



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 2006

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiary (the “Group” or “AEON Credit”) for the six months ended 20th August 2006 and the state of affairs of the Group as at that date together with the comparative figures as follows:

CONSOLIDATED INCOME STATEMENT

		Six months ended 20th August		
		2006	2005	
		(Unaudited)	(Restated and	Percentage
	Notes	HK\$'000	unaudited)	change
			HK\$'000	%
Turnover	5	507,367	460,252	10.2
Interest income		492,045	448,372	9.7
Interest expense		(72,800)	(60,944)	19.5
Net interest income		419,245	387,428	8.2
Other operating income	7	55,798	58,809	(5.1)
Other income	8	2,420	5,139	(52.9)
Operating income		477,463	451,376	5.8
Operating expenses	9	(179,228)	(144,303)	24.2
Operating profit before impairment allowances		298,235	307,073	(2.9)
Impairment losses and impairment allowances		(159,869)	(181,637)	(12.0)
Share of results in an associate		142	30	373.3
Profit before tax		138,508	125,466	10.4
Income tax expense	10	(24,262)	(21,995)	10.3
Profit for the period		114,246	103,471	10.4
Dividend paid	11	48,158	43,970	
Earnings per share	12	27.28 HK Cents	24.71 HK Cents	
Dividend per share	11	8.5 HK Cents	6.5 HK Cents	

CONSOLIDATED BALANCE SHEET

		20th August 2006	20th February 2006
		(Unaudited)	(Restated and audited)
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	13	99,902	97,199
Investment in associates		41,226	2,220
Available-for-sale investments		67,941	65,070
Credit card receivables	14	80,941	34,110
Instalment loans receivable	15	419,237	352,591
Hire purchase debtors	16	17,274	17,432
Deferred tax assets		500	7,017
Restricted cash		–	120,000
		<u>727,021</u>	<u>695,639</u>
Current assets			
Investments held for trading		2,675	2,377
Derivative financial instruments	20	11,844	12,894
Credit card receivables	14	2,456,425	2,421,535
Instalment loans receivable	15	746,244	704,343
Hire purchase debtors	16	104,504	117,804
Prepayments, deposits, interest receivable and other debtors	18	122,471	160,697
Restricted cash		120,000	–
Time deposits		158,415	237,519
Bank balances and cash		74,098	72,445
		<u>3,796,676</u>	<u>3,729,614</u>
Current liabilities			
Creditors and accrued charges		118,379	126,078
Amount due to a fellow subsidiary		36,517	34,628
Amount due to ultimate holding company		10	52
Issued debt securities		281,060	850,000
Bank borrowings-repayable within one year		1,369,300	661,000
Bank overdrafts		1,449	2,079
Derivative financial instruments	20	2,472	2,794
Current tax liabilities		45,792	33,077
		<u>1,854,979</u>	<u>1,709,708</u>
Net current assets		<u>1,941,697</u>	<u>2,019,906</u>
Total assets less current liabilities		<u>2,668,718</u>	<u>2,715,545</u>
Capital and reserves			
Issued capital		41,877	41,877
Share premium and reserves		1,356,841	1,278,668
		<u>1,398,718</u>	<u>1,320,545</u>
Non-current liabilities			
Bank borrowings-repayable after one year		1,270,000	1,395,000
		<u>1,270,000</u>	<u>1,395,000</u>
		<u>2,668,718</u>	<u>2,715,545</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Restated and unaudited)							
	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment revaluation reserve HK\$'000	Hedging reserve HK\$'000	Dividend reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 21st February 2005	41,877	227,330	270	–	(22,960)	43,970	813,668	1,104,155
Gain on available-for-sale investments	–	–	–	9,146	–	–	–	9,146
Net adjustment on cash flow hedges	–	–	–	–	22,676	–	–	22,676
Net income recognized directly in equity Profit for the period	–	–	–	9,146	22,676	–	–	31,822
	–	–	–	–	–	–	103,471	103,471
Total recognized income for the period	–	–	–	9,146	22,676	–	103,471	135,293
Final dividend paid for 2004/05	–	–	–	–	–	(43,970)	–	(43,970)
	–	–	–	9,146	22,676	(43,970)	103,471	91,323
At 20th August 2005	41,877	227,330	270	9,146	(284)	–	917,139	1,195,478
At 21st February 2006	41,877	227,330	270	12,479	158	48,158	990,273	1,320,545
Gain on available-for-sale investments	–	–	–	2,871	–	–	–	2,871
Net adjustment on cash flow hedges	–	–	–	–	9,214	–	–	9,214
Net income recognized directly in equity Profit for the period	–	–	–	2,871	9,214	–	–	12,085
	–	–	–	–	–	–	114,246	114,246
Total recognized income for the period	–	–	–	2,871	9,214	–	114,246	126,331
Final dividend paid for 2005/06	–	–	–	–	–	(48,158)	–	(48,158)
	–	–	–	2,871	9,214	(48,158)	114,246	78,173
At 20th August 2006	41,877	227,330	270	15,350	9,372	–	1,104,519	1,398,718

