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 2010

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

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 2010, together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 20th August 2010

		Six months ended 20th August	
		2010	2009
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
Revenue	*3*	**550,898**	603,092
Interest income	*5*	**498,542**	544,328
Interest expense	*6*	**(66,748)**	(73,293)
Net interest income		**431,794**	471,035
Other operating income	*7*	**54,531**	62,203
Other gains and losses	*8*	**(297)**	(362)
Operating income		**486,028**	532,876
Operating expenses	*9*	**(194,564)**	(190,178)
Operating profit before impairment allowances		**291,464**	342,698
Impairment losses and impairment allowances		**(170,317)**	(216,853)
Recoveries of receivables written-off		**21,942**	25,660
Share of results of associates		**(3,404)**	(2,891)
Profit before tax		**139,685**	148,614
Income tax expense	*10*	**(23,622)**	(24,774)
Profit for the period		**116,063**	123,840
Attributable to:			
Owners of the Company		**116,063**	123,840
Earnings per share	*12*	**27.72 HK Cents**	29.57 HK Cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 20th August 2010

	Six months ended 20th August	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Profit for the period	**116,063**	123,840
Other comprehensive income		
Fair value gain on available-for-sale investments	**908**	22,894
Exchange difference arising from translation of foreign operations	**108**	–
Net adjustment on cash flow hedges	**(2,694)**	9,490
Other comprehensive (expense) income for the period	**(1,678)**	32,384
Total comprehensive income for the period	**114,385**	156,224
Total comprehensive income attributable to:		
Owners of the Company	**114,385**	156,224

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th August 2010

	Notes	20th August 2010 (Unaudited) HK$'000	20th February 2010 (Audited) HK$'000
Non-current assets			
Property, plant and equipment	13	**75,278**	83,822
Investments in associates		**27,761**	31,056
Available-for-sale investments	14	**81,106**	80,198
Advances and receivables	15	**1,194,764**	1,145,108
Prepayments, deposits and other debtors	18	**40,854**	27,054
Derivative financial instrument	27	**162,348**	104,043
Deferred tax assets	19	**1,200**	300
Restricted deposits	20	**68,000**	68,000
		1,651,311	1,539,581
Current assets			
Advances and receivables	15	**3,521,157**	3,572,854
Prepayments, deposits and other debtors	18	**14,977**	21,775
Amount due from an associate		**–**	354
Derivative financial instrument	27	**–**	244
Restricted deposits	20	**37,236**	12,156
Time deposits	21	**239,601**	258,529
Fiduciary bank balances	22	**1,724**	1,133
Bank balances and cash	23	**66,163**	83,362
		3,880,858	3,950,407
Current liabilities			
Creditors and accruals	24	**138,754**	120,218
Amounts due to fellow subsidiaries	25	**33,069**	69,207
Amount due to ultimate holding company		**32**	52
Amount due to an associate		**1,701**	–
Bank borrowings	26	**571,210**	724,160
Bank overdrafts		**2,221**	1,829
Derivative financial instruments	27	**6,460**	7,103
Tax liabilities		**9,902**	363
		763,349	922,932
Net current assets		**3,117,509**	3,027,475
Total assets less current liabilities		**4,768,820**	4,567,056
Capital and reserves			
Issued capital	28	**41,877**	41,877
Share premium and reserves		**1,884,541**	1,837,159
Total equity		**1,926,418**	1,879,036
Non-current liabilities			
Collateralised debt obligation	29	**1,098,516**	1,098,069
Bank borrowings	26	**1,691,250**	1,549,000
Derivative financial instruments	27	**52,636**	40,951
		2,842,402	2,688,020
		4,768,820	4,567,056

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 20th August 2010

	Share capital *HK$'000*	Share premium *HK$'000*	Capital redemption reserve *HK$'000*	Investment revaluation reserve *HK$'000*	Hedging reserve *HK$'000*	Translation reserve *HK$'000*	Accumulated profits *HK$'000*	Total *HK$'000*
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
Balance at 21st February 2010 (Audited)	**41,877**	**227,330**	**270**	**19,745**	**(77,670)**	**6,803**	**1,660,681**	**1,879,036**
Profit for the period	**–**	**–**	**–**	**–**	**–**	**–**	**116,063**	**116,063**
Fair value gain on available-for-sale investments	**–**	**–**	**–**	**908**	**–**	**–**	**–**	**908**
Exchange difference arising from translation of foreign operations	**–**	**–**	**–**	**–**	**–**	**108**	**–**	**108**
Net adjustment on cash flow hedges	**–**	**–**	**–**	**–**	**(2,694)**	**–**	**–**	**(2,694)**
Total comprehensive income (expense) for the period	**–**	**–**	**–**	**908**	**(2,694)**	**108**	**116,063**	**114,385**
Final dividend paid for 2009/10	**–**	**–**	**–**	**–**	**–**	**–**	**(67,003)**	**(67,003)**
Balance at 20th August 2010 (Unaudited)	**41,877**	**227,330**	**270**	**20,653**	**(80,364)**	**6,911**	**1,709,741**	**1,926,418**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 20th August 2010

