AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

AEON 信貸財務(亞洲)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 900)

INTERIM REPORT

FOR THE SIX MONTHS ENDED
31ST AUGUST 2017

ISO 9001 - QMS / FS 513193
ISO 14001 - EMS 538444
ISO 27001 - ISMS / IS 500955
Customer Satisfaction
ISO 10002 / CMS 513194
MANPOWER DEVELOPER
Awarded by ERB
10 years+ 商界展關懷 caringcompany
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

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CORPORATE INFORMATION

Board of Directors

Executive Directors
Hideo Tanaka *(Managing Director)*
Lai Yuk Kwong *(Deputy Managing Director)*
Koh Yik Kung
Tomoharu Fukayama
Toru Hosokawa

Non-executive Director
Masaaki Mangetsu *(Chairman)*

Independent Non-executive Directors
Lee Ching Ming, Adrian
Wong Hin Wing
Kenji Hayashi

Company Secretary

Koh Yik Kung

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Share Registrar

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

Major Bankers

Mizuho Bank, Ltd.
Hong Kong Branch
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
Hong Kong Branch

Registered Office

20/F, Mira Place Tower A
132 Nathan Road
Tsimshatsui, Kowloon
Hong Kong

Internet Address

Website address: http://www.aeon.com.hk
E-mail address: info@aeon.com.hk

Stock Code

900

The Directors are pleased to announce the unaudited consolidated results of the Group for the six months ended 31st August 2017, together with the comparative figures for the six months ended 31st August 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31st August 2017

	Notes	**1.3.2017 to 31.8.2017 (Unaudited) *HK$'000***	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Revenue	*3*	**624,136**	606,598
Interest income	*5*	**546,349**	535,329
Interest expense	*6*	**(44,064)**	(46,949)
Net interest income		**502,285**	488,380
Other operating income	*7*	**82,479**	75,664
Other gains and losses	*8*	**(7,874)**	(109)
Operating income		**576,890**	563,935
Operating expenses	*9*	**(269,996)**	(272,675)
Gain on sale of advances and receivables		**–**	21,114
Operating profit before impairment allowances		**306,894**	312,374
Impairment losses and impairment allowances		**(119,672)**	(147,819)
Recoveries of advances and receivables written-off		**23,385**	27,082
Share of results of associates		**189**	(6,061)
Profit before tax		**210,796**	185,576
Income tax expense	*10*	**(37,012)**	(33,434)
Profit for the period		**173,784**	152,142
Profit for the period attributable to:			
Owners of the Company		**173,784**	152,142
Earnings per share – Basic	*12*	**41.50 HK cents**	36.33 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 31st August 2017

	1.3.2017 to 31.8.2017 (Unaudited) ***HK$'000***	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Profit for the period	**173,784**	152,142
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss) gain on available-for-sale investments	**(1,582)**	674
Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sale investments	**6,003**	–
Exchange difference arising from translation of foreign operations	**13,162**	(9,186)
Net adjustment on cash flow hedges	**(16,954)**	(1,311)
Other comprehensive income (expense) for the period	**629**	(9,823)
Total comprehensive income for the period	**174,413**	142,319
Total comprehensive income for the period attributable to:		
Owners of the Company	**174,413**	142,319

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2017

	Notes	**31.8.2017 (Unaudited) *HK$'000***	28.2.2017 (Audited) *HK$'000*
Non-current assets			
Property, plant and equipment	*13*	**90,050**	100,494
Investments in associates		**12,121**	11,374
Available-for-sale investments	*14*	**17,819**	21,239
Advances and receivables	*15*	**993,741**	1,034,366
Prepayments, deposits and other debtors	*18*	**25,135**	16,772
Derivative financial instruments	*26*	**4,446**	10,354
Restricted deposits	*19*	**38,000**	38,000
		1,181,312	1,232,599
Current assets			
Advances and receivables	*15*	**4,119,519**	4,035,958
Prepayments, deposits and other debtors	*18*	**43,671**	40,436
Amounts due from fellow subsidiaries	*24*	**895**	1,180
Amount due from immediate holding company		**–**	7
Amount due from intermediate holding company		**–**	191
Amount due from an associate		**502**	73
Derivative financial instruments	*26*	**–**	44
Restricted deposits	*19*	**–**	145,216
Time deposits	*20*	**107,378**	165,763
Fiduciary bank balances	*21*	**216**	76
Bank balances and cash	*22*	**624,241**	470,257
		4,896,422	4,859,201
Current liabilities			
Creditors and accruals	*23*	**238,121**	219,948
Amounts due to fellow subsidiaries	*24*	**41,369**	49,460
Amount due to intermediate holding company		**60**	202
Amount due to ultimate holding company		**18**	35
Amount due to an associate		**3,039**	3,095
Bank borrowings	*25*	**55,000**	240,000
Derivative financial instruments	*26*	**631**	650
Tax liabilities		**55,813**	31,762
		394,051	545,152
Net current assets		**4,502,371**	4,314,049
Total assets less current liabilities		**5,683,683**	5,546,648
Capital and reserves			
Share capital	*27*	**269,477**	269,477
Reserves		**2,563,254**	2,472,594
Total equity		**2,832,731**	2,742,071
Non-current liabilities			
Collateralised debt obligation	*29*	**1,250,000**	1,250,000
Bank borrowings	*25*	**1,519,676**	1,481,281
Derivative financial instruments	*26*	**75,230**	66,724
Deferred tax liabilities	*28*	**6,046**	6,572
		2,850,952	2,804,577
		5,683,683	5,546,648

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st August 2017

	Share capital *HK$'000*	Investment revaluation reserve *HK$'000*	Hedging reserve *HK$'000*	Translation reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*
At 1.3.2016 (Audited)	269,477	(3,515)	(121,103)	(2,402)	2,401,115	2,543,572
Profit for the period	–	–	–	–	152,142	152,142
Fair value gain on available-for-sale investments	–	674	–	–	–	674
Exchange difference arising from translation of foreign operations	–	–	–	(9,186)	–	(9,186)
Net adjustment on cash flow hedges	–	–	(1,311)	–	–	(1,311)
Total comprehensive income (expense) for the period	–	674	(1,311)	(9,186)	152,142	142,319
Final dividend paid for 2015/16	–	–	–	–	(75,378)	(75,378)
	–	674	(1,311)	(9,186)	76,764	66,941
At 31.8.2016 (Unaudited)	269,477	(2,841)	(122,414)	(11,588)	2,477,879	2,610,513
At 1.3.2017 (Audited)	**269,477**	**(4,421)**	**(53,651)**	**(18,489)**	**2,549,155**	**2,742,071**
Profit for the period	**–**	**–**	**–**	**–**	**173,784**	**173,784**
Fair value loss on available-for-sale investments	**–**	**(1,582)**	**–**	**–**	**–**	**(1,582)**
Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sale investments	**–**	**6,003**	**–**	**–**	**–**	**6,003**
Exchange difference arising from translation of foreign operations	**–**	**–**	**–**	**13,162**	**–**	**13,162**
Net adjustment on cash flow hedges	**–**	**–**	**(16,954)**	**–**	**–**	**(16,954)**
Total comprehensive income (expense) for the period	**–**	**4,421**	**(16,954)**	**13,162**	**173,784**	**174,413**
Final dividend paid for 2016/17	**–**	**–**	**–**	**–**	**(83,753)**	**(83,753)**
	–	**4,421**	**(16,954)**	**13,162**	**90,031**	**90,660**
At 31.8.2017 (Unaudited)	**269,477**	**–**	**(70,605)**	**(5,327)**	**2,639,186**	**2,832,731**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
For the six months ended 31st August 2017

	1.3.2017 to 31.8.2017 (Unaudited) *HK$'000*	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Net cash from operating activities	**187,097**	269,938
Dividends received	**355**	139
Purchase of property, plant and equipment	**(2,762)**	(4,302)
Deposits paid for acquisition of property, plant and equipment	**(9,040)**	(3,493)
Decrease in time deposits with maturity of more than three months	**5,933**	13,902
Net cash (used in) from investing activities	**(5,514)**	6,246
Placement of restricted deposits	**(1,325,779)**	(507,790)
Withdrawal of restricted deposits	**1,470,995**	415,506
Dividends paid	**(83,753)**	(75,378)
New bank loans raised	**80,000**	670,000
Repayment of bank loans	**(230,000)**	(702,158)
Net cash used in financing activities	**(88,537)**	(199,820)
Net increase in cash and cash equivalents	**93,046**	76,364
Effect of changes in exchange rate	**6,820**	(1,850)
Cash and cash equivalents at beginning of the period	**602,090**	349,283
Cash and cash equivalents at end of the period	**701,956**	423,797
Being:		
Time deposits with maturity of three months or less	**77,715**	93,872
Bank balances and cash	**624,241**	329,925
	701,956	423,797

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2017

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The financial information relating to the year ended 28th February 2017 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 28th February 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. 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, as appropriate.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for six months ended 31st August 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 28th February 2017.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements. Additional disclosures about changes in liabilities arising from financing activities, including both changes from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 28th February 2018.

