



# 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 2007



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 subsidiaries (the “Group” or “AEON Credit”) for the six months ended 20th August 2007 and the state of affairs of the Group as at that date together with the comparative figures as follows:

## CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 20th August</b>	
		<b>2007</b>	2006
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	4	<b>528,232</b>	507,367
Interest income	6	<b>509,347</b>	492,045
Interest expense		<b>(81,050)</b>	(72,800)
Net interest income		<b>428,297</b>	419,245
Other operating income	7	<b>60,409</b>	55,798
Other income	8	<b>6,489</b>	2,420
Operating income		<b>495,195</b>	477,463
Operating expenses	9	<b>(183,594)</b>	(179,228)
Operating profit before impairment allowances		<b>311,601</b>	298,235
Impairment losses and impairment allowances		<b>(168,250)</b>	(171,069)
Recoveries of receivables written-off		<b>18,065</b>	11,200
Share of results in associates		<b>(1,093)</b>	142
Profit before tax		<b>160,323</b>	138,508
Income tax expense	10	<b>(27,127)</b>	(24,262)
Profit for the period		<b>133,196</b>	114,246
Dividend paid	11	<b>73,284</b>	48,158
Earnings per share	12	<b>31.81 HK Cents</b>	27.28 HK Cents
Interim and special dividend per share declared after balance sheet date	11	<b>15.0 HK Cents</b>	8.5 HK Cents

## CONSOLIDATED BALANCE SHEET

		<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	13	92,289	98,452
Investments in associates		38,936	40,147
Available-for-sale investments	14	54,506	52,375
Credit card receivables	15	97,220	114,075
Instalment loans receivable	16	543,052	477,691
Hire purchase debtors	17	15,973	17,676
Deferred tax assets	21	2,500	1,000
Restricted cash	22	68,000	120,000
		<u>912,476</u>	<u>921,416</u>
<b>Current assets</b>			
Derivative financial instruments	28	14,705	7,115
Credit card receivables	15	2,824,702	2,688,578
Instalment loans receivable	16	824,751	823,640
Hire purchase debtors	17	100,139	104,454
Prepayments, deposits, interest receivable and other debtors	19	140,759	123,848
Time deposits	23	166,423	166,116
Bank balances and cash	24	60,779	114,195
		<u>4,132,258</u>	<u>4,027,946</u>
<b>Current liabilities</b>			
Creditors and accrued charges	25	135,612	121,938
Amount due to a fellow subsidiary		48,850	51,022
Amount due to immediate holding company		–	380
Amount due to ultimate holding company		38	60
Bank borrowings – repayable within one year	27	618,500	706,000
Bank overdrafts		3,302	1,695
Derivative financial instruments	28	3,397	13,639
Current tax liabilities		32,855	16,650
		<u>842,554</u>	<u>911,384</u>
<b>Net current assets</b>		<u>3,289,704</u>	<u>3,116,562</u>
<b>Total assets less current liabilities</b>		<u>4,202,180</u>	<u>4,037,978</u>
<b>Capital and reserves</b>			
Issued capital	29	41,877	41,877
Share premium and reserves		1,500,119	1,435,117
		<u>1,541,996</u>	<u>1,476,994</u>
<b>Non-current liabilities</b>			
Collateralised debt obligation	30	846,134	846,806
Bank borrowings – repayable after one year	27	1,814,050	1,714,178
		<u>2,660,184</u>	<u>2,560,984</u>
		<u>4,202,180</u>	<u>4,037,978</u>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2006, as restated	41,877	227,330	270	12,479	158	1,038,431	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 recognised directly in equity	-	-	-	2,871	9,214	-	12,085
Profit for the period	-	-	-	-	-	114,246	114,246
Total recognised 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	66,088	78,173
At 20th August 2006	41,877	227,330	270	15,350	9,372	1,104,519	1,398,718
At 21st February 2007	41,877	227,330	270	1,066	(6,524)	1,212,975	1,476,994
Gain on available-for-sale investments	-	-	-	2,131	-	-	2,131
Net adjustment on cash flow hedges	-	-	-	-	2,959	-	2,959
Net income recognised directly in equity	-	-	-	2,131	2,959	-	5,090
Profit for the period	-	-	-	-	-	133,196	133,196
Total recognised income for the period	-	-	-	2,131	2,959	133,196	138,286
Final dividend paid for 2006/07	-	-	-	-	-	(73,284)	(73,284)
	-	-	-	2,131	2,959	59,912	65,002
At 20th August 2007	41,877	227,330	270	3,197	(3,565)	1,272,887	1,541,996

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 20th August	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Net cash (used in) from operating activities</b>	<b>(17,296)</b>	19,446
<b>Net cash used in investing activities</b>		
Increase in investment in an associate	–	(38,947)
Purchase of property, plant and equipment	<b>(13,186)</b>	(24,324)
Others	<b>651</b>	802
	<b>(12,535)</b>	(62,469)
<b>Net cash used in financing activities</b>		
Decrease in restricted cash	<b>52,000</b>	–
Dividends paid	<b>(73,284)</b>	(48,158)
Net movement of bank borrowings	<b>(2,501)</b>	583,300
Repayment of issued debt securities	–	(568,940)
Others	<b>(1,100)</b>	–
	<b>(24,885)</b>	(33,798)
<b>Net decrease in cash and cash equivalents</b>	<b>(54,716)</b>	(76,821)
<b>Cash and cash equivalents at 21st February</b>	<b>278,616</b>	307,885
<b>Cash and cash equivalents at 20th August</b>	<b>223,900</b>	231,064
Being:		
Time deposits	<b>166,423</b>	158,415
Bank balances and cash	<b>60,779</b>	74,098
Bank overdrafts	<b>(3,302)</b>	(1,449)
	<b>223,900</b>	231,064

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 20th August 2007

### 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 (hereinafter collectively referred to as “new HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 21st February 2007. The application of the new HKFRSs had no material effect on how the Group’s results or financial position for the current or prior accounting periods have been prepared and presented.

