



AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

INTERIM REPORT

**FOR THE SIX MONTHS ENDED
20TH AUGUST 2002**

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 2002 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		
		2002	2001	Increase/
		(Unaudited)	(Unaudited)	(Decrease)
	Notes	HK\$'000	HK\$'000	%
Turnover	3(a)	400,179	430,139	(7.0)
Interest income		379,968	406,779	(6.6)
Interest expense		(74,174)	(88,072)	(15.8)
Net interest income		305,794	318,707	(4.1)
Other operating income	4	32,453	30,291	7.1
Operating income		338,247	348,998	(3.1)
Operating expenses	5	(140,412)	(141,409)	(0.7)
Operating profit before provisions		197,835	207,589	(4.7)
Charge for bad and doubtful debts		(126,904)	(79,383)	59.9
Operating profit after provisions		70,931	128,206	(44.7)
Net unrealized gain on revaluation of other investments		28,205	–	
Profit before taxation		99,136	128,206	(22.7)
Income tax	6	(14,820)	(16,050)	(7.7)
Net profit for the period		84,316	112,156	(24.8)
Interim dividend	7	20,938	20,938	
Earnings per share	8	20.13 cents	26.78 cents	
Dividend per share	7	5.00 cents	5.00 cents	
Net interest income/operating income		90.4%	91.3%	
Return on average total assets		5.1%	7.0%	
Return on average shareholders’ funds		15.6%	23.7%	
Dividend payout ratio		24.8%	18.7%	

BALANCE SHEET

		20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	9	71,080	80,240
Interest in associates		11,593	2,246
Investment securities	10	10,224	10,224
Hire purchase debtors	12	37,032	44,166
Instalment loans receivable	13	45,713	35,002
Pledged time deposits	24(c)	100,494	120,774
		276,136	292,652
Current assets			
Other investments	11	67,246	39,040
Hire purchase debtors	12	226,054	237,375
Instalment loans receivable	13	263,145	254,021
Credit card receivables	14	2,182,802	2,204,963
Prepayments, deposits, interest receivable and other debtors		167,996	162,069
Pledged time deposits	24(d)	6,000	11,070
Time deposits		39,570	6,700
Bank balances and cash		77,577	87,453
		3,030,390	3,002,691
Current liabilities			
Creditors and accrued charges	16	31,575	46,094
Amount due to immediate holding company		22	63
Amount due to a fellow subsidiary		47,141	42,499
Amount due to ultimate holding company		46	46
Bank borrowings-repayable within one year	18	545,172	519,746
Taxation		11,775	9,007
		635,731	617,455
Net current assets		2,394,659	2,385,236
Total assets less current liabilities		2,670,795	2,677,888
Capital and reserves			
Issued capital and reserves	19	269,477	302,979
Accumulated profits	20	837,174	752,858
		1,106,651	1,055,837
Non-current liabilities			
Bank borrowings-repayable after one year	18	1,025,000	1,090,000
Issued debt securities	21	527,143	524,054
Deferred taxation	22	12,001	7,997
		1,564,144	1,622,051
		2,670,795	2,677,888

CONDENSED STATEMENT OF CHANGES IN EQUITY

	21st February 2001 (Audited) <i>HK\$'000</i>	Movements <i>HK\$'000</i>	20th August 2001 (Unaudited) <i>HK\$'000</i>
Share capital	41,877	–	41,877
Share premium	227,330	–	227,330
Capital redemption reserve	270	–	270
Dividend reserve	33,502	(33,502)	–
Accumulated profits	596,296	112,156	708,452
	<u>899,275</u>	<u>78,654</u>	<u>977,929</u>
	21st February 2002 (Audited) <i>HK\$'000</i>	Movements <i>HK\$'000</i>	20th August 2002 (Unaudited) <i>HK\$'000</i>
Share capital	41,877	–	41,877
Share premium	227,330	–	227,330
Capital redemption reserve	270	–	270
Dividend reserve	33,502	(33,502)	–
Accumulated profits	752,858	84,316	837,174
	<u>1,055,837</u>	<u>50,814</u>	<u>1,106,651</u>

