AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 900)

INTERIM REPORT

FOR THE SIX MONTHS ENDED
20TH AUGUST 2009

ISO 27001 - ISMS / IS 500955 ISO 9001 - QMS / FS 513193 ISO 10002 - CS / CMS 513194 ISO 14001 - EMS 538444

Planting Seeds of Growth

We are ÆON

The Directors are pleased to announce the unaudited consolidated results of the Group for the six months ended 20th August 2009 and the state of affairs of the Group as at that date together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 20th August 2009

		Six months ended 20th August	
		2009	2008
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**603,092**	591,754
Interest income	*5*	**544,328**	528,240
Interest expense	*6*	**(73,293)**	(73,469)
Net interest income		**471,035**	454,771
Other operating income	*7*	**62,203**	66,408
Other gains and losses	*8*	**(362)**	11,794
Operating income		**532,876**	532,973
Operating expenses	*9*	**(190,178)**	(187,832)
Operating profit before impairment allowances		**342,698**	345,141
Impairment losses and impairment allowances		**(216,853)**	(186,779)
Recoveries of receivables written-off		**25,660**	20,760
Share of results of associates		**(2,891)**	(3,081)
Profit before tax		**148,614**	176,041
Income tax expense	*10*	**(24,774)**	(27,760)
Profit for the period		**123,840**	148,281
Attributable to:			
Owners of the Company		**123,840**	148,281
Earnings per share	*12*	**29.57 HK Cents**	35.41 HK Cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 20th August 2009

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**123,840**	148,281
Other comprehensive income		
Fair value gain (loss) on available-for-sale investments	**22,894**	(18)
Exchange difference arising from translation of foreign operations	**–**	1,856
Net adjustment on cash flow hedges	**9,490**	16,906
Transfer to profit or loss on disposal of available-for-sale investment	**–**	(11,942)
Other comprehensive income for the period	**32,384**	6,802
Total comprehensive income for the period	**156,224**	155,083
Total comprehensive income attributable to:		
Owners of the Company	**156,224**	155,083

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th August 2009

	Notes	20th August 2009 (Unaudited) HK$'000	20th February 2009 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	13	**90,823**	85,639
Investments in associates		**35,207**	38,098
Available-for-sale investments	14	**80,745**	57,851
Advances and receivables	15	**1,047,800**	952,097
Derivative financial instruments	26	**85,758**	88,862
Deferred tax assets	19	**2,500**	6,200
Restricted deposits	20	**68,000**	68,000
		1,410,833	1,296,747
Current assets			
Advances and receivables	15	**3,704,217**	3,966,423
Prepayments, deposits and other debtors	18	**36,998**	53,317
Amount due from an associate		**–**	204
Restricted deposits	20	**148,288**	26,935
Time deposits	21	**257,713**	286,386
Bank balances and cash	22	**49,327**	52,769
		4,196,543	4,386,034
Current liabilities			
Creditors and accruals	23	**117,826**	106,927
Amounts due to fellow subsidiaries	24	**47,199**	46,433
Amount due to immediate holding company		**–**	11
Amount due to ultimate holding company		**40**	60
Amount due to an associate		**329**	–
Bank borrowings	25	**804,000**	1,057,000
Bank overdrafts		**1,008**	4,671
Derivative financial instruments	26	**5,799**	3,127
Tax liabilities		**22,551**	15,924
		998,752	1,234,153
Net current assets		**3,197,791**	3,151,881
Total assets less current liabilities		**4,608,624**	4,448,628
Capital and reserves			
Issued capital	27	**41,877**	41,877
Share premium and reserves		**1,776,342**	1,687,121
Total equity		**1,818,219**	1,728,998
Non-current liabilities			
Collateralised debt obligation	28	**1,097,621**	847,297
Bank borrowings	25	**1,657,250**	1,823,750
Derivative financial instruments	26	**35,534**	48,583
		2,790,405	2,719,630
Total equity and non-current liabilities		**4,608,624**	4,448,628

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 20th August 2009

	Share capital	Share premium	Capital redemption reserve	Investment revaluation reserve	Hedging reserve	Translation reserve	Accumulated profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 21st February 2008 (Audited)	41,877	227,330	270	31,622	(57,116)	4,839	1,368,137	1,616,959
Profit for the period	–	–	–	–	–	–	148,281	148,281
Fair value loss on available-for-sale investments	–	–	–	(18)	–	–	–	(18)
Exchange difference arising from translation of foreign operations	–	–	–	–	–	1,856	–	1,856
Net adjustment on cash flow hedges	–	–	–	–	16,906	–	–	16,906
Transfer to profit or loss on disposal of available-for-sale investment	–	–	–	(11,942)	–	–	–	(11,942)
Total comprehensive (loss) income for the period	–	–	–	(11,960)	16,906	1,856	148,281	155,083
Final dividend paid for 2007/08	–	–	–	–	–	–	(62,814)	(62,814)
Balance at 20th August 2008 (Unaudited)	41,877	227,330	270	19,662	(40,210)	6,695	1,453,604	1,709,228
Balance at 21st February 2009 (Audited)	**41,877**	**227,330**	**270**	**(2,603)**	**(79,703)**	**6,543**	**1,535,284**	**1,728,998**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**123,840**	**123,840**
Fair value gain on available-for-sale investments	**–**	**–**	**–**	**22,894**	**–**	**–**	**–**	**22,894**
Net adjustment on cash flow hedges	**–**	**–**	**–**	**–**	**9,490**	**–**	**–**	**9,490**
Total comprehensive income for the period	**–**	**–**	**–**	**22,894**	**9,490**	**–**	**123,840**	**156,224**
Final dividend paid for 2008/09	**–**	**–**	**–**	**–**	**–**	**–**	**(67,003)**	**(67,003)**
Balance at 20th August 2009 (Unaudited)	**41,877**	**227,330**	**270**	**20,291**	**(70,213)**	**6,543**	**1,592,121**	**1,818,219**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 20th August 2009

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash from operating activities	**349,559**	114,396
Dividends received	**1,173**	1,014
Proceeds from disposal of available-for-sale investment	**–**	11,942
Purchase of available-for-sale investments	**–**	(4,683)
Purchase of property, plant and equipment	**(22,828)**	(7,968)
Others	**–**	78
Net cash (used in) from investing activities	**(21,655)**	383
Increase in restricted deposits	**(121,353)**	–
Increase in collateralised debt obligation	**250,000**	–
Dividends paid	**(67,003)**	(63,384)
New bank loans raised	**7,236,000**	10,943,499
Repayment of bank loans	**(7,654,000)**	(11,010,000)
Net cash used in financing activities	**(356,356)**	(129,885)
Net decrease in cash and cash equivalents	**(28,452)**	(15,106)
Cash and cash equivalents at 21st February	**334,484**	242,842
Cash and cash equivalents at 20th August	**306,032**	227,736
Being:		
Time deposits	**257,713**	172,101
Bank balances and cash	**49,327**	58,492
Bank overdrafts	**(1,008)**	(2,857)
	306,032	227,736

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 20th August 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Listing Rules and with HKAS 34 Interim Financial Reporting.

