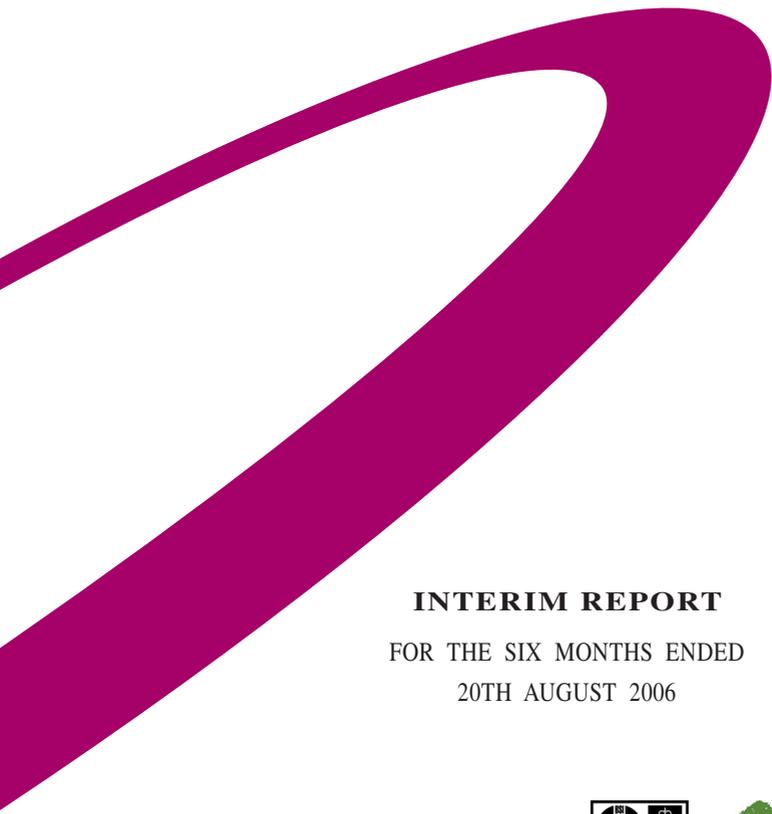




AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 900)



INTERIM REPORT

FOR THE SIX MONTHS ENDED

20TH AUGUST 2006



Planting Seeds of Growth

We are AEON

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiary (the “Group” or “AEON Credit”) for the six months ended 20th August 2006 and the state of affairs of the Group as at that date together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

| | <i>Notes</i> | Six months ended | | Percentage change % |
|---|--------------|---------------------------------------|-----------------------------------|---------------------------|
| | | 2006 | 2005 | |
| | | (Unaudited) <i>HK\$'000</i> | and unaudited) <i>HK\$'000</i> | |
| Turnover | 4 | 507,367 | 460,252 | 10.2 |
| Interest income | 6 | 492,045 | 448,372 | 9.7 |
| Interest expense | | (72,800) | (60,944) | 19.5 |
| Net interest income | | 419,245 | 387,428 | 8.2 |
| Other operating income | 7 | 55,798 | 58,809 | (5.1) |
| Other income | 8 | 2,420 | 5,139 | (52.9) |
| Operating income | | 477,463 | 451,376 | 5.8 |
| Operating expenses | 9 | (179,228) | (144,303) | 24.2 |
| Operating profit before impairment allowances | | 298,235 | 307,073 | (2.9) |
| Impairment losses and impairment allowances | 10 | (159,869) | (181,637) | (12.0) |
| Share of results in an associate | | 142 | 30 | 373.3 |
| Profit before tax | | 138,508 | 125,466 | 10.4 |
| Income tax expense | 11 | (24,262) | (21,995) | 10.3 |
| Profit for the period | | 114,246 | 103,471 | 10.4 |
| Dividend paid | 12 | 48,158 | 43,970 | |
| Earnings per share | 13 | 27.28 HK Cents | 24.71 HK Cents | |
| Dividend per share | 12 | 8.5 HK Cents | 6.5 HK Cents | |

