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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 2010

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 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)
	<i>Notes</i>	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	<u>116,063</u>	<u>123,840</u>
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	<u>(2,694)</u>	<u>9,490</u>
Other comprehensive (expense) income for the period	<u>(1,678)</u>	<u>32,384</u>
Total comprehensive income for the period	<u>114,385</u>	<u>156,224</u>
Total comprehensive income attributable to: Owners of the Company	<u>114,385</u>	<u>156,224</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th August 2010

	<i>Notes</i>	20th August 2010 (Unaudited) <i>HK\$'000</i>	20th February 2010 (Audited) <i>HK\$'000</i>
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	22	162,348	104,043
Deferred tax assets	19	1,200	300
Restricted deposits		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	22	–	244
Restricted deposits		37,236	12,156
Time deposits		239,601	258,529
Fiduciary bank balances		1,724	1,133
Bank balances and cash		66,163	83,362
		3,880,858	3,950,407
Current liabilities			
Creditors and accruals	20	138,754	120,218
Amounts due to fellow subsidiaries		33,069	69,207
Amount due to ultimate holding company		32	52
Amount due to an associate		1,701	–
Bank borrowings	21	571,210	724,160
Bank overdrafts		2,221	1,829
Derivative financial instruments	22	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		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	23	1,098,516	1,098,069
Bank borrowings	21	1,691,250	1,549,000
Derivative financial instruments	22	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 <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 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 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.

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 (Unaudited) HK\$'000	2009 (Unaudited) 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	<u>368,786</u>	<u>166,978</u>	<u>2,781</u>	<u>12,353</u>	<u>550,898</u>
RESULT					
Segment results	<u>110,571</u>	<u>34,051</u>	<u>1</u>	<u>5,167</u>	149,790
Unallocated operating income					1,767
Unallocated expenses					(8,468)
Share of results of associates					<u>(3,404)</u>
Profit before tax					<u>139,685</u>

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

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
	<u>498,542</u>	<u>544,328</u>

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
	<u>66,748</u>	<u>73,293</u>

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
	<u>54,531</u>	<u>62,203</u>

8. OTHER GAINS AND LOSSES

	Six months ended 20th August	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	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)
	<u>(297)</u>	<u>(362)</u>

9. OPERATING EXPENSES

	Six months ended 20th August	
	2010	2009
	(Unaudited)	(Unaudited)
	HK\$'000	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
	<u>173,362</u>	<u>167,953</u>
Marketing expenses	21,202	22,225
	<u>194,564</u>	<u>190,178</u>

10. INCOME TAX EXPENSE

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

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

15. ADVANCES AND RECEIVABLES

	20th August 2010 (Unaudited) <i>HK\$'000</i>	20th February 2010 (Audited) <i>HK\$'000</i>
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
	<hr/>	<hr/>
	4,733,153	4,741,821
Accrued interest and other receivables	115,745	114,098
	<hr/>	<hr/>
Gross advances and receivables	4,848,898	4,855,919
Impairment allowances (<i>note 16</i>)		
– individually assessed	(57,925)	(60,290)
– collectively assessed	(75,052)	(77,667)
	<hr/>	<hr/>
	(132,977)	(137,957)
	<hr/>	<hr/>
Current portion included under current assets	4,715,921 (3,521,157)	4,717,962 (3,572,854)
	<hr/>	<hr/>
Amount due after one year	1,194,764	1,145,108
	<hr/>	<hr/>

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.

16. IMPAIRMENT ALLOWANCES

	20th August 2010 (Unaudited) <i>HK\$'000</i>	20th February 2010 (Audited) <i>HK\$'000</i>
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
	<hr/>	<hr/>
	132,977	137,957
	<hr/>	<hr/>

	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 uncollectible	(175,297)	–	(175,297)
	<hr/>	<hr/>	<hr/>
At 20th August 2010	57,925	75,052	132,977
	<hr/>	<hr/>	<hr/>
	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 uncollectible	(228,241)	–	(228,241)
	<hr/>	<hr/>	<hr/>
At 20th August 2009	60,103	97,536	157,639
	<hr/>	<hr/>	<hr/>

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) HK\$'000	%*	20th February 2010 (Audited) 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
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	220,118	4.5	233,988	4.8
	<hr/>	<hr/>	<hr/>	<hr/>

* 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
	<u>55,831</u>	<u>48,829</u>
Current portion included under current assets	<u>(14,977)</u>	<u>(21,775)</u>
Amount due after one year	<u>40,854</u>	<u>27,054</u>

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	<u>1,400</u>	<u>(500)</u>	<u>900</u>
At 20th August 2010	<u>(11,200)</u>	<u>12,400</u>	<u>1,200</u>
	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	<u>(1,300)</u>	<u>(2,400)</u>	<u>(3,700)</u>
At 20th August 2009	<u>(13,600)</u>	<u>16,100</u>	<u>2,500</u>

20. 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
	<u>37,613</u>	<u>46,152</u>

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).

21. BANK BORROWINGS

	20th August 2010 (Unaudited) <i>HK\$'000</i>	20th February 2010 (Audited) <i>HK\$'000</i>
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

22. DERIVATIVE FINANCIAL INSTRUMENTS

	20th August 2010 (Unaudited)		20th February 2010 (Audited)	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
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 Hong Kong Dollars (“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.

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 Japanese Yen (“JPY”) syndicated bank borrowing and United States Dollars (“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.

23. 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 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.

24. 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).

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.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its 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.

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 new store opening promotion of AEON Stores (Hong Kong) Co., Limited ("AEON Stores") 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.

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 were 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.

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 company, 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.

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.

During the period under review, AEON Insurance Brokers (HK) Limited (“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, AEON Information Service (Shenzhen) Co., Ltd. (“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.

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.

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 (<i>note a</i>)	3,360,976	3,371,229
Cash and cash equivalents	(303,543)	(340,062)
Net debt	3,057,433	3,031,167
Equity (<i>note b</i>)	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 21 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 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.

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.

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 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 included in the interim report to be sent to shareholders.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

The 2010/11 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. Masanori Kosaka (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director), Mr. Tomoyuki Kawahara (Senior Executive Director), Ms. Koh Yik Kung, Mr. Fung Kam Shing, Barry and Mr. Toshiya Shimakata; the Non-executive Directors are Mr. Kazuhide Kamitani (Chairman) and Mr. Takatoshi Ikenishi; and the Independent Non-executive Directors are Dr. Hui Ching Shan, Mr. Wong Hin Wing and Professor Tong Jun.

By order of the Board
MASANORI KOSAKA
Managing Director

Hong Kong, 24th September 2010