



AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

AEON 信貸財務(亞洲)有限公司

(Incorporation in Hong Kong with limited liability)

(Stock Code: 900)

2004/05 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 2004 and the Company’s state of affairs as at that date together with the comparative figures as follows:

INCOME STATEMENT

	Notes	Six months ended 20th August	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Turnover	3	423,396	364,314
Interest income		262,380	226,798
Interest expense		(44,560)	(62,416)
Net interest income		217,820	164,382
Credit card securitisation income		91,635	110,721
Other operating income		48,169	54,365
Other (loss) income		(695)	171
Operating income		356,929	329,639
Operating expenses	5	(128,648)	(114,270)
Operating profit before charge for bad and doubtful debts		228,281	215,369
Charge for bad and doubtful debts		(157,046)	(162,302)
Profit before taxation		71,235	53,067
Income tax	6	(12,794)	(6,920)
Net profit for the period		58,441	46,147
Interim dividend		23,032	20,938
Earnings per share	7	13.96 HK Cents	11.02 HK Cents
Dividend per share		5.5 HK Cents	5.0 HK Cents

BALANCE SHEET

		20th August 2004 (Unaudited) HK\$'000	20th February 2004 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		67,396	72,601
Interest in associates		10,649	10,744
Investment securities		7,982	8,882
Hire purchase debtors	8	29,030	16,653
Instalment loans receivable	9	198,423	157,866
Retained interests in securitisation trust		220,857	261,195
		<hr/> 534,337 <hr/>	<hr/> 527,941 <hr/>
Current assets			
Other investments		1,347	697
Hire purchase debtors	8	180,253	155,486
Instalment loans receivable	9	535,036	470,759
Credit card receivables	10	794,808	944,317
Retained interests in securitisation trust		738,491	652,336
Prepayments, deposits, interest receivable and other debtors		106,870	125,934
Time deposits		–	29,000
Bank balances and cash		77,978	78,077
		<hr/> 2,434,783 <hr/>	<hr/> 2,456,606 <hr/>
Current liabilities			
Creditors and accrued charges		49,217	40,946
Amount due to securitisation trust		38,282	41,657
Amount due to immediate holding company		–	963
Amount due to a fellow subsidiary		35,021	32,159
Amount due to ultimate holding company		47	47
Bank borrowings-repayable within one year		559,142	809,910
Taxation		44,032	21,238
		<hr/> 725,741 <hr/>	<hr/> 946,920 <hr/>
Net current assets		<hr/> 1,709,042 <hr/>	<hr/> 1,509,686 <hr/>
Total assets less current liabilities		<hr/> 2,243,379 <hr/>	<hr/> 2,037,627 <hr/>
Capital and reserves			
Issued capital		41,877	41,877
Share premium and reserves		1,162,502	1,141,750
		<hr/> 1,204,379 <hr/>	<hr/> 1,183,627 <hr/>
Non-current liabilities			
Bank borrowings-repayable after one year		1,030,000	835,000
Deferred taxation		9,000	19,000
		<hr/> 1,039,000 <hr/>	<hr/> 854,000 <hr/>
		<hr/> 2,243,379 <hr/>	<hr/> 2,037,627 <hr/>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 20th August 2004

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 the Statement of Standard Accounting Practice No. 25 (SSAP 25) Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants.

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 2004.

3. Turnover

	Six months ended 20th August	
	2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
Interest income	262,380	226,798
Fees and commissions	16,591	15,346
Investment income from the seller and subordinated interests in securitisation trust	144,425	122,170
	<u>423,396</u>	<u>364,314</u>

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 loans. 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 loans	–	Provide personal loan financing to individuals

Segment information about these businesses is presented below:

Six months ended 20th August 2004 (Unaudited)

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loans HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
INCOME STATEMENT					
TURNOVER	<u>305,908</u>	<u>7,639</u>	<u>109,543</u>	<u>306</u>	<u>423,396</u>
RESULT					
Net interest income	129,844	(3,799)	93,524	(1,749)	217,820
Credit card securitisation income	91,635	–	–	–	91,635
Other operating income	36,385	7,195	4,228	361	48,169
Other loss	–	–	–	(695)	(695)
Charge for bad and doubtful debts	<u>(132,483)</u>	<u>(2,795)</u>	<u>(21,768)</u>	<u>–</u>	<u>(157,046)</u>
Segment results	<u>125,381</u>	<u>601</u>	<u>75,984</u>	<u>(2,083)</u>	<u>199,883</u>
Unallocated operating expenses					<u>(128,648)</u>
Profit before taxation					<u>71,235</u>

Six months ended 20th August 2003 (Unaudited)

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loans HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
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>	<u>167,337</u>
Unallocated operating expenses					<u>(114,270)</u>
Profit before taxation					<u>53,067</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\$14,855,000 (2003/04: HK\$14,100,000).