CONSOLIDATED BALANCE SHEET

| | | 20th August 2006 | 20th February 2006 |
|---|--------------|-----------------------------|---------------------------|
| | | (Unaudited) | (Restated and audited) |
| | <i>Notes</i> | HK\$'000 | HK\$'000 |
| Non-current assets | | | |
| Property, plant and equipment | 14 | 99,902 | 97,199 |
| Investment in associates | | 41,226 | 2,220 |
| Available-for-sale investments | 15 | 67,941 | 65,070 |
| Credit card receivables | 17 | 80,941 | 34,110 |
| Instalment loans receivable | 18 | 419,237 | 352,591 |
| Hire purchase debtors | 19 | 17,274 | 17,432 |
| Deferred tax assets | 23 | 500 | 7,017 |
| Restricted cash | 24 | – | 120,000 |
| | | <u>727,021</u> | <u>695,639</u> |
| Current assets | | | |
| Investments held for trading | 16 | 2,675 | 2,377 |
| Derivative financial instruments | 31 | 11,844 | 12,894 |
| Credit card receivables | 17 | 2,456,425 | 2,421,535 |
| Instalment loans receivable | 18 | 746,244 | 704,343 |
| Hire purchase debtors | 19 | 104,504 | 117,804 |
| Prepayments, deposits, interest receivable and other debtors | 21 | 122,471 | 160,697 |
| Restricted cash | 24 | 120,000 | – |
| Time deposits | 25 | 158,415 | 237,519 |
| Bank balances and cash | 26 | 74,098 | 72,445 |
| | | <u>3,796,676</u> | <u>3,729,614</u> |
| Current liabilities | | | |
| Creditors and accrued charges | 27 | 118,379 | 126,078 |
| Amount due to a fellow subsidiary | | 36,517 | 34,628 |
| Amount due to ultimate holding company | | 10 | 52 |
| Issued debt securities | 29 | 281,060 | 850,000 |
| Bank borrowings-repayable within one year | 30 | 1,369,300 | 661,000 |
| Bank overdrafts | | 1,449 | 2,079 |
| Derivative financial instruments | 31 | 2,472 | 2,794 |
| Current tax liabilities | | 45,792 | 33,077 |
| | | <u>1,854,979</u> | <u>1,709,708</u> |
| Net current assets | | <u>1,941,697</u> | <u>2,019,906</u> |
| Total assets less current liabilities | | <u>2,668,718</u> | <u>2,715,545</u> |
| Capital and reserves | | | |
| Issued capital | 32 | 41,877 | 41,877 |
| Share premium and reserves | | 1,356,841 | 1,278,668 |
| | | <u>1,398,718</u> | <u>1,320,545</u> |
| Non-current liabilities | | | |
| Bank borrowings-repayable after one year | 30 | 1,270,000 | 1,395,000 |
| | | <u>1,270,000</u> | <u>1,395,000</u> |
| | | <u>2,668,718</u> | <u>2,715,545</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | (Restated and unaudited) | | | | | | | Total |
|---|--------------------------|------------------|----------------------------------|--------------------------------------|--------------------|---------------------|------------------------|-----------|
| | Share capital | Share premium | Capital redemption reserve | Investment revaluation reserve | Hedging reserve | Dividend reserve | Accumulated profits | |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | |
| At 21st February 2005 | 41,877 | 227,330 | 270 | - | (22,960) | 43,970 | 813,668 | 1,104,155 |
| Gain on available-for-sale investments | - | - | - | 9,146 | - | - | - | 9,146 |
| Net adjustment on cash flow hedges | - | - | - | - | 22,676 | - | - | 22,676 |
| Net income recognized directly in equity | - | - | - | 9,146 | 22,676 | - | - | 31,822 |
| Profit for the period | - | - | - | - | - | - | 103,471 | 103,471 |
| Total recognized income for the period | - | - | - | 9,146 | 22,676 | - | 103,471 | 135,293 |
| Final dividend paid for 2004/05 | - | - | - | - | - | (43,970) | - | (43,970) |
| | - | - | - | 9,146 | 22,676 | (43,970) | 103,471 | 91,323 |
| At 20th August 2005 | 41,877 | 227,330 | 270 | 9,146 | (284) | - | 917,139 | 1,195,478 |
| At 21st February 2006 | 41,877 | 227,330 | 270 | 12,479 | 158 | 48,158 | 990,273 | 1,320,545 |
| Gain on available-for-sale investments | - | - | - | 2,871 | - | - | - | 2,871 |
| Net adjustment on cash flow hedges | - | - | - | - | 9,214 | - | - | 9,214 |
| Net income recognized directly in equity | - | - | - | 2,871 | 9,214 | - | - | 12,085 |
| Profit for the period | - | - | - | - | - | - | 114,246 | 114,246 |
| Total recognized income for the period | - | - | - | 2,871 | 9,214 | - | 114,246 | 126,331 |
| Final dividend paid for 2005/06 | - | - | - | - | - | (48,158) | - | (48,158) |
| | - | - | - | 2,871 | 9,214 | (48,158) | 114,246 | 78,173 |
| At 20th August 2006 | 41,877 | 227,330 | 270 | 15,350 | 9,372 | - | 1,104,519 | 1,398,718 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 20th August | |
|---|------------------------------|-----------------------------|
| | 2006 | 2005 |
| | (Unaudited) | (Restated and unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash from operating activities | 19,446 | 59,035 |
| Net cash used in investing activities | | |
| Purchase of property, plant and equipment | (24,324) | (18,213) |
| Increase in investment in an associate | (38,947) | – |
| Others | 802 | 331 |
| | <u>(62,469)</u> | <u>(17,882)</u> |
| Net cash used in financing activities | | |
| Net movement of bank loans | 583,300 | 12,800 |
| Repayment of issued debt securities | (568,940) | – |
| Dividends paid | (48,158) | (43,970) |
| | <u>(33,798)</u> | <u>(31,170)</u> |
| Net (decrease) increase in cash and cash equivalents | (76,821) | 9,983 |
| Cash and cash equivalents at 21st February | 307,885 | 278,057 |
| Cash and cash equivalents at 20th August | 231,064 | 288,040 |
| Being: | | |
| Time deposits | 158,415 | 207,609 |
| Bank balances and cash | 74,098 | 81,308 |
| Bank overdrafts | (1,449) | (877) |
| | <u>231,064</u> | <u>288,040</u> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 20th August 2006

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) and 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. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The application of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented, except for HKAS 27 (Revised), which has been revised as a consequence of the Companies (Amendment) Ordinance 2005 (the “Amendment Ordinance”). The Amendment Ordinance amended the statutory definition of a “subsidiary” to make it more closely aligned with HKAS 27. As a result of the Amendment Ordinance, the Company is required to consolidate the special purpose entity under asset securitisation and prepare consolidated financial statements for the current period. Comparative figures have been amended to conform with current period’s presentation.

The effects of adopting the HKAS 27 (Revised) on the consolidated income statement for the six months ended 20th August 2006 and six months ended 20th August 2005 were as follows:

| | Six months ended 20th August | |
|---|------------------------------|-------------------|
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Increase in operating income | 72,219 | 62,770 |
| Decrease in operating expenses | 2,930 | 1,526 |
| Increase in impairment losses and impairment allowances | (5,201) | (40,445) |
| Increase in income tax expense | (12,241) | (4,200) |
| Total increase in profit | <u>57,707</u> | <u>19,651</u> |
| Increase in earnings per share | <u>13.78 cents</u> | <u>4.69 cents</u> |

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS
(Cont'd)

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

| | 20th August 2006 (Unaudited) HK\$'000 | 20th February 2006 (Audited) HK\$'000 |
|--|--|--|
| Increase (decrease) in assets | | |
| Restricted cash and time deposits | 150,650 | 250,448 |
| Credit card receivables | 149,016 | 382,097 |
| Prepayments, deposits, interest receivable and other debtors | 9,708 | 42,492 |
| Retained interests in securitisation trust | (284,945) | (456,639) |
| Deferred tax assets | 500 | 7,017 |
| | <hr/> | <hr/> |
| Increase (decrease) in liabilities/equity | | |
| Creditors and accrued charges | 561 | 37,170 |
| Issued debt securities | 35,964 | 262,548 |
| Deferred tax liabilities | - | (5,000) |
| Share premium and reserves | (11,596) | (69,303) |
| | <hr/> | <hr/> |

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

| | |
|--------------------|---|
| HKAS 1 (Amendment) | Capital Disclosures ¹ |
| HKFRS 7 | Financial Instruments: Disclosures ¹ |
| HK(IFRIC)-INT 7 | Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies ² |
| HK(IFRIC)-INT 8 | Scope of HKFRS 2 ³ |
| HK(IFRIC)-INT 9 | Reassessment of Embedded Derivatives ⁴ |

¹ Effective for annual periods beginning on or after 1st January 2007

² Effective for annual periods beginning on or after 1st March 2006

³ Effective for annual periods beginning on or after 1st May 2006

⁴ Effective for annual periods beginning on or after 1st June 2006

3. PRINCIPAL ACCOUNTING POLICIES

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

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

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary.

