

AEON



# AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

*( Incorporated in Hong Kong with limited liability )*



**INTERIM REPORT**  
FOR THE SIX MONTHS ENDED  
20TH AUGUST 2003

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited results of the Company for the six months ended 20th August 2003 and the Company’s state of affairs as at that date together with the comparative figures as follows:

## INCOME STATEMENT

		<b>Six months ended 20th August</b>	
		<b>2003</b>	2002
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$’000</b>	<i>HK\$’000</i>
Turnover	3	<b>364,314</b>	400,179
Interest income		<b>226,798</b>	379,968
Interest expense		<b>(62,416)</b>	(74,174)
Net interest income		<b>164,382</b>	305,794
Credit card securitisation income	5	<b>110,721</b>	–
Other operating income	6	<b>54,365</b>	32,298
Other income	7	<b>171</b>	28,360
Operating income		<b>329,639</b>	366,452
Operating expenses	8	<b>(114,270)</b>	(140,412)
Operating profit before charge for bad and doubtful debts		<b>215,369</b>	226,040
Charge for bad and doubtful debts		<b>(162,302)</b>	(126,904)
Profit before taxation		<b>53,067</b>	99,136
Income tax	9	<b>(6,920)</b>	(14,820)
Net profit for the period		<b>46,147</b>	84,316
Interim dividend	10	<b>20,938</b>	20,938
Earnings per share	11	<b>11.02 HK Cents</b>	20.13 HK Cents
Dividend per share	10	<b>5.00 HK Cents</b>	5.00 HK Cents
Cost to income ratio		<b>34.7%</b>	38.3%
Dividend payout ratio		<b>45.4%</b>	24.8%

## BALANCE SHEET

		<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	12	77,150	85,744
Interest in associates		10,795	10,711
Investment securities	13	9,782	9,782
Hire purchase debtors	15	10,543	19,802
Instalment loans receivable	16	105,905	59,259
Retained interests in securitisation trust	19	239,393	231,984
Pledged time deposits	26(c)	100,494	100,494
		<u>554,062</u>	<u>517,776</u>
<b>Current assets</b>			
Other investments	14	552	383
Hire purchase debtors	15	180,284	196,284
Instalment loans receivable	16	372,725	279,818
Credit card receivables	17	1,044,449	1,085,708
Retained interests in securitisation trust	19	561,488	500,630
Prepayments, deposits, interest receivable and other debtors		133,044	124,344
Tax recoverable		2,070	–
Pledged time deposits	26(d)	5,000	6,000
Time deposits		38,919	153,580
Bank balances and cash		77,675	82,429
		<u>2,416,206</u>	<u>2,429,176</u>
<b>Current liabilities</b>			
Creditors and accrued charges	20	37,998	33,305
Amount due to securitisation trust		26,410	31,136
Amount due to immediate holding company		–	11
Amount due to a fellow subsidiary		34,986	32,928
Amount due to ultimate holding company		47	47
Issued debt securities		140,336	326,713
Bank borrowings-repayable within one year	22	820,700	651,245
Taxation		–	861
		<u>1,060,477</u>	<u>1,076,246</u>
<b>Net current assets</b>		<u>1,355,729</u>	<u>1,352,930</u>
<b>Total assets less current liabilities</b>		<u>1,909,791</u>	<u>1,870,706</u>
<b>Capital and reserves</b>			
Issued capital	23	41,877	41,877
Share premium and reserves		1,089,473	1,076,828
		<u>1,131,350</u>	<u>1,118,705</u>
<b>Non-current liabilities</b>			
Bank borrowings-repayable after one year	22	775,000	750,000
Deferred taxation	24	3,441	2,001
		<u>778,441</u>	<u>752,001</u>
		<u>1,909,791</u>	<u>1,870,706</u>

## CONDENSED STATEMENT OF CHANGES IN EQUITY

	21st February 2003 (Audited) <i>HK\$'000</i>	Movements <i>HK\$'000</i>	20th August 2003 (Unaudited) <i>HK\$'000</i>
Share capital	41,877	–	41,877
Share premium	227,330	–	227,330
Capital redemption reserve	270	–	270
Dividend reserve	33,502	(33,502)	–
Accumulated profits	815,726	46,147	861,873
	<u>1,118,705</u>	<u>12,645</u>	<u>1,131,350</u>
	21st February 2002 (Audited) <i>HK\$'000</i>	Movements <i>HK\$'000</i>	20th August 2002 (Unaudited) <i>HK\$'000</i>
Share capital	41,877	–	41,877
Share premium	227,330	–	227,330
Capital redemption reserve	270	–	270
Dividend reserve	33,502	(33,502)	–
Accumulated profits	752,858	84,316	837,174
	<u>1,055,837</u>	<u>50,814</u>	<u>1,106,651</u>

## CONDENSED CASH FLOW STATEMENT

	<b>Six months ended 20th August</b>	
	<b>2003</b>	2002
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Net cash (used in) from operating activities	<b>(85,558)</b>	83,152
Net cash (used in) from investing activities	<b>(4,264)</b>	12,917
Net cash used in financing activities	<b>(28,348)</b>	(71,301)
Net (decrease) increase in cash and cash equivalents	<b>(118,170)</b>	24,768
Cash and cash equivalents at 21st February	<b>234,764</b>	92,207
Cash and cash equivalents at 20th August	<b>116,594</b>	116,975
<b>Analysis of the balances of cash and cash equivalents</b>		
Being:		
Time deposits	<b>38,919</b>	39,570
Bank balances and cash	<b>77,675</b>	77,577
Bank overdrafts	–	(172)
	<b>116,594</b>	116,975

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 20th August 2003

### 1. Basis of Preparation

The condensed 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 Statement of Standard Accounting Practice No. 25 (SSAP 25) Interim Financial Reporting.

