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AEON CREDIT SERVICE (ASIA) COMPANY LIMITED
AEON 信貸財務（亞洲）有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 900)

FINAL RESULTS FOR THE YEAR ENDED 28TH FEBRUARY 2022

The board (the “Board”) of directors (the “Directors”) of AEON Credit Service (Asia) Company Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 28th February 2022, together with the comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 28th February 2022

	Notes	2022 HK\$'000	2021 HK\$'000
Revenue	5	1,049,589	1,089,858
Interest income	7	879,273	946,774
Interest expense	8	(31,830)	(42,151)
Net interest income		847,443	904,623
Fees and commissions		103,435	76,985
Handling and late charges		66,881	66,099
Other income	9	5,463	17,521
Other gains and losses	10	(2,709)	(2,140)
Operating income		1,020,513	1,063,088
Operating expenses	11	(577,861)	(535,900)
Operating profit before impairment losses and impairment allowances		442,652	527,188
Impairment losses and impairment allowances		(94,095)	(210,812)
Gain on deemed disposal of investment in an associate	25	7,910	–
Recoveries of advances and receivables written-off		40,351	38,660
Share of results of an associate		1,155	2,910
Profit before tax		397,973	357,946
Income tax expense	12	(55,381)	(56,371)
Profit for the year		342,592	301,575
Profit for the year attributable to: Owners of the Company		342,592	301,575
Earnings per share – Basic	14	81.81 HK cents	72.02 HK cents

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 28th February 2022

	2022 HK\$'000	2021 <i>HK\$'000</i>
Profit for the year	<u>342,592</u>	<u>301,575</u>
Other comprehensive income (expense)		
Item that will not be reclassified to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income ("FVTOCI")	5,607	(15,601)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	5,273	14,104
Reclassification adjustment for the cumulative exchange differences upon de-registration of a foreign subsidiary	3,783	–
Reclassification adjustment for the cumulative exchange differences upon deemed disposal of a foreign associate	(807)	–
Net adjustment on cash flow hedges	<u>22,570</u>	<u>(7,334)</u>
Other comprehensive income (expense) for the year	<u>36,426</u>	<u>(8,831)</u>
Total comprehensive income for the year	<u>379,018</u>	<u>292,744</u>
Total comprehensive income for the year attributable to: Owners of the Company	<u>379,018</u>	<u>292,744</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 28th February 2022

	<i>Notes</i>	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Non-current assets			
Property, plant and equipment	15	100,283	107,214
Right-of-use assets	15	58,891	82,278
Goodwill		15,820	–
Interest in an associate		–	19,406
Equity instruments at fair value through other comprehensive income	16	71,077	65,470
Advances and receivables	17	750,797	589,136
Prepayments, deposits and other debtors	19	31,559	16,349
Derivative financial instruments	23	2,711	–
Deferred tax assets	24	1,250	2,509
		1,032,388	882,362
Current assets			
Advances and receivables	17	3,342,610	3,254,632
Prepayments, deposits and other debtors	19	64,165	51,446
Amount due from an immediate holding company		2	–
Amount due from an intermediate holding company		44	–
Amount due from an associate		–	37
Time deposits		193,374	135,302
Bank balances and cash		456,973	759,587
		4,057,168	4,201,004
Current liabilities			
Creditors and accruals	20(a)	184,160	263,789
Contract liabilities	20(b)	18,610	16,301
Amounts due to fellow subsidiaries		57,626	63,741
Amount due to an intermediate holding company		1,275	1,497
Amount due to ultimate holding company		–	14
Amount due to an associate		–	1,672
Bank borrowings	21	165,000	527,635
Lease liabilities	22	36,827	42,002
Derivative financial instruments	23	1,542	4,384
Tax liabilities		25,314	20,726
		490,354	941,761
Net current assets		3,566,814	3,259,243
Total assets less current liabilities		4,599,202	4,141,605

	<i>Notes</i>	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		3,364,065	3,152,553
Total equity		3,633,542	3,422,030
Non-current liabilities			
Bank borrowings	21	919,139	655,246
Lease liabilities	22	20,762	42,692
Derivative financial instruments	23	25,759	21,637
		965,660	719,575
		4,599,202	4,141,605

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 28th February 2022

	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Hedging reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st March 2020	269,477	57,249	(17,416)	(24,951)	3,029,183	3,313,542
Profit for the year	-	-	-	-	301,575	301,575
Fair value loss on equity instruments at FVTOCI	-	(15,601)	-	-	-	(15,601)
Exchange difference arising from translation of foreign operations	-	-	-	14,104	-	14,104
Net adjustment on cash flow hedges	-	-	(7,334)	-	-	(7,334)
Total comprehensive (expense) income for the year	-	(15,601)	(7,334)	14,104	301,575	292,744
Final dividend paid for 2019/20	-	-	-	-	(92,128)	(92,128)
Interim dividend paid for 2020/21	-	-	-	-	(92,128)	(92,128)
	-	(15,601)	(7,334)	14,104	117,319	108,488
At 28th February 2021	269,477	41,648	(24,750)	(10,847)	3,146,502	3,422,030
Profit for the year	-	-	-	-	342,592	342,592
Fair value gain on equity instruments at FVTOCI	-	5,607	-	-	-	5,607
Exchange difference arising from translation of foreign operations	-	-	-	5,273	-	5,273
Reclassification adjustment for the cumulative exchange differences upon de-registration of a foreign subsidiary	-	-	-	3,783	-	3,783
Reclassification adjustment for the cumulative exchange differences upon deemed disposal of investment in an associate	-	-	-	(807)	-	(807)
Net adjustment on cash flow hedges	-	-	22,570	-	-	22,570
Total comprehensive income for the year	-	5,607	22,570	8,249	342,592	379,018
Final dividend paid for 2020/21	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for 2021/22	-	-	-	-	(92,128)	(92,128)
	-	5,607	22,570	8,249	175,086	211,512
At 28th February 2022	269,477	47,255	(2,180)	(2,598)	3,321,588	3,633,542

