



AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)



INTERIM REPORT

FOR THE SIX MONTHS ENDED
20TH AUGUST 2005

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 2005 and the Company’s state of affairs as at that date together with the comparative figures as follows:

INCOME STATEMENT

		Six months ended 20th August	
		2005	2004
		(Unaudited)	(Restated and Unaudited)
	<i>Notes</i>	HK\$’000	HK\$’000
Turnover	3	443,909	423,396
Interest income		336,615	262,380
Interest expense		(48,646)	(44,560)
Net interest income		287,969	217,820
Credit card securitization income	5	26,356	91,635
Other operating income	6	69,142	48,169
Other income (loss)	7	5,139	(695)
Operating income		388,606	356,929
Operating expenses	8	(145,829)	(128,648)
Operating profit before impairment allowances/charge for bad and doubtful debts		242,777	228,281
Impairment losses and impairment allowances/charge for bad and doubtful debts		(141,192)	(157,046)
Share of results in associates		30	(1,465)
Profit before taxation		101,615	69,770
Income tax	9	(17,795)	(12,794)
Net profit for the period		83,820	56,976
Interim dividend	10	27,220	23,032
Earnings per share	11	20.02 HK Cents	13.61 HK Cents
Dividend per share	10	6.5 HK Cents	5.5 HK Cents

BALANCE SHEET

		20th August 2005 (Unaudited)	20th February 2005 (Restated and Audited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	12	82,167	84,848
Interest in an associate		1,882	1,971
Available-for-sale investments	13	47,645	–
Investment securities	13	–	11,295
Hire purchase debtors	15	16,969	25,773
Instalment loans receivable	16	308,322	283,309
Credit card receivables	17	23,524	3,450
Retained interests in securitization trust	19	32,662	228,319
		513,171	638,965
Current assets			
Financial assets at fair value through profit or loss	14	2,453	–
Other investments	14	–	1,239
Derivative financial instruments		10,223	–
Hire purchase debtors	15	154,153	198,155
Instalment loans receivable	16	670,545	649,030
Credit card receivables	17	1,517,588	943,247
Retained interests in securitization trust	19	577,340	709,181
Prepayments, deposits, interest receivable and other debtors	20	114,186	100,878
Time deposits		106,165	–
Bank balances and cash		81,308	97,511
		3,233,961	2,699,241
Current liabilities			
Creditors and accrued charges	21	78,816	79,356
Amount due to securitization trust		–	45,855
Amount due to immediate holding company		–	4,440
Amount due to a fellow subsidiary		35,868	40,685
Amount due to ultimate holding company		7	50
Issued debt securities		382,069	–
Bank borrowings-repayable within one year	23	567,877	620,556
Derivative financial instruments		6,834	–
Taxation		33,175	25,772
		1,104,646	816,714
Net current assets		2,129,315	1,882,527
Total assets less current liabilities		2,642,486	2,521,492
Capital and reserves			
Issued capital	25	41,877	41,877
Share premium and reserves		1,269,123	1,222,515
		1,311,000	1,264,392
Non-current liabilities			
Bank borrowings-repayable after one year	23	580,000	1,255,000
Financial liabilities at fair value through profit or loss	24	746,307	–
Deferred tax liabilities	26	5,179	2,100
		1,331,486	1,257,100
		2,642,486	2,521,492

STATEMENT OF CHANGES IN EQUITY

	(Unaudited)							
	Share capital	Share premium	Capital redemption reserve	Investment revaluation reserve	Hedging reserve	Dividend reserve	Accumulated profits	Total
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000
At 21st February 2004, as originally stated	41,877	227,330	270	-	-	37,689	876,461	1,183,627
Effect of changes in accounting policies	-	-	-	-	-	-	(4,567)	(4,567)
As restated	41,877	227,330	270	-	-	37,689	871,894	1,179,060
Net profit for the period, restated	-	-	-	-	-	-	56,976	56,976
Final dividend paid for 2003/04	-	-	-	-	-	(37,689)	-	(37,689)
At 21st August 2004	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>928,870</u>	<u>1,198,347</u>
At 20th February 2005, as originally stated	41,877	227,330	270	-	-	43,970	955,800	1,269,247
Effect of changes in accounting policies (<i>Note 2A</i>)	-	-	-	-	-	-	(4,855)	(4,855)
As restated	41,877	227,330	270	-	-	43,970	950,945	1,264,392
Effect of changes in accounting policies (<i>Note 2A</i>)	-	-	-	-	-	-	(2,104)	(2,104)
At 21st February 2005, as restated	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>-</u>	<u>-</u>	<u>43,970</u>	<u>948,841</u>	<u>1,262,288</u>
Gain on available-for-sale investments	-	-	-	9,146	-	-	-	9,146
Loss on cash flow hedges	-	-	-	-	(284)	-	-	(284)
Net income recognized directly in equity	-	-	-	9,146	(284)	-	-	8,862
Net profit for the period	-	-	-	-	-	-	83,820	83,820
Total recognized income for the period	-	-	-	9,146	(284)	-	83,820	92,682
Final dividend paid for 2004/05	-	-	-	-	-	(43,970)	-	(43,970)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,146</u>	<u>(284)</u>	<u>(43,970)</u>	<u>83,820</u>	<u>48,712</u>
At 20th August 2005	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>9,146</u>	<u>(284)</u>	<u>-</u>	<u>1,032,661</u>	<u>1,311,000</u>

CONDENSED CASH FLOW STATEMENT

	Six months ended 20th August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from operating activities	139,493	75,591
Net cash used in investing activities	(17,882)	(11,233)
Net cash used in financing activities	(31,170)	(94,689)
Net increase (decrease) in cash and cash equivalents	90,441	(30,331)
Cash and cash equivalents at 21st February	96,155	106,767
Cash and cash equivalents at 20th August	186,596	76,436
Being:		
Time deposits	106,165	–
Bank balances and cash	81,308	77,978
Bank overdrafts	(877)	(1,542)
	186,596	76,436

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 20th August 2005

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 the Hong Kong Accounting Standard ("HKAS") 34 Interim Financial Reporting and other relevant HKASs and Interpretations, the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of available-for-sale investments, financial assets at fair value through profit or loss, financial liabilities at fair value through profit or loss and the derivative financial instruments.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 20th February 2005 except as described below.

In the current period, the Company has applied, for the first time, a number of new HKFRSs, HKASs and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1st January 2005. The application of the new HKFRSs has resulted in changes in the presentation of the income statement, balance sheet and the statement of changes in equity. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Company's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Financial Instruments

In the current period, the Company has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. The application of HKAS 32 has had no material effect on the presentation of financial instruments in the financial statements of the Company. HKAS 39, which is effective for annual periods beginning on or after 21st February 2005, generally does not permit to recognize, derecognize or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 39 are summarized below:

Interest income and expense

In prior years, interest income and expense were recognized in the income statement on an accrual basis, except in the case where a debt became doubtful at which stage interest ceased to be accrued. Interest income on instalment loans receivable was accounted for using the sum-of-digit method. Commission income was recognized in the income statement when earned. Fees on loan origination were accounted for as and when they were receivable.

