



AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 900)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 20TH AUGUST 2008

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group” or “AEON Credit”) for the six months ended 20th August 2008 and the state of affairs of the Group as at that date together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 20th August	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
Turnover	3	591,255	567,510
Interest income	5	528,240	509,347
Interest expense	6	(73,469)	(80,823)
Net interest income		454,771	428,524
Other operating income	7	66,408	60,409
Other gains and losses	8	11,794	6,262
Operating income		532,973	495,195
Operating expenses	9	(187,832)	(183,594)
Operating profit before impairment allowances		345,141	311,601
Impairment losses and impairment allowances		(186,779)	(168,250)
Recoveries of receivables written-off		20,760	18,065
Share of results of associates		(3,081)	(1,093)
Profit before tax		176,041	160,323
Income tax expense	10	(27,760)	(27,127)
Profit for the period		148,281	133,196
Dividend paid	11	62,814	73,284
Earnings per share	12	35.41 HK Cents	31.81 HK Cents
Interim dividend per share declared after balance sheet date	11	16.0 HK Cents	15.0 HK Cents

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	20th August 2008 (Unaudited) HK\$'000	20th February 2008 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	13	75,869	84,214
Investments in associates		41,679	42,904
Available-for-sale investments	14	80,129	87,406
Advances and receivables	15	840,821	716,587
Deferred tax assets	19	6,200	4,500
Restricted deposits		68,000	68,000
		1,112,698	1,003,611
Current assets			
Derivative financial instruments	21	13,515	14,487
Advances and receivables	15	3,952,869	4,013,201
Prepayments, deposits and other debtors	17	64,214	59,101
Time deposits		172,101	167,778
Bank balances and cash		58,492	78,014
		4,261,191	4,332,581
Current liabilities			
Creditors and accrued charges		114,006	107,998
Amount due to a fellow subsidiary		51,709	50,387
Amount due to immediate holding company		2,212	–
Amount due to ultimate holding company		15	57
Amount due to an associate		630	239
Bank borrowings – repayable within one year	20	1,130,500	1,032,000
Bank overdrafts		2,857	2,950
Derivative financial instruments	21	20,395	28,531
Tax liabilities		46,468	28,259
		1,368,792	1,250,421
Net current assets		2,892,399	3,082,160
Total assets less current liabilities		4,005,097	4,085,771
Capital and reserves			
Issued capital		41,877	41,877
Share premium and reserves		1,667,351	1,575,082
		1,709,228	1,616,959
Non-current liabilities			
Collateralised debt obligation	22	846,869	846,562
Bank borrowings – repayable after one year	20	1,449,000	1,622,250
		2,295,869	2,468,812
		4,005,097	4,085,771

CONDENSED 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	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
	← (Unaudited) →							
At 21st February 2007	41,877	227,330	270	1,066	(6,524)	–	1,212,975	1,476,994
Gain on available-for-sale investments	–	–	–	2,131	–	–	–	2,131
Net adjustment on cash flow hedges	–	–	–	–	2,959	–	–	2,959
Net income recognised directly in equity	–	–	–	2,131	2,959	–	–	5,090
Profit for the period	–	–	–	–	–	–	133,196	133,196
Total recognised income for the period	–	–	–	2,131	2,959	–	133,196	138,286
Final dividend paid for 2006/07	–	–	–	–	–	–	(73,284)	(73,284)
	–	–	–	2,131	2,959	–	59,912	65,002
At 20th August 2007	41,877	227,330	270	3,197	(3,565)	–	1,272,887	1,541,996
At 21st February 2008	41,877	227,330	270	31,622	(57,116)	4,839	1,368,137	1,616,959
Loss on available-for-sale investments	–	–	–	(3,128)	–	–	–	(3,128)
Exchange difference arising from translation of foreign operations	–	–	–	–	–	1,856	–	1,856
Net adjustment on cash flow hedges	–	–	–	–	16,906	–	–	16,906
Net (expense) income recognised directly in equity	–	–	–	(3,128)	16,906	1,856	–	15,634
Profit for the period	–	–	–	–	–	–	148,281	148,281
Transfer to consolidated income statement on sales of available-for-sale investments	–	–	–	(8,832)	–	–	–	(8,832)
Total recognised (expense) income for the period	–	–	–	(11,960)	16,906	1,856	148,281	155,083
Final dividend paid for 2007/08	–	–	–	–	–	–	(62,814)	(62,814)
	–	–	–	(11,960)	16,906	1,856	85,467	92,269
At 20th August 2008	41,877	227,330	270	19,662	(40,210)	6,695	1,453,604	1,709,228