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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 20th February 2009.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on 21st February 2009.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing Costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligation Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives
HK(IFRIC) – Int 13	Customer Loyalty Programmes
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1st July 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. HKFRS 8 is a disclosure Standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor Standard, HKAS 14 Segment Reporting, required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

HK (IFRIC) – Int 13 Customer Loyalty Programmes

HK(IFRIC) – Int 13 addresses how companies that grant their customers loyalty award credits (often called "bonus points") when selling goods or services should account for their obligation to provide free or discounted goods and services, if and when the customers redeem the bonus points. It requires companies to account for such transactions as "multiple element transactions" and allocate the proceeds of the initial sale to the award credits. The portion allocated to award credits is recognised as revenue only when the Group has fulfilled its obligations to provide goods or services. In the past, the Group accounted for the bonus point obligation under marketing expenses based on actual bonus points rewarded and accruals with reference to historical redemption experience. The effect of the adoption of HK(IFRIC) – Int 13 was not considered to be material for the Group and therefore, the prior year figures have not been restated.

The adoption of the other new and revised HKFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 27 (Revised 2008)	Consolidated and Separate Financial Statements[1]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised 2008)	Business Combinations[1]
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK(IFRIC) – Int 18	Transfers of Assets from Customers[4]

[1] *Effective for annual periods beginning on or after 1st July 2009*
[2] *Amendments that are effective for annual periods beginning on or after 1st July 2009 or 1st January 2010, as appropriate*
[3] *Effective for annual periods beginning on or after 1st January 2010*
[4] *Effective for transfers on or after 1st July 2009*

The adoption of HKFRS 3 (Revised 2008) may affect the Group's accounting for business combinations for which the acquisition dates are on or after 21st February 2010. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The Directors anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**544,328**	528,240
Fees and commissions	**18,883**	22,972
Handling and late charges	**39,881**	40,542
	603,092	591,754

4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 Operating Segments with effect from 21st February 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. In contrast, the predecessor Standard (HKAS 14 Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's system of internal financial reporting to key management personnel serving only as the starting point for the identification of such segments. As a result, following the adoption of HKFRS 8, the identification of the Group's reportable segments has changed.

In prior years, income derived from insurance agency business through credit card transactions was grouped under credit card and other operations. However, with the commencement of operation of insurance brokerage business, a new operating segment – insurance has been identified and presented in the financial information reported to the chief operating decision maker (i.e. Executive Directors) for the purposes of assessment of performance and future resources planning. In order to conform to current period's presentation, prior period information has been restated. The Group's reportable segments under HKFRS 8 are therefore as follows:

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

4. **SEGMENT INFORMATION** *(Continued)*

The following is an analysis of the Group's revenue and results by operating segments for the period under review:

Six months ended 20th August 2009 (Unaudited)

	Credit card *HK$'000*	Instalment loan *HK$'000*	Hire purchase *HK$'000*	Insurance *HK$'000*	Consolidated *HK$'000*
CONDENSED CONSOLIDATED INCOME STATEMENT					
REVENUE	**401,432**	**187,722**	**4,044**	**9,894**	**603,092**
RESULT					
Segment result	**89,769**	**62,742**	**35**	**4,745**	**157,291**
Unallocated operating income					**3,083**
Corporate expenses					**(8,869)**
Share of results of associates					**(2,891)**
Profit before tax					**148,614**
Income tax expense					**(24,774)**
Profit for the period					**123,840**

Six months ended 20th August 2008 (Unaudited)

	Credit card *HK$'000*	Instalment loan *HK$'000*	Hire purchase *HK$'000*	Insurance *HK$'000*	Consolidated *HK$'000*
CONDENSED CONSOLIDATED INCOME STATEMENT					
REVENUE	397,610	178,403	5,564	10,177	591,754
RESULT					
Segment result	106,984	56,224	553	9,523	173,284
Unallocated operating income					14,914
Corporate expenses					(9,076)
Share of results of associates					(3,081)
Profit before tax					176,041
Income tax expense					(27,760)
Profit for the period					148,281

Segment result represents the pre-tax profit earned by each segment without allocation of certain corporate income (including dividend income and gain on disposal of available-for-sale investment), corporate expenses 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.

5. INTEREST INCOME

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Time deposits, bank balances and cash	**250**	2,167
Advances	**539,056**	525,051
Impaired advances	**5,022**	1,022
	544,328	528,240

6. INTEREST EXPENSE

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings and overdrafts wholly repayable within five years	**23,860**	35,279
Interest on collateralised debt obligation wholly repayable within five years	**23,445**	20,990
Net interest expense on interest rate swap contracts	**25,988**	17,200
	73,293	73,469

7. OTHER OPERATING INCOME

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends received on available-for-sale investments		
Listed equity securities	**824**	699
Unlisted equity securities	**349**	315
Fees and commissions		
Credit card	**8,989**	12,795
Insurance	**9,894**	10,177
Handling and late charges	**39,881**	40,542
Others	**2,266**	1,880
	62,203	66,408

8. OTHER GAINS AND LOSSES

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Exchange gains (losses)		
Exchange gain on bank loan	**1,500**	8,250
Exchange loss on hedging instrument released from cash flow hedge reserve	**(1,500)**	(8,250)
Gain on disposal of available-for-sale investment	**–**	11,942
Hedge ineffectiveness on cash flow hedges	**(226)**	(226)
Net (loss) gain on disposal of property, plant and equipment	**(136)**	78
	(362)	11,794

9. OPERATING EXPENSES

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Administrative expenses		
Depreciation	**17,507**	16,313
General administrative expenses	**53,007**	50,296
Operating lease rentals in respect of rented premises, advertising space and equipment	**31,641**	31,862
Other operating expenses	**20,569**	19,105
Staff costs including directors' emoluments	**45,229**	46,421
	167,953	163,997
Marketing expenses	**22,225**	23,835
	190,178	187,832

10. INCOME TAX EXPENSE

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
The charge comprises:		
Current taxation		
Hong Kong Profits Tax		
– current period	**21,074**	29,460
Deferred tax *(note 19)*		
– current period	**3,700**	(2,000)
– attributable to change in tax rate	**–**	300
	24,774	27,760

Hong Kong Profits Tax is calculated at 16.5% (six months ended 20th August 2008: 16.5%) of the estimated assessable profit for the period.

