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 2008

ISO 10002 ISO 9001 ISO 27001

Planting Seeds of Growth
We are ÆON

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

CONDENSED CONSOLIDATED INCOME STATEMENT

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

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**20th August 2008 (Unaudited)** *HK$'000*	20th February 2008 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	*13*	**75,869**	84,214
Investments in associates		**41,679**	42,904
Available-for-sale investments	*14*	**80,129**	87,406
Advances and receivables	*15*	**840,821**	716,587
Deferred tax assets	*19*	**6,200**	4,500
Restricted deposits	*20*	**68,000**	68,000
		1,112,698	1,003,611
Current assets			
Derivative financial instruments	*26*	**13,515**	14,487
Advances and receivables	*15*	**3,952,869**	4,013,201
Prepayments, deposits and other debtors	*17*	**64,214**	59,101
Time deposits	*21*	**172,101**	167,778
Bank balances and cash	*22*	**58,492**	78,014
		4,261,191	4,332,581
Current liabilities			
Creditors and accrued charges	*23*	**114,006**	107,998
Amount due to a fellow subsidiary		**51,709**	50,387
Amount due to immediate holding company		**2,212**	–
Amount due to ultimate holding company		**15**	57
Amount due to an associate		**630**	239
Bank borrowings – repayable within one year	*25*	**1,130,500**	1,032,000
Bank overdrafts		**2,857**	2,950
Derivative financial instruments	*26*	**20,395**	28,531
Tax liabilities		**46,468**	28,259
		1,368,792	1,250,421
Net current assets		**2,892,399**	3,082,160
Total assets less current liabilities		**4,005,097**	4,085,771
Capital and reserves			
Issued capital	*27*	**41,877**	41,877
Share premium and reserves		**1,667,351**	1,575,082
		1,709,228	1,616,959
Non-current liabilities			
Collateralised debt obligation	*28*	**846,869**	846,562
Bank borrowings – repayable after one year	*25*	**1,449,000**	1,622,250
		2,295,869	2,468,812
		4,005,097	4,085,771

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 20th August 2008

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 (HKAS) Interim Financial Reporting.

2. PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 20th February 2008.

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

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

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

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

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

[1] *Effective for annual periods beginning on or after 1st January 2009*
[2] *Effective for annual periods beginning on or after 1st July 2009*
[3] *Effective for annual periods beginning on or after 1st July 2008*
[4] *Effective for annual periods beginning on or after 1st October 2008*

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

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

3. TURNOVER

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

4. BUSINESS SEGMENTS

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

Six months ended 20th August 2008 (Unaudited)

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

4. BUSINESS SEGMENTS *(Continued)*

Six months ended 20th August 2007 (Unaudited)

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

5. INTEREST INCOME

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

6. INTEREST EXPENSE

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

7. OTHER OPERATING INCOME

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

8. OTHER GAINS AND LOSSES

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

9. OPERATING EXPENSES

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

10. INCOME TAX EXPENSE

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

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

11. DIVIDEND

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

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

12. EARNINGS PER SHARE

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

13. PROPERTY, PLANT AND EQUIPMENT

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

14. AVAILABLE-FOR-SALE INVESTMENTS

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

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 equity securities are based on quoted market bid prices. The above unlisted investment represent equity interest in six private entities incorporated overseas engaged in consumer credit finance services and related business. The fair values of unlisted equity securities 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 7.5 years. Budgeted net profits projections have been determined based on the historical records and the management's expectations for the growth potential and market development.

15. ADVANCES AND RECEIVABLES

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

(a) Credit card receivables

The term of card instalment plans entered with customers ranges from 3 months to 5 years.

All credit card receivables are denominated in Hong Kong dollars. The credit card receivables carry effective interest ranging from 20.2% to 43.3% per annum.

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 for the recognition of the financial assets. 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 28). At 20th August 2008, the carrying amount of the credit card receivables under this financing transaction was **HK$1,470,087,000** (20th February 2008: HK$1,435,766,000). The carrying amount of the collateralised debt obligation was **HK$850,000,000** (20th February 2008: HK$850,000,000).

(b) Instalment loans receivable

The term of instalment loans entered with customers ranges from 3 months to 5 years. All instalment loans receivable are denominated in Hong Kong dollars. The instalment loans receivable carry effective interest ranging from 5.6% to 51.7% per annum.