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 20th August	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from (used in) operating activities	114,396	(17,296)
Net cash generated from (used in) investing activities		
Dividends received	1,014	651
Proceeds from disposal of available-for-sale investments	11,942	–
Purchase of available-for-sale investments	(4,683)	–
Purchase of property, plant and equipment	(7,968)	(13,186)
Others	78	–
	383	(12,535)
Net cash used in financing activities		
Decrease in restricted cash	–	52,000
Dividends paid	(63,384)	(73,284)
Net movement of bank borrowings	(66,501)	(2,501)
Others	–	(1,100)
	(129,885)	(24,885)
Net decrease in cash and cash equivalents	(15,106)	(54,716)
Cash and cash equivalents at 21st February	242,842	278,616
Cash and cash equivalents at 20th August	227,736	223,900
Being:		
Time deposits	172,101	166,423
Bank balances and cash	58,492	60,779
Bank overdrafts	(2,857)	(3,302)
	227,736	223,900

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 20th August 2008

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance 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”) and with Hong Kong Accounting Standard 34 (HKAS) Interim Financial Reporting.

2. PRINCIPAL 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 2008.

In the current interim period, the Group has applied, for the first time, the following new interpretations (“new Interpretations”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 21st February 2008.

HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions
HK(IFRIC) – Int 12	Service Concession Arrangements
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The application of these new Interpretations had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ²
HKAS 1 (Amendment)	Puttable Financial Instruments and Obligations Arising On Liquidation ¹
HKAS 32 (Amendment)	Financial Instruments: Presentation ¹
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ¹
HKFRS 3 (Revised)	Business Combinations ²
HKFRS 8	Operating Segments ¹
HK (IFRIC) – Int 13	Customer Loyalty Programmes ³
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate ¹
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation ⁴

¹Effective for annual periods beginning on or after 1st January 2009

²Effective for annual periods beginning on or after 1st July 2009

³Effective for annual periods beginning on or after 1st July 2008

⁴Effective for annual periods beginning on or after 1st October 2008

HK(IFRIC) – Int 13 is effective for annual periods beginning on or after 1st July 2008. It addresses how companies that grant their customers loyalty award credits (often called “bonus points”) when buying goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem the bonus points. The Group currently accounts for the bonus point obligation under marketing expenses based on actual bonus points rewarded and accruals with reference to historical redemption experience. HK(IFRIC) – Int 13 requires companies to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations to provide goods or services. The Directors of the Company have assessed the potential impact and confirm that the application of HK(IFRIC) – Int 13 will not have material impact on the results and financial position of the Group.

Besides that, the Directors of the Company anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

3. TURNOVER

	Six months ended 20th August	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest income	528,240	509,347
Fees and commissions	22,473	18,885
Handling and late charges	40,542	39,278
	<u>591,255</u>	<u>567,510</u>

4. BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions – credit card, instalment loan 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:

Six months ended 20th August 2008 (Unaudited)

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
CONDENSED CONSOLIDATED INCOME STATEMENT					
TURNOVER	405,122	180,403	3,564	2,166	591,255
RESULT					
Net interest income (expense)	297,657	158,038	2,488	(3,412)	454,771
Other operating income	54,243	8,767	5	3,393	66,408
Other gains and losses	–	–	–	11,794	11,794
Impairment losses and impairment allowances	(117,041)	(68,492)	(1,246)	–	(186,779)
Recoveries of receivables written-off	16,910	3,364	486	–	20,760
Segment results	251,769	101,677	1,733	11,775	366,954
Unallocated operating expenses					(187,832)
Share of results of associates					(3,081)
Profit before tax					176,041
Income tax expense					(27,760)
Profit for the period					148,281