6. **Income Tax**

	Six months ended 20th August	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Provision for the period		
Hong Kong	22,794	5,480
Deferred taxation		
For the period	(10,000)	1,147
Effect on change in tax rate	–	293
	<u>12,794</u>	<u>6,920</u>

Hong Kong Profits Tax is calculated at 17.5% (2003/04: 17.5%) on the estimated assessable profit for the period.

7. **Earnings Per Share**

The calculation of earnings per share is based on the unaudited net profit for the period of HK\$58,441,000 (2003/04: HK\$46,147,000) and on the number of 418,766,000 (2003/04: 418,766,000) shares in issue during the period.

8. **Hire Purchase Debtors**

	20th August 2004	20th February 2004
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Due:		
Within one year	187,807	161,710
In the second to fifth year inclusive	30,308	17,396
	<u>218,115</u>	<u>179,106</u>
Allowance for bad and doubtful debts	(8,832)	(6,967)
	<u>209,283</u>	<u>172,139</u>
Current portion included under current assets	(180,253)	(155,486)
Amount due after one year	<u>29,030</u>	<u>16,653</u>

9. Instalment Loans Receivable

	20th August 2004 (Unaudited) HK\$'000	20th February 2004 (Audited) HK\$'000
Due:		
Within one year	573,774	506,317
In the second to fifth year inclusive	212,790	169,789
	<u>786,564</u>	<u>676,106</u>
Allowance for bad and doubtful debts	(53,105)	(47,481)
	<u>733,459</u>	<u>628,625</u>
Current portion included under current assets	(535,036)	(470,759)
	<u>198,423</u>	<u>157,866</u>

10. Credit Card Receivables

	20th August 2004 (Unaudited) HK\$'000	20th February 2004 (Audited) HK\$'000
Credit card receivables	920,311	1,080,251
Allowance for bad and doubtful debts	(125,503)	(135,934)
	<u>794,808</u>	<u>944,317</u>

11. Overdue Debtor Balance

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

	20th August 2004 (Unaudited)		20th February 2004 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	112,415	5.8	135,315	7.0
Overdue 2 months but less than 3 months	18,947	1.0	23,609	1.2
Overdue 3 months or above	92,434	4.8	95,470	4.9
	<u>223,796</u>	<u>11.6</u>	<u>254,394</u>	<u>13.1</u>

* Percentage of total debtor balance

12. Financial Instruments*(a) Derivatives*

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

At 20th August 2004, the contractual or notional amounts of interest rate swap contracts entered by the Company with financial institutions for hedging purposes were HK\$835,000,000 (20th February 2004: HK\$625,000,000).

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.

(c) As a result of the securitisation transaction entered in September 2002, the Company has entered into forward contracts with Nihon (Hong Kong) Company Limited, a special purpose entity (a "SPE") incorporated in Hong Kong formed for the sole purpose of the transaction, to sell credit card receivables to the SPE from time to time in accordance with the terms of the agreement.

13. Capital Commitments

	20th August 2004 (Unaudited) HK\$'000	20th February 2004 (Audited) HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	4,020	3,959

INTERIM DIVIDEND

The Directors have declared an interim dividend of 5.5 HK cents (2003/04: 5.0 HK cents) per share to shareholders whose names appear on the Register of Members of the Company on 14th October 2004. Dividend warrants will be despatched on or about 15th October 2004.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 7th October 2004 to 14th October 2004, 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 6th October 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Hong Kong economy continued to stabilise in the first half of 2004, with the unemployment rate dropped to 6.9% in July 2004. With the improvement in consumer sentiment, spending on goods and services has increased. During the period under review, the growth momentum for card cash advance remained slow, while more market players started to move into personal loan business.

The Company recorded a net profit of HK\$58.4 million for the six months ended 20th August 2004, representing an increase of 26.6% or HK\$12.2 million when compared to HK\$46.2 million in the previous corresponding period. The Company's earnings per share improved from 11.02 HK cents per share in 2003/04 to 13.96 HK cents per share.