### 2. Significant Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of other investments.

The accounting policies adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 20th February 2003, except for the adoption of the revised SSAP 12 *Income Taxes* issued by the Hong Kong Society of Accountants. The adoption of this SSAP has had no material effect on the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

### 3. Turnover

	Six months ended 20th August	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	226,798	379,968
Fees and commissions	15,346	20,211
Investment income from the seller and subordinated interests in securitisation trust	122,170	–
	<u>364,314</u>	<u>400,179</u>

### 4. Business and Geographical Segments

#### (a) Business segments

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

Principal activities are as follows:

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

**4. Business and Geographical Segments (Cont'd)**

(a) *Business segments (Cont'd)*

Segment information about these businesses is presented below:

**Six months ended 20th August 2003 (Unaudited)**

	Credit Card <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Other operation <i>HK\$'000</i>	Combined <i>HK\$'000</i>
INCOME STATEMENT					
TURNOVER	<u>299,273</u>	<u>9,074</u>	<u>54,623</u>	<u>1,344</u>	<u>364,314</u>
RESULT					
Net interest income	136,930	(5,735)	38,999	(5,812)	164,382
Credit card securitisation income	110,721	-	-	-	110,721
Other operating income	44,335	7,660	2,302	68	54,365
Other income	-	-	-	171	171
Charge for bad and doubtful debts	<u>(137,659)</u>	<u>(905)</u>	<u>(23,738)</u>	<u>-</u>	<u>(162,302)</u>
Segment results	<u>154,327</u>	<u>1,020</u>	<u>17,563</u>	<u>(5,573)</u>	167,337
Unallocated operating expenses					<u>(114,270)</u>
Profit before taxation					<u>53,067</u>

#### 4. Business and Geographical Segments (Cont'd)

##### (a) Business segments (Cont'd)

Six months ended 20th August 2002 (Unaudited)

	Credit Card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Other operation HK\$'000	Combined HK\$'000
INCOME STATEMENT					
TURNOVER	<u>336,378</u>	<u>15,562</u>	<u>41,594</u>	<u>6,645</u>	<u>400,179</u>
RESULT					
Net interest income	272,677	(603)	33,094	626	305,794
Other operating income	19,789	11,677	100	732	32,298
Other income	–	–	–	28,360	28,360
Charge for bad and doubtful debts	<u>(94,769)</u>	<u>(4,452)</u>	<u>(27,683)</u>	–	<u>(126,904)</u>
Segment results	<u>197,697</u>	<u>6,622</u>	<u>5,511</u>	<u>29,718</u>	239,548
Unallocated operating expenses					<u>(140,412)</u>
Profit before taxation					<u>99,136</u>

##### (b) Geographical segments

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

#### 5. Credit Card Securitisation Income

Credit card securitisation income represents the combined effect of gains on sales of credit card receivables, investment income from the seller and subordinated interests in securitisation trust and unrealised gains and losses on the interest-only strips and cash reserve account in the securitisation trust.



## 6. Other Operating Income

	<b>Six months ended 20th August</b>	
	<b>2003</b>	2002
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees and commissions		
Credit card	7,699	8,571
Hire purchase	7,646	11,639
Handling, late and storage charges	28,013	10,409
Servicer fee on credit card securitisation	10,392	–
Dividends received on listed investments	240	732
Others	375	947
	<u>54,365</u>	<u>32,298</u>

## 7. Other Income

	<b>Six months ended 20th August</b>	
	<b>2003</b>	2002
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net gain on disposal of property, plant and equipment	2	155
Net unrealised gain on revaluation of other investments	169	28,205
	<u>171</u>	<u>28,360</u>

## 8. Operating Expenses

	<b>Six months ended 20th August</b>	
	<b>2003</b>	2002
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Administrative expenses	25,040	33,115
Advertising expenses	4,968	8,740
Depreciation	14,100	12,400
Operating lease rentals in respect of rented premises, advertising space and equipment	29,134	33,966
Other operating expenses	12,421	14,066
Staff costs including directors' emoluments	28,607	38,125
	<u>114,270</u>	<u>140,412</u>

## 9. Income Tax

	<b>Six months ended 20th August</b>	
	<b>2003</b>	2002
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 17.5% (2002/03: 16.0%) of the estimated assessable profit	5,480	10,816
Deferred taxation relating to temporary differences	1,147	4,004
Deferred taxation resulting from an increase in Hong Kong Profits Tax rate	293	–
	<u>6,920</u>	<u>14,820</u>

## 10. Dividend

On 10th July 2003, a dividend of 8.0 HK cents (2001/02: 8.0 HK cents) per share was paid to shareholders as the final dividend for 2002/03.

