**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 2019

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 2019, together with the comparative figures as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS
*For the year ended 28th February 2019*

| | *Notes* | **2019** *HK$'000* | 2018 *HK$'000* |
|---|---|---|---|
| Revenue | *5* | **1,322,678** | 1,282,867 |
| Interest income | *7* | **1,136,919** | 1,117,570 |
| Interest expense | *8* | **(82,067)** | (86,249) |
| Net interest income | | **1,054,852** | 1,031,321 |
| Fees and commissions | | **102,614** | 87,722 |
| Handling and late charges | | **83,145** | 77,575 |
| Other income | *9* | **4,940** | 5,765 |
| Other gains and losses | *10* | **(813)** | 1,441 |
| Operating income | | **1,244,738** | 1,203,824 |
| Operating expenses | *11* | **(567,569)** | (564,923) |
| Operating profit before impairment losses and impairment allowances | | **677,169** | 638,901 |
| Impairment losses and impairment allowances | | **(203,717)** | (241,217) |
| Recoveries of advances and receivables written-off | | **48,133** | 48,402 |
| Share of results of an associate | | **2,537** | 1,179 |
| Profit before tax | | **524,122** | 447,265 |
| Income tax expense | *12* | **(86,868)** | (76,117) |
| Profit for the year | | **437,254** | 371,148 |
| Profit for the year attributable to: | | | |
| Owners of the Company | | **437,254** | 371,148 |
| Earnings per share – Basic | *14* | **104.41 HK cents** | 88.63 HK cents |

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
*For the year ended 28th February 2019*

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Profit for the year | **437,254** | 371,148 |
| **Other comprehensive income (expense)** | | |
| Item that will not be reclassified to profit or loss: | | |
| Fair value gain on equity instruments at fair value through other comprehensive income | **29,867** | – |
| Items that may be reclassified subsequently to profit or loss: | | |
| Fair value loss on an available-for-sale investment | **–** | (3,500) |
| Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sale investments | **–** | 7,921 |
| Exchange difference arising from translation of foreign operations | **(15,509)** | 26,193 |
| Translation reserve reclassified to profit or loss upon deregistration of an associate | **–** | (5,408) |
| Net adjustment on cash flow hedges | **15,791** | 34,122 |
| Other comprehensive income for the year | **30,149** | 59,328 |
| Total comprehensive income for the year | **467,403** | 430,476 |
| Total comprehensive income for the year attributable to: | | |
| Owners of the Company | **467,403** | 430,476 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 28th February 2019*

| | Notes | 2019 HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **70,365** | 87,223 |
| Investment in an associate | | **15,449** | 13,678 |
| Equity instruments at fair value through other comprehensive income | 16 | **118,701** | – |
| Available-for-sale investments | 16 | **–** | 15,900 |
| Advances and receivables | 17 | **862,105** | 981,330 |
| Prepayments, deposits and other debtors | 20 | **60,040** | 26,559 |
| Derivative financial instruments | 23 | **15,469** | 18,249 |
| Deferred tax assets | 24 | **16,698** | – |
| Restricted deposits | | **38,000** | 38,000 |
| | | **1,196,827** | 1,180,939 |
| **Current assets** | | | |
| Advances and receivables | 17 | **4,021,782** | 4,202,214 |
| Prepayments, deposits and other debtors | 20 | **47,456** | 45,058 |
| Amounts due from fellow subsidiaries | | **160** | 146 |
| Amount due from immediate holding company | | **283** | – |
| Amount due from an associate | | **39** | 350 |
| Derivative financial instruments | 23 | **17** | – |
| Restricted deposits | | **381,466** | – |
| Time deposits | | **152,536** | 103,533 |
| Fiduciary bank balances | | **35** | 248 |
| Bank balances and cash | | **380,083** | 660,488 |
| | | **4,983,857** | 5,012,037 |
| **Current liabilities** | | | |
| Creditors and accruals | 21 | **255,943** | 235,808 |
| Contract liabilities | 21 | **9,486** | – |
| Amounts due to fellow subsidiaries | | **42,920** | 56,705 |
| Amount due to intermediate holding company | | **–** | 154 |
| Amount due to ultimate holding company | | **28** | 33 |
| Amount due to an associate | | **2,027** | 2,904 |
| Bank borrowings | 22 | **325,000** | 345,000 |
| Collateralised debt obligation | 25 | **701,600** | – |
| Derivative financial instruments | 23 | **11,069** | 1,865 |
| Tax liabilities | | **33,515** | 25,772 |
| | | **1,381,588** | 668,241 |
| **Net current assets** | | **3,602,269** | 4,343,796 |
| **Total assets less current liabilities** | | **4,799,096** | 5,524,735 |

| | Notes | **2019** HK$'000 | 2018 HK$'000 |
|---|---|---|---|
| **Capital and reserves** | | | |
| Share capital | | **269,477** | 269,477 |
| Reserves | | **2,921,170** | 2,735,564 |
| **Total equity** | | **3,190,647** | 3,005,041 |
| **Non-current liabilities** | | | |
| Bank borrowings | *22* | **1,056,483** | 1,230,020 |
| Collateralised debt obligation | *25* | **548,400** | 1,250,000 |
| Derivative financial instruments | *23* | **3,566** | 34,819 |
| Deferred tax liabilities | *24* | **–** | 4,855 |
| | | **1,608,449** | 2,519,694 |
| | | **4,799,096** | 5,524,735 |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 28th February 2019*