On the sales front, the return of economic confidence has helped to boost up the credit purchase sales. However, as customers tried to reshape their debt distribution in the current low interest rate environment, cash advance sales became stagnant. To address this decline, the Company used its branch and merchant network to cross-sell different loan products and had successfully boosted up the personal loan sales. The overall sales volume was increased by 16.7% when compared with last year.

With the pick up in sales transactions in the first half, interest income recorded an increase of 15.7% from HK\$226.8 million in 2003/04 to HK\$262.4 million. With HIBOR continued to remain at a low level, coupled with the renewal of long-term bank borrowings with lower interest rates, the average funding cost moved down further from 4.2% in the second half of last year to 3.8% in the first half of this year. Interest expense in the first half was HK\$44.6 million, a drop of 28.6% when compared with last year. The Company's net interest income recorded an increase of 32.5% to HK\$217.8 million from HK\$164.4 million in 2003/04.

The Company recorded credit card securitisation income of HK\$91.6 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 reduction in usage of cash advance and the extension of convenient payment network had resulted in the drop in income coming from late charges, cash advance handling fees and cash payment handling fees. Although there was an increase in income from annual fees, the other operating income was decreased by 11.4% from HK\$54.4 million in 2003/04 to HK\$48.2 million.

In view of a stronger demand for consumer finance, the Company had spent more on advertising in the first half and also hired additional part-time staff to recruit members within the merchant network. This resulted in an increase in operating expenses by 12.6% from HK\$114.3 million in 2003/04 to HK\$128.6 million. Cost-to-income ratio was 36.0%, as compared with 34.7% in the previous year.

At the operating level before charge for bad and doubtful debts, the Company recorded an operating profit of HK\$228.3 million for the six months ended 20th August 2004, representing an increase of 6.0% or HK\$12.9 million from HK\$215.4 million in the previous corresponding period. During the period under review, there was a drop in the level of personal bankruptcies in Hong Kong. However, as the majority of the Company's customer base was still affected by the high unemployment rate, the Company recorded a moderate drop in charge for bad and doubtful debts, with bad debt charge for the first half stood at HK\$157.1 million, a decrease of 3.2% when compared with the previous year. Allowance for bad and doubtful debts amounted to HK\$187.4 million as at 20th August 2004, as compared with HK\$190.4 million as at 20th February 2004, and representing 9.7% of total debtor balance.

With the sale of more receivables under credit card securitisation, total debtor balance as at 20th August 2004 was dropped by HK\$10.5 million from HK\$1,935.5 million as at 20th February 2004 to HK\$1,925.0 million as at 20th August 2004. On the other hand, the retained interests in securitisation trust was increased from HK\$913.5 million as at 20th February 2004 to HK\$959.3 million as at 20th August 2004. Shareholders' funds were strengthened by 1.8% to HK\$1,204.4 million as at 20th August 2004 mainly due to the increase in retained earnings.

Operational Review

The Company had implemented various initiatives in the first half year in relation to new products launch, marketing programs and customer service.

On the new products launch, the Company has signed up with JCB and launched a brand new AEON JCB Travel Card in July to catch up with the increased outbound tourism to Japan in light of the visa-free entry to Japan for Hong Kong people. This card provides cardholders with exclusive low-price tours to Japan and discount benefits at JCB extensive merchant network in Japan. AEON is the first and only card issuer in Hong Kong that issues the four popular brands of credit cards in the market. This provides both the merchants and customers a wider choice and also facilitates us to issue more card types to capture different customer segments. In August, the Company launched AEON Watami Visa Mini Card targeting at the young generation who are chasing after trendy products and fusion Japanese food.

To encourage recurrent transactions, the Company launched the AEON credit card Octopus automatic add-value service in November last year, which enables cardholders to add a fixed amount of HK\$250 per day to their Octopus cards through the Company's credit cards. In August this year, the Company further incorporated Octopus reloading function into its ATMs, which allows cardholders to reload any amount up to HK\$1,000 to their Octopus cards or products through its extensive ATM network. The provision of Octopus reloading service via ATM is the first of its kind in Hong Kong which shows the Company's innovative servicing capabilities in providing customers with wide range of innovative value-added services and added convenience.