15. ADVANCES AND RECEIVABLES *(Continued)*

(c) Hire purchase debtors

	Minimum payments		Present value of minimum payments	
	20th August 2008 (Unaudited)	20th February 2008 (Audited)	**20th August 2008 (Unaudited)**	20th February 2008 (Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable under hire purchase contracts:				
Within one year	**96,672**	102,229	**93,452**	98,590
In the second to fifth year inclusive	**16,801**	17,593	**16,299**	17,059
	113,473	119,822	**109,751**	115,649
Unearned finance income	**(3,722)**	(4,173)	**–**	–
Present value of minimum payments receivable	**109,751**	115,649	**109,751**	115,649

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. The hire purchase debtors carry effective interest ranging from 3.8% to 14.8% per annum.

16. OVERDUE ADVANCES

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

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

* *Percentage of total debtor balance*

17. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

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

18. IMPAIRMENT ALLOWANCES

	20th August 2008 (Unaudited) ***HK$'000***	20th February 2008 (Audited) *HK$'000*
Analysis by products as:		
Credit card receivables	**82,789**	81,432
Instalment loans receivable	**54,764**	52,246
Hire purchase debtors	**2,048**	2,249
Accrued interest receivables	**7,775**	6,503
	147,376	142,430

	Individual assessment ***HK$'000***	**Collective assessment** ***HK$'000***	**Total** ***HK$'000***
At 21st February 2008	**45,323**	**97,107**	**142,430**
Impairment losses and impairment allowances	**181,230**	**5,549**	**186,779**
Amounts written-off as uncollectable	**(181,833)**	**–**	**(181,833)**
At 20th August 2008	**44,720**	**102,656**	**147,376**

	Individual assessment *HK$'000*	Collective assessment *HK$'000*	Total *HK$'000*
At 21st February 2007	44,675	89,535	134,210
Impairment losses and impairment allowances	164,675	3,575	168,250
Amounts written-off as uncollectable	(160,507)	–	(160,507)
At 20th August 2007	48,843	93,110	141,953

19. DEFERRED TAX ASSETS

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

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

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

20. RESTRICTED DEPOSITS

The Group's restricted deposits are in relation to the arrangement under collateralised debt obligation. This represents time deposits carrying at fixed rates ranging from 1.3% to 2.6% during the period.

21. TIME DEPOSITS

Time deposits carry fixed rates ranging from 0.9% to 2.8% during the period.

22. 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:

	Hong Kong dollars *HK$'000*	Japanese Yen *HK$'000*	United States dollars *HK$'000*	Total *HK$'000*
20th August 2008 (Unaudited)				
Bank balances and cash	**58,327**	**12**	**153**	**58,492**
20th February 2008 (Audited)				
Bank balances and cash	77,654	–	360	78,014

23. CREDITORS AND ACCRUED CHARGES

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

	20th August 2008 (Unaudited) *HK$'000*	20th February 2008 (Audited) *HK$'000*
Current	**111,046**	104,615
Over 1 month but less than 3 months	**1,407**	592
Over 3 months	**1,553**	2,791
	114,006	107,998

24. MATURITY PROFILE

The table below analyses the carrying amount of the Group's assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

	20th August 2008 (Unaudited)				
	Up to 3 months *HK$'000*	**3 – 12 months** *HK$'000*	**1 – 4 years** *HK$'000*	**Over 4 years** *HK$'000*	**Total** *HK$'000*
ASSETS					
Advances and receivables	**3,046,203**	**906,666**	**830,215**	**10,606**	**4,793,690**
Restricted deposits	**–**	**–**	**–**	**68,000**	**68,000**
Derivative financial instruments	**–**	**–**	**13,515**	**–**	**13,515**
Time deposits	**172,101**	**–**	**–**	**–**	**172,101**
Bank balances and cash	**58,492**	**–**	**–**	**–**	**58,492**
	3,276,796	**906,666**	**843,730**	**78,606**	**5,105,798**
LIABILITIES					
Collateralised debt obligation	**–**	**–**	**846,869**	**–**	**846,869**
Bank borrowings					
– fixed rate	**60,000**	**100,000**	**410,000**	**–**	**570,000**
– variable rate	**630,500**	**340,000**	**954,000**	**85,000**	**2,009,500**
Bank overdrafts	**2,857**	**–**	**–**	**–**	**2,857**
Derivative financial instruments	**388**	**466**	**15,252**	**4,289**	**20,395**
	693,745	**440,466**	**2,226,121**	**89,289**	**3,449,621**