CONDENSED CASH FLOW STATEMENT

	Six months ended 20th August 2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Net cash from (used in) operating activities	83,152	(43,616)
Net cash from (used in) investing activities	12,917	(15,341)
Net cash used in financing activities	(71,301)	(43,500)
Net increase (decrease) in cash and cash equivalents	24,768	(102,457)
Cash and cash equivalents at 21st February	92,207	198,604
Cash and cash equivalents at 20th August	116,975	96,147
Analysis of the balances of cash and cash equivalents		
Cash and cash equivalents as previously reported	–	(153,853)
Effect of reclassification of short term bank loans	–	250,000
Cash and cash equivalents as restated	116,975	96,147
Being:		
Time deposits	39,570	8,920
Bank balances and cash	77,577	87,892
Bank overdrafts	(172)	(665)
	116,975	96,147

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 20th August 2002

1. Basis of Preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 (SSAP 25) Interim Financial Reporting and 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).

2. Principal Accounting Policies

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

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 2002, except for the adoption of the new SSAP 15 (Revised) *Cash Flow Statements* and SSAP 34 *Employee Benefits* issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has no significant impact on the financial statements of the current or prior period.

3. 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

3. Business and Geographical Segments (Cont'd)

(a) Business segments (Cont'd)

Segment information about these businesses is presented below:

Six months ended 20th August 2002 (Unaudited)

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Other operation HK\$'000	Combined HK\$'000
INCOME STATEMENT					
REVENUE	<u>336,378</u>	<u>15,562</u>	<u>41,594</u>	<u>6,645</u>	<u>400,179</u>
RESULT					
Segment result	197,697	6,622	5,511	1,513	211,343
Unallocated operating expenses					(140,412)
Unallocated other income					<u>28,205</u>
Profit before taxation					99,136
Income tax					<u>(14,820)</u>
Net profit for the period					<u>84,316</u>
BALANCE SHEET					
ASSETS					
Segment assets	2,388,248	263,724	318,800	58,466	3,029,238
Unallocated corporate assets					<u>277,288</u>
Total assets					<u>3,306,526</u>
LIABILITIES					
Segment liabilities	1,626,865	149,604	215,104	184,527	2,176,100
Unallocated corporate liabilities					<u>23,775</u>
Total liabilities					<u>2,199,875</u>

3. Business and Geographical Segments (Cont'd)

(a) Business segments (Cont'd)

Six months ended 20th August 2001 (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					
REVENUE	<u>363,070</u>	<u>21,622</u>	<u>39,978</u>	<u>5,469</u>	<u>430,139</u>
RESULT					
Segment result	228,468	14,037	27,112	(2)	269,615
Unallocated operating expenses					<u>(141,409)</u>
Profit before taxation					128,206
Income tax					<u>(16,050)</u>
Net profit for the period					<u>112,156</u>
BALANCE SHEET					
ASSETS					
Segment assets	2,411,512	309,181	288,376	46,295	3,055,364
Unallocated corporate assets					<u>187,095</u>
Total assets					<u>3,242,459</u>
LIABILITIES					
Segment liabilities	1,775,729	248,987	137,089	73,721	2,235,526
Unallocated corporate liabilities					<u>25,380</u>
Total liabilities					<u>2,260,906</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.

4. Other Operating Income

	Six months ended 20th August	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Dividends received	732	620
Fee and commission		
Credit card	8,571	9,797
Hire purchase	11,639	13,563
Handling, late and storage charges	10,409	1,729
Gain on disposal of fixed assets	155	–
Others	947	4,582
	32,453	30,291

5. Operating Expenses

	Six months ended 20th August	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Administrative expenses	33,115	31,546
Advertising expenses	8,740	10,795
Depreciation	12,400	12,781
Operating lease rentals in respect of rented premises and advertising space	33,966	28,703
Other operating expenses	14,066	16,522
Staff costs including directors' emoluments	38,125	41,062
	140,412	141,409

6. Income Tax

	Six months ended 20th August	
	2002	2001
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax calculated at 16% (2001/02: 16%) of the estimated assessable profit	10,816	16,050
Deferred taxation	4,004	–
	14,820	16,050

7. Dividend

On 18th July 2002, a dividend of 8.0 HK cents (2000/01: 8.0 HK cents) per share was paid to shareholders as the final dividend for 2001/02.