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 28th February 2022

	2022 HK\$'000	2021 HK\$'000
Operating activities		
Profit before tax	397,973	357,946
Adjustments for:		
Exchange gain on reclassification adjustments for cumulative exchange differences upon deemed disposal of a foreign associate	(807)	–
Exchange loss on reclassification adjustments for cumulative exchange differences upon de-registration of a foreign subsidiary	3,783	–
Amortisation of upfront cost of borrowings	688	862
Depreciation on property, plant and equipment	29,008	31,813
Depreciation on right-of-use-assets	55,106	49,506
Dividends received from financial instruments	(618)	(178)
Gain on deemed disposal of investment in an associate	(7,910)	–
Impairment losses and impairment allowances recognised in respect of advances and receivables	94,095	210,812
Interest expense	31,830	41,289
Interest income	(879,273)	(946,774)
Losses on disposal of property, plant and equipment	158	1,527
Losses on termination of lease contracts	–	949
Share of results of an associate	(1,155)	(2,910)
Operating cash flows before movements in working capital	(277,122)	(255,158)
(Increase) decrease in advances and receivables	(341,608)	357,591
(Increase) decrease in prepayments, deposits and other debtors	(13,535)	18,732
Decrease in amount due from an immediate holding company	–	254
Increase in amounts due from an intermediate holding company	(30)	–
Decrease in amount due from an associate	9	47
(Decrease) increase in creditors and accruals	(89,826)	60,076
Increase in contract liabilities	2,309	5,739
(Decrease) increase in amounts due to fellow subsidiaries	(6,555)	24,998
(Decrease) increase in amount due to an intermediate holding company	(223)	1,214
Decrease in amount due to ultimate holding company	(14)	(36)
Increase (decrease) in amount due to an associate	1,594	(1,531)
Cash (used in) from operations	(725,001)	211,926
Tax paid	(49,534)	(45,898)
Interest paid	(30,370)	(43,968)
Interest received	879,298	966,050
Net cash from operating activities	74,393	1,088,110

	2022 <i>HK\$'000</i>	2021 <i>HK\$'000</i>
Investing activities		
Dividends received	12,737	178
Net cash outflow from acquisition of a subsidiary	(4,499)	–
Proceeds from disposal of property, plant and equipment	1	9
Purchase of property, plant and equipment	(10,749)	(17,220)
Deposits paid for acquisition of property, plant and equipment	(20,188)	(15,559)
Placement of time deposits with maturity of more than three months	(265,419)	(29,455)
Release of time deposits with maturity of more than three months	236,138	99,092
Net cash (used in) from investing activities	(51,979)	37,045
Financing activities		
Placement of restricted deposits	–	(1,358,808)
Withdrawal of restricted deposits	–	1,396,808
Repayment of lease liabilities	(53,631)	(49,084)
Dividends paid	(167,506)	(184,256)
New bank loans raised	450,000	83,038
Repayment of bank loans	(527,795)	(370,000)
Repayment of collateralised debt obligation	–	(548,400)
Net cash used in financing activities	(298,932)	(1,030,702)
Net (decrease) increase in cash and cash equivalents	(276,518)	94,453
Effect of changes in exchange rate	517	5,524
Cash and cash equivalents at beginning of the year	864,964	764,987
Cash and cash equivalents at end of the year	588,963	864,964
Being:		
Time deposits with maturity of three months or less	131,990	105,377
Bank balances and cash	456,973	759,587
	588,963	864,964

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 28th February 2022

1. STATUTORY CONSOLIDATED FINANCIAL STATEMENTS

The financial information relating to the years ended 28th February 2022 and 28th February 2021 included in this preliminary announcement of annual results for the year ended 28th February 2022 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 28th February 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 28th February 2022 in due course.

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

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

3. APPLICATION OF AMENDMENTS TO HKFRSs

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual periods beginning on or after 1st March 2021 for the preparation of the consolidated financial statements:

Amendment to HKFRS 16	Covid-19-Related Rent Concessions
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2

Excepted as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Impacts on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 *Interest Rate Benchmark Reform – Phase 2*

The Group has applied the amendments for the first time in the current year. The amendments relate to changes in the basis for determining the contractual cash flows of financial liabilities as a result of interest rate benchmark reform and the related disclosure requirements applying HKFRS 7 *Financial Instruments: Disclosures* ("HKFRS 7").

As at 1st March 2021, the Group had USD LIBOR and JPY LIBOR bank borrowings and derivatives, the interests of which indexed to benchmark rates will subject to interest rate benchmark reform.

During the year ended 28th February 2022, the Group's USD LIBOR bank borrowing was matured and JPY LIBOR bank borrowings with carrying amounts of HK\$279,139,000 have been transitioned to the relevant alternative benchmark rates. Such transitions have had no material impact on the consolidated financial statements as the Group has applied the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective.

HKFRS 17	Insurance Contracts and the related Amendments ³
Amendments to HKFRS 3	Reference to the Conceptual Framework ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ⁴
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 ¹
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ³
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies ³
Amendments to HKAS 8	Definition of Accounting Estimates ³
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction ³
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use ²
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020 ²

¹ Effective for annual periods beginning on or after 1 April 2021

² Effective for annual periods beginning on or after 1 January 2022

³ Effective for annual periods beginning on or after 1 January 2023

⁴ Effective for annual periods beginning on or after a date to be determined

Amendments to HKAS 1 Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)

The amendments provide clarification and additional guidance on the assessment of right to defer settlement for at least twelve months from reporting date for classification of liabilities as current or non-current, which:

- specify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period. Specifically, the amendments clarify that:
 - (i) the classification should not be affected by management intentions or expectations to settle the liability within 12 months; and
 - (ii) if the right is conditional on the compliance with covenants, the right exists if the conditions are met at the end of the reporting period, even if the lender does not test compliance until a later date.
- clarify that if a liability has terms that could, at the option of the counterparty, result in its settlement by the transfer of the entity's own equity instruments, these terms do not affect its classification as current or non-current only if the entity recognises the option separately as an equity instrument applying HKAS 32 *Financial Instruments: Presentation*.

In addition, Hong Kong Interpretation 5 was revised as a consequence of the Amendments to HKAS 1 to align the corresponding wordings with no change in conclusion.

Based on the Group's outstanding liabilities as at 28th February 2022, the application of the amendments will not result in reclassification of the Group's liabilities.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

The significant accounting policies used in the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 28th February 2021, except for the adoption of the amendments to HKFRSs as disclosed in note 3 above.