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

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

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

4. TURNOVER

| | Six months ended 20th August | |
|----------------------|-------------------------------------|-----------------|
| | 2006 | 2005 |
| | (Unaudited) | (Restated |
| | HK\$'000 | and unaudited) |
| | | HK\$'000 |
| Interest income | 492,045 | 448,372 |
| Fees and commissions | 15,322 | 11,880 |
| | 507,367 | 460,252 |

5. BUSINESS SEGMENTS

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

Six months ended 20th August 2006 (Unaudited)

| | Credit Card <i>HK\$'000</i> | Instalment loans <i>HK\$'000</i> | Hire Purchase <i>HK\$'000</i> | Corporate and other operations <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|--|-----------------------------------|--|-------------------------------------|---|-----------------------------|
| CONSOLIDATED INCOME STATEMENT | | | | | |
| TURNOVER | 328,269 | 164,537 | 4,253 | 10,308 | 507,367 |
| RESULT | | | | | |
| Net interest income | 270,041 | 145,499 | 2,250 | 1,455 | 419,245 |
| Other operating income | 46,256 | 7,888 | – | 1,654 | 55,798 |
| Other income | – | – | – | 2,420 | 2,420 |
| Impairment losses and impairment allowances | (96,597) | (61,769) | (1,503) | – | (159,869) |
| Segment results | 219,700 | 91,618 | 747 | 5,529 | 317,594 |
| Unallocated operating expenses | | | | | (179,228) |
| Share of results in an associate | | | | | 142 |
| Profit before tax | | | | | 138,508 |
| Income tax expense | | | | | (24,262) |
| Profit for the period | | | | | 114,246 |

5. BUSINESS SEGMENTS (Cont'd)

Six months ended 20th August 2005 (Restated and unaudited)

| | Credit Card <i>HK\$'000</i> | Instalment loans <i>HK\$'000</i> | Hire Purchase <i>HK\$'000</i> | Corporate and other operations <i>HK\$'000</i> | Combined <i>HK\$'000</i> |
|---|-----------------------------------|--|-------------------------------------|---|-----------------------------|
| CONSOLIDATED INCOME STATEMENT | | | | | |
| TURNOVER | <u>314,766</u> | <u>137,539</u> | <u>5,348</u> | <u>2,599</u> | <u>460,252</u> |
| RESULT | | | | | |
| Net interest income | 263,317 | 121,259 | 2,409 | 443 | 387,428 |
| Other operating income | 50,917 | 7,575 | 18 | 299 | 58,809 |
| Other income | – | – | – | 5,139 | 5,139 |
| (Increase in) reversal of impairment losses and impairment allowances | <u>(147,090)</u> | <u>(36,690)</u> | <u>2,143</u> | <u>–</u> | <u>(181,637)</u> |
| Segment results | <u>167,144</u> | <u>92,144</u> | <u>4,570</u> | <u>5,881</u> | 269,739 |
| Unallocated operating expenses | | | | | (144,303) |
| Share of results in an associate | | | | | <u>30</u> |
| Profit before tax | | | | | 125,466 |
| Income tax expense | | | | | <u>(21,995)</u> |
| Profit for the period | | | | | <u>103,471</u> |

6. INTEREST INCOME

| | Six months ended 20th August | |
|--|-------------------------------------|-----------------------------|
| | 2006 | 2005 |
| | (Unaudited) | (Restated and unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Time deposits, bank balances and cash | 10,308 | 2,599 |
| Credit card receivables, instalment loans receivable and hire purchase debtors | 466,967 | 428,947 |
| Impaired credit card receivables, instalment loans receivable and hire purchase debtors | <u>14,770</u> | <u>16,826</u> |
| | <u>492,045</u> | <u>448,372</u> |

7. OTHER OPERATING INCOME

| | Six months ended 20th August | |
|--|-------------------------------------|-----------------------------|
| | 2006 | 2005 |
| | (Unaudited) | (Restated and unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees and commissions | 15,322 | 11,880 |
| Handling and late charges | 38,822 | 45,140 |
| Dividends received on available-for-sale investments | 802 | 331 |
| Others | 852 | 1,458 |
| | <u>55,798</u> | <u>58,809</u> |

In prior period, certain commission and handling charges of HK\$9,647,000, which would have been classified under other operating income under the previous accounting policies, have now been included in the calculation of interest income under the effective interest method upon the adoption of HKAS 39.

8. OTHER INCOME

| | Six months ended 20th August | |
|--|-------------------------------------|-----------------|
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Loss on disposal of property, plant and equipment | (64) | (184) |
| Gain on available-for-sale investments | 2,187 | – |
| Unrealized gain on revaluation of investments held for trading | 297 | 1,213 |
| Gain on derivative financial instruments | – | 4,110 |
| | <u>2,420</u> | <u>5,139</u> |

9. OPERATING EXPENSES

| | Six months ended 20th August | |
|---|-------------------------------------|-----------------------------|
| | 2006 | 2005 |
| | (Unaudited) | (Restated and unaudited) |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Administrative expenses | 42,524 | 33,551 |
| Advertising expenses | 20,968 | 16,300 |
| Depreciation | 21,557 | 20,710 |
| Operating lease rentals in respect of rented premises, advertising space and equipment | 28,227 | 21,725 |
| Other operating expenses | 19,193 | 15,041 |
| Staff costs including directors' emoluments | 46,759 | 36,976 |
| | <u>179,228</u> | <u>144,303</u> |

10. IMPAIRMENT LOSSES AND IMPAIRMENT ALLOWANCES

| | Six months ended 20th August | |
|------------------------------------|------------------------------|-----------------------------|
| | 2006 | 2005 |
| | (Unaudited) | (Restated and unaudited) |
| | HK\$'000 | HK\$'000 |
| Net charge to the income statement | 171,068 | 188,512 |
| Recoveries | (11,199) | (6,875) |
| | <u>159,869</u> | <u>181,637</u> |

11. INCOME TAX EXPENSE

| | Six months ended 20th August | |
|--------------------------|------------------------------|-----------------------------|
| | 2006 | 2005 |
| | (Unaudited) | (Restated and unaudited) |
| | HK\$'000 | HK\$'000 |
| Provision for the period | | |
| Hong Kong | 24,262 | 14,716 |
| Deferred tax assets | | |
| Current period (note 23) | – | 7,279 |
| | <u>24,262</u> | <u>21,995</u> |

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

12. DIVIDEND

On 28th June 2006, a dividend of 11.5 HK cents (2004/05: 10.5 HK cents) per share amounting to a total of **HK\$48,158,000** (2004/05: HK\$43,970,000) was paid to shareholders as the final dividend for 2005/06.

The directors have proposed an interim dividend of **8.5 HK cents** (2005/06: 6.5 HK cents) per share payable on or about 13th October 2006 to shareholders whose names appear on the Register of Members on 11th October 2006.

13. EARNINGS PER SHARE

The calculation of earnings per share is based on the unaudited profit for the period of **HK\$114,246,000** (2005/06: HK\$103,471,000) and on the number of **418,766,000** (2005/06: 418,766,000) shares in issue during the period.

14. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately **HK\$21.4** million on computer equipment and **HK\$2.9** million on leasehold improvements.

15. AVAILABLE-FOR-SALE INVESTMENTS

| | 20th August 2006 (Unaudited) HK\$'000 | 20th February 2006 (Audited) HK\$'000 |
|------------------------------|--|--|
| At fair value: | | |
| Issued by corporate entities | | |
| Listed shares | | |
| Hong Kong | 16,197 | 13,853 |
| Overseas | 27,072 | 26,545 |
| Unlisted shares | 24,672 | 24,672 |
| | 67,941 | 65,070 |

As at the balance sheet date, all available-for-sale investments are equity securities. The fair values of listed shares are based on quoted market prices. The fair values of unlisted shares are calculated by using discounted cash flow method based on the latest financial budgets prepared by the investees' management covering a period of 3 to 5 years. Budgeted net profits projections have been determined based on historical records and the management expectations for the growth potential and market development.

16. INVESTMENTS HELD FOR TRADING

Investments held for trading represent shares listed overseas and are stated at fair value based on quoted market prices.

17. CREDIT CARD RECEIVABLES

| | 20th August 2006 (Unaudited) HK\$'000 | 20th February 2006 (Restated and audited) HK\$'000 |
|---|--|--|
| Due: | | |
| Within one year | 2,539,030 | 2,518,328 |
| In the second to fifth year inclusive | 83,662 | 35,227 |
| | 2,622,692 | 2,553,555 |
| Impairment allowances | | |
| – individually assessed | (33,381) | (41,377) |
| – collectively assessed | (51,945) | (56,533) |
| | (85,326) | (97,910) |
| | 2,537,366 | 2,455,645 |
| Current portion included under current assets | (2,456,425) | (2,421,535) |
| Amount due after one year | 80,941 | 34,110 |

17. CREDIT CARD RECEIVABLES (Cont'd)

The term of card instalment plans entered with customers ranges from 3 months to 2.5 years.

All credit card receivables are denominated in Hong Kong dollars. The credit card receivables carry interest ranging from 18.1% to 42.6%. The directors consider the fair value of credit card receivables at 20th August 2006 approximates to the corresponding carrying amount.

18. INSTALMENT LOANS RECEIVABLE

| | 20th August 2006 (Unaudited) HK\$'000 | 20th February 2006 (Audited) HK\$'000 |
|---|--|--|
| Due: | | |
| Within one year | 780,822 | 740,148 |
| In the second to fifth year inclusive | 438,662 | 370,515 |
| | 1,219,484 | 1,110,663 |
| Impairment allowances | | |
| – individually assessed | (21,883) | (33,307) |
| – collectively assessed | (32,120) | (20,422) |
| | (54,003) | (53,729) |
| | 1,165,481 | 1,056,934 |
| Current portion included under current assets | (746,244) | (704,343) |
| | 419,237 | 352,591 |

The term of instalment loans ranges from 6 months to 5 years. All instalment loans receivable are denominated in Hong Kong dollars. The instalment loans receivable carry interest ranging from 10.7% to 48.8%. The directors consider the fair value of instalment loans receivable at 20th August 2006 approximates to the corresponding carrying amount.

19. HIRE PURCHASE DEBTORS

| | 20th August 2006 (Unaudited) HK\$'000 | 20th February 2006 (Audited) HK\$'000 |
|---|--|--|
| Due: | | |
| Within one year | 106,689 | 121,023 |
| In the second to fifth year inclusive | 17,594 | 17,832 |
| | 124,283 | 138,855 |
| Impairment allowances | | |
| – individually assessed | (954) | (2,282) |
| – collectively assessed | (1,551) | (1,337) |
| | (2,505) | (3,619) |
| | 121,778 | 135,236 |
| Current portion included under current assets | (104,504) | (117,804) |
| | 17,274 | 17,432 |

All hire purchase arrangements entered with customers are denominated in Hong Kong dollars. The term of hire purchase contracts ranges from 5 months to 3 years. The hire purchase debtors carry interest ranging from 11.1% to 14.8%. The directors consider the fair value of hire purchase debtors at 20th August 2006 approximates to the corresponding carrying amount.

20. OVERDUE DEBTOR BALANCE

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

| | 20th August 2006 | | 20th February 2006 | |
|---|-------------------------|------------|---------------------------|-----|
| | (Unaudited) | | (Restated and audited) | |
| | HK\$'000 | %* | HK\$'000 | %* |
| Overdue 1 month but less than 2 months | 90,863 | 2.3 | 86,871 | 2.3 |
| Overdue 2 months but less than 3 months | 31,530 | 0.8 | 34,468 | 0.9 |
| Overdue 3 months or above | 66,044 | 1.7 | 81,902 | 2.1 |
| | 188,437 | 4.8 | 203,241 | 5.3 |

* Percentage of total debtor balance

21. PREPAYMENT, DEPOSITS, INTEREST RECEIVABLE AND OTHER DEBTORS

| | 20th August 2006 | 20th February 2006 (Restated and audited) |
|-----------------------|-----------------------------|--|
| | (Unaudited) | (Restated and audited) |
| | HK\$'000 | HK\$'000 |
| Within one year | 127,875 | 164,137 |
| Impairment allowances | (5,404) | (3,440) |
| | <u>122,471</u> | <u>160,697</u> |

The directors consider that the fair value of the Group's interest receivable and other debtors of **HK\$90,665,000** at 20th August 2006 (20th February 2006: HK\$126,431,000) approximates to the corresponding carrying amount.

22. IMPAIRMENT ALLOWANCES

| | 20th August 2006 | 20th February 2006 (Restated and audited) |
|---|-----------------------------|--|
| | (Unaudited) | (Restated and audited) |
| | HK\$'000 | HK\$'000 |
| At beginning of the period/year | 158,698 | 199,017 |
| Net charge to the income statement for the period/year | 159,869 | 315,965 |
| Amounts written off during the period/year | (182,528) | (374,177) |
| Recoveries during the period/year | 11,199 | 17,893 |
| | <u>147,238</u> | <u>158,698</u> |
| At end of the period/year | 147,238 | 158,698 |
| Analysis by products as: | | |
| Credit card receivables (<i>note 17</i>) | 85,326 | 97,910 |
| Instalment loans receivable (<i>note 18</i>) | 54,003 | 53,729 |
| Hire purchase debtors (<i>note 19</i>) | 2,505 | 3,619 |
| Prepayments, deposits, interest receivable and other debtors (<i>note 21</i>) | 5,404 | 3,440 |
| | <u>147,238</u> | <u>158,698</u> |