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 20th August 2006

1. STATUTORY FINANCIAL STATEMENTS

The financial information relating to any financial periods included in these interim results is unaudited and does not constitute the Group's statutory financial statements.

The financial information relating to the financial year ended 20th February 2006 is derived from the statutory financial statements of the Company for that financial year. Statutory financial statements for the year ended 20th February 2006 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26th April 2006.

2. 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").

3. 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 ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The application of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented, except for HKAS 27 (Revised), which has been revised as a consequence of the Companies (Amendment) Ordinance 2005 (the "Amendment Ordinance"). The Amendment Ordinance amended the statutory definition of a "subsidiary" to make it more closely aligned with HKAS 27. As a result of the Amendment Ordinance, the Company is required to consolidate the special purpose entity under asset securitisation and prepare consolidated financial statements for the current period. Comparative figures have been amended to conform with current period's presentation.

The effects of adopting the HKAS 27 (Revised) on the consolidated income statement for the six months ended 20th August 2006 and six months ended 20th August 2005 were as follows:

	Six months ended 20th August 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Increase in operating income	72,219	62,770
Decrease in operating expenses	2,930	1,526
Increase in impairment losses and impairment allowances	(5,201)	(40,445)
Increase in income tax expense	(12,241)	(4,200)
	<hr/>	<hr/>
Total increase in profit	57,707	19,651
	<hr/>	<hr/>
Increase in earnings per share	13.78 cents	4.69 cents

The effects of adopting the HKAS 27 (Revised) on the consolidated balance sheet at 20th August 2006 and 20th February 2006 were as follows:

	20th August 2006 (Unaudited) HK\$'000	20th February 2006 (Audited) HK\$'000
Increase (decrease) in assets		
Restricted cash and time deposits	150,650	250,448
Credit card receivables	149,016	382,097
Prepayments, deposits, interest receivable and other debtors	9,708	42,492
Retained interests in securitisation trust	(284,945)	(456,639)
Deferred tax assets	500	7,017
	<hr/>	<hr/>
Increase (decrease) in liabilities/equity		
Creditors and accrued charges	561	37,170
Issued debt securities	35,964	262,548
Deferred tax liabilities	-	(5,000)
Share premium and reserves	(11,596)	(69,303)
	<hr/>	<hr/>

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

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC)-INT 7	Applying the Restatement Approach under HKAS29 Financial Reporting in Hyperinflationary Economies ²
HK(IFRIC)-INT 8	Scope of HKFRS 2 ³
HK(IFRIC)-INT 9	Reassessment of Embedded Derivatives ⁴

¹ Effective for annual periods beginning on or after 1st January 2007

² Effective for annual periods beginning on or after 1st March 2006

³ Effective for annual periods beginning on or after 1st May 2006

⁴ Effective for annual periods beginning on or after 1st June 2006

4. 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 financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 20th February 2006 except for an additional accounting policy described below.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary.