3. REVENUE

	1.3.2017 to 31.8.2017 (Unaudited) *HK$'000*	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Interest income	**546,349**	535,329
Fees and commissions	**35,905**	33,203
Handling and late charges	**41,882**	38,066
	624,136	606,598

4. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

The Group's operating and reportable segments 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
Insurance	–	Provide insurance brokerage and agency services
Hire purchase	–	Provide vehicle financing and hire purchase financing for household products and other consumer products for individuals

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segments:

1.3.2017 to 31.8.2017 (Unaudited)

	Credit card *HK$'000*	**Instalment loans** *HK$'000*	**Insurance** *HK$'000*	**Hire purchase** *HK$'000*	**Consolidated** *HK$'000*
REVENUE	**445,463**	**170,566**	**8,107**	**–**	**624,136**
RESULTS					
Segment results	**178,543**	**43,294**	**3,176**	**–**	**225,013**
Unallocated operating income					**4,850**
Unallocated expenses					**(11,415)**
Impairment losses recognised in respect of available-for-sale investments					**(7,841)**
Share of result of an associate					**189**
Profit before tax					**210,796**

4. SEGMENT INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

1.3.2016 to 31.8.2016 (Unaudited)

	Credit card *HK$'000*	Instalment loans *HK$'000*	Insurance *HK$'000*	Hire purchase *HK$'000*	Consolidated *HK$'000*
REVENUE	412,768	182,697	11,123	10	606,598
RESULTS					
Segment results	162,073	34,407	2,876	–	199,356
Unallocated operating income					3,234
Unallocated expenses					(10,953)
Share of results of associates					(6,061)
Profit before tax					185,576

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of certain income (including dividend income), unallocated head office expenses, impairment losses recognised in respect of available-for-sale investments and share of results of associates. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Geographical information

The following is an analysis of the Group's revenue and results by geographical segments:

1.3.2017 to 31.8.2017 (Unaudited)

	Hong Kong ***HK$'000***	**PRC** ***HK$'000***	**Consolidated** ***HK$'000***
REVENUE	**595,541**	**28,595**	**624,136**
RESULTS			
Segment results	**230,269**	**(5,256)**	**225,013**
Unallocated operating income			**4,850**
Unallocated expenses			**(11,415)**
Impairment losses recognised in respect of available-for-sale investments			**(7,841)**
Share of result of an associate			**189**
Profit before tax			**210,796**

4. SEGMENT INFORMATION *(Continued)*

Geographical information *(Continued)*

1.3.2016 to 31.8.2016 (Unaudited)

	Hong Kong *HK$'000*	PRC *HK$'000*	Consolidated *HK$'000*
REVENUE	576,777	29,821	606,598
RESULTS			
Segment results	208,108	(8,752)	199,356
Unallocated operating income			3,234
Unallocated expenses			(10,953)
Share of results of associates			(6,061)
Profit before tax			185,576

5. INTEREST INCOME

	1.3.2017 to 31.8.2017 (Unaudited) ***HK$'000***	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Advances	**540,685**	532,175
Impaired advances	**3,536**	1,512
Time deposits, restricted deposits and bank balances	**2,128**	1,642
	546,349	535,329

6. INTEREST EXPENSE

	1.3.2017 to 31.8.2017 (Unaudited) ***HK$'000***	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Interest on bank borrowings	**15,296**	15,693
Interest on collateralised debt obligation	**5,238**	4,004
Net interest expense on interest rate swap contracts	**23,530**	27,252
	44,064	46,949

7. OTHER OPERATING INCOME

	1.3.2017 to 31.8.2017 (Unaudited) *HK$'000*	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Dividends received on available-for-sale investments		
Listed equity securities	**355**	139
Fees and commissions		
Credit card	**27,915**	22,148
Insurance	**7,990**	11,055
Handling and late charges	**41,882**	38,066
Others	**4,337**	4,256
	82,479	75,664

8. OTHER GAINS AND LOSSES

	1.3.2017 to 31.8.2017 (Unaudited) *HK$'000*	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Exchange gain (loss)		
Exchange gain (loss) on hedging instrument released from cash flow hedge reserve	**3,200**	(850)
Exchange (loss) gain on a bank loan	**(3,200)**	850
Other exchange gains, net	**134**	–
Hedge ineffectiveness on cash flow hedges	**(66)**	(105)
Losses on disposal of property, plant and equipment	**(101)**	(4)
Impairment losses recognised in respect of available-for-sale investments	**(7,841)**	–
	(7,874)	(109)

9. OPERATING EXPENSES

	1.3.2017 to 31.8.2017 (Unaudited) *HK$'000*	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Depreciation	**21,199**	22,854
General administrative expenses	**78,654**	82,919
Marketing and promotion expenses	**28,162**	27,289
Minimum operating lease rentals in respect of rented premises, advertising space and equipment	**38,509**	36,166
Other operating expenses	**23,744**	22,750
Staff costs including Directors' emoluments	**79,728**	80,697
	269,996	272,675

10. INCOME TAX EXPENSE

	1.3.2017 to 31.8.2017 (Unaudited) *HK$'000*	1.3.2016 to 31.8.2016 (Unaudited) *HK$'000*
Current tax		
– Current period	**37,538**	33,531
Deferred tax *(Note 28)*		
– Current period	**(526)**	(97)
	37,012	33,434

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits of the China subsidiaries for both periods.

11. DIVIDENDS

On 13th July 2017, a dividend of **20.0 HK cents** (six months ended 31st August 2016: 18.0 HK cents) per share amounting to a total of **HK$83,753,000** (six months ended 31st August 2016: HK$75,378,000) was paid to shareholders as the final dividend for 2016/17.

In respect of the current interim period, the Directors have declared an interim dividend of **20.0 HK cents** per share amounting to **HK$83,753,000** payable to the shareholders of the Company whose names appear on the Register of Members on 18th October 2017. The interim dividend will be paid on 31st October 2017. This interim dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

12. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the unaudited profit for the period of **HK$173,784,000** (six months ended 31st August 2016: HK$152,142,000) and on the number of shares of **418,766,000** (six months ended 31st August 2016: 418,766,000) in issue during the period.

13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent on computer equipment and leasehold improvements of approximately **HK$11,268,000** (six months ended 31st August 2016: HK$19,125,000).

14. AVAILABLE-FOR-SALE INVESTMENTS

	31.8.2017 (Unaudited) *HK$'000*	28.2.2017 (Audited) *HK$'000*
Listed equity securities, at fair value		
Hong Kong	**10,513**	12,095
Unlisted equity securities, at cost	**7,306**	9,144
	17,819	21,239

14. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

The investments included above represent investments in both listed and unlisted equity securities that offer the Group the opportunity for return through dividend income and fair value gains.

The fair values of listed equity securities are based on quoted market bid prices. Due to a prolonged decline in the market price of the investment, an impairment loss of **HK$6,003,000** is recognised in profit or loss during the six months ended 31st August 2017.

The above unlisted investments represent equity interest in three (28th February 2017: three) private entities incorporated overseas engaged in consumer finance services and related business. The unlisted investments are measured at cost less impairment at the end of each reporting period because the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably.