23. DEFERRED TAX ASSETS

| | 20th August 2006 | 20th February 2006 |
|---|-----------------------------|---------------------------|
| | (Unaudited) | (Restated and audited) |
| | HK\$'000 | HK\$'000 |
| At beginning of the period/year | 7,017 | 24,417 |
| Charge for the period/year | – | (17,400) |
| Transfer to current tax liabilities (<i>note</i>) | <u>(6,517)</u> | <u>–</u> |
| At end of the period/year | <u>500</u> | <u>7,017</u> |

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

| | 20th August 2006 | 20th February 2006 |
|---|-----------------------------|---------------------------|
| | (Unaudited) | (Restated and audited) |
| | HK\$'000 | HK\$'000 |
| Tax effect of temporary differences because of: | | |
| Impairment allowances | 15,930 | 23,017 |
| Excess of tax allowances over depreciation | <u>(15,430)</u> | <u>(16,000)</u> |
| Net deferred tax assets | <u>500</u> | <u>7,017</u> |

Note: The amount represented deferred tax accrued in prior years and was included under deferred tax assets at 20th February 2006. During the period, this amount was transferred from deferred tax assets to current tax liabilities to adjust the tax effect on prior year consolidation of unrealised gains and losses on interest-only strips and cash reserve account under asset securitisation.

24. RESTRICTED CASH

The Group's restricted cash is in relation to issued debt securities and represents time deposits carried at fixed rates ranging from 3.7% to 4.5% (0.3% to 4.1% for the year ended 20th February 2006) during the period. The fair value of restricted cash at 20th August 2006 approximates to the corresponding carrying amount.

25. TIME DEPOSITS

Time deposits carry fixed rates ranging from 3.0% to 5.0% (0.3% to 4.1% for the year ended 20th February 2006) during the period. The fair value of time deposits at 20th August 2006 approximates to the corresponding carrying amount.

26. BANK BALANCES AND CASH

Certain bank balances carry prevailing market interest rate and the directors consider that the fair value of the bank balances and cash of the Group at 20th August 2006 approximates to the corresponding carrying amount.

27. CREDITORS AND ACCRUED CHARGES

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

| | 20th August 2006 | 20th February 2006 (Restated and audited) |
|-------------------------------------|---------------------------------|--|
| | (Unaudited) HK\$'000 | HK\$'000 |
| Current | 117,815 | 125,476 |
| Over 1 month but less than 3 months | 457 | 273 |
| Over 3 months | 107 | 329 |
| | <u>118,379</u> | <u>126,078</u> |

The fair value of trade creditors and accrued charges of the Group at 20th August 2006 approximates to the corresponding carrying amount.

28. MATURITY PROFILE

| | 20th August 2006 | | | | |
|-----------------------------|-----------------------------|---|--|-------------------------|-------------------------|
| | (Unaudited) | | | | |
| | 3 months or less | 1 year or less but over 3 months | 4 years or less but over 1 year | Over 4 years | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| ASSETS | | | | | |
| Credit card receivables | 2,398,302 | 140,728 | 83,662 | - | 2,622,692 |
| Instalment loans receivable | 231,726 | 549,096 | 429,404 | 9,258 | 1,219,484 |
| Hire purchase debtors | 37,509 | 69,180 | 17,594 | - | 124,283 |
| Restricted cash | 120,000 | - | - | - | 120,000 |
| Time deposits | 158,415 | - | - | - | 158,415 |
| | <u>2,945,952</u> | <u>759,004</u> | <u>530,660</u> | <u>9,258</u> | <u>4,244,874</u> |
| LIABILITIES | | | | | |
| Issued debt securities | 281,060 | - | - | - | 281,060 |
| Bank borrowings | 969,300 | 400,000 | 1,040,000 | 230,000 | 2,639,300 |
| Bank overdrafts | 1,449 | - | - | - | 1,449 |
| | <u>1,251,809</u> | <u>400,000</u> | <u>1,040,000</u> | <u>230,000</u> | <u>2,921,809</u> |

28. MATURITY PROFILE (Cont'd)

| | 20th February 2006 (Restated and audited) | | | | |
|-----------------------------|--|--|---|-----------------------------|-------------------|
| | 3 months or less HK\$'000 | 1 year or less but over 3 months HK\$'000 | 4 years or less but over 1 year HK\$'000 | Over 4 years HK\$'000 | Total HK\$'000 |
| ASSETS | | | | | |
| Credit card receivables | 2,424,111 | 94,217 | 35,227 | – | 2,553,555 |
| Instalment loans receivable | 226,932 | 513,216 | 364,822 | 5,693 | 1,110,663 |
| Hire purchase debtors | 46,628 | 74,395 | 17,832 | – | 138,855 |
| Restricted cash | – | 120,000 | – | – | 120,000 |
| Time deposits | 237,519 | – | – | – | 237,519 |
| | <u>2,935,190</u> | <u>801,828</u> | <u>417,881</u> | <u>5,693</u> | <u>4,160,592</u> |
| LIABILITIES | | | | | |
| Issued debt securities | 131,948 | 718,052 | – | – | 850,000 |
| Bank borrowings | 386,000 | 275,000 | 1,030,000 | 365,000 | 2,056,000 |
| Bank overdrafts | 2,079 | – | – | – | 2,079 |
| | <u>520,027</u> | <u>993,052</u> | <u>1,030,000</u> | <u>365,000</u> | <u>2,908,079</u> |

29. ISSUED DEBT SECURITIES

The issued debt securities are backed by credit card receivables in Hong Kong (the “Transaction”), with the carrying amount denominated in Hong Kong dollars. The revolving period of the Transaction ended in March 2006. The monthly interest of the issued debt securities is determined at 1-month Hong Kong Interbank Offered Rate (“HIBOR”) plus 0.91% per annum during the revolving period and 0.45% per annum afterwards. The effective interest rates are 4.9% during the period.

The directors consider that the fair value of the issued debt securities of the Group at 20th August 2006 approximates to the corresponding carrying amount.

30. BANK BORROWINGS

| | 20th August 2006 (Unaudited) HK\$'000 | 20th February 2006 (Audited) HK\$'000 |
|--|--|--|
| Bank loans, unsecured | <u>2,639,300</u> | <u>2,056,000</u> |
| The maturity of bank borrowings is as follows: | | |
| Within one year | 1,369,300 | 661,000 |
| Between one and two years | 195,000 | 325,000 |
| Between two and five years | 1,045,000 | 1,070,000 |
| Over five years | <u>30,000</u> | <u>–</u> |
| | 2,639,300 | 2,056,000 |
| Amount repayable within one year included under current liabilities | <u>(1,369,300)</u> | <u>(661,000)</u> |
| Amount repayable after one year | <u>1,270,000</u> | <u>1,395,000</u> |

The carrying amounts of the bank borrowings of the Group are denominated in Hong Kong dollars. The average interest rate is 4.9% during the period.