On adoption of HKAS 39, interest income and expense are recognized on a time-proportion basis using the effective interest method. The calculation includes all origination fees and commissions paid or received between parties to the contract that are an integral part of the effective interest rate, and transaction costs.

2. Principal Accounting Policies (Cont'd)

Interest income and expense (Cont'd)

Interest will continue to be recognized on impaired financial assets using the rate of interest used to discount future cash flows for the purpose of measuring the related impairment loss.

An adjustment of HK\$22,564,000 on interest income has been made to the Company's accumulated profits to reflect the adoption of this new policy from 21st February 2005. Moreover, this change has resulted in a decrease in interest income of HK\$1,145,000 for the current period.

Classification and measurement of financial assets

The Company has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 20th February 2005, the Company classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealized gains or losses included in the profit or loss. "Held-to-maturity investments" are carried at amortised cost less impairment losses (if any). From 21st February 2005 onwards, the Company classifies and measures its equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale investments", "loans and receivables" or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale investments" are carried at fair value, with changes in fair values recognized in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 21st February 2005, the Company classified and measured its equity securities in accordance with the requirements of HKAS 39. Investment securities of HK\$11,295,000 previously carried at cost are reclassified to available-for-sale investments and re-measured at fair value at 21st February 2005 under the adoption of HKAS 39. An adjustment of HK\$27,204,000 to the previous carrying amounts of assets at 21st February 2005 has been made to the Company's accumulated profits and will be included in profit or loss upon disposal. Further revaluation gain of HK\$9,146,000 has been made to the Company's investment revaluation reserve in the current period. Other investments of HK\$1,239,000 are reclassified to held for trading and measured at fair value with fair value changes through profit or loss.

Classification and measurement of financial liabilities

By 20th February 2005, all financial liabilities were carried at cost. From 21st February 2005 onwards, the Company classifies its financial liabilities under the following categories: financial liabilities at fair value through profit or loss, bank borrowings, issued debt securities and other liabilities. Financial liabilities at fair value through profit or loss, including bank borrowings which are hedged by derivative financial instruments that do not qualify for hedge accounting, are designated to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different basis. Financial liabilities at fair value through profit or loss are designated as such at inception or date of transition to the new HKFRS. These financial liabilities are recognized initially at fair value and any gains or losses from changes in fair value are recognized in the profit or loss. Bank borrowings, other than those classified as financial liabilities at fair value through profit or loss, issued debt securities and other liabilities are carried at amortised cost. An adjustment to the previous carrying amount of financial liabilities at fair value through profit or loss of HK\$22,960,000 on 21st February 2005 has been made to the Company's accumulated profits.

2. Principal Accounting Policies (Cont'd)

Fair value measurement principles

The fair value of financial assets is based on their quoted market bid prices at the balance sheet date without any deduction for estimated future selling costs. If a quoted market price is not available, the fair value of financial assets is estimated using the discounted cash flow technique that provides a reliable estimate of prices which could be obtained in actual market transactions. In applying the discounted cash flow technique, estimated future cash flows are based on management's best estimates of critical assumptions which may include credit losses, discount rates, yield curves and other factors.

Derivatives and hedging

Derivatives arise from swap transactions which are undertaken by the Company in the foreign exchange and interest rate markets. By 20th February 2005, transactions undertaken for hedging purposes were valued on the same basis as the assets, liabilities or net positions that they were hedging. Any profit or loss was recognized in the income statement on the same basis as that arising from the related assets, liabilities or positions.

From 21st February 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments and, if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognized in profit or loss for the period in which they arise.

There are three types of hedge relationships under HKAS 39, including fair value hedges, cash flow hedges and net investment hedges. The Company designates certain derivatives as hedging instruments to hedge against its exposure of interest rate movements. For cash flow hedges, changes in fair value of the effective portion of hedging instruments are recognized in equity and "recycled" into the income statement when the hedged items affect profit or loss. Changes in the fair value of the ineffective portion of hedging instruments are recognized directly in profit or loss. Accordingly, HK\$284,000 change in fair value of the effective portion of hedging instruments is recognized in equity in the current period.

The Company has applied the relevant transitional provisions in HKAS 39. For hedges that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Company has, from 21st February 2005 onwards, discontinued using hedge accounting. For hedges that meet the requirements of hedge accounting set out in HKAS 39, the Company has, from 21st February 2005 onwards, applied hedge accounting in accordance with HKAS 39 to account for such hedges. For derivatives that do not meet the requirements of hedge accounting, on 21st February 2005, the Company recognized the difference between the previous carrying amount recognized on the balance sheet and the fair value on 21st February 2005, amounting to HK\$29,704,000, in the Company's accumulated profits. On subsequent revaluation of derivatives that are deemed as held for trading, fair value gain of HK\$33,378,000 has been included in profit or loss in the current period.

2. Principal Accounting Policies (Cont'd)

Derecognition

HKAS 39 provides more rigorous criteria for the derecognition of financial assets than the criteria applied in previous periods. Under HKAS 39, a financial asset is derecognized, when and only when, either the contractual rights to the asset's cash flows expire, or the asset is transferred and the transfer qualifies for derecognition in accordance with HKAS 39. The decision as to whether a transfer qualifies for derecognition is made by applying a combination of risks and rewards and control tests. The Company has applied the relevant transitional provision and applied the revised accounting policy prospectively for transfers of financial assets under asset securitizations on or after 21st February 2005. As a result, the Company's credit card receivables transferred to a special-purpose entity ("SPE") under asset securitization, which were derecognized prior to 20th February 2005, have not been restated. Any new transfer of credit card receivables to the SPE after 21st February 2005 has not been derecognized and remained as credit card receivables in the Company's financial statements. This has resulted in a decrease in credit card securitization income of HK\$21,500,000 in the current period.

Impairment of financial assets

In prior years, allowances for bad and doubtful debts were made against loans and receivables as and when they were considered doubtful by the management. In addition, an amount was set aside as a general allowance for bad and doubtful debts.

On adoption of HKAS 39, the Company assesses at each balance sheet date whether there is objective evidence that a loan/receivable or group of loans/receivables is impaired. Impairment allowances are made on loans and receivables when there is objective evidence of impairment as a result of the occurrence of certain loss events after the initial recognition of the loans and receivables, and these loss events will have impact on the estimated future cash flows of the loans and receivables.