	Six months ended 20th August	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Net cash from operating activities	**122,211**	349,559
Dividends received	**893**	1,173
Purchase of property, plant and equipment	**(9,540)**	(22,828)
Net cash used in investing activities	**(8,647)**	(21,655)
Increase in restricted deposits	**(25,080)**	(121,353)
Increase in collateralised debt obligation	**–**	250,000
Dividends paid	**(67,003)**	(67,003)
New bank loans raised	**6,357,000**	7,236,000
Repayment of bank loans	**(6,415,000)**	(7,654,000)
Net cash used in financing activities	**(150,083)**	(356,356)
Net decrease in cash and cash equivalents	**(36,519)**	(28,452)
Cash and cash equivalents at 21st February	**340,062**	334,484
Cash and cash equivalents at 20th August	**303,543**	306,032
Being:		
Time deposits	**239,601**	257,713
Bank balances and cash	**66,163**	49,327
Bank overdrafts	**(2,221)**	(1,008)
	303,543	306,032

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 20th August 2010

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 Hong Kong Accounting Standard ("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 2010 except as described below.

In the current interim period, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 21st February 2010.

HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 (Amendment)	Classification of Rights Issues
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 21st February 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 21st February 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The adoption of other new and revised HKFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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)	Improvements to HKFRSs 2010[1]
HKAS 24 (Revised)	Related Party Disclosures[3]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[2]
HKFRS 9	Financial Instruments[4]
HK(IFRIC) – Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement[3]
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] *Effective for annual periods beginning on or after 1st July 2010 or 1st January 2011, as appropriate*

[2] *Effective for annual periods beginning on or after 1st July 2010*

[3] *Effective for annual periods beginning on or after 1st January 2011*

[4] *Effective for annual periods beginning on or after 1st January 2013*

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1st January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The Directors anticipate that the application of other new or 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	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest income	**498,542**	544,328
Fees and commissions	**23,545**	18,883
Handling and late charges	**28,811**	39,881
	550,898	603,092

4. SEGMENT INFORMATION

The Group's operating segments under HKFRS 8 are 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 broking and agency business

Segment revenue and results

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

For the six months ended 20th August 2010 (Unaudited)

	Credit card *HK$'000*	**Instalment loan** *HK$'000*	**Hire purchase** *HK$'000*	**Insurance** *HK$'000*	**Consolidated** *HK$'000*
REVENUE	**368,786**	**166,978**	**2,781**	**12,353**	**550,898**
RESULT					
Segment results	**110,571**	**34,051**	**1**	**5,167**	**149,790**
Unallocated operating income					**1,767**
Unallocated expenses					**(8,468)**
Share of results of associates					**(3,404)**
Profit before tax					**139,685**

For the 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*
REVENUE	401,432	187,722	4,044	9,894	603,092
RESULT					
Segment results	89,769	62,742	35	4,745	157,291
Unallocated operating income					3,083
Unallocated expenses					(8,869)
Share of results of associates					(2,891)
Profit before tax					148,614

The accounting policies of operating 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 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	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Time deposits, bank balances and cash	**106**	250
Advances	**496,874**	539,056
Impaired advances	**1,562**	5,022
	498,542	544,328

6. INTEREST EXPENSE

	Six months ended 20th August	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Interest on bank borrowings and overdrafts wholly repayable within five years	**13,838**	23,860
Interest on collateralised debt obligation wholly repayable within five years	**24,961**	23,445
Net interest expense on interest rate swap contracts	**27,949**	25,988
	66,748	73,293

7. OTHER OPERATING INCOME

	Six months ended 20th August	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Dividends received on available-for-sale investments		
Listed equity securities	**788**	824
Unlisted equity securities	**105**	349
Fees and commissions		
Credit card	**11,192**	8,989
Insurance	**12,353**	9,894
Handling and late charges	**28,811**	39,881
Others	**1,282**	2,266
	54,531	62,203

8. OTHER GAINS AND LOSSES

	Six months ended 20th August 2010 (Unaudited) *HK$'000*	2009 (Unaudited) *HK$'000*
Exchange gains (losses)		
Exchange gains on bank loans	**47,300**	1,500
Exchange losses on hedging instruments released from cash flow hedge reserve	**(47,300)**	(1,500)
Hedge ineffectiveness on cash flow hedges	**(240)**	(226)
Net losses on disposal of property, plant and equipment	**(57)**	(136)
	(297)	(362)

9. OPERATING EXPENSES

	Six months ended 20th August 2010 (Unaudited) *HK$'000*	2009 (Unaudited) *HK$'000*
Administrative expenses		
Depreciation	**18,026**	17,507
General administrative expenses	**58,249**	53,007
Operating lease rentals in respect of rented premises, advertising space and equipment	**27,733**	31,641
Other operating expenses	**18,974**	20,569
Staff costs including Directors' emoluments	**50,380**	45,229
	173,362	167,953
Marketing expenses	**21,202**	22,225
	194,564	190,178

10. INCOME TAX EXPENSE

	Six months ended 20th August 2010 (Unaudited) *HK$'000*	2009 (Unaudited) *HK$'000*
Current tax:		
Hong Kong		
– Current period	**24,522**	21,074
Deferred tax *(note 19)*		
– Current period	**(900)**	3,700
	23,622	24,774

Hong Kong Profits Tax is calculated at 16.5% (six months ended 20th August 2009: 16.5%) of the estimated assessable profit for the period.

