



AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

AEON 信貸財務(亞洲)有限公司

(Incorporation in Hong Kong with limited liability)

2003/04 INTERIM RESULTS

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited results of the Company for the six months ended 20th August 2003 and the Company’s state of affairs as at that date together with the comparative figures as follows:

INCOME STATEMENT

		Six months ended 20th August	
		2003	2002
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	3	364,314	400,179
Interest income		226,798	379,968
Interest expense		(62,416)	(74,174)
Net interest income		164,382	305,794
Credit card securitisation income		110,721	–
Other operating income		54,365	32,298
Other income		171	28,360
Operating income		329,639	366,452
Operating expenses	5	(114,270)	(140,412)
Operating profit before charge for bad and doubtful debts		215,369	226,040
Charge for bad and doubtful debts		(162,302)	(126,904)
Profit before taxation		53,067	99,136
Income tax	6	(6,920)	(14,820)
Net profit for the period		46,147	84,316
Interim dividend		20,938	20,938
Earnings per share	7	11.02 HK Cents	20.13 HK Cents
Dividend per share		5.00 HK Cents	5.00 HK Cents
Cost to income ratio		34.7%	38.3%
Dividend payout ratio		45.4%	24.8%

BALANCE SHEET

		20th August 2003 (Unaudited) HK\$'000	20th February 2003 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		77,150	85,744
Interest in associates		10,795	10,711
Investment securities		9,782	9,782
Hire purchase debtors	8	10,543	19,802
Instalment loans receivable	9	105,905	59,259
Retained interests in securitisation trust		239,393	231,984
Pledged time deposits	12(c)	100,494	100,494
		<u>554,062</u>	<u>517,776</u>
Current assets			
Other investments		552	383
Hire purchase debtors	8	180,284	196,284
Instalment loans receivable	9	372,725	279,818
Credit card receivables	10	1,044,449	1,085,708
Retained interests in securitisation trust		561,488	500,630
Prepayments, deposits, interest receivable and other debtors		133,044	124,344
Tax recoverable		2,070	–
Pledged time deposits	12(d)	5,000	6,000
Time deposits		38,919	153,580
Bank balances and cash		77,675	82,429
		<u>2,416,206</u>	<u>2,429,176</u>
Current liabilities			
Creditors and accrued charges		37,998	33,305
Amount due to securitisation trust		26,410	31,136
Amount due to immediate holding company		–	11
Amount due to a fellow subsidiary		34,986	32,928
Amount due to ultimate holding company		47	47
Issued debt securities		140,336	326,713
Bank borrowings-repayable within one year		820,700	651,245
Taxation		–	861
		<u>1,060,477</u>	<u>1,076,246</u>
Net current assets		<u>1,355,729</u>	<u>1,352,930</u>
Total assets less current liabilities		<u>1,909,791</u>	<u>1,870,706</u>

Capital and reserves

Issued capital	41,877	41,877
Share premium and reserves	1,089,473	1,076,828
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	1,131,350	1,118,705
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Non-current liabilities

Bank borrowings-repayable after one year	775,000	750,000
Deferred taxation	3,441	2,001
	<hr/>	<hr/>
	778,441	752,001
	<hr/>	<hr/>
	1,909,791	1,870,706
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 20th August 2003

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the Listing Rules) and with Statement of Standard Accounting Practice No. 25 (SSAP 25) Interim Financial Reporting.

2. Significant Accounting Policies

The condensed financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 20th February 2003, except for the adoption of the revised SSAP 12 *Income Taxes* issued by the Hong Kong Society of Accountants. The adoption of this SSAP has had no material effect on the current or prior accounting periods.