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

HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) – INT 11	HKFRS 2 – Group and Treasury Share Transactions <sup>2</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1st January 2009

<sup>2</sup> Effective for annual periods beginning on or after 1st March 2007

<sup>3</sup> Effective for annual periods beginning on or after 1st January 2008

### 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 consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 20th February 2007.

### 4. TURNOVER

	Six months ended 20th August	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	509,347	492,045
Fees and commissions	18,885	15,322
	<u>528,232</u>	<u>507,367</u>

## 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 hire purchase financing for vehicles and household products and other consumer products to individuals

Segment information about these businesses is presented below:

### Six months ended 20th August 2007 (Unaudited)

	Credit card HK\$'000	Instalment loan HK\$'000	Hire purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
<b>CONSOLIDATED INCOME STATEMENT</b>					
<b>TURNOVER</b>	<b>337,003</b>	<b>180,354</b>	<b>3,628</b>	<b>7,247</b>	<b>528,232</b>
<b>RESULT</b>					
Net interest income (expense)	262,488	163,918	2,253	(362)	428,297
Other operating income	51,026	8,372	–	1,011	60,409
Other income	–	–	–	6,489	6,489
Impairment losses and impairment allowances	(97,564)	(68,563)	(2,123)	–	(168,250)
Recoveries of receivables written-off	14,723	2,976	366	–	18,065
Segment results	<b>230,673</b>	<b>106,703</b>	<b>496</b>	<b>7,138</b>	<b>345,010</b>
Unallocated operating expenses					(183,594)
Share of results in associates					(1,093)
Profit before tax					160,323
Income tax expense					(27,127)
Profit for the period					<b>133,196</b>

## 5. BUSINESS SEGMENTS (Cont'd)

Six months ended 20th August 2006 (Unaudited)

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Corporate and other operations <i>HK\$'000</i>	Combined <i>HK\$'000</i>
<b>CONSOLIDATED INCOME STATEMENT</b>					
TURNOVER	<u>328,269</u>	<u>164,537</u>	<u>4,253</u>	<u>10,308</u>	<u>507,367</u>
<b>RESULT</b>					
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	(105,737)	(63,488)	(1,844)	–	(171,069)
Recoveries of receivables written-off	<u>9,140</u>	<u>1,719</u>	<u>341</u>	<u>–</u>	<u>11,200</u>
Segment results	<u>219,700</u>	<u>91,618</u>	<u>747</u>	<u>5,529</u>	<u>317,594</u>
Unallocated operating expenses					(179,228)
Share of results in an associate					<u>142</u>
Profit before tax					138,508
Income tax expense					<u>(24,262)</u>
Profit for the period					<u>114,246</u>

## 6. INTEREST INCOME

	<b>Six months ended 20th August</b>	
	<b>2007</b>	<b>2006</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
Time deposits, bank balances and cash	7,247	10,308
Credit card receivables, instalment loans receivable and hire purchase debtors	485,219	466,967
Impaired credit card receivables, instalment loans receivable and hire purchase debtors	<u>16,881</u>	<u>14,770</u>
	<u>509,347</u>	<u>492,045</u>



## 7. OTHER OPERATING INCOME

	Six months ended 20th August	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Dividends received on available-for-sale investments	651	802
Net foreign exchange gain	316	–
Fees and commissions	18,885	15,322
Handling and late charges	39,278	38,822
Others	1,279	852
	<u>60,409</u>	<u>55,798</u>

## 8. OTHER INCOME

	Six months ended 20th August	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain on disposal of available-for-sale investments	6,489	2,187
Net loss on disposal of property, plant and equipment	–	(64)
Unrealised gain on revaluation of investments held for trading	–	297
	<u>6,489</u>	<u>2,420</u>

## 9. OPERATING EXPENSES

	Six months ended 20th August	
	2007	2006
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Administrative expenses	41,749	40,861
Advertising expenses	22,355	20,968
Depreciation	19,349	21,557
Operating lease rentals in respect of rented premises, advertising spaces and equipment	30,757	29,890
Other operating expenses	19,130	19,193
Staff costs including directors' emoluments	50,254	46,759
	<u>183,594</u>	<u>179,228</u>

## 10. INCOME TAX EXPENSE

	Six months ended 20th August	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current period	28,627	24,262
Deferred tax ( <i>note 21</i> )		
– Current period	(1,500)	–
	<u>27,127</u>	<u>24,262</u>

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

## 11. DIVIDEND

On 28th June 2007, a dividend of **17.5 HK cents** (2005/06: 11.5 HK cents) per share amounting to a total of **HK\$73,284,000** (2005/06: HK\$48,158,000) was paid to shareholders as the final dividend for 2006/07.

To mark the Company's 20th anniversary, the directors have declared on 19th September 2007 that an interim dividend of **10.0 HK cents** (2006/07: 8.5 HK cents) per share amounting to **HK\$41,877,000** (2006/07: HK\$35,595,000) and a special dividend of **5.0 HK cents** (2006/07: nil) per share amounting to **HK\$20,938,000** (2006/07: nil) be paid to the shareholders of the Company whose names appear on the Register of Members on 9th October 2007. The interim dividend and special dividend will be paid on or about 12th October 2007.

## 12. EARNINGS PER SHARE

The calculation of earnings per share is based on the unaudited profit for the period of **HK\$133,196,000** (2006/07: HK\$114,246,000) and on the number of **418,766,000** (2006/07: 418,766,000) shares in issue during the period.