5. REVENUE

	2022 HK\$'000	2021 HK\$'000
Interest income (<i>Note 7</i>)	<u>879,273</u>	<u>946,774</u>
Fees and commissions		
– Credit cards	75,785	52,258
– Insurance	27,650	24,727
Handling and late charges	<u>66,881</u>	<u>66,099</u>
Revenue from contracts with customers	<u>170,316</u>	<u>143,084</u>
Total revenue	<u>1,049,589</u>	<u>1,089,858</u>

6. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

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

Credit cards	–	Provide credit card services to individuals and acquiring services for member-stores
Personal loans	–	Provide personal loan financing to individuals
Insurance	–	Provide insurance agency and brokerage services

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 other operating income (including dividend income, reclassification adjustments for cumulative exchange differences upon deemed disposal of a foreign associate and gain on deemed disposal of investment in an associate), unallocated expenses (including head office expenses, reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign subsidiary) and share of results of an associate. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

Segment revenue and results

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

For the year ended 28th February 2022

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Consolidated HK\$'000
REVENUE	832,974	188,965	27,650	1,049,589
RESULT				
Segment results	309,552	67,209	13,519	390,280
Unallocated operating income				6,256
Gain on deemed disposal of investment in an associate				7,910
Unallocated expenses				(7,628)
Share of results of an associate				1,155
Profit before tax				397,973

For the year ended 28th February 2021

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Consolidated HK\$'000
REVENUE	857,043	208,088	24,727	1,089,858
RESULT				
Segment results	295,986	49,053	11,987	357,026
Unallocated operating income				2,452
Unallocated expenses				(4,442)
Share of results of an associate				2,910
Profit before tax				357,946

Geographical information

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

For the year ended 28th February 2022

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
REVENUE	1,032,158	17,431	1,049,589
RESULT			
Segment results	393,049	(2,769)	390,280
Unallocated operating income			6,256
Gain on deemed disposal of investment in an associate			7,910
Unallocated expenses			(7,628)
Share of results of an associate			1,155
Profit before tax			397,973

For the year ended 28th February 2021

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
REVENUE	1,076,813	13,045	1,089,858
RESULT			
Segment results	363,873	(6,847)	357,026
Unallocated operating income			2,452
Unallocated expenses			(4,442)
Share of results of an associate			2,910
Profit before tax			357,946

7. INTEREST INCOME

	2022 HK\$'000	2021 HK\$'000
Non-credit impaired advances	866,626	930,187
Credit impaired advances	9,815	10,184
Time deposits, restricted deposits and bank balances	2,832	6,403
	879,273	946,774

8. INTEREST EXPENSE

	2022 HK\$'000	2021 HK\$'000
Interest on bank borrowings	18,540	22,524
Interest on collateralised debt obligation	–	2,864
Interest on lease liabilities	1,887	2,394
Net interest expense on interest rate swap contracts – released from hedging reserve	11,403	14,369
	31,830	42,151

9. OTHER INCOME

	2022 HK\$'000	2021 HK\$'000
Dividends received from financial instruments		
– Listed equity securities	142	178
– Unlisted equity securities	476	–
Government grants	–	12,371
Others	4,845	4,972
	5,463	17,521

10. OTHER GAINS AND LOSSES

	2022 HK\$'000	2021 HK\$'000
Exchange gain (loss)		
– Exchange gain (loss) on hedging instrument released from hedging reserve	20,155	(567)
– Exchange (loss) gain on a bank loan	(20,155)	567
– Reclassification adjustments for the cumulative exchange differences upon deemed disposal of a foreign associate	807	–
– Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign subsidiary	(3,783)	–
– Other exchange gains, net	86	63
Hedge ineffectiveness on cash flow hedges, net	339	273
Losses on disposal of property, plant and equipment	(158)	(1,527)
Losses on termination of lease contracts	–	(949)
	(2,709)	(2,140)

11. OPERATING EXPENSES

	2022 HK\$'000	2021 HK\$'000
Auditor's remuneration	3,474	3,086
Depreciation on property, plant and equipment	29,008	31,813
Depreciation on right-of-use assets	55,106	49,506
Expenses relating to short term leases	1,897	5,592
	57,003	55,098
General administrative expenses	172,427	151,698
Marketing and promotion expenses	89,443	71,985
Other operating expenses	64,180	65,246
Staff costs including directors' emoluments	162,326	156,974
	<u>577,861</u>	<u>535,900</u>

12. INCOME TAX EXPENSE

	2022 HK\$'000	2021 HK\$'000
Hong Kong Profits Tax		
– Current year	63,311	50,700
– Overprovision in respect of prior years	(9,795)	(589)
	53,516	50,111
Dividend withholding tax	606	–
Deferred tax (<i>Note 24</i>)		
– Current year	1,259	6,260
	<u>55,381</u>	<u>56,371</u>

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

Under the Law of the People's Republic of China ("PRC") on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both periods.

13. DIVIDENDS

	2022 HK\$'000	2021 HK\$'000
Dividends recognised as distribution during the year:		
Final dividend paid of 18.0 HK cents in respect of 2020/21 (2021: 22.0 HK cents in respect of 2019/20) per share	75,378	92,128
Interim dividend paid of 22.0 HK cents in respect of 2021/22 (2021: 22.0 HK cents in respect of 2020/21) per share	92,128	92,128
	<u>167,506</u>	<u>184,256</u>
Final dividend proposed of 22.0 HK cents in respect of 2021/22 (2021: 18.0 HK cents in respect of 2020/21) per share	<u>92,128</u>	<u>75,378</u>

The Directors have recommended a final dividend of **22.0 HK cents** per share. Subject to the approval of the shareholders at the 2022 AGM, the final dividend will be paid on 15th July 2022 to shareholders whose names appear on the register of members of the Company on 5th July 2022. This dividend has not been included as a liability in the consolidated financial statements.

14. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the profit for the year of **HK\$342,592,000** (2021: HK\$301,575,000) and on the number of shares of **418,766,000** (2021: 418,766,000) in issue during the year.