11. DIVIDEND

On 30th June 2009, a dividend of **16.0 HK cents** (2008: 15.0 HK cents) per share amounting to a total of **HK$67,003,000** (2008: HK$62,814,000) was paid to shareholders as the final dividend for 2008/09.

In respect of the current interim period, the Directors have declared an interim dividend of **16.0 HK cents** per share amounting to **HK$67,002,000** payable to the shareholders of the Company whose names appear on the Register of Members on 14th October 2009. The interim dividend will be paid on or about 20th October 2009. 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

The calculation of earnings per share is based on the unaudited profit for the period of **HK$123,840,000** (six months ended 20th August 2008: HK$148,281,000) attributable to owners of the Company and on the number of **418,766,000** (six months ended 20th August 2008: 418,766,000) shares in issue during the period.

No diluted earnings per share have been presented as there were no potential ordinary shares in issue for both periods.

13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately **HK$22,828,000** on computer equipment.

14. AVAILABLE-FOR-SALE INVESTMENTS

	20th August 2009 (Unaudited) *HK$'000*	20th February 2009 (Audited) *HK$'000*
Listed equity securities		
Hong Kong	**23,976**	15,629
Overseas	**14,698**	10,151
	38,674	25,780
Unlisted equity securities	**42,071**	32,071
	80,745	57,851

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. The above unlisted investments represent equity interest in six private entities incorporated overseas engaged in consumer credit finance services and related business. The unlisted investments are measured at cost less impairment at each reporting date 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 7.5 years. Budgeted net profit projections have been determined based on the historical records and the management's expectations for the growth potential and market development.

15. ADVANCES AND RECEIVABLES

	20th August 2009 (Unaudited) *HK$'000*	20th February 2009 (Audited) *HK$'000*
Credit card receivables	**3,199,074**	3,421,998
Instalment loans receivable	**1,500,975**	1,456,930
Hire purchase debtors	**82,682**	97,459
	4,782,731	4,976,387
Accrued interest and other receivables	**126,925**	111,160
Gross advances and receivables	**4,909,656**	5,087,547
Impairment allowances		
– individually assessed	**(60,103)**	(53,029)
– collectively assessed	**(97,536)**	(115,998)
	(157,639)	(169,027)
	4,752,017	4,918,520
Current portion included under current assets	**(3,704,217)**	(3,966,423)
Amount due after one year	**1,047,800**	952,097

(a) Credit card receivables

The term of card instalment plans entered with customers ranges from 3 months to 5 years.

All credit card receivables are denominated in Hong Kong dollars. The credit card receivables carry effective interest ranging from 20.4% to 43.6% (20th February 2009: 26.8% to 43.6%) 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. The transaction does not meet the "transfer of assets" tests under HKAS 39 Financial Instruments: Recognition and Measurement for the derecognition of the financial assets. Accordingly, the Group continues to recognise the full carrying amount of the receivables and has recognised the cash received as collateralised debt obligation (see note 28). At 20th August 2009, the carrying amount of the credit card receivables under this financing transaction is **HK$1,772,241,000** (20th February 2009: HK$1,387,865,000). The carrying amount of the collateralised debt obligation is **HK$1,100,000,000** (20th February 2009: HK$850,000,000).

(b) Instalment loans receivable

The term of instalment loans entered with customers ranges from 4 months to 5 years. All instalment loans receivable are denominated in Hong Kong dollars. The instalment loans receivable carry effective interest ranging from 4.2% to 49.1% (20th February 2009: 4.2% to 51.7%) per annum.

15. ADVANCES AND RECEIVABLES *(Continued)*

(c) Hire purchase debtors

	Minimum payments		Present value of minimum payments	
	20th August 2009 (Unaudited)	20th February 2009 (Audited)	**20th August 2009 (Unaudited)**	20th February 2009 (Audited)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts receivable under hire purchase contracts:				
Within one year	**74,258**	87,158	**72,394**	84,700
In the second to fifth year inclusive	**10,488**	13,066	**10,288**	12,759
	84,746	100,224	**82,682**	97,459
Unearned finance income	**(2,064)**	(2,765)	**–**	–
Present value of minimum payments receivable	**82,682**	97,459	**82,682**	97,459

The term of hire purchase contracts entered with customers ranges from 5 months to 3 years. All hire purchase agreements are denominated in Hong Kong dollars. The hire purchase debtors carry effective interest ranging from 4.4% to 14.8% (20th February 2009: 4.4% to 14.8%) per annum.

16. IMPAIRMENT ALLOWANCES

	20th August 2009 (Unaudited)	20th February 2009 (Audited)
	HK$'000	*HK$'000*
Analysis by products as:		
Credit card receivables	**77,838**	98,363
Instalment loans receivable	**60,576**	56,159
Hire purchase debtors	**1,771**	2,342
Accrued interest and other receivables	**17,454**	12,163
	157,639	169,027

16. IMPAIRMENT ALLOWANCES *(Continued)*

	Individual assessment *HK$'000*	Collective assessment *HK$'000*	Total *HK$'000*
At 21st February 2009	**53,029**	**115,998**	**169,027**
Impairment losses and impairment allowances	**235,315**	**(18,462)**	**216,853**
Amounts written-off as uncollectable	**(228,241)**	**–**	**(228,241)**
At 20th August 2009	**60,103**	**97,536**	**157,639**

	Individual assessment *HK$'000*	Collective assessment *HK$'000*	Total *HK$'000*
At 21st February 2008	45,323	97,107	142,430
Impairment losses and impairment allowances	181,230	5,549	186,779
Amounts written-off as uncollectable	(181,833)	–	(181,833)
At 20th August 2008	44,720	102,656	147,376

17. OVERDUE ADVANCES AND RECEIVABLES

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

	20th August 2009 (Unaudited)		20th February 2009 (Audited)	
	HK$'000	***%****	*HK$'000*	*%**
Overdue 1 month but less than 2 months	**123,040**	**2.5**	143,277	2.8
Overdue 2 months but less than 3 months	**42,739**	**0.9**	60,847	1.2
Overdue 3 months but less than 4 months	**32,523**	**0.7**	34,798	0.7
Overdue 4 months or above	**53,680**	**1.1**	48,935	1.0
	251,982	**5.2**	287,857	5.7

* *Percentage of gross advances and receivables*

18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

Other debtors are unsecured, interest-free and repayable on demand.