The results of the subsidiary acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of its subsidiary to bring its accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

5. TURNOVER

	Six months ended 20th August	
	2006	2005
	(Unaudited)	(Restated and
	HK\$'000	unaudited)
		HK\$'000
Interest income	492,045	448,372
Fees and commissions	15,322	11,880
	<u>507,367</u>	<u>460,252</u>

6. 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 2006 (Unaudited)

	Credit Card HK\$'000	Instalment loans HK\$'000	Hire Purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
CONSOLIDATED INCOME STATEMENT					
TURNOVER	328,269	164,537	4,253	10,308	507,367
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	(96,597)	(61,769)	(1,503)	–	(159,869)
Segment results	219,700	91,618	747	5,529	317,594
Unallocated operating expenses					(179,228)
Share of results in an associate					142
Profit before tax					138,508
Income tax expense					(24,262)
Profit for the period					114,246

Six months ended 20th August 2005 (Restated and unaudited)

	Credit Card HK\$'000	Instalment loans HK\$'000	Hire Purchase HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
CONSOLIDATED INCOME STATEMENT					
TURNOVER	314,766	137,539	5,348	2,599	460,252
RESULT					
Net interest income	263,317	121,259	2,409	443	387,428
Other operating income	50,917	7,575	18	299	58,809
Other income	–	–	–	5,139	5,139
(Increase in) reversal of impairment losses and impairment allowances	(147,090)	(36,690)	2,143	–	(181,637)
Segment results	167,144	92,144	4,570	5,881	269,739
Unallocated operating expenses					(144,303)
Share of results in an associate					30
Profit before tax					125,466
Income tax expense					(21,995)
Profit for the period					103,471

7. OTHER OPERATING INCOME

	Six months ended 20th August	
	2006	2005
	(Unaudited)	(Restated and unaudited)
	HK\$'000	HK\$'000
Fees and commissions	15,322	11,880
Handling and late charges	38,822	45,140
Dividends received on available-for-sale investments	802	331
Others	852	1,458
	55,798	58,809

In prior period, certain commission and handling charges of HK\$9,647,000, which would have been classified under other operating income under the previous accounting policies, have now been included in the calculation of interest income under the effective interest method upon the adoption of HKAS 39.

8. OTHER INCOME

	Six months ended 20th August 2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Loss on disposal of property, plant and equipment	(64)	(184)
Gain on available-for-sale investments	2,187	–
Unrealized gain on revaluation of investments held for trading	297	1,213
Gain on derivative financial instruments	–	4,110
	<u>2,420</u>	<u>5,139</u>

9. OPERATING EXPENSES

	Six months ended 20th August 2006 (Unaudited) HK\$'000	2005 (Restated and unaudited) HK\$'000
Administrative expenses	42,524	33,551
Advertising expenses	20,968	16,300
Depreciation	21,557	20,710
Operating lease rentals in respect of rented premises, advertising space and equipment	28,227	21,725
Other operating expenses	19,193	15,041
Staff costs including directors' emoluments	46,759	36,976
	<u>179,228</u>	<u>144,303</u>

10. INCOME TAX EXPENSE

	Six months ended 20th August 2006 (Unaudited) HK\$'000	2005 (Restated and unaudited) HK\$'000
Provision for the period		
Hong Kong	24,262	14,716
Deferred tax assets		
Current period	–	7,279
	<u>24,262</u>	<u>21,995</u>

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

11. DIVIDEND

On 28th June 2006, a dividend of 11.5 HK cents (2004/05: 10.5 HK cents) per share amounting to a total of HK\$48,158,000 (2004/05: HK\$43,970,000) was paid to shareholders as the final dividend for 2005/06.

The directors have proposed an interim dividend of 8.5 HK cents (2005/06: 6.5 HK cents) per share payable on or about 13th October 2006 to shareholders whose names appear on the Register of Members on 11th October 2006.

12. EARNINGS PER SHARE

The calculation of earnings per share is based on the unaudited profit for the period of HK\$114,246,000 (2005/06: HK\$103,471,000) and on the number of 418,766,000 (2005/06: 418,766,000) shares in issue during the period.

13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$21.4 million on computer equipment and HK\$2.9 million on leasehold improvements.

