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AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 900)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 20TH AUGUST 2012

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 20th August 2012, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 20th August 2012

		Six months ended 20th August	
		2012	2011
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	3	557,597	556,470
Interest income	5	501,419	504,516
Interest expense	6	(50,163)	(61,198)
Net interest income		451,256	443,318
Other operating income	7	60,659	54,360
Other gains and losses	8	(1,042)	(250)
Operating income		510,873	497,428
Operating expenses	9	(215,050)	(195,649)
Operating profit before impairment allowances		295,823	301,779
Impairment losses and impairment allowances		(145,879)	(159,714)
Recoveries of advances and receivables written-off		26,322	20,461
Share of results of associates		(2,268)	(2,499)
Profit before tax		173,998	160,027
Income tax expense	10	(30,184)	(27,059)
Profit for the period		143,814	132,968
Attributable to:			
Owners of the Company		143,814	132,968
Earnings per share – Basic	12	34.34 HK cents	31.75 HK cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 20th August 2012

	Six months ended 20th August	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
Profit for the period	<u>143,814</u>	<u>132,968</u>
Other comprehensive income (expense)		
Fair value gain on available-for-sale investments	19,250	9,054
Exchange difference arising from translation of foreign operations	(432)	1,801
Net adjustment on cash flow hedges	<u>7,586</u>	<u>(151,117)</u>
Other comprehensive income (expense) for the period	<u>26,404</u>	<u>(140,262)</u>
Total comprehensive income (expense) for the period	<u>170,218</u>	<u>(7,294)</u>
Total comprehensive income (expense) attributable to: Owners of the Company	<u>170,218</u>	<u>(7,294)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th August 2012

		20th August 2012 (Unaudited) HK\$'000	20th February 2012 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	13	89,608	91,816
Investments in associates		19,932	22,389
Available-for-sale investments	14	48,748	72,664
Advances and receivables	15	1,288,562	1,252,061
Prepayments, deposits and other debtors	18	46,509	46,771
Derivative financial instruments	21	1,871	2,773
Restricted deposits		68,000	68,000
		1,563,230	1,556,474
Current assets			
Available-for-sale investments	14	43,166	–
Advances and receivables	15	3,443,216	3,512,062
Prepayments, deposits and other debtors	18	27,691	54,690
Amount due from an associate		407	–
Restricted deposits		164,578	–
Time deposits		213,987	233,367
Fiduciary bank balances		3,958	2,246
Bank balances and cash		166,296	124,121
		4,063,299	3,926,486
Current liabilities			
Creditors and accruals	19	167,567	155,991
Amounts due to fellow subsidiaries		51,369	50,273
Amount due to immediate holding company		130	123
Amount due to ultimate holding company		71	51
Amounts due to associates		20	878
Bank borrowings	20	282,980	277,000
Bank overdrafts		2,991	3,215
Derivative financial instruments	21	3,879	1,478
Tax liabilities		31,619	14,141
		540,626	503,150
Net current assets		3,522,673	3,423,336
Total assets less current liabilities		5,085,903	4,979,810

		20th August 2012 (Unaudited) HK\$'000	20th February 2012 (Audited) HK\$'000
Capital and reserves			
Issued capital		41,877	41,877
Share premium and reserves		2,102,568	2,007,728
		<hr/>	<hr/>
Total equity		2,144,445	2,049,605
		<hr/>	<hr/>
Non-current liabilities			
Collateralised debt obligation	23	1,098,248	1,098,035
Bank borrowings	20	1,650,420	1,630,240
Derivative financial instruments	21	191,090	200,530
Deferred tax liabilities	22	1,700	1,400
		<hr/>	<hr/>
		2,941,458	2,930,205
		<hr/>	<hr/>
		5,085,903	4,979,810
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 20th August 2012