## 13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately **HK\$12,286,000** on computer equipment, **HK\$747,000** on leasehold improvements and **HK\$153,000** on furniture and fixtures.

#### 14. AVAILABLE-FOR-SALE INVESTMENTS

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
At fair value:		
Issued by corporate entities		
Listed shares		
Hong Kong	<b>19,714</b>	17,583
Unlisted shares	<b>34,792</b>	34,792
	<b>54,506</b>	52,375

The investments included above represent investments in both listed and unlisted equity securities that offer the Group the opportunity for return through dividend income and fair value gains. The fair values of listed shares are based on quoted market bid 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 8.5 years. Budgeted net profits projections have been determined based on historical records and the management expectations for the growth potential and market development.

#### 15. CREDIT CARD RECEIVABLES

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Due:		
Within one year	<b>2,898,245</b>	2,755,391
In the second to fifth year inclusive	<b>99,751</b>	116,909
	<b>2,997,996</b>	2,872,300
Impairment allowances		
– individually assessed	<b>(27,471)</b>	(24,181)
– collectively assessed	<b>(48,603)</b>	(45,466)
	<b>(76,074)</b>	(69,647)
	<b>2,921,922</b>	2,802,653
Current portion included under current assets	<b>(2,824,702)</b>	(2,688,578)
Amount due after one year	<b>97,220</b>	114,075

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 20.2% to 43.3%.

## 15. CREDIT CARD RECEIVABLES (Cont'd)

### Asset backed financing transaction

The Group entered into asset backed financing transaction, which is collateralised by the Group's revolving credit card receivables portfolio. The transaction does not meet the "transfer of assets" tests under HKAS 39 Financial Instruments: Recognition and Measurement. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received as collateralised debt obligation (see note 30). At 20th August 2007, the carrying amount of the credit card receivables under this financing transaction is **HK\$1,424,820,000** (20th February 2007: HK\$1,284,786,000). The carrying amount of the collateralised debt obligation is **HK\$850,000,000** (20th February 2007: HK\$850,000,000).

## 16. INSTALMENT LOANS RECEIVABLE

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Due:		
Within one year	<b>858,939</b>	859,417
In the second to fifth year inclusive	<b>565,563</b>	498,441
	<b>1,424,502</b>	1,357,858
Impairment allowances		
– individually assessed	<b>(20,399)</b>	(19,352)
– collectively assessed	<b>(36,300)</b>	(37,175)
	<b>(56,699)</b>	(56,527)
	<b>1,367,803</b>	1,301,331
Current portion included under current assets	<b>(824,751)</b>	(823,640)
Amount due after one year	<b>543,052</b>	477,691

The term of instalment loans entered with customers 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 5.6% to 51.7%.

## 17. HIRE PURCHASE DEBTORS

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Due:		
Within one year	<b>102,487</b>	106,831
In the second to fifth year inclusive	<b>16,348</b>	18,078
	<b>118,835</b>	124,909
Impairment allowances		
– individually assessed	<b>(973)</b>	(1,142)
– collectively assessed	<b>(1,750)</b>	(1,637)
	<b>(2,723)</b>	(2,779)
	<b>116,112</b>	122,130
Current portion included under current assets	<b>(100,139)</b>	(104,454)
	<b>15,973</b>	17,676

The term of hire purchase contracts entered with customers ranges from 5 months to 3 years. All hire purchase agreements are denominated in Hong Kong dollars. Hire purchase debtors of **HK\$111,271,000** (20th February 2007: HK\$116,311,000) are non-interest bearing. The remaining hire purchase debtors carry interest ranging from 11.1% to 14.8%.

## 18. 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:

	<b>20th August 2007 (Unaudited)</b>		20th February 2007 (Audited)	
	<b>HK\$'000</b>	<b>%*</b>	<b>HK\$'000</b>	<b>%*</b>
Overdue 1 month but less than 2 months	<b>107,743</b>	<b>2.4</b>	96,448	2.2
Overdue 2 months but less than 3 months	<b>28,092</b>	<b>0.6</b>	27,859	0.6
Overdue 3 months or above	<b>62,290</b>	<b>1.4</b>	57,051	1.3
	<b>198,125</b>	<b>4.4</b>	181,358	4.1

\* *Percentage of total debtor balance*

## 19. PREPAYMENTS, DEPOSITS, INTEREST RECEIVABLE AND OTHER DEBTORS

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Within one year	<b>147,216</b>	129,105
Impairment allowances	<b>(6,457)</b>	(5,257)
	<b><u>140,759</u></b>	<u>123,848</u>

## 20. IMPAIRMENT ALLOWANCES

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
At beginning of the period/year	<b>134,210</b>	158,698
Charge to the consolidated income statement for the period/year	<b>168,250</b>	333,985
Amounts written-off during the period/year	<b>(160,507)</b>	(358,473)
At end of the period/year	<b><u>141,953</u></b>	<u>134,210</u>
Analysis by products as:		
Credit card receivables ( <i>note 15</i> )	<b>76,074</b>	69,647
Instalment loans receivable ( <i>note 16</i> )	<b>56,699</b>	56,527
Hire purchase debtors ( <i>note 17</i> )	<b>2,723</b>	2,779
Prepayments, deposits, interest receivable and other debtors ( <i>note 19</i> )	<b>6,457</b>	5,257
	<b><u>141,953</u></b>	<u>134,210</u>

## 21. DEFERRED TAX ASSETS

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
At beginning of the period/year	<b>1,000</b>	7,017
Credit to consolidated income statement for the period/year	<b>1,500</b>	–
Reversal	<b>–</b>	(6,017)
At end of the period/year	<b><u>2,500</u></b>	<u>1,000</u>

## 21. DEFERRED TAX ASSETS (Cont' d)

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

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Tax effect of temporary differences because of:		
Impairment allowances	<b>16,359</b>	15,800
Excess of tax allowances over depreciation	<b>(13,859)</b>	(14,800)
Net deferred tax assets	<b><u>2,500</u></b>	<u>1,000</u>

## 22. RESTRICTED CASH

The Group's restricted cash is in relation to collateralised debt obligation and represents time deposits carrying at fixed rates ranging from 3.9% to 4.4% (3.7% to 4.5% for the year ended 20th February 2007) during the period.