15. PROPERTY, PLANT AND EQUIPMENT/RIGHT-OF-USE ASSETS

During the year, the Group recognised addition of approximately **HK\$18,239,000** (2021: HK\$34,681,000), **HK\$42,000** (2021: nil), **HK\$1,337,000** (2021: HK\$468,000) and **HK\$29,470,000** (2021: HK\$41,599,000) on computer equipment, furniture and fixtures, leasehold improvements and right-of-use assets respectively.

16. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Equity instruments at FVTOCI		
– Listed investment in Hong Kong	2,309	4,085
– Unlisted investments	<u>68,768</u>	<u>61,385</u>
	<u>71,077</u>	<u>65,470</u>

17. ADVANCES AND RECEIVABLES

	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Credit card receivables	3,304,452	3,214,899
Personal loan receivables	905,434	781,014
	<u>4,209,886</u>	<u>3,995,913</u>
Accrued interest and other receivables	64,664	66,359
	<u>4,274,550</u>	<u>4,062,272</u>
Gross advances and receivables	(181,143)	(218,504)
Impairment allowances (<i>Note 18</i>)		
	<u>4,093,407</u>	<u>3,843,768</u>
Current portion included under current assets	(3,342,610)	(3,254,632)
	<u>750,797</u>	<u>589,136</u>
Amount due after one year		

At the end of the reporting period, all advances and receivables are unsecured.

18. IMPAIRMENT ALLOWANCES

	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Analysis by products as:		
Credit card receivables	98,876	115,771
Personal loan receivables	79,936	99,518
Accrued interest and other receivables	2,331	3,215
	<u>181,143</u>	<u>218,504</u>

An analysis of changes in impairment allowances including commitments on unused credit card limit are set out below:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2021	80,218	30,777	107,509	218,504
Net advance (repayment) in advances and receivables	7,620	(11,228)	(13,660)	(17,268)
Transfer to 12 months ("12m") expected credit loss ("ECL") (Stage 1)	77,107	(72,440)	(4,667)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(6,803)	16,106	(9,303)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(211)	(61,249)	61,460	–
Total transfer between stages	70,093	(117,583)	47,490	–
Remeasurement of ECL during the year	(85,179)	120,132	76,410	111,363
Amounts written-off as uncollectable	–	–	(131,214)	(131,214)
Exchange realignment	(33)	(31)	(178)	(242)
	<u>72,719</u>	<u>22,067</u>	<u>86,357</u>	<u>181,143</u>
At 28th February 2022				

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2020	91,705	49,711	121,092	262,508
Net repayment in advances and receivables	(7,036)	(1,847)	(25,474)	(34,357)
Transfer to 12 months ECL (Stage 1)	123,722	(110,317)	(13,405)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(10,160)	22,684	(12,524)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(112)	(101,101)	101,213	–
Total transfer between stages	113,450	(188,734)	75,284	–
Remeasurement of ECL during the year	(117,809)	171,743	191,235	245,169
Amounts written-off as uncollectable	–	–	(254,134)	(254,134)
Exchange realignment	(92)	(96)	(494)	(682)
At 28th February 2021	<u>80,218</u>	<u>30,777</u>	<u>107,509</u>	<u>218,504</u>

19. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Deposits for property, plant and equipment	15,436	4,342
Rental and other deposits	16,736	16,874
Prepaid operating expenses	45,712	35,072
Other debtors	<u>17,840</u>	<u>11,507</u>
	95,724	67,795
Current portion included under current assets	<u>(64,165)</u>	<u>(51,446)</u>
Amount due after one year	<u>31,559</u>	<u>16,349</u>

20. CREDITORS AND ACCRUALS/CONTRACT LIABILITIES

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

	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Less than 1 month	34,121	78,219
Over 1 month but less than 3 months	3,379	1,964
Over 3 months	<u>678</u>	<u>2,718</u>
	<u>38,178</u>	<u>82,901</u>

- (b) At 28th February 2022, included in contract liabilities is deferred revenue in relation to customer loyalty programmes of **HK\$18,610,000** (28th February 2021: HK\$16,301,000).

Contract liabilities represent deferred revenue in relation to customer loyalty programmes.

Under the Group's customer loyalty programmes, the Group grants credits to customers for credit card transactions. The customers can redeem the awarded credits for goods or services and settlement of outstanding balances in the future at their discretion and the awarded credits have expiration dates.

21. BANK BORROWINGS

	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Carrying amount repayable (<i>Note</i>)		
Within one year	165,000	527,635
Within a period of more than one year but not more than two years	160,000	165,000
Within a period of more than two years but not more than five years	759,139	407,100
Within a period of more than five years	–	83,146
	<u>1,084,139</u>	<u>1,182,881</u>
Amount repayable within one year included under current liabilities	<u>(165,000)</u>	<u>(527,635)</u>
Amount repayable after one year	<u>919,139</u>	<u>655,246</u>

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

22. LEASE LIABILITIES

	28.2.2022 HK\$'000	28.2.2021 HK\$'000
Lease liabilities payable:		
Within one year	36,827	42,002
Within a period of more than one year but not more than two years	16,282	26,247
Within a period of more than two years but not more than five years	4,480	16,445
	<u>57,589</u>	<u>84,694</u>
Amount due for settlement within one year included under current liabilities	<u>(36,827)</u>	<u>(42,002)</u>
Amount due for settlement after one year	<u>20,762</u>	<u>42,692</u>

23. DERIVATIVE FINANCIAL INSTRUMENTS

	28.2.2022		28.2.2021	
	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate swaps	2,711	3,927	–	11,182
Cross-currency interest rate swaps	–	23,374	–	14,839
	<u>2,711</u>	<u>27,301</u>	<u>–</u>	<u>26,021</u>
Current portion	–	(1,542)	–	(4,384)
	<u>–</u>	<u>(1,542)</u>	<u>–</u>	<u>(4,384)</u>
Non-current portion	<u>2,711</u>	<u>25,759</u>	<u>–</u>	<u>21,637</u>

All derivative financial instruments entered into by the Group that remain outstanding at 28th February 2022 and 28th February 2021 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.