The directors have resolved to pay an interim dividend of 5.0 HK cents (2002/03: 5.0 HK cents) per share to shareholders whose names appear on the Register of Members on 17th October 2003.

## 11. Earnings Per Share

The calculation of earnings per share is based on the unaudited net profit for the period of HK\$46,147,000 (2002/03: HK\$84,316,000) and on the number of 418,766,000 (2002/03: 418,766,000) shares in issue during the period.

## 12. Property, Plant and Equipment

During the period, the Company spent approximately HK\$5.2 million on computer equipment and HK\$0.3 million on leasehold improvements.

## 13. Investment Securities

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	6,041	6,041
Overseas	2,753	2,753
Unlisted shares	988	988
	<u>9,782</u>	<u>9,782</u>
Market value of listed shares	<u>10,522</u>	<u>7,898</u>

## 14. Other Investments

Other investments represent shares listed overseas and are stated at market value.

## 15. Hire Purchase Debtors

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Due:		
Within one year	186,827	204,097
Thereafter	11,254	20,931
	<u>198,081</u>	<u>225,028</u>
Allowance for bad and doubtful debts	<u>(7,254)</u>	<u>(8,942)</u>
	<u>190,827</u>	<u>216,086</u>
Current portion included under current assets	<u>(180,284)</u>	<u>(196,284)</u>
Amount due after one year	<u>10,543</u>	<u>19,802</u>

## 16. Instalment Loans Receivable

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Due:		
Within one year	<b>398,022</b>	310,091
Thereafter	<b>113,093</b>	65,670
	<b>511,115</b>	375,761
Allowance for bad and doubtful debts	<b>(32,485)</b>	(36,684)
	<b>478,630</b>	339,077
Current portion included under current assets	<b>(372,725)</b>	(279,818)
Amount due after one year	<b>105,905</b>	59,259

## 17. Credit Card Receivables

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Credit card receivables	<b>1,250,094</b>	1,275,944
Allowance for bad and doubtful debts	<b>(205,645)</b>	(190,236)
	<b>1,044,449</b>	1,085,708

## 18. Overdue Debtor Balance

Set out below is an analysis of gross debtor balance of hire purchase debtors, instalment loans receivable and credit card receivables which is overdue more than 1 month:

	<b>20th August 2003 (Unaudited)</b>		20th February 2003 (Audited)	
	<b>HK\$'000</b>	<b>%*</b>	<b>HK\$'000</b>	<b>%*</b>
Overdue 1 month but less than 2 months	<b>142,201</b>	<b>7.3</b>	176,250	9.4
Overdue 2 months but less than 3 months	<b>29,559</b>	<b>1.5</b>	34,420	1.8
Overdue 3 months or above	<b>102,763</b>	<b>5.2</b>	129,332	6.9
	<b>274,523</b>	<b>14.0</b>	340,002	18.1

\* Percentage of total debtor balance

## 19. Retained Interests in Securitisation Trust

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Due:		
Within one year	<b>561,488</b>	500,630
In the second to fifth year inclusive	<b>239,393</b>	231,984
	<b><u>800,881</u></b>	<b><u>732,614</u></b>
Analysed as:		
Seller interest	<b>306,608</b>	258,700
Subordinated interest	<b>197,308</b>	193,866
Interest-only strips	<b>217,965</b>	201,048
Cash reserve account	<b>79,000</b>	79,000
	<b><u>800,881</u></b>	<b><u>732,614</u></b>

## 20. Creditors and Accrued Charges

The aging analysis of creditors and accrued charges was as follows:

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Current	<b>36,855</b>	32,372
Over 1 month but less than 3 months	<b>815</b>	739
Over 3 months	<b>328</b>	194
	<b><u>37,998</u></b>	<b><u>33,305</u></b>

## 21. Maturity Profile

	20th August 2003 (Unaudited)				
	3 months or less <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	4 years or less but over 1 year <i>HK\$'000</i>	Over 4 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>					
Credit card receivables	1,250,094	–	–	–	1,250,094
Hire purchase debtors	76,443	110,384	10,285	969	198,081
Instalment loans receivable	136,819	261,203	98,008	15,085	511,115
Retained interests in securitisation trust	304,068	257,420	239,393	–	800,881
Pledged time deposits	105,494	–	–	–	105,494
Time deposits	38,919	–	–	–	38,919
	<b>1,911,837</b>	<b>629,007</b>	<b>347,686</b>	<b>16,054</b>	<b>2,904,584</b>
<b>LIABILITIES</b>					
Issued debt securities	140,336	–	–	–	140,336
Bank borrowings	285,700	535,000	755,000	20,000	1,595,700
	<b>426,036</b>	<b>535,000</b>	<b>755,000</b>	<b>20,000</b>	<b>1,736,036</b>
<b>20th February 2003 (Audited)</b>					
	3 months or less <i>HK\$'000</i>	1 year or less but over 3 months <i>HK\$'000</i>	4 years or less but over 1 year <i>HK\$'000</i>	Over 4 years <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>ASSETS</b>					
Credit card receivables	1,275,944	–	–	–	1,275,944
Hire purchase debtors	80,351	123,746	20,931	–	225,028
Instalment loans receivable	114,102	195,989	65,670	–	375,761
Retained interests in securitisation trust	295,234	205,396	231,984	–	732,614
Pledged time deposits	106,494	–	–	–	106,494
Time deposits	153,580	–	–	–	153,580
	<b>2,025,705</b>	<b>525,131</b>	<b>318,585</b>	<b>–</b>	<b>2,869,421</b>
<b>LIABILITIES</b>					
Issued debt securities	118,500	208,213	–	–	326,713
Bank borrowings	151,245	500,000	640,000	110,000	1,401,245
	<b>269,745</b>	<b>708,213</b>	<b>640,000</b>	<b>110,000</b>	<b>1,727,958</b>