## 23. TIME DEPOSITS

Time deposits carry fixed rates ranging from 3.8% to 5.2% (3.0% to 5.0% for the year ended 20th February 2007) during the period.

## 24. BANK BALANCES AND CASH

Bank balances carry prevailing market interest rate.

Functional currency of relevant group entity is Hong Kong dollars. The carrying amounts of the Group's bank balances and cash are denominated in the following currencies:

	<b>Hong Kong dollars HK\$'000</b>	<b>Yen HK\$'000</b>	<b>Total HK\$'000</b>
<b>20th August 2007</b>			
Bank balances and cash	<b><u>60,779</u></b>	<u>–</u>	<b><u>60,779</u></b>
<b>20th February 2007</b>			
Bank balances and cash	<b><u>93,032</u></b>	<u>21,163</u>	<b><u>114,195</u></b>

## 25. CREDITORS AND ACCRUED CHARGES

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

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Current	<b>132,516</b>	121,078
Over 1 month but less than 3 months	<b>2,151</b>	653
Over 3 months	<b>945</b>	207
	<b><u>135,612</u></b>	<u>121,938</u>

## 26. MATURITY PROFILE

	<b>20th August 2007 (Unaudited)</b>				
	<b>3 months or less HK\$'000</b>	<b>1 year or less but over 3 months HK\$'000</b>	<b>4 years or less but over 1 year HK\$'000</b>	<b>Over 4 years HK\$'000</b>	<b>Total HK\$'000</b>
<b>ASSETS</b>					
Credit card receivables	2,639,766	258,479	99,751	–	2,997,996
Instalment loans receivable	245,425	613,514	555,448	10,115	1,424,502
Hire purchase debtors	35,585	66,902	16,348	–	118,835
Restricted cash	–	–	–	68,000	68,000
Time deposits	166,423	–	–	–	166,423
	<b><u>3,087,199</u></b>	<b><u>938,895</u></b>	<b><u>671,547</u></b>	<b><u>78,115</u></b>	<b><u>4,775,756</u></b>
<b>LIABILITIES</b>					
Collateralised debt obligation	–	–	–	846,134	846,134
Bank borrowings	423,500	195,000	1,225,000	589,050	2,432,550
Bank overdrafts	3,302	–	–	–	3,302
	<b><u>426,802</u></b>	<b><u>195,000</u></b>	<b><u>1,225,000</u></b>	<b><u>1,435,184</u></b>	<b><u>3,281,986</u></b>



## 26. MATURITY PROFILE (Cont'd)

	20th February 2007				Total HK\$'000
	(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	
<b>ASSETS</b>					
Credit card receivables	2,531,812	223,579	116,909	–	2,872,300
Instalment loans receivable	245,083	614,334	487,404	11,037	1,357,858
Hire purchase debtors	36,566	70,265	18,078	–	124,909
Restricted cash	–	–	–	120,000	120,000
Time deposits	166,116	–	–	–	166,116
	<u>2,979,577</u>	<u>908,178</u>	<u>622,391</u>	<u>131,037</u>	<u>4,641,183</u>
<b>LIABILITIES</b>					
Collateralised debt obligation	–	–	–	846,806	846,806
Bank borrowings	411,000	295,000	1,140,000	574,178	2,420,178
Bank overdrafts	1,695	–	–	–	1,695
	<u>412,695</u>	<u>295,000</u>	<u>1,140,000</u>	<u>1,420,984</u>	<u>3,268,679</u>

## 27. BANK BORROWINGS

	20th August 2007 (Unaudited) HK\$'000	20th February 2007 (Audited) HK\$'000
Bank loans, unsecured	<u>2,432,550</u>	<u>2,420,178</u>
The maturity of bank borrowings is as follows:		
Within one year	618,500	706,000
Between one and two years	580,000	415,000
Between two and five years	1,204,050	1,269,178
Over five years	30,000	30,000
	<u>2,432,550</u>	<u>2,420,178</u>
Amount repayable within one year included under current liabilities	<u>(618,500)</u>	<u>(706,000)</u>
Amount repayable after one year	<u>1,814,050</u>	<u>1,714,178</u>

## 27. BANK BORROWINGS (Cont'd)

Functional currency of relevant group entity is Hong Kong dollars. The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Hong Kong dollars <i>HK\$'000</i>	Yen <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>20th August 2007</b>			
Bank loans	<b>1,918,500</b>	<b>514,050</b>	<b>2,432,550</b>
<b>20th February 2007</b>			
Bank loans	1,921,000	499,178	2,420,178

Hong Kong dollar bank loans of **HK\$520,000,000** (20th February 2007: HK\$615,000,000) are arranged at fixed interest rates ranging from 3.7% to 7.0% (3.7% to 7.0% for the year ended 20th February 2007) during the period and expose the Group to fair value interest rate risk. Other Hong Kong dollar bank borrowings are arranged at floating interest rates ranging from 4.1% to 5.8% (3.8% to 5.8% for the year ended 20th February 2007) during the period while the Yen borrowing is arranged at floating interest rate ranging from 1.0% to 1.1% during the period, thus exposing the Group to cash flow interest rate risk.