The Directors also conducted a review of those unlisted investments by using discounted cash flow method based on the latest financial budgets prepared by investees' management covering a period of 3 to 5 years. Budgeted net profit projections have been determined based on the historical records and the management's expectations for the growth potential and stable market development. Based on the assessment, the recoverable amounts of those unlisted investments are estimated to be less than their carrying amounts. Accordingly, the Directors determined that an impairment loss of **HK$1,838,000** is recognised in profit or loss for the six months ended 31st August 2017.

15. ADVANCES AND RECEIVABLES

	31.8.2017	28.2.2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Credit card receivables	**3,690,126**	3,611,021
Instalment loan receivables	**1,417,674**	1,469,708
Hire purchase debtors	**–**	26
	5,107,800	5,080,755
Accrued interest and other receivables	**90,157**	90,642
Gross advances and receivables	**5,197,957**	5,171,397
Impairment allowances *(Note 16)*		
– individually assessed	**(49,149)**	(58,146)
– collectively assessed	**(35,548)**	(42,927)
	(84,697)	(101,073)
	5,113,260	5,070,324
Current portion included under current assets	**(4,119,519)**	(4,035,958)
Amount due after one year	**993,741**	1,034,366

All advances and receivables are unsecured. In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The management has delegated to different departments responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. The Board has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's advance portfolio.

15. ADVANCES AND RECEIVABLES *(Continued)*

(a) Credit card receivables

The term of credit card instalment plans entered with customers ranges from 3 months to 4 years.

All credit card receivables are denominated in HKD. The credit card receivables carry effective interest ranging from 26.8% to 43.5% (28th February 2017: 26.8% to 43.5%) per annum.

Asset backed financing transaction

The Group entered into asset backed financing transaction, which is collateralised by the Group's revolving credit card receivables portfolio. At 31st August 2017, the carrying amount of the credit card receivables under this financing transaction was **HK$1,696,927,000** (28th February 2017: HK$1,488,199,000). The principal amount of the collateralised debt obligation is **HK$1,250,000,000** (28th February 2017: HK$1,250,000,000).

(b) Instalment loan receivables

Most of the instalment loan receivables entered with customers ranges from 6 months to 4 years and are denominated in HKD. The instalment loan receivables carry effective interest ranging from 3.5% to 50.7% (28th February 2017: 3.1% to 50.7%) per annum.

(c) Hire purchase debtors

	Minimum payments		**Present value of minimum payments**	
	31.8.2017	28.2.2017	**31.8.2017**	28.2.2017
	(Unaudited)	(Audited)	**(Unaudited)**	(Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable under hire purchase contracts:				
Within one year	–	26	–	26
Present value of minimum payments receivable	–	26	–	26

The term of hire purchase contracts entered with customers ranges from 6 months to 1.5 years.

16. IMPAIRMENT ALLOWANCES

	31.8.2017	28.2.2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Analysis by products as:		
Credit card receivables	**36,364**	41,034
Instalment loan receivables	**46,128**	57,377
Accrued interest and other receivables	**2,205**	2,662
	84,697	101,073

	Individual assessment	**Collective assessment**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
At 1.3.2017	**58,146**	**42,927**	**101,073**
Impairment losses and impairment allowances	**127,051**	**(7,379)**	**119,672**
Amounts written-off as uncollectable	**(136,267)**	**–**	**(136,267)**
Exchange realignment	**219**	**–**	**219**
At 31.8.2017	**49,149**	**35,548**	**84,697**

	Individual assessment	Collective assessment	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1.3.2016	90,723	45,603	136,326
Impairment losses and impairment allowances	149,405	(1,586)	147,819
Amounts written-off as uncollectable	(132,131)	–	(132,131)
Exchange realignment	(1,455)	–	(1,455)
At 31.8.2016	106,542	44,017	150,559

17. OVERDUE ADVANCES AND RECEIVABLES

Set out below is an analysis of gross balance of advances and receivables (excluding impairment allowances) which is overdue for more than 1 month:

	31.8.2017 (Unaudited)		28.2.2017 (Audited)	
	HK$'000	***%****	*HK$'000*	*%**
Overdue 1 month but less than 2 months	**68,910**	**1.3**	77,933	1.5
Overdue 2 months but less than 3 months	**41,810**	**0.8**	43,281	0.8
Overdue 3 months but less than 4 months	**26,158**	**0.5**	31,806	0.6
Overdue 4 months or above	**52,153**	**1.0**	60,967	1.2
	189,031	**3.6**	213,987	4.1

* *Percentage of gross advances and receivables*

18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	31.8.2017	28.2.2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Deposits for property, plant and equipment	**7,759**	1,275
Rental and other deposits	**23,884**	22,507
Prepaid operating expenses	**32,080**	29,150
Other debtors	**5,083**	4,276
	68,806	57,208
Current portion included under current assets	**(43,671)**	(40,436)
Amount due after one year	**25,135**	16,772

19. RESTRICTED DEPOSITS

The restricted deposits are in relation to the arrangement under collateralised debt obligation. This represents time deposits carrying at fixed rates ranging from 0.30% to 0.53% (six months ended 31st August 2016: 0.08% to 0.33%) per annum during the current interim period. At 28th February 2017, restricted deposits of HK$145,216,000 was matured within one year from the end of the reporting period.

20. TIME DEPOSITS

RMB time deposits with maturity of three months or less carry fixed rates ranging from 1.5% to 1.8% (six months ended 31st August 2016: 1.3% to 1.8%) per annum during the current interim period. At 31st August 2017, the Group has RMB time deposits with maturity of three months or less of **HKD77,715,000** (28th February 2017: HKD131,833,000) equivalent.

RMB time deposits with maturity of more than three months carry fixed rates ranging from 1.8% to 2.0% (six months ended 31st August 2016: 1.6% to 2.0%) per annum during the current interim period. At 31st August 2017, the Group has RMB time deposits with maturity of more than three months of **HKD29,663,000** (28th February 2017: HKD33,930,000) equivalent.

21. FIDUCIARY BANK BALANCES

The fiduciary bank balances are in relation to the money deposited by clients in the course of the conduct of the regulated activities under insurance brokerage business. These clients' monies are maintained in one or more segregated bank accounts. The Group has recognised the corresponding payables to respective clients. However, the Group does not have a currently enforceable right to offset those payables with the deposits placed.

22. BANK BALANCES AND CASH

Bank balances carry prevailing market interest rate.

The carrying amounts of the bank balances and cash are denominated in the following currencies:

	HKD	RMB	USD	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
31.8.2017 (Unaudited)				
Bank balances and cash	**609,981**	**13,460**	**800**	**624,241**
28.2.2017 (Audited)				
Bank balances and cash	452,587	17,304	366	470,257

23. CREDITORS AND ACCRUALS

The aged analysis of creditors presented based on the invoice date at the end of the reporting period is as follows:

	31.8.2017	28.2.2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Less than 1 month	**70,439**	64,151
Over 1 month but less than 3 months	**1,532**	1,794
Over 3 months	**3,188**	3,172
	75,159	69,117

Included in creditors and accruals is deferred revenue in relation to customer loyalty programmes of **HK$11,192,000** (28th February 2017: HK$8,091,000).

24. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand except for **HK$34,012,000** (28th February 2017: HK$42,791,000) which is trade-related.

The aged analysis of amounts due to fellow subsidiaries that are trade-related based on the invoice date at the end of the reporting period is as follows:

	31.8.2017	28.2.2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Less than 1 month	**34,012**	42,791

25. BANK BORROWINGS

	31.8.2017	28.2.2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Bank loans, unsecured	**1,574,676**	1,721,281
Carrying amount repayable *(Note)*		
Within one year	**55,000**	240,000
Between one and two years	**405,000**	335,000
Between two and five years	**1,024,676**	1,071,281
Over five years	**90,000**	75,000
	1,574,676	1,721,281
Amount repayable within one year included under current liabilities	**(55,000)**	(240,000)
Amount repayable after one year	**1,519,676**	1,481,281

Note: The amounts due are based on scheduled repayment dates set out in the loan agreements.