24. MATURITY PROFILE *(Continued)*

	20th February 2008 (Audited)				
	Up to 3 months *HK$'000*	3 – 12 months *HK$'000*	1 – 4 years *HK$'000*	Over 4 years *HK$'000*	Total *HK$'000*
ASSETS					
Advances and receivables	3,081,759	931,442	706,443	10,144	4,729,788
Restricted deposits	–	–	–	68,000	68,000
Derivative financial instruments	44	–	14,443	–	14,487
Time deposits	167,778	–	–	–	167,778
Bank balances and cash	78,014	–	–	–	78,014
	3,327,595	931,442	720,886	78,144	5,058,067
LIABILITIES					
Collateralised debt obligation	–	–	–	846,562	846,562
Bank borrowings					
– fixed rate	–	140,000	430,000	–	570,000
– variable rate	657,000	235,000	1,162,250	30,000	2,084,250
Bank overdrafts	2,950	–	–	–	2,950
Derivative financial instruments	–	2,146	23,331	3,054	28,531
	659,950	377,146	1,615,581	879,616	3,532,293

25. BANK BORROWINGS

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

25. BANK BORROWINGS *(Continued)*

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	Japanese Yen	Total
	HK$'000	*HK$'000*	*HK$'000*
20th August 2008 (Unaudited)			
Bank loans	**2,045,500**	**534,000**	**2,579,500**
20th February 2008 (Audited)			
Bank loans	2,112,000	542,250	2,654,250

Hong Kong dollar bank loans of **HK$570,000,000** (20th February 2008: HK$570,000,000) are arranged at fixed interest rates ranging from 2.9% to 5.2% and expose the Group to fair value interest rate risk. Other Hong Kong dollar bank borrowings are arranged at floating interest rates ranging from 0.4% plus HIBOR to 0.5% plus HIBOR while the Japanese Yen borrowing is arranged at floating interest rate of 0.4% plus JPY-LIBOR-BBA, thus exposing the Group to cash flow interest rate risk.

At 20th August 2008, the Group had available unutilised overdrafts and non-committed short term bank loan facilities of **HK$16,900,000** and **HK$387,220,000** respectively.

26. DERIVATIVE FINANCIAL INSTRUMENTS

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

All derivative financial instruments entered by the Group at 20th August 2008 and 20th February 2008 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Cash flow hedges:

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rate by swapping certain Hong Kong dollar floating-rate bank borrowings with aggregate principal of **HK$925,000,000** from floating rates to fixed rates. The interest rate swaps of the Group with aggregate notional amount of **HK$925,000,000** have fixed interest payments at fixed interest rates ranging from 2.6 % to 5.7% and floating interest receipts ranging from 0.4% plus HIBOR to 0.8% 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. Interest rate swaps are designated as cash flow hedging instruments from floating interest rates to fixed interest rates.

26. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Cash flow hedges: *(Continued)*

Interest rate swaps *(Continued)*

The fair value gain on interest rate swaps amounted to **HK$8,591,000** are included in equity.

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

Cross-currency interest rate swap

The Group uses a cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposure to foreign currency and cash flow interest rate risk of its floating-rate Japanese Yen syndicated bank borrowing by swapping the floating-rate Japanese Yen bank borrowing with principal of JPY7,500,000,000 to fixed-rate Hong Kong dollar bank borrowing. The cross-currency interest rate swap of the Group with notional amount of JPY7,500,000,000 (equivalent to HK$499,178,000) has fixed currency payments in Hong Kong dollars at exchange rate of Japanese Yen to Hong Kong dollars at 15, fixed interest payments in Hong Kong dollars at 4.9% and floating interest receipts in Japanese Yen 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 loss on cross-currency interest rate swap is amounted to **HK$1,653,000** of which **HK$1,427,000** is charged to equity and **HK$226,000** is charged to condensed consolidated income statement.