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Balance at 21st February 2011 (Audited)	41,877	227,330	270	26,703	(50,513)	7,870	1,778,858	2,032,395
Profit for the period	-	-	-	-	-	-	132,968	132,968
Fair value gain on available-for-sale investments	-	-	-	9,054	-	-	-	9,054
Exchange difference arising from translation of foreign operations	-	-	-	-	-	1,801	-	1,801
Net adjustment on cash flow hedges	-	-	-	-	(151,117)	-	-	(151,117)
Total comprehensive income (expense) for the period	-	-	-	9,054	(151,117)	1,801	132,968	(7,294)
Final dividend paid for 2010/11	-	-	-	-	-	-	(67,003)	(67,003)
Balance at 20th August 2011 (Unaudited)	41,877	227,330	270	35,757	(201,630)	9,671	1,844,823	1,958,098
Balance at 21st February 2012 (Audited)	41,877	227,330	270	17,938	(194,305)	10,323	1,946,172	2,049,605
Profit for the period	-	-	-	-	-	-	143,814	143,814
Fair value gain on available-for-sale investments	-	-	-	19,250	-	-	-	19,250
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(432)	-	(432)
Net adjustment on cash flow hedges	-	-	-	-	7,586	-	-	7,586
Total comprehensive income (expense) for the period	-	-	-	19,250	7,586	(432)	143,814	170,218
Final dividend paid for 2011/12	-	-	-	-	-	-	(75,378)	(75,378)
Balance at 20th August 2012 (Unaudited)	41,877	227,330	270	37,188	(186,719)	9,891	2,014,608	2,144,445

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 20th August 2012

	Six months ended 20th August	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from operating activities	217,873	162,916
Dividends received	635	1,191
Proceeds from disposal of available-for-sale investment	31,081	–
Purchase of property, plant and equipment	(7,682)	(7,881)
Deposits paid for acquisition of property, plant and equipment	(4,677)	(18,006)
Net cash from (used in) investing activities	19,357	(24,696)
Placement of restricted deposits	(1,086,148)	(1,220,151)
Withdrawal of restricted deposits	921,570	1,079,978
Dividends paid	(75,378)	(67,003)
New bank loans raised	8,718,015	8,747,100
Repayment of bank loans	(8,692,035)	(8,608,600)
Net cash used in financing activities	(213,976)	(68,676)
Net increase in cash and cash equivalents	23,254	69,544
Cash and cash equivalents at 21st February	354,273	260,664
Effect of changes in exchange rate	(235)	1,012
Cash and cash equivalents at 20th August	377,292	331,220
Being:		
Time deposits	213,987	214,521
Bank balances and cash	166,296	118,073
Bank overdrafts	(2,991)	(1,374)
	377,292	331,220

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 20th August 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

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 and methods of computation 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 2012.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

Amendments to HKFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

	Six months ended 20th August	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$’000	HK\$’000
Interest income	501,419	504,516
Fees and commissions	32,898	26,125
Handling and late charges	23,280	25,829
	<u>557,597</u>	<u>556,470</u>

4. SEGMENT INFORMATION

Services from which operation and reportable segments derive their revenues

The Group’s operating and reportable segments are as follows:

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

Segment revenue and results

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

For the six months ended 20th August 2012 (Unaudited)

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>368,301</u>	<u>170,260</u>	<u>18,669</u>	<u>367</u>	<u>557,597</u>
RESULT					
Segment results	<u>129,252</u>	<u>45,487</u>	<u>7,144</u>	<u>533</u>	182,416
Unallocated operating income					3,518
Unallocated expenses					(9,668)
Share of results of associates					<u>(2,268)</u>
Profit before tax					<u>173,998</u>

For the six months ended 20th August 2011 (Unaudited)

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>370,687</u>	<u>170,367</u>	<u>13,871</u>	<u>1,545</u>	<u>556,470</u>
RESULT					
Segment results	<u>110,184</u>	<u>53,191</u>	<u>6,388</u>	<u>168</u>	169,931
Unallocated operating income					2,335
Unallocated expenses					(9,740)
Share of results of associates					<u>(2,499)</u>
Profit before tax					<u>160,027</u>

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit before tax 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	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Time deposits and bank balances	609	96
Advances	499,022	502,549
Impaired advances	1,788	1,871
	<u>501,419</u>	<u>504,516</u>

6. INTEREST EXPENSE

	Six months ended 20th August	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank borrowings and overdrafts wholly repayable within five years	9,214	10,615
Interest on bank borrowings wholly repayable after five years	453	263
Interest on collateralised debt obligation wholly repayable within five years	3,501	25,032
Net interest expense on interest rate swap contracts	36,995	25,288
	<u>50,163</u>	<u>61,198</u>

7. OTHER OPERATING INCOME

	Six months ended 20th August	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	635	1,078
Unlisted equity securities	–	113
Fees and commissions		
Credit card	14,229	12,254
Insurance	18,669	13,871
Handling and late charges	23,280	25,829
Others	3,846	1,215
	<u>60,659</u>	<u>54,360</u>