Six months ended 20th August 2007 (Unaudited)

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Other operations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
CONDENSED CONSOLIDATED INCOME STATEMENT					
TURNOVER	368,339	188,296	3,628	7,247	567,510
RESULT					
Net interest income (expense)	262,488	163,918	2,253	(135)	428,524
Other operating income	51,026	8,372	–	1,011	60,409
Other gains and losses	–	–	–	6,262	6,262
Impairment losses and impairment allowances	(97,564)	(68,563)	(2,123)	–	(168,250)
Recoveries of receivables written-off	14,723	2,976	366	–	18,065
Segment results	230,673	106,703	496	7,138	345,010
Unallocated operating expenses					(183,594)
Share of results of associates					(1,093)
Profit before tax					160,323
Income tax expense					(27,127)
Profit for the period					133,196

5. INTEREST INCOME

	Six months ended 20th August	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Time deposits, bank balances and cash	2,167	7,247
Credit card receivables, instalment loans receivable and hire purchase debtors	525,051	500,777
Impaired credit card receivables, instalment loans receivable and hire purchase debtors	1,022	1,323
	<u>528,240</u>	<u>509,347</u>

6. INTEREST EXPENSE

	Six months ended 20th August	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Interest on bank borrowings and overdrafts	35,279	49,272
Interest on collateralised debt obligation	20,990	20,997
Net interest expense on interest rate swap contracts	17,200	10,554
	<u>73,469</u>	<u>80,823</u>

7. OTHER OPERATING INCOME

	Six months ended 20th August	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	699	309
Unlisted equity securities	315	342
Exchange gains / losses		
Exchange gain (loss) on bank loan	8,250	(14,873)
Exchange (loss) gain on hedging instrument released from cash flow hedge reserve	(8,250)	14,873
Exchange gains on other monetary items, net	–	316
Fees and commissions	22,473	18,885
Handling and late charges	40,542	39,278
Others	2,379	1,279
	<u>66,408</u>	<u>60,409</u>

8. OTHER GAINS AND LOSSES

	Six months ended 20th August	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Gain on disposal of available-for-sale investments	11,942	6,489
Hedge ineffectiveness on cash flow hedges	(226)	(227)
Gain on disposal of property, plant and equipment	78	–
	<u>11,794</u>	<u>6,262</u>

9. OPERATING EXPENSES

	Six months ended 20th August	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Administrative expenses		
General administrative expenses	50,296	41,749
Depreciation	16,313	19,349
Exchange losses on other monetary items, net	7	–
Operating lease rentals in respect of rented premises, advertising space and equipment	31,862	30,757
Other operating expenses	19,098	19,130
Staff costs including directors' emoluments	46,421	50,254
	<u>163,997</u>	<u>161,239</u>
Marketing expenses	23,835	22,355
	<u>187,832</u>	<u>183,594</u>

10. INCOME TAX EXPENSE

	Six months ended 20th August	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– current period	29,460	28,627
Deferred tax (<i>note 19</i>)		
– current period	(2,000)	(1,500)
– attributable to change in tax rate	300	–
	<u>27,760</u>	<u>27,127</u>

Hong Kong Profits Tax is recognised based on the management's best estimate of the weighted average annual income tax rate expected for the full financial year. On 26th June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which includes the reduction in corporate profits tax rate by 1% to 16.5% effective from the year of assessment 2008/09. The effect of such decrease has been reflected in measuring the current and deferred tax for the six months ended 20th August 2008. The estimated average annual tax rate used is 16.5% (2007: 17.5%) for the six months ended 20th August 2008.

