



# AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 900)



## INTERIM RESULTS FOR THE SIX MONTHS ENDED 20TH AUGUST 2007

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

	Notes	Six months ended 20th August		Percentage change
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000	
Turnover	4	<u>528,232</u>	<u>507,367</u>	4.1
Interest income	6	509,347	492,045	3.5
Interest expense		<u>(81,050)</u>	<u>(72,800)</u>	11.3
Net interest income		428,297	419,245	2.2
Other operating income	7	60,409	55,798	8.3
Other income	8	6,489	2,420	168.1
Operating income		495,195	477,463	3.7
Operating expenses	9	<u>(183,594)</u>	<u>(179,228)</u>	2.4
Operating profit before impairment allowances		311,601	298,235	4.5
Impairment losses and impairment allowances		(168,250)	(171,069)	(1.6)
Recoveries of receivables written-off		18,065	11,200	61.3
Share of results in associates		<u>(1,093)</u>	<u>142</u>	(869.7)
Profit before tax		160,323	138,508	15.7
Income tax expense	10	<u>(27,127)</u>	<u>(24,262)</u>	11.8
Profit for the period		<u>133,196</u>	<u>114,246</u>	16.6
Dividend paid	11	73,284	48,158	
Earnings per share	12	31.81 HK Cents	27.28 HK Cents	
Interim and special dividend per share declared after balance sheet date	11	15.0 HK Cents	8.5 HK Cents	

## CONSOLIDATED BALANCE SHEET

		20th August 2007 (Unaudited) HK\$'000	20th February 2007 (Audited) HK\$'000
	<i>Notes</i>		
<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		54,506	52,375
Credit card receivables	14	97,220	114,075
Instalment loans receivable	15	543,052	477,691
Hire purchase debtors	16	15,973	17,676
Deferred tax assets		2,500	1,000
Restricted cash		68,000	120,000
		<u>912,476</u>	<u>921,416</u>
<b>Current assets</b>			
Derivative financial instruments	21	14,705	7,115
Credit card receivables	14	2,824,702	2,688,578
Instalment loans receivable	15	824,751	823,640
Hire purchase debtors	16	100,139	104,454
Prepayments, deposits, interest receivable and other debtors	18	140,759	123,848
Time deposits		166,423	166,116
Bank balances and cash		60,779	114,195
		<u>4,132,258</u>	<u>4,027,946</u>
<b>Current liabilities</b>			
Creditors and accrued charges		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	20	618,500	706,000
Bank overdrafts		3,302	1,695
Derivative financial instruments	21	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		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	22	846,134	846,806
Bank borrowings – repayable after one year	20	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	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>12,479</u>	<u>158</u>	<u>1,038,431</u>	<u>1,320,545</u>
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)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,871</u>	<u>9,214</u>	<u>66,088</u>	<u>78,173</u>
At 20th August 2006	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>15,350</u>	<u>9,372</u>	<u>1,104,519</u>	<u>1,398,718</u>
At 21st February 2007	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>1,066</u>	<u>(6,524)</u>	<u>1,212,975</u>	<u>1,476,994</u>
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)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,131</u>	<u>2,959</u>	<u>59,912</u>	<u>65,002</u>
At 20th August 2007	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>3,197</u>	<u>(3,565)</u>	<u>1,272,887</u>	<u>1,541,996</u>

## 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
	<hr/>	<hr/>
	528,232	507,367
	<hr/>	<hr/>

## 5. BUSINESS SEGMENTS

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

### Six months ended 20th August 2007 (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>					
<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>

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>
RESULT					
Net interest income	270,041	145,499	2,250	1,455	419,245
Other operating income	46,256	7,888	–	1,654	55,798
Other income	–	–	–	2,420	2,420
Impairment losses and impairment allowances	(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>	317,594
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

	<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>
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	<u>1,279</u>	<u>852</u>
	<u>60,409</u>	<u>55,798</u>

## 8. OTHER INCOME

	Six months ended 20th August	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
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 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
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 space 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 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– Current period	28,627	24,262
Deferred tax		
– 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. 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)
	<b>97,220</b>	114,075



## 15. INSTALMENT LOANS RECEIVABLE

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

## 16. HIRE PURCHASE DEBTORS

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

## 17. OVERDUE DEBTOR BALANCE

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

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

\* Percentage of total debtor balance

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

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

## 19. IMPAIRMENT ALLOWANCES

	20th August 2007 (Unaudited) HK\$'000	20th February 2007 (Audited) HK\$'000
At beginning of the period/year	134,210	158,698
Charge to the consolidated income statement for the period/year	168,250	333,985
Amounts written off during the period/year	(160,507)	(358,473)
At end of the period/year	<u>141,953</u>	<u>134,210</u>
Analysis by products as:		
Credit card receivables (note 14)	76,074	69,647
Instalment loans receivable (note 15)	56,699	56,527
Hire purchase debtors (note 16)	2,723	2,779
Prepayments, deposits, interest receivable and other debtors (note 18)	6,457	5,257
	<u>141,953</u>	<u>134,210</u>

## 20. 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	<u>30,000</u>	<u>30,000</u>
	2,432,550	2,420,178
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>

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

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

### 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.

#### *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=Yen15.0, 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.

## **22. 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 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.

## **23. 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).

## **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, 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.

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 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 hot-line 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.

### ***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.

## **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.

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><u>3,275,536</u></b>	<u>3,192,057</u>
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><u>1,545,561</u></b>	<u>1,483,518</u>
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 is derived from capital and reserves, 17.5% from structured finance and 50.5% from direct borrowings with 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 Yen 7.5 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.

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.

## **HUMAN RESOURCES**

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

## **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 included in the interim financial report to be sent to shareholders.

## **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 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.

## **PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE’S WEBSITE**

The 2007/08 interim report of the Group will be published on the Stock Exchange’s website in due course.

## **BOARD OF DIRECTORS**

At the date of this announcement, the Executive Directors are Mr. Masanori Kosaka (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director), Mr. Tomoyuki Kawahara (Senior Executive Director), Ms. Koh Yik Kung, Mr. Pan Shu Pin, Ban, and Mr. Fung Kam Shing, Barry; the Non-executive Directors are Mr. Yoshiki Mori (Chairman) and Mr. Kazuhide Kamitani; and the Independent Non-executive Directors are Mr. Tsang Wing Hong, Mr. Wong Hin Wing and Dr. Hui Ching Shan.

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

Hong Kong, 19th September 2007