8,875)</u>
Non-current portion	<u>1,025</u>	<u>118,597</u>	<u>32</u>	<u>164,687</u>

All derivative financial instruments entered by the Group that remain outstanding at 20th February 2014 and 20th February 2013 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings and collateralised debt obligation, the designated hedged items.

Cash flow hedges:

Interest rate swaps

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

Cross-currency interest rate swaps

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

25. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during each of the two years ended 20th February 2014 and 2013:

	Accelerated tax depreciation HK\$'000	Impairment allowances HK\$'000	Total HK\$'000
At 21st February 2012	12,400	(11,000)	1,400
Charge (credit) to profit or loss for the year	1,600	(600)	1,000
At 20th February 2013	14,000	(11,600)	2,400
Charge to profit or loss for the year	1,100	1,300	2,400
At 20th February 2014	15,100	(10,300)	4,800

26. COLLATERALISED DEBT OBLIGATION

- a) The Company entered into a HK\$1,100,000,000 collateralised debt obligation financing transaction (the “Transaction”). The Transaction consists of two tranches – Tranche A and Tranche B. The amount under Tranche A and Tranche B is HK\$550,000,000 each. The revolving periods for Tranche A and Tranche B will end in January 2016 and January 2017 respectively. The two tranches are arranged at floating interest rates of 0.35% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Two corresponding interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties are arranged to swap these two tranches from floating rates to fixed rates at 3.7% to 3.9% per annum respectively. The effective interest rate after taking into account the interest rate swaps was 3.8% per annum during the year.
- b) Pursuant to the 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 HKFRS 10, the Trust is controlled by the Company and the results thereof are consolidated by the Company in its consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group’s consolidated financial statements. The Transaction is backed by the credit card receivables transferred and with the carrying amount denominated in HKD.

27. PLEDGE OF ASSETS

As at 20th February 2014, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,858,759,000** and **HK\$68,000,000** respectively (20th February 2013: HK\$1,730,590,000 and HK\$183,958,000).

28. EVENT AFTER THE REPORTING PERIOD

On 27th February 2014, the Company entered into a capital injection agreement with AEON Financial Service Co., Ltd. (“AFS”), pursuant to which the Company and AFS agreed to inject an aggregate amount of RMB62,000,000 (equivalent to approximately HK\$78,585,000) into the capital of AEON Credit Guarantee (China) Co., Ltd. (“ACG”). The Company and AFS will each contribute RMB31,000,000, which is in proportion to their respective interests in ACG.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders who are entitled to attend and vote at the 2014 AGM, the Register of Members will be closed from Friday, 13th June 2014 to Tuesday, 17th June 2014, both days inclusive. During this period, no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the 2014 AGM, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 12th June 2014.

For the purpose of determining the shareholders who qualify for the proposed final dividend, the Register of Members will be closed on Monday, 23rd June 2014. During this period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 20th June 2014.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 20th February 2014, except for the deviations from code provisions A.4.1, A.4.2, A.6.7 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 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 A.6.7 provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. The Chairman of the Board, who was a non-executive Director, did not attend the annual general meeting held on 18th June 2013 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 to the Listing Rules as its own code for securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 20th February 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

Economic Review

In 2013, the global economy has gradually improved. In particular, there has been some positive momentum in the United States. In China, the shift from infrastructure-led growth to one driven by consumption caused the growth prospects to settle at a slightly lower level. In Hong Kong, the economy expanded moderately by 2.9% year-on-year in real terms. Domestic demand and exports of services continued to provide key driving forces for overall economic growth. However, the performance of external sectors remained modest, reflecting weak demands in Europe and the asset purchase tapering by the Federal Reserve of the United States (“Feds”).

Despite the low growth environment, value has been delivered by the Group in recognising the importance of enhancing the financial well being of its customers, and continue to focus on technology enhancement, productivity and process simplification. The Group has taken appropriate measures to control its costs and asset quality while expanding its product pipeline and customer base.

Financial Review

The Group recorded a profit attributable to owners of HK\$221.9 million for the year ended 20th February 2014, representing a decrease of HK\$73.4 million when compared to HK\$295.3 million in the previous year. The Group’s basic earnings per share changed from 70.51 HK cents per share in 2012/13 to 53.00 HK cents per share.

The Group recorded a double-digit growth in both card cash advance and credit purchase sales following the launch of a series of successful marketing programmes to stimulate revolving transactions and credit purchase spending. However, the growth on local personal loan sales slowed down due to keen competition. Nevertheless, it was compensated by the steady sales performance of microfinance business in China. As a result, the Group recorded interest income of HK\$1,033.9 million for the year ended 20th February 2014, an increase of HK\$35.2 million when compared with last year. With the renewals of long-term indebtedness at lower interest rates in previous years and lower funding cost, interest expense for the year ended 20th February 2014 was HK\$95.7 million, a decrease of 6.1% or HK\$6.2 million when compared with last year, with average funding cost being 3.0% as compared with 3.2% in

the previous year. Net interest income of the Group recorded a growth of HK\$41.4 million to HK\$938.2 million from HK\$896.8 million in 2012/13. The increase in fees and commissions and handling and late charges had resulted in the increase in other operating income by 5.2% from HK\$130.1 million in 2012/13 to HK\$136.9 million in 2013/14.