## 22. Bank Borrowings

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Bank overdraft, unsecured	–	1,245
Bank loans, unsecured	<b>1,595,700</b>	1,350,000
Bank loans, secured	–	50,000
	<u><b>1,595,700</b></u>	<u>1,401,245</u>
The maturity of bank borrowings is as follows:		
Within one year	<b>820,700</b>	651,245
Between one and two years	<b>380,000</b>	485,000
Between two to five years	<b>395,000</b>	265,000
	<u><b>1,595,700</b></u>	<u>1,401,245</u>
Amount repayable within one year included under current liabilities	<u><b>(820,700)</b></u>	<u>(651,245)</u>
Amount repayable after one year	<u><b>775,000</b></u>	<u>750,000</u>

## 23. Issued Capital

	<b>Number of shares 20th August 2003 (Unaudited) &amp; 20th February 2003 (Audited)</b>	<b>Share capital 20th August 2003 (Unaudited) &amp; 20th February 2003 (Audited) HK\$'000</b>
Ordinary shares of HK\$0.1 each		
<i>Authorised</i>		
At beginning and end of period/year	<u><b>1,000,000,000</b></u>	<u><b>100,000</b></u>
<i>Issue and fully paid</i>		
At beginning and end of period/year	<u><b>418,766,000</b></u>	<u><b>41,877</b></u>

## 24. Deferred Taxation

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
At 21st February	<b>2,001</b>	7,997
Adjustment for an increase in Hong Kong Profits Tax rate	<b>293</b>	–
Charge (credit) for the period	<b>1,147</b>	(5,996)
	<b><u>3,441</u></b>	<b><u>2,001</u></b>

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

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	<b>11,584</b>	–
General allowance for bad and doubtful debts	<b>(8,934)</b>	–
Unamortised cost in connection with issue of debt securities	<b>791</b>	2,001
	<b><u>3,441</u></b>	<b><u>2,001</u></b>
Net deferred tax liabilities	<b><u>3,441</u></b>	<b><u>2,001</u></b>

## 25. Operating Lease Commitments

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

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Within one year	<b>27,680</b>	30,676
In the second to fifth year inclusive	<b>16,448</b>	17,717
	<b><u>44,128</u></b>	<b><u>48,393</u></b>

Leases for rented premises and advertising space are negotiated for an average term of two years and rentals are fixed for an average of one year.

## 26. Pledge of Assets

- (a) At 20th August 2003, the Company's issued debt securities were secured by credit card receivables of HK\$523,188,000 (20th February 2003: HK\$550,167,000).
- (b) At 20th August 2003, the Company's bank facilities of HK\$200,000,000 secured by hire purchase debtors were repaid and cancelled. At 20th February 2003, these bank facilities, of which HK\$50,000,000 was utilised by the Company, were secured by hire purchase debtors of HK\$102,854,000.
- (c) The pledged time deposits include special deposits amounting to HK\$100,494,000 (20th February 2003: HK\$100,494,000) maintained pursuant to the terms of the securitisation agreements for the issued debt securities.
- (d) The Company also pledged time deposits of HK\$5,000,000 (20th February 2003: HK\$6,000,000) to banks to secure the short-term general banking facilities.

## 27. Financial Instruments

### (a) Derivatives

Derivatives refer to financial contracts whose values depend on the values of one or more underlying assets or indices.

The following is a summary of the contractual or notional amounts of each significant class of derivatives which the Company entered into for hedging purposes with financial institutions:

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Interest rate contracts:		
Swaps	<b>360,000</b>	440,000
Caps	<b>540,000</b>	570,000
	<b><u>900,000</u></b>	<u>1,010,000</u>

The contractual or notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts of risk.

- (b) The credit risk on derivative financial instruments is limited because the counter-parties are financial institutions with high credit ratings assigned by international credit rating agencies.

## 28. Retirement Benefits Scheme

The Company operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees. The assets of the MPF Scheme are separately kept from those of the Company, in funds under the control of trustees. The contribution to the MPF Scheme for the six months ended 20th August 2003 was HK\$557,000 (2002/03: HK\$1,288,000).