At 20th August 2006, bank loans of HK\$595,000,000 (20th February 2006: HK\$850,000,000) are arranged at fixed interest rates ranging from 3.7% to 7.0% (20th February 2006: 3.4% to 7.0%) and expose the Group to fair value interest rate risk. Other borrowings are arranged at floating interest rates ranging from HIBOR plus 0.5% to 0.75% per annum, thus exposing the Group to cash flow interest rate risk.

The directors estimate the fair value of the bank borrowings of the Group, by discounting their future cash flows at the market rate, to be as follows:

| | 20th August 2006 (Unaudited) HK\$'000 | 20th February 2006 (Audited) HK\$'000 |
|------------|--|--|
| Bank loans | <u>2,614,712</u> | <u>2,032,137</u> |

At 20th August 2006, the Group had available HK\$360,000,000 (20th February 2006: HK\$360,000,000) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

31. DERIVATIVE FINANCIAL INSTRUMENTS

| | 20th August 2006 (Unaudited) | | 20th February 2006 (Audited) | |
|---------------------|---|---------------------------------|---------------------------------|-------------------------|
| | Assets HK\$'000 | Liabilities HK\$'000 | Assets HK\$'000 | Liabilities HK\$'000 |
| Interest rate swaps | <u>11,844</u> | <u>2,472</u> | <u>12,894</u> | <u>2,794</u> |

31. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

The interest rate swaps of the Group with aggregate notional amount of HK\$995,000,000 have fixed interest payments at an average rate of 4.3% for periods up until July 2013 and have floating interest receipts at an average rate of 0.3% plus HIBOR. Interest rate swaps are designated as cash flow hedging instruments from floating rates to fixed rates.

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

32. ISSUED CAPITAL

| | Number of shares | Share capital |
|-------------------------------------|-----------------------------|----------------------------|
| | 20th August | 20th August |
| | 2006 | 2006 |
| | (Unaudited) | (Unaudited) |
| | & 20th February | & 20th February |
| | 2006 | 2006 |
| | (Audited) | (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> |

33. OPERATING LEASE COMMITMENTS

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

| | 20th August | 20th February |
|---------------------------------------|----------------------|----------------------|
| | 2006 | 2006 |
| | (Unaudited) | (Audited) |
| | HK\$'000 | HK\$'000 |
| Within one year | 46,734 | 35,840 |
| In the second to fifth year inclusive | 48,123 | 44,641 |
| After five years | 530 | 3,132 |
| | <u>95,387</u> | <u>83,613</u> |

Leases for rented premises, including head office and data center, are negotiated for an average term of three years and rentals are fixed throughout the lease period. Leases for other rented premises and advertising space are negotiated for an average term of two years and rentals are fixed for an average of one year. Leases for computer equipment are negotiated for an average term of six years and rentals are fixed throughout the lease period.

34. PLEDGE OF ASSETS

At 20th August 2006, issued debt securities of the Group were secured by credit card receivables of **HK\$580,763,000** (20th February 2006: HK\$1,049,767,000).

35. RELATED PARTY TRANSACTIONS

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

| | Fellow subsidiaries | | Immediate holding company | | Associates | |
|---|---------------------|------------------|---------------------------|------------------|------------------|------------------|
| | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Interest received | <u>4,645</u> | <u>4,615</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Commission received | <u>1,194</u> | <u>1,072</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Dividends received | <u>550</u> | <u>151</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Licence fees received | <u>-</u> | <u>-</u> | <u>-</u> | <u>102</u> | <u>-</u> | <u>-</u> |
| Licence fees paid | <u>2,952</u> | <u>2,806</u> | <u>75</u> | <u>70</u> | <u>-</u> | <u>-</u> |
| Service fees paid | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>6,916</u> | <u>5,166</u> |
| Capital injected in an incorporated associate | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>38,947</u> | <u>-</u> |
| Purchase of motor vehicle | <u>-</u> | <u>-</u> | <u>-</u> | <u>223</u> | <u>-</u> | <u>-</u> |

Compensation of key management personnel

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

| | Six months ended 20th August | |
|---------------------|---------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Short-term benefits | <u>6,251</u> | <u>6,050</u> |

The remuneration of directors and key executives are determined by the Remuneration Committee having regard to the Group's operating results, performance of individuals and market trends.

36. CAPITAL COMMITMENTS

| | 20th August 2006 (Unaudited) HK\$'000 | 20th February 2006 (Audited) HK\$'000 |
|---|--|--|
| Contracted for, but not provided in the financial statements: | | |
| Purchase of property, plant and equipment | <u>12,447</u> | <u>21,081</u> |

DISCLOSURE PURSUANT TO RULE 13.18 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 8.5 HK cents (2005/06: 6.5 HK cents) per share to shareholders whose names appear on the Register of Members of the Company on 11th October 2006. Dividend warrants will be despatched on or about 13th October 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th October 2006 to 11th October 2006, 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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 3rd October 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The private consumption in Hong Kong continued to maintain growth in the first half of 2006, on the back of improving employment incomes, along with a rising stock market and a reviving property market. Consumer sentiment remained unbeaten, even under a rising interest rate environment. During the period under review, the Group continued to record a growth in credit card and personal loan business despite market players moved aggressively into these sectors.

The Group recorded a net profit of HK\$114.2 million for the six months ended 20th August 2006, representing an increase of 10.4% or HK\$10.8 million when compared to HK\$103.4 million in the previous corresponding period. The Group's earnings per share improved from 24.71 HK cents per share in 2005/06 to 27.28 HK cents per share.

On the sales front, the launch of new marketing programs and the recruit of more affinity cardholders have boosted up credit card sales. With the use of the Group's branch and merchant networks to cross-sell different loan products, personal loan sales continued to record a healthy growth. The overall sales volume increased by 17.6% when compared with last year.

With the pick up in sales transactions, interest income recorded an increase of 9.7% from HK\$448.4 million in 2005/06 to HK\$492.0 million. With the increase in HIBOR, average funding cost moved from 4.3% in the first half of last year to 4.9% in the first half of this year. Interest expense in the first half was HK\$72.8 million, an increase of 19.5% when compared with last year. The Group's net interest income recorded an increase of 8.2% to HK\$419.2 million from HK\$387.4 million in 2005/06. Although there was an increase in commission income, the drop in handling and late charges had resulted in the decrease in other operating income by 5.1% from HK\$58.8 million in 2005/06 to HK\$55.8 million for the first six months in 2006/07.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Financial Review *(Cont'd)*

The Group incurred more on advertising expenses to capture the growth of demand in consumer finance market. In addition, following the recruit of more cardholders and the launch of new marketing programs, the Group had spent more on card and loan processing expenses. Together with higher staff and rental costs incurred as a result of the expansion of branch network, operating expenses increased by 24.2% from HK\$144.3 million in 2005/06 to HK\$179.2 million. Consequently, the Group's cost-to-income ratio increased to 37.5% in the first half of this year from 32.0% in 2005/06.