19. DEFERRED TAX ASSETS

The following are the major deferred tax assets (liabilities) recognised and movements thereon:

	Accelerated tax depreciation *HK$'000*	**Impairment allowances** *HK$'000*	**Total** *HK$'000*
At 21st February 2009	**(12,300)**	**18,500**	**6,200**
Charge to consolidated income statement for the period	**(1,300)**	**(2,400)**	**(3,700)**
At 20th August 2009	**(13,600)**	**16,100**	**2,500**

	Accelerated tax depreciation *HK$'000*	Impairment allowances *HK$'000*	Total *HK$'000*
At 21st February 2008	(12,500)	17,000	4,500
Credit to consolidated income statement for the period	2,000	–	2,000
Attributable to change in tax rate	700	(1,000)	(300)
At 20th August 2008	(9,800)	16,000	6,200

20. RESTRICTED DEPOSITS

The Group's restricted deposits are in relation to the arrangement under collateralised debt obligation. This represents time deposits carrying at fixed rates ranging from 0.02% to 0.31% (six months ended 20th August 2008: 1.3% to 2.6%) during the period. Restricted deposits of HK$ 148,288,000 will mature within one year.

21. TIME DEPOSITS

Time deposits carry fixed rates ranging from 0.01% to 0.31% (six months ended 20th August 2008: 0.9% to 2.8%) during the period and will mature within one month.

22. BANK BALANCES AND CASH

Bank balances carry prevailing market interest rate.

Functional currency of relevant group entity is Hong Kong dollars. The carrying amounts of the Group's bank balances and cash are denominated in the following currencies:

	Hong Kong dollars *HK$'000*	**United States dollars** *HK$'000*	**Total** *HK$'000*
20th August 2009 (Unaudited)			
Bank balances and cash	**49,138**	**189**	**49,327**
20th February 2009 (Audited)			
Bank balances and cash	52,686	83	52,769

23. CREDITORS AND ACCRUALS

The aged analysis of creditors and accruals is as follows:

	20th August 2009 (Unaudited) ***HK$'000***	20th February 2009 (Audited) *HK$'000*
Current	**115,255**	103,876
Over 1 month but less than 3 months	**563**	969
Over 3 months	**2,008**	2,082
	117,826	106,927

24. AMOUNTS DUE TO FELLOW SUBSIDIARIES

The aged analysis of amounts due to fellow subsidiaries is as follows:

	20th August 2009 (Unaudited) ***HK$'000***	20th February 2009 (Audited) *HK$'000*
Current	**45,006**	42,277
Over 1 month but less than 3 months	**2,193**	4,156
	47,199	46,433

25. BANK BORROWINGS

	20th August 2009 (Unaudited) ***HK$'000***	20th February 2009 (Audited) *HK$'000*
Bank loans, unsecured	**2,461,250**	2,880,750
The maturity of bank borrowings is as follows:		
Within one year	**804,000**	1,057,000
Between one and two years	**400,000**	555,000
Between two and five years	**1,257,250**	1,268,750
	2,461,250	2,880,750
Amount repayable within one year included under current liabilities	**(804,000)**	(1,057,000)
Amount repayable after one year	**1,657,250**	1,823,750

25. BANK BORROWINGS *(Continued)*

Functional currency of relevant group entity is Hong Kong dollars. The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	Hong Kong dollars *HK$'000*	Japanese Yen *HK$'000*	Total *HK$'000*
20th August 2009 (Unaudited)			
Bank loans	**1,844,000**	**617,250**	**2,461,250**
20th February 2009 (Audited)			
Bank loans	2,262,000	618,750	2,880,750

Hong Kong dollar bank loans of **HK$460,000,000** (20th February 2009: HK$632,000,000) are arranged at fixed interest rates ranging from 2.8% to 5.3% (20th February 2009: 2.7% to 5.3%) and expose the Group to fair value interest rate risk. Other Hong Kong dollar bank loans are arranged at floating interest rates of 0.5% plus HIBOR (20th February 2009: 0.5% plus HIBOR) while the Japanese Yen borrowing is arranged at floating interest rate of 0.4% plus JPY-LIBOR-BBA for both periods, thus exposing the Group to cash flow interest rate risk.

The Group did not have available undrawn committed borrowing facilities at 20th August 2009 and 20th February 2009.

At 20th August 2009, the Group has available unutilised overdrafts and non-committed short term bank loan facilities of **HK$350,120,000** (20th February 2009: HK$16,900,000) and **HK$568,000,000** (20th February 2009: HK$836,720,000) respectively.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	20th August 2009 (Unaudited)		20th February 2009 (Audited)	
	Assets *HK$'000*	**Liabilities** *HK$'000*	Assets *HK$'000*	Liabilities *HK$'000*
Interest rate swaps	**201**	**41,333**	–	51,710
Cross-currency interest rate swap	**85,557**	**–**	88,862	–
	85,758	**41,333**	88,862	51,710
Current portion	**–**	**(5,799)**	–	(3,127)
Non-current portion	**85,758**	**35,534**	88,862	48,583

All derivative financial instruments entered by the Group at 20th August 2009 and 20th February 2009 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, the designated hedged items.

26. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Cash flow hedges:

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rate by swapping certain Hong Kong dollar floating-rate bank borrowings with aggregate principal of **HK$1,025,000,000** from floating rates to fixed rates. The interest rate swaps of the Group with aggregate notional amount of **HK$1,025,000,000** have fixed interest payments at fixed interest rates ranging from 2.2 % to 5.7% (20th February 2009: 2.2% to 5.7%) and floating interest receipts ranging from 0.3% plus HIBOR to 0.8% plus HIBOR (20th February 2009: 0.3% plus HIBOR to 0.8% plus HIBOR) for periods up until March 2014. The interest rate swaps and the corresponding bank borrowings have the same terms, such as principal amounts, 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 gain on cash flow hedges amounted to **HK$11,295,000** (six months ended 20th August 2008: net gain of HK$10,083,000) are included in equity.

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

Cross-currency interest rate swap

The Group uses a cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposure to foreign currency and cash flow interest rate risk of its floating-rate Japanese Yen syndicated bank borrowing by swapping the floating-rate Japanese Yen bank borrowing with principal of JPY7,500,000,000 to fixed-rate Hong Kong dollar bank borrowing. The cross-currency interest rate swap of the Group with notional amount of JPY7,500,000,000 (equivalent to HK$499,178,000 at the date of inception of the loan) has fixed currency payments in Hong Kong dollars at exchange rate of Japanese Yen to Hong Kong dollars at 15.0, fixed interest payments in Hong Kong dollars at 4.9% and floating interest receipts in Japanese Yen at 0.4% plus JPY-LIBOR-BBA for periods up until September 2011. The cross-currency interest rate swap and the corresponding syndicated 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 loss on cash flow hedge amounted to **HK$1,805,000** (six months ended 20th August 2008: net gain of HK$6,823,000) are included in equity.