11. DIVIDEND

On 30th June 2010, a dividend of **16.0 HK cents** (2009: 16.0 HK cents) per share amounting to a total of **HK$67,003,000** (2009: HK$67,003,000) was paid to shareholders as the final dividend for 2009/10.

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 15th October 2010. The interim dividend will be paid on or about 20th October 2010. 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$116,063,000** (six months ended 20th August 2009: HK$ 123,840,000) attributable to owners of the Company and on the number of **418,766,000** (six months ended 20th August 2009: 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$9,540,000** (six months ended 20th August 2009: 22,828,000) on computer equipment and leasehold improvements.

14. AVAILABLE-FOR-SALE INVESTMENTS

	20th August 2010 (Unaudited) *HK$'000*	20th February 2010 (Audited) *HK$'000*
Listed equity securities, at fair value		
Hong Kong	**23,088**	21,845
Overseas	**15,947**	16,282
	39,035	38,127
Unlisted equity securities, at cost	**42,071**	42,071
	81,106	80,198

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 9 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. No impairment loss was charged for the current period.

15. ADVANCES AND RECEIVABLES

	20th August 2010 (Unaudited) *HK$'000*	20th February 2010 (Audited) *HK$'000*
Credit card receivables	**3,149,020**	3,100,810
Instalment loans receivable	**1,526,197**	1,570,960
Hire purchase debtors	**57,936**	70,051
	4,733,153	4,741,821
Accrued interest and other receivables	**115,745**	114,098
Gross advances and receivables	**4,848,898**	4,855,919
Impairment allowances *(note 16)*		
– individually assessed	**(57,925)**	(60,290)
– collectively assessed	**(75,052)**	(77,667)
	(132,977)	(137,957)
	4,715,921	4,717,962
Current portion included under current assets	**(3,521,157)**	(3,572,854)
Amount due after one year	**1,194,764**	1,145,108

Included in the advances and receivables of the Group, there are secured credit card receivables and instalment loans receivable of **HK$62,556,000** (20th February 2010: HK$47,100,000) and **HK$15,893,000** (20th February 2010: HK$5,797,000) respectively. The Group hold collateral over these balances. Other advances and receivables are unsecured.

(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 HKD. The credit card receivables carry effective interest ranging from 26.8% to 43.5% (20th February 2010: 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. 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 29). At 20th August 2010, the carrying amount of the credit card receivables under this financing transaction is **HK$2,020,660,000** (20th February 2010: HK$2,095,187,000). The carrying amount of the collateralised debt obligation is **HK$1,100,000,000** (20th February 2010: HK$1,100,000,000).

15. ADVANCES AND RECEIVABLES *(Continued)*

(b) Instalment loans receivable

The term of instalment loans entered with customers ranges from 6 months to 8 years. All instalment loans receivable are denominated in HKD. The instalment loans receivable carry effective interest ranging from 3.7% to 46.8% (20th February 2010: 3.7% to 46.8%) per annum.

(c) Hire purchase debtors

	Minimum payments		**Present value of minimum payments**	
	20th August 2010 (Unaudited) ***HK$'000***	20th February 2010 (Audited) *HK$'000*	**20th August 2010 (Unaudited)** ***HK$'000***	20th February 2010 (Audited) *HK$'000*
Amounts receivable under hire purchase contracts:				
Within one year	**52,559**	63,020	**51,345**	61,443
In the second to fifth year inclusive	**6,703**	8,796	**6,591**	8,608
	59,262	71,816	**57,936**	70,051
Unearned finance income	**(1,326)**	(1,765)	**–**	–
Present value of minimum payments receivable	**57,936**	70,051	**57,936**	70,051

The term of hire purchase contracts entered with customers ranges from 5 months to 3 years. All hire purchase agreements are denominated in HKD. The hire purchase debtors carry effective interest ranging from 4.4% to 15.7% (20th February 2010: 4.4% to 15.7%) per annum.

16. IMPAIRMENT ALLOWANCES

	20th August 2010 (Unaudited) ***HK$'000***	20th February 2010 (Audited) *HK$'000*
Analysis by products as:		
Credit card receivables	**64,009**	66,155
Instalment loans receivable	**53,042**	55,939
Hire purchase debtors	**913**	1,240
Accrued interest and other receivables	**15,013**	14,623
	132,977	137,957

16. IMPAIRMENT ALLOWANCES *(Continued)*

	Individual assessment *HK$'000*	**Collective assessment** *HK$'000*	**Total** *HK$'000*
At 21st February 2010	**60,290**	**77,667**	**137,957**
Impairment losses and impairment allowances	**172,932**	**(2,615)**	**170,317**
Amounts written-off as uncollectable	**(175,297)**	**–**	**(175,297)**
At 20th August 2010	**57,925**	**75,052**	**132,977**

	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

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 2010 (Unaudited)		20th February 2010 (Audited)	
	HK$'000	***%****	*HK$'000*	*%**
Overdue 1 month but less than 2 months	**121,063**	**2.5**	128,158	2.6
Overdue 2 months but less than 3 months	**29,823**	**0.6**	29,463	0.6
Overdue 3 months but less than 4 months	**18,606**	**0.4**	20,490	0.4
Overdue 4 months or above	**50,626**	**1.0**	55,877	1.2
	220,118	**4.5**	233,988	4.8