## 28. DERIVATIVE FINANCIAL INSTRUMENTS

	20th August 2007 (Unaudited)		20th February 2007 (Audited)	
	Assets	Liabilities	Assets	Liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest rate swaps	5,557	3,397	7,115	3,506
Cross-currency interest rate swap	9,148	–	–	10,133
	<b>14,705</b>	<b>3,397</b>	<b>7,115</b>	<b>13,639</b>

### Cash flow hedges:

#### Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rate Hong Kong dollar bank borrowings by swapping a proportion of the floating-rate bank borrowings from floating rates to fixed rates. The interest rate swaps of the Group with aggregate notional amount of **HK\$895,000,000** have fixed interest payments at an average rate of 4.6% and floating interest receipts at an average rate of 0.7% plus HIBOR for periods up until July 2013. The interest rate swaps and the corresponding bank borrowings have the same terms and the directors of the Company consider that the interest rate swaps are highly effective hedging instruments.

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

## 28. DERIVATIVE FINANCIAL INSTRUMENTS (Cont'd)

### Cash flow hedges: (Cont'd)

#### Cross-currency interest rate swap

During the period, the Group had the following cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposure to foreign currency risk of its floating-rate Yen syndicated bank borrowing by swapping the floating-rate Yen bank borrowing to fixed-rate Hong Kong dollar bank borrowing. The cross-currency interest rate swap of the Group with notional amount of **HK\$499,178,000** has fixed currency payments in Japanese Yen at an exchange rate of HK\$1=Yen15, fixed interest payments at 4.9% and floating interest receipts at 0.4% plus JPY-LIBOR-BBA for periods up until September 2011. The cross-currency interest rate swap and the corresponding syndicated bank borrowing have the same terms and the directors of the Company consider that the cross-currency interest rate swap is highly effective hedging instrument.

The fair value of the cross-currency interest rate swap is based on JPY-LIBOR-BBA yield curve at balance sheet date estimated by using the discounted cash flow method.

## 29. ISSUED CAPITAL

	Number of shares 20th August 2007 (Unaudited) & 20th February 2007 (Audited)	Share capital 20th August 2007 (Unaudited) & 20th February 2007 (Audited) HK\$'000
Ordinary shares of HK\$0.1 each		
<i>Authorised</i>		
At beginning and end of period/year	<b>1,000,000,000</b>	<b>100,000</b>
<i>Issued and fully paid</i>		
At beginning and end of period/year	<b>418,766,000</b>	<b>41,877</b>

## 30. COLLATERALISED DEBT OBLIGATION

- (a) The Company entered into a HK\$850,000,000 collateralised debt obligation financing transaction (the "Transaction"). Pursuant to this Transaction, the Company transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the "Trust") established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Company is the sole beneficiary of the Trust and holds the entire undivided interest in the credit card receivables transferred. In accordance with HKAS-INT-12, the Trust is deemed to be controlled by the Company and the results thereof are consolidated by the Company in its consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under this Transaction have not been derecognised and remained in the Group's consolidated financial statements.
- (b) The collateralised debt obligation is backed by the Group's revolving credit card receivables portfolio (see notes 15 and 33) and with the carrying amount denominated in Hong Kong dollars. The revolving period of the Transaction will end in February 2012. The monthly interest of the collateralised debt obligation is fixed at 4.9% during the revolving period, thus exposing the Group to fair value interest rate risk. The effective interest rate is 4.9% during the period.

### 31. OPERATING LEASE COMMITMENTS

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

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Within one year	47,313	40,710
In the second to fifth year inclusive	<u>42,782</u>	<u>44,820</u>
	<b><u>90,095</u></b>	<b><u>85,530</u></b>

Leases for rented premises, including head office and data centre, are negotiated for an average term of three years and rentals are fixed throughout the lease period. Leases for other rented premises and advertising spaces 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.

### 32. CAPITAL COMMITMENTS

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Contracted for, but not provided in the consolidated financial statements:		
Purchase of property, plant and equipment	18,817	11,946
Authorised but not contracted for in the consolidated financial statements:		
Purchase of available-for-sale investments	<u>2,273</u>	<u>2,273</u>
	<b><u>21,090</u></b>	<b><u>14,219</u></b>

### 33. PLEDGE OF ASSETS

At 20th August 2007, the Group's collateralised debt obligation was secured by credit card receivables of **HK\$1,424,820,000** (20th February 2007: HK\$1,284,786,000) (see note 15).

### 34. RELATED PARTY TRANSACTIONS

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

	Six months ended 20th August							
	Fellow subsidiaries		Immediate holding company		Ultimate holding company		Associates	
	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income received	4,720	4,645	-	-	-	-	-	-
Commission received	1,457	1,194	-	-	-	-	-	-
Dividends received	639	550	-	-	-	-	-	-
Licence fees paid	3,039	2,952	75	75	25	-	-	-
Service fees paid	-	-	-	-	-	-	8,445	6,916
Capital injected in an incorporated associate	-	-	-	-	-	-	-	38,946

#### *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	
	2007	2006
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Short-term benefits	6,222	6,251

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

### 35. PARTICULARS OF A SUBSIDIARY AND A MASTER TRUST OF THE COMPANY

#### (a) Subsidiary

Name of subsidiary	Place of incorporation and operation	Issued share capital/paid-up capital	Proportion of ownership interest deemed to be held by the Company	Principal activities
Nihon (Hong Kong) Company Limited	Hong Kong	HK\$1,000	100%	In the process of liquidation

#### (b) Master trust

Horizon Master Trust (AEON 2006-1) is a special purpose entity set up for a collateralised debt obligation financing transaction. At 20th August 2007, assets in this special purpose entity mainly consisted of credit card receivables, restricted cash, time deposits, subordinated beneficiary and seller beneficiary.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 3rd October 2007 to 9th October 2007, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend and special dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 2nd October 2007.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### ***Financial Review***

During the period under review, the economy of Hong Kong maintained its growth momentum, with a continuous improvement in unemployment rate and moderate increase in property prices. Rise in individual income and the optimistic consumer sentiment had resulted in a healthy growth of private consumption in Hong Kong. However, the operating environment for consumer finance remains challenging and participants have to strive for innovative products and service quality to attract new customers. In the first half year, the Group continued to expand its operating network and record a growth in credit card and personal loan business despite the keen competition in the market.