| | 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 2017 | 269,477 | (4,421) | (53,651) | (18,489) | 2,549,155 | 2,742,071 |
| Profit for the year | – | – | – | – | 371,148 | 371,148 |
| Fair value loss on available-for-sale investments | – | (3,500) | – | – | – | (3,500) |
| Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on an available-for-sale investment | – | 7,921 | – | – | – | 7,921 |
| Exchange difference arising from translation of foreign operations | – | – | – | 26,193 | – | 26,193 |
| Translation reserve reclassified to profit or loss upon deregistration of an associate | – | – | – | (5,408) | – | (5,408) |
| Net adjustment on cash flow hedges | – | – | 34,122 | – | – | 34,122 |
| Total comprehensive income for the year | – | 4,421 | 34,122 | 20,785 | 371,148 | 430,476 |
| Final dividend paid for 2016/17 | – | – | – | – | (83,753) | (83,753) |
| Interim dividend paid for 2017/18 | – | – | – | – | (83,753) | (83,753) |
| | – | 4,421 | 34,122 | 20,785 | 203,642 | 262,970 |
| **At 28th February 2018** | **269,477** | **–** | **(19,529)** | **2,296** | **2,752,797** | **3,005,041** |
| **Adjustments (see note 3)** | **–** | **63,175** | **–** | **–** | **(160,716)** | **(97,541)** |
| **Adjusted at 1st March 2018** | **269,477** | **63,175** | **(19,529)** | **2,296** | **2,592,081** | **2,907,500** |
| **Profit for the year** | **–** | **–** | **–** | **–** | **437,254** | **437,254** |
| **Fair value gain on equity instruments at fair value through other comprehensive income** | **–** | **29,867** | **–** | **–** | **–** | **29,867** |
| **Exchange difference arising from translation of foreign operations** | **–** | **–** | **–** | **(15,509)** | **–** | **(15,509)** |
| **Net adjustment on cash flow hedges** | **–** | **–** | **15,791** | **–** | **–** | **15,791** |
| **Total comprehensive income (expense) for the year** | **–** | **29,867** | **15,791** | **(15,509)** | **437,254** | **467,403** |
| **Final dividend paid for 2017/18** | **–** | **–** | **–** | **–** | **(92,128)** | **(92,128)** |
| **Interim dividend paid for 2018/19** | **–** | **–** | **–** | **–** | **(92,128)** | **(92,128)** |
| | **–** | **29,867** | **15,791** | **(15,509)** | **252,998** | **283,147** |
| **At 28th February 2019** | **269,477** | **93,042** | **(3,738)** | **(13,213)** | **2,845,079** | **3,190,647** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

*For the year ended 28th February 2019*

| | 2019 | 2018 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| **Operating activities** | | |
| Profit before tax | **524,122** | 447,265 |
| Adjustments for: | | |
| Amortisation of upfront cost of borrowings | **388** | 389 |
| Depreciation | **37,569** | 41,588 |
| Dividends received from financial instruments | **(894)** | (796) |
| Gain on deregistration of an associate | **–** | (12,801) |
| Impairment losses and impairment allowances recognised in respect of advances and receivables | **203,717** | 241,217 |
| Impairment loss on available-for-sale investments | **–** | 9,759 |
| Interest expense | **81,679** | 86,249 |
| Interest income | **(1,136,919)** | (1,117,570) |
| Losses on disposal of property, plant and equipment | **512** | 1,710 |
| Share of results of an associate | **(2,537)** | (1,179) |
| Operating cash flows before movements in working capital | **(292,363)** | (304,169) |
| Increase in advances and receivables | **(102,171)** | (339,228) |
| Increase in prepayments, deposits and other debtors | **(3,679)** | (5,833) |
| (Increase) decrease in amounts due from fellow subsidiaries | **(14)** | 1,035 |
| (Increase) decrease in amount due from immediate holding company | **(283)** | 7 |
| Decrease in amount due from intermediate holding company | **–** | 191 |
| Decrease (increase) in amount due from an associate | **311** | (277) |
| Decrease (increase) in fiduciary bank balances | **213** | (171) |
| Increase in creditors and accruals | **33,948** | 1,235 |
| Increase in contract liabilities | **425** | – |
| (Decrease) increase in amounts due to fellow subsidiaries | **(13,785)** | 7,245 |
| Decrease in amount due to intermediate holding company | **(154)** | (48) |
| Decrease in amount due to ultimate holding company | **(5)** | (2) |
| Decrease in amount due to an associate | **(877)** | (191) |
| Cash used in operations | **(378,434)** | (640,206) |
| Tax paid | **(82,023)** | (83,825) |
| Interest paid | **(83,118)** | (86,158) |
| Interest received | **1,137,860** | 1,115,581 |
| **Net cash from operating activities** | **594,285** | 305,392 |

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| **Investing activities** | | |
| Dividends received | **894** | 796 |
| Proceeds from deregistration of an associate | **–** | 6,747 |
| Proceeds from disposal of property, plant and equipment | **4** | – |
| Purchase of property, plant and equipment | **(14,564)** | (6,557) |
| Deposits paid for acquisition of property, plant and equipment | **(45,303)** | (17,785) |
| Placement of time deposits with maturity of more than three months | **(56,323)** | (44,790) |
| Release of time deposits with maturity of more than three months | **42,259** | 40,102 |
| **Net cash used in investing activities** | **(73,033)** | (21,487) |
| **Financing activities** | | |
| Placement of restricted deposits | **(2,378,616)** | (1,810,742) |
| Withdrawal of restricted deposits | **1,997,150** | 1,955,958 |
| Dividends paid | **(184,256)** | (167,506) |
| New bank loans raised | **150,000** | 90,000 |
| Repayment of bank loans | **(345,000)** | (240,000) |
| **Net cash used in financing activities** | **(760,722)** | (172,290) |
| **Net (decrease) increase in cash and cash equivalents** | **(239,470)** | 111,615 |
| **Effect of changes in exchange rate** | **(3,736)** | 8,057 |
| **Cash and cash equivalents at beginning of the year** | **721,762** | 602,090 |
| **Cash and cash equivalents at end of the year** | **478,556** | 721,762 |
| Being: | | |
| Time deposits with maturity of three months or less | **98,473** | 61,274 |
| Bank balances and cash | **380,083** | 660,488 |
| | **478,556** | 721,762 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 28th February 2019*

## 1. STATUTORY CONSOLIDATED FINANCIAL STATEMENTS

The financial information relating to the year ended 28th February 2019 and 2018 included in this preliminary announcement of annual results for the year ended 28th February 2019 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 2018 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 2019 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 NEW AND AMENDMENTS TO HKFRSs