3. Turnover

	Six months ended 20th August	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	226,798	379,968
Fees and commissions	15,346	20,211
Investment income from the seller and subordinated interests in securitisation trust	122,170	–
	<hr/>	<hr/>
	364,314	400,179
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4. Business and Geographical Segments

(a) Business segments

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

Principal activities are as follows:

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

Segment information about these businesses is presented below:

Six months ended 20th August 2003 (Unaudited)

	Credit card <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Other operation <i>HK\$'000</i>	Combined <i>HK\$'000</i>
INCOME STATEMENT					
TURNOVER	<u>299,273</u>	<u>9,074</u>	<u>54,623</u>	<u>1,344</u>	<u>364,314</u>
RESULT					
Net interest income	136,930	(5,735)	38,999	(5,812)	164,382
Credit card securitisation income	110,721	–	–	–	110,721
Other operating income	44,335	7,660	2,302	68	54,365
Other income	–	–	–	171	171
Charge for bad and doubtful debts	<u>(137,659)</u>	<u>(905)</u>	<u>(23,738)</u>	<u>–</u>	<u>(162,302)</u>
Segment results	<u>154,327</u>	<u>1,020</u>	<u>17,563</u>	<u>(5,573)</u>	167,337
Unallocated operating expenses					<u>(114,270)</u>
Profit before taxation					<u>53,067</u>

Six months ended 20th August 2002 (Unaudited)

	Credit card <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Other operation <i>HK\$'000</i>	Combined <i>HK\$'000</i>
INCOME STATEMENT					
TURNOVER	<u>336,378</u>	<u>15,562</u>	<u>41,594</u>	<u>6,645</u>	<u>400,179</u>
RESULT					
Net interest income	272,677	(603)	33,094	626	305,794
Other operating income	19,789	11,677	100	732	32,298
Other income	–	–	–	28,360	28,360
Charge for bad and doubtful debts	<u>(94,769)</u>	<u>(4,452)</u>	<u>(27,683)</u>	<u>–</u>	<u>(126,904)</u>
Segment results	<u>197,697</u>	<u>6,622</u>	<u>5,511</u>	<u>29,718</u>	239,548
Unallocated operating expenses					<u>(140,412)</u>
Profit before taxation					<u>99,136</u>

(b) *Geographical segments*

All the Company's interest income, fee and commission income and profit are derived from operations carried out in Hong Kong.

5. Operating Expenses

Included in operating expenses is depreciation of HK\$14,100,000 (2002/03: HK\$12,400,000).

6. Income Tax

Six months ended 20th August	
2003	2002
(Unaudited)	(Unaudited)
<i>HK\$'000</i>	<i>HK\$'000</i>

The charge comprises:

Hong Kong Profits Tax calculated at 17.5%

(2002/03: 16.0%) of the estimated assessable profit

5,480 10,816

Deferred taxation relating to temporary differences

1,147 4,004

Deferred taxation resulting from an increase in

Hong Kong Profits Tax rate

293 –

6,920 14,820

7. Earnings Per Share

The calculation of earnings per share is based on the unaudited net profit for the period of HK\$46,147,000 (2002/03: HK\$84,316,000) and on the number of 418,766,000 (2002/03: 418,766,000) shares in issue during the period.

8. Hire Purchase Debtors

	20th August 2003 (Unaudited) <i>HK\$'000</i>	20th February 2003 (Audited) <i>HK\$'000</i>
Due:		
Within one year	186,827	204,097
Thereafter	11,254	20,931
	<hr/>	<hr/>
	198,081	225,028
Allowance for bad and doubtful debts	(7,254)	(8,942)
	<hr/>	<hr/>
	190,827	216,086
Current portion included under current assets	(180,284)	(196,284)
	<hr/>	<hr/>
Amount due after one year	10,543	19,802

9. Instalment Loans Receivable

	20th August 2003 (Unaudited) <i>HK\$'000</i>	20th February 2003 (Audited) <i>HK\$'000</i>
Due:		
Within one year	398,022	310,091
Thereafter	113,093	65,670
	<hr/>	<hr/>
	511,115	375,761
Allowance for bad and doubtful debts	(32,485)	(36,684)
	<hr/>	<hr/>
	478,630	339,077
Current portion included under current assets	(372,725)	(279,818)
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Amount due after one year	105,905	59,259