The directors have determined that an interim dividend of 5.0 HK cents (2001/02: 5.0 HK cents) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 18th October 2002.

8. Earnings per Share

The calculation of earnings per share is based on the unaudited net profit for the period of HK\$84,316,000 (2001/02: HK\$112,156,000) and on the number of 418,766,000 (2001/02: 418,766,000) shares in issue during the period.

9. Property, Plant and Equipment

During the period, the Company spent approximately HK\$3.1 million on computer equipment and HK\$0.4 million on leasehold improvements. The Company disposed of a motor vehicle with a carrying amount of HK\$0.1 million.

10. Investment Securities

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
At cost:		
Issued by corporate entities		
Listed shares		
Hong Kong	6,041	6,041
Overseas	4,183	4,183
	<u>10,224</u>	<u>10,224</u>
Market value of listed shares	<u>55,159</u>	<u>41,573</u>

11. Other Investments

Other investments represent shares listed overseas and are stated at market value.

12. Hire Purchase Debtors

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Due:		
Within one year	229,237	239,164
Thereafter	38,091	45,040
	<u>267,328</u>	<u>284,204</u>
Provision for bad and doubtful debts	(4,242)	(2,663)
	<u>263,086</u>	<u>281,541</u>
Current portion included under current assets	(226,054)	(237,375)
	<u>37,032</u>	<u>44,166</u>

13. Instalment Loans Receivable

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Due:		
Within one year	282,710	265,767
Thereafter	49,112	36,620
	<u>331,822</u>	<u>302,387</u>
Provision for bad and doubtful debts	(22,964)	(13,364)
	<u>308,858</u>	<u>289,023</u>
Current portion included under current assets	(263,145)	(254,021)
	<u>45,713</u>	<u>35,002</u>

14. Credit Card Receivables

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Credit card receivables	2,328,418	2,337,615
Provision for bad and doubtful debts	(145,616)	(132,652)
	<u>2,182,802</u>	<u>2,204,963</u>

15. 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 more than 1 month:

	20th August 2002 (Unaudited)		20th February 2002 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	200,567	6.9	116,692	4.0
Overdue 2 months but less than 3 months	16,148	0.5	32,177	1.1
Overdue 3 months or above	149,063	5.1	127,444	4.3
	<u>365,778</u>	<u>12.5</u>	<u>276,313</u>	<u>9.4</u>

* Percentage of total debtor balance

16. Creditors and Accrued Charges

The aging analysis of creditors and accrued charges was as follows:

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Current	30,436	44,189
Over 1 month but less than 3 months	855	1,642
Over 3 months	284	263
	<u>31,575</u>	<u>46,094</u>

17. Maturity Profile

	20th August 2002 (Unaudited)			
	3 months or less HK\$'000	1 year or less but over 3 months HK\$'000	4 years or less but over 1 year HK\$'000	Total HK\$'000
ASSETS				
Credit card receivables	2,328,418	–	–	2,328,418
Hire purchase debtors	90,794	138,443	38,091	267,328
Instalment loans receivable	110,187	172,523	49,112	331,822
Pledged time deposits	106,494	–	–	106,494
Time deposits	39,570	–	–	39,570
	<u>2,675,463</u>	<u>310,966</u>	<u>87,203</u>	<u>3,073,632</u>

17. Maturity Profile (Cont'd)

	20th February 2002 (Audited)			
	1 year or less	4 years or less		
	3 months or less	but over 3 months	but over 1 year	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
ASSETS				
Credit card receivables	2,337,615	–	–	2,337,615
Hire purchase debtors	96,517	142,647	45,040	284,204
Instalment loans receivable	97,057	168,710	36,620	302,387
Pledged time deposits	126,844	5,000	–	131,844
Time deposits	6,700	–	–	6,700
	<u>2,664,733</u>	<u>316,357</u>	<u>81,660</u>	<u>3,062,750</u>