* *Percentage of gross advances and receivables*

18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	20th August 2010 (Unaudited) *HK$'000*	20th February 2010 (Audited) *HK$'000*
Prepaid cost for property, plant and equipment	**29,913**	22,177
Rental deposits	**14,583**	13,444
Prepaid operating expenses	**7,772**	9,705
Other debtors	**3,563**	3,503
	55,831	48,829
Current portion included under current assets	**(14,977)**	(21,775)
Amount due after one year	**40,854**	27,054

19. DEFERRED TAX ASSETS

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

	Accelerated tax depreciation *HK$'000*	**Impairment allowances *HK$'000***	**Total *HK$'000***
At 21st February 2010	**(12,600)**	**12,900**	**300**
Credit (charge) to profit or loss for the period	**1,400**	**(500)**	**900**
At 20th August 2010	**(11,200)**	**12,400**	**1,200**

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

20. RESTRICTED DEPOSITS

The restricted deposits of the Group are in relation to the arrangement under collateralised debt obligation. This represents time deposits carrying at fixed rates ranging from 0.01% to 0.28% (six months ended 20th August 2009: 0.02% to 0.31%) per annum during the period. Restricted deposits of **HK$37,236,000** (20th February 2010: HK$12,156,000) will mature within one year from 20th August 2010.

21. TIME DEPOSITS

Time deposits of the Group carry fixed rates ranging from 0.01% to 0.23% (six months ended 20th August 2009: 0.01% to 0.31%) per annum during the period and will mature within one month.

22. FIDUCIARY BANK BALANCES

The fiduciary bank balances of the Group are in relation to the money deposited by clients in the course of the conduct of the regulated activities under insurance broking and agency 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. The interest income derived from these balances belongs to the clients and therefore it is recognised in the clients' accounts.

23. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market rate.

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

	HKD *HK$'000*	**USD** *HK$'000*	**JPY** *HK$'000*	**Total** *HK$'000*
20th August 2010 (Unaudited)				
Bank balances and cash	**65,835**	**320**	**8**	**66,163**
20th February 2010 (Audited)				
Bank balances and cash	83,074	280	8	83,362

24. CREDITORS AND ACCRUALS

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

	20th August 2010 (Unaudited) *HK$'000*	20th February 2010 (Audited) *HK$'000*
Current	**34,601**	43,055
Over 1 month but less than 3 months	**858**	736
Over 3 months	**2,154**	2,361
	37,613	46,152

Included in creditors and accruals, there is deferred revenue in relation to customer loyalty programmes of **HK$5,211,000** (20th February 2010: HK$3,920,000).

25. AMOUNTS DUE TO FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and are repayable on demand.

26. BANK BORROWINGS

	20th August 2010 (Unaudited) *HK$'000*	20th February 2010 (Audited) *HK$'000*
Bank loans, unsecured	**2,262,460**	2,273,160
The maturity of bank borrowings is as follows:		
Within one year	**571,210**	724,160
Between one and two years	**951,250**	904,000
Between two and five years	**680,000**	645,000
Over five years	**60,000**	–
	2,262,460	2,273,160
Amount repayable within one year included under current liabilities	**(571,210)**	(724,160)
Amount repayable after one year	**1,691,250**	1,549,000

The functional currency of relevant group entity is HKD. The carrying amounts of the Group's bank borrowings are denominated in the following currencies:

	HKD *HK$'000*	**USD** *HK$'000*	**JPY** *HK$'000*	**Total** *HK$'000*
20th August 2010 (Unaudited)				
Bank loans	**1,498,500**	**77,710**	**686,250**	**2,262,460**
20th February 2010 (Audited)				
Bank loans	1,556,500	77,660	639,000	2,273,160

HKD bank loans of **HK$310,000,000** (20th February 2010: HK$310,000,000) are arranged at fixed interest rates ranging from 1.4% to 5.2% (20th February 2010: 2.7% to 5.2%) per annum and expose the Group to fair value interest rate risk. Other HKD bank loans are arranged at floating interest rates of 0.3% plus HIBOR to 0.8% plus HIBOR (20th February 2010: 0.3% plus HIBOR to 0.8% plus HIBOR) per annum while the JPY borrowing is arranged at floating interest rate of 0.4% plus JPY-LIBOR-BBA per annum and the USD borrowing is arranged at floating interest rate of 0.2% plus LIBOR per annum, thus exposing the Group to cash flow interest rate risk.

The Group did not have available undrawn committed borrowing facilities at 20th August 2010 and 20th February 2010.

At 20th August 2010, the Group has available unutilised overdrafts and non-committed short term bank loan facilities of **HK$660,120,000** (20th February 2010: HK$620,120,000) and **HK$732,000,000** (20th February 2010: HK$774,000,000) respectively.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	20th August 2010 (Unaudited)		20th February 2010 (Audited)	
	Assets	**Liabilities**	Assets	Liabilities
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Interest rate swaps	**–**	**59,039**	–	48,054
Cross-currency interest rate swaps	**162,348**	**57**	104,287	–
	162,348	**59,096**	104,287	48,054
Current portion	**–**	**(6,460)**	(244)	(7,103)
Non-current portion	**162,348**	**52,636**	104,043	40,951

All derivative financial instruments entered by the Group at 20th August 2010 and 20th February 2010 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.