The fair value of the cross-currency interest rate swap is determined by using the discounted cash flow method based on JPY-LIBOR-BBA yield curve and the forward exchange rate between Japanese Yen and Hong Kong dollars estimated at reporting date.

27. ISSUED CAPITAL

	Number of shares 20th August 2009 (Unaudited) & 20th February 2009 (Audited)	Share capital 20th August 2009 (Unaudited) & 20th February 2009 (Audited) *HK$'000*
Ordinary shares of HK$0.1each		
Authorised		
At beginning and end of period/year	**1,000,000,000**	**100,000**
Issued and fully paid		
At beginning and end of period/year	**418,766,000**	**41,877**

28. COLLATERALISED DEBT OBLIGATION

(a) The Company entered into a HK$850,000,000 collateralised debt obligation financing transaction (the "Transaction") in 2007 and the Transaction amount was increased to HK$1,100,000,000 during the period. Pursuant to this Transaction, the Company 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 Company is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HKAS-INT-12, the Trust is deemed to be controlled by the Company and the results thereof are consolidated by the Company in its consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under this Transaction have not been derecognised and remained in the Group's consolidated financial statements.

(b) The collateralised debt obligation is backed by the credit card receivables transferred (see notes 15(a) and 31) and with the carrying amount denominated in Hong Kong dollars. The revolving period of the Transaction will end in February 2012. The monthly interest of the collateralised debt obligation is fixed at 4.5% during the revolving period, thus exposing the Group to fair value interest rate risk. The effective interest rate is 4.5% during the period.

29. OPERATING LEASE COMMITMENTS

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

	20th August 2009 (Unaudited) *HK$'000*	20th February 2009 (Audited) *HK$'000*
Within one year	**41,943**	46,086
In the second to fifth year inclusive	**31,937**	45,196
	73,880	91,282

Leases for rented premises, including head office and data centre, are negotiated for an average term of three years and rentals are fixed throughout the lease period. Leases for other rented premises and advertising space are negotiated for an average term of two years and rentals are fixed for an average of one year. Leases for computer equipment are negotiated for an average term of six years and rentals are fixed throughout the lease period.

30. CAPITAL COMMITMENTS

	20th August 2009 (Unaudited) *HK$'000*	20th February 2009 (Audited) *HK$'000*
Contracted for, but not provided in the consolidated financial statements:		
Purchase of property, plant and equipment	**5,797**	7,851
Authorised but not contracted for in the consolidated financial statements:		
Purchase of property, plant and equipment	**10,500**	–
	16,297	7,851

31. PLEDGE OF ASSETS

At 20th August 2009, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK$1,772,241,000** and **HK$216,288,000** respectively (20th February 2009: HK$1,387,865,000 and HK$94,935,000) (see notes 15(a) and 20).

32. RELATED PARTY TRANSACTIONS

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

	Six months ended 20th August (Unaudited)							
	Fellow subsidiaries		Immediate holding company		Ultimate holding company		Associates	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income received	**3,629**	4,836	**–**	–	**–**	–	**–**	–
Commission received	**1,576**	1,351	**–**	–	**–**	–	**–**	–
Dividends received	**1,163**	1,014	**–**	–	**–**	–	**–**	–
Service fees received	**–**	–	**–**	–	**–**	–	**225**	–
Licence fees paid	**3,205**	3,152	**90**	55	**23**	–	**–**	–
Service fees paid	**–**	–	**3,052**	2,212	**–**	–	**15,940**	13,612
Development fees paid *(Note)*	**4,516**	–	**–**	–	**–**	–	**–**	–

Note: For the development fees paid during the period, **HK$541,000** (six months ended 20th August 2008: HK$ Nil) is recognised under administrative expenses, **HK$2,694,000** (six months ended 20th August 2008: HK$ Nil) is capitalised under property, plant and equipment and **HK$1,281,000** (six months ended 20th August 2008: HK$ Nil) is included under prepayments, deposits and other debtors.

Compensation of key management personnel

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

	Six months ended 20th August	
	2009	2008
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short-term benefits	**6,094**	6,829

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.

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

(a) Subsidiary

Name of subsidiary	Place of incorporation and operation	Issued share capital/ paid-up capital	Proportion of ownership interest deemed to be held by the Company 2009	2008	Principal activities
AEON Education and Environment Fund Limited	Hong Kong	Limited by guarantee	**100%**	100%	Support community charity projects and activities
AEON Insurance Brokers (HK) Limited	Hong Kong	HK$ 1,000,000	**100%**	N/A	Insurance brokerage business

AEON Insurance Brokers (HK) Limited was incorporated on 14th October 2008

(b) Master trust

Horizon Master Trust (AEON 2006-1) is a special purpose entity set up for a collateralised debt obligation financing transaction. At 20th August 2009, assets in this special purpose entity mainly consist of credit card receivables, restricted deposits, time deposits, subordinated beneficiary and seller beneficiary.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 9th October 2009 to 14th October 2009, 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 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong not later than 4:00 p.m. on 8th October 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The global financial tsunami happened last year began to impact the real economy at the beginning of 2009. Job market and local consumption were weak during the first half of the year. Fortunately, asset markets in Hong Kong started to recover in the second quarter, with continued improvements in the stock and property markets. Faced with a rising unemployment rate, declining retail sales and an increase in personal bankruptcy cases, the operating environment for consumer finance business in Hong Kong remains challenging. Participants have to strive for innovative products and service quality to attract new customers while at the same time monitor the deteriorating credit quality. Likewise the core operating performance of the Group was under pressure and a cautious business approach was adopted. As a result of this more cautious strategy, total advances contracted when compared with the end of last year.

Financial Review *(Continued)*

The Group recorded a profit attributable to shareholders of HK$123.8 million for the six months ended 20th August 2009, representing a decrease of 16.5% or HK$24.5 million when compared to HK$148.3 million in the previous corresponding period. The Group's earnings per share changed from 35.41 HK cents per share in 2008/09 to 29.57 HK cents per share.

A series of new marketing programs had been launched directing towards card acquisition and card activation. The AEON Ocean Park Halloween Night had received overwhelming response in the market. As a result, the Group only recorded a slight drop in the card credit purchase sales when compared with last year.