The Company first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant, and individually or collectively for loans and receivables that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed loan/receivable, whether significant or not, it includes the loan/receivable in a group of loans and receivables and collectively assesses them for impairment. Evaluation is made on a portfolio basis by reference to the credit risk characteristics that are indicative of borrowers' ability to pay all amounts in accordance with the contractual terms. Expected future cash flows of loans and receivables that are assessed collectively for impairment are estimated on the basis of prior loan loss experience.

This change has had no material effect on the results of the previous and current periods.

2. Principal Accounting Policies (Cont'd)

Interest in Associates

In prior years, investments in associates were stated at cost, as reduced by any identified impairment loss, and the results of associates were accounted for on the basis of dividends received or receivable during the year. On adoption of HKAS 28, interest in associates is accounted for using the equity method, with the cost of investment being adjusted by the share of the associates' post acquisition change in net assets. The Company's income statement reflects its share of the associates' post acquisition profit or loss. Dividends received from the associates reduce the carrying amount of the investments in associates. HKAS 28 has been adopted retrospectively and the comparative figures for 2004 have been restated to conform with the changed policy. Given that the Company's investment in an associate was reclassified to investment securities in the prior year upon loss of significant influence through dilution of the Company's interest from 20% to 12.2%, cumulative share of losses of an associate amounted to HK\$5,829,000 has been adjusted to the carrying amount of investment securities. An adjustment to the previous carrying amount of interest in an associate of HK\$974,000 on 20th February 2005 in respect of share of net asset with effect of equity accounting for another associate has been made to the Company's accumulated profits. Share of losses of associates of HK\$1,465,000 have been restated in prior period's profit or loss. Share of current period's profit of an associate of HK\$30,000 is recorded in the profit or loss.

2A. Summary of the Effects of the Changes in Accounting Policies

The cumulative effect of the application of the new HKFRSs on the balance sheet as at 20th February 2005 and 21st February 2005 are summarized below:

	As at 20th February 2005 (Originally stated) HK\$'000	Effect of HKAS 28 HK\$'000	As at 20th February 2005 (Restated) HK\$'000	Effect of HKAS 39 HK\$'000	As at 21st February 2005 (Restated) HK\$'000
Interest in an associate	997	974	1,971	-	1,971
Investment securities	17,124	(5,829)	11,295	(11,295)	-
Available-for-sale investments	-	-	-	38,499	38,499
Other investments	1,239	-	1,239	(1,239)	-
Financial assets at fair value through profit or loss	-	-	-	1,239	1,239
Instalment loans receivable	932,339	-	932,339	(5,909)	926,430
Creditors and accrued charges	(79,356)	-	(79,356)	(16,655)	(96,011)
Bank borrowings	(1,875,556)	-	(1,875,556)	750,000	(1,125,556)
Financial liabilities at fair value through profit or loss	-	-	-	(727,040)	(727,040)
Derivative financial instruments	-	-	-	(29,704)	(29,704)
Total effects on assets and liabilities	(1,003,213)	(4,855)	(1,008,068)	(2,104)	(1,010,172)
Accumulated profits	955,800	(4,855)	950,945	(2,104)	948,841
Total effects on equity	955,800	(4,855)	950,945	(2,104)	948,841

2. Principal Accounting Policies (Cont'd)

2A. Summary of the Effects of the Changes in Accounting Policies (Cont'd)

The effects of the changes in the accounting policies on the results for the six months ended 20th August 2005 are as follows:

	(Unaudited) HK\$'000
Gains arising from fair value changes of derivative financial instruments	33,378
Losses from fair value changes of financial liabilities at fair value through profit or loss	(29,268)
Net effect on fair value changes of interest-only strips and cash reserve account in the securitization trust	(21,500)
Decrease in interest income upon adoption of effective interest method on hire purchase debtors and instalment loans receivable	(1,145)
Share of profit in an associate using equity method	30
Decrease in income tax	3,238
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Decrease in net profit for the period	(15,267)
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Effect on earnings per share	
Basic	3.64 HK Cents

Analysis of the increase (decrease) in net profit for the six months ended 20th August 2005 by line items presented according to their function:

	(Unaudited) HK\$'000
Decrease in interest income	(1,145)
Decrease in credit card securitization income	(21,500)
Increase in other income	4,110
Share of profit in an associate	30
Decrease in income tax	3,238
	<hr/>
Decrease in net profit for the period	(15,267)

3. Turnover

	Six months ended 20th August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	336,615	262,380
Fees and commissions	11,177	16,591
Investment income from the seller and subordinated interests in securitization trust	96,117	144,425
	<hr/>	<hr/>
	443,909	423,396
	<hr/>	<hr/>

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 loans. 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 loans – Provide personal loan financing to individuals

Segment information about these businesses is presented below:

Six months ended 20th August 2005 (Unaudited)

	Credit Card <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Instalment loans <i>HK\$'000</i>	Corporate and other operations <i>HK\$'000</i>	Combined <i>HK\$'000</i>
INCOME STATEMENT					
TURNOVER	<u>300,747</u>	<u>5,348</u>	<u>137,539</u>	<u>275</u>	<u>443,909</u>
RESULT					
Net interest income (expense)	166,181	2,409	121,259	(1,880)	287,969
Credit card securitization income	26,356	–	–	–	26,356
Other operating income	61,250	18	7,575	299	69,142
Other income	–	–	–	5,139	5,139
(Increase in)/reversal of impairment losses and impairment allowances	<u>(106,645)</u>	<u>2,143</u>	<u>(36,690)</u>		(141,192)
Segment results	<u>147,142</u>	<u>4,570</u>	<u>92,144</u>		
Unallocated operating expenses				(145,829)	(145,829)
Share of results in an associate				30	<u>30</u>
Profit before taxation					<u>101,615</u>

4. Business and Geographical Segments (Cont'd)

(a) Business segments (Cont'd)

Six months ended 20th August 2004 (Restated and Unaudited)

	Credit Card <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Instalment loans <i>HK\$'000</i>	Corporate and other operations <i>HK\$'000</i>	Combined <i>HK\$'000</i>
INCOME STATEMENT					
TURNOVER	<u>305,908</u>	<u>7,639</u>	<u>109,543</u>	<u>306</u>	<u>423,396</u>
RESULT					
Net interest income (expense)	129,844	(3,799)	93,524	(1,749)	217,820
Credit card securitization income	91,635	–	–	–	91,635
Other operating income	36,385	7,195	4,228	361	48,169
Other loss	–	–	–	(695)	(695)
Charge for bad and doubtful debts	<u>(132,483)</u>	<u>(2,795)</u>	<u>(21,768)</u>		<u>(157,046)</u>
Segment results	<u>125,381</u>	<u>601</u>	<u>75,984</u>		
Unallocated operating expenses				(128,648)	(128,648)
Share of results in associates				(1,465)	<u>(1,465)</u>
Profit before taxation					<u>69,770</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 Securitization Income