Cash flow hedges:

Interest rate swaps

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rate bank borrowings by swapping certain HKD floating-rate bank borrowings with aggregate principal of **HK$1,095,000,000** (20th February 2010: HK$1,155,000,000) from floating rates to fixed rates. The interest rate swaps of the Group with aggregate notional amount of **HK$1,095,000,000** (20th February 2010: HK$1,155,000,000) have fixed interest payments at fixed interest rates ranging from 2.2 % to 5.4% (20th February 2010: 2.2% to 5.7%) per annum and floating interest receipts ranging from 0.3% plus HIBOR to 0.8% plus HIBOR (20th February 2010: 0.3% plus HIBOR to 0.8% plus HIBOR) per annum for periods up until June 2017. The interest rate swaps and the corresponding bank borrowings have the same 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$13,398,000** (six months ended 20th August 2009: HK$11,295,000) is included in other comprehensive income.

The fair value 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.

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

Cash flow hedges: *(Continued)*

Cross-currency interest rate swaps

The Group uses cross-currency interest rate swaps designated as highly effective hedging instruments to minimise its exposure to foreign currency and cash flow interest rate risk of its floating-rate JPY syndicated bank borrowing and USD bank borrowing by swapping the floating-rate JPY bank borrowing and USD bank borrowing with principal of JPY7,500,000,000 and US$10,000,000 to fixed-rate HKD bank borrowings. 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 HKD at exchange rate of JPY to HKD at 15.0, fixed interest payments in HKD at 4.9% per annum and floating interest receipts in JPY at 0.4% plus JPY-LIBOR-BBA per annum for periods up until September 2011. The cross-currency interest rate swap of the Group with notional amount of US$10,000,000 (equivalent to HK$77,512,000 at the date of inception of the loan) has fixed currency payments in HKD at exchange rate of USD to HKD at 7.75, fixed interest payments in HKD at 1.5% per annum and floating interest receipts in USD at 0.2% plus LIBOR per annum for periods up until December 2010. The cross-currency interest rate swaps and the corresponding bank borrowings have the same terms and the Directors consider that the cross-currency interest rate swaps are highly effective hedging instruments.

During the period, net adjustment on the above-mentioned cash flow hedges amounted to **HK$10,704,000** (six months ended 20th August 2009: HK$1,805,000) is included in other comprehensive income.

The fair value of the cross-currency interest rate swaps are determined by using the discounted cash flow method based on JPY-LIBOR-BBA and LIBOR yield curves and the forward exchange rates relating to JPY, USD and HKD estimated at the end of the reporting period.

28. ISSUED CAPITAL

	Number of shares 20th August 2010 (Unaudited) & 20th February 2010 (Audited)	**Share capital 20th August 2010 (Unaudited) & 20th February 2010 (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**

29. 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 in 2009. 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 HK(SIC)-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 32) and with the carrying amount denominated in HKD. The revolving period of the Transaction will end in February 2012. The interest of the collateralised debt obligation is fixed at 4.5% per annum during the revolving period, thus exposing the Group to fair value interest rate risk. The effective interest rate is 4.5% (six months ended 20th August 2009: 4.5%) per annum during the period.

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, advertising space and computer equipment, which fall due as follows:

	20th August 2010 (Unaudited) ***HK$'000***	20th February 2010 (Audited) *HK$'000*
Within one year	**41,355**	38,823
In the second to fifth year inclusive	**18,087**	26,630
	59,442	65,453

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.

31. CAPITAL COMMITMENTS

	20th August 2010 (Unaudited)	20th February 2010 (Audited)
	HK$'000	*HK$'000*
Contracted for, but not provided in the consolidated financial statements:		
Purchase of property, plant and equipment	**31,045**	14,069

32. PLEDGE OF ASSETS

At 20th August 2010, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK$2,020,660,000** and **HK$105,236,000** respectively (20th February 2010: HK$2,095,187,000 and HK$80,156,000) (see notes 15(a) and 20).

33. 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**	
	2010	2009	**2010**	2009	**2010**	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Interest income received	**3,607**	3,629	**–**	–	**–**	–	**–**	–
Commission received	**1,842**	1,576	**–**	–	**–**	–	**–**	–
Dividends received	**893**	1,163	**–**	–	**–**	–	**–**	–
Service fees received	**–**	–	**–**	–	**–**	–	**120**	225
Licence fees paid	**3,224**	3,205	**113**	90	**20**	23	**–**	–
Service fees paid	**–**	–	**3,237**	3,052	**–**	–	**18,462**	15,940
Development fees paid *(Note)*	**7,311**	4,516	**–**	–	**–**	–	**–**	–

Note: For the development fees paid, **HK$604,000** (six months ended 20th August 2009: HK$541,000) is recognised as general administrative expenses, **HK$2,042,000** (six months ended 20th August 2009: HK$2,694,000) is capitalised in property, plant and equipment and **HK$8,522,000** (six months ended 20th August 2009: HK$1,281,000) is included in prepayments, deposits and other debtors.