## 29. Capital Commitments

	<b>20th August 2003 (Unaudited) HK\$'000</b>	20th February 2003 (Audited) HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	<u>2,293</u>	<u>1,963</u>

## 30. Effects on Consolidated Financial Statements of Special Purpose Entity (“the SPE”)

In accordance with paragraph 46 of SSAP 32, the Company has set out below the details of the effect on the consolidated financial statements of the Company and the SPE for the year ended 20th August 2003 had the exemption given in paragraph 27 of SSAP 32 not applied:

Proforma consolidated income statement:

	The Company (Unaudited) HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group (Unaudited) HK\$'000
Turnover	<u>364,314</u>	12,991		<u>377,305</u>
Interest income	226,798	115,858		342,656
Interest expense	<u>(62,416)</u>	(6,721)		<u>(69,137)</u>
Net interest income	164,382			273,519
Credit card securitisation income	110,721	(110,721)		–
Other operating income	54,365	8,912		63,277
Other income	<u>171</u>			<u>171</u>
Operating income	329,639			336,967
Operating expenses	<u>(114,270)</u>	(361)		<u>(114,631)</u>
Operating profit before charge for bad and doubtful debts	215,369			222,336
Charge for bad and doubtful debts	(162,302)	(24,272)		(186,574)
Share of results of associates	<u>–</u>		(1,319)	<u>(1,319)</u>
Profit before taxation	53,067			34,443
Income tax	<u>(6,920)</u>	5,416		<u>(1,504)</u>
Net profit for the period	<u>46,147</u>			<u>32,939</u>

### 30. Effects on Consolidated Financial Statements of Special Purpose Entity (“the SPE”) (Cont’d)

Proforma consolidated balance sheet:

	The Company (Unaudited) HK\$'000	Effect of consolidation of SPE HK\$'000	Effect of equity accounting for associates HK\$'000	The proforma group (Unaudited) HK\$'000
<b>Non-current assets</b>				
Property, plant and equipment	77,150			77,150
Interest in associates	10,795		(2,901)	7,894
Investment securities	9,782			9,782
Hire purchase debtors	10,543			10,543
Instalment loans receivable	105,905			105,905
Retained interests in securitisation trust	239,393	(239,393)		–
Pledged time deposits	100,494	79,000		179,494
	<u>554,062</u>			<u>390,768</u>
<b>Current assets</b>				
Other investments	552			552
Hire purchase debtors	180,284			180,284
Instalment loans receivable	372,725			372,725
Credit card receivables	1,044,449	1,052,240		2,096,689
Retained interests in securitisation trust	561,488	(561,488)		–
Prepayments, deposits, interest receivable and other debtors	133,044	30,948		163,992
Tax recoverable	2,070	26,611		28,681
Pledged time deposits	5,000			5,000
Time deposits	38,919	83,856		122,775
Bank balances and cash	77,675			77,675
	<u>2,416,206</u>			<u>3,048,373</u>
<b>Current liabilities</b>				
Creditors and accrued charges	37,998			37,998
Amount due to securitisation trust	26,410	(26,410)		–
Amount due to a fellow subsidiary	34,986			34,986
Amount due to ultimate holding company	47			47
Issued debt securities	140,336			140,336
Bank borrowings-repayable within one year	820,700			820,700
	<u>1,060,477</u>			<u>1,034,067</u>
Net current assets	<u>1,355,729</u>			<u>2,014,306</u>
Total assets less current liabilities	<u>1,909,791</u>			<u>2,405,074</u>
<b>Capital and reserves</b>				
Issued capital	41,877			41,877
Share premium and reserves	1,089,473	(101,816)	(2,901)	984,756
	<u>1,131,350</u>			<u>1,026,633</u>
<b>Non-current liabilities</b>				
Bank borrowings-repayable after one year	775,000			775,000
Issued debt securities	–	600,000		600,000
Deferred taxation	3,441			3,441
	<u>778,441</u>			<u>1,378,441</u>
	<u>1,909,791</u>			<u>2,405,074</u>

### 31. Related Party Transactions

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

		Six months ended 20th August (Unaudited)						AEON Jusco Education and Environment Fund Limited	
		Fellow subsidiary		Immediate holding company		Associate			
		2003	2002	2003	2002	2003	2002	2003	2002
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission received	(a)	<b>6,865</b>	9,825	-	-	-	-	-	-
Licence fees received	(b)	-	-	<b>102</b>	102	-	-	-	-
Licence fees paid	(b)	<b>3,048</b>	3,165	-	-	-	-	-	-
Service fees paid	(c)	-	-	-	-	<b>4,204</b>	4,027	-	-
Donation	(d)	-	-	-	-	-	-	<b>450</b>	200

- (a) *Commission rates payable by the fellow subsidiary to the Company are based on the terms agreed by both parties.*
- (b) *Licence fees received and paid were calculated in accordance with the licence agreements.*
- (c) *Service fees paid to an associate are based on the terms agreed by both parties.*
- (d) *AEON Jusco Education and Environment Fund Limited (the "Fund") is a company limited by guarantee and not having a share capital. The Company is a member of the Fund. The objective of the Fund is to promote environment protection, cultural exchange and education in the Hong Kong Special Administrative Region and other parts of the People's Republic of China.*

### DISCLOSURE UNDER PRACTICE NOTE 19

A syndicated revolving credit facility up to the sum of HK\$360 million made available to the Company for a term of 2 years on 18th October 2002 includes a condition that **ÆON Co., Ltd.** and **ÆON Credit Service Co., Ltd.** have to maintain not less than 51% of the issued share capital of the Company.