14. CREDIT CARD RECEIVABLES

	20th August 2006 (Unaudited) HK\$'000	20th February 2006 (Restated and audited) HK\$'000
Due:		
Within one year	2,539,030	2,518,328
In the second to fifth year inclusive	83,662	35,227
	<u>2,622,692</u>	<u>2,553,555</u>
Impairment allowances		
– individually assessed	(33,381)	(41,377)
– collectively assessed	(51,945)	(56,533)
	<u>(85,326)</u>	<u>(97,910)</u>
	<u>2,537,366</u>	<u>2,455,645</u>
Current portion included under current assets	<u>(2,456,425)</u>	<u>(2,421,535)</u>
Amount due after one year	<u>80,941</u>	<u>34,110</u>

15. INSTALMENT LOANS RECEIVABLE

	20th August 2006 (Unaudited) HK\$'000	20th February 2006 (Audited) HK\$'000
Due:		
Within one year	780,822	740,148
In the second to fifth year inclusive	438,662	370,515
	<u>1,219,484</u>	<u>1,110,663</u>
Impairment allowances		
– individually assessed	(21,883)	(33,307)
– collectively assessed	(32,120)	(20,422)
	<u>(54,003)</u>	<u>(53,729)</u>
	<u>1,165,481</u>	<u>1,056,934</u>
Current portion included under current assets	<u>(746,244)</u>	<u>(704,343)</u>
Amount due after one year	<u>419,237</u>	<u>352,591</u>

16. HIRE PURCHASE DEBTORS

	20th August 2006 (Unaudited) HK\$'000	20th February 2006 (Audited) HK\$'000
Due:		
Within one year	106,689	121,023
In the second to fifth year inclusive	17,594	17,832
	<u>124,283</u>	<u>138,855</u>
Impairment allowances		
– individually assessed	(954)	(2,282)
– collectively assessed	(1,551)	(1,337)
	<u>(2,505)</u>	<u>(3,619)</u>
	<u>121,778</u>	<u>135,236</u>
Current portion included under current assets	<u>(104,504)</u>	<u>(117,804)</u>
Amount due after one year	<u>17,274</u>	<u>17,432</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 2006 (Unaudited)		20th February 2006 (Restated and audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	90,863	2.3	86,871	2.3
Overdue 2 months but less than 3 months	31,530	0.8	34,468	0.9
Overdue 3 months or above	66,044	1.7	81,902	2.1
	188,437	4.8	203,241	5.3

* Percentage of total debtor balance

18. PREPAYMENT, DEPOSITS, INTEREST RECEIVABLE AND OTHER DEBTORS

	20th August 2006 (Unaudited) HK\$'000	20th February 2006 (Restated and audited) HK\$'000
Within one year	127,875	164,137
Impairment allowances	(5,404)	(3,440)
	122,471	160,697

19. IMPAIRMENT ALLOWANCES

	20th August 2006 (Unaudited) HK\$'000	20th February 2006 (Restated and audited) HK\$'000
At beginning of the period/year	158,698	199,017
Net charge to the income statement for the period/year	159,869	315,965
Amounts written off during the period/year	(182,528)	(374,177)
Recoveries during the period/year	11,199	17,893
At end of the period/year	147,238	158,698
Analysis by products as:		
Credit card receivables (note 14)	85,326	97,910
Instalment loans receivable (note 15)	54,003	53,729
Hire purchase debtors (note 16)	2,505	3,619
Prepayments, deposits, interest receivable and other debtors (note 18)	5,404	3,440
	147,238	158,698

20. DERIVATIVE FINANCIAL INSTRUMENTS

	20th August 2006 (Unaudited)		20th February 2006 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	11,844	2,472	12,894	2,794

The interest rate swaps of the Group with aggregate notional amount of HK\$995,000,000 have fixed interest payments at an average rate of 4.3% for periods up until July 2013 and have floating interest receipts at an average rate of 0.3% plus HIBOR. Interest rate swaps are designated as cash flow hedging instruments from floating rates to fixed rates.

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

21. PLEDGE OF ASSETS

At 20th August 2006, issued debt securities of the Group were secured by credit card receivables of HK\$580,763,000 (20th February 2006: HK\$1,049,767,000).