33. RELATED PARTY TRANSACTIONS *(Continued)*

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	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Short-term benefits	**5,825**	6,034
Post-employment benefits	**42**	60
	5,867	6,094

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) Subsidiary

Name of subsidiaries	Place of incorporation and operation	Issued share capital/ paid-up capital	Proportion of ownership interest deemed to be held by the Company 2010	2009	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%**	100%	Insurance broking and agency 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 20th August 2010, net 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 12th October 2010 to 15th October 2010, 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 4:30 p.m. on 11th October 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the period under review, Hong Kong's economy has experienced a steady recovery since the 2008 financial crisis. The economic stimulus measures introduced by the Mainland Government continued to have positive impact on the labour and property markets. Unemployment rate dropped and remained steady after a short bump upwards following the financial crisis. Meanwhile, private consumption expenditure showed encouraging signs of improvement, with support coming from the Hong Kong Government's relief measures. There is a gradual rise in inflation, being part of the reflationary process as economic recovery progresses. Under these circumstances, the consumers generally will take a cautious approach in increasing their spending and borrowing activities. The overall operating environment for consumer finance business in Hong Kong remains challenging. The keen competition puts pressure on net interest margins for market participants. Participants have to strive for innovative products and service quality to attract new customers while at the same time monitor the possible deteriorating in credit quality. Likewise the core operating performance of the Group was still under pressure and growth in sales was mainly derived from spending in credit card. As a result, total advances remained stagnant when compared with the end of last year.

The Group recorded a profit attributable to owners of HK$116.1 million for the six months ended 20th August 2010, representing a decrease of 6.3% or HK$7.8 million when compared to HK$123.8 million in the previous corresponding period. The Group's earnings per share changed from 29.57 HK cents per share in 2009/10 to 27.72 HK cents per share.

A series of new marketing programs had been launched directing towards card acquisition and card activation. The AEON Stores new store opening promotion and Watami special menu promotion had received overwhelming response in the market. As a result, the Group recorded an overall increase in credit card sales when compared with last year.

Although there was an increase in credit card sales, the balance of credit card receivables still could not reach the level of 20th August 2009. Following the change in interest rate mix for instalment loans, interest income recorded a decrease of 8.4% from HK$544.3 million in 2009/10 to HK$498.5 million. With the continuous renew of long-term borrowings with lower funding cost, interest expense in the first half was HK$66.7 million, a decrease of HK$6.5 million when compared with last year, with average funding cost being 4.0% in the first half of this year, as compared with 4.1% in last year. Net interest income of the Group recorded a drop of 8.3% to HK$431.8 million from HK$471.0 million in 2009/10. The drop in handling and late charges had resulted in the decrease in other operating income by 12.3% from HK$62.2 million in 2009/10 to HK$54.5 million for the first six months in 2010/11.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

Financial Review *(Continued)*

Following the recruit of more staff for its insurance and China business and the launch of different marketing programs, the Group had spent more on both staff costs and card and loan processing expenses. At the same time, the Group continued to exercise tight control on other operating expenses, resulting in a slight increase in operating expenses of 2.3% from HK$190.2 million in 2009/10 to HK$194.6 million for the first six months in 2010/11. The Group's cost-to-income ratio was 40.0% in the first half of this year.

At the operating level before impairment allowances, the Group recorded an operating profit of HK$291.5 million for the six months ended 20th August 2010, representing a decrease of 15.0% from HK$342.7 million in the previous corresponding period. During the period under review, the Group lent conservatively and strived to continually maintain its asset quality. With the continued decline in personal bankruptcies and the exercise of cautious approval process, there were noticeable improvements in the collection ratios and the amounts written-off also dropped when compared with last year. Impairment losses and impairment allowances for the first half decreased by 21.5% or HK$46.5 million from HK$216.9 million in 2009/10 to HK$170.3 million. Recoveries of receivables written-off was HK$21.9 million, a decrease of 14.5% or HK$3.7 million when compared with HK$25.7 million in 2009/10. Impairment allowances amounted to HK$133.0 million at 20th August 2010, as compared with HK$138.0 million at 20th February 2010.

Local consumption and investment demand had started to pick up during the first half of the year. However, with the keen competition and cautious mind of customers in spending, the Group still experienced a reduction in gross advances of 0.2% during the period, mainly in instalment loans receivables and hire purchase debtors. Gross advances at 20th August 2010 was HK$4,733.2 million, as compared to HK$4,741.8 million at 20th February 2010. Total equity was strengthened by 2.5% to HK$1,926.4 million at 20th August 2010 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 2010, increased from HK$4.3 to HK$4.4.

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 AEON Stores new store opening promotion, Shanghai Expo spending promotion, Watami special menu promotion and China UnionPay card 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 AEON Visa Corporate Card and the introduction of mortgage products through its merchant network, the Group had secured new customer base for future cross-selling opportunities. On branch network, the Group had relocated its Lok Fu and Tai Po branches and opened a new branch in Kowloon Bay. On corporate social responsibility, the Group had extended the certification of ISO 14001 Environmental Management System to head office, data centre and branches.

Business Review *(Continued)*

During the period under review, AEON Brokers focused on introducing company insurance to business partners and corporate clients, and utilised insurance consultants to promote insurance products to its customers. Besides using web and insurance consultants, AEON Brokers also organised various seminars to promote insurance products on life, general and MPF scheme.

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 continued to expand its collection services to new corporate clients in China in the fields of auto, finance and insurance.