The fair value of the cross-currency interest rate swap is determined by using the discounted cash flow method based on JPY-LIBOR-BBA yield curve and the forward exchange rate between Japanese Yen and Hong Kong dollars estimated at balance sheet date.

27. ISSUED CAPITAL

	Number of shares 20th August 2008 (Unaudited) & 20th February 2008 (Audited)	**Share capital 20th August 2008 (Unaudited) & 20th February 2008 (Audited)** ***HK$'000***
Ordinary shares of HK$0.1each		
Authorised		
At beginning and end of period / year	**1,000,000,000**	**100,000**
Issued and fully paid		
At beginning and end of period / year	**418,766,000**	**41,877**

28. COLLATERALISED DEBT OBLIGATION

(a) The Company entered into a HK$850,000,000 collateralised debt obligation financing transaction (the "Transaction"). Pursuant to this Transaction, the Company transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the "Trust") established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Company is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HKAS-INT-12, the Trust is deemed to be controlled by the Company and the results thereof are consolidated by the Company in its consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under this Transaction have not been derecognised and remained in the Group's consolidated financial statements.

(b) The collateralised debt obligation is backed by the credit card receivables transferred (see notes 15(a) and 31) 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.

29. OPERATING LEASE COMMITMENTS

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

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

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 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.

30. CAPITAL COMMITMENTS

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

31. PLEDGE OF ASSETS

At 20th August 2008, the Group's collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK$1,470,087,000** and **HK$68,000,000** respectively (20th February 2008: HK$1,435,766,000 and HK$68,000,000) (see notes 15(a) and 20).

32. RELATED PARTY TRANSACTIONS

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

	Six months ended 20th August (Unaudited)							
	Fellow subsidiaries		**Immediate holding company**		**Ultimate holding company**		**Associates**	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income received	**4,836**	4,720	**–**	–	**–**	–	**–**	–
Commission received	**1,351**	1,457	**–**	–	**–**	–	**–**	–
Dividends received	**1,014**	639	**–**	–	**–**	–	**–**	–
Licence fees paid	**3,152**	3,039	**55**	75	**–**	25	**–**	–
Service fees paid	**–**	–	**–**	–	**–**	–	**13,612**	8,445
Sharing of corporate expenses	**–**	–	**2,212**	–	**–**	–	**–**	–

32. RELATED PARTY TRANSACTIONS *(Continued)*

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	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short-term benefits	**6,829**	6,222

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.

33. 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 2008	2007	Principal activities
AEON Education and Environment Fund Limited	Hong Kong	Limited by guarantee	**100%**	50%	Support community charity projects and activities

(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 2008, assets in this special purpose entity mainly consisted of credit card receivables, restricted deposits, time deposits, subordinated beneficiary and seller beneficiary.

34. COMPARATIVE FIGURES

In order to conform with the current period's presentation, credit card receivables, instalment loans receivable, hire purchase debtors and accrued interest receivables of HK$3,189,122,000, HK$1,335,345,000, HK$113,400,000 and HK$91,921,000 have been reclassified to advances and receivables.

CLOSURE OF REGISTER OF MEMBERS

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

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Financial Review *(Continued)*

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

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

Business Review

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

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

Prospects

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

Prospects *(Continued)*

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

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

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

SEGMENT INFORMATION

The Group's business comprises mainly three operating divisions, namely credit card, instalment loan and hire purchase. In the first half of 2008/09, credit card operation accounted for 68.5% of the Group's turnover, as compared to 64.9% in 2007/08. For operating income after deducting impairment losses and impairment allowances, credit card operation accounted for 68.6% of the Group's whole operations in 2008/09, as compared to 66.9% in 2007/08.

With the increase in credit card usage and drop in funding cost, net interest income for credit card operation increased by 13.4% or HK$35.2 million, from HK$262.5 million in 2007/08 to HK$297.7 million in 2008/09. The increase in card credit purchase had resulted in an increase in the commission income. As a result, other operating income for credit card operation had increased by HK$3.2 million from HK$51.0 million in 2007/08 to HK$54.2 million. With the increase in portfolio size, the impairment losses and impairment allowances had increased by HK$19.4 million, from HK$97.6 million in 2007/08 to HK$117.0 million in 2008/09. Recoveries of receivables written-off were HK$16.9 million, an increase of HK$2.2 million when compared with HK$14.7 million in 2007/08. Operating results from credit card operation recorded an increase of 9.1% from HK$230.7 million in 2007/08 to HK$251.8 million in 2008/09.