The carrying amounts of the bank borrowings are denominated in the following currencies:

	HKD	USD	Total
	HK$'000	***HK$'000***	***HK$'000***
31.8.2017 (Unaudited)			
Bank loans	**1,185,000**	**389,676**	**1,574,676**
28.2.2017 (Audited)			
Bank loans	1,335,000	386,281	1,721,281

HKD bank loans of **HK$220,000,000** (28th February 2017: HK$290,000,000) are arranged at fixed interest rates ranging from 1.65% to 2.64% (28th February 2017: 0.65% to 2.57%) per annum and expose the Group to fair value interest rate risk. The remaining HKD bank loans are arranged at floating interest rates at 0.60% plus HIBOR (28th February 2017: 0.60% plus HIBOR to 0.85% plus HIBOR) per annum and the USD bank loan is arranged at floating interest rate at 0.95% plus LIBOR (28th February 2017: 0.95% plus LIBOR) per annum, thus exposing the Group to cash flow interest rate risk.

At 31st August 2017, the Group has available unutilised overdrafts and non-committed short term bank loan facilities of **HK$728,400,000** (28th February 2017: HK$658,620,000) and **HK$677,645,000** (28th February 2017: HK$672,842,000) respectively.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	31.8.2017		28.2.2017	
	(Unaudited)		(Audited)	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Interest rate swaps	**–**	**75,861**	813	67,374
Cross-currency interest rate swap	**4,342**	**–**	9,482	–
Interest rate caps	**104**	**–**	103	–
	4,446	**75,861**	10,398	67,374
Current portion	**–**	**(631)**	(44)	(650)
Non-current portion	**4,446**	**75,230**	10,354	66,724

All derivative financial instruments entered by the Group that remain outstanding at 31st August 2017 and 28th February 2017 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings and collateralised debt obligation, the designated hedged items.

Detail of major derivative financial instruments for hedging purposes are as follows:

Cash flow hedges:

Interest rate swaps

The Group uses interest rate swaps to minimise its exposures to cash flow changes of its floating-rate bank borrowings by swapping certain HKD floating-rate bank borrowings with aggregate principal of **HK$965,000,000** (28th February 2017: HK$1,045,000,000) from floating rates to fixed rates. The interest rate swaps with aggregate notional amount of **HK$965,000,000** (28th February 2017: HK$1,045,000,000) have fixed interest payments quarterly at fixed interest rates ranging from 2.3% to 3.3% (28th February 2017: 1.8% to 3.5%) per annum and floating interest receipts quarterly at 0.60% plus HIBOR (28th February 2017: ranging from 0.60% plus HIBOR to 0.85% plus HIBOR) per annum for periods up until March 2022 (28th February 2017: until March 2022).

Besides bank borrowings, the Group also entered into interest rate swaps to minimise its exposures to cash flow changes of its collateralised debt obligation transaction. Two interest rate swaps with notional amounts of **HK$550,000,000** each and one interest rate swap with notional amount of **HK$150,000,000** (28th February 2017: two interest rate swaps for HK$550,000,000 each and one interest rate swap for HK$150,000,000) were entered by the Group to swap its **HK$1,250,000,000** (28th February 2017: HK$1,250,000,000) floating-rate financing facility from floating rates to fixed rates. The interest rate swaps have fixed interest payments monthly at fixed interest rates ranging from 3.2% to 3.8% (28th February 2017: 3.2% to 3.8%) per annum and floating interest receipts monthly from 0.40% plus HIBOR to 0.55% plus HIBOR (28th February 2017: 0.40% plus HIBOR to 0.55% plus HIBOR) per annum for periods up until August 2019, August 2019 and July 2020 (28th February 2017: until August 2019, August 2019 and July 2020) respectively.

26. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Cash flow hedges: *(Continued)*

Interest rate swaps *(Continued)*

The interest rate swaps, the corresponding bank borrowings and the collateralised debt obligation have similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, and the Directors consider that the interest rate swaps are highly effective hedging instruments. Interest rate swaps are designated as cash flow hedging instruments from floating interest rates to fixed interest rates.

During the period, net adjustment on the above-mentioned cash flow hedges amounted to **HK$8,615,000** (six months ended 31st August 2016: HK$262,000) and is included in other comprehensive income.

The fair values of the interest rate swaps are determined by using the discounted cash flow method based on HIBOR yield curves at the end of the reporting period.

Cross-currency interest rate swap

The Group uses cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposures to foreign currency and cash flow interest rate risk of its USD bank borrowing by swapping the floating-rate USD bank borrowing to fixed-rate HKD bank borrowing.

The cross-currency interest rate swap with notional amount of **USD50,000,000** (28th February 2017: USD50,000,000) (equivalent to **HK$387,795,000** (28th February 2017: HK$387,795,000) at the date of inception of the bank borrowing) has fixed currency payments in HKD at exchange rate of USD to HKD at 7.83 (28th February 2017: USD to HKD at 7.76), fixed interest payments quarterly in HKD at 2.27% (28th February 2017: 2.27%) per annum and floating interest receipts quarterly in USD at 0.95% plus LIBOR (28th February 2017: 0.95% plus LIBOR) per annum for periods up until September 2021 (28th February 2017: until September 2021).

The cross-currency interest rate swap and the corresponding bank borrowing have the same terms and the Directors consider that the cross-currency interest rate swap is highly effective hedging instrument.

During the period, net adjustment on the above-mentioned cash flow hedges amounted to **HK$8,340,000** (six months ended 31st August 2016: HK$300,000) and is included in other comprehensive income.

The fair value of the cross-currency interest rate swap is determined by using the discounted cash flow method based on LIBOR yield curves and the forward exchange rates between USD and HKD estimated at the end of the reporting period.

27. SHARE CAPITAL

	Number of shares	Share capital *HK$'000*
Issued and fully paid		
At 1st March 2017 and 31st August 2017		
– Ordinary shares with no par value	**418,766,000**	**269,477**

28. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during each of the two periods ended 31st August 2017 and 31st August 2016:

	Accelerated tax depreciation ***HK$'000***	**Impairment allowances** ***HK$'000***	**Total** ***HK$'000***
At 1.3.2017	**13,655**	**(7,083)**	**6,572**
(Credit) charge to profit or loss for the period	**(1,744)**	**1,218**	**(526)**
At 31.8.2017	**11,911**	**(5,865)**	**6,046**

	Accelerated tax depreciation *HK$'000*	Impairment allowances *HK$'000*	Total *HK$'000*
At 1.3.2016	17,068	(7,525)	9,543
(Credit) charge to profit or loss for the period	(359)	262	(97)
At 31.8.2016	16,709	(7,263)	9,446

29. COLLATERALISED DEBT OBLIGATION

(a) The Group entered into a HK$1,250,000,000 collateralised debt obligation financing transaction (the "Transaction"). The Transaction consists of three tranches – Tranche A, Tranche B and Tranche C. The amount under Tranche A and Tranche B is HK$550,000,000 each and the amount under Tranche C is HK$150,000,000. The revolving periods for both Tranche A and Tranche B will end in August 2019 while the revolving period for Tranche C will end in July 2020. The three tranches were arranged at floating interest rates from 0.40% plus HIBOR per annum to 0.55% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Three corresponding interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, were arranged to swap these three tranches from floating rates to fixed rates at 3.2% to 3.8% per annum. The effective interest rate after taking into account the executed interest rate swaps was 3.6% (six months ended 31st August 2016: 3.6%) per annum during the period.

29. COLLATERALISED DEBT OBLIGATION *(Continued)*

(b) Pursuant to the Transaction, the Group transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the "Trust") established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Group is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HKFRS 10 *Consolidated Financial Statements*, the Trust is controlled by the Group and the results thereof are consolidated by the Group in its condensed consolidated financial statements. According to HKAS 39 *Financial Instruments: Recognition and Measurement*, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group's condensed consolidated financial statements. The Transaction is backed by the credit card receivables transferred and with the carrying amount denominated in HKD.

30. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	31.8.2017 (Unaudited) ***HK$'000***	28.2.2017 (Audited) *HK$'000*
Within one year	**55,255**	51,957
In the second to fifth year inclusive	**54,470**	47,469
	109,725	99,426

Leases for rented premises and equipment are negotiated for an average term of two to three years and rentals are fixed for an average of one year.

31. CAPITAL COMMITMENTS

	31.8.2017 (Unaudited) ***HK$'000***	28.2.2017 (Audited) *HK$'000*
Contracted for but not provided in the condensed consolidated financial statements:		
Purchase of property, plant and equipment	**13,891**	11,216

32. PLEDGE OF ASSETS

At 31st August 2017, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK$1,696,927,000** and **HK$38,000,000** respectively (28th February 2017: HK$1,488,199,000 and HK$183,216,000) (see notes 15(a) and 19).

33. RELATED PARTY TRANSACTIONS

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

	(Unaudited)							
	Fellow subsidiaries		Immediate holding company		Ultimate holding company		Associates	
	1.3.2017 to 31.8.2017	1.3.2016 to 31.8.2016	**1.3.2017 to 31.8.2017**	1.3.2016 to 31.8.2016	**1.3.2017 to 31.8.2017**	1.3.2016 to 31.8.2016	**1.3.2017 to 31.8.2017**	1.3.2016 to 31.8.2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income received	**2,661**	3,086	**–**	–	**–**	–	**–**	–
Commission received	**3,526**	3,156	**–**	–	**–**	–	**–**	–
Dividends received	**355**	139	**–**	–	**–**	–	**–**	–
Service fees received	**–**	–	**548**	1,279	**–**	–	**–**	–
Licence fees paid	**4,852**	4,315	**–**	–	**18**	18	**–**	423
Service fees paid	**–**	–	**6,605**	5,749	**–**	–	**17,597**	19,786
Gift certificates purchased	**3,070**	4,610	**–**	–	**–**	–	**–**	–
Development fees paid *(Note)*	**2,607**	6,060	**–**	–	**–**	–	**–**	–

Note: For the computer system development fees paid during the period, **HK$2,607,000** (six months ended 31st August 2016: HK$5,895,000) is recognised as administrative expenses and **HK$nil** (six months ended 31st August 2016: HK$165,000) is capitalised under property, plant and equipment.

Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	1.3.2017 to 31.8.2017 (Unaudited)	1.3.2016 to 31.8.2016 (Unaudited)
	HK$'000	*HK$'000*
Short-term benefits	**5,258**	4,424
Post-employment benefits	**12**	18
	5,270	4,442

The remuneration of Directors and key executives is determined by the Remuneration Committee having regard to the Group's operating results, performance of individuals and market trends.

34. PARTICULARS OF SUBSIDIARIES AND A MASTER TRUST OF THE COMPANY

(a) Subsidiaries

Name of subsidiaries	Place of incorporation/ registration and operation	Share capital/paid-up capital		Proportion of ownership interest directly held by the Company		Principal activities
		31.8.2017 (Unaudited)	28.2.2017 (Audited)	**31.8.2017 (Unaudited)**	28.2.2017 (Audited)	
AEON Insurance Brokers (HK) Limited	Hong Kong	**HK$1,000,000**	HK$1,000,000	**100%**	100%	Insurance brokerage services
AEON Micro Finance (Shenyang) Co., Ltd	China	**HK$124,221,000**	HK$124,221,000	**100%**	100%	Microfinance business
AEON Micro Finance (Tianjin) Co., Ltd	China	**RMB100,000,000**	RMB100,000,000	**100%**	100%	Microfinance business
AEON Micro Finance (Shenzhen) Co., Ltd	China	**RMB150,000,000**	RMB150,000,000	**100%**	100%	Microfinance business

(b) Master trust

Horizon Master Trust (AEON 2006-1) is a special purpose entity set up for a collateralised debt obligation financing transaction. At 31st August 2017, assets in this special purpose entity mainly consist of credit card receivables, restricted deposits, subordinated beneficiary and seller beneficiary.

35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the condensed consolidated statement of financial position

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements recognised in the condensed consolidated statement of financial position *(Continued)*

	31.8.2017 (Unaudited)			
	Level 1	**Level 2**	**Level 3**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Financial assets at fair value through profit or loss ("FVTPL")				
Derivative financial assets	**–**	**4,446**	**–**	**4,446**
Available-for-sale financial assets				
Listed equity securities	**10,513**	**–**	**–**	**10,513**
Total	**10,513**	**4,446**	**–**	**14,959**
Financial liabilities at FVTPL				
Derivative financial liabilities	**–**	**75,861**	**–**	**75,861**

	28.2.2017 (Audited)			
	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets at FVTPL				
Derivative financial assets	–	10,398	–	10,398
Available-for-sale financial assets				
Listed equity securities	12,095	–	–	12,095
Total	12,095	10,398	–	22,493
Financial liabilities at FVTPL				
Derivative financial liabilities	–	67,374	–	67,374

35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value measurements recognised in the condensed consolidated statement of financial position *(Continued)*

There were no transfers between Levels 1 and 2 in the current period.

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's condensed consolidated financial statements approximate to their fair values:

	31.8.2017 (Unaudited)		28.2.2017 (Audited)	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Bank borrowings	**1,574,676**	**1,587,207**	1,721,281	1,730,178

The fair value of listed equity securities is determined with reference to quoted market bid price from Stock Exchange.

The fair values of interest rate swaps and cross-currency interest rate swaps are measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between USD and HKD (for cross-currency interest rate swap), which is observable at the end of the reporting period.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Tuesday, 17th October 2017 to Wednesday, 18th October 2017, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 16th October 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 31st August 2017, the Group recorded a profit attributable to owners of HK$173.8 million, representing an increase of 14.2% or HK$21.7 million, when compared to HK$152.1 million for the six months ended 31st August 2016. The Group's basic earnings per share increased from 36.33 HK cents per share in 2016/17 to 41.50 HK cents per share in 2017/18. Return on average total assets was 2.9% while return on average ordinary shareholders' equity was 6.2%.

Under the improving economic environment, the Group actively sought for new customer base to stimulate growth in its receivables while at the same time continued to focus on asset quality management. Through the launch of different card promotion programs that aimed to provide premium experience to customers and encourage dining and overseas spending, credit card sales in the first half of this year recorded an increase of 9.6% when compared with last year. This resulted in an overall increase in advances and receivables. The Group recorded an increase in interest income of 2.1% or HK$11.0 million, from HK$535.3 million in the previous period to HK$546.3 million in the current period. Owing to a funding strategy focusing on long-term bank borrowings, the Group's average funding costs dropped to 3.0% in the first half as compared to 3.1% in the previous year. Consequently, net interest income of the Group for the first six months in 2017/18 was HK$502.3 million, representing an increase of 2.8% or HK$13.9 million when compared with the first six months in 2016/17.

Following the increase in credit card sales, there was an increase in fees and commission by 26.0% or HK$5.8 million to HK$27.9 million. However, fees and commission from insurance business decreased by HK$3.1 million when compared with last year, as the Group had deployed a substantial part of its resources to focus on revamping its insurance intermediary business model in the first half of 2017/18. On the other hand, there was an increase in the handling and late charges by 10.0% or HK$3.8 million to HK$41.9 million following the increase in cash advance sales. As a result, overall other operating income increased by HK$6.8 million from HK$75.7 million in 2016/17 to HK$82.5 million for the first six months in 2017/18.

Financial Review *(Continued)*

During the period under review, due to the prolonged decline in the fair value of its available-for-sale investments, the Group recorded impairment losses of HK$7.8 million under other gains and losses.

During the first half of 2017/18, the Group utilized additional marketing and promotion expenses to generate new sales, ensuing in a slight increase of HK$0.9 million in the expenses when compared with the previous period. Under the branch revamp project, the Group renovated certain branches and opened a flagship branch in Mongkok, which resulted in an increase in operating lease rentals of HK$2.3 million when compared with the previous period. With the close monitoring of other operating and administrative expenses, overall operating expenses recorded a decrease of HK$2.7 million from HK$272.7 million in the last period to HK$270.0 million in the current period. Cost-to-income ratio was reduced from 48.4% for the first six months of 2016/17 to 46.8% in the first half of this year.