**New and Amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following new and amendments to HKFRSs issued by the HKICPA for the first time in the current year:

| | |
|---|---|
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers and the related Amendments |
| HK(IFRIC) – Int 22 | Foreign Currency Transactions and Advance Consideration |
| Amendments to HKFRS 2 | Classification and Measurement of Share-based Payment Transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts |
| Amendments to HKAS 28 | As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle |
| Amendments to HKAS 40 | Transfers of Investment Property |

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

### 3.1 HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1st March 2018. Any difference at the date of initial application is recognised in the opening accumulated profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transitional provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1st March 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Interest income (under HKFRS 9 Financial Instruments)
- Fees and commissions
- Handling and late charges

*Summary of effects arising from initial application of HKFRS 15*

The application of HKFRS 15 has no material impact on the Group's accumulated profits at 1st March 2018. The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1st March 2018. Line items that were not affected by the changes have not been included.

| | **Carrying amounts previously reported at 28th February 2018** | **Reclassification** | **Carrying amounts under HKFRS 15 at 1st March 2018** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **Current liabilities** | | | |
| Creditors and accruals | 235,808 | (9,061) | 226,747 |
| Contract liabilities | – | 9,061 | 9,061 |

*Note:* At the date of initial application, included in creditors and accruals was deferred revenue in relation to customer loyalty programmes of HK$9,061,000. This balance was reclassified to contract liabilities upon application of HKFRS 15.

The application of HKFRS 15 has no material impact on the amounts recognised in the Group's consolidated statement of profit or loss for the current year. The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position at 28th February 2019 and its consolidated statement of cash flows for the year ended 28th February 2019 for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

| | As reported 2019 *HK$'000* | Reclassification *HK$'000* | Amounts without application of HKFRS 15 2019 *HK$'000* |
|---|---|---|---|
| **Current liabilities** | | | |
| Creditors and accruals | 255,943 | 9,486 | 265,429 |
| Contract liabilities | 9,486 | (9,486) | – |

Impact on the consolidated statement of cash flows

| | As reported 2019 *HK$'000* | Adjustments *HK$'000* | Amounts without application of HKFRS 15 2019 *HK$'000* |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Increase in creditors and accruals | 33,948 | 425 | 34,373 |
| Increase in contract liabilities | 425 | (425) | – |

*Note:* Deferred revenue in relation to customer loyalty programmes of HK$9,486,000 was previously included in creditors and accruals. Upon the application of HKFRS 15, these deferred revenue were reclassified to contract liabilities.

**3.2 HKFRS 9 Financial Instruments and the related amendments**

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1st March 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1st March 2018. The difference between carrying amounts at 28th February 2018 and the carrying amounts at 1st March 2018 are recognised in the opening accumulated profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement.*

In addition, the Group applied the hedge accounting prospectively.

*Summary of effects arising from initial application of HKFRS 9*

The table below illustrates the classification and measurement of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1st March 2018.

| | NOTES | Available-for-sale investments HK$'000 | Equity instruments at fair value through other comprehensive income ("FVTOCI") HK$'000 | Advances and receivables HK$'000 | Deferred tax (liabilities) assets HK$'000 | Investment revaluation reserve HK$'000 | Accumulated profits HK$'000 |
|---|---|---|---|---|---|---|---|
| **Closing balance at 28th February 2018 — HKAS 39** | | 15,900 | – | 5,183,544 | (4,855) | – | (2,752,797) |
| **Effect arising from initial application of HKFRS 9:** | | | | | | | |
| **Reclassification** | | | | | | | |
| From available-for-sale investments | *(a)* | (15,900) | 15,900 | – | – | 7,921 | (7,921) |
| **Remeasurement** | | | | | | | |
| Impairment under ECL model | *(b)* | – | – | (189,130) | 18,655 | – | 170,475 |
| From cost less impairment to fair value | *(a)* | – | 72,934 | – | – | (71,096) | (1,838) |
| **Opening balance at 1st March 2018** | | – | 88,834 | 4,994,414 | 13,800 | (63,175) | (2,592,081) |

(a) Available-for-sale investments

The Group elected to present in other comprehensive income ("OCI") for the fair value changes of all its equity investments previously classified as available-for-sale, of which HK$7,305,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$15,900,000 were reclassified from available-for-sale investments to equity instruments at FVTOCI, (of which HK$7,305,000 relating to those unquoted equity investments previously carried at cost less impairment) were adjusted to equity instruments at FVTOCI and investment revaluation reserve at 1st March 2018. Remeasurement from cost less impairment to fair value of HK$72,934,000 relating to unquoted equity investments was adjusted at 1st March 2018. In addition, impairment losses previously recognised of HK$9,759,000 (of which HK$1,838,000 relating to those unquoted equity investments previously carried at cost less impairment) were transferred from accumulated profits to investment revaluation reserve at 1st March 2018.

(b) Impairment under ECL model

The Group applies the general impairment approach of HKFRS 9 for advances and receivables to recognise impairment based on a three-stage process which is intended to reflect the deterioration in credit quality of a financial instrument.

Stage 1 covers instruments that have not deteriorated significantly in credit quality since initial recognition including those considered to be low credit risk instruments. Stage 2 covers financial instruments that have deteriorated significantly in credit quality since initial recognition but do not have objective evidence of a credit loss event. Stage 3 covers financial assets that have objective evidence of impairment at the reporting date. 12-month ECL ("12m ECL") is recognised in Stage 1, while lifetime expected credit losses are recognised in Stages 2 and 3.

In general, the application of the ECL model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's advances and receivables. Such additional impairment recognised under ECL model increased the impairment allowances by HK$189,130,000 and the deferred tax assets by HK$18,655,000, respectively, at 1st March 2018. As a result, the adjustment (net of deferred tax) to the opening accumulated profits at 1st March 2018 amounted to HK$170,475,000.