By changing the product mix to overcome the increase in credit risk, interest income recorded an increase of 3.1% from HK$528.2 million in 2008/09 to HK$544.3 million. In order to secure more banking facilities under the volatile market situation, the Group had fixed more long-term borrowings and increased the size of collateralised debt obligation to HK$ 1,100.0 million. As a result, interest expense in the first half was HK$73.3 million, a decrease of HK$0.2 million when compared with last year, with average funding cost being 4.1% in the first half of this year. Net interest income of the Group recorded an increase of 3.6% to HK$471.0 million from HK$454.8 million in 2008/09. The drop in commission income and handling and late charges had resulted in the decrease in other operating income by 6.3% from HK$66.4 million in 2008/09 to HK$62.2 million for the first six months in 2009/10.

Following the recruit of more members and the launch of different marketing programs, the Group had spent more on card and loan processing expenses. Together with the increase in depreciation related to computer equipment, operating expenses increased by 1.2% from HK$187.8 million in 2008/09 to HK$190.2 million for the first six months in 2009/10. The Group's cost-to-income ratio was 35.7% in the first half of this year.

At the operating level before impairment allowances, the Group recorded an operating profit of HK$342.7 million for the six months ended 20th August 2009, representing a decrease of 0.7% from HK$345.1 million in the previous corresponding period. During the period under review, the Group lent conservatively and strived to continually maintain its asset quality. However, with the increase in personal bankruptcies, impairment losses and impairment allowances for the first half increased by 16.1% or HK$30.1 million to HK$216.9 million. Recoveries of receivables written-off was HK$25.7 million, an increase of 23.6% or HK$4.9 million when compared with HK$20.8 million in 2008/09. Impairment allowances amounted to HK$157.6 million at 20th August 2009, as compared with HK$169.0 million at 20th February 2009.

Local consumption and investment demand were weak during the first half of the year. As a result, the Group experienced a reduction in gross advances and receivables of 3.5% during the period mainly in credit card receivables and hire purchase debtors. Gross advances and receivables at 20th August 2009 was HK$4,909.7 million, as compared to HK$5,087.5 million at 20th February 2009. Shareholders' equity was strengthened by 5.2% to HK$1,818.2 million at 20th August 2009 mainly due to the increase in accumulated profits and reserves. Net asset value per share (after interim dividend), compared with the net asset value per share as at 20th February 2009, increased from HK$4.0 to HK$4.2.

Business Review

The Group had launched a series of marketing activities in the first half to enhance the competitiveness of its card business, which included the 10% rebate promotion in affinity member-stores and AEON Ocean Park Halloween promotion. In addition, the Group had designed tailor-made card acquisition programs with its affinity partners to increase card base and card usage. To maintain the credit quality, new members were mainly recruited through affinity member-stores. With the launch of on-line shopping service to its customers, the Group continued to introduce new products and started mail orders through the web. On collection side, the Group had utilised its branch network for outdoor visit collection activities so as to identify risky customers at the earliest opportunity. On funding side, the Group had increased the size of its facility under the existing collateralised debt obligation to secure a stable funding source.

With the set up of AEON Brokers, an insurance brokerage company, the Group can line up with more insurance companies to offer unique insurance products to its customers and merchants. During the period under review, AEON Brokers had successfully solicited life and general insurance products, such as MPF, home content and property insurance.

Moving on to China business, AIS, an associate, has been acting as processing agent for AEON Card operation in different provinces, including Guangdong, Beijing and Shandong. In addition, AIS has also expanded its collection services to corporate clients in China in the fields of auto, finance and insurance.

Prospects

Looking ahead, although the global economy was showing signs of stabilisation, there are still many uncertainties about future growth as global demand remains weak. It is expected that the operating environment for consumer finance will continue to be challenging for the rest of the year. Since unemployment rate usually lags behind the economic cycle, demand for consumer finance is expected to recover slowly. Under this operating environment, the Group will take a conservative approach to recruit new members and generate new sales. As the Group has been closely monitoring its portfolio during the economic downturn and taking prudent approach to extend credit, the asset quality remains fundamentally sound. Given the low interest-rate environment, margins are expected to increase while cost-to-income ratio is likely to fall as prices stagnate.

Since AEON JUSCO Card is always the core card for card member growth and usage stimulation, the Group will continue to strengthen the benefits of AEON JUSCO Cards by consolidating the benefits offered by co-branded cards as well as discount merchants into AEON JUSCO Card. The collaboration with different merchants in promoting recurrent transactions through credit cards has successfully improved the active ratio. The Group will promote this service to its net members through SMS mails. Moreover, new marketing activities will be launched with affinity merchants, directing towards card activation through the offering of appealing cardholder privileges and affinity member benefits.

By using its vast customer and merchant base, the Group will continue to explore more fee-based income business opportunities in the areas of insurance, travel and collection services. For China business, riding on the experience and operation knowledge gained from AEON Card operation, the Group will explore new business opportunities with potential partners to cater for growth of consumer finance market in the Mainland.

SEGMENT INFORMATION

The Group's business comprises mainly four operating divisions, namely credit card, instalment loans, hire purchase and insurance. In the first half of 2009/10, credit card operation accounted for 66.6% of the Group's revenue, as compared to 67.2% in 2008/09. For segment result, credit card operation accounted for 57.1% of the Group's whole operations in 2009/10, as compared to 61.7% in 2008/09.

For credit card operation, the change in product mix to cater for increasing credit risk resulted in an increase in interest income. However, the weak local consumption resulted in a drop in sales, which in turn caused a reduction in the commission income and handling charges. Nevertheless, revenue for credit card operation recorded an increase of HK$3.8 million from HK$397.6 million in 2008/09 to HK$401.4 million in 2009/10. With the increase in personal bankruptcies, the impairment losses and impairment allowances had increased. Although this was compensated by a moderate increase in recoveries of receivables written-off, the segment result for the period from credit card operation recorded a decrease of 16.1% from HK$107.0 million in 2008/09 to HK$89.8 million in 2009/10.

With the vast customer base and distribution channels, the Group remained active in developing its instalment loan business. As a result, revenue for instalment loan operation recorded an increase of 5.2% or HK$9.3 million, from HK$178.4 million in 2008/09 to HK$187.7 million in 2009/10. With the exercise of a cautious credit assessment, impairment losses and impairment allowances increased moderately. Together with an increase in recoveries of receivables written-off, segment result for the period from instalment loan operation recorded an increase of 11.6% from HK$56.2 million in 2008/09 to HK$62.7 million in 2009/10.