The Group recorded a gain on sales of advances and receivables of HK$21.1 million in the first half of 2016/17. Excluding such gain of HK$21.1 million in the previous period, the Group's operating profit before impairment allowances in the first half of 2017/18 recorded an increase of 5.4% from HK$291.3 million for the six months ended 31st August 2016 to HK$306.9 million. During the period under review, the low unemployment rate in Hong Kong, coupled with the Group's effective asset quality management, had contributed to a decrease in impairment losses and impairment allowances of 19.0% or HK$28.1 million from HK$147.8 million in 2016/17 to HK$119.7 million in 2017/18. Recoveries of advances and receivables written-off amounted to HK$23.4 million, representing a decrease of HK$3.7 million, when compared with HK$27.1 million in 2016/17. Together with the share of its associate's profit, the Group's profit before tax recorded an increase of 13.6% or HK$25.2 million from HK$185.6 million for the six months ended 31st August 2016 to HK$210.8 million in the first half of this year.

The Group recorded an increase in its receivables by HK$26.6 million to HK$5,198.0 million as at 31st August 2017, when compared to HK$5,171.4 million as at 28th February 2017. Impairment allowances amounted to HK$84.7 million as at 31st August 2017, when compared with HK$101.1 million as at 28th February 2017. Total equity was strengthened by 3.3% to HK$2,832.7 million as at 31st August 2017, mainly due to the increase in accumulated profits. Net asset value per share (after interim dividend) was HK$6.6 as at 31st August 2017, when compared with the net asset value per share (after final dividend) of HK$6.3 as at 28th February 2017.

Segment Information

The Group's business comprises three principal operating segments, namely credit card, instalment loans and insurance. In the first half of 2017/18, credit card operation accounted for 71.4% of the Group's revenue, as compared to 68.0% in the previous period. For segment results, credit card operation accounted for 79.3% of the Group's whole operations, as compared to 81.3% in the previous period, while instalment loan operation accounted for 19.2% of the Group's segment results, as compared to 17.3% in the previous period.

In the first half of 2017/18, owing to the initiatives to increase customer base and stimulate card usage, the Group recorded an increase in card credit purchase and card cash advance sales by 11.6% and 2.6% respectively when compared to the same period last year. This resulted in an overall increase in credit card receivables balance. As a result, revenue from credit card operation in 2017/18 increased by 7.9% or HK$32.7 million from HK$412.8 million in 2016/17 to HK$445.5 million in 2017/18. Following the effective utilization of marketing and promotion expenses to drive sales and prudent asset quality management to reduce impairment losses and impairment allowances, the segment results for the period from credit card operation recorded an increase of HK$16.5 million from HK$162.1 million in 2016/17 to HK$178.5 million in 2017/18.

For instalment loans, the Group continued to adopt prudent asset quality management aiming at controlling asset quality even though there were signs of improvement in the economic environment in Hong Kong and China. This resulted in a slowdown in sales and reduction in the instalment loan receivables balance. As a result, revenue from instalment loan operation decreased by 6.6% or HK$12.1 million from HK$182.7 million in 2016/17 to HK$170.6 million in 2017/18. Such decrease was offset by a corresponding reduction in impairment losses and impairment allowances of 41.0% or HK$21.1 million in the first half of this year. As a result, the segment results for the period from instalment loan operation recorded an increase of HK$8.9 million from HK$34.4 million in 2016/17 to HK$43.3 million in 2017/18.

The Group had just completed the revamp of its insurance intermediary business and entered into new co-operation agreements with leading insurance companies to re-activate its insurance agency business in the first half of this year. Revenue from insurance operation recorded a decrease of HK$3.0 million from HK$11.1 million in 2016/17 to HK$8.1 million in 2017/18. Such decrease was offset by a corresponding reduction in operating expenses, which resulted in the segment results for the period from insurance operation to increase by HK$0.3 million from HK$2.9 million in 2016/17 to HK$3.2 million in 2017/18.

Given that there had been a continuous shift from hire purchase to card instalment plan to the point that the contribution from hire purchase operation accounted for an insignificant portion of the Group's revenue and segment results, hire purchase ceased to be a principal operating segment.

In relation to the financial information by geographical locations, revenue from Hong Kong operations recorded an increase of 3.3%, or HK$18.8 million from HK$576.8 million in 2016/17 to HK$595.5 million in 2017/18, mainly attributed to the increase in credit card sales and growth in credit card advances and receivables. Together with effective cost control and prudent asset quality management, the segment results of Hong Kong operations recorded an increase of 10.6% or HK$22.2 million, from HK$208.1 million in 2016/17 to HK$230.3 million in 2017/18.

Segment Information *(Continued)*

For China operations, although China's macro-economy showed signs of improvement during the period under review, our microfinance subsidiaries continued to exercise cautious credit assessment in approving new sales. Revenue from China operations recorded a decrease of HK$1.2 million, from HK$29.8 million in 2016/17 to HK$28.6 million in 2017/18. On the other hand, the continuous monitoring of the effectiveness of marketing activities and the centralization of back-office operations in Shenzhen, together with the reduction in impairment losses and impairment allowances, had resulted in a continued improvement in the segment results of our China operations, with a year-over-year reduction in loss of 39.9% or HK$3.5 million, from HK$8.8 million in 2016/17 to HK$5.3 million in 2017/18.

Business Review

Hong Kong economic situation in the first half of 2017/18 generally improved over the same period in 2016/17. First half growth in GDP was well above trend, driven by growth in exports and private sector consumption, and effectively reported full employment in the period. Although Federal Reserve raised interest rates twice in the first half of the year, interest rates remained quite stable.

Under this improving operating environment, the Group's total sales for the six months ended 31st August 2017 were 107.6% when compared to the same period last year. During this period, the Group focused on new customer base acquisition, and capitalized on the trend of changing customer behaviour and card usage preferences by launching different tailor-made marketing programs. As a result, the number of cards issued in the first half increased by a respectable 7.0%. Additionally, maintaining a diverse portfolio across credit card and loan products allowed the Group to present a unified image and inspire brand confidence to customers across all platforms in the consumer finance markets.

During the period under review, the Group continued to align its operation with "Customer First" philosophy by enhancing customer convenience, providing new customer experience, enriching customer benefits and strengthening card security.

For the convenience of customers to enjoy shopping benefits using our credit cards, the Group expanded its instant card service to cover five card brands, namely Visa, Mastercard, JCB, UnionPay and American Express. Customers can now enjoy instant cards for all the five card brands in all our branches and customers can receive the card within 30 minutes after application.

To provide premium experience to our customers, besides launching unique promotion programs in the first half of 2017/18, including "AEON Chill out event at Ocean Park" and "Cruise Holiday Lucky Draw", the Group continued to re-vitalize its branch network. In the first half, the Group's Kowloon Bay branch inside AEON Stores had a complete makeover to embody a "simple and speedy" concept. At the same time, the Group also opened a new flagship branch in Mongkok, which aspires to exceed customer expectation and to epitomize modern Japanese style, incorporating full line of face-to-face services as well as a lounge service to provide premium experience to our customers.

The Group continued to enrich the card benefits offered to customers by launching different spending programs, covering dining and overseas travel. In addition, the Group also launched various promotions with AEON Stores, including regular Private Sale.

Business Review *(Continued)*

On card usage security, the Group had added "3D secure" function to its credit cards to allow customers to have one more level of security when performing online transactions.

Microfinance subsidiaries in China continued to extend their merchant network to expand and diversify their new customer base and to drive up sales. Through adopting prudent asset quality management to stimulate growth in their receivables, the Group's microfinance business continued to show an improvement in operating results in the first half of this year. Moreover, to streamline their back-office operations, their credit assessment and accounting functions have been centralized in Shenzhen.