10. Credit Card Receivables

	20th August 2003 (Unaudited) <i>HK\$'000</i>	20th February 2003 (Audited) <i>HK\$'000</i>
Credit card receivables	1,250,094	1,275,944
Allowance for bad and doubtful debts	(205,645)	(190,236)
	<hr/>	<hr/>
	1,044,449	1,085,708

11. Overdue Debtor Balance

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

	20th August 2003 (Unaudited)		20th February 2003 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	142,201	7.3	176,250	9.4
Overdue 2 months but less than 3 months	29,559	1.5	34,420	1.8
Overdue 3 months or above	102,763	5.2	129,332	6.9
	<u>274,523</u>	<u>14.0</u>	<u>340,002</u>	<u>18.1</u>

* Percentage of total debtor balance

12. Pledge of Assets

- At 20th August 2003, the Company's issued debt securities were secured by credit card receivables of HK\$523,188,000 (20th February 2003: HK\$550,167,000).
- At 20th August 2003, the Company's bank facilities of HK\$200,000,000 secured by hire purchase debtors were repaid and cancelled. At 20th February 2003, these bank facilities, of which HK\$50,000,000 was utilised by the Company, were secured by hire purchase debtors of HK\$102,854,000.
- The pledged time deposits include special deposits amounting to HK\$100,494,000 (20th February 2003: HK\$100,494,000) maintained pursuant to the terms of the securitisation agreements for the issued debt securities.
- The Company also pledged time deposits of HK\$5,000,000 (20th February 2003: HK\$6,000,000) to banks to secure the short-term general banking facilities.

13. Financial Instruments

- Derivatives

Derivatives refer to financial contracts whose values depend on the values of one or more underlying assets or indices.

The following is a summary of the contractual or notional amounts of each significant class of derivatives which the Company entered into for hedging purposes with financial institutions:

	20th August 2003 (Unaudited)	20th February 2003 (Audited)
	HK\$'000	HK\$'000
Interest rate contracts:		
Swaps	360,000	440,000
Caps	540,000	570,000
	<u>900,000</u>	<u>1,010,000</u>

The contractual or notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts of risk.

- (b) The credit risk on derivative financial instruments is limited because the counter-parties are financial institutions with high credit ratings assigned by international credit rating agencies.

14. Capital Commitments

	20th August 2003 (Unaudited) <i>HK\$'000</i>	20th February 2003 (Audited) <i>HK\$'000</i>
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	<u>2,293</u>	<u>1,963</u>

INTERIM DIVIDEND

The Directors have declared an interim dividend of 5.0 HK cents (2002/03: 5.0 HK cents) per share to shareholders whose names appear on the Register of Members of the Company on 17th October 2003. Dividend warrants will be dispatched on or about 20th October 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 10th October 2003 to 17th October 2003, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrars, Secretaries Limited, at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 9th October 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Hong Kong economy had deteriorated with the outbreak of SARS in March. Unemployment rate climbed to a record high of 8.6% in the second quarter, which was especially felt in the construction, tourism and restaurant sectors. Although the Company had implemented various cost-retrenching measures to reduce the operating cost, the high level of bad debt expenses had resulted in a drop in net profit when compared with the same period last year.

For the six months ended 20th August 2003, the Company recorded a net profit of HK\$46.2 million, representing a decrease of 45.3% as compared to the previous corresponding period. The Company's earnings per share decreased by 9.1 HK cents per share to 11.0 HK cents per share. The Directors declared the payment of an interim dividend of 5.0 HK cents per share for the six months ended 20th August 2003.

On the sales side, as the Company's credit card portfolio consists mainly of AEON Stores cards, the impact of SARS on credit purchase sales was not prominent. However, there was a drop in the cash advance sales in the first half when compared with last year. To address this decline, the Company launched several purpose loan products to boost up the sales of personal loan.