24. DEFERRED TAX

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the years ended 28th February 2022 and 28th February 2021:

	Accelerated tax depreciation	Impairment allowances	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st March 2020	14,528	(22,994)	(303)	(8,769)
Charge to profit or loss for the year	<u>882</u>	<u>5,075</u>	<u>303</u>	<u>6,260</u>
At 28th February 2021	<u>15,410</u>	<u>(17,919)</u>	<u>–</u>	<u>(2,509)</u>
(Credit) charge to profit or loss for the year	<u>(1,333)</u>	<u>2,592</u>	<u>–</u>	<u>1,259</u>
At 28th February 2022	<u>14,077</u>	<u>(15,327)</u>	<u>–</u>	<u>(1,250)</u>

25. ACQUISITION OF A SUBSIDIARY

The Group held 50% equity interest in an associate, AEON Information Service (Shenzhen) Co., Ltd. (“AIS”) prior to completion of acquisition. Pursuant to an agreement entered between the Company and AEON Financial Service Co., Ltd., an intermediate holding company of the Company, the Company acquired the remaining 50% equity interest in AIS for a consideration of HK\$16,792,000 by cash. The transaction was completed on 21st February 2022. After the completion of the transaction, AIS has become a subsidiary of the Group since then.

AIS is a private company incorporated in the PRC and engaged in provision of business process outsourcing services. The goodwill of HK\$15,820,000 arising from the acquisition is attributable to the future economic benefits that are expected to accrued to the Group from operating synergies and revenue growth incurred by the joint contributions of technology from AIS and business management skills from the Group.

	Fair values HK\$'000
ASSETS	
Property, plant and equipment	2,614
Right-of-use assets	2,592
Prepayments, deposits and other debtors	1,532
Amounts due from intermediate holding companies	16
Amount due from an immediate holding company	3,134
Amount due from a fellow subsidiary	132
Time deposits	8,707
Bank balances and cash	3,586
	<hr/> 22,313 <hr/>
LIABILITIES	
Creditors and accruals	1,451
Amounts due to fellow subsidiaries	466
Lease liabilities	2,632
	<hr/> 4,549 <hr/>
Total identifiable net assets at fair value	<hr/> 17,764 <hr/>
Goodwill arising on acquisition	
Cash consideration	16,792
Fair value of interest in the associate previously held	16,792
Less: net assets acquired	(17,764)
	<hr/> 15,820 <hr/>
Goodwill arising on acquisition	<hr/> 15,820 <hr/>
The goodwill arising on this acquisition is not expected to be deductible for tax purposes.	
Gain on deemed disposal of previously held ownership interest in AIS	
Fair value of interest in the associate previously held	16,792
Carrying amount of previously held ownership interest	(8,882)
	<hr/> 7,910 <hr/>
Gain on deemed disposal of investment in an associate	<hr/> 7,910 <hr/>
Net cash outflow on acquisition of a subsidiary	
Cash consideration paid	16,792
Less: cash and cash equivalent balances acquired	(12,293)
	<hr/> 4,499 <hr/>

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders who are entitled to attend and vote at the 2022 AGM, the register of members of the Company will be closed from Monday, 20th June 2022 to Thursday, 23rd June 2022, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for attending and voting at the 2022 AGM, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 17th June 2022.

For the purpose of determining the shareholders who qualify for the proposed final dividend, the register of members of the Company will be closed from Monday, 4th July 2022 to Tuesday, 5th July 2022, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 30th June 2022.

DIVIDEND

The Group has adopted a stable dividend policy, aiming to pay regular dividends with a target annual dividend payout ratio of not less than 30.0% of the consolidated net profits of the Group for the financial year. When proposing a dividend, besides financial performance, the Board will take into consideration shareholders' interests, payout history, general business environment and cash flow requirements.

The Board has recommended a final dividend of 22.0 HK cents per share, bringing the total dividend for the year ended 28th February 2022 to 44.0 HK cents per share, representing a dividend payout ratio of 53.8%.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group faced yet another challenging year as it sought to position itself back on a steady growth trajectory amidst the ongoing COVID-19 pandemic (the "Pandemic"). During the first three quarters of the year under review, relaxation of social distancing measures and the launch of the Consumption Voucher Scheme by the Hong Kong Government, complemented by a low unemployment rate, stimulated local consumer spending, notably in dining and vacationing, in the form of staycations and seacations. However, as the number of COVID-19 infections spiked in the fourth quarter and social distancing measures were once again tightened, economic activity began to falter. Consumers consequently shifted back to online shopping channels for daily necessities and overseas products, and there was a marked acceleration in demand and consumption of anti-epidemic products.

To overcome the unprecedented headwinds and align with the rapidly shifting consumer spending behaviour, the Group launched different promotional programmes to capture the ever-changing needs of customers in terms of credit card spending and demand for personal loans. Such programmes included the Ocean Park Promotion, Enrich Life Rewards Promotion, Winter Spending Promotion, the 10 times bonus points offer for local dining and online spending, and personalised tax loan rebate programme. Sales for the year recorded an overall increase of 21.1% when compared with FY2020/21, with gross advances and receivables balance at 28th February 2022 up by 5.2% against the balance at 28th February 2021. Owing to more effective credit assessment that permits more tailored credit exposure for customers based on their needs as well as affordability, the default rates of overdue advances and receivables continued to decrease in FY2021/22, with the percentage of overdue advances and receivables to total advances and receivables declining from 4.1% at 28th February 2021 to 3.5% at 28th February 2022.

Operational Review

Diversification and digitalisation have continued to constitute the guiding approach to effective operations for the Group. To enrich the customer experience in the areas of convenience and accessibility to the Group's services through the mobile phone, the Group has continued to enhance the "AEON HK" Mobile App by introducing various new functions, including the new credit card application function, change of credit card Personal Identification Number (PIN), application for automatic add value service for the Octopus Card and direct debit authorisation. In addition, the use of e-statements has been further promoted to reduce paper consumption as part of environmental protection efforts.

During the year, the Group has significantly increased the scale of its card acquiring business by taking on new clients that are merchants with comparatively sizable transaction volumes and/or multi-distribution networks. Among such merchants, the Company has been newly engaged by AEON Stores as its card acquirer for a term of three years, from 16 August 2021. The Company will principally be responsible for processing retail purchase transactions made by AEON Stores' customers using non-AEON credit/debit cards ("Off-us Acquiring Service").

In order to build a high-powered branch network to reach out to and serve more customers, the Group has continued to open new branches in different districts, including Mong Kok, Yau Tong and Kwun Tong. Moreover, for greater cost efficiency, the Group expects to relocate two street-level branches in Central and Causeway Bay, respectively, to office building premises.