The Group continued to invest heavily in its products, technologies and the development of its network. Digitalization is an integral part of the Group's strategy as technology and mobility are changing the way our customers gain access to information, differentiate products and obtain services.

Prospects

It is expected that the economic situation in Hong Kong in the second half of the year will be broadly stable. Whilst general conditions are reasonably robust, it is notable that growth in consumer finance in Hong Kong remains under some pressure, and that whilst some conditions continue to be supportive at present, there are a number of risk factors, such as unstable political situation in Asia and rise in interest rates. Credit quality at present remains stable, and with a supportive economic backdrop, we do not expect any significant deterioration in asset quality. Moreover, the low interest rate environment and steady labour market should provide some buffer to the potential impact on local consumption and business sentiment.

For the second half of 2017/18, the Group will continue to focus on the three strategic initiatives set out at the beginning of the year, namely: (1) expanding customer base; (2) stimulating card usage; and (3) investing in digitalization. The Group has scheduled a diverse mix of products and services for launch in the second half of the year, targeting on young generation and male segment, improving operational efficiency and enhancing customer convenience by offering on-site applications and additional card functions in mobile usage service. The Group will further enhance its promotion activities across the entire product-lines to drive customer engagement and brand loyalty.

For branch network, the Group will further invest in the redesign and renovation of its entire branch network to deliver a better customer experience.

The Group's microfinance business in China is likely to experience pressure on sales growth in the second half of 2017/18, due to continuing keen competition in the market. The three microfinance subsidiaries will continue to explore and develop new sales channels and enhance customer convenience.

For the second half of 2017/18, the Group will remain committed to creating value for our shareholders and to its digitalization project to keep pace with the market in terms of new customer experience and creativity as well as to improve operational efficiency. The Group is confident in its business prospects and is looking forward to an overall satisfactory performance for the year 2017/18.

Funding and Capital Management

The Group manages its capital to ensure that:

- the Group will continue as a going concern;
- to maintain healthy capital ratio to instil confidence in stakeholders during periods of uncertainty and turmoil in financial markets;
- funds are available at competitive costs to meet all contractual financial commitments; and
- to fund receivable growth and to generate reasonable returns from available funds.

The capital structure of the Group consists of debt (which includes bank borrowings and collateralised debt obligation) and equity attributable to owners of the Group (comprising share capital and reserves).

Net debt to equity ratio

The Group's management reviews the capital structure on a semi-aunnal basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The net debt to equity ratio at the period/year end was as follows:

	31.8.2017	28.2.2017
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Debt *(note a)*	**2,824,676**	2,971,281
Cash and cash equivalents	**(701,956)**	(602,090)
Net debt	**2,122,720**	2,369,191
Equity *(note b)*	**2,832,731**	2,742,071
Net debt to equity ratio	**0.7**	0.9

Notes:

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 25 and 29 respectively.

(b) Equity includes all capital and reserves of the Group.

Funding and Capital Management *(Continued)*

Net debt to equity ratio (Continued)

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 31st August 2017, 50.1% of its funding was derived from total equity, 27.8% from bank borrowings and 22.1% from structured finance.

The principal source of internally generated capital was from accumulated profits. At 31st August 2017, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK$1,574.7 million, with 14.0% being fixed in interest rates and 86.0% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 2.0% of these indebtedness will mature within one year, 53.3% between one and two years, 41.5% between two and five years and 3.2% over five years. The duration of indebtedness was around 2.6 years.

The Group's bank borrowings and collateralised debt obligation were denominated in Hong Kong Dollars, except for a syndicated term loan of USD50.0 million which was hedged by cross-currency interest rate swap.

The net asset of the Group at 31st August 2017 was HK$2,832.7 million, as compared with HK$2,742.1 million at 28th February 2017. 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 HKD and thereby its core assets did not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings. At 31st August 2017, capital commitments entered were mainly related to the purchase of property, plant and equipment.

Human Resources

The total number of staff of the Group at 31st August 2017 and 28th February 2017 was 604 and 585 respectively. The Group continues to recognize and reward its staff similar to that disclosed in its 2016/17 Annual Report.

MANAGEMENT OF RISKS

The Group has established policies, procedures and controls for measuring, monitoring and controlling market, credit, liquidity, capital and operational risks, which are reviewed regularly by the Group's management. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

The Group's major financial instruments include available-for-sale investments, advances and receivables, other debtors, restricted deposits, time deposits, fiduciary bank balances, bank balances and cash and derivative financial assets, bank borrowings, bank overdrafts, collateralised debt obligation, creditors, amounts due to fellow subsidiaries, ultimate holding company and an associate and derivative financial liabilities.

The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group seeks to minimise the effects of cash flow risk by using derivative financial instruments to hedge the cash flow risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board, which provide written principles on foreign exchange risk, interest rate risk, and the use of derivative financial instruments. The Group does not enter into or trade derivative financial instruments for speculative purposes.

The Group's operational risk covers processing risk, human risk, system risk, tangible risk and reputational risk. There are risk management policies, regulations and guidelines approved by the management and the Board for adherence by all business units in the Group. The major risk control tool kits are key risk indicators and key performance indicators that are set up for critical business processes. The management manages and monitors these indicators to ensure effective risk management and internal controls are in place in the operating units.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and credit risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including:

- currency swap to convert the foreign currency debts to the functional currency of the relevant group entity; and

- interest rate swaps and interest rate caps to mitigate the cash flow interest rate risk.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

MANAGEMENT OF RISKS *(Continued)*

Market risk *(Continued)*

Foreign currency risk management

Foreign currency risk is the risk that the holding of foreign currency assets and liabilities will affect the Group's position as a result of a change in foreign currency exchange rates. Certain bank balances and bank borrowings of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk.

The Group's foreign currency risk exposure primarily relates to its USD denominated bank borrowings. To minimise the foreign currency risk in relation to the USD bank borrowings, the Group has been using cross currency interest rate swaps designed to hedge against the debts which are highly effective to convert the foreign currency debts to the functional currency of the relevant group entity. The critical terms of these currency swaps are similar to those of hedged borrowings. Hence, the net foreign currency risk after taking derivative financial instruments into consideration is not material to the Group.

Interest rate risk management

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposures to fair value interest rate risk relates primarily to fixed-rate lendings and borrowings including variable rate borrowings under hedge accounting to change from variable rate to fixed rate. All interest-bearing financial assets are exposed to fair value interest rate risk only. The Group's cash flow interest rate risk relates primarily to floating-rate financial liabilities except those under hedge accounting to change from variable rate to fixed rate.

The Group monitors the interest rate exposure, through assessing the interest rate gap of its interest bearing financial assets and financial liabilities. To minimise the cash flow interest rate gap, the Group has been using interest rate swaps to convert a proportion of its variable rate debts to fixed rate. The critical terms of these interest rate swaps are similar to those of hedged borrowings. To minimise the exposures to interest rate changes of its collateralised debt obligation transaction during the amortisation periods, the Group has entered into interest rate caps to cap the interest rates.

Other price risks

The Group is exposed to equity price risk through its available-for-sale investments. The Group's equity price risk is mainly concentrated on equity securities operating in consumer finance services and related business. The management will monitor the price movements and take appropriate actions when it is required.

MANAGEMENT OF RISKS *(Continued)*

Credit risk

The Group's maximum exposures to credit risk in the event of the counterparties' failure to perform their obligations at 31st August 2017 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the condensed consolidated statement of financial position. The Group's credit risk is primarily attributable to its advances and receivables.

In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The management has delegated different departments responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of loans and receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

The Group's policy requires the review of individual financial assets that are above materiality thresholds on quarterly basis. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at the end of the reporting period on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: i) portfolios of homogenous assets that are not assessed individually; and ii) losses incurred but not yet identified, by using historical loss experience, experienced judgment and statistical techniques to provide.

Liquidity risk

The Group has laid down an appropriate liquidity risk management framework for the management of the short, medium and long-term funding and liquidity management requirements, which is reviewed regularly by the Directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and maintain a conservative level of long-term funding to finance its short-term financial assets.