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

6. Other Operating Income

	Six months ended 20th August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Fees and commissions		
Credit card	11,177	9,418
Hire purchase	–	7,173
Handling and late charges	45,140	16,794
Servicer fee on credit card securitization	11,036	13,213
Dividends received on available-for-sale investments/ investment securities	331	362
Others	1,458	1,209
	<u>69,142</u>	<u>48,169</u>

7. Other Income (Loss)

	Six months ended 20th August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Loss on disposal of property, plant and equipment	(184)	(445)
Unrealized gain on revaluation of financial assets at fair value through profit or loss/other investments	1,213	650
Net unrealized gain on revaluation of derivative financial instruments	4,110	–
Impairment loss recognized on investment securities	–	(900)
	<u>5,139</u>	<u>(695)</u>

8. Operating Expenses

	Six months ended 20th August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Administrative expenses	35,077	29,788
Advertising expenses	16,300	10,244
Depreciation	20,710	14,855
Exchange loss	51	17
Operating lease rentals in respect of rented premises, advertising space and equipment	21,725	24,444
Other operating expenses	14,990	13,806
Staff costs including directors' emoluments	36,976	35,494
	<u>145,829</u>	<u>128,648</u>

9. Income Tax

	Six months ended 20th August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for the period		
Hong Kong	14,716	22,794
Deferred tax liabilities		
For the period	3,079	(10,000)
	<u>17,795</u>	<u>12,794</u>

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the both periods.

10. Dividend

On 28th June 2005, a dividend of 10.5 HK cents (2003/04: 9.0 HK cents) per share was paid to shareholders as the final dividend for 2004/05.

The directors propose that an interim dividend of 6.5 HK cents (2004/05: 5.5 HK cents) per share should be paid to the shareholders of the Company whose names appear on the Register of Members on 14th October 2005.

11. Earnings Per Share

The calculation of earnings per share is based on the unaudited net profit for the period of HK\$83,820,000 (2004/05: HK\$56,976,000) and on the number of 418,766,000 (2004/05: 418,766,000) shares in issue during the period.

12. Property, Plant and Equipment

During the period, the Company spent approximately HK\$17.2 million on computer equipment, HK\$0.8 million on leasehold improvements and HK\$0.2 million on motor vehicles.

13. Available-for-sale Investments/Investment Securities

	20th August 2005	20th February 2005
	Available-for-sale Investments (Unaudited)	Investment Securities (Restated and Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
At fair value:		
Issued by corporate entities		
Listed shares		
Hong Kong	14,741	–
Overseas	22,074	–
Unlisted shares	10,830	–
	<u>47,645</u>	<u>–</u>
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	–	3,541
Overseas	–	2,753
Unlisted shares	–	5,001
	<u>–</u>	<u>11,295</u>
	<u>47,645</u>	<u>11,295</u>

14. Financial Assets at Fair Value through Profit or Loss/Other Investments

Financial assets at fair value through profit or loss/other investments represent shares listed overseas and are stated at fair value.

15. Hire Purchase Debtors

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Due:		
Within one year	158,093	206,123
In the second to fifth year inclusive	17,416	26,857
	175,509	232,980
Impairment allowances/allowance for bad and doubtful debts	(4,387)	(9,052)
	171,122	223,928
Current portion included under current assets	(154,153)	(198,155)
Amount due after one year	16,969	25,773

The Company enters into hire purchase arrangements with customers. The term of hire purchase contracts ranges from 4 months to 3 years.

16. Instalment Loans Receivable

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Due:		
Within one year	714,472	699,684
In the second to fifth year inclusive	328,521	305,420
	1,042,993	1,005,104
Impairment allowances/allowance for bad and doubtful debts	(64,126)	(72,765)
	978,867	932,339
Current portion included under current assets	(670,545)	(649,030)
Amount due after one year	308,322	283,309

The term of instalment loans ranges from 6 months to 5 years.

17. Credit Card Receivables

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Due:		
Within one year	1,596,536	1,035,241
In the second to fifth year inclusive	24,748	3,786
	1,621,284	1,039,027
Impairment allowances/allowance for bad and doubtful debts	(80,172)	(92,330)
	1,541,112	946,697
Current portion included under current assets	(1,517,588)	(943,247)
Amount due after one year	23,524	3,450

The Company enters into card instalment plans with customers. The term of card instalment plans ranges from 3 months to 2 years.

18. Overdue Debtor Balance

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

	20th August 2005 (Unaudited) HK\$'000	%*	20th February 2005 (Audited) HK\$'000	%*
Overdue 1 month but less than 2 months	71,456	2.5	94,046	4.1
Overdue 2 months but less than 3 months	19,048	0.7	18,094	0.8
Overdue 3 months or above	84,026	3.0	84,570	3.7
	174,530	6.2	196,710	8.6

* *Percentage of total debtor balance*

19. Retained Interests in Securitization Trust

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Due:		
Within one year	577,340	709,181
In the second to fifth year inclusive	<u>32,662</u>	<u>228,319</u>
	<u>610,002</u>	<u>937,500</u>
Analysed as:		
Seller interest	198,239	316,317
Subordinated interest	155,063	284,643
Interest-only strips	136,700	216,540
Cash reserve account	<u>120,000</u>	<u>120,000</u>
	<u>610,002</u>	<u>937,500</u>

20. Prepayment, Deposits, Interest Receivable and Other Debtors

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Within one year	120,498	100,878
Impairment allowances	<u>(6,312)</u>	<u>–</u>
	<u>114,186</u>	<u>100,878</u>

21. Creditors and Accrued Charges

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

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Current	78,330	78,695
Over 1 month but less than 3 months	222	309
Over 3 months	<u>264</u>	<u>352</u>
	<u>78,816</u>	<u>79,356</u>

22. Maturity Profile

	20th August 2005 (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>
ASSETS					
Hire purchase debtors	60,114	97,979	17,416	–	175,509
Instalment loans receivable	228,190	486,282	325,794	2,727	1,042,993
Credit card receivables	1,536,345	60,191	24,748	–	1,621,284
Retained interests in securitization trust	302,621	274,719	32,662	–	610,002
Time deposits	106,165	–	–	–	106,165
	<u>2,233,435</u>	<u>919,171</u>	<u>400,620</u>	<u>2,727</u>	<u>3,555,953</u>
LIABILITIES					
Issued debt securities	–	382,069	–	–	382,069
Bank borrowings	377,877	190,000	315,000	265,000	1,147,877
Financial liabilities at fair value through profit or loss	–	–	746,307	–	746,307
	<u>377,877</u>	<u>572,069</u>	<u>1,061,307</u>	<u>265,000</u>	<u>2,276,253</u>
20th February 2005 (Audited)					
	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>
ASSETS					
Hire purchase debtors	72,081	134,042	26,857	–	232,980
Instalment loans receivable	226,238	473,446	303,219	2,201	1,005,104
Credit card receivables	1,015,043	20,198	3,786	–	1,039,027
Retained interests in securitization trust	423,832	285,349	228,319	–	937,500
	<u>1,737,194</u>	<u>913,035</u>	<u>562,181</u>	<u>2,201</u>	<u>3,214,611</u>
LIABILITIES					
Bank borrowings	440,556	180,000	965,000	290,000	1,875,556