18. Bank Borrowings

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Bank overdraft, unsecured	172	1,946
Bank loans, unsecured	1,520,000	1,477,800
Bank loans, secured	50,000	130,000
	<u>1,570,172</u>	<u>1,609,746</u>
The maturity of bank borrowings is as follows:		
Within one year	545,172	519,746
Between one and two years	645,000	530,000
Between two to five years	380,000	560,000
	<u>1,570,172</u>	<u>1,609,746</u>
Amount repayable within one year included under current liabilities	(545,172)	(519,746)
Amount repayable after one year	<u>1,025,000</u>	<u>1,090,000</u>

19. Issued Capital and Reserves

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2001 (Audited)	41,877	227,330	270	33,502	302,979
Final dividend paid for 2000/01	–	–	–	(33,502)	(33,502)
Final dividend proposed for 2001/02	–	–	–	33,502	33,502
At 20th February 2002	41,877	227,330	270	33,502	302,979
Final dividend paid for 2001/02	–	–	–	(33,502)	(33,502)
At 20th August 2002 (Unaudited)	41,877	227,330	270	–	269,477

The authorized share capital of the Company is 1,000 million (20th February 2002: 1,000 million) ordinary shares of HK\$0.1 each.

20. Accumulated Profits

	<i>HK\$'000</i>
At 21st February 2001 (Audited)	596,296
Net profit for the year 2001/02	211,002
Interim dividend paid for 2001/02	(20,938)
Final dividend proposed for 2001/02	(33,502)
At 20th February 2002	752,858
Net profit for the six months ended 20th August 2002	84,316
At 20th August 2002 (Unaudited)	837,174

21. Issued Debt Securities

The Company raised financing of HK\$540 million through the issue of certificates backed by credit card receivables in Hong Kong (the “Transaction”) for funding its operations. The monthly interest of the debt securities is determined at 3-month Hong Kong Interbank Offered Rate (“HIBOR”) plus 0.75% per annum. The Transaction has commenced normal amortization since 21st August 2002.

22. Deferred Taxation

	20th August 2002 (Unaudited) <i>HK\$'000</i>	20th February 2002 (Audited) <i>HK\$'000</i>
At 21st February	7,997	3,600
Charge for the period	4,004	4,397
	12,001	7,997

22. Deferred Taxation (Cont'd)

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

	Provided		Unprovided	
	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Tax effect of timing differences because of:				
Excess of tax allowances over depreciation	-	-	9,277	10,022
General provision for bad and doubtful debts	-	-	(2,860)	(3,123)
Net unrealized gain on revaluation of other investments	9,910	5,397	-	-
Unamortised cost in connection with issue of debt securities	2,091	2,600	-	-
	<u>12,001</u>	<u>7,997</u>	<u>6,417</u>	<u>6,899</u>

The deferred tax liability of the Company amounting to HK\$6,417,000 (20th February 2002: HK\$6,899,000) has not been provided in the financial statements as, in the opinion of the directors, the timing differences are not expected to crystallize in the foreseeable future, after taking into account of the Company's medium term financial plans and projections.

The amount of the unprovided deferred tax (credit) charge for the period is as follows:

	Six months ended 20th August	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Tax effect of timing differences because of:		
(Shortfall) excess of tax allowances over depreciation	(745)	503
Reduction in general provision for bad and doubtful debts	263	271
	<u>(482)</u>	<u>774</u>

23. Operating Lease Commitments

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

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Within one year	40,565	37,972
In the second to fifth year inclusive	16,934	17,646
	<u>57,499</u>	<u>55,618</u>

Leases for rented premises and advertising space are negotiated for an average term of two years and rentals are fixed for an average of one year.