INTERIM DIVIDEND

The directors have declared an interim dividend of 8.5 HK cents (2005/06: 6.5 HK cents) per share to shareholders whose names appear on the Register of Members of the Company on 11th October 2006. Dividend warrants will be despatched on or about 13th October 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 4th October 2006 to 11th October 2006, 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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 3rd October 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The private consumption in Hong Kong continued to maintain growth in the first half of 2006, on the back of improving employment incomes, along with a rising stock market and a reviving property market. Consumer sentiment remained unbeaten, even under a rising interest rate environment. During the period under review, the Group continued to record a growth in credit card and personal loan business despite market players moved aggressively into these sectors.

The Group recorded a net profit of HK\$114.2 million for the six months ended 20th August 2006, representing an increase of 10.4% or HK\$10.8 million when compared to HK\$103.4 million in the previous corresponding period. The Group's earnings per share improved from 24.71 HK cents per share in 2005/06 to 27.28 HK cents per share.

On the sales front, the launch of new marketing programs and the recruit of more affinity cardholders have boosted up credit card sales. With the use of the Group's branch and merchant networks to cross-sell different loan products, personal loan sales continued to record a healthy growth. The overall sales volume increased by 17.6% when compared with last year.

With the pick up in sales transactions, interest income recorded an increase of 9.7% from HK\$448.4 million in 2005/06 to HK\$492.0 million. With the increase in HIBOR, average funding cost moved from 4.3% in the first half of last year to 4.9% in the first half of this year. Interest expense in the first half was HK\$72.8 million, an increase of 19.5% when compared with last year. The Group's net interest income recorded an increase of 8.2% to HK\$419.2 million from HK\$387.4 million in 2005/06. Although there was an increase in commission income, the drop in handling and late charges had resulted in the decrease in other operating income by 5.1% from HK\$58.8 million in 2005/06 to HK\$55.8 million for the first six months in 2006/07.

The Group incurred more on advertising expenses to capture the growth of demand in consumer finance market. In addition, following the recruit of more cardholders 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 branch network, operating expenses increased by 24.2% from HK\$144.3 million in 2005/06 to HK\$179.2 million. Consequently, the Group's cost-to-income ratio increased to 37.5% in the first half of this year from 32.0% in 2005/06.

At the operating level before impairment losses and impairment allowances, the Group recorded an operating profit of HK\$298.2 million for the six months ended 20th August 2006, representing a drop of 2.9% from HK\$307.1 million in the previous corresponding period. During the period under review, asset quality continued to improve, with impairment losses and impairment allowances for the first half stood at HK\$159.9 million, a decrease of 12.0% when compared with the same period last year. Impairment allowances amounted to HK\$147.2 million as at 20th August 2006, as compared with HK\$158.7 million as at 20th February 2006.

Despite a keen competition in the market, the Group was able to capitalize on market growth opportunities. This led to an increase in total debtor balance by HK\$163.4 million to HK\$3,966.5 million as at 20th August 2006 as compared to HK\$3,803.1 million as at 20th February 2006. Shareholders' equity was strengthened by 5.9% to HK\$1,398.7 million as at 20th August 2006 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 as at 20th February 2006, rose 7.1% to HK\$3.3.

Business Review

The Group had launched a series of marketing initiatives in the first half to boost up card and personal loan sales. The Group had designed tailor-made card acquisition programs with its affinity partners to increase card base and card usage. The Group had also launched new spending campaigns with leading merchants to boost up recurrent transactions and activate sleeping customers. To increase card cash advance sales, the Group extended its ATM network along transportation areas and inside shopping centres, and also launched new promotion programs. With the enlarged customer base and distribution outlets, the Group had been active in cross-selling its personal loan products.

To boost the Group's competitiveness and increase its market share, the Company put efforts in brand strengthening. Besides using new image on AEON signboards and promotional materials, the Group now has one TV commercial that builds its brand acceptance by linking AEON cards to daily usage. Moreover, the Group's new branches at Sheung Wan and Tsim Sha Tsui have adopted new branch design elements.

Five new branches have been opened in Aberdeen, Yau Ma Tei, Cheung Sha Wan, Sheung Wan and Tsim Sha Tsui to extend the service coverage. In addition, the Group has successfully entered the MTR area and installed the first ATM in Choi Hung station.