### INTERIM DIVIDEND

The Directors have declared an interim dividend of 5.0 HK cents (2002/03: 5.0 HK cents) per share to shareholders whose names appear on the Register of Members of the Company on 17th October 2003. Dividend warrants will be dispatched on or about 20th October 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 10th October 2003 to 17th October 2003, 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 Registrars, Secretaries Limited, at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 9th October 2003.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### ***Financial Review***

Hong Kong economy had deteriorated with the outbreak of SARS in March. Unemployment rate climbed to a record high of 8.6% in the second quarter, which was especially felt in the construction, tourism and restaurant sectors. Although the Company had implemented various cost-retrenching measures to reduce the operating cost, the high level of bad debt expenses had resulted in a drop in net profit when compared with the same period last year.

For the six months ended 20th August 2003, the Company recorded a net profit of HK\$46.2 million, representing a decrease of 45.3% as compared to the previous corresponding period. The Company's earnings per share decreased by 9.1 HK cents per share to 11.0 HK cents per share. The Directors declared the payment of an interim dividend of 5.0 HK cents per share for the six months ended 20th August 2003.

On the sales side, as the Company's credit card portfolio consists mainly of AEON Stores cards, the impact of SARS on credit purchase sales was not prominent. However, there was a drop in the cash advance sales in the first half when compared with last year. To address this decline, the Company launched several purpose loan products to boost up the sales of personal loan.

Interest income decreased by 40.3% from HK\$380.0 million in 2002/03 to HK\$226.8 million mainly due to the transfer of credit card receivables under asset securitisation. With the renewal of long-term borrowings with lower interest rates, the average funding cost for the first half was 5.5%. Interest expense in the first half was HK\$62.4 million, a drop of 15.9% when compared with last year. The Company's net interest income recorded a decrease of 46.2% to HK\$164.4 million from HK\$305.8 million in 2002/03.

The Company recorded credit card securitisation income of HK\$110.7 million, representing the gains on sale of credit card receivables, investment income from the seller and subordinated interests and unrealised gains on interest-only strips. The Company's other operating income increased by 68.3% to HK\$54.4 million from HK\$32.3 million in 2002/03, mainly resulted from the servicer fee on credit card securitisation and the increase in handling, late and storage charges.

There was a reduction in the operating expenses in the first half of this year, which was mainly attributable to the rationalisation of the Company's operation. The operating expenses were decreased by 18.6% from HK\$140.4 million in 2002/03 to HK\$114.3 million, with staff costs, advertising expenses and administrative expenses decreased by 25.0%, 43.2% and 24.4% respectively. Cost-to-income ratio was 34.7%, as compared with 38.3% in the previous year.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (*Cont'd*)

### ***Financial Review*** (*Cont'd*)

At the operating level before charge for bad and doubtful debts, the Company recorded an operating profit of HK\$215.4 million for the six months ended 20th August 2003, representing a slight decrease of 4.7% or HK\$10.7 million from HK\$226.0 million in the previous corresponding period. During the period under review, the number of personal bankruptcy cases still remained at a high level, resulting in the Company's charge for bad and doubtful debts increased by 27.9% or HK\$35.4 million to HK\$162.3 million from HK\$126.9 million in the previous corresponding period. Allowance for bad and doubtful debts amounted to HK\$245.4 million as at 20th August 2003, an increase of HK\$9.5 million when compared with 20th February 2003 and representing 12.5% of total outstanding receivables.

Total debtor balance as at 20th August 2003 was HK\$1,959.3 million, an increase of 4.4% when compared with HK\$1,876.7 million as at 20th February 2003. The Company had retained interests in securitisation trust in the forms of seller interest, subordinated interest, interest-only strips and cash reserve account amounting to HK\$800.9 million. As at 20th August 2003, the Company had bank borrowings amounted to HK\$1,595.7 million and HK\$140.3 million issued debt securities. Shareholders' funds were strengthened by 1.1% to HK\$1,131.4 million as at 20th August 2003 mainly due to the increase in retained earnings.

### ***Operational Review***

The Company had implemented various initiatives in the first half year in relation to marketing, customer service and credit control.

On the marketing side, the Company had issued a brand new AEON Privilege American Express Credit Card in August. This card offers distinguished benefits on dining, entertainment and travel. It aims to activate the inactive and sleeping customers through telemarketing and explore a new customer sector through referral. The Company had also re-launched the AEON HK Net MasterCard to stimulate recurrent transactions. With the strategy of launching different loan products to suit customers' requirements, the Company had actively lined up with property developers, study centers, and health and beauty centers to offer personal loans at competitive interest rates. At the same time, the Company continued to extend its discount merchant network, with the number of new merchants being increased by 100. These discount merchants not only offer benefits to the cardholders to stimulate card usage, it also creates an opportunity to develop new loan and card products through closer co-operation with the merchants.