At the operating level before impairment losses and impairment allowances, the Group recorded an operating profit of HK\$298.2 million for the six months ended 20th August 2006, representing a drop of 2.9% from HK\$307.1 million in the previous corresponding period. During the period under review, asset quality continued to improve, with impairment losses and impairment allowances for the first half stood at HK\$159.9 million, a decrease of 12.0% when compared with the same period last year. Impairment allowances amounted to HK\$147.2 million as at 20th August 2006, as compared with HK\$158.7 million as at 20th February 2006.

Despite a keen competition in the market, the Group was able to capitalize on market growth opportunities. This led to an increase in total debtor balance by HK\$163.4 million to HK\$3,966.5 million as at 20th August 2006 as compared to HK\$3,803.1 million as at 20th February 2006. Shareholders' equity was strengthened by 5.9% to HK\$1,398.7 million as at 20th August 2006 mainly due to the increase in accumulated profits and reserves. Net asset value per share (after interim dividend), compared with the net asset value per share as at 20th February 2006, rose 7.1% to HK\$3.3.

Business Review

The Group had launched a series of marketing initiatives in the first half to boost up card and personal loan sales. The Group had designed tailor-made card acquisition programs with its affinity partners to increase card base and card usage. The Group had also launched new spending campaigns with leading merchants to boost up recurrent transactions and activate sleeping customers. To increase card cash advance sales, the Group extended its ATM network along transportation areas and inside shopping centres, and also launched new promotion programs. With the enlarged customer base and distribution outlets, the Group had been active in cross-selling its personal loan products.

To boost the Group's competitiveness and increase its market share, the Company put efforts in brand strengthening. Besides using new image on AEON signboards and promotional materials, the Group now has one TV commercial that builds its brand acceptance by linking AEON cards to daily usage. Moreover, the Group's new branches at Sheung Wan and Tsim Sha Tsui have adopted new branch design elements.

Five new branches have been opened in Aberdeen, Yau Ma Tei, Cheung Sha Wan, Sheung Wan and Tsim Sha Tsui to extend the service coverage. In addition, the Group has successfully entered the MTR area and installed the first ATM in Choi Hung station.

MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

Prospects

Consumer sentiment in Hong Kong continues to remain robust, along with better job prospects and rising incomes. In light of the gradual slackening of economic growth and the coming under control of inflationary pressure, the rate-hiking cycle in the United States is expected to end soon. As players would like to see their market share grow, competition will remain keen. Under this optimistic and competitive business environment, the Group will continue to focus on its existing marketing strategy to launch new products, offer discount benefits and marketing programs, improve service quality and expand service coverage areas.

The Group will continue to launch affinity cards to capture new customer segments and widen its distribution network. At least two more cards 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.

In the second half, the Group plans to open two more branches, which will bring the branch network to 28. This will create new channels for target marketing and foster closer co-operation with discount and affinity merchants. To create a convenient network for cash advance usage, the Group will continue to extend its ATM network along the KCR and MTR areas and inside shopping centres. The Group's ATM network in Hong Kong is now open to China UnionPay members. With the increasing number of mainland visitors coming to Hong Kong, higher usage has been noted.

On China side, AEON Credit Guarantee (China) Co., Ltd., an associate, has signed a cooperative agreement with Bank of Communications on 4th August 2006 and expected to commence guarantee business on hire purchase for electrical appliances and home furniture within the second half. This marks a milestone for the Group's business expansion into China market.

SEGMENT INFORMATION

The Group's business comprises mainly three operating divisions, namely credit card, instalment loans and hire purchase. In the first half of 2006/07, credit card operation accounted for 64.7% of the Group's turnover, as compared to 68.4% in 2005/06. For operating income after deducting impairment losses and impairment allowances, credit card operation accounted for 69.2% of the Group's whole operations in 2006/07, as compared to 62.0% in 2005/06.

Following the issue of more new cards and the launch of different marketing programs and spending campaigns, net interest income from credit card operation recorded an increase of HK\$6.7 million, from HK\$263.3 million in 2005/06 to HK\$270.0 million in 2006/07. Although there was an increase in commission income, the drop in handling and late payment charges had resulted in a decrease in other operating income by 9.1% from HK\$50.9 million in 2005/06 to HK\$46.3 million. With a continued improvement in asset quality, the impairment losses and impairment allowances had dropped by 34.3%, or HK\$50.5 million, from HK\$147.1 million in 2005/06 to HK\$96.6 million in 2006/07. Operating results from credit card operation recorded an increase by 31.5% from HK\$167.1 million in 2005/06 to HK\$219.7 million in 2006/07.

SEGMENT INFORMATION (Cont'd)

With the enlarged customer base and distribution outlets, the Group remained active in further developing its personal loan business. Together with the use of new marketing channels, personal loan sales continued to record a stable growth in the reporting period. Net interest income from instalment loans operation recorded an increase of 20.0% or HK\$24.2 million, from HK\$121.3 million in 2005/06 to HK\$145.5 million in 2006/07. The increase in sales also helped to boost up certain related charges, resulting in an increase in other operating income by 4.1% from HK\$7.6 million in 2005/06 to HK\$7.9 million in 2006/07. As the portfolio size continued to grow, there was an increase in the write-off and delinquency amount, with impairment losses and impairment allowances increased by HK\$25.1 million, from HK\$36.7 million in 2005/06 to HK\$61.8 million in 2006/07. Operating results from instalment loans operation was HK\$91.6 million in 2006/07, a slight drop of HK\$0.5 million as compared with HK\$92.1 million in 2005/06.

With the high usage of card instalment plan, there was a continued drop in hire purchase sales in the first half, resulting in the drop in interest income and other operating income from hire purchase transactions by 7.3% from HK\$2.4 million in 2005/06 to HK\$2.3 million in 2006/07. Moreover, impairment losses and allowances amounted to HK\$1.5 million in 2006/07, as compared with a release of impairment allowances of HK\$2.1 million in 2005/06. As a result, operating results from hire purchase operation decreased from HK\$4.6 million in 2005/06 to HK\$0.7 million in 2006/07.

FUNDING AND CAPITAL FINANCING

The main objectives of the Group's funding and capital management are essentially the same as that reported in the Company's 2005/06 Annual Report.