With the enlarged customer base and distribution channels, the Group remained active in developing its instalment loan business. However, with the keen competition on interest rate charged, net interest income for instalment loan operation recorded a drop of 3.6% or HK$5.9 million, from HK$163.9 million in 2007/08 to HK$158.0 million in 2008/09. The continued growth in debtor balance helped to boost up certain related charges, resulting in an increase in other operating income by HK$0.4 million from HK$8.4 million in 2007/08 to HK$8.8 million in 2008/09. The charge off amount remained quite stable, with impairment losses and impairment allowances being HK$68.5 million in 2008/09 and HK$68.6 million in 2007/08. Recoveries of receivables written-off were HK$3.4 million, an increase of HK$0.4 million when compared with HK$3.0 million in 2007/08. Operating results from instalment loan operation was HK$101.7 million in 2008/09, a decrease of 4.7% as compared with HK$106.7 million in 2007/08.

SEGMENT INFORMATION *(Continued)*

With the high usage of card instalment plan, hire purchase sales volume had maintained at a constant level in the first half. Net interest income from hire purchase operation recorded an increase of 10.4% or HK$0.2 million, from HK$2.3 million in 2007/08 to HK$2.5 million in 2008/09. Moreover, with the drop in impairment losses and impairment allowances, operating results from hire purchase operation increased from HK$0.5 million in 2007/08 to HK$1.7 million in 2008/09.

FUNDING AND CAPITAL MANAGEMENT

The Group manages its capital to ensure that:

- the Group will be able to continue as a going concern,
- Maximise the return to shareholders through the optimisation of the debt and equity balance and by pricing products commensurately with the level of risk; and
- Funds are available at competitive costs to meet all contractual financial commitments, to fund debtor balance growth and to generate reasonable funds from available funds.

The capital structure of the Group consists of debt (which includes bank borrowings and collateralised debt obligation), cash and cash equivalents and equity attributable to shareholders of the Company, comprising issued capital, reserves and accumulated profits.

Net debt to equity ratio

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

The net debt to equity ratios at the period / year ends were as follows:

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

Notes:

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 25 and 28 respectively.

(b) Equity includes all capital and reserves of the Group.

FUNDING AND CAPITAL MANAGEMENT *(Continued)*

Net debt to equity ratio *(Continued)*

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

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

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

The net asset value of the Group at 20th August 2008 was HK$1,709.2 million, as compared with HK$1,617.0 million at 20th February 2008. Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

The Group's principal operations were transacted and recorded in Hong Kong dollars and thereby did not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge its exposure on interest rate and exchange rate fluctuations. At 20th August 2008, capital commitments entered were mainly related to the purchase of property, plant and equipment.

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

On 27th September 2006, the Company obtained a syndicated term loan of JPY7,500,000,000 (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 under review and at 20th August 2008, the outstanding loan principal was JPY7,500,000,000 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, liquidity and capital 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.

The Group's major financial instruments include equity investments, advances and receivables, derivative financial instruments, bank deposits, other debtors, collateralised debt obligation, bank borrowings, creditors and amount due to a fellow subsidiary, immediate holding company, ultimate holding company and an associate.

The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group seeks to minimise the effects of these risks by using derivative financial instruments to hedge these risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board of Directors, which provide written principles on foreign exchange risk, interest rate risk, and the use of derivative financial instruments. The Group does not enter into or trade derivative financial instruments for speculative or investment purposes.

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's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and credit risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including:

- currency swap to convert the foreign currency debt to the functional currency of the relevant group entity; and

- interest rate swaps to mitigate the cash flow interest rate risk.

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. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk management

Foreign currency risk is the risk that the holding of foreign currency assets and liabilities will affect the Group's position as a result of a change in foreign currency exchanges rates. Certain equity investments, bank deposits and a bank borrowing of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk.