On the marketing programs, the Company's continued co-operation with AEON Stores has scored another success during AEON Festivals in July. Credit purchase and hire purchase sales during the AEON Festivals had increased by 17% when compared with last year. The implementation of instant hire purchase approval for AEON cardholders has significantly increased the hire purchase sales inside AEON Stores. The Company has also organized several spending campaigns with its newly acquired affinity merchants to stimulate card usage. Through the launch of purpose loans with different merchants and with the tele-marketing activities by its branches and call centres, the Company had successfully boosted up the personal loan sales volume. At the same time, the Company has continued to expand its discount merchant network to chain stores, with the number of outlets increased by 960 in the first half to 1,970.

On the customer service side, the Company has further improved its bonus point program by offering more trendy products and cash coupons. With the increasing number of customers using the payment channel through convenience stores and bank's ATM network, the branch network has been utilised more efficiently in performing target marketing and cross-selling other products.

Finally, on China business, the Company has signed up with China UnionPay to join their ATM network in the Guangdong Province to enable AEON cardholders to withdraw RMB at 8,000 ATMs in the Guangdong Province.

Prospects

There are signs of continued economic recovery in Hong Kong as reflected through a stronger domestic demand and current active stock market. However, the expected rise in oil prices and interest rates could pose a potential threat to the rate of recovery, the drop in unemployment rate and the decline in personal bankruptcies. Nevertheless, as the demand for consumer loans is expected to increase in the second half, more players will launch aggressive marketing programs to capture this growth sector. Under this conservative optimistic business environment, AEON will divert its marketing strategy to develop new customer sector and increase its customer base, while at the same time limit the overall exposure to individual customers and strengthen its credit risk management.

On credit card business, the Company will make use of its affinity merchant network to recruit new members and activate card usage. In line with this strategy, more affinity cards will be launched in the second half. The Company has just launched the J-World MasterCard and JCB Card on 11th September, which offers travel and hotel privileges to customers. In addition, four more affinity cards with merchants of restaurant chain, cosmetic and beauty centre, health care and international student association will be launched in the coming few months. The new merchant outlets and member base will be our additional recruitment channel for new cardholders.

The Company also aims to increase the number of active cardholders. To achieve this target, the Company will continue to improve its card benefits by providing maximum financial and shopping privileges. This includes the selling of insurance and high return investment-link products to its cardholders. Moreover, the Company will extend its discount merchant network to cover restaurants, department stores and hotels in Macau and China and at the same time line up with different discount merchants to conduct sales campaigns to stimulate credit purchase transactions. In order to increase the cash advance sales volume, the Company will continue to extend its ATM network along the transportation and entertainment areas.

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

On card processing operation, the Company plans to transfer the bulk of existing operating activities to its call centre in Shenzhen. This will not only reduce the operating costs but also will free up its existing manpower to develop new products and offer additional services to merchants to generate new revenue stream. The Company's special accounts control team has already signed up with three clients in the fields of telecommunications, insurance and learning centre handling their delinquent accounts and more clients will be signed up in the second half.

For China business, the Company will set up another call centre operation in Guangzhou. This serves a dual purpose of supporting the existing Shenzhen operation as well as sourcing for potential clients for third party processing activities in the Guangdong Province.

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 2003/04 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 2004, the Company had bank borrowings amounted to HK\$1,589.1 million, of which HK\$559.1 million was repayable within one year.

The Company had further strengthened its financial position. As at 20th August 2004, total debt-to-equity ratio was 1.47. 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. Moreover, there was no charge over the Company's assets.

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 2004 and 20th February 2004 was 264 and 260 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2003/04 Annual Report.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 20th August 2004.

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 2004, in compliance with Appendix 14 of the Listing Rules, except that the non-executive directors are not appointed for a specific term but are subject to retirement and re-election at the annual general meeting of the Company in accordance with the Company's articles of association.

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 in force prior to 31st March 2004 will be published on the Stock Exchange's website in due course.

By order of the Board
MASANORI KOSAKA
Managing Director

Hong Kong, 15th September 2004

As at the date of this announcement, the Board of Directors of the Company comprises Mr. Masanori Kosaka (Managing Director), Mr. Lai Yuk Kwong and Ms. Koh Yik Kung as Executive Directors; Mr. Yoshiki Mori (Chairman), Mr. Kazuhide Kamitani and Mr. Yoichi Kimura as Non-executive Directors; and Dr. Shao You Bao and Mr. Tsang Wing Hong as Independent Non-executive Directors.

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