Loss allowances involved for other financial assets at amortised cost mainly comprise other debtors, amounts due from fellow subsidiaries, immediate holding company and an associate, restricted deposits, time deposits, fiduciary bank balances, and bank balances were immaterial and no additional impairment was recognised.

The following table reconciles the impairment allowance measured in accordance with HKAS 39 (under incurred loss model) at 28th February 2018 to the new impairment allowance measured in accordance with HKFRS 9 (under ECL model) at 1st March 2018:

| | **Impairment allowance under HKAS39** | **Effect of adoption of HKFRS 9** | **Impairment allowance under HKFRS 9** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Advances and receivables | 88,904 | 189,130 | 278,034 |

(c) Hedge accounting

The Group applies the hedge accounting requirements of HKFRS 9 prospectively. At the date of the initial application, hedging relationships that qualified for hedge accounting in accordance with HKAS 39 are regarded as continuing hedging relationship if all qualifying criteria under HKFRS 9 are met, after taking into account any rebalancing of the hedging relationship on transition. Consistent with prior periods, the Group has continued to designate all derivatives as hedging instruments for cash flow hedges. As such, the adoption of the hedge accounting requirements of HKFRS 9 had not resulted in adjustments to comparative figures.

### 3.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

| | 28th February 2018 (audited) | HKFRS 9 | HKFRS 15 | 1st March 2018 (restated) |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Non-current assets | | | | |
| Available-for-sale investments | 15,900 | (15,900) | – | – |
| Equity instruments at FVTOCI | – | 88,834 | – | 88,834 |
| Advances and receivables | 981,330 | (35,805) | – | 945,525 |
| Deferred tax assets | – | 13,800 | – | 13,800 |
| Others with no adjustments | 183,709 | – | – | 183,709 |
| | 1,180,939 | 50,929 | – | 1,231,868 |
| Current assets | | | | |
| Advances and receivables | 4,202,214 | (153,325) | – | 4,048,889 |
| Others with no adjustments | 809,823 | – | – | 809,823 |
| | 5,012,037 | (153,325) | – | 4,858,712 |
| Current liabilities | | | | |
| Creditors and accruals | 235,808 | – | (9,061) | 226,747 |
| Contract liabilities | – | – | 9,061 | 9,061 |
| Others with no adjustments | 432,433 | – | – | 432,433 |
| | 668,241 | – | – | 668,241 |
| Net current assets | 4,343,796 | (153,325) | – | 4,190,471 |
| Total assets less current liabilities | 5,524,735 | (102,396) | – | 5,422,339 |
| Capital and reserves | | | | |
| Reserves | 2,735,564 | (97,541) | – | 2,638,023 |
| Others with no adjustments | 269,477 | – | – | 269,477 |
| | 3,005,041 | (97,541) | – | 2,907,500 |
| Non-current liabilities | | | | |
| Deferred tax liabilities | 4,855 | (4,855) | – | – |
| Others with no adjustments | 2,514,839 | – | – | 2,514,839 |
| | 2,519,694 | (4,855) | – | 2,514,839 |
| | 5,524,735 | (102,396) | – | 5,422,339 |

## 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 2018, except for the adoption of the new and amendments to HKFRSs as disclosed in note 3 above.

## 5. REVENUE

| | Note | **2019** <br> ***HK$'000*** | 2018 <br> *HK$'000* |
|---|---|---|---|
| Interest income (under HKFRS 9) | *7* | **1,136,919** | 1,117,570 |
| Fees and commissions | | | |
| – Credit card | | **85,176** | 72,637 |
| – Insurance | | **17,438** | 15,085 |
| Handling and late charges | | **83,145** | 77,575 |
| | | **1,322,678** | 1,282,867 |

## 6. SEGMENT INFORMATION

**Services from which operating and reportable segments derive their revenues**

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

| | | |
|---|---|---|
| Credit card | – | Provide credit card services to individuals and acquiring services for member-stores |
| 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 and gain on deregistration of an associate), unallocated head office expenses (including impairment loss on available-for-sale investments) 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 2019**

| | **Credit card** *HK$'000* | **Personal loans** *HK$'000* | **Insurance** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| **REVENUE** | **1,000,238** | **304,823** | **17,617** | **1,322,678** |
| **RESULT** | | | | |
| Segment results | **389,500** | **120,639** | **12,735** | **522,874** |
| Unallocated operating income | | | | **3,606** |
| Unallocated expenses | | | | **(4,895)** |
| Share of results of an associate | | | | **2,537** |
| Profit before tax | | | | **524,122** |

For the year ended 28th February 2018

| | Credit card *HK$'000* | Personal loans *HK$'000* | Insurance *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| REVENUE | 924,697 | 342,930 | 15,240 | 1,282,867 |
| RESULT | | | | |
| Segment results | 359,376 | 77,024 | 7,082 | 443,482 |
| Unallocated operating income | | | | 17,443 |
| Unallocated expenses | | | | (14,839) |
| Share of results of an associate | | | | 1,179 |
| Profit before tax | | | | 447,265 |

**Geographical information**

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

**For the year ended 28th February 2019**

| | Hong Kong | PRC | Consolidated |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| **REVENUE** | **1,287,927** | **34,751** | **1,322,678** |
| **RESULT** | | | |
| Segment results | **538,671** | **(15,797)** | **522,874** |
| Unallocated operating income | | | **3,606** |
| Unallocated expenses | | | **(4,895)** |
| Share of results of an associate | | | **2,537** |
| Profit before tax | | | **524,122** |

For the year ended 28th February 2018

| | Hong Kong | PRC | Consolidated |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| REVENUE | 1,225,198 | 57,669 | 1,282,867 |
| RESULT | | | |
| Segment results | 456,805 | (13,323) | 443,482 |
| Unallocated operating income | | | 17,443 |
| Unallocated expenses | | | (14,839) |
| Share of results of an associate | | | 1,179 |
| Profit before tax | | | 447,265 |

## 7. INTEREST INCOME

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Non-credit impaired advances | **1,126,783** | 1,107,523 |
| Credit impaired advances | **5,282** | 6,403 |
| Time deposits, restricted deposits and bank balances | **4,854** | 3,644 |
| | **1,136,919** | 1,117,570 |

## 8. INTEREST EXPENSE

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Interest on bank borrowings | **35,291** | 30,004 |
| Interest on collateralised debt obligation | **21,327** | 12,879 |
| Net interest expense on interest rate swap contracts | **25,449** | 43,366 |
| | **82,067** | 86,249 |

Amortisation of upfront cost of **HK$388,000** (2018: HK$389,000) is included in the interest expense on borrowings.