Meanwhile, the Group's Mainland China businesses achieved monthly break-even in the fourth quarter. This was realised through the implementation of effective cost and debt controls.

To gain greater control over AIS and to facilitate the Group's objective of expanding business in the Greater Bay Area, the Company acquired the remaining 50% equity interest in AIS for a total cash consideration of RMB13,500,000, which is equivalent to HK\$16,792,000. Upon completion of the acquisition on 21st February 2022, AIS became a wholly-owned subsidiary of the Company.

Financial Review

For the year ended 28th February 2022, on an audited basis, profit before tax was HK\$398.0 million, an increase of HK\$40.1 million when compared with the financial year ended 28th February 2021. The Group recorded a gain of HK\$7.9 million on deemed disposal of investment in an associate in the current year. After deducting income tax expense of HK\$55.4 million, the Group recorded an increase in profit of 13.6%, with profit after tax increasing from HK\$301.6 million in the previous financial year to HK\$342.6 million in 2021/22. Earnings per share increased from 72.02 HK cents to 81.81 HK cents for the reporting year.

Return on assets was 6.7% in 2021/22, as compared with 5.9% in 2020/21, while return on equity was 9.4% in 2021/22, as compared with 8.8% in 2020/21.

Net debt to equity ratio remained at 0.1 at 28th February 2022, while total equity to total assets ratio was 71.4% and 67.3% at 28th February 2022 and 28th February 2021, respectively.

Net asset value per share (after final dividend) at 28th February 2022 and at 28th February 2021 was respectively HK\$8.5 and HK\$8.0.

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for the year was HK\$1,049.6 million, a decrease of 3.7% or HK\$40.3 million when compared with HK\$1,089.9 million in the previous financial year.

Net Interest Income

During the year under review, greater economic activity in the first three quarters resulted in a strong increase in both credit card and personal loan sales, with gross advances and receivables recording an increase of HK\$212.3 million at 28th February 2022, when compared with the balance at 28th February 2021. However, the fifth wave of the Pandemic in the fourth quarter dampened sales momentum. Consequently gross advances and receivables fell short of the pre-Pandemic level. As a result, the Group recorded a drop in interest income of 7.1% or HK\$67.5 million, from HK\$946.8 million in the previous year to HK\$879.3 million in the current year.

Following the repayment of certain long-term bank borrowings upon maturity, the outstanding balance of bank borrowings was reduced by HK\$98.7 million at 28th February 2022 when compared with the balance at 28th February 2021 while the Group's average funding cost maintained at 2.6% in current year. Therefore, the Group's interest expense recorded a decrease of 24.6% or HK\$10.4 million, from HK\$42.2 million in the previous year to HK\$31.8 million in the current year.

Consequently, the Group's net interest income for 2021/22 was HK\$847.4 million, representing a decrease of 6.3% or HK\$57.2 million when compared with HK\$904.6 million in 2020/21.

Operating Income

With an increase in credit card sales and launch of the Off-us Acquiring Service for AEON Stores, fees and commissions from the credit card business recorded a rise of 44.9%, or HK\$23.5 million, from HK\$52.3 million in the previous year to HK\$75.8 million in the current year. For the insurance business, due to an increase in demand for insurance coverage, there was an increase in fees and commissions from the insurance business of HK\$3.0 million to HK\$27.7 million in the current year. The Group recorded an overall increase in fees and commissions of HK\$26.4 million or from HK\$77.0 million in 2020/21 to HK\$103.4 million in 2021/22.

Corresponding with a rise in demand for cash advances, handling and late charges recorded an increase of 1.2% or HK\$0.8 million to HK\$66.9 million in the current year. There was an income recorded as part of other income in the previous year relating to the recognition of subsidies of HK\$12.4 million from the Hong Kong Government under the Employment Support Scheme. Under other gains and losses, the Group recorded an exchange loss on liquidation of the microfinance subsidiary in Shenyang of HK\$3.8 million in the current year, while there was a loss on disposal of computer equipment of HK\$1.5 million in the previous year.

Despite an increase in fees and commissions, and handling and late charges, with the drop in net interest income, the Group's operating income for 2021/22 was HK\$1,020.5 million, representing a decrease of 4.0% or HK\$42.6 million when compared with HK\$1,063.1 million in 2020/21.

Operating Expenses

In order to capture opportunities arising from growing consumer demands for the credit cards and personal loans, the Group placed greater efforts on relevant marketing activities and launched various mass promotion programmes. Consequently, marketing and promotion expenses increased by 24.3% or HK\$17.5 million to HK\$89.4 million in the current year. With the opening and relocation of different branches to diversify and expand the branch network, expenses relating to leases increased by around HK\$1.9 million when compared with the previous year. There was also an increase in general administrative expenses of HK\$20.7 million when compared with the previous year. This was attributed to the launch of Off-us Acquiring Service for AEON Stores as well as for the ongoing upgrade of card features and functionalities to enrich the customer experience. To prepare for the upcoming technology upgrade and the economy's recovery, the Group increased its manpower during the year, resulting in an increase in staff costs of HK\$5.4 million when compared with the previous year.

Overall operating expenses recorded an increase of HK\$42.0 million from HK\$535.9 million in 2020/21 to HK\$577.9 million in the current year.

Cost-To-Income Ratio

Despite an effective control of increase in operating expenses, the Group recorded an increase in its cost-to-income ratio from 50.4% in the previous year to 56.6% in the current year, due to a decline in operating income.

At operating level and before impairment allowances, the Group recorded an operating profit of HK\$442.7 million in the current year, representing a decrease of 16.0% from HK\$527.2 million in the previous year.

Impairment Losses and Impairment Allowances

With a constant improvement in credit assessment techniques, the Group has steadily built up a quality credit portfolio. Owing to the continuing efforts of the Hong Kong Government to stimulate economic growth and improve the unemployment rate, and the Group's ongoing efforts to enhance its debt management capabilities to minimise overdue advances and receivables, overdue advances and receivables were down from HK\$168.6 million or 4.1% gross advances and receivables at 28th February 2021 to HKD\$145.6 million or 3.5% at 28th February 2022. Together with a drop in written-off amount, the impairment losses and impairment allowances dramatically decreased by HK\$116.7 million, or 55.4%, to HK\$94.1 million in the current year versus HK\$210.8 million in the previous year.