23. Bank Borrowings

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Bank overdraft, unsecured	877	1,356
Bank loans, unsecured	<u>1,147,000</u>	<u>1,874,200</u>
	<u>1,147,877</u>	<u>1,875,556</u>
The maturity of bank borrowings is as follows:		
Within one year	567,877	620,556
Between one and two years	105,000	275,000
Between two and five years	<u>475,000</u>	<u>980,000</u>
	1,147,877	1,875,556
Amount repayable within one year included under current liabilities	<u>(567,877)</u>	<u>(620,556)</u>
Amount repayable after one year	<u>580,000</u>	<u>1,255,000</u>

24. Financial Liabilities at Fair Value through Profit or Loss

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Bank loans, unsecured	<u>746,307</u>	<u>–</u>
The maturity of financial liabilities at fair value through profit or loss is as follows:		
Within one year	–	–
Between one and two years	297,514	–
Between two and five years	<u>448,793</u>	<u>–</u>
	746,307	–
Amount repayable within one year included under current liabilities	<u>–</u>	<u>–</u>
Amount repayable after one year	<u>746,307</u>	<u>–</u>

25. Issued Capital

	Number of shares 20th August 2005 (Unaudited) & 20th February 2005 (Audited)	Share capital 20th August 2005 (Unaudited) & 20th February 2005 (Audited) HK\$'000
Ordinary shares of HK\$0.1 each		
<i>Authorised</i>		
At beginning and end of period/year	<u>1,000,000,000</u>	<u>100,000</u>
<i>Issued and fully paid</i>		
At beginning and end of period/year	<u>418,766,000</u>	<u>41,877</u>

26. Deferred Tax Liabilities

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
At beginning of the period/year	2,100	19,000
Charge (Credit) for the period/year	<u>3,079</u>	<u>(16,900)</u>
At end of the period/year	<u>5,179</u>	<u>2,100</u>

26. Deferred Tax Liabilities (Cont'd)

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

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Tax effect of temporary differences because of:		
Excess of tax allowances over depreciation	13,000	13,636
General allowance for bad and doubtful debts	(11,100)	(9,468)
Gain on sales of credit card receivables and unrealised gains and losses on interest-only strips and cash reserve account in the securitization trust	3,279	(2,068)
	5,179	2,100

27. 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:

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Within one year	20,743	21,931
In the second to fifth year inclusive	11,067	7,413
	31,810	29,344

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

28. Financial Instruments

(a) Derivative Financial Instruments

At 20th August 2005, the contractual or notional amounts of interest rate swap contracts entered into by the Company with financial institutions were HK\$905,000,000 (20th February 2005: HK\$860,000,000), of which HK\$85,000,000 (20th February 2005: HK\$Nil) are qualified for hedge accounting.

The contractual or notional amounts of these derivative financial 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 counterparties are financial institutions with high credit ratings assigned by international credit rating agents.

28. Financial Instruments (Cont'd)

- (c) As a result of the securitization transaction entered in September 2002, the Company has entered into forward contracts with Nihon (Hong Kong) Company Limited, a special purpose entity ("SPE") incorporated in Hong Kong formed for the sole purpose of the transaction, to sell credit card receivables to the SPE from time to time in accordance with the terms of the agreement.

29. 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 2005 was HK\$1,172,000 (20th August 2004: HK\$1,069,000).

30. Capital Commitments

	20th August 2005 (Unaudited) HK\$'000	20th February 2005 (Audited) HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	<u>21,805</u>	<u>8,789</u>

31. Effects on Consolidated Financial Statements of Special Purpose Entity ("SPE")

In accordance with paragraph 42A of HKAS 27, the Company has set out below the details of the effect on the consolidated financial statements of the Company and the SPE for the six months ended 20th August 2005 had the exemption given in paragraph 21A of HKAS 27 not applied:

Adjusted consolidated income statement for the six months ended 20th August 2005:

	The Company (Unaudited) HK\$'000	Effect of consolidation of SPE HK\$'000	The proforma group (Unaudited) HK\$'000
Turnover	<u>443,909</u>	16,343	<u>460,252</u>
Interest income	336,615	102,110	438,725
Interest expense	<u>(48,646)</u>	(12,298)	<u>(60,944)</u>
Net interest income	287,969		377,781
Credit card securitization income	26,356	(26,356)	-
Other operating income	69,142	(686)	68,456
Other income	<u>5,139</u>		<u>5,139</u>
Operating income	388,606		451,376
Operating expenses	<u>(145,829)</u>	1,526	<u>(144,303)</u>
Operating profit before impairment allowances	242,777		307,073
Impairment losses and impairment allowances	<u>(141,192)</u>	(40,445)	<u>(181,637)</u>
Share of results in an associate	<u>30</u>		<u>30</u>
Profit before taxation	101,615		125,466
Income tax	<u>(17,795)</u>	(4,200)	<u>(21,995)</u>
Net profit for the period	<u>83,820</u>		<u>103,471</u>

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

Adjusted consolidated balance sheet as at 20th August 2005:

	The Company (Unaudited) HK\$’000	Effect of consolidation of SPE HK\$’000	The proforma group (Unaudited) HK\$’000
Non-current assets			
Property, plant and equipment	82,167		82,167
Interest in an associate	1,882		1,882
Available-for-sale investments	47,645		47,645
Hire purchase debtors	16,969		16,969
Instalment loans receivable	308,322		308,322
Credit card receivables	23,524		23,524
Retained interests in securitization trust	32,662	(32,662)	–
Deferred tax assets	–	17,138	17,138
Pledged time deposits	–	120,000	120,000
	<u>513,171</u>		<u>617,647</u>
Current assets			
Financial assets at fair value through profit or loss	2,453		2,453
Derivative financial instruments	10,223		10,223
Hire purchase debtors	154,153		154,153
Instalment loans receivable	670,545		670,545
Credit card receivables	1,517,588		2,221,751
Retained interests in securitization trust	577,340	(577,340)	–
Prepayments, deposits, interest receivable and other debtors	114,186	16,098	130,284
Time deposits	106,165	101,444	207,609
Bank balances and cash	81,308		81,308
	<u>3,233,961</u>		<u>3,478,326</u>
Current liabilities			
Creditors and accrued charges	78,816	1,611	80,427
Amount due to a fellow subsidiary	35,868		35,868
Amount due to ultimate holding company	7		7
Issued debt securities	382,069	376,860	758,929
Bank borrowings-repayable within one year	567,877		567,877
Derivative financial instruments	6,834		6,834
Taxation	33,175		33,175
	<u>1,104,646</u>		<u>1,483,117</u>
Net current assets	<u>2,129,315</u>		<u>1,995,209</u>
Total assets less current liabilities	<u>2,642,486</u>		<u>2,612,856</u>
Capital and reserves			
Issued capital	41,877		41,877
Share premium and reserves	1,269,123	(115,522)	1,153,601
	<u>1,311,000</u>		<u>1,195,478</u>
Non-current liabilities			
Issued debt securities	–	91,071	91,071
Bank borrowings-repayable after one year	580,000		580,000
Financial liabilities at fair value through profit or loss	746,307		746,307
Deferred tax liabilities	5,179	(5,179)	–
	<u>1,331,486</u>		<u>1,417,378</u>
	<u>2,642,486</u>		<u>2,612,856</u>