The Group recorded a net profit of HK\$133.2 million for the six months ended 20th August 2007, representing an increase of 16.6% or HK\$19.0 million when compared to HK\$114.2 million in the previous corresponding period. The Group's earnings per share improved from 27.28 HK cents per share in 2006/07 to 31.81 HK cents per share.

To celebrate the Company's 20th anniversary, a series of marketing initiatives has been launched directing towards card activation through the offering of lucky draws, attractive year-round merchant offers, seasonal merchant discounts and enhanced bonus point system. These programs were well-received by the customers and as a result, the overall sales volume increased by 7.4% when compared with last year.

With the pick up in sales transactions, interest income recorded an increase of 3.5% from HK\$492.0 million in 2006/07 to HK\$509.3 million. HIBOR remained quite stable in the first half, with average funding cost maintained at 4.9% in the first half of this year. With the increase in the funding requirement, interest expense in the first half was HK\$81.1 million, an increase of 11.3% when compared with last year. The Group's net interest income recorded an increase of 2.2% to HK\$428.3 million from HK\$419.2 million in 2006/07. The increase in commission income and handling and late charges had resulted in the increase in other operating income by 8.3% from HK\$55.8 million in 2006/07 to HK\$60.4 million for the first six months in 2007/08. Other income of HK\$6.5 million represents the gain on disposal of available-for-sale investments listed overseas.

The Group incurred more on advertising expenses to capture the growth of demand in consumer finance market. In addition, following the recruit of more members and the launch of new marketing programs, the Group had spent more on card and loan processing expenses. Together with higher staff and rental costs incurred as a result of the expansion of service network, operating expenses increased by 2.4% from HK\$179.2 million in 2006/07 to HK\$183.6 million for the first six months in 2007/08. The Group's cost-to-income ratio dropped slightly from 37.5% in 2006/07 to 37.1% in the first half of this year.

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

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

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$311.6 million for the six months ended 20th August 2007, representing an increase of 4.5% from HK\$298.2 million in the previous corresponding period. During the period under review, the Group lent conservatively and strived to continually improve its asset quality. Even though there was an increase in the sales transactions and debtor balance, impairment losses and impairment allowances for the first half stood at HK\$168.3 million, a decrease of 1.6% when compared with the same period last year. Recoveries of receivables written-off amounted to were HK\$18.1 million, an increase of HK\$6.9 million when compared with HK\$11.2 million in 2006/07. Impairment allowances amounted to HK\$142.0 million at 20th August 2007, as compared with HK\$134.2 million at 20th February 2007.

Despite a keen competition in the market, the Group was able to capitalise on market growth opportunities. This led to an increase in total debtor balance by HK\$186.2 million to HK\$4,541.3 million at 20th August 2007 as compared to HK\$4,355.1 million at 20th February 2007. Shareholders' equity was strengthened by 4.4% to HK\$1,542.0 million at 20th August 2007 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 at 20th February 2007, increased from HK\$3.3 to HK\$3.5.

### **Business Review**

The Group had launched a series of marketing activities in the first half to boost up its card and personal loan sales. In addition, the Group had designed tailor-made card acquisition programs with its affinity partners to increase card base and card usage. The first and second phase of the 20th anniversary lucky draw promotions had been launched during the period under review, with the first prize being free credit limit of HK\$200,000 and two free air tickets around the world respectively.

With the continuous drop in unemployment rate and the widely acceptance of purpose loan, the Company has been actively exploring new channels to market its personal loan products to different market segments. Using telemarketing and direct mail in cross-selling to existing customer base, the Company had successfully boosted up its personal loan sales in the first half.

To extend its service coverage and brand awareness, the Company has set up a personal loan counter in its Mongkok branch and opened another new branch in Lok Ma Chau, bringing the number of branches to 29. In addition, the Company has already installed ATMs in 34 stations along the MTR and KCR areas.

As part of the business continuity plan, the Company has set up an additional operation centre in Guangzhou as a back-up for Shenzhen and Hong Kong call centres and also to provide 24-hour hotline service. Moreover, AEON Credit Guarantee (China) Co., Ltd. ("ACG"), an associate, has commenced operation on hire purchase guarantee business in April 2007. ACG will line up with more merchants to offer hire purchase service to customers and business volume is expected to increase in the near future.

## MANAGEMENT DISCUSSION AND ANALYSIS (Cont'd)

### *Prospects*

The positive economic outlook in Hong Kong and China is anticipated to drive consumers' appetite for consumption and investments which is expected to lead to a strong demand for consumer finance. The Group will take advantage of this positive market sentiment to expand its market segment for credit card and loan products. Following our 20th anniversary slogan, the Group will continue to launch new innovative products and services in the market such as gift cards.

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

For customers' convenience, the Group will line up with more service providers to promote bill payments to government bodies and utility companies through its credit cards. In addition, the Group will also line up with China UnionPay to launch gift card enabling recipients to make purchases at any China UnionPay merchant outlets in both Hong Kong and China.

To maintain a convenient network for cash advance usage, the Group will continue to extend its ATM network along the KCR and MTR areas. With more mainland visitors travelling to Hong Kong, the usage of ATM by China UnionPay members is expected to increase.