24. Pledge of Assets

- (a) At 20th August 2002, the Company's issued debt securities were secured by credit card receivables of HK\$654,917,000 (20th February 2002: HK\$663,813,000).
- (b) At 20th August 2002, the Company's bank loans of HK\$50,000,000 (20th February 2002: HK\$130,000,000) were secured by hire purchase debtors of HK\$175,306,000 (20th February 2002: HK\$214,014,000).
- (c) The pledged time deposits include special deposits amounting to HK\$100,494,000 (20th February 2002: HK\$100,494,000) maintained pursuant to the terms of the securitisation agreements for the issued debt securities. The balance of HK\$20,280,000 as at 20th February 2002 represented a pledge to a licensor of credit card to secure a credit card license granted to the Company.
- (d) The Company also pledged time deposits of HK\$6,000,000 (20th February 2002: HK\$11,070,000) to banks to secure the short term general banking facilities and the sharing of ATM network.

25. Financial Instruments

(a) 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 for the Company entered into for hedging purposes with financial institutions:

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Interest rate contracts:		
Swaps	390,000	480,000
Caps	570,000	570,000
Exchange rate contracts:		
Swaps	—	65,000
	<u>960,000</u>	<u>1,115,000</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 counterparties are financial institutions with high credit ratings assigned by international credit rating agencies.

26. Retirement Benefits Scheme

The Company operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for all qualifying employees. The assets of the MPF Scheme are separately kept from those of the Company, in funds under the control of trustees. The contribution to the MPF Scheme for the six months ended 20th August 2002 is HK\$1,288,000 (2001/02: HK\$1,209,000).

27. Capital Commitments

	20th August 2002 (Unaudited) HK\$'000	20th February 2002 (Audited) HK\$'000
Contracted for, but not provided in the financial statements:		
Purchase of property, plant and equipment	7,959	18,981
Authorised but not contracted for in the financial statements:		
Purchase of property, plant and equipment	266	—
	8,225	18,981

28. Related Party Transactions

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

		AEON Jusco Education and Environment Fund Limited					
		Fellow subsidiary		Associate		Six months ended 20th August (Unaudited)	
		2002	2001	2002	2001	2002	2001
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Commission received	a)	9,825	9,265	—	—	—	—
Licence fees paid	b)	3,165	3,351	—	—	—	—
Service fees paid	c)	—	—	4,027	2,427	—	—
Donation	d)	—	—	—	—	200	400

a) *Commission rates payable by the fellow subsidiary to the Company are based on the terms agreed by both parties.*

b) *Licence fees paid were calculated in accordance with the licence agreements.*

c) *Service fees paid to an associate are based on the terms agreed by both parties.*

d) *AEON Jusco Education and Environment Fund Limited (the “Fund”) is a company limited by guarantee and not having a share capital. The Company is a member of the Fund. The objective of the Fund is to promote environment protection, cultural exchange and education in the Hong Kong Special Administrative Region and other parts of the People’s Republic of China.*

DISCLOSURE UNDER PRACTICE NOTE 19

A syndicated revolving credit facility up to the sum of HK\$360 million made available to the Company for a term of 2 years on 29th September 2000 includes a condition that **ÆON** Co., Ltd. and **ÆON** Credit Service Co., Ltd. have to maintain not less than 51% of the issued share capital of the Company.

A revolving credit facility up to the sum of HK\$200 million made available to the Company with the final date of maturity falling on 20th August 2003 includes a condition that the Company will procure that there is no change in the control of the Company by **ÆON** Credit Service Co., Ltd.

INTERIM DIVIDEND

The Directors have declared an interim dividend of 5.0 HK cents (2001/02: 5.0 HK cents) per share to shareholders whose names appear on the Register of Members of the Company on 18th October 2002. Dividend warrants will be dispatched on or about 21st October 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11th October 2002 to 18th October 2002, 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 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on 10th October 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

Hong Kong's economy remained weak in the first half of the year as US economic recovery fell short of expectation. Persistent deflation, rising unemployment and wage reductions have continued to depress consumption and retain a high level of personal bankruptcies. In view of this, the Company had concentrated on collection efforts to control the increase in bad debt expenses while tightening up the credit policy to reduce the overall exposure to customers.