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

Adjusted consolidated income statement for the six months ended 20th August 2004:

	The Company (Restated and Unaudited) <i>HK\$'000</i>	Effect of consolidation of SPE <i>HK\$'000</i>	The proforma group (Restated and Unaudited) <i>HK\$'000</i>
Turnover	<u>423,396</u>	4,256	<u>427,652</u>
Interest income	262,380	131,064	393,444
Interest expense	<u>(44,560)</u>	(5,159)	<u>(49,719)</u>
Net interest income	217,820		343,725
Credit card securitization income	91,635	(91,635)	–
Other operating income	48,169	4,404	52,573
Other loss	<u>(695)</u>		<u>(695)</u>
Operating income	356,929		395,603
Operating expenses	<u>(128,648)</u>	(547)	<u>(129,195)</u>
Operating profit before charge for bad and doubtful debts	228,281		266,408
Charge for bad and doubtful debts	(157,046)	(28,110)	(185,156)
Share of results in associates	<u>(1,465)</u>		<u>(1,465)</u>
Profit before taxation	69,770		79,787
Income tax	<u>(12,794)</u>	(1,740)	<u>(14,534)</u>
Net profit for the period	<u>56,976</u>		<u>65,253</u>

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

Adjusted consolidated balance sheet as at 20th February 2005:

	The Company (Restated and Audited) HK\$'000	Effect of consolidation of SPE HK\$'000	The proforma group (Restated and Audited) HK\$'000
Non-current assets			
Property, plant and equipment	84,848		84,848
Interest in an associate	1,971		1,971
Investment securities	11,295		11,295
Hire purchase debtors	25,773		25,773
Instalment loans receivable	283,309		283,309
Credit card receivables	3,450		3,450
Retained interests in securitization trust	228,319	(228,319)	–
Deferred tax assets	–	24,417	24,417
Pledged time deposits	–	120,000	120,000
	<u>638,965</u>		<u>555,063</u>
Current assets			
Other investments	1,239		1,239
Hire purchase debtors	198,155		198,155
Instalment loans receivable	649,030		649,030
Credit card receivables	943,247	1,245,241	2,188,488
Retained interests in securitization trust	709,181	(709,181)	–
Prepayments, deposits, interest receivable and other debtors	100,878	33,620	134,498
Time deposits	–	181,903	181,903
Bank balances and cash	97,511		97,511
	<u>2,699,241</u>		<u>3,450,824</u>
Current liabilities			
Creditors and accrued charges	79,356	809	80,165
Amount due to securitization trust	45,855	(45,855)	–
Amount due to immediate holding company	4,440		4,440
Amount due to a fellow subsidiary	40,685		40,685
Amount due to ultimate holding company	50		50
Bank borrowings-repayable within one year	620,556		620,556
Taxation	25,772		25,772
	<u>816,714</u>		<u>771,668</u>
Net current assets	<u>1,882,527</u>		<u>2,679,156</u>
Total assets less current liabilities	<u>2,521,492</u>		<u>3,234,219</u>
Capital and reserves			
Issued capital	41,877		41,877
Share premium and reserves	1,222,515	(135,173)	1,087,342
	<u>1,264,392</u>		<u>1,129,219</u>
Non-current liabilities			
Issued debt securities	–	850,000	850,000
Bank borrowings-repayable after one year	1,255,000		1,255,000
Deferred tax liabilities	2,100	(2,100)	–
	<u>1,257,100</u>		<u>2,105,000</u>
	<u>2,521,492</u>		<u>3,234,219</u>

32. Related Party Transactions

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

		Six months ended 20th August (Unaudited)						AEON Education and Environment Fund Limited	
		Fellow subsidiary		Immediate holding company		Associate		Fund Limited	
		2005	2004	2005	2004	2005	2004	2005	2004
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission received	(a)	<u>5,687</u>	<u>5,512</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees received	(b)	<u>-</u>	<u>-</u>	<u>102</u>	<u>102</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees paid	(b)	<u>2,806</u>	<u>2,617</u>	<u>70</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Service fees paid	(c)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,166</u>	<u>4,674</u>	<u>-</u>	<u>-</u>
Donation	(d)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>900</u>
Purchase of motor vehicle		<u>-</u>	<u>-</u>	<u>223</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

- (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 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 environmental protection, cultural exchange and education in the Hong Kong Special Administrative Region and other parts of the People's Republic of China.

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 20th August	
	2005	2004
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short-term benefits	<u>6,050</u>	<u>5,902</u>

DISCLOSURE UNDER RULE 13.21 OF LISTING RULES

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 15th October 2004 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 6.5 HK cents (2004/05: 5.5 HK cents) per share to shareholders whose names appear on the Register of Members of the Company on 14th October 2005. Dividend warrants will be despatched on or about 17th October 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 7th October 2005 to 14th October 2005, 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 6th October 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

In the first half of 2005, Hong Kong's economy continued to gain growth momentum led mainly by the growth in China's economy and the strong performance in the local property and stock market. With the unemployment rate dropped to 5.7% in August 2005, there is a continued improvement in consumer sentiment and confidence locally, with an increase in spending on goods and services. During the period under review, there was an increase in personal loan sales and more market players have moved aggressively into personal loan business.

The Company recorded a net profit of HK\$83.8 million for the six months ended 20th August 2005, representing an increase of 47.1% or HK\$26.8 million when compared to HK\$57.0 million in the previous corresponding period. The Company's earnings per share improved from 13.61 HK cents per share in 2004/05 to 20.02 HK cents per share.