Consolidated Statement of Financial Position Analysis

The Group's total equity at 28th February 2022 was HK\$3,633.5 million (HK\$3,422.0 million at 28th February 2021), while total assets at 28th February 2022 were HK\$5,089.6 million (HK\$5,083.4 million at 28th February 2021).

Property, Plant and Equipment/Right-of-Use Assets

During the year, the Group spent approximately HK\$18.2 million on computer equipment, HK\$1.3 million on leasehold improvements and HK\$0.04 million on furniture and fixtures. As for right-of-use assets, the Group as lessee recorded an addition of HK\$29.5 million in the current year.

Advances and Receivables

Easing of social distancing measures in the second and third quarters resulted in a sharp rebound in credit card sales, with credit card receivables recording an increase of 2.8%, or HK\$89.6 million, from HK\$3,214.9 million at 28th February 2021 to HK\$3,304.5 million at 28th February 2022. In addition, due to increasing credit demand in the market, personal loan receivables also recorded an increase, climbing 15.9%, or HK\$124.4 million, from HK\$781.0 million at 28th February 2021 to HK\$905.4 million at 28th February 2022. Overall, the Group's gross advances and receivables recorded an increase of HK\$212.3 million from HK\$4,062.3 million at 28th February 2021 to HK\$4,274.6 million at 28th February 2022.

Owing to stable asset quality, impairment allowances decreased by HK\$37.4 million, falling from HK\$218.5 million, covering 5.4% of gross advances and receivables at 28th February 2021 to HK\$181.1 million, covering 4.2% of gross advances and receivables at 28th February 2022.

Bank Borrowings

At 28th February 2022, the Group had bank borrowings amounting to HK\$1,084.1 million, with 26.7% having fixed interest rates and 73.3% being hedged against interest rate fluctuation by means of interest rate swaps. 15.2% of the bank borrowings will mature within one year, 14.8% between one and two years, and 70.0% between two and five years.

The average duration of bank borrowings was 2.9 years at 28th February 2022, as compared with 1.9 years at 28th February 2021.

Segment Information

The Group's business comprises three principal operating segments, namely credit cards, personal loans and insurance intermediary business. For the year ended 28th February 2022, credit card operations accounted for 79.4% of the Group's revenue, as compared with 78.6% in the previous year, while personal loan operations accounted for 18.0% of the Group's revenue, as compared with 19.1% in the previous year. As for segment results, credit card operations in 2021/22 accounted for 79.3% of the Group's results, as compared with 82.9% in the previous year, while the personal loan operations accounted for 17.2%, as compared with 13.7% in the previous year.

For credit cards, during the year under review, through the launch of various different marketing activities, the Group recorded an increase in credit card sales and receivables balances. However, the monthly revolving credit card receivables balances had not yet recovered to the pre-Pandemic level. Consequently, revenue from the credit card segment recorded a drop of 2.8% or HK\$24.0 million in 2021/2022, falling from HK\$857.0 million in 2020/21 to HK\$833.0 million in 2021/22. Due to effective control of operating expenses, maintenance of quality portfolio, and effective collection efforts to reduce impairment losses and impairment allowances by 53.0% or HK\$78.5 million, the results from the credit card segment recorded an increase of 4.6% or HK\$13.6 million from HK\$296.0 million in the previous year to HK\$309.6 million in 2021/22.

With respect to personal loans, due to a brief easing of social distancing measures resulted in an increase in economic activity and accordingly, market demand for personal loan products, there was an increase in sales and receivables balances. Nevertheless, revenue from the personal loan segment still recorded a decrease of 9.2% or HK\$19.1 million from HK\$208.1 million in 2020/21 to HK\$189.0 million in 2021/22, as the receivables balance at 28th February 2022 was still lower than the pre-Pandemic level and only achieved 88.3% of the receivables balance as recorded at 29th February 2020. Thanks in large part to more effective credit assessment and collection efforts, there was a sizable decrease in impairment losses and impairment allowances by 60.8% or HK\$38.2 million. As a result, segment results from personal loan operations recorded an increase of HK\$18.1 million from HK\$49.1 million in 2020/21 to HK\$67.2 million in the current year.

For the insurance intermediary business, with more demand for insurance services, revenue from the insurance intermediary operations recorded an increase of HK\$3.0 million from HK\$24.7 million in 2020/21 to HK\$27.7 million in 2021/22, and the segment result was HK\$13.5 million, as compared with HK\$12.0 million in the previous year.

With regard to the financial results by geographical locations, Hong Kong operations accounted for 98.3% of the Group's revenue, as compared with 98.8% in the previous year, while Mainland China operations accounted for 1.7% of the Group's revenue, as compared with 1.2% in the previous year. For segment results, the losses from Mainland China operations impacted on the Group's results by around 0.7% and 1.9% in 2021/22 and 2020/21 respectively.

Although sales from both credit cards and personal loans have already shown progressive recoveries, monthly revolving credit card balances and personal loan receivables balances in the current financial year were still lower than the previous year, and, as a result, revenue from the Hong Kong operations recorded a decrease of 4.1% or HK\$44.6 million, from HK\$1,076.8 million in 2020/21 to HK\$1,032.2 million in 2021/22. Through the enhancement of credit assessment methods to build up a quality portfolio along with effective collection efforts, there was a sizable decrease in impairment losses and impairment allowances. As a result, the segment results of the Hong Kong operations recorded an increase of 8.0% or HK\$29.1 million from HK\$363.9 million in 2020/21 to HK\$393.0 million in 2021/22.

For the Mainland China operations, the Group completed the liquidation of the microfinance subsidiary in Shenyang in the current year and continued with the liquidation proceedings for another microfinance subsidiary in Tianjin. In February 2022, the Company completed its acquisition of an associate in Shenzhen, which provides business process outsourcing services, to become a new wholly-owned subsidiary of the Group. During the year, the microfinance subsidiary in Shenzhen re-activated its marketing activities with selected merchants which resulted in an increase in sales, contributing to the increase in revenue from the Mainland China operations by HK\$4.4 million, rising from HK\$13.0 million in 2020/21 to HK\$17.4 million in 2021/22. Together with effective control of costs and bad debts, the microfinance subsidiary in Shenzhen became profitable in the current year. As a result, overall segment results of the Mainland China operations recorded a reduction in losses of HK\$4.0 million, from a loss of HK\$6.8 million in 2020/21 to a loss of HK\$2.8 million in 2021/22.