## 9. OTHER INCOME

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Dividends received from financial instruments | | |
| – Listed equity securities | **781** | 710 |
| – Unlisted equity securities | **113** | 86 |
| Others | **4,046** | 4,969 |
| | **4,940** | 5,765 |

## 10. OTHER GAINS AND LOSSES

| | 2019<br>*HK$'000* | 2018<br>*HK$'000* |
|---|---|---|
| Exchange gain (loss) | | |
| Exchange gain on hedging instrument released from cash flow hedge reserve | **1,075** | 3,350 |
| Exchange loss on a bank loan | **(1,075)** | (3,350) |
| Other exchange (losses) gains, net | **(170)** | 240 |
| Hedge ineffectiveness on cash flow hedges | **(131)** | (131) |
| Losses on disposal of property, plant and equipment | **(512)** | (1,710) |
| Impairment loss on available-for-sale investments | **–** | (9,759) |
| Gain on deregistration of an associate | **–** | 12,801 |
| | **(813)** | 1,441 |

## 11. OPERATING EXPENSES

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Auditor's remuneration | **3,201** | 2,945 |
| Depreciation | **37,569** | 41,588 |
| General administrative expenses | **162,834** | 159,521 |
| Marketing and promotion expenses | **77,949** | 71,854 |
| Minimum operating lease rentals in respect of rented premises, advertising space and equipment | **71,255** | 77,044 |
| Other operating expenses | **58,807** | 49,696 |
| Staff costs including Directors' emoluments | **155,954** | 162,275 |
| | **567,569** | 564,923 |

## 12. INCOME TAX EXPENSE

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| – Current year | **91,513** | 79,046 |
| – Overprovision in respect of prior years | **(1,747)** | (1,212) |
| | **89,766** | 77,834 |
| Deferred tax | | |
| – Current year | **(2,898)** | (1,717) |
| | **86,868** | 76,117 |

## 13. DIVIDENDS

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Dividends recognised as distribution during the year: | | |
| Final dividend paid of **22.0 HK cents** in respect of 2018 (2018: 20.0 HK cents in respect of 2017) per share | **92,128** | 83,753 |
| Interim dividend paid of **22.0 HK cents** in respect of 2019 (2018: 20.0 HK cents in respect of 2018) per share | **92,128** | 83,753 |
| | **184,256** | 167,506 |
| Final dividend proposed of **22.0 HK cents** in respect of 2019 (2018: 22.0 HK cents in respect of 2018) per share | **92,128** | 92,128 |

The Directors have recommended a final dividend of **22.0 HK cents** per share. Subject to the approval of shareholders at the annual general meeting of the Company to be held on 21st June 2019 (the "2019 AGM"), the final dividend will be paid on 12th July 2019 to shareholders whose names appear on the register of members of the Company on 28th June 2019. 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$437,254,000** (2018: HK$371,148,000) and on the number of shares of 418,766,000 (2018: 418,766,000) in issue during the year.

## 15. PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent approximately **HK$20,892,000** and **HK$768,000** on computer equipment and leasehold improvements respectively.

## 16. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/ AVAILABLE-FOR-SALE INVESTMENTS

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Equity instruments at FVTOCI | | |
| – Listed investment in Hong Kong | **7,530** | – |
| – Unlisted investments | **111,171** | – |
| | **118,701** | – |
| Available-for-sale investments | | |
| Listed investment in Hong Kong | **–** | 8,595 |
| Unlisted investments | **–** | 7,305 |
| | **–** | 15,900 |

## 17. ADVANCES AND RECEIVABLES

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Credit card receivables | **3,842,292** | 3,808,249 |
| Personal loan receivables | **1,197,248** | 1,375,933 |
| | **5,039,540** | 5,184,182 |
| Accrued interest and other receivables | **87,840** | 88,266 |
| Gross advances and receivables | **5,127,380** | 5,272,448 |
| Impairment allowances *(Note 18)* | **(243,493)** | (88,904) |
| | **4,883,887** | 5,183,544 |
| Current portion included under current assets | **(4,021,782)** | (4,202,214) |
| Amount due after one year | **862,105** | 981,330 |

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

## 18. IMPAIRMENT ALLOWANCES

| | 2019 *HK$'000* | 2018 *HK$'000* |
|---|---|---|
| Analysis by products as: | | |
| Credit card receivables | **127,790** | 38,785 |
| Personal loan receivables | **110,058** | 48,128 |
| Accrued interest and other receivables | **5,645** | 1,991 |
| | **243,493** | 88,904 |

## 19. 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:

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | *HK$'000* | *%** | *HK$'000* | *%** |
| Overdue 1 month but less than 2 months | **93,505** | **1.8** | 91,926 | 1.7 |
| Overdue 2 months but less than 3 months | **51,409** | **1.0** | 45,406 | 0.9 |
| Overdue 3 months but less than 4 months | **25,744** | **0.5** | 28,745 | 0.6 |
| Overdue 4 months or above | **50,290** | **1.0** | 54,588 | 1.0 |
| | **220,948** | **4.3** | 220,665 | 4.2 |

* *Percentage of gross advances and receivables*

## 20. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

| | 2019 *HK$'000* | 2018 *HK$'000* |
|---|---|---|
| Deposits for property, plant and equipment | **41,278** | 8,967 |
| Rental and other deposits | **20,490** | 22,933 |
| Prepaid operating expenses | **36,123** | 29,608 |
| Other debtors | **9,605** | 10,109 |
| | **107,496** | 71,617 |
| Current portion included under current assets | **(47,456)** | (45,058) |
| Amount due after one year | **60,040** | 26,559 |

## 21. 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:

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Less than 1 month | **43,623** | 58,422 |
| Over 1 month but less than 3 months | **6,303** | 3,910 |
| Over 3 months | **3,814** | 3,702 |
| | **53,740** | 66,034 |

(b) 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 in the future at their discretion and the awarded credits have expiration dates.