Prospects

Looking ahead, although there are still uncertainties in the recovery of the global economy, the current strong growth momentum in Hong Kong and the Asian region as a whole is expected to continue in the second half. In the upcoming quarters, better job and income prospects are expected to be the key drivers for further growth in consumption and investment. It is expected that the operating environment for consumer finance will continue to be challenging for the rest of the year. Since the consolidation in the asset markets may temper the growth momentum of retail sales, demand for consumer finance is still expected to recover slowly in the second half. Under this operating environment, the Group will continue to adopt a conservative approach to recruit new members and generate new sales. As the Group has been closely monitoring its portfolio and taking prudent approach to extend credit, the asset quality remains fundamentally sound. The Group will actively strengthen its brand image in the market as providing better life quality for customers and also as a responsible corporate citizen. To this end, the Group will focus on expanding its credit card business through its enlarged merchant network, innovative product development and aggressive marketing strategies, while at the same time minimizing its credit risks and implementing appropriate cost savings measures. Given the low interest-rate environment, margins are expected to remain stable while cost-to-income ratio is likely to fall even under current inflationary environment.

Since AEON JUSCO Card is always the core card for card member growth and usage stimulation, the Group will increase its convenience and strengthen the benefits of AEON JUSCO Cards by offering sign-less service and organising mass promotions jointly with AEON Stores. Moreover, new marketing activities will be launched with affinity merchants, such as Japanese movie promotion with Watami, directing towards card activation through the offering of appealing cardholder privileges and affinity member benefits. The collaboration with different merchants in promoting recurrent transactions through credit cards has successfully improved the active ratio. The Group will continue to promote this service to its net members through SMS mails.

Prospects *(Continued)*

To facilitate the customers' need for overseas remittance, the Group will launch remittance service in October this year. Moreover, the Group will extend its loan products to satisfy customers' requirement on property and bridal loan. By using its vast customer and merchant base, the Group will enrich its web contents, including on-line shopping service, financial service and payment gateway to generate more fee income through the web business. Besides that, the Group will continue to explore other 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 2010/11, credit card operation accounted for 66.9% of the Group's revenue, as compared to 66.6% in 2009/10. For segment result, credit card operation accounted for 73.8% of the Group's whole operations in 2010/11, as compared to 57.1% in 2009/10.

Although there was an increase in sales for credit card operation, the balance of credit card receivables still could not reach the level of 20th August 2009. As a result, interest income recorded a decrease when compared with last year. Together with a drop in late charges, revenue from credit card operation recorded a decrease of 8.1% or 32.6 million from HK$401.4 million in 2009/10 to HK$368.8 million in 2010/11. With a reduction in personal bankruptcies and continued improvement in delinquencies, there was a noticeable decrease in the impairment losses and impairment allowances. Although there was a drop in recoveries of receivables written-off, the segment result for the period from credit card operation recorded an increase of 23.2% from HK$89.8 million in 2009/10 to HK$110.6 million in 2010/11.

Following the change in interest rate mix for instalment loan business, interest income recorded a decrease when compared with last year. Together with a drop in late charges, revenue from instalment loan operation recorded a decrease of 11.1% or 20.7 million from HK$187.7 million in 2009/10 to HK$167.0 million in 2010/11. With the exercise of a cautious credit assessment, impairment losses and impairment allowances increased moderately. Although there was a drop in interest expense, segment result for the period from instalment loan operation recorded a decrease of 45.7% from HK$62.7 million in 2009/10 to HK$34.1 million in 2010/11.

With a continuous shift of usage to card instalment plan, revenue for hire purchase operation recorded a decrease of HK$1.3 million, from HK$4.0 million in 2009/10 to HK$2.8 million in 2010/11. Although there was a drop in operating expenses and impairment losses and impairment allowances, segment result for the period from hire purchase operation recorded a decrease from HK$0.04 million in 2009/10 to HK$0.001 million in 2010/11.

Revenue for insurance operation recorded an increase of HK$2.5 million from HK$9.9 million in 2009/10 to HK$12.4 million in 2010/11. Although there was an increase in operating expenses in running the insurance broking business, segment result for the period from insurance operation increased from HK$4.7 million in 2009/10 to HK$5.2 million in 2010/11.

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 owners of the Group, comprising issued capital, reserves and accumulated profits.

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 1.5 to 2.0 determined as the proportion of net debt to equity.

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

	20th August 2010 (Unaudited) ***HK$'000***	20th February 2010 (Audited) *HK$'000*
Debt *(note a)*	**3,360,976**	3,371,229
Cash and cash equivalents	**(303,543)**	(340,062)
Net debt	**3,057,433**	3,031,167
Equity *(note b)*	**1,926,418**	1,879,036
Net debt to equity ratio	**1.59**	1.61

Notes:

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 26 and 29 respectively.

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

FUNDING AND CAPITAL MANAGEMENT *(Continued)*

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th August 2010, 36.4% of its funding was derived from total equity, 20.8% from structured finance and 42.8% from direct borrowings from financial institutions.

The principal source of internally generated capital was from accumulated profits. At 20th August 2010, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK$2,262.5 million, with 13.7% being fixed in interest rates and 82.2% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 17.0% of these indebtedness will mature within one year, 61.0% between one and two years, 4.3% between two and three years, 10.7% between three and four years and 7.0% over four years. The duration of indebtedness was around 1.8 years.