8. OTHER GAINS AND LOSSES

	Six months ended 20th August	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Exchange gains (losses)		
Exchange gains on hedging instruments released from cash flow hedge reserve	180	63,090
Exchange losses on bank loans	(180)	(63,090)
Exchange losses, net	(937)	–
Hedge ineffectiveness on cash flow hedges	(105)	(250)
	<u>(1,042)</u>	<u>(250)</u>

9. OPERATING EXPENSES

	Six months ended 20th August	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation	17,644	17,037
General administrative expenses	60,551	59,098
Marketing and promotion expenses	25,435	19,750
Operating lease rentals in respect of rented premises, advertising space and equipment	26,516	27,739
Other operating expenses	23,603	19,939
Staff costs including Directors' emoluments	61,301	52,086
	<u>215,050</u>	<u>195,649</u>

10. INCOME TAX EXPENSE

	Six months ended 20th August	
	2012	2011
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax:		
Hong Kong		
– Current period	29,884	24,909
Deferred tax (<i>note 22</i>)		
– Current period	300	2,150
	<u>30,184</u>	<u>27,059</u>

Hong Kong Profits Tax is calculated at 16.5% (six months ended 20th August 2011: 16.5%) of the estimated assessable profit for the period.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the People's Republic of China ("China") subsidiaries is 25% (six months ended 20th August 2011: 25%) for the period.

11. DIVIDEND

On 29th June 2012, a dividend of **18.0 HK cents** (2011: 16.0 HK cents) per share amounting to a total of **HK\$75,378,000** (2011: HK\$67,003,000) was paid to shareholders as the final dividend for 2011/12.

In respect of the current interim period, the Directors have declared an interim dividend of **17.0 HK cents** per share amounting to **HK\$71,190,000** payable to the shareholders of the Company whose names appear on the Register of Members on 15th October 2012. The interim dividend will be paid on or before 22nd October 2012. This interim dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

12. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the unaudited profit for the period of **HK\$143,814,000** (six months ended 20th August 2011: HK\$132,968,000) and on the number of shares of **418,766,000** (six months ended 20th August 2011: 418,766,000) in issue during the period.

13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired computer equipment and leasehold improvements of approximately **HK\$15,442,000** (six months ended 20th August 2011: HK\$19,883,000).

14. AVAILABLE-FOR-SALE INVESTMENTS

	20th August 2012 (Unaudited) HK\$'000	20th February 2012 (Audited) HK\$'000
Listed equity securities, at fair value		
Hong Kong	39,604	34,454
Unlisted equity securities		
At cost	9,144	38,210
At fair value	43,166	–
	91,914	72,664
Current portion	(43,166)	–
Non-current portion	48,748	72,664

15. ADVANCES AND RECEIVABLES

	20th August 2012 (Unaudited) HK\$'000	20th February 2012 (Audited) HK\$'000
Credit card receivables	3,041,620	3,099,466
Instalment loans receivable	1,691,144	1,657,194
Hire purchase debtors	10,392	18,716
	4,743,156	4,775,376
Accrued interest and other receivables	114,133	118,203
	4,857,289	4,893,579
Gross advances and receivables		
Impairment allowances (<i>note 16</i>)		
– individually assessed	(60,049)	(62,768)
– collectively assessed	(65,462)	(66,688)
	(125,511)	(129,456)
	4,731,778	4,764,123
Current portion included under current assets	(3,443,216)	(3,512,062)
	1,288,562	1,252,061

Included in the advances and receivables of the Group, there are secured credit card receivables and instalment loans receivable of **HK\$81,089,000** (20th February 2012: HK\$87,515,000) and **HK\$43,548,000** (20th February 2012: HK\$57,008,000) respectively. The Group holds collateral over these balances. The Directors consider the exposure of credit risk of these secured receivables, after taking into account the value of the collateral, is insignificant, as the fair value of the collateral (property interests) is higher than the outstanding amount of these receivables at the end of the reporting period. Other advances and receivables are unsecured.