On the customer service side, the Company has provided a new payment channel through a network of convenience stores to make up for the closed branches. With this extensive payment network, customers can enjoy more convenient service while the branch network becomes individual marketing offices to cater for the increased competition in consumer finance.

On the credit control side, with the launch of positive credit data sharing in early August, the Company had revised its credit guidelines to tackle the changes. The Company will make use of the positive credit data to underwrite quality customers with acceptable exposure while at the same time closely monitor those identified high-risk customers.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (*Cont'd*)

### ***Operational Review*** (*Cont'd*)

On China business, the Company had signed up with a discount merchant network service provider and issued a discount card under this network. With this discount card, AEON cardholders can now enjoy hotel discount, air-ticket bookings and spending discount in over 4,000 merchants in China.

### ***Prospect***

There are signs of economic recovery in Hong Kong as reflected through the current active stock market and the influx of individual tourists coming from China. The unemployment rate is expected to drop and the demand for consumer finance is expected to increase. While the launch of positive data credit sharing will assist the market players to obtain more information on their customers, it also creates a keen competition environment. Under this mixed business environment, the Company will divert its marketing strategy to develop a new customer sector and increase its customer database, while at the same time limit its overall exposure to individual customers and improve the quality of its core business.

On credit card business, the Company will strengthen its recruitment strategy. In addition to the continuous launching of various sales programs with AEON Stores, the Company will also line up with other leading telecommunications and retail partners to launch new affinity cards. At least three affinity cards will be issued in the second half and three more are under negotiations.

The Company will improve its card benefits by providing maximum financial and shopping privileges. Moreover, the Company will further enlarge its discount merchant network and launch various sales campaigns to stimulate credit purchase transactions. The Company will also line up with merchants in telecommunications, internet and insurance fields to boost up recurrent transactions through AEON credit cards.

In order to increase the cash advance sales, the Company will continue to extend its cash dispensing machine network. The various joint promotion programs with Circle K have successfully boosted up the usage of cash dispensing machines inside Circle K and more such programs will be launched, including the offering of cash coupons to sleeping and inactive customers.

On hire purchase business, different discount programs will be launched within the merchant network to boost up hire purchase sales. Moreover, the Company will make use of its card installment plan for hire purchase program to facilitate application procedure thereby making it more attractive to customers. On personal loan business, the Company will develop different purpose loan products with merchants to satisfy the different demand in the market and at the same time to attract quality customer database.

Following the launch of positive credit data sharing, the Company is able to obtain more information on new applications and as a result, the Company can fully utilize its auto-judgement system, which provides more accurate credit judgement. To ensure prompt actions on suspected fraud transactions, the ACE system (the alarm system for credit card fraud effectuation) has been put into operation since September.

## **MANAGEMENT DISCUSSION AND ANALYSIS** (*Cont'd*)

### **Prospect** (*Cont'd*)

The Company will continue to identify suitable opportunities to strength and develop the existing business. The Company is currently offering insurance and mortgage products to its customers through telemarketing and promoting merchants' products through its newsletter, AEON News. The Company is also looking into ways to source for unique and exclusive products from Japan and China, to offer to its customers through telemarketing and AEON News, which will not only bring in additional revenue but also provide customers with value-added service.

### **SEGMENT INFORMATION**

The Company's business comprised mainly three operating divisions, namely credit card, hire purchase and instalment loan. Over 90% of the Company's operating income after deducting charge for bad and doubtful debts was contributed from credit card operation. When compared to the corresponding period of last year, the operating income after deducting charge for bad and doubtful debts of credit card operation decreased by 21.9% to HK\$154.3 million. This was mainly due to the high level of charge for bad and doubtful debts in the period under review.

The operating income after deducting charge for bad and doubtful debts for instalment loan recorded an increase of HK\$12.1 million from HK\$5.5 million in 2002/03 to HK\$17.6 million. This was resulted from an increase in the sales volume for instalment loan business and also a reduction in the charge for bad and doubtful debts. Since hire purchase was mainly for luxury consumer products of which the transaction volume was slowed down during the SARS period, the operating income after deducting charge for bad and doubtful debts was decreased by HK\$5.6 million to HK\$1.0 million.

### **BANK BORROWINGS AND CAPITAL FINANCING**

The main objectives of the Company's funding and capital management are essentially the same as that reported in the Company's 2002/03 Annual Report.

The Company relied principally on its internally generated capital and bank borrowings to fund its business. The principal source of internally generated capital is from accumulated profits. As at 20th August 2003, the Company had bank borrowings amounted to HK\$1,595.7 million, of which HK\$820.7 million was repayable within one year. For the HK\$140.3 million issued debt securities, the whole amount will be paid off in the second half of this year.

The Company maintained the same level of debt-to-equity ratio at 1.6 as at 20th August 2003 and 20th February 2003. Taking into account the financial resources available to the Company including internally generated funds and available banking facilities, the Company has sufficient working capital to meet its present requirements.