11. DIVIDEND

On 30th June 2008, a dividend of **15.0 HK cents** (2007: 17.5 HK cents) per share amounting to a total of **HK\$62,814,000** (2007: HK\$73,284,000) was paid to shareholders as the final dividend for 2007/08.

The Directors propose an interim dividend of **16.0 HK cents** (2007: an interim dividend of 10.0 HK cents and a special dividend of 5.0 HK cents) per share amounting to **HK\$67,002,000** (2007: interim dividend of HK\$41,877,000 and special dividend of HK\$20,937,000) be paid to the shareholders of the Company whose names appear on the Register of Members on 21st October 2008. The interim dividend will be paid on or about 24th October 2008.

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the unaudited profit for the period of **HK\$148,281,000** (2007/08: HK\$133,196,000) and on the number of **418,766,000** (2007/08: 418,766,000) shares in issue during the period.

13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately **HK\$6,185,000** on computer equipment, **HK\$1,385,000** on motor vehicles, **HK\$230,000** on leasehold improvements and **HK\$168,000** on furniture and fixtures.

14. AVAILABLE-FOR-SALE INVESTMENTS

	20th August 2008 (Unaudited) <i>HK\$'000</i>	20th February 2008 (Audited) <i>HK\$'000</i>
At fair value:		
Issued by corporate entities		
Listed equity securities		
Hong Kong	24,296	27,315
Overseas	13,749	13,858
Unlisted equity securities	42,084	46,233
	<hr/> 80,129 <hr/>	<hr/> 87,406 <hr/>

15. ADVANCES AND RECEIVABLES

	20th August 2008 (Unaudited) HK\$'000	20th February 2008 (Audited) HK\$'000
Credit card receivables	3,333,723	3,270,554
Instalment loans receivable	1,396,925	1,387,591
Hire purchase debtors	109,751	115,649
	<u>4,840,399</u>	<u>4,773,794</u>
Accrued interest receivables	100,667	98,424
Gross advances and receivables	4,941,066	4,872,218
Impairment allowances		
– individually assessed	(44,720)	(45,323)
– collectively assessed	(102,656)	(97,107)
	<u>(147,376)</u>	<u>(142,430)</u>
Current portion included under current assets	4,793,690 <u>(3,952,869)</u>	4,729,788 <u>(4,013,201)</u>
Amount due after one year	<u>840,821</u>	<u>716,587</u>

16. OVERDUE ADVANCES

Set out below is an analysis of the gross balance of credit card receivables, instalment loans receivable and hire purchase debtors (excluding impairment allowances) which is overdue for more than 1 month:

	20th August 2008 (Unaudited)		20th February 2008 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	120,739	2.5	126,812	2.6
Overdue 2 months but less than 3 months	39,153	0.8	27,159	0.6
Overdue 3 months but less than 4 months	21,218	0.4	18,769	0.4
Overdue 4 months or above	41,017	0.9	41,072	0.9
	<u>222,127</u>	<u>4.6</u>	<u>213,812</u>	<u>4.5</u>

* Percentage of total debtor balance

17. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

Other debtors are unsecured, interest-free and repayable on demand.

18. IMPAIRMENT ALLOWANCES

	20th August 2008 (Unaudited) <i>HK\$'000</i>	20th February 2008 (Audited) <i>HK\$'000</i>	
Analysis by products as:			
Credit card receivables	82,789	81,432	
Instalment loans receivable	54,764	52,246	
Hire purchase debtors	2,048	2,249	
Accrued interest receivables	7,775	6,503	
	147,376	142,430	
	Individual assessment <i>HK\$'000</i>	Collective assessment <i>HK\$'000</i>	Total HK\$'000
At 21st February 2008	45,323	97,107	142,430
Impairment losses and impairment allowances	181,230	5,549	186,779
Amounts written off as uncollectible	(181,833)	–	(181,833)
At 20th August 2008	44,720	102,656	147,376
	Individual assessment <i>HK\$'000</i>	Collective assessment <i>HK\$'000</i>	Total HK\$'000
At 21st February 2007	44,675	89,535	134,210
Impairment losses and impairment allowances	164,675	3,575	168,250
Amounts written off as uncollectible	(160,507)	–	(160,507)
At 20th August 2007	48,843	93,110	141,953