With a continuous shift of usage to card instalment plan, revenue for hire purchase operation recorded a decrease of HK$1.5 million, from HK$5.6 million in 2008/09 to HK$4.1 million in 2009/10. With a drop in operating expenses and impairment losses and impairment allowances, segment result for the period from hire purchase operation recorded a slight decrease from HK$0.6 million in 2008/09 to HK$0.1 million in 2009/10.

Revenue for insurance operation recorded a slight drop of HK$0.3 million from HK$10.2 million in 2008/09 to HK$9.9 million in 2009/10. With operating expenses incurred in the set up of AEON Brokers, segment result for the period from insurance operation decreased from HK$9.5 million in 2008/09 to HK$4.7 million in 2009/10.

FUNDING AND CAPITAL MANAGEMENT

The Group manages its capital to ensure that:

- the Group will be able to continue as a going concern,

- Maximise the return to shareholders through the optimisation of the debt and equity balance and by pricing products commensurately with the level of risk; and

- Funds are available at competitive costs to meet all contractual financial commitments, to fund debtor balance growth and to generate reasonable funds from available funds.

The capital structure of the Group consists of debt (which includes bank borrowings and collateralised debt obligation), net of cash and cash equivalents and equity attributable to shareholders of the Group, comprising issued capital, reserves and accumulated profits.

FUNDING AND CAPITAL MANAGEMENT *(Continued)*

Net debt to equity ratio

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital. The Group has a target net debt to equity ratio of 2.0 to 2.5 determined as the proportion of net debt to equity.

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

	20th August 2009 (Unaudited) *HK$'000*	20th February 2009 (Audited) *HK$'000*
Debt *(note a)*	**3,558,871**	3,728,047
Cash and cash equivalents	**(306,032)**	(334,484)
Net debt	**3,252,839**	3,393,563
Equity *(note b)*	**1,818,219**	1,728,998
Net debt to equity ratio	**1.79**	1.96

Notes:

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 25 and 28 respectively.

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

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th August 2009, 33.8% of its funding was derived from shareholders' equity, 20.4% from structured finance and 45.8% from direct borrowings from financial institutions.

The principal source of internally generated capital was from accumulated profits. At 20th August 2009, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK$2,461.3 million, with 16.7% being fixed in interest rates and 66.7% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 22.6% of these indebtedness will mature within one year, 11.2% between one and two years, 54.8% between two and three years, 2.4% between three and four years and 9.0% over four years. The duration of indebtedness was around two years.

The Group's bank borrowings and collateralised debt obligation were denominated in Hong Kong dollars, except for a syndicated term loan of JPY 7.5 billion which was hedged by a cross-currency interest rate swap.

FUNDING AND CAPITAL MANAGEMENT *(Continued)*

Net debt to equity ratio *(Continued)*

The net asset of the Group at 20th August 2009 was HK$1,818.2 million, as compared with HK$1,729.0 million at 20th February 2009. Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

The Group's principal operations were transacted and recorded in Hong Kong dollars 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 20th August 2009, capital commitments entered were mainly related to the purchase of property, plant and equipment.

LOAN FACILITY WITH COVENANTS RELATING TO SPECIFIC PERFORMANCE OF THE CONTROLLING SHAREHOLDER

On 27th September 2006, the Company obtained a syndicated term loan of JPY7,500,000,000 (the "Facility") with the repayment date falling on 20th September 2011.

Under the Facility, the Company has made certain representations and warranties, including the Company is a consolidated subsidiary of ACS Japan, which is a controlling shareholder of the Company currently holding 51.94% of the issued share capital of the Company. It shall be an event of default under the terms of the Facility if the representation and warranty shall become untrue. As a result, the Facility will become due and payable on demand.

No repayment was made during the period under review and at 20th August 2009, the outstanding loan principal was JPY7,500,000,000 and the circumstances giving rise to the obligation under Rule 13.18 of the Listing Rules continued to exist.

MANAGEMENT OF RISKS

The Group has established policies and procedures for the control and monitoring of market, credit, liquidity and capital 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, derivative financial assets, advances and receivables, other debts, amount due from an associate, bank deposits, bank borrowings, collateralised debt obligation, creditors, derivative financial liabilities and amounts due to fellow subsidiaries, immediate holding company, ultimate holding company and an associate.

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 interest rate risk and foreign exchange risk by using derivative financial instruments to hedge these 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.

MANAGEMENT OF RISKS *(Continued)*

Market risk management

Market risk is the risk associated with changes in foreign exchange rates, interest rates, equity prices and government policies; and the effect of such changes on the Group's assets, liabilities and commitments, including both on and off statement of financial position, thus affecting the earnings and capital.

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 debt to the functional currency of the relevant group entity; and

- interest rate swaps 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.

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 exchanges rates. Certain equity investments and a bank borrowing 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 Japanese Yen denominated bank borrowing. To minimise the foreign currency risk in relation to the bank borrowing, the Group has been using a cross-currency interest rate swap designed to hedge against the debt which is highly effective to convert the foreign currency debt to the functional currency of the relevant group entity. The critical term of this currency swap is similar to those of hedged borrowing. Hence, the net foreign currency risk after taking derivative financial instrument 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 exposure to fair value interest rate risk relates primarily to fixed-rate lendings and borrowings. 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.

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.

MANAGEMENT OF RISKS *(Continued)*

Market risk management *(Continued)*

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 listed equity securities operating in consumer credit finance services and related business. The management will monitor the price movements and take appropriate actions when it is required.

Credit risk management

Credit risk is the risk associated with the possibility that a customer or counterparty in a transaction may default. It arises from the lending, liquid funds and derivative instruments undertaken by the Group. The Group's maximum exposures to credit risk in the event of the counterparties' failure to perform their obligations in relation to each class of recognised financial assets are the carrying amount of those assets as stated in the consolidated statement of financial position.

In evaluating the credit associated with an individual or counter-party, financial strength and repayment ability are always the primary considerations. In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The Group's credit policy defines the credit extension criteria, credit approval and monitoring processes. The management has delegated different divisions 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 advances and receivables individually or collectively at each reporting date to ensure that adequate impairment losses are made for irrecoverable amounts.

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. Other than concentration of credit risk on liquid funds and derivative financial instruments which are entered with two major banks with high credit-ratings, 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 reporting date 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 management

Liquidity risk is the risk that the Group cannot meet its current obligation. 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.

MANAGEMENT OF RISKS *(Continued)*

Capital management

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.

HUMAN RESOURCES

The total number of staff at 20th August 2009 and 20th February 2009 was 334 and 351 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2008/09 Annual Report.