During the period under review, the Company did not incur any material capital expenditure commitment. There were no significant changes in charges over the Company's assets when compared to that disclosed in the Company's 2002/03 Annual Report.

The Company's principal operations were transacted and recorded in Hong Kong dollars. During the period under review, the Company engaged in derivative financial instruments mainly to hedge its exposure on interest rate fluctuations.

## **QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS**

### ***Credit Risk Management***

Credit risk is the risk associated with possibility that the counter-party in a transaction may default. It arises from the lending and derivatives undertaken by the Company.

The Company has established policies and systems for the monitoring and control of credit risk. The Company's credit policy defines the credit extension criteria, the credit approval and monitoring processes. The Company maintains a tight control on loan assessments and approvals and will continue to exercise a conservative and prudent policy in granting loans in order to maintain a quality loan portfolio.

### ***Market Risk Management***

Market risk is the risk associated with changes in interest rates, foreign exchange rates and government policies; and the effect of such changes has on the Company's assets, liabilities and commitments, thus causing profits and losses.

The Company's policy to market risk is essentially the same as that disclosed in the Company's 2002/03 Annual Report. During the period, the Company traded in market risk related financial instruments mainly for hedging purposes. The market risk exposure from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk information is not disclosed.

### ***Liquidity Management***

The Company will ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds.

During the period, the Company closely monitored its liquidity position with adequate standby facilities being maintained to meet loan demand in the ordinary course of business.

### ***Capital Management***

The Company's policy is to maintain a strong capital base to support the development of the Company's business. During the period, the Company relied principally on internally generated capital as well as bank borrowings and overdrafts for the working capital. The funding position is monitored and reviewed regularly to ensure reasonable limits and at reasonable costs.

## **HUMAN RESOURCES**

The total number of staff as at 20th August 2003 and 20th February 2003 was 241 and 286 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2002/03 Annual Report.



## **DIRECTORS' INTERESTS IN SHARES**

As at 20th August 2003, the interests of the Directors and Chief Executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under Section 352 of the SFO were as follows:

**(a) The Company**

<b>Directors</b>	<b>Number of shares held under personal interests</b>
Yoshiki Mori	440,000
Masanori Kosaka	110,000
Kazuhide Kamitani	1,045,000
Shao You Bao	330,000
Tsang Wing Hong	220,000

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

<b>Directors</b>	<b>Number of shares held under personal interests</b>
Yoshiki Mori	14,042
Masanori Kosaka	3,832
Kazuhide Kamitani	4,215

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

<b>Directors</b>	<b>Number of shares held under personal interests</b>
Yoshiki Mori	3,000
Yoichi Kimura	2,000

**(d) AËON Stores (Hong Kong) Co., Limited (formerly known as Jusco Stores (Hong Kong) Co., Limited) – a fellow subsidiary of the Company**

<b>Director</b>	<b>Number of shares held under personal interests</b>
Shao You Bao	200,000

## DIRECTORS' INTERESTS IN SHARES (Cont'd)

### (e) AEON Thana Sinsap (Thailand) PLC. – a fellow subsidiary of the Company

Directors	Number of shares held under personal interests
Yoshiki Mori	300,000
Masanori Kosaka	20,000
Kazuhide Kamitani	100,000

Save as disclosed above, none of the Directors or Chief Executive had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations as recorded in the register of directors' and chief executives' interests and short positions and none of the Directors or Chief Executive, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

## SUBSTANTIAL SHAREHOLDERS

As at 20th August 2003, the register of substantial shareholders' interests in shares and short positions required to be maintained under Section 336 of SFO showed that the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Number of Shares	%
<b>AEON Credit Service Co., Ltd.</b> (Note 1)	217,514,000	51.9
<b>AEON Co., Ltd.</b> (Note 2)	277,288,000	66.2
<b>FMR Corp.</b>	22,975,600	5.5

### Notes

1. Out of 217,514,000 shares, 213,114,000 shares were held by AEON Credit Service Co., Ltd. and 4,400,000 shares were held by Nomura Securities (HK) Limited, as nominee on behalf of AEON Credit Service Co., Ltd.
2. AEON Co., Ltd. was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 45.1% and 71.6% of the issued share capital of AEON Credit Service Co., Ltd. and AEON Stores (Hong Kong) Co., Limited respectively, was deemed, for the purposes of the SDI Ordinance, to be interested in the 217,514,000 shares and 3,784,000 shares owned by AEON Credit Service Co., Ltd. and AEON Stores (Hong Kong) Co., Limited respectively.

Save as disclosed above, the Company had not been notified of any other interests representing 5% or more in the Company's issued share capital as at 20th August 2003.

## **REVIEW BY AUDIT COMMITTEE**

The Audit Committee has reviewed the unaudited interim financial statement for the six months ended 20th August 2003.

## **COMPLIANCE WITH CODE OF BEST PRACTICE**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 20th August 2003, in compliance with Appendix 14 of the Listing Rules.

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

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

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

Hong Kong, 18th September 2003