Prospects

Consumer sentiment in Hong Kong continues to remain robust, along with better job prospects and rising incomes. In light of the gradual slackening of economic growth and the coming under control of inflationary pressure, the rate-hiking cycle in the United States is expected to end soon. As players would like to see their market share grow, competition will remain keen. Under this optimistic and competitive business environment, the Group will continue to focus on its existing marketing strategy to launch new products, offer discount benefits and marketing programs, improve service quality and expand service coverage areas.

The Group will continue to launch affinity cards to capture new customer segments and widen its distribution network. At least two more cards will be launched in the second half. A series of marketing programs will also be launched, directing towards card activation in the whole card portfolio through the offering of appealing cardholder privileges, affinity member benefits and bonus point system.

In the second half, the Group plans to open two more branches, which will bring the branch network to 28. This will create new channels for target marketing and foster closer co-operation with discount and affinity merchants. To create a convenient network for cash advance usage, the Group will continue to extend its ATM network along the KCR and MTR areas and inside shopping centres. The Group's ATM network in Hong Kong is now open to China UnionPay members. With the increasing number of mainland visitors coming to Hong Kong, higher usage has been noted.

On China side, AEON Credit Guarantee (China) Co., Ltd., an associate, has signed a cooperative agreement with Bank of Communications on 4th August 2006 and expected to commence guarantee business on hire purchase for electrical appliances and home furniture within the second half. This marks a milestone for the Group's business expansion into China market.

FUNDING AND CAPITAL FINANCING

The main objectives of the Group's funding and capital management are essentially the same as that reported in the Company's 2005/06 Annual Report.

The Group relies 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 2006, the Group had bank borrowings amounted to HK\$2,639.3 million, with 63.3% being fixed in interest rates. Out of these borrowings, 51.9% will mature within one year, 7.4% between one and two years, 22.0% between two and three years, 10.0% between three and four years and 8.7% over four years. Moreover, the Group had available HK\$360.0 million of undrawn committed borrowing facilities as at balance sheet date in respect of which all conditions precedent had been met. The credit card securitization program had started amortisation in March 2006 and with an outstanding balance of HK\$281.1 million as at 20th August 2006. All the Group's borrowings were denominated in Hong Kong dollars.

The Group continued to maintain a strong financial position. As at 20 August 2006, total debt-to-equity ratio was 2.23. 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. During the period under review, the Group engaged in derivative financial instruments mainly to hedge its exposure on interest rate fluctuations. As at 20th August 2006, capital expenditure commitments entered were mainly related to the purchase of property, plant and equipment.

HUMAN RESOURCES

The total number of staff as at 20th August 2006 and 20th February 2006 was 358 and 320 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2005/06 Annual Report.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 20th August 2006. The Group's interim report for the six months ended 20th August 2006 has been reviewed in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports", 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

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules except for the deviation from the code provisions A.4.1, A.4.2 and E.1.2 of the Code.

Subsequent to the publication of the Corporate Governance Report included in the Company's 2005/06 Annual Report:

- (i) a special resolution was passed at the Company's 2006 Annual General Meeting to amend the Articles of Association of the Company to comply with the first sentence of the code provision A.4.2 to the effect that any director appointed to fill a causal vacancy or as addition to the Board shall be subject to election by shareholders at the first general meeting after his appointment;
- (ii) a third independent non-executive director was appointed on 26th June 2006 to comply with the minimum number required under Rule 3.10(1) of the Listing Rules.

The code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The second sentence of the 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.

At the Company's 2006 Annual General Meeting, the Chairman of the Board did not attend the meeting but appointed the Managing Director to chair the meeting. This constitutes a deviation from the code provision E.1.2, which provides that the chairman of the board should attend the annual general meeting.

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, all directors 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 RESULTS ON THE STOCK EXCHANGE'S WEBSITE

The 2006/07 interim report of the Group, as well as this announcement of interim results, containing all the relevant information required by the Listing Rules will be published on the Stock Exchange's website in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the executive directors are Mr. Masanori Kosaka (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director), Ms. Koh Yik Kung, Mr. Pan Shu Pin, Ban, Mr. Tomoyuki Kawahara, 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 2006

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