Interest income decreased by 40.3% from HK\$380.0 million in 2002/03 to HK\$226.8 million mainly due to the transfer of credit card receivables under asset securitisation. With the renewal of long-term borrowings with lower interest rates, the average funding cost for the first half was 5.5%. Interest expense in the first half was HK\$62.4 million, a drop of 15.9% when compared with last year. The Company's net interest income recorded a decrease of 46.2% to HK\$164.4 million from HK\$305.8 million in 2002/03.

The Company recorded credit card securitisation income of HK\$110.7 million, representing the gains on sale of credit card receivables, investment income from the seller and subordinated interests and unrealised gains on interest-only strips. The Company's other operating income increased by 68.3% to HK\$54.4 million from HK\$32.3 million in 2002/03, mainly resulted from the servicer fee on credit card securitisation and the increase in handling, late and storage charges.

There was a reduction in the operating expenses in the first half of this year, which was mainly attributable to the rationalisation of the Company's operation. The operating expenses were decreased by 18.6% from HK\$140.4 million in 2002/03 to HK\$114.3 million, with staff costs, advertising expenses and administrative expenses decreased by 25.0%, 43.2% and 24.4% respectively. Cost-to-income ratio was 34.7%, as compared with 38.3% in the previous year.

At the operating level before charge for bad and doubtful debts, the Company recorded an operating profit of HK\$215.4 million for the six months ended 20th August 2003, representing a slight decrease of 4.7% or HK\$10.7 million from HK\$226.0 million in the previous corresponding period. During the period under review, the number of personal bankruptcy cases still remained at a high level, resulting in the Company's charge for bad and doubtful debts increased by 27.9% or HK\$35.4 million to HK\$162.3 million from HK\$126.9 million in the previous corresponding period. Allowance for bad and doubtful debts amounted to HK\$245.4 million as at 20th August 2003, an increase of HK\$9.5 million when compared with 20th February 2003 and representing 12.5% of total outstanding receivables.

Total debtor balance as at 20th August 2003 was HK\$1,959.3 million, an increase of 4.4% when compared with HK\$1,876.7 million as at 20th February 2003. The Company had retained interests in securitisation trust in the forms of seller interest, subordinated interest, interest-only strips and cash reserve account amounting to HK\$800.9 million. As at 20th August 2003, the Company had bank borrowings amounted to HK\$1,595.7 million and HK\$140.3 million issued debt securities. Shareholders' funds were strengthened by 1.1% to HK\$1,131.4 million as at 20th August 2003 mainly due to the increase in retained earnings.

Operational Review

The Company had implemented various initiatives in the first half year in relation to marketing, customer service and credit control.

On the marketing side, the Company had issued a brand new AEON Privilege American Express Credit Card in August. This card offers distinguished benefits on dining, entertainment and travel. It aims to activate the inactive and sleeping customers through telemarketing and explore a new customer sector through referral. The Company had also re-launched the AEON HK Net MasterCard to stimulate recurrent transactions. With the strategy of launching different loan products to suit customers' requirements, the Company had actively lined up with property developers, study centers, and health and beauty centers to offer personal loans at competitive interest rates. At the same time, the Company continued to extend its discount merchant network, with the number of new merchants being increased by 100. These discount merchants not only offer benefits to the cardholders to stimulate card usage, it also creates an opportunity to develop new loan and card products through closer co-operation with the merchants.

On the customer service side, the Company has provided a new payment channel through a network of convenience stores to make up for the closed branches. With this extensive payment network, customers can enjoy more convenient service while the branch network becomes individual marketing offices to cater for the increased competition in consumer finance.

On the credit control side, with the launch of positive credit data sharing in early August, the Company had revised its credit guidelines to tackle the changes. The Company will make use of the positive credit data to underwrite quality customers with acceptable exposure while at the same time closely monitor those identified high-risk customers.

On China business, the Company had signed up with a discount merchant network service provider and issued a discount card under this network. With this discount card, AEON cardholders can now enjoy hotel discount, air-ticket bookings and spending discount in over 4,000 merchants in China.