Capital risk

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

MANAGEMENT OF RISKS *(Continued)*

Operational risk

Operational risk is the risk event loss resulting from operation incidents, accidents and rumours. The Group's policy is to implement operational risk management framework across the Group. It provides risk management and internal control systems for risk identification, assessment, mitigation and prevention. The primary responsibility of each division head and branch manager is to manage inherent risks within the tolerance levels that are within the risk appetite approved by the Board. The key inherent risks are processing, data security, compliance and financial crime. All business units set up procedures and key risk indicators and key performance indicators to ensure operation continuity capacity, high quality of customer service and effective risk control through proactive management, operational excellence and alignment with best market practices. Management manages significant risks and ensures mitigating risks are prioritized and control adequately.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with Corporate Governance Code

The Company has complied with the code provisions of the CG Code throughout the six months ended 31st August 2017, with the exceptions of code provisions A.4.1 and A.4.2 which are explained below.

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The second limb of code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Non-executive Directors are not appointed for a specific term and Directors are not subject to retirement by rotation. However, all Directors, including the executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the articles of association of the Company. 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 CG Code.

Compliance with Model Code

The Company has adopted the Model Code as its own code for securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.

Directors' Interests in Shares

As at 31st August 2017, the interests and short positions of the Directors in the shares, underlying shares and debentures of the Company and its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

(a) *The Company*

Directors	*Number of shares held under personal interests*	*Percentage of the issued share capital of the Company*
Hideo Tanaka	28,600	0.01
Tomoharu Fukayama	10,000	0.01

(b) *AFS – intermediate holding company of the Company*

Directors	*Number of shares held under personal interests*	*Percentage of the issued share capital of AFS*
Masaaki Mangetsu	1,049	0.01
Hideo Tanaka	797	0.01
Tomoharu Fukayama	4,077	0.01
Toru Hosokawa	735	0.01

(c) *AEON Japan – ultimate holding company of the Company*

Director	*Number of shares hld under personal interests*	*Percentage of the issued share capital of AEON Japan*
Masaaki Mangetsu	1,591	0.01

(d) AEON Malaysia – a fellow subsidiary of the Company

Director	*Number of shares held under personal interests*	*Percentage of the issued share capital of AEON Malaysia*
Hideo Tanaka	14,400	0.01

Other than the holdings disclosed above, none of the Directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st August 2017.

Substantial Shareholders' Interests in Shares

As at 31st August 2017, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the shares and underlying shares of the Company:

Name	*Number of issued ordinary shares held*	*Percentage of the issued share capital of the Company*
AEON Japan *(Note 1)*	280,588,000	67.00
AFS *(Note 2)*	220,814,000	52.73
AFS (HK) *(Note 3)*	220,814,000	52.73
Aggregate of Standard Life Aberdeen plc affiliated investment management	26,204,000	6.25

Notes:

1. AEON Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 43.21% of the issued share capital of AFS, the holding company of AFS (HK), and 60.59% of the issued share capital of AEON Stores respectively, was deemed to be interested in the 220,814,000 shares and 3,784,000 shares owned by AFS (HK) and AEON Stores respectively.

2. AFS owned 100% of the issued share capital of AFS (HK) and was deemed to be interested in the 220,814,000 shares owned by AFS (HK).

3. Out of 220,814,000 shares, 213,114,000 shares were held by AFS (HK) and 7,700,000 shares were held by The Hongkong and Shanghai Banking Corporation Limited, as a nominee on behalf of AFS (HK).

Other than as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company as at 31st August 2017.

Changes in Information of Directors

The changes in the information of Directors since the publication of the 2016/17 Annual Report are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Name of Directors	**Details of Changes**
Takamitsu Moriyama	• Retired as a Non-executive Director and the Chairman on 23rd June 2017
Kiyoshi Wada	• Retired as an Executive Director on 23rd June 2017
Masaaki Mangetsu	• Appointed as a Non-executive Director, the Chairman of the Board and the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee on 23rd June 2017

Changes in Information of Directors *(Continued)*

Name of Directors	Details of Changes
Hideo Tanaka	• Appointed as a director of AEON Brokers on 22nd June 2017 • Received an annual discretionary bonus of HK$522,000 in June 2017 • Entitled to an annual base salary of HK$1,056,000 with effect from 21st June 2017
Lai Yuk Kwong	• Appointed as an Executive Director and the Deputy Managing Director on 23rd June 2017 • Entitled to an annual base salary of HK$1,656,000 with effect from 23rd June 2017
Koh Yik Kung	• Received an annual discretionary bonus of HK$77,000 in June 2017 • Entitled to an annual base salary of HK$1,800,000 with effect from 21st June 2017
Tomoharu Fukayama	• Resigned as a director of AEON Brokers on 22nd June 2017 • Received an annual discretionary bonus of HK$166,000 in June 2017 • Entitled to an annual base salary of HK$792,000 with effect from 21st June 2017
Toru Hosokawa	• Received an annual discretionary bonus of HK$233,000 in June 2017 • Entitled to an annual base salary of HK$876,000 with effect from 21st June 2017
Lee Ching Ming, Adrian	• Entitled to an annual fee of HK$309,000 with effect from 1st July 2017
Wong Hin Wing	• Appointed as an independent non-executive director of Inner Mongolia Yitai Coal Co., Ltd. (Stock Code: 3948) on 25th May 2017 • Appointed as an independent non-executive director of Guangzhou Baiyunshan Pharmaceutical Holdings Co., Ltd. (Stock Code: 874) on 23rd June 2017 • Entitled to an annual fee of HK$309,000 with effect from 1st July 2017
Kenji Hayashi	• Entitled to an annual fee of HK$309,000 with effect from 1st July 2017

Loan Facility With Covenants Relating to Specific Performance of the Controlling Shareholder

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the Directors reported below the loan facility which exists during the year and includes a condition relating to specific performance of the controlling shareholder of the Company.

On 9th September 2016, the Company obtained a term loan of USD50,000,000 (the "Facility") from a syndicate of banks, with the repayment date on 20th September 2021.

Under the Facility, the Company has given an undertaking to the lenders that the Company would continue to be a consolidated subsidiary of AFS, which is a controlling shareholder of the Company currently holding approximately 52.73% of the issued share capital of the Company. A breach of the above undertaking will constitute an event of default. If the event occurs, the Facility may become due and payable on demand.

During the period of review, no repayment was made under the Facility.

Purchase, Sale or Redemption of Listed Securities

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Review of Unaudited Financial Information

The Audit Committee has reviewed the unaudited interim financial report for the six months ended 31st August 2017. In addition, the condensed consolidated financial statements for the six months ended 31st August 2017 have been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA and an unqualified review report is issued.

By order of the Board
HIDEO TANAKA
Managing Director

Hong Kong, 28th September 2017

Deloitte. 德勤

TO THE BOARD OF DIRECTORS OF AEON CREDIT SERVICE (ASIA) COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of AEON Credit Service (Asia) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 27, which comprise the condensed consolidated statement of financial position as of 31st August 2017 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

28th September 2017

GLOSSARY

AEON Brokers	AEON Insurance Brokers (HK) Limited
AEON Japan	AEON Co., Ltd.
AEON Malaysia	AEON Credit Service (M) Berhad
AEON Stores	AEON Stores (Hong Kong) Co., Limited
AFS	AEON Financial Service Co., Ltd.
AFS (HK)	AEON Financial Service (Hong Kong) Co., Limited
Board	the board of Directors of the Company
CG Code	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
China or PRC	the People's Republic of China
Company	AEON Credit Service (Asia) Company Limited
Companies Ordinance	Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
Director(s)	the director(s) of the Company
Group	the Company and its subsidiaries
HKD or HK$	Hong Kong dollars, the lawful currency of Hong Kong
HIBOR	Hong Kong Interbank Offered Rate
HKAS	Hong Kong Accounting Standard
HKFRSs	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	Hong Kong Special Administrative Region of the PRC

LIBOR	London Interbank Offered Rate
Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
RMB	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) as amended from time to time
Stock Exchange	The Stock Exchange of Hong Kong Limited
USD	United States Dollars, the lawful currency of the United States of America