The Group set up a second microfinance subsidiary in Tianjin in the second half of 2012/13. In April of last year, another microfinance subsidiary started its business in Shenzhen. The running costs of these newly set up microfinance subsidiaries, together with the expansion and relocation costs of local branch network and the marketing expenses of various marketing activities had contributed to an increase in the operating expenses by 19.5% or HK\$86.6 million from HK\$443.5 million in 2012/13 to HK\$530.1 million in 2013/14.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$544.1 million for the year, representing a decrease of 8.6% or HK\$51.1 million from HK\$595.2 million in the previous year. During the year under review, increase on overdue balances and the provision of impairment allowances on the advances of microfinance subsidiaries, impairment losses and impairment allowances for the year increased by 11.4% or HK\$32.2 million from HK\$282.5 million in 2012/13 to HK\$314.7 million. Recoveries of advances and receivables written-off was HK\$47.6 million, a slight decrease of 1.1% or HK\$0.5 million when compared with HK\$48.1 million in 2012/13.

Following the launch of strategic marketing programmes, the Group recorded an increase in gross advances, mainly in credit card receivables, by HK\$475.0 million to HK\$5,299.1 million, as compared to HK\$4,824.1 million as at 20th February 2013. Impairment allowances amounted to HK\$147.4 million as at 20th February 2014, as compared with HK\$126.8 million as at 20th February 2013. Total equity was strengthened by 5.2% to HK\$2,345.6 million as at 20th February 2014 mainly due to the increase in accumulated profits and reserves.

Segment Information

The Group's business comprises mainly four operating segments, namely credit card, instalment loans, insurance and hire purchase. In 2013/14, credit card operation accounted for 65.5% of the Group's revenue, as compared to 65.3% in 2012/13. For segment results, credit card operation accounted for 88.9% of the Group's whole operations in 2013/14, as compared to 72.3% in 2012/13.

With the launch of various marketing programmes, credit card receivables increased substantially. As a result, interest income, fees and commission and handling and late charges increased accordingly, resulting in an increase in revenue from credit card operation of 4.2% or HK\$30.5 million from HK\$732.6 million in 2012/13 to HK\$763.1 million in 2013/14. However, with the increase in operating expenses, the segment result for the year from credit card operation slightly decreased by 1.8% or HK\$4.6 million from HK\$260.3 million in 2012/13 to HK\$255.7 million in 2013/14.

Although there was a fierce local market competition for instalment loan, there was a growth in microfinance business in China. As a whole, the instalment loan interest income recorded an increase when compared with last year. Revenue from instalment loan operation recorded an increase of 4.9% or HK\$17.1 million from HK\$347.0 million in 2012/13 to HK\$364.1 million in 2013/14. However, with the increase in provision of impairment allowance for

microfinance subsidiaries and additional operation costs for the newly set up microfinance subsidiaries in China, the segment result for the year from instalment loan operation recorded a decrease of 81.4% or HK\$68.5 million from HK\$84.2 million in 2012/13 to HK\$15.7 million in 2013/14.

Revenue from insurance operation recorded a decrease of HK\$3.7 million from HK\$40.8 million in 2012/13 to HK\$37.1 million in 2013/14. With the exercise of tight control on the operating expenses, segment result for the year from insurance operation increased by 6.8% or HK\$1.1 million from HK\$15.0 million in 2012/13 to HK\$16.1 million in 2013/14.

With a continuous shift from hire purchase to card instalment plan, revenue from hire purchase operation recorded a decrease of HK\$0.5 million, from HK\$0.9 million in 2012/13 to HK\$0.4 million in 2013/14. Segment result for the year from hire purchase operation recorded a decrease from HK\$0.5 million in 2012/13 to HK\$0.1 million in 2013/14.

Business Review

Our strategy is built around the application of effective marketing and exceptional customer service to cultivate opportunities and sustain growth. In 2013/14, the Group launched multi-channel marketing campaigns designed to drive acquisition and customer engagement. Moreover, collaborations with fellow subsidiary of the Company, AEON Stores (Hong Kong) Co., Ltd, provided card members with a unique and rewarding shopping experience not available anywhere else.

Promotion highlights in the past year included the AEON Card Monthly Lucky Draw, the Ocean Park Halloween Event, KFC and Circle K payWave Promotion, AEON X Watami Promotion, and the Carving Up 10 Million Bonus Point Winter Campaign. Overall results were positive and the responses received were overwhelming. In addition to mass promotions, a plethora of campaigns and merchant reward programmes were arranged alongside our co-brand partners to stimulate sales and build brand loyalty.

The AEON Ferrari World MasterCard was launched in 2013. A host of exciting offers are available exclusively to card members including complimentary memberships to the prestigious Scuderia Ferrari community, factory tours and the chance to meet the Ferrari F1 Team. The Group will continue to work with its partners to drive customer engagement, develop new revenue opportunities and deliver superb customer service.