### SEGMENT INFORMATION

The Group's business comprises mainly three operating divisions, namely credit card, instalment loans and hire purchase. In the first half of 2007/08, credit card operation accounted for 63.8% of the Group's turnover, as compared to 64.7% in 2006/07. For operating income after deducting impairment losses and impairment allowances, credit card operation accounted for 66.9% of the Group's whole operations in 2007/08, as compared to 69.2% in 2006/07.

With the reduction in cash advance interest rate, net interest income from credit card operation decreased by HK\$7.6 million, from HK\$270.0 million in 2006/07 to HK\$262.4 million in 2007/08. However, this was compensated by the increase in card usage, resulting in an increase in the commission income and handling charges. Other operating income from credit card operation had increased by 10.3% from HK\$46.3 million in 2006/07 to HK\$51.0 million. With a continued improvement in asset quality, the impairment losses and impairment allowances had dropped by 7.7%, or HK\$8.2 million, from HK\$105.8 million in 2006/07 to HK\$97.6 million in 2007/08. Recoveries of receivables written-off amounted to HK\$14.7 million, an increase of HK\$5.6 million when compared with HK\$9.1 million in 2006/07. Operating results from credit card operation recorded an increase of 5.0% from HK\$219.7 million in 2006/07 to HK\$230.7 million in 2007/08.



## SEGMENT INFORMATION *(Cont' d)*

With the enlarged customer base and distribution channels, the Group remained active in developing its instalment loan business. Instalment loan sales continued to record a stable growth in the reporting period. Net interest income from instalment loan operation recorded an increase of 12.7% or HK\$18.4 million, from HK\$145.5 million in 2006/07 to HK\$163.9 million in 2007/08. The increase in outstanding debtor balance also helped to boost up certain related charges, resulting in an increase in other operating income by 6.1% from HK\$7.9 million in 2006/07 to HK\$8.4 million in 2007/08. As the portfolio size continued to grow, there was an increase in the charge off amount, with impairment losses and impairment allowances increased by HK\$5.1 million, from HK\$63.5 million in 2006/07 to HK\$68.6 million in 2007/08. Recoveries of receivables written-off amounted to HK\$3.0 million, as compared with HK\$1.7 million in 2006/07. Operating results from instalment loan operation was HK\$106.7 million in 2007/08, an increase of 16.5% as compared with HK\$91.6 million in 2006/07.

With the high usage of card instalment plan, there was a continued drop in hire purchase sales volume in the first half. Net interest income from hire purchase operation was quite stable. However, with the increase in impairment losses and impairment allowances, operating results from hire purchase operation decreased from HK\$0.7 million in 2006/07 to HK\$0.5 million in 2007/08.

## FUNDING AND CAPITAL MANAGEMENT

The main objectives of the Group's funding activities and capital management are:

- to safeguard the Group's ability to continue as a going concern, so that the Group can continue to provide returns for shareholders;
- to provide an adequate return to shareholders by pricing products commensurately with the level of risk; and
- to ensure the availability of funds at competitive costs to meet all contractual financial commitments, to fund debtor balance growth and to generate reasonable returns from available funds.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt ÷ adjusted capital. Net debt is calculated as total liabilities (as shown in the consolidated balance sheet) less cash and cash equivalents other than bank overdrafts. Adjusted capital comprises all components of capital and reserves other than amounts recognised in equity relating to cash flow hedges.

## FUNDING AND CAPITAL MANAGEMENT (Cont'd)

The debt-to-adjusted capital ratios at 20th August 2007 and at 20th February 2007 were as follows:

	<b>20th August 2007 (Unaudited) HK\$'000</b>	20th February 2007 (Audited) HK\$'000
Current liabilities	<b>842,554</b>	911,384
Non-current liabilities	<b>2,660,184</b>	2,560,984
Total debt	<b>3,502,738</b>	3,472,368
Less: Cash and cash equivalents	<b>(227,202)</b>	(280,311)
Net debt	<b>3,275,536</b>	3,192,057
Capital and reserves	<b>1,541,996</b>	1,476,994
Less: Amounts recognised in reserves relating to cash flow hedges	<b>3,565</b>	6,524
Adjusted capital	<b>1,545,561</b>	1,483,518
Debt-to-adjusted capital ratio	<b>2.12</b>	2.15

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th August 2007, 32.0% of its funding was derived from capital and reserves, 17.5% from structured finance and 50.5% from direct borrowings from financial institutions.

The principal source of internally generated capital was from accumulated profits. Besides the collateralised debt obligation, at 20th August 2007, the Group had bank borrowings, bank overdrafts and cross-currency syndicated term loan amounted to HK\$2,435.9 million, with 79.3% being fixed in interest rates.

Including the collateralised debt obligation, 18.9% of those indebtedness will mature within one year, 17.7% between one and two years, 10.8% between two and three years, 8.8% between three and four years and 43.8% over four years. The average duration of indebtedness is around three years. The Group's bank borrowings and collateralised debt obligation were denominated in Hong Kong dollars, except for a syndicated term loan of Yen7.5 billion which was hedged by a cross-currency interest rate swap.

The Group continued to maintain a strong financial position. At 20th August 2007, total debt-to-adjusted capital ratio was 2.12. The net asset value of the Group at 20th August 2007 was HK\$1,542.0 million, as compared with HK\$1,477.0 million at 20th February 2007. 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.

## **FUNDING AND CAPITAL MANAGEMENT** *(Cont'd)*

The Group's principal operations were transacted and recorded in Hong Kong dollars and thereby did not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge its exposure on interest rate and exchange rate fluctuations. At 20th August 2007, capital commitments entered were mainly related to the purchase of property, plant and equipment and the purchase of available-for-sale investments.

### **LOAN FACILITY WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER**

On 27th September 2006, the Company obtained a syndicated term loan of ¥7,500,000,000 (the "Facility") with the repayment date falling on 20th September 2011.