16. IMPAIRMENT ALLOWANCES

	20th August 2012 (Unaudited) HK\$'000	20th February 2012 (Audited) HK\$'000
Analysis by products as:		
Credit card receivables	62,336	63,995
Instalment loans receivable	57,691	59,460
Hire purchase debtors	323	475
Accrued interest and other receivables	5,161	5,526
	125,511	129,456

	Individual assessment <i>HK\$'000</i>	Collective assessment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2012	62,768	66,688	129,456
Impairment losses and impairment allowances	147,105	(1,226)	145,879
Amounts written-off as uncollectable	(149,824)	–	(149,824)
	60,049	65,462	125,511
At 20th August 2012			
	Individual assessment <i>HK\$'000</i>	Collective assessment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2011	54,974	79,299	134,273
Impairment losses and impairment allowances	170,655	(10,941)	159,714
Amounts written-off as uncollectable	(160,209)	–	(160,209)
	65,420	68,358	133,778
At 20th August 2011			

17. OVERDUE ADVANCES AND RECEIVABLES

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

	20th August 2012 (Unaudited)		20th February 2012 (Audited)	
	<i>HK\$'000</i>	%*	<i>HK\$'000</i>	%*
Overdue 1 month but less than 2 months	124,570	2.6	126,028	2.6
Overdue 2 months but less than 3 months	22,882	0.5	23,845	0.5
Overdue 3 months but less than 4 months	19,184	0.4	13,987	0.3
Overdue 4 months or above	60,903	1.2	64,042	1.3
	227,539	4.7	227,902	4.7

* *Percentage of gross advances and receivables*

18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	20th August 2012 (Unaudited) <i>HK\$'000</i>	20th February 2012 (Audited) <i>HK\$'000</i>
Deposits for property, plant and equipment	33,200	36,283
Rental deposits	16,745	13,712
Prepaid operating expenses	13,697	11,283
Other debtors	10,558	40,183
	74,200	101,461
Current portion included under current assets	(27,691)	(54,690)
	46,509	46,771
Amount due after one year		

19. 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 2012 (Unaudited) HK\$'000	20th February 2012 (Audited) HK\$'000
Current	59,484	50,494
Over 1 month but less than 3 months	4,967	6,401
Over 3 months	3,173	9,242
	<u>67,624</u>	<u>66,137</u>

Included in creditors and accruals, there is deferred revenue in relation to customer loyalty programmes of **HK\$8,720,000** (20th February 2012: HK\$6,152,000).

20. BANK BORROWINGS

	20th August 2012 (Unaudited) HK\$'000	20th February 2012 (Audited) HK\$'000
Bank loans, unsecured	<u>1,933,400</u>	<u>1,907,240</u>
Carrying amount repayable (<i>Note</i>)		
Within one year	282,980	277,000
Between one and two years	482,570	472,540
Between two and five years	1,077,850	1,037,700
Over five years	<u>90,000</u>	<u>120,000</u>
	1,933,400	1,907,240
Amount repayable within one year included under current liabilities	<u>(282,980)</u>	<u>(277,000)</u>
Amount repayable after one year	<u>1,650,420</u>	<u>1,630,240</u>

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

	20th August 2012 (Unaudited)		20th February 2012 (Audited)	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Interest rate swaps	–	161,739	–	169,697
Cross-currency interest rate swaps	1,871	33,230	2,773	32,311
	<u>1,871</u>	<u>194,969</u>	<u>2,773</u>	<u>202,008</u>
Current portion	–	(3,879)	–	(1,478)
Non-current portion	<u>1,871</u>	<u>191,090</u>	<u>2,773</u>	<u>200,530</u>

All derivative financial instruments entered by the Group that remain outstanding at 20th August 2012 and 20th February 2012 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings and collateralised debt obligation, the designated hedged items.

22. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities recognised by the Group and movements thereon during each of the two periods ended 20th August 2012 and 2011:

	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2012	12,400	(11,000)	1,400
Charge to profit or loss for the period	<u>100</u>	<u>200</u>	<u>300</u>
At 20th August 2012	<u>12,500</u>	<u>(10,800)</u>	<u>1,700</u>
	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2011	12,300	(13,150)	(850)
Charge to profit or loss for the period	<u>300</u>	<u>1,850</u>	<u>2,150</u>
At 20th August 2011	<u>12,600</u>	<u>(11,300)</u>	<u>1,300</u>

23. COLLATERALISED DEBT OBLIGATION

- (a) The Company entered into a HK\$1,100,000,000 collateralised debt obligation financing transaction (the “Transaction”). The Transaction consists of two Tranches – Tranche A and Tranche B. The amount under Tranche A and Tranche B is HK\$550,000,000 each. The revolving periods for Tranche A and Tranche B will end in January 2016 and January 2017 respectively. The two Tranches are arranged at floating interest rates of 0.35% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Two corresponding interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties are arranged to swap these two Tranches from floating rates to fixed rates at 3.7% to 3.9% per annum respectively. The effective interest rate after taking into account the interest rate swaps was 3.8% per annum during the period.
- (b) Pursuant to the 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 condensed consolidated financial statements. According to HKAS 39, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group’s condensed consolidated financial statements. The Transaction is backed by the credit card receivables transferred and with the carrying amount denominated in Hong Kong dollars (“HKD”).