The Group's bank borrowings and collateralised debt obligation were denominated in HKD, except for a syndicated term loan of JPY7.5 billion and a term loan of USD10.0 million which were hedged by cross-currency interest rate swaps.

The net asset of the Group at 20th August 2010 was HK$1,926.4 million, as compared with HK$1,879.0 million at 20th February 2010. 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 20th August 2010, 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 2010, 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, procedures and controls for measuring, monitoring and controlling 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, advances and receivables, other debtors, amount due from an associate, bank deposits, bank balances and cash and derivative financial asset, bank borrowings, 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.

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 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 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 JYP and USD denominated bank borrowings. To minimise the foreign currency risk in relation to the bank borrowings, the Group have 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.

MANAGEMENT OF RISKS *(Continued)*

Market risk *(Continued)*

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 lending 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.

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.

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 credit finance services and related business. The management will monitor the price movements and take appropriate actions when it is required.

Credit risk

The Group's maximum exposures to credit risk in the event of the counterparties' failure to perform their obligations at 20th August 2010 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the 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 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. 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. 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.

MANAGEMENT OF RISKS *(Continued)*

Credit risk (Continued)

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 management

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 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 2010 and 20th February 2010 was 339 and 334 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2009/10 Annual Report.

DIRECTORS' INTERESTS IN SHARES

At 20th August 2010, 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
Kazuhide Kamitani	300,000	0.07
Masanori Kosaka	110,000	0.03

(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
Kazuhide Kamitani	15,245	0.01
Masanori Kosaka	9,096	0.01
Takatoshi Ikenishi	100	0.01

(c) 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
Kazuhide Kamitani	500,000	0.20
Masanori Kosaka	100,000	0.04

(d) 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
Kazuhide Kamitani	180,000	0.15
Masanori Kosaka	48,700	0.04

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 2010.

SUBSTANTIAL SHAREHOLDERS

At 20th August 2010, 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
AEON Japan *(Note 1)*	277,288,000	66.22
ACS Japan *(Note 2)*	217,514,000	51.94
Aberdeen Asset Management Plc and its Associates	33,520,000	8.00
DJE Investment S.A. *(Note 3)*	30,132,000	7.20

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 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 2010.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 20th August 2010. The Group's interim report for the six months ended 20th August 2010 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the CG Code throughout the accounting period for the six months ended 20th August 2010, except for the deviations from code provisions A.4.1, A.4.2 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.

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.

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 18th June 2010 as he was overseas.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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.

CHANGES IN INFORMATION OF DIRECTORS

The changes in the information of Directors since the publication of the 2009/10 Annual Report are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Biographical Details of Directors

Mr. Kazuhide Kamitani

- Appointed as the Chairman of the Company on 18th June 2010.
- Appointed as a director of AEON Thailand on 17th June 2010.
- Appointed as a director of AEON Credit Service (Taiwan) Co., Ltd. and AEON Credit Card (Taiwan) Co., Ltd. on 27th April 2010.

CHANGES IN INFORMATION OF DIRECTORS *(Continued)*

Biographical Details of Directors *(Continued)*

Mr. Takatoshi Ikenishi

- Appointed as a member of the Audit Committee and Remuneration Committee of the Company on 18th June 2010.

- Resigned as a director of AEON Thailand on 15th June 2010.

Mr. Wong Hin Wing

- Ceased as a director of Guangzhou Pharmaceutical Company Limited on 28th June 2010.

Directors' Emoluments

- With effect from 21st February 2010, the Director's fees payable to Dr. Hui Ching Shan, Mr. Wong Hin Wing and Professor Tong Jun have been increased by HK$8,000 each per annum.

- With effect from 21st June 2010, the basic salaries payable to Mr. Lai Yuk Kwong, Mr. Tomoyuki Kawahara, Ms. Koh Yik Kung and Mr. Fung Kam Shing, Barry have been increased by HK$4,000 each per month.

- A discretionary bonus of HK$400,000, HK$139,000, HK$108,000, HK$44,000 and HK$109,000 was paid to Mr. Masanori Kosaka, Mr. Lai Yuk Kwong, Mr. Tomoyuki Kawahara, Ms. Koh Yik Kung and Mr. Fung Kam Shing, Barry respectively in June 2010.

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, 24th September 2010

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 22 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 at 20th August 2010 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

24th September 2010

CORPORATE INFORMATION

Board of Directors

Executive Directors
Masanori Kosaka *(Managing Director)*
Lai Yuk Kwong *(Deputy Managing Director)*
Tomoyuki Kawahara *(Senior Executive Director)*
Koh Yik Kung
Fung Kam Shing, Barry
Toshiya Shimakata

Non-executive Directors
Kazuhide Kamitani *(Chairman)*
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
AEON 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
HKD or HK$	Hong Kong dollars
HIBOR	Hong Kong Interbank Offered Rate
Hong Kong	Hong Kong Special Administrative Region of the People's Republic of China
JPY	Japanese Yen
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
SFO	Securities and Futures Ordinance
Stock Exchange	The Stock Exchange of Hong Kong Limited
USD	United States Dollars

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本報告以再造紙印製