Under the Facility, the Company has made certain representations and warranties, including the Company is a consolidated subsidiary of *ÆON* Credit Service Co., Ltd., which is a controlling shareholder of the Company currently holding 51.94% of the issued share capital of the Company. It shall be an event of default under the terms of the Facility if the representation and warranty shall become untrue. As a result, the Facility will become due and payable on demand.

No repayment was made during the period of review and at 20th August 2007, the outstanding loan principal was ¥7,500,000,000 and the circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continued to exist.

## **MANAGEMENT OF RISKS**

The Group has established policies and procedures for the control and monitoring of market, credit, capital and liquidity risks, which are reviewed regularly by the Group's management. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

### ***Market risk management***

Market risk is the risk associated with changes in foreign exchange rates, interest rates, equity prices and government policies; and the effect of such changes on the Group's assets, liabilities and commitments, including both on and off balance sheet, thus affecting the earnings and capital.

The Group adopts a conservative view on exposure to market risk related financial instruments. The Group monitors its exposure to the market risk on a regular basis and will take appropriate actions to minimise its exposure to market risk.

The Group has been using currency swap to minimise the foreign currency risk in relation to bank borrowing. As the amount in relation to equity investments is not material, the Group currently does not enter into hedging activities to hedge for the foreign currency risk.

The Group monitors the interest rate exposure through assessing the interest rate gap of its interest bearing financial assets and financial liabilities. The Group has been using interest rate swaps to convert a proportion of its variable rate debts to fixed rate.

## **MANAGEMENT OF RISKS** (Cont'd)

### ***Market risk management*** (Cont'd)

The Group transacted in market risk related financial instruments solely 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.

### ***Credit risk management***

Credit risk is the risk associated with the possibility that a customer or counterparty in a transaction may default. It arises from the lending, liquid funds and derivative instruments undertaken by the Group.

In evaluating the credit associated with an individual or counterparty, financial strength and repayment ability are always the primary considerations. The Group has established policies and systems for the monitoring and control of credit risk. The Group's credit policy defines the credit extension criteria, credit approval and monitoring processes. The approval of credit card and loan transactions is delegated to the authorised personnel in head office and branch managers subject to the set limits. Internal auditors are responsible for appraising the effectiveness of credit controls. The Group maintains a tight control on credit assessments and approvals and will continue to exercise a conservative and prudent policy in granting credit facilities in order to maintain a quality receivable portfolio.

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

### ***Liquidity management***

Liquidity risk is the risk that the Group cannot meet its current obligation. The Group will ensure the availability of funds at competitive costs to meet all contractual financial commitments and to fund its receivable growth. The balance between liquidity and profitability is carefully considered. The Accounts and Finance Division is responsible for the management of daily treasury operations, and to ensure availability of funds to settle card transactions, to fund loan growth and to meet contractual financial commitments. Standby facilities are maintained to provide liquidity to meet unexpected significant increase in merchant settlement and receivable demand in the ordinary course of business.

### ***Capital management***

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

## **HUMAN RESOURCES**

The total number of staff at 20th August 2007 and 20th February 2007 was 385 and 376 respectively. The Company continues to recognise and reward its staff similar to that disclosed in the Company's 2006/07 Annual Report.

## DIRECTORS' INTERESTS IN SHARES

At 20th August 2007, 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) AEON Credit Service Co., Ltd. ("ACS Japan") – immediate holding company of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of ACS Japan
Yoshiki Mori	42,126	0.03
Masanori Kosaka	9,096	0.01
Kazuhide Kamitani	12,645	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	7,500	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	1,450,000	0.58
Masanori Kosaka	100,000	0.04
Kazuhide Kamitani	500,000	0.20

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

Other than the holdings 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 at 20th August 2007.

## SUBSTANTIAL SHAREHOLDERS

At 20th August 2007, the register of substantial shareholders' interests in shares and short positions required to be maintained under Section 336 of the 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. <i>(Note 1)</i>	277,288,000	66.22
ÆON Credit Service Co., Ltd. <i>(Note 2)</i>	217,514,000	51.94
Aberdeen Asset Management Plc and its Associates	29,672,000	7.08

### 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.

Other than as disclosed above, the Company had not been notified of any other interests representing 5% or more in the Company's issued share capital at 20th August 2007.

## INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 20th August 2007. The Group's interim report for the six months ended 20th August 2007 has been reviewed in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants, by Deloitte Touche Tohmatsu, whose unmodified review report is attached on page 31 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 throughout the accounting period for the six months ended 20th August 2007, except for the code provisions A.4.1 and A.4.2 which are explained below.

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The second limb of code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company’s non-executive directors are not appointed for a specific term and directors are not subject to retirement by rotation. However, all directors, including executive, non-executive and independent non-executive, are subject to retirement and re-election at each annual general meeting of the Company in accordance with the Company’s Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.

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

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

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

Hong Kong, 19th September 2007

## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



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

(Incorporated in Hong Kong with limited liability)

#### Introduction

We have reviewed the interim financial information set out on pages 1 to 20 which comprises the condensed consolidated balance sheet of AEON Credit Service (Asia) Company Limited as of 20th August 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, 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.

#### Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong, 19th September 2007



## **CORPORATE INFORMATION**

### **Board of Directors**

#### *Executive Directors*

Masanori KOSAKA (*Managing Director*)  
LAI Yuk Kwong (*Deputy Managing Director*)  
Tomoyuki KAWAHARA (*Senior Executive Director*)  
KOH Yik Kung  
PAN Shu Pin, Ban  
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*

### **Share Registrar**

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

### **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  
Citibank, N.A.  
Hong Kong Branch

### **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](mailto:info@aeon.com.hk)

### **Stock Code**

900