19. DEFERRED TAX ASSETS

	20th August 2008 (Unaudited) <i>HK\$'000</i>	20th February 2008 (Audited) <i>HK\$'000</i>
At beginning of the period / year	4,500	1,000
Credit to consolidated income statement for the period / year	1,700	3,500
At end of the period / year	6,200	4,500

At the balance sheet dates, the major components of the deferred tax assets (liabilities) are as follows:

	20th August 2008 (Unaudited) <i>HK\$'000</i>	20th February 2008 (Audited) <i>HK\$'000</i>
Tax effect of temporary differences because of:		
Impairment allowances	17,000	17,000
Excess of tax allowances over depreciation	(10,500)	(12,500)
Effect of change in tax rate	(300)	–
	<hr/>	<hr/>
Net deferred tax assets	<u>6,200</u>	<u>4,500</u>

20. BANK BORROWINGS

	20th August 2008 (Unaudited) <i>HK\$'000</i>	20th February 2008 (Audited) <i>HK\$'000</i>
Bank loans, unsecured	<u>2,579,500</u>	<u>2,654,250</u>
The maturity of bank borrowings is as follows:		
Within one year	1,130,500	1,032,000
Between one and two years	445,000	410,000
Between two and five years	919,000	1,182,250
Over five years	85,000	30,000
	<hr/>	<hr/>
Amount repayable within one year included under current liabilities	<u>(1,130,500)</u>	<u>(1,032,000)</u>
Amount repayable after one year	<u>1,449,000</u>	<u>1,622,250</u>

21. DERIVATIVE FINANCIAL INSTRUMENTS

	20th August 2008 (Unaudited)		20th February 2008 (Audited)	
	Assets	Liabilities	Assets	Liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest rate swaps	499	20,395	44	28,531
Cross-currency interest rate swap	13,016	–	14,443	–
	<hr/>	<hr/>	<hr/>	<hr/>
	<u>13,515</u>	<u>20,395</u>	<u>14,487</u>	<u>28,531</u>

22. COLLATERALISED DEBT OBLIGATION

- (a) 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, which 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.
- (b) The collateralised debt obligation is backed by the credit card receivables transferred (see note 25) 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 period.

23. OPERATING LEASE COMMITMENTS

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

	20th August 2008 (Unaudited) <i>HK\$’000</i>	20th February 2008 (Audited) <i>HK\$’000</i>
Within one year	43,660	44,159
In the second to fifth year inclusive	26,521	30,683
	70,181	74,842

24. CAPITAL COMMITMENTS

	20th August 2008 (Unaudited) <i>HK\$’000</i>	20th February 2008 (Audited) <i>HK\$’000</i>
Contracted for, but not provided in the consolidated financial statements:		
Purchase of property, plant and equipment	14,202	14,677
Authorised but not contracted for in the consolidated financial statements:		
Purchase of available-for-sale investments	–	2,273
	14,202	16,950

25. PLEDGE OF ASSETS

At 20th August 2008, the Group’s collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK\$1,470,087,000** and **HK\$68,000,000** respectively (20th February 2008: HK\$1,435,766,000 and HK\$68,000,000).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15th October 2008 to 21st October 2008, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 14th October 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the period under review, the economy of Hong Kong continued to maintain its growth momentum, with unemployment rate remained low at 3.4%. On the other hand, the property market started to slow down under the shadow of uncertainties plaguing the global economic outlook. The operating environment for consumer finance remains challenging and participants have to strive for innovative products and service quality to attract new customers. In the first half year, the Group continued to record a growth in credit card and personal loan business despite the keen competition in the market.