24. PLEDGE OF ASSETS

At 20th August 2012, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,694,446,000** and **HK\$232,578,000** respectively (20th February 2012: HK\$1,825,513,000 and HK\$68,000,000).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 11th October 2012 to 15th October 2012, 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 10th October 2012.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code on Corporate Governance Practices (effective until 31st March 2012) and Corporate Governance Code and Corporate Governance Report (the "CG Code") (effective from 1st April 2012) as set out in Appendix 14 to the Listing Rules throughout the accounting period for the six months ended 20th August 2012, except for the deviations from code provisions A.4.1, A.4.2, A.6.7 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 of Directors (the "Board") of the Company 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 A.6.7 provides that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. The Non-executive Directors could not attend the annual general meeting of the Company held on 15th June 2012 as they were overseas.

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 15th June 2012 as he was overseas.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transaction by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

During the period under review, Asia market fundamentals remained considerably challenging across most sectors. The events in Europe and general uncertainty surrounding world markets remain a key concern to the banking and financial services industries. The global economy will likely endure a high degree of uncertainty over the medium term. Domestic inflationary pressure is projected to come down gradually in the near term. External demand is projected to grow in the third quarter, supported by accommodative policies of the major central banks. The operating environment for the financial services remains challenging due to the incessant low funding situation. To stay competitive, businesses in this sector must focus on new product innovations while striving for exceptional customer service to attract new clients. Through a system of stringent credit monitoring and cost control initiatives, the Group has achieved a continued growth in its core business performance.

For the six months ended 20th August 2012, the Group recorded a profit attributable to owners of HK\$143.8 million, representing an increase of 8.2% or HK\$10.8 million when compared to HK\$133.0 million in the previous corresponding period. The Group's basic earnings per share increased from 31.75 HK cents per share in 2011/12 to 34.34 HK cents per share.

Despite keen competition and customers' cautious approach to revolving transactions, the Group still maintained similar level of interest income as last year of HK\$501.4 million. With the renewals of long-term bank borrowings at lower interest rates last year and lower funding costs, interest expense in the first half was HK\$50.2 million, a decrease of HK\$11.0 million when compared with HK\$61.2 million in the previous year. The average funding cost was 3.3% in the first half of this year, as compared with 3.7% in the previous year. Net interest income of the Group recorded an increase of 1.8% to HK\$451.3 million from HK\$443.3 million in 2011/12. The increase in fees and commissions from credit card and insurance had resulted in the increase in other operating income by HK\$6.3 million from HK\$54.4 million in 2011/12 to HK\$60.7 million for the first six months in 2012/13.

With the recruitment of additional staff for its insurance and China business and the launch of different marketing programmes, there was an increase in staff costs and marketing expenses. As a result, operating expenses increased by 9.9% or HK\$19.4 million from HK\$195.6 million in 2011/12 to HK\$215.0 million for the first six months in 2012/13. The Group's cost-to-income ratio was 42.1% in the first half of this year.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$295.8 million for the six months ended 20th August 2012, representing a decrease of 2.0% from HK\$301.8 million in the previous corresponding period. During the period under review, the Group continued to lend prudently resulting in a continuous improvement in asset quality. With proactive collection procedures and cautious approval process, the Group saw continued improvements in the write-offs when compared with last year. Impairment losses and allowances for the first half decreased by 8.7% or HK\$13.8 million from HK\$159.7 million in 2011/2012 to HK\$145.9 million. Recoveries of advances and receivables written-off was HK\$26.3 million, an increase of 28.6% or HK\$5.9 million when compared with HK\$20.4 million in 2011/12.