The Group's foreign currency risk exposure primarily relates to its Japanese Yen denominated bank borrowing. To minimise the foreign currency risk in relation to the bank borrowing, the Group has been using a cross-currency interest rate swap designed to hedge against the debt which is highly effective to convert the foreign currency debt to the functional currency of the relevant group entity. The critical term of this currency swap is similar to those of hedged borrowings. Hence, the net foreign currency risk after taking derivative financial instrument into consideration is not material to the Group.

MANAGEMENT OF RISKS *(Continued)*

Market risk management *(Continued)*

Interest rate risk management

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposure to fair value interest rate risk relates primarily to fixed-rate lending and borrowings. All interest-bearing financial assets are exposed to fair value interest rate risk only. The Group's cash flow interest rate risk relates primarily to floating-rate financial liabilities.

The Group monitors the interest rate exposure, through assessing the interest rate gap of its interest bearing financial assets and financial liabilities. To minimise the cash flow 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.

Other price risks

The Group is exposed to equity price risk through its available-for-sale investments. The Group's equity price risk is mainly concentrated on listed equity securities operating in consumer credit finance services and related business. The management will monitor the price movements and take appropriate actions when it is required.

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. The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

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

MANAGEMENT OF RISKS *(Continued)*

Credit risk management *(Continued)*

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

Other than concentration of credit risk on liquid funds and derivative financial instruments which are entered with two major banks with high credit-ratings, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity management

Liquidity risk is the risk that the Group cannot meet its current obligation. The Group has laid down an appropriate liquidity risk management framework for the management of the short, medium and long-term funding and liquidity management requirements, which is reviewed regularly by the Directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and maintain a conservative level of long-term funding to finance its short-term financial assets. 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 2008 and 20th February 2008 was 356 and 342 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2007/08 Annual Report.

DIRECTORS' INTERESTS IN SHARES

At 20th August 2008, the interests of the Directors in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, 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	1,000,000	0.24
Tsang Wing Hong	220,000	0.05

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

Director	Number of shares held under personal interests	Percentage of the issued share capital of ÆON Japan
Yoshiki Mori	7,500	0.01

DIRECTORS' INTERESTS IN SHARES *(Continued)*

(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	1,042,600	0.56
Masanori Kosaka	100,000	0.04
Kazuhide Kamitani	500,000	0.20

(e) AEON Credit Service (M) Berhad ("AEON Malaysia") – a fellow subsidiary of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Malaysia
Yoshiki Mori	480,000	0.40
Masanori Kosaka	90,000	0.08
Kazuhide Kamitani	180,000	0.15

Other than the holdings disclosed above, none of the Directors nor their associates, had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 20th August 2008.

SUBSTANTIAL SHAREHOLDERS

At 20th August 2008, the register of substantial shareholders' interests in shares and short positions required to be maintained under Section 336 of the SFO shows that the following shareholders had notified the Company to have 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	29,672,000	7.09
DJE Investment S.A. *(Note 3)*	20,946,000	5.00

SUBSTANTIAL SHAREHOLDERS *(Continued)*

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 45.60% 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.

3. DJE Investment S.A. was a company 81% controlled by Dr. Jens Ehrhardt Kapital AG which in turn was 68.5% controlled by Dr. Jens Alfred Karl Ehrhardt.

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 2008.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 20th August 2008. The Group's interim report for the six months ended 20th August 2008 has been reviewed in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants, by Deloitte Touche Tohmatsu, whose unmodified review report is attached on page 35 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 to the Listing Rules throughout the accounting period for the six months ended 20th August 2008, except for the code provisions A.4.1 and A.4.2 which are explained below.

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

By order of the Board
MASANORI KOSAKA
Managing Director

Hong Kong, 23rd September 2008

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF AEON CREDIT SERVICE (ASIA) CO., LTD.

Introduction

We have reviewed the interim financial information set out on pages 1 to 22, which comprise the condensed consolidated balance sheet of AEON Credit Service (Asia) Co., Ltd. as of 20th August 2008 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 enquiries, 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, 23rd September 2008

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
Takatoshi Ikenishi

Independent Non-executive Directors
Tsang Wing Hong
Wong Hin Wing
Hui Ching Shan

Qualified Accountant

Lai Yuk Kwong

Company Secretary

Koh Yik Kung

Auditor

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
Citibank, N.A.
Hong Kong Branch

Share Registrar

Tricor 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