The Group 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 2006, the Group had bank borrowings amounted to HK\$2,639.3 million, with 63.3% being fixed in interest rates. Out of these borrowings, 51.9% will mature within one year, 7.4% between one and two years, 22.0% between two and three years, 10.0% between three and four years and 8.7% over four years. Moreover, the Group had available HK\$360.0 million of undrawn committed borrowing facilities as at balance sheet date in respect of which all conditions precedent had been met. The credit card securitization program had started amortisation in March 2006 and with an outstanding balance of HK\$281.1 million as at 20th August 2006. All the Group's borrowings were denominated in Hong Kong dollars.

The Group continued to maintain a strong financial position. As at 20th August 2006, total debt-to-equity ratio was 2.23. Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

The Group's principal operations were transacted and recorded in Hong Kong dollars. During the period under review, the Group engaged in derivative financial instruments mainly to hedge its exposure on interest rate fluctuations. As at 20th August 2006, capital expenditure commitments entered were mainly related to the purchase of property, plant and equipment.

MANAGEMENT OF RISKS

The major financial instruments of the Group include equity investments, loans receivable, other assets, bank deposits, bank borrowings, other liabilities and issued debt securities. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Currency risk*

Certain equity investments of the Group are denominated in foreign currencies. As the amount is not material, the directors consider that the exposure on currency fluctuation is insignificant. The Group currently does not enter into any hedging activities to hedge for the foreign currency exposure.

(ii) *Interest rate risk*

Fair value interest rate risk

The Group is exposed to fair value interest rate risk through the impact of rate changes on interest-bearing financial assets and interest-bearing bank borrowings. The fair value interest rate risks relates primarily to fixed-rate lending and borrowings. All interest-bearing financial assets are exposed to fair value interest rate risks only. The interest rates and terms of repayment of financial assets and bank borrowings of the Group are disclosed in notes 17, 18, 19 and 30.

Cash flow interest rate risk

The Group's cash flow interest rate risk primarily relates to floating-rate financial liabilities (see notes 29 and 30).

The management monitors the interest rate exposure, through assessing the interest rate gap of its interest bearing financial assets and financial liabilities. To minimise the interest rate gap, the Group has been using interest rate swaps to convert a proportion of its variable rate debts to fixed rate. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

(iii) *Price risk*

The Group's available-for-sale investments and investments held for trading are measured at fair value at each balance sheet date. The Group is exposed to equity price risk through its available-for-sale investments and investments held for trading. The management monitors the price movements and take appropriate actions when it is required.

MANAGEMENT OF RISKS (*Cont'd*)

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 20th August 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the balance sheet. The Group's credit risk is primarily attributable to its credit card receivables, instalment loans receivable and hire purchase debtors. In order to minimise the credit risk, the Group has established policies and systems for monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of loans and receivables individually or collectively at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The Group has to 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.

The management closely monitors the Group's liquidity position with adequate standby facilities being maintained to meet unexpected, material cash outflows in the ordinary course of business.

HUMAN RESOURCES

The total number of staff as at 20th August 2006 and 20th February 2006 was 358 and 320 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2005/06 Annual Report.

DIRECTORS' INTERESTS IN SHARES

As at 20th August 2006, 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 | 280,000 | 0.07 |
| Masanori Kosaka | 110,000 | 0.03 |
| Kazuhide Kamitani | 1,045,000 | 0.25 |
| Tsang Wing Hong | 220,000 | 0.05 |

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

| Directors | Number of shares held under personal interests | Percentage of the issued share capital of ÆON Credit Japan |
|-------------------|---|---|
| Yoshiki Mori | 42,126 | 0.03 |
| Masanori Kosaka | 9,069 | 0.01 |
| Kazuhide Kamitani | 12,645 | 0.01 |

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

| Directors | Number of shares held under personal interests | Percentage of the issued share capital of ÆON Japan |
|------------------|---|--|
| Yoshiki Mori | 6,000 | 0.01 |

(d) **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 |

DIRECTORS' INTERESTS IN SHARES (Cont'd)

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 2006, 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 | % |
|--|------------------|-------|
| ÆON Co., Ltd. (Note 1) | 277,288,000 | 66.22 |
| ÆON Credit Service Co., Ltd. (Note 2) | 217,514,000 | 51.94 |
| Aberdeen Asset Management Plc and its Associates | 25,486,000 | 6.09 |

Notes:

1. ÆON 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 45.28% and 71.64% of the issued share capital of ÆON Credit Service Co., Ltd. and AEON Stores (Hong Kong) Co., Limited respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by ÆON Credit Service Co., Ltd. and AEON Stores (Hong Kong) Co., Limited respectively.
2. Out of 217,514,000 shares, 213,114,000 shares were held by ÆON Credit Service Co., Ltd. and 4,400,000 shares were held by Nomura Securities (HK) Limited, as nominee on behalf of ÆON Credit Service Co., Ltd..

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 2006.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 20th August 2006. The Group's interim report for the six months ended 20th August 2006 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 31 of the interim report.

CODE ON CORPORATE GOVERNANCE PRACTICES

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except for the deviation from the code provisions A.4.1, A.4.2 and E.1.2 of the Code.

Subsequent to the publication of the Corporate Governance Report included in the Company's 2005/06 Annual Report:

- (i) a special resolution was passed at the Company's 2006 Annual General Meeting to amend the Articles of Association of the Company to comply with the first sentence of the code provision A.4.2 to the effect that any director appointed to fill a causal vacancy or as addition to the Board shall be subject to election by shareholders at the first general meeting after his appointment;
- (ii) a third independent non-executive director was appointed on 26th June 2006 to comply with the minimum number required under Rule 3.10(1) of the Listing Rules.

The code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The second sentence of the code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. The Company's non-executive directors are not appointed for a specific term and directors are not subject to retirement by rotation. However, all directors, including executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, 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, 19th September 2006

INDEPENDENT REVIEW REPORT



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 21.

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 our 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 2006.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong, 19th September 2006

CORPORATE INFORMATION

Board of Directors

Executive Directors

Masanori KOSAKA (*Managing Director*)
LAI Yuk Kwong (*Deputy Managing Director*)
KOH Yik Kung
PAN Shu Pin, Ban
Tomoyuki KAWAHARA
FUNG Kam Shing, Barry

Non-Executive Directors

Yoshiki MORI (*Chairman*)
Kazuhide KAMITANI

Independent Non-Executive Directors

TSANG Wing Hong
WONG Hin Wing
HUI Ching Shan

Qualified Accountant

LAI Yuk Kwong

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 UFJ, Ltd.
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
Hong Kong Branch

Share Registrar

Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Registered Office

37/F, The World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

Internet Address

Homepage : <http://www.aeon.com.hk>
E-mail address : info@aeon.com.hk

Stock Code

900