On the sales front, the return of economic confidence and the issuance of more affinity cards have boosted up credit card sales. With the use of the Company's branch and merchant network to cross-sell different loan products, personal loan sales remained a healthy growth. The overall sales volume increased by 17.5% when compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Financial Review (Cont'd)

With the pick up in sales transactions and the record of new credit card receivables transferred under asset securitization in accordance with the new derecognition criteria in HKAS 39, interest income recorded an increase of 28.3% from HK\$262.4 million in 2004/05 to HK\$336.6 million. Although there was an increase in HIBOR in the first half, with the renewal of long-term bank borrowings at lower interest rates, the average funding cost moved from 3.8% in the first half of last year to 4.3% in the first half of this year. Interest expense in the first half was HK\$48.6 million, an increase of 9.2% when compared with last year. The Company's net interest income recorded an increase of 32.2% to HK\$288.0 million from HK\$217.8 million in 2004/05.

The Company recorded credit card securitization income of HK\$26.4 million, representing the investment income from the seller and subordinated interests and revaluation on interest-only strips. The higher usage of cash advance and the increase in late payment charge had resulted in an increase of other operating income by 43.5% from HK\$48.2 million in 2004/05 to HK\$69.1 million.

In line with the launch of new products and marketing programs, the Company had incurred more on advertising and part-time staff expenses. This resulted in an increase in operating expenses by 13.4% from HK\$128.6 million in 2004/05 to HK\$145.8 million. Cost-to-income ratio was 37.5%, as compared with 36.0% in the previous year.

At the operating level before impairment allowances, the Company recorded an operating profit of HK\$242.8 million for the six months ended 20th August 2005, representing an increase of 6.4% or HK\$14.5 million from HK\$228.3 million in the previous corresponding period. During the period under review, there was a further drop in the impairment losses and impairment allowances, with impairment losses for the first half stood at HK\$141.2 million, a decrease of 10.1% when compared with the previous year. Impairment allowances amounted to HK\$155.0 million as at 20th August 2005, as compared with HK\$174.2 million as at 20th February 2005.

Total debtor balance as at 20th August 2005 increased by HK\$562.7 million from HK\$2,277.1 million as at 20th February 2005 to HK\$2,839.8 million as at 20th August 2005. On the other hand, the retained interests in securitization trust decreased from HK\$937.5 million as at 20th February 2005 to HK\$610.0 million as at 20th August 2005. Shareholders' funds were strengthened by 3.7% to HK\$1,311.0 million as at 20th August 2005 mainly due to the increase in retained earnings and the investment revaluation reserve.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Business Review

The Company has issued two new affinity cards in collaboration with two new partners in the financial and catering industries. The AMTD MasterCard was launched in March 2005 targeting executives that have financial needs on investment and financial products. The G. Sushi credit cards were launched in July 2005 targeting young sushi lovers. The unique features of these two cards have been widely accepted by the consumers and a total number of 20,000 cards have been issued up to 20th August 2005. In addition, the Company had also successfully launched different marketing programs like private sale, catalogue sale, lucky draws and spending campaigns with our affinity members to boost up card sales.

The Company continued to improve the efficiency of loan approval process with the availability of positive data from credit bureau. Together with the use of new marketing channels, personal loan sales continued to record a stable growth in the first half.

To diversify its services, the Company has also offered financial products related to insurance and travel such as home content, domestic helper and golfer insurance and tour packages at a special price to popular destinations.

To extend the branch network, a new branch was opened in Chai Wan on 18th August 2005. With an increasing number of customers using the payment channel through convenience stores and bank's ATM network, the branch network has been utilised more efficiently in performing target marketing, cross-selling and discount merchants recruiting.

Finally, on the co-operation with China UnionPay, our cardholders can now withdraw RMB through the China UnionPay ATM network and also enjoy credit purchase at China UnionPay's merchant network in the Guangdong Province.

Prospects

The current active stock market and the drop in unemployment rate are indicative signs of continued economic recovery in Hong Kong. Although the rise in oil prices and interest rates will pose a potential threat, the opening of Hong Kong Disney has created a new recruitment force in the job market. As the demand for consumer loans is expected to increase in the second half, more players have launched aggressive marketing programs to capture this growth sector. Under this optimistic and competitive business environment, AEON will follow its existing marketing strategy to continue to develop new affinity partners to diversify its customer sector and increase its customer base, while at the same time strengthen its credit assessment through stringent credit approval procedures.

The Company will continue to launch affinity cards to capture new customer segments and widen its distribution network. Three more cards including credit cards under the brand of UnionPay will be launched in the second half. A series of marketing programs will also be launched, directing towards card activation in the whole card portfolio through the offering of appealing cardholder privileges, affinity member benefits and bonus point system. With the launch of UnionPay credit cards in the second half, more card spending in China is expected.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Prospects (Cont'd)

The Company will use target marketing to increase the number of active cardholders. To promote recurrent transactions, the Company will line up with more merchants to launch spending and lucky draw campaigns to stimulate credit card transactions. In order to increase cash advance sales volume, the Company will continue to extend its ATM network along the KCR and MTR areas and inside shopping centres. Moreover, the Company's ATM network in Hong Kong is now open to China UnionPay members. With the increasing number of mainland visitors coming to Hong Kong, this will generate a new source of fee-based income.

In order to satisfy different demand in the market for personal loans and to attract quality customers, the Company will continue to source for new merchants to offer purpose loans.

Following the release of certain restrictions on access to customer credit data through the credit reference agency, continued improvement in loan quality is expected. Moreover, operating efficiencies will also be improved through the relocation of more service support operations to the Company's call centre in Shenzhen.

SEGMENT INFORMATION

The Company's business comprises mainly three operating divisions, namely credit card, hire purchase and instalment loans. In the first half of 2005/06, credit card operation accounted for 67.7% of the Company's turnover, as compared to 72.3% in 2004/05. Operating results from credit card operation accounted for 59.5% of the Company's whole operations in 2005/06, as compared to 62.7% in 2004/05.

Cash advance sales started to pick up in the first half following the launch of new marketing campaigns. Together with the record of new credit card receivables transferred under asset securitization, net interest income recorded an increase of HK\$36.4 million, from HK\$129.8 million in 2004/05 to HK\$166.2 million in 2005/06. On the other hand, credit card securitization income dropped from HK\$91.6 million in 2004/05 to HK\$26.4 million in 2005/06. The higher usage of cash advance and the increase in late payment charge had resulted in an increase of other operating income by 68.3% from HK\$36.4 million in 2004/05 to HK\$61.3 million. With a drop in the impairment losses and impairment allowances from HK\$132.5 million in 2004/05 to HK\$106.6 million in 2005/06, operating results from credit card operation recorded an increase by 17.4% from HK\$125.4 million in 2004/05 to HK\$147.1 million in 2005/06.