## 22. BANK BORROWINGS

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Carrying amount repayable *(Note)* | | |
| Within one year | **325,000** | 345,000 |
| Within a period of more than one year but not exceeding two years | **370,000** | 175,000 |
| Within a period of more than two years but not exceeding five years | **656,483** | 965,020 |
| Within a period of more than five years | **30,000** | 90,000 |
| | **1,381,483** | 1,575,020 |
| Amount repayable within one year included under current liabilities | **(325,000)** | (345,000) |
| Amount repayable after one year | **1,056,483** | 1,230,020 |

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

At the end of the reporting period, all bank loans are unsecured.

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2019** | | 2018 | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Interest rate swaps | **2,164** | **14,653** | 2,473 | 36,684 |
| Cross-currency interest rate swap | **13,322** | **–** | 15,770 | – |
| Interest rate caps | **–** | **–** | 6 | – |
| | **15,486** | **14,635** | 18,249 | 36,684 |
| Current portion | **(17)** | **(11,069)** | – | (1,865) |
| Non-current portion | **15,469** | **3,566** | 18,249 | 34,819 |

All derivative financial instruments entered into by the Group that remain outstanding at 28th February 2019 and 28th February 2018 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings and collateralised debt obligation, the designated hedged items.

## 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 2019 and 28th February 2018:

| | **Accelerated tax depreciation** *HK$'000* | **Impairment allowances** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| At 1st March 2017 | 13,655 | (7,083) | 6,572 |
| (Credit) charge to profit or loss for the year | (2,746) | 1,029 | (1,717) |
| At 28th February 2018 | 10,909 | (6,054) | 4,855 |
| Adjustment on application of HKFRS 9 | – | (18,655) | (18,655) |
| **Adjusted on 1st March 2019** | **10,909** | **(24,709)** | **(13,800)** |
| **(Credit) charge to profit or loss for the year** | **(3,007)** | **109** | **(2,898)** |
| **At 28th February 2019** | **7,902** | **(24,600)** | **(16,698)** |

## 25. COLLATERALISED DEBT OBLIGATION

| | **2019** *HK$'000* | 2018 *HK$'000* |
|---|---|---|
| Tranche A | **550,000** | 550,000 |
| Tranche B | **550,000** | 550,000 |
| Tranche C | **150,000** | 150,000 |
| | **1,250,000** | 1,250,000 |
| Amount repayable within one year included under current liabilities | **(701,600)** | – |
| Amount repayable after one year | **548,400** | 1,250,000 |

## 26. PLEDGE OF ASSETS

At 28th February 2019, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK$1,675,261,000** and **HK$419,466,000** respectively (2018: HK$1,660,345,000 and HK$38,000,000).

## CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining the shareholders who are entitled to attend and vote at the 2019 AGM, the register of members of the Company will be closed from Tuesday, 18th June 2019 to Friday, 21st June 2019, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for attending and voting at the 2019 AGM, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 17th June 2019.

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 Thursday, 27th June 2019 to Friday, 28th June 2019, 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 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 26th June 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the year ended 28th February 2019, the Group achieved continued revenue growth and showed a strong business performance. The Group put priority on investing in digitalization in response to the fast paced development of financial technology. The Group also adhered to the strategy of improving productivity through digitalization, expanding customer base by tapping into new customer segments, and delivering a premium user experience to our customers. Due to the escalation of the trade war between China and the United States, and coupled with the raising interest rates by the Federal Reserve, uncertainty in the global economic environment continued in the second half of the year. As a result, the local market sentiments became cautious. The Group has been closely monitoring the development and will take precautionary measures accordingly.

### Operational Review

The Group benefited from an upturn in Hong Kong retail sales in the first half of 2018/19, with card credit purchase sales recording an increase of 3.0% when compared with last year. Although the upturn slowed down in the second half, the unemployment rate in Hong Kong remained low, providing a relatively stable credit operating environment for the Group, which in turn led to a continued improvement in credit quality and lower impairment allowances.

During the year, the Company continued to enhance its card benefits and utilize new technologies to deliver premium service experience to our customers. To improve customers' convenience, several functions have been added to our mobile application, including promotion registration, card and loan applications, bonus point redemption, and digital express cash advance. These additional functions enable customers to enjoy our services without having to approach our branches. To enhance the attractiveness of our bonus point program, customers can now convert their AEON bonus points to Reward-U and Asia Miles.

To enrich our card member benefits, the Group also launched different attractive promotion programs during the year. In the fourth quarter of the year, the Group successfully launched new AEON premium cards that allow customers to enjoy exclusive discounts and premium benefits, including access to lounges in our branches, AEON Stores' outlets and airports.

This year, the Group started a new project to replace and upgrade its card and loan system. Based on current estimates, the project will cost approximately HK$480.0 million, including capital expenditure and on-going maintenance and support charges, over a period of 10 years from the completion of the project, which was re-scheduled to 2021 due to envisaged complexity of the project. The new system would improve operational efficiency, reduce system running costs and enhance its technical capability to cater for new technology, including mobile payment. In addition, the Group also launched a pilot project adopting artificial intelligence in its credit assessment process for card applications with the aim to improve its effectiveness and reliability.

The Group continued to assess the performance of its branch and ATM network to improve efficiency. During the year, the Group reduced the number of branches and ATMs to 19 and 128 respectively. Moreover, to prepare for the smooth transition to the new card and loan system, the Group reassessed the performance of different card types and terminated certain cards which were less popular amongst our customers, including the American Express card brand.