The Company had managed to maintain its share in the credit card market while expanding its personal loan products. With a weak loan demand and sluggish economic situation, sales transaction for the first half year amounted to HK\$1 billion and 761 million, representing 87.4% when compared with last year.

For the six months ended 20th August 2002, the Company recorded a net profit of HK\$84.3 million, representing a decrease of 24.8% as compared to the previous corresponding period. The Company's earnings per share decreased by 6.7 HK cents per share to 20.1 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 2002.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Financial Performance *(Cont'd)*

The decline in net profit was mainly attributed to a significant increase in charge for bad and doubtful debts as a consequence of the high level of personal bankruptcy rate. At the operating level before provisions, the Company recorded an operating profit of HK\$197.8 million for the six months ended 20th August 2002, representing a slight decrease of 4.7% or HK\$9.8 million from HK\$207.6 million in the previous corresponding period. During the period under review, the number of personal bankruptcy cases continued to stay at a high level, resulting in the Company's charge for bad and doubtful debts increased sharply by 59.9% to HK\$126.9 million from HK\$79.4 million in the previous corresponding period.

As a result of the decrease in sales transaction, interest income decreased by 6.6% to HK\$380.0 million. With HIBOR continued to remain low, coupled with the renewal of long term borrowings with a lower interest rate, the average funding cost moved down from 6.8% in the fourth quarter of 2001/02 to 6.5% in the first quarter and further down to 6.1% in the second quarter of this year, with average funding cost for the first half being 6.3%. Funding cost in the first half was HK\$74.2 million, a drop of 15.8% when compared with last year. The Company's net interest income recorded a slight decrease of 4.1% to HK\$305.8 million from HK\$318.7 million in 2001/02.

The Company's other operating income increased by 7.1% to HK\$32.5 million from HK\$30.3 million in 2001/02, mainly due to the re-imposition of the handling charge for cash advance.

In view of the tough operating environment, the management exercised a tight control on operating expenses, especially on advertising expenses and staff costs. Despite an increase in operating lease rentals for computer equipment, the operating expenses still decreased by 0.7% from HK\$141.4 million to HK\$140.4 million. With the completion of the branch reform exercise, there would be a further savings in the second half of this year.

Total debtor balance as at 20th August 2002 had slightly increased by HK\$3.4 million to HK\$2 billion and 928 million, with increase mainly coming from personal loan amounting to HK\$29.4 million. Provision for bad and doubtful debts as at 20th August 2002 increased by 16.2% to HK\$172.8 million from HK\$148.7 million as at 20th February 2002, representing 5.9% of the total debtor balance.

Review of Operation

On the credit card operation, in view of the better collection ratio for affinity cards, the Company shifted its recruitment strategy to affinity cards. The Company had launched various marketing programs with Jusco to stimulate sales on its inactive and sleeping customers. These included the Instant Lucky Draw, AEON Festivals and Jusco coupon sales. The Company recruited 40,000 new card members in the first half.

On the collection side, the Company performed analysis on the bankruptcy cases of its customers and based on the findings, the collection department had implemented various different measures to reduce the risk exposure, such as close monitoring of identified risky accounts and taking prompt collection actions.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Review of Operation *(Cont'd)*

To reinforce its credit judgement, the Company had completed the implementation of the auto-judgement system, through which the Company can adopt a consistent credit approach to approve new applications using the analysed customers spending pattern and special attributes. This system not only can reduce its credit risk but also allows the Company to set up new credit criteria for different marketing programs and under changing market situations.

Prospect

With the continuous uncertainty in the trend of personal bankruptcies and the imminent launch of positive data sharing early next year, players in the industry will continue to adopt a conservative strategy in growing their receivables. With the experience in controlling the credit risk, the Company considers this challenging business environment to be a good chance to expand its customer base and receivables. The Company's aims are to grow its customer database and increase its revenue while maintaining a cost efficient operation.