DIRECTORS' INTERESTS IN SHARES

At 20th August 2009, the interests of the Directors in the shares 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
Yoshiki Mori	280,000	0.07
Masanori Kosaka	110,000	0.03
Kazuhide Kamitani	1,000,000	0.24

(b) ACS Japan – immediate holding company of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of ACS Japan
Yoshiki Mori	48,026	0.03
Masanori Kosaka	9,096	0.01
Kazuhide Kamitani	15,245	0.01
Takatoshi Ikenishi	100	0.01

DIRECTORS' INTERESTS IN SHARES *(Continued)*

(c) ÆON Japan – ultimate holding company of the Company

Director	Number of shares held under personal interests	Percentage of the issued share capital of ÆON Japan
Yoshiki Mori	7,500	0.01

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Thailand
Yoshiki Mori	1,402,600	0.56
Masanori Kosaka	100,000	0.04
Kazuhide Kamitani	500,000	0.20

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

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Malaysia
Yoshiki Mori	480,000	0.40
Masanori Kosaka	90,000	0.08
Kazuhide Kamitani	180,000	0.15

Other than the holdings disclosed above, none of the Directors nor their associates, had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 20th August 2009.

SUBSTANTIAL SHAREHOLDERS

At 20th August 2009, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that the following shareholders had notified the Company of relevant interests and short position in the issued share capital of the Company:

Name	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
ÆON Japan *(Note 1)*	277,288,000	66.22
ACS Japan *(Note 2)*	217,514,000	51.94
Aberdeen Asset Management Plc and its Associates	29,314,000	7.00
DJE Investment S.A. *(Note 3)*	25,240,000	6.03

Notes

1. ÆON 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 45.60% and 71.64% of the issued share capital of ACS Japan and AEON Stores respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by ACS Japan and AEON Stores respectively.

2. Out of 217,514,000 shares, 213,114,000 shares were held by ACS Japan and 4,400,000 shares were held by Nomura Securities (HK) Limited, as nominee on behalf of ACS Japan.

3. DJE Investment S.A. was a company 81% controlled by Dr. Jens Ehrhardt Kapital AG which in turn was 68.5% controlled by Dr. Jens Alfred Karl Ehrhardt.

Other than as disclosed above, the Company had not been notified of any other relevant interests or short positions in the issued share capital of the Company as at 20th August 2009.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 20th August 2009. The Group's interim report for the six months ended 20th August 2009 has been reviewed in accordance with the 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, by Deloitte Touche Tohmatsu, whose unmodified review report is attached on page 36 of the interim report.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the CG Code throughout the accounting period for the six months ended 20th August 2009, except for the deviations from code provisions A.4.1, A.4.2, B.1.1 and E.1.2 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.

CORPORATE GOVERNANCE *(Continued)*

The Company's Non-executive Directors are not appointed for a specific term and Directors are not subject to retirement by rotation. However, all Directors, including executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the Company's Articles of Association. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

The second limb of the code provision B.1.1 provides that a majority of the members of the remuneration committee should be independent non-executive directors.

Following the resignation of Mr. Tsang Wing Hong on 24th September 2008, the respective number of Independent Non-executive Directors of the Company, the Audit Committee and the Remuneration Committee of the Company falls below the minimum number required under Rules 3.10(1) and 3.21 of the Listing Rules and deviates from the code provision B.1.1. Following the appointment of Professor Tong Jun as an Independent Non-executive Director and a member of the Audit Committee and Remuneration Committee of the Company on 23rd September 2009, the Company is in compliance with Rules 3.10(1) and 3.21 of the Listing Rules and code provision B.1.1.

Code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. The Chairman of the Board did not attend the annual general meeting of the Company held on 19th June 2009 as he was overseas.

MODEL CODE

The Company has adopted the Model Code as it own code. 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.

CHANGE IN INFORMATION OF DIRECTOR

The change in the information of Director since the publication of the 2008/09 Annual Report is set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Dr. Hui Ching Shan was appointed as the Chairman of the Audit Committee and Remuneration Committee of the Company with effect from 19th June 2009 and is now a solicitor of Hong Kong.

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, 23rd September 2009

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

Introduction

We have reviewed the interim financial information set out on pages 1 to 24 which comprises the condensed consolidated statement of financial position of AEON Credit Service (Asia) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as of 20th August 2009 and the related condensed consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing 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 this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information 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 interim financial information consists of making inquiries, 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 interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

23rd September 2009

CORPORATE INFORMATION

Board

Executive Directors
Masanori KOSAKA *(Managing Director)*
LAI Yuk Kwong *(Deputy Managing Director)*
Tomoyuki KAWAHARA
(Senior Executive Director)
KOH Yik Kung
PAN Shu Pin, Ban
FUNG Kam Shing, Barry

Non-executive Directors
Yoshiki MORI *(Chairman)*
Kazuhide KAMITANI
Takatoshi IKENISHI

Independent Non-executive Directors
HUI Ching Shan
WONG Hin Wing
TONG Jun

Company Secretary

KOH Yik Kung

Auditor

Deloitte Touche Tohmatsu
Certified Public Accountants

Major Bankers

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

Share Registrar

Tricor Secretaries Limited
26/F, Tesbury Centre
28 Queen's Road East
Hong Kong

Registered Office

37/F, The World Trade Centre
280 Gloucester Road
Causeway Bay
Hong Kong

Internet Address

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

Stock Code

900

GLOSSARY

ACS Japan	ÆON Credit Service Co., Ltd.
AEON Brokers	AEON Insurance Brokers (HK) Limited
ÆON Japan	ÆON Co., Ltd.
AEON Malaysia	AEON Credit Service (M) Berhad
AEON Stores	AEON Stores (Hong Kong) Co., Limited
AEON Thailand	AEON Thana Sinsap (Thailand) Public Company Limited
AIS	AEON Information Service (Shenzhen) Co., Ltd.
Board	Board of Directors of the Company
CG Code	Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules
China or Mainland	People’s Republic of China
Company	AEON Credit Service (Asia) Company Limited
Director(s)	Director(s) of the Company
Group	Company and its subsidiaries
HK$	Hong Kong dollars
HKAS	Hong Kong Accounting Standard
HKICPA	Hong Kong Institute of Certified Public Accountants
HIBOR	Hong Kong Interbank Offered Rate
Hong Kong	Hong Kong Special Administrative Region of the People’s Republic of China
JPY	Japanese Yen
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
SFO	Securities and Futures Ordinance
Stock Exchange	The Stock Exchange of Hong Kong Limited

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