While Hong Kong business performance remained strong, our China business still faced challenges with bad debts and fraud risk control notwithstanding the tightening up of the credit assessment process. As a result, the microfinance companies in China continued to record a drop in sales in the reporting year. We will continue to focus on cost control to minimize losses. We do not foresee any material improvement in their operating performance in the coming year.

**Financial Review**

For the year ended 28th February 2019, on an audited basis, profit before tax was HK$524.1 million, an increase of HK$76.8 million when compared with the financial year ended 28th February 2018. After deducting income tax expense of HK$86.9 million, the Group recorded an increase in profit of 17.8%, with profit after tax increasing from HK$371.1 million in the previous financial year to HK$437.3 million in 2018/19. Earnings per share increased from 88.63 HK cents to 104.41 HK cents for the reporting year.

Return on assets was 7.1% in 2018/19, as compared with 6.0% in 2017/18 while return on equity was 13.7% in 2018/19, as compared with 12.3% in 2017/18.

Net debt to equity ratio was 0.7 at 28th February 2019 and 28th February 2018, while total equity to total assets ratio was 51.6% and 48.5% at 28th February 2019 and 28th February 2018 respectively.

Net asset value per share (after final dividend) at 28th February 2019 was HK$7.4, as compared with the net asset value per share (after final dividend) of HK$7.0 at 28th February 2018.

## Consolidated Statement of Profit or Loss Analysis

*Revenue*

Revenue for the year was HK$1,322.7 million, an increase of 3.1% or HK$39.8 million when compared with HK$1,282.9 million in the previous financial year.

*Net Interest Income*

Through the enhancement of card benefits and the launch of different card promotion programs, credit card sales for the year recorded an increase of 1.2% when compared with last year. Together with the effort to increase the portfolio of higher yield products, the Group recorded an increase in interest income of 1.7% or HK$19.3 million, from HK$1,117.6 million in the previous financial year to HK$1,136.9 million in the current year.

By focusing on long-term bank borrowings, the Group's average funding cost maintained at 3.0% for both financial years despite an increase in interest rates in the market. The Group's interest expense recorded a decrease of 4.9% or HK$4.2 million, from HK$86.2 million in the previous financial year to HK$82.1 million in the current year.

Consequently, net interest income of the Group for 2018/19 was HK$1,054.9 million, representing an increase of 2.3% or HK$23.5 million when compared with HK$1,031.3 million of 2017/18.

*Operating Income*

Following the increase in credit card sales, there was an increase in fees and commissions from credit card business of 17.3% or HK$12.5 million to HK$85.2 million in the current year. With the development of new distribution channels for insurance products, including digital platform, fees and commissions from insurance business recorded an increase of 15.6% or HK$2.4 million to HK$17.4 million in the current year. There was also an increase in handling and late charges of 7.2% or HK$5.6 million to HK$83.1 million in the current year.

In the previous year, there was a HK$12.8 million gain on deregistration of an associate. In the current year, there was no such gain. Other gains and losses recorded a loss of HK$0.8 million in the current year while there was a gain of HK$1.4 million in the previous year.

Operating income of the Group for 2018/19 was HK$1,244.7 million, representing an increase of 3.4% or HK$40.9 million when compared with HK$1,203.8 million of 2017/18.

*Operating Expenses*

During the current financial year, the Group prudently utilized marketing and promotion expenses for launching new cards and card benefits to tap into new market segments and to generate new sales and brand building, resulting in an increase in marketing and promotion expenses of 8.5% or HK$6.1 million to HK$77.9 million in the current year. Due to changing technology and environment as well as customer behaviour, the Group has changed its branch strategy from "expansion" to "selection and concentration" where branches should be located in high population and high shopper concentration areas. Accordingly, the Group reduced its physical branches from 22 to 19. As a result, operating lease rentals decreased by HK$5.8 million when compared with the previous year. During the year, the Group started to streamline its existing operations and realign its manpower with actual operational needs resulting in a reduction of staff costs of HK$6.3 million when compared with 2017/18. Following the launch of different digitalization projects, including the revamped mobile application and new mobile tablets for card applications, there was an increase in system running costs. As a result, there was an increase in general administrative expenses and other operating expenses of HK$12.4 million when compared with the previous year.

Overall operating expenses recorded a slight increase of 0.5% or HK$2.7 million from HK$564.9 million in 2017/18 to HK$567.6 million in the current year.

*Cost-To-Income Ratio*

Through the effective utilization of incremental operating expenses to generate additional operating income, the Group further reduced its cost-to-income ratio from 46.9% in the previous year to 45.6% in the current year.

*Impairment Losses and Impairment Allowances*

During the year under review, credit quality remained strong, attributable to the low unemployment rate in Hong Kong and the Group's effective asset quality management. There was a decrease of 15.5% or HK$37.5 million in impairment losses and impairment allowances to HK$203.7 million.

This year, the Group adopted HKFRS 9 on the calculation of impairment losses and impairment allowances. The impairment losses and impairment allowances calculated under the previous accounting standard, HKAS39, had not been restated. If the calculation of impairment losses and impairment allowances in the current year were based on HKAS39, the amount would have been HK$227.5 million.

**Consolidated Statement of Financial Position Analysis**

The Group's total equity at 28th February 2019 was HK$3,190.6 million, representing a growth of 6.2% or HK$185.6 million, when compared with the balance of HK$3,005.0 million at 28th February 2018.

Total assets at 28th February 2019 were HK$6,180.7 million, as compared with total assets of HK$6,193.0 million at 28th February 2018.

*Property, Plant and Equipment*

During the year, the Group spent approximately HK$20.9 million on computer equipment and HK$0.8 million on leasehold improvements.

*Advances and Receivables*

On advances and receivables, due to the Group's prudent asset quality management aiming at controlling asset quality in both Hong Kong and China markets, personal loan receivables decreased by 13.0% from HK$1,375.9 million at 28th February 2018 to HK$1,197.2 million at 28th February 2019.