The Group recorded a net profit of HK\$148.3 million for the six months ended 20th August 2008, representing an increase of 11.3% or HK\$15.1 million when compared to HK\$133.2 million in the previous corresponding period. The Group's earnings per share improved from 31.81 HK cents per share in 2007/08 to 35.41 HK cents per share.

A series of marketing initiatives had been launched directing towards card activation through the offering of seasonal discounts, gift redemptions and lucky draws. The AEON Summer Night in Ocean Park had received overwhelming response in the market. As a result, the overall sales volume increased by 9.5% when compared with last year.

With the pick up in sales transactions, interest income recorded an increase of 3.7% from HK\$509.3 million in 2007/08 to HK\$528.2 million. With HIBOR rate remained at a low level and the renewal of long-term borrowings with lower interest rate, the Group continued to enjoy a low funding cost in the first half of the year, with the average funding cost moved down from 4.4% in the second half of last year to 3.5% in the first half, as compared to 4.9% in the previous year. As a result, interest expense in the first half was HK\$73.5 million, a decrease of 9.1% when compared with last year. The Group's net interest income recorded an increase of 6.1% to HK\$454.8 million from HK\$428.5 million in 2007/08. The increase in commission income and handling and late charges had resulted in the increase in other operating income by 9.9% from HK\$60.4 million in 2007/08 to HK\$66.4 million for the first six months in 2008/09. Other gains and losses of HK\$11.8 million represents the gain on disposal of available-for-sale investments listed overseas.

Following the recruit of more members and the launch of new marketing programs, the Group had spent more on card and loan processing expenses. Together with higher marketing expenses and rental costs incurred, operating expenses increased by 2.3% from HK\$183.6 million in 2007/08 to HK\$187.8 million for the first six months in 2008/09. The Group's cost-to-income ratio dropped from 37.1% in 2007/08 to 35.2% in the first half of this year.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$345.1 million for the six months ended 20th August 2008, representing an increase of 10.8% from HK\$311.6 million in the previous corresponding period. During the period under review, the Group lent conservatively and strived to continually maintain its asset quality. With an increase in the sales transactions and debtor balance, impairment losses and impairment allowances for the first half increased by 11.0% or HK\$18.5 million to HK\$186.8 million. Recoveries of receivables written off were HK\$20.8 million, an increase of 14.9% or HK\$2.7 million when compared with HK\$18.1 million in 2007/08. Impairment allowances amounted to HK\$147.4 million at 20th August 2008, as compared with HK\$142.4 million at 20th February 2008.

Despite a keen competition in the market, the Group was able to capitalise on market growth opportunities. This led to an increase in total debtor balance by HK\$66.6 million to HK\$4,840.4 million as at 20th August 2008 as compared to HK\$4,773.8 million as at 20th February 2008. Shareholders' equity was strengthened by 5.7% to HK\$1,709.2 million as at 20th August 2008 mainly due to the increase in accumulated profits and reserves. Net asset value per share (after interim dividend), compared with the net asset value per share as at 20th February 2008, increased from HK\$3.7 to HK\$3.9.

Business Review

The Group had launched a series of marketing activities in the first half to boost up its card and personal loan sales, including introduction of prepaid card and co-operation with new partners in the property sector. In addition, the Group had designed tailor-made card acquisition programs with its affinity partners to increase card base and card usage. To capture new market segments, a number of co-branded cards were launched during the period, including the KCP Visa Card and the GAMA Titanium MasterCard. With the continuous drop in unemployment rate and the widely acceptance of purpose loan, the Group has been actively cross-selling new personal loan products to suit its customers' needs.

As a major step for the business expansion in China, AEON Information Service (Shenzhen) Co., Ltd. ("AEON Shenzhen"), an associate, had entered into an outsourcing agreement with five PRC AEON Group related entities whereby these entities would issue AEON Card in China and outsource the card processing and card operation services including card acquisition and card issuing to AEON Shenzhen. At the same time, another associate, AEON Credit Guarantee (China) Co., Ltd. ("ACG"), had also entered into a credit guarantee agreement with these entities to provide guarantee for the payment obligation of the holders of AEON Card.