Despite fierce competition and customers' cautious approach to spending, the Group still maintained similar level of gross advances as last financial year-end. Gross advances at 20th August 2012 were HK\$4,743.2 million, as compared to HK\$4,775.4 million at 20th February 2012. Impairment allowances amounted to HK\$125.5 million at 20th August 2012, as compared with HK\$129.5 million at 20th February 2012. Total equity at 20th August 2012 was HK\$2,144.4 million, as compared with HK\$2,049.6 million at 20th February 2012. Net asset value per share (after interim dividend) was HK\$5.0 as at 20th August 2012, as compared with the net asset value per share of HK\$4.7 as at 20th February 2012.

Segment Information

The Group's business comprises mainly four operating divisions, namely credit card, instalment loans, insurance and hire purchase. In the first half of 2012/13, credit card operation accounted for 66.1% of the Group's revenue, as compared to 66.6% in 2011/12. For segment result, credit card operation accounted for 70.9% of the Group's whole operations in 2012/13, as compared to 64.8% in 2011/12.

Although there was an increase in credit card sales, interest income from credit card operation recorded a drop when compared with last year due to customers' cautious approach to revolving transactions. Nevertheless, the increase in card credit purchase sales had resulted in an increase in fees and commissions from credit card. Besides, the improved economic situation had reduced the penalty and late charges, which resulted in an overall drop in revenue from credit card operation of 0.6% or HK\$2.4 million from HK\$370.7 million in 2011/12 to HK\$368.3 million in 2012/13. With the exercise of prompt collection actions, there was a noticeable decrease in the impairment losses and impairment allowances. With a drop in interest expense, the segment result for the period from credit card operation recorded an increase of HK\$19.1 million from HK\$110.2 million in 2011/12 to HK\$129.3 million in 2012/13.

To attract new instalment loan customers, the Group offered competitive interest rates with reference to customer background. This successfully boosted up the instalment loan sales and interest income recorded an increase when compared with last year. However, there was a decrease in late charges, revenue from instalment loan operation maintained at last year similar level of HK\$170.3 million in 2012/13. With the exercise of cautious credit assessment, there was a slight increase in the impairment losses and impairment allowances. With the additional operation cost incurred for a micro-finance company in Shenyang this year, the segment result for the period from instalment loan operation recorded a decrease of 14.5% from HK\$53.2 million in 2011/12 to HK\$45.5 million in 2012/13.

Revenue from insurance operation recorded an increase of HK\$4.8 million from HK\$13.9 million in 2011/12 to HK\$18.7 million in 2012/13. Due to the increase in operating expenses, segment result for the period from insurance operation increased slightly from HK\$6.4 million in 2011/12 to HK\$7.1 million in 2012/13.

With the continuous shift of usage to card instalment plan, revenue from hire purchase operation recorded a decrease of HK\$1.2 million, from HK\$1.5 million in 2011/12 to HK\$0.3 million in 2012/13. Nevertheless, there is a noticeable decrease in operating expenses. Segment result for the period from hire purchase operation increased from HK\$0.2 million in 2011/12 to HK\$0.5 million in 2012/13.

Business Review

The Group had launched a series of strategic marketing activities in the first half to augment the competitiveness of its core card business. These promotions received overwhelming response from customers. In addition, the Group had formulated tailor-made acquisition campaigns with co-brand partners to increase card base and usage. As for product line expansion, the “AEON Ajisen Titanium MasterCard” was launched and smartphone apps for various platforms were released. By popular demand, the Group had started to offer a new online travel booking service. To maintain credit quality, new members were mainly recruited through affinity member-stores. Complimentary Wi-Fi service was implemented at the Tsim Sha Tsui branch to promote and facilitate customers’ usage of Net-member online services. Bonus point incentives were offered to customers making the switch to e-statement. The Group continued to be in the forefront of the digital shift.

During the period under review, AEON Insurance Brokers (HK) Limited (“AEON Brokers”) continued to expand the customer base by introducing company insurance to business partners and corporate clients. Individual life and savings insurance continued to be promoted through web and seminars hosted by AEON Brokers’ professional consultants. Insurance Corners have been set up at 6 branches to support the promotion of insurance products on life, general and MPF schemes.

Moving on to China business, China AEON Card operation will continue to expand its network in conjunction with AEON Stores (Hong Kong) Co., Limited (“AEON Stores”). At the same time, AEON Information Service (Shenzhen) Co., Ltd continued to expand its collection services to new corporate clients in China, especially those in the banking sector. Riding on the experience and knowledge from the AEON Card operation, the Group had started its micro-finance business in Shenyang last year and further expanded to Tianjin this year.