Funding and Capital Risk Management

The Group relies principally on its internally generated capital and bank borrowings to fund its business. At 28th February 2022, 77.0% of its funding was derived from total equity, and 23.0% from direct borrowings from financial institutions.

The net asset of the Group at 28th February 2022 was HK\$3,633.5 million, as compared with HK\$3,422.0 million at 28th February 2021. 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 operating requirements.

The Group's principal operations are transacted and recorded in HKD and therefore its core assets are not subject to any exposure to exchange rate fluctuation. During the year 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 28th February 2022, capital commitments entered into by the Group were mainly related to the purchase of property, plant and equipment.

PROSPECTS

With the fifth wave of the Pandemic seriously impacting business activity in Hong Kong from the fourth quarter of 2021/22 onwards, and the subsequent emergence of geo-political and economic conflicts across the world, the operating environment can only be expected to stay extremely challenging and uncertain in the coming year. Although no one can expect daily lives to return to what they used to be, in delivering a strong underlying performance, the Group has demonstrated a better understanding of the evolving consumer spending behaviour under the new normal, a condition that is likely to last for an extended period of time.

The Group will continue to refine its business model and increase its resilience in order to adapt to changing consumer behaviour and to more closely meet new customer needs. Specifically, the Group will continue to work on its credit policy with the aim of maximising profitability by extending credit facilities to customers on a sustainable basis. Moreover, a new credit card product targeting the younger generations will be launched to expand the customer base. Marketing and promotional activities will focus on the Group's own solution for addressing changing consumer spending needs in the post-Pandemic environment and on broadening the appeal of its brand.

Should the Pandemic show signs of waning in the second quarter of 2022/23, the anticipated launch of the second round of the Consumption Voucher Scheme will likely revitalize the economic activity in Hong Kong. In order to stay competitive in the market, the Group will place greater emphasis on diversifying marketing channels and programmes to promote its products. In addition, it will continue to look into opportunities for opening more new branches, enhance domestic spending promotions and engaging celebrity to promote its products.

As inflation in both the US and Hong Kong has reached near-decade high, it is expected that both the US Federal Funds Rate and Hong Kong Prime Rate will continue to rise in 2022/23. This can lead to a general drop in interest spread for interest bearing products of the Group. Hence, the Group will actively pursue new sources of income in the form of fees and commissions by continuing to bring in more card acquiring merchants and exploring other business opportunities for new income sources.

For technology development, the card and loan system replacement project is expected to be completed in the second half of 2022/23. After the replacement, the Group can promote new product benefits through enhanced digital marketing and provide premium user experiences or new payment solutions to its customers. Moreover, data analytics tools will support efforts at enhancing the effectiveness of the Group's marketing, credit assessment and credit management activities.

For the Mainland China operations, AEON Micro Finance (Shenzhen) Co. Ltd. will continue to focus on its expansion in the entire Greater Bay Area by launching more loan products. Separately, the newly acquired AIS is now a business process support arm of the Group. It will facilitate seamless support of the Group's operation, while the unique strength of AIS will also be leveraged to seek new external business opportunities for the Group.

On the matter of sustainability development, the Group will continue to revisit its focus areas on sustainability development. It will also define relevant key performance indicators to pursue as part of its long-term mission to contribute to the betterment of shareholders, customers and business partners, community, people and environment.

It is difficult to predict the timeframe for a full economic recovery. With the Group's responsiveness and strong business relations with its partners, as well as solid liquidity position and balance sheet, the Group is well prepared to face the challenges ahead and move forward to capture further business opportunities that may arise as and when more favourable market conditions return.

HUMAN RESOURCES

The total number of staff of the Group at 28th February 2022 and 28th February 2021 was 510 (Hong Kong: 358; PRC: 152) and 379 (Hong Kong: 334; PRC: 45) respectively. Employees are remunerated according to their job nature and market trends, with annual increment to reward and motivate individual employees based on their competency. Apart from medical and life insurance and provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Group.

The Group also provides a wide range of different in-house training programmes and external training sponsorships for its employees. The in-house training programmes include the yearly general training on AEON Code of Conduct and selected topics on compliance, which reconfirms the necessity of corporate ethics to create a shared set of values among employees. The training programmes aim to enhance employees' professional knowledge and skills for providing customers with quality service.

During the year under review, the Group established a regular work-from-home ("WFH") scheme. This new working model provides employees with a more flexible working environment, through which they can save travelling time and avoid going out during peak hours under the Pandemic. As far as the Group is concerned, the possibility of uninterrupted operations, whether under the Pandemic or extreme weather conditions, enhances the competitiveness of the Group.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance to balance the interests of shareholders, customers, employees and other stakeholders. The Company has complied with the code provisions of the Corporate Governance Code (the “CG Code”) as applicable to the Company for the year ended 28th February 2022 and set out then in Appendix 14 to the Listing Rules, with the exceptions of code provisions A.4.1 and A.4.2 which are explained below.

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

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

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 to the Listing Rules as its own code for securities transactions by Directors pursuant to its own Securities Dealing Code. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code/the Company’s own Securities Dealing Code throughout the year under review.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company or its subsidiaries of the Company’s listed securities.

REVIEW OF ANNUAL RESULTS

The Audit Committee of the Company has reviewed the annual results.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and the related notes thereto for the year ended 28th February 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

PUBLICATION OF ANNUAL REPORT

The 2021/22 annual report of the Group, containing the relevant information required by the Listing Rules, will be published on the websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises Mr. Tomoharu Fukayama (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director) and Mr. Daisuke Takenaka as Executive Directors; Mr. Tomoyuki Mitsufuji (Chairman) and Ms. Jin Huashu as Non-executive Directors; and Mr. Lee Ching Ming Adrian, Ms. Shing Mo Han Yvonne and Ms. Junko Dochi as Independent Non-executive Directors.

By order of the Board
Tomoharu Fukayama
Managing Director

Hong Kong, 6th April 2022