As at 20th February 2014, the Group's network comprises 21 branches and 192 ATMs which are geographically diverse. The new Tin Shui Wai branch has commenced service in October 2013 and is set out to improve coverage in the northwest territories of Hong Kong.

During the year under review, the Group's insurance business subsidiary, AEON Insurance Brokers (HK) Limited ("AEON Brokers") continued to expand its customer base by introducing company insurance to corporate clients and business partners. Road-shows and seminars were organized to promote various products such as general insurance, life insurance and Mandatory Provident Fund schemes.

Moving on to China business, sales volume of the microfinance subsidiaries continued to grow in the past year. They are keenly expanding into different market sectors to capture both growth and new revenue streams. However, the early stage of business is operating at a loss albeit an increase in sales and implementation of tight cost control measures. The Affiliated Companies Department of the Company will continue to formulate marketing strategies catered to their respective localities and demographics. Risk management will remain a vital element in achieving a break-even point and possibly subsequent profits.

AEON Information Service (Shenzhen) Co., Ltd (“AIS”), an associate of the Company, continues to provide operation support to the Group. To cope with future expansion and to stay competitive, AIS has set up a new operation centre in Qingyuan. The new Qingyuan Operation Centre which occupies over 900 square metres has commenced service in July 2013. AIS anticipates a substantial reduction in overhead expenses and in the long run, better profit margins.

Prospects

Looking ahead, macro indicators suggest the local economy is expected to pick up further, albeit slowly. The global economy is recovering at a moderate pace and activity in the US economy is also set to grow. The persistently low interest rate environment and large-scale asset purchases by the Feds continue to lay the foundations for sustainable growth.

Although the lack of consumer and business confidence may continue to weigh on the economy in the near term, our long term economic view remains positive. Management’s focus in 2014/15 will be to continue the investments in the capabilities that underpin customer engagement. By doing so, we can further create value for our customers and shareholders.

The Group has initiated a comprehensive set of strategies to strength its positioning. For example, by adopting the area management methodology, we can better leverage our competitive edge to improve service and create new revenue streams while sustaining growth.

Going forward, the Group will continue to innovate and simplify our products and processes. The emphasis on service excellence, values of integrity and corporate responsibility will remain the foundation of the Group’s future development.

Shareholder’s interests are always top priority. The Group is confident in its business prospects and is looking forward to an overall satisfactory performance in 2014/15.

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

	20th February 2014 HK\$'000	20th February 2013 HK\$'000
Debt (<i>Note a</i>)	3,384,137	3,137,341
Cash and cash equivalents	(511,184)	(526,022)
Net debt	2,872,953	2,611,319
Equity (<i>Note b</i>)	2,345,575	2,229,109
Net debt to equity ratio	1.2	1.2

Notes:

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 23 and 26 respectively.

(b) Equity includes all capital and reserves of the Group.

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. As at 20th February 2014, 40.9% of its funding was derived from total equity, 39.9% from bank borrowings and 19.2% from structured finance.

The principal source of internally generated capital was from accumulated profits. As at 20th February 2014, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK\$2,285.3 million, with 14.0% being fixed in interest rates, 61.4% being converted from floating interest rates to fixed interest rates using interest rate swaps and the remaining 24.6% being renewed overnight. Including the collateralised debt obligation, 23.6% of these indebtedness will mature within one year, 26.0% between one and two years, 47.0% between two and five years and 3.4% over five years. The duration of indebtedness was around 2.2 years.

The Group's bank borrowings and collateralised debt obligation were denominated in HKD, except for a syndicated term loan of USD 50.0 million which was hedged by cross-currency interest rate swaps.

The net asset of the Group as at 20th February 2014 was HK\$2,345.6 million, as compared with HK\$2,229.1 million as at 20th February 2013. 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 therefore 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. As at 20th February 2014, capital commitments entered were mainly related to the purchase of property, plant and equipment.

HUMAN RESOURCES

The total number of employees of the Group as at 20th February 2014 and 20th February 2013 was 639 and 479 respectively. Employees are remunerated according to the job nature and market trends, with a built-in merit-based component incorporated in the annual increment review to reward and motivate individual performance. Apart from medical insurance and provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Group. The Group also provides in-house training programmes and external training sponsorships to strengthen its human resources.

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year ended 20th February 2014, 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 profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 20th February 2014 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 HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The 2013/14 annual report of the Group, containing the relevant information required by the Listing Rules and the Companies Ordinance, will be published on the respective websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

BOARD OF DIRECTORS

At the date of this announcement, the Board comprises Mr. Fung Kam Shing, Barry (Managing Director) and Ms. Koh Yik Kung as executive Directors; Mr. Masanori Kosaka (Chairman), Mr. Lai Yuk Kwong and Ms. Tomoko Misaki as non-executive Directors; and Mr. Ip Yuk Keung, Mr. Wong Hin Wing and Prof. Tong Jun as independent non-executive Directors.

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

Hong Kong, 16th April 2014