Prospect

There are signs of economic recovery in Hong Kong as reflected through the current active stock market and the influx of individual tourists coming from China. The unemployment rate is expected to drop and the demand for consumer finance is expected to increase. While the launch of positive data credit sharing will assist the market players to obtain more information on their customers, it also creates a keen competition environment. Under this mixed business environment, the Company will divert its marketing strategy to develop a new customer sector and increase its customer database, while at the same time limit its overall exposure to individual customers and improve the quality of its core business.

On credit card business, the Company will strengthen its recruitment strategy. In addition to the continuous launching of various sales programs with AEON Stores, the Company will also line up with other leading telecommunications and retail partners to launch new affinity cards. At least three affinity cards will be issued in the second half and three more are under negotiations.

The Company will improve its card benefits by providing maximum financial and shopping privileges. Moreover, the Company will further enlarge its discount merchant network and launch various sales campaigns to stimulate credit purchase transactions. The Company will also line up with merchants in telecommunications, internet and insurance fields to boost up recurrent transactions through AEON credit cards.

In order to increase the cash advance sales, the Company will continue to extend its cash dispensing machine network. The various joint promotion programs with Circle K have successfully boosted up the usage of cash dispensing machines inside Circle K and more such programs will be launched, including the offering of cash coupons to sleeping and inactive customers.

On hire purchase business, different discount programs will be launched within the merchant network to boost up hire purchase sales. Moreover, the Company will make use of its card instalment plan for hire purchase program to facilitate application procedure thereby making it more attractive to customers. On personal loan business, the Company will develop different purpose loan products with merchants to satisfy the different demand in the market and at the same time to attract quality customer database.

Following the launch of positive credit data sharing, the Company is able to obtain more information on new applications and as a result, the Company can fully utilize its auto-judgement system, which provides more accurate credit judgement. To ensure prompt actions on suspected fraud transactions, the ACE system (the alarm system for credit card fraud effectuation) has been put into operation since September.

The Company will continue to identify suitable opportunities to strength and develop the existing business. The Company is currently offering insurance and mortgage products to its customers through telemarketing and promoting merchants' products through its newsletter, AEON News. The Company is also looking into ways to source for unique and exclusive products from Japan and China, to offer to its customers through telemarketing and AEON News, which will not only bring in additional revenue but also provide customers with value-added service.

BANK BORROWINGS AND CAPITAL FINANCING

The main objectives of the Company's funding and capital management are essentially the same as that reported in the Company's 2002/03 Annual Report.

The Company relied principally on its internally generated capital and bank borrowings to fund its business. The principal source of internally generated capital is from accumulated profits. As at 20th August 2003, the Company had bank borrowings amounted to HK\$1,595.7 million, of which HK\$820.7 million was repayable within one year. For the HK\$140.3 million issued debt securities, the whole amount will be paid off in the second half of this year.

The Company maintained the same level of debt-to-equity ratio at 1.6 as at 20th August 2003 and 20th February 2003. Taking into account the financial resources available to the Company including internally generated funds and available banking facilities, the Company has sufficient working capital to meet its present requirements.

During the period under review, the Company did not incur any material capital expenditure commitment. There were no significant changes in charges over the Company's assets when compared to that disclosed in the Company's 2002/03 Annual Report.

The Company's principal operations were transacted and recorded in Hong Kong dollars. During the period under review, the Company engaged in derivative financial instruments mainly to hedge its exposure on interest rate fluctuations.

HUMAN RESOURCES

The total number of staff as at 20th August 2003 and 20th February 2003 was 241 and 286 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2002/03 Annual Report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 20th August 2003.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 20th August 2003, in compliance with Appendix 14 of the Listing Rules.

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 RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
MASANORI KOSAKA
Managing Director

Hong Kong, 18th September 2003

“Please also refer to the published version of this announcement in The Standard”.