With the high usage of card instalment plan, there was a decrease in hire purchase sales in the first half, resulting in the drop in interest income and other operating income from hire purchase transactions by 28.5% from HK\$3.4 million in 2004/05 to HK\$2.4 million in 2005/06. However, there was a release of impairment allowances of HK\$2.1 million in 2005/06 as compared with an impairment loss of HK\$2.8 million in 2004/05. As a result, the operating results from hire purchase operation increased from HK\$0.6 million in 2004/05 to HK\$4.6 million in 2005/06.

SEGMENT INFORMATION (Cont'd)

The Company continued to make use its branch and merchant network to cross-sell different loan products and had successfully boosted up personal loan sales. Net interest income from instalment loans operation recorded an increase of 29.7% or HK\$27.8 million, from HK\$93.5 million in 2004/05 to HK\$121.3 million in 2005/06. The increase in sales also helped to boost up certain related charges, resulting in an increase in other operating income by 79.2% from HK\$4.2 million in 2004/05 to HK\$7.6 million in 2005/06. Although there was an increase in impairment losses and impairment allowances from HK\$21.8 million in 2004/05 to HK\$36.7 million in 2005/06, operating results from instalment loans operation was HK\$92.1 million in 2005/06, an increase of HK\$16.1 million as compared with HK\$76.0 million in 2004/05.

FUNDING 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 2004/05 Annual Report.

The Company relies 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 2005, the Company had bank borrowings and financial liabilities at fair value through profit or loss amounted to HK\$1,894.2 million, with 80.0% being fixed in interest rates. Out of these borrowings, 30.0% will mature within one year, 21.2% between one and two years, 7.7% between two and three years, 27.0% between three and four years and 14.1% over four years. Besides bank borrowings, the Company raised HK\$850.0 million through credit card securitization, of which HK\$382.1 million was stated as issued debt securities following the adoption of HKAS 39. All the Company's borrowings were denominated in Hong Kong dollars.

The Company continued to maintain a strong financial position. As at 20 August 2005, total debt-to-equity ratio was 1.86. 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.

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. As at 20th August 2005, capital expenditure commitments entered were mainly related to the purchase of property, plant and equipment.

QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS

Credit Risk Management

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

In evaluating the credit associated with an individual or counter-party, financial strength and repayment ability are always the primary considerations. 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.

QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS *(Cont'd)*

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 on market risk is essentially the same as that disclosed in the Company's 2004/05 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 relies principally on internally generated capital as well as structured finance, bank borrowings and overdrafts for the working capital. The funding position is monitored and reviewed regularly to ensure that it is within reasonable limits and at reasonable costs.

HUMAN RESOURCES

The total number of staff as at 20th August 2005 and 20th February 2005 was 290 and 272 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2004/05 Annual Report.

DIRECTORS' INTERESTS IN SHARES

As at 20th August 2005, 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**

Directors	Number of shares held under personal interests	Percentage of the issued share capital of the Company
Yoshiki Mori	330,000	0.08%
Masanori Kosaka	110,000	0.03%
Kazuhide Kamitani	1,045,000	0.25%
Shao You Bao	330,000	0.08%
Tsang Wing Hong	220,000	0.05%

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Credit Japan
Yoshiki Mori	14,042	0.03%
Masanori Kosaka	3,832	0.01%
Kazuhide Kamitani	4,215	0.01%

(c) **AEON Co., Ltd. ("AEON Japan") – ultimate holding company of the Company**

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Japan
Yoshiki Mori	6,000	0.01%
Yoichi Kimura	4,000	0.01%

(d) **AEON Stores (Hong Kong) Co., Limited ("AEON Stores") – a fellow subsidiary of the Company**

Director	Number of shares held under personal interests	Percentage of the issued share capital of AEON Stores
Shao You Bao	200,000	0.08%

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

(e) **AEON Thana Sinsap (Thailand) Public Company Limited (“AEON Thana”) – a fellow subsidiary of the Company**

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Thana
Yoshiki Mori	1,500,000	0.60%
Masanori Kosaka	100,000	0.04%
Kazuhide Kamitani	500,000	0.20%

Save as disclosed above, none of the Directors or Chief Executive nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporations 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 2005, 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	%
<i>AEON Credit Service Co., Ltd. (Note 1)</i>	217,514,000	51.94
<i>AEON Co., Ltd. (Note 2)</i>	277,288,000	66.22
FMR Corp.	22,975,600	5.49
Commonwealth Bank of Australia	25,163,000	6.01

Notes:

1. Out of 217,514,000 shares, 213,114,000 shares were held by *AEON Credit Japan* and 4,400,000 shares were held by *Nomura Securities (HK) Limited*, as nominee on behalf of *AEON Credit Japan*.
2. *AEON Japan* was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 45.11% and 71.64% of the issued share capital of *AEON Credit Japan* and *AEON Stores* respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by *AEON Credit Japan* and *AEON Stores* 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 2005.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited interim results for the six months ended 20th August 2005. The Company's interim report for the six months ended 20th August 2005 has been reviewed in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants, by Deloitte Touche Tohmatsu whose unmodified review report is attached on page 37 of the interim report.

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 for the accounting period for the six months ended 20th August 2005, except for the deviations from code provisions A.4.1 and A.4.2.

The code provisions A.4.1 and A.4.2 provide that (a) non-executive directors should be appointed for a specific term, subject to re-election, and (b) all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and 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 nor directors appointed to fill casual vacancy are subject to election at the first general meeting. However, all directors of the Company, including executive, non-executive and independent non-executive directors, are subject to retirement at each annual general meeting of the Company in accordance with the Company's Articles of Association. Any director appointed to fill a casual vacancy or as an addition to the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting. The Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than the code provisions.

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, all directors 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.

By order of the Board
MASANORI KOSAKA
Managing Director

Hong Kong, 22nd September 2005

INDEPENDENT REVIEW REPORT



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TO THE BOARD OF DIRECTORS OF AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 1 to 27.

Directors' responsibilities

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 20th August 2005.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, 22nd September 2005

CORPORATE INFORMATION

Board of Directors

Executive Directors

Masanori KOSAKA (*Managing Director*)

LAI Yuk Kwong

KOH Yik Kung

Non-Executive Directors

Yoshiki MORI (*Chairman*)

Kazuhide KAMITANI

Yoichi KIMURA

Independent Non-Executive Directors

SHAO You Bao

TSANG Wing Hong

WONG Hin Wing

Company Secretary

KOH Yik Kung

Auditors

Deloitte Touche Tohmatsu

Certified Public Accountants

Major Bankers

Mizuho Corporate Bank, Ltd.

Hong Kong Branch

The Bank of Tokyo-Mitsubishi, Ltd.

Hong Kong Branch

UFJ Bank Limited

Hong Kong Branch

Share Registrar

Secretaries Limited

Ground Floor

Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

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