On credit card operation, the Company will continue its strategy to target on the low-risk customer profile to grow its receivables. Instead of using road-show, the Company will set up promotion counters inside Jusco stores to recruit affinity card members. To this end, the Company has recently launched the AEON Jusco VISA Card and AEON Watami Visa Card and it will continue to line up with other affiliated merchants to issue new card types in the market. The Company believes that the issue of affinity cards under the 3 famous brands, namely MasterCard, American Express and Visa, will continue to bring in new customer base. To retain the loyalty of its customers, the Company will expand its discount merchant network to offer additional benefits.

The Company has centralised its cash dispensing machine network in three main sites for easy location, namely inside Jusco stores, KCRC stations and Circle-K convenience stores. The Company will make use of this network to launch different promotion campaigns to stimulate the usage of cash advance. Starting from 26th September, a new marketing program will be launched to stimulate the usage of cash advance on the cash dispensing machines inside Circle K convenience stores for both AEON cardholders and non AEON-cardholders. Through this program, the Company targets to activate its sleeping or in-active customers and also to convert non AEON-cardholders to become its members.

The Company will increase its merchant network to boost its hire purchase sales. With the continuous increase in hire purchase sales inside Jusco stores, the Company will make use of the executive knowledge management system to generate the relevant sales data and customer profile relating to customer spending in Jusco stores and use the data to develop new marketing campaigns together with Jusco.

As for personal loan business, the Company will develop more purpose loan products to satisfy different demand in the market and at the same time to attract quality customer database. Moreover, by making use of the customer relationship management, the Company targets to cross-sell these purpose loan products to its existing customers.

MANAGEMENT DISCUSSION AND ANALYSIS *(Cont'd)*

Prospect *(Cont'd)*

The Company is in the process of reforming its branch network to achieve a more efficient operation, which includes the merging of 3 branches and transformation of 9 branches into CD rooms. With the completion of this reform exercise, the Company not only can save on rental expenses but also other related expenses. Moreover, through the use of its call center in Shenzhen, the Company can also perform its marketing exercise through tele-marketing at a lower cost. The effect of these cost saving exercises is expected to be reflected in the second half.

On the charge for bad and doubtful debts, in order to reduce lost contact accounts and to take immediate action on problem accounts, the collection department has re-organized the outdoor visit team. With the moving of the delinquent collection activities to the Shenzhen call center, the Company has increased the manpower of its outdoor visit team. As a result, problem accounts are tackled and closely monitored and at the same time, the collection department can take immediate action to recover the overdue payment.

Although the Company cannot foresee when the bankruptcy rate will come down, the Company will continue to make use of its merchant network and direct marketing channels to boost up the sales whilst maintaining a low cost operation.

SEGMENT INFORMATION

The Company's business comprised mainly three operating divisions, namely credit card, hire purchase and instalment loan. Over 90% of the Company's operating income after provisions was contributed from credit card operation. When compared to the corresponding period of last year, the operating income after provisions of credit card operation decreased by 13.5% to HK\$197.7 million. This was mainly caused by the higher-than-expected charge for bad and doubtful debts following the sharp increase in personal bankruptcies during the period under review.

LIQUIDITY AND FINANCIAL RESOURCES

On funding and capital, 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 2002, the Company had bank borrowings amounted to HK\$1,570 million, of which HK\$545 million was repayable within one year. For the HK\$540 million issued debt securities backed by credit card receivables, it had entered into a normal amortization period as of 20th August. To refinance this transaction, the Company has entered into a similar transaction of a comparable size of HK\$600 million on 19th September.

The Company had further strengthened its financial position as compared with 20th February 2002. As at 20th August 2002, total debt-to-equity ratio was 2.0. 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.

QUALITATIVE INFORMATION ON MANAGEMENT OF RISKS

Credit Risk Management

Credit risk is the risk associated with possibility that the counterparty in a transaction may default. It arises from the lending and derivatives undertaken by the Company.

The Company has established policies and systems for the monitoring and control of credit risk. The Company's credit policy defines the credit extension criteria, the credit approval and monitoring processes. The Company maintains a tight control on loan assessments and approvals and will continue to exercise a conservative and prudent policy in granting loans in order to maintain a quality loan portfolio.