Prospects

It is expected that the economic outlook in Hong Kong and China is anticipated to be challenging in view of the uncertainties in the global economic situation and increasing inflation pressure. With the downtrend in the property and capital markets, demand for consumer finance is expected to increase. Under this operating environment, the Group will take a conservative approach to capture new market segment and grow its receivables. At the same time, the Group will closely monitor its portfolio for possible deterioration of credit quality.

The Group will continue to launch affinity cards to capture new customer segments and widen its distribution network. Moreover, new marketing activities will be launched with affinity merchants, directing towards card activation through the offering of appealing cardholder privileges and affinity member benefits.

For customers' convenience, the Group will enhance the web usage by promoting bill payments and linking up with affinity merchants' websites. To maintain a convenient network for cash advance usage, the Group will continue to extend its ATM network along the MTR areas.

For China business, AEON Card operation will be launched outside Shenzhen, including Beijing and Guangzhou, in the second half of this fiscal year. Besides acting as a processing agent, the Group will continue to expand its business to provide collection and telemarketing services to clients in both Hong Kong and China.

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), cash and cash equivalents and equity attributable to shareholders of the Company, comprising issued capital, reserves and accumulated profits.

Net debt to equity ratio

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt to equity ratio of 2.5 to 3.0 determined as the proportion of net debt to equity.

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

	20th August 2008 (Unaudited) HK\$'000	20th February 2008 (Audited) HK\$'000
Debt (<i>note a</i>)	3,426,369	3,500,812
Cash and cash equivalents	(227,736)	(242,842)
Net debt	3,198,633	3,257,970
Equity (<i>note b</i>)	1,709,228	1,616,959
Net debt to equity ratio	1.87	2.01

Notes:

- (a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 20 and 22 respectively.
- (b) Equity includes all capital and reserves of the Group.

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th August 2008, 33.3% of its funding was derived from capital and reserves, 16.5% from structured finance and 50.2% from direct borrowings from financial institutions.

The principal source of internally generated capital was from accumulated profits. Besides the collateralised debt obligation, at 20th August 2008, the Group had bank borrowings, bank overdrafts and cross-currency syndicated term loan amounted to HK\$2,582.4 million, with 77.2% being fixed in interest rates.

Including the collateralised debt obligation, 33.0% of those indebtedness will mature within one year, 13.0% between one and two years, 9.9% between two and three years, 41.6% between three and four years and 2.5% over four years. The average duration of indebtedness is around two years. The Group's bank borrowings and collateralised debt obligation were denominated in Hong Kong dollars, except for a syndicated term loan of JPY 7.5 billion which was hedged by a cross-currency interest rate swap.

The net asset value of the Group at 20th August 2008 was HK\$1,709.2 million, as compared with HK\$1,617.0 million at 20th February 2008. 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 and thereby did not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge its exposure on interest rate and exchange rate fluctuations. At 20th August 2008, capital commitments entered were mainly related to the purchase of property, plant and equipment.

HUMAN RESOURCES

The total number of staff at 20th August 2008 and 20th February 2008 was 356 and 342 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2007/08 Annual Report.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 20th August 2008. The Group's interim report for the six months ended 20th August 2008 has been reviewed in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants, by Deloitte Touche Tohmatsu, whose unmodified review report is included in the interim financial report to be sent to shareholders.

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 period for the six months ended 20th August 2008, except for the code provisions A.4.1 and A.4.2 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 Code.

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 period under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE’S WEBSITE

The 2008/09 interim 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), Mr. Tomoyuki Kawahara (Senior Executive Director), Ms. Koh Yik Kung, Dr. Pan Shu Pin, Ban and Mr. Fung Kam Shing, Barry; the Non-executive Directors are Mr. Yoshiki Mori (Chairman), Mr. Kazuhide Kamitani and Mr. Takatoshi Ikenishi; 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

Hong Kong, 23rd September 2008