Prospects

The slow economic recoveries in the U.S. and the Eurozone debt crises have hampered the growth of the global economy. Hong Kong’s external environment could worsen if the Mainland economy slowed down rapidly. Looking ahead, a weak external demand coupled with a contracted trade sector in the first quarter will render the operating environment for consumer finance challenging for the rest of the year.

Given the gloomy operating environment, the Group will exercise a conservative approach in recruiting new members. A new co-brand card will be launched in the market to tap a new segment. The Group will focus on expanding its credit card business through its extensive merchant network, innovative product development and aggressive marketing strategies. Implementation of effective cost saving measures and credit risk management will remain core parts of the Group’s priorities. At the same time, the Group will continue brand and loyalty building by providing our customers with unmatched service quality. The Group’s commitment to corporate social responsibilities, community and charity contributions will continue to assert a positive brand image among its peers.

Since AEON JUSCO Card products are always the constituent components of the Group's portfolio, more efforts will be spent on stimulating usage and card member growth. Mass promotions will be launched jointly with AEON Stores to boost up sales. The synergy between the Group and other merchants has continued to drive up card usage and sales volume. The Group will maintain and optimize its traditional and online channels to promote its diverse products to all card members. To further improve coverage and convenience, more branches are scheduled to open in the second half of 2012.

Utilizing the current operating platform, the Group will continue to explore business opportunities in the areas of fee-based income, collection services, insurance and travel. Loan products for different customers' needs will be offered. The Group will continue to adapt to the digital shift. Web services, such as online application, bill payment and group-purchase will provide the Group with more revenue streams while attracting younger customer segments. For China business, the Group will continue to expand existing micro-finance business to other provinces to tap into the huge and fast growing consumer finance market in China.

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

	20th August 2012 (Unaudited) HK\$'000	20th February 2012 (Audited) HK\$'000
Debt (<i>note a</i>)	3,031,648	3,005,275
Cash and cash equivalents	(377,292)	(354,273)
Net debt	2,654,356	2,651,002
Equity (<i>note b</i>)	2,144,445	2,049,605
Net debt to equity ratio	1.2	1.3

Notes:

- (a) *Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 20 and 23 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 2012, 41.4% of its funding was derived from total equity, 21.2% from structured finance and 37.4% from direct borrowings from financial institutions.

The principal source of internally generated capital was from accumulated profits. At 20th August 2012, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK\$1,933.4 million, with 16.6% being fixed in interest rates and 83.4% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 9.3% of these indebtedness will mature within one year, 15.9% between one and two years, 71.8% between two and five years and 3.0% over five years. The duration of indebtedness was around 3.1 years.

The Group's bank borrowings and collateralised debt obligation were denominated in HKD, except for a syndicated term loan of USD50.0 million and a term loan of USD10.0 million which were hedged by cross-currency interest rate swaps, coupled with short term loans of RMB50.0 million.

The net asset of the Group at 20th August 2012 was HK\$2,144.4 million, as compared with HK\$2,049.6 million at 20th February 2012. 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 2012, capital commitments entered were mainly related to the purchase of property, plant and equipment.

HUMAN RESOURCES

The total number of staff at 20th August 2012 and 20th February 2012 was 454 and 431 respectively. The Company continues to recognize and reward its staff similar to that disclosed in the Company's 2011/12 Annual Report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, there was no purchase, sale or redemption by the Company of its listed securities.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 20th August 2012. The Group's interim report for the six months ended 20th August 2012 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 HKICPA, by Deloitte Touche Tohmatsu, whose unmodified review report is included in the interim report to be sent to shareholders.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

The 2012/13 interim report of the Group, containing the relevant information required by the Listing Rules, will be published on the websites of the Stock Exchange and the Company in due course.

BOARD OF DIRECTORS

At the date of this announcement, the Executive Directors are Mr. Fung Kam Shing, Barry (Managing Director), Mr. Tomoyuki Kawahara, Ms. Koh Yik Kung and Ms. Chan Fung Kuen, Dorothy; the Non-executive Directors are Mr. Masao Mizuno (Chairman) and Mr. Lai Yuk Kwong; and the Independent Non-executive Directors are Dr. Hui Ching Shan, Mr. Wong Hin Wing and Professor Tong Jun.

By order of the Board
FUNG KAM SHING, BARRY
Managing Director

Hong Kong, 21st September 2012