Market Risk Management

Market risk is the risk associated with changes in interest rates and foreign exchange rates and the net effect of such changes have on the Company's assets, liabilities and commitments, thus causing profits and losses.

The Company's policy to market risk is essentially the same as that disclosed in the Company's 2001/02 Annual Report. During the period, the Company traded in market risk related financial instruments mainly for hedging purposes. The market risk exposure from both on and off balance sheet activities was considered immaterial. Accordingly, quantitative market risk information is not disclosed.

Liquidity Management

The Company will ensure the availability of funds at reasonable costs to meet all contractual financial commitments, to fund loan growth and to generate reasonable returns from available funds.

During the period, the Company monitored its liquidity position with adequate standby facilities being maintained to meet loan demand in the ordinary course of business.

Capital Management

The Company's policy is to maintain a strong capital base to support the development of the Company's business. During the period, the Company relied principally on internally generated capital as well as bank borrowings and overdrafts for the working capital. The funding position is monitored and reviewed regularly to ensure reasonable limits and at reasonable costs.

HUMAN RESOURCES

The total number of staff as at 20th August 2002 and 20th February 2002 was 320 and 340 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2001/02 Annual Report.

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

As at 20th August 2002, the interests of the directors and chief executives and their associates in the share capital of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

(a) The Company

Directors	Number of shares held under personal interests
Yoshiki Mori	440,000
Masanori Kosaka	110,000
Kazuhide Kamitani	1,045,000
Shao You Bao	330,000
Tsang Wing Hong	220,000

(b) ÆON Credit Service Co., Ltd. – immediate holding company of the Company

Directors	Number of shares held under personal interests
Yoshiki Mori	12,766
Masanori Kosaka	3,484
Takuya Morikawa	3,000
Kazuhide Kamitani	3,832

(c) ÆON Co., Ltd. – ultimate holding company of the Company

Directors	Number of shares held under personal interests
Yoshiki Mori	3,000
Yoichi Kimura	2,000

(d) Jusco Stores (Hong Kong) Co., Limited – a fellow subsidiary of the Company

Directors	Number of shares held under personal interests
Shao You Bao	200,000

(e) AEON Thana Sinsap (Thailand) PLC. – a fellow subsidiary of the Company

Directors	Number of shares held under personal interests
Yoshiki Mori	300,000
Masanori Kosaka	20,000
Kazuhide Kamitani	100,000

DIRECTORS' INTERESTS IN SHARES AND DEBENTURES (*Cont'd*)

Other than disclosed above, none of the directors or chief executives, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in Section 29 of the SDI Ordinance, and none of the directors or chief executives, nor their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS

As at 20th August 2002, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name	Number of Shares	%
ÆON Credit Service Co., Ltd. (<i>Note 1</i>)	217,514,000	51.9
ÆON Co., Ltd. (<i>Note 2</i>)	277,288,000	66.2

Notes

1. Out of 217,514,000 shares, 213,114,000 shares were held by ÆON Credit Service Co., Ltd. and 4,400,000 shares were held by Nomura Securities (HK) Limited, as nominee on behalf of ÆON Credit Service Co., Ltd.
2. ÆON Co., Ltd. was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 44.23% and 71.64% of the issued share capital of ÆON Credit Service Co., Ltd. and Jusco Stores (Hong Kong) Co., Limited respectively, was deemed, for the purposes of the SDI Ordinance, to be interested in the 217,514,000 shares and 3,784,000 shares owned by ÆON Credit Service Co., Ltd. and Jusco Stores (Hong Kong) Co., Limited respectively.

Other than disclosed above, the Company had not been notified of any other interests representing 10% or more in the Company's issued share capital as at 20th August 2002.

REVIEW BY AUDIT COMMITTEE

The Audit Committee has reviewed the unaudited interim financial statement for the six months ended 20th August 2002.

COMPLIANCE WITH CODE OF BEST PRACTICE

None of the Directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 20th August 2002, 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.

By order of the Board
MASANORI KOSAKA
Managing Director

Hong Kong, 19th September 2002