On the other hand, credit card receivables increased slightly by 0.9%, or HK$34.0 million, from HK$3,808.2 million at 28th February 2018 to HK$3,842.3 million at 28th February 2019 as a result of our initiatives to increase customer base and stimulate card usage.

Following the drop in bankruptcy cases and advances and receivables overdue 4 months or above, impairment allowances decreased by HK$34.5 million, from HK$278.0 million at 1st March 2018 to HK$243.5 million at 28th February 2019.

*Indebtedness*

At 28th February 2019, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK$1,381.5 million, with 24.6% being fixed in interest rates and 75.4% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 39.0% of these indebtedness will mature within one year, 34.9% between one and two years, 25.0% between two and five years and 1.1% over five years.

The average duration of indebtedness was 1.5 years at 28th February 2019, as compared with 2.1 years at 28th February 2018.

**Segment Information**

The Group's business comprises three principal operating segments, namely credit card, personal loans and insurance. For the year ended 28th February 2019, credit card operations accounted for 75.6% of the Group's revenue, as compared to 72.1% in the previous financial year. For segment results, credit card operations in 2018/19 accounted for 74.5% of the Group's whole operations, as compared to 81.0% in the previous financial year.

During the year under review, owing to the initiatives to increase customer base and stimulate card usage, the Group recorded an overall increase in card sales of 1.2% when compared with last year. This resulted in an overall increase in credit card receivables balance. Together with the focus on high yield products, revenue from credit card operations in 2018/19 increased by 8.2% or HK$75.5 million from HK$924.7 million in 2017/18 to HK$1,000.2 million in 2018/19. Although the Group had spent more on marketing and promotions to launch new cards and to create new sales channels, through our effective control on operating expenses and coupled with prudent asset quality management to reduce impairment losses and impairment allowances, the results from credit card segment recorded an increase of 8.4% or HK$30.1 million from HK$359.4 million in the previous financial year to HK$389.5 million in 2018/19.

For personal loans, the Group continued to adopt prudent asset quality management aiming at controlling asset quality. This resulted in a slowdown in sales and reduction in the personal loan receivables balance. As a result, revenue from personal loans operations decreased by 11.1% or HK$38.1 million from HK$342.9 million in 2017/18 to HK$304.8 million in 2018/19. However, with the improvement in impairment losses and personal allowances of 48.6% or HK$52.1 million and disciplined control on operational costs, the segment results for the year from personal loans operations recorded an increase of HK$43.6 million from HK$77.0 million in 2017/18 to HK$120.6 million in the current financial year.

For the insurance intermediary business, the Group introduced a new online sales channel for individual customers. Together with existing sales channels, the Group managed to increase the number of in-force insurance policies. Revenue from insurance operations increased to HK$17.6 million from HK$15.2 million in the previous year, representing an increase of 15.8%. The segment results for the current financial year from insurance operations increased by 78.9% or HK$5.6 million from HK$7.1 million in the previous financial year to HK$12.7 million for the year ended 28th February 2019.

In relation to the financial information by geographical locations, revenue from Hong Kong operations recorded an increase of 5.1% or HK$62.7 million, from HK$1,225.2 million in 2017/18 to HK$1,287.9 million in 2018/19, mainly attributable to the increase in credit card sales and growth in credit card advances and receivables. Together with effective cost control and prudent asset quality management, the segment results of Hong Kong operations recorded an increase of 17.9% or HK$81.9 million from HK$456.8 million in 2017/18 to HK$538.7 million in 2018/19.

For China operations, the microfinance subsidiaries still faced difficulties with bad debts and fraud risk control. As a result, sales in these subsidiaries continued to contract in the reporting year as they continue to focus on cost control to minimize losses. Revenue from China operations recorded a decrease of HK$22.9 million, from HK$57.7 million in 2017/18 to HK$34.8 million in 2018/19. Overall segment results of our China operations showed an increase of loss of 18.8% or HK$2.5 million from a loss of HK$13.3 million in 2017/18 to a loss of HK$15.8 million in 2018/19.

**Prospects**

Due to the ongoing trade war between China and the United States, uncertainties will continue to affect market sentiments. Nevertheless, the unemployment rate will hopefully stay at a low level with a slight Gross Domestic Product growth expected. The Group will remain vigilant in monitoring changing market conditions and react appropriately.

It is expected that competition in the market will intensify with the increasing popularity of e-money and mobile payment usage. The Group will continue to enhance product benefits and service efficiency to provide premium user experience to our customers so as to expand our customer base and to boost our sales volume.

In order to respond to market changes, the Group will put more resources on digitalization. The Group's investment in digitalization will simplify operations and improve our ability to response to changes.

The project to replace the Group's card and loan system is ongoing with the soft-launch of acquiring phase in May 2019 and the revision of issuing phase schedule to 2021. Depreciation and ongoing maintenance and support changes will be incurred over a period of 10 years upon launching of the acquiring phase and the issuing phase respectively. The Group will further enhance its mobile application for further customer convenience.

The pilot project to adopt artificial intelligence for credit assessment was started in 2018/19 and is still in progress. Going forward, the Group is preparing for the evaluation stage to assess on the effectiveness in making credit assessment more reliable.

Furthermore, to improve the data analysis capability, the Group has set up a team for data analysis in the fourth quarter of 2018/19. The team is expected to come up with its own data analysis methodologies to better enhance the Group's marketing and credit assessment capabilities.

The sales promotions launched in 2018/19 have been popular with our customers. The Company will launch similar promotions to build up its Japanese brand image.

The Group will continue to focus on long-term bank borrowings as its funding strategy and use derivative financial instruments to tackle any increase in market interest rates.

As the Group is still working on a viable business strategy for our China business, the microfinance subsidiaries in China will meanwhile continue to focus on improving asset quality and streamlining their operations. The Group will reassess their future business prospects and consider different operating options. Meanwhile, we are expecting the microfinance companies to continue to underperform in the coming year.

The Group has a unique and strong position in the Hong Kong market in which it operates, and the Board remains confident about future growth prospects. We are well-funded and look forward to a satisfactory performance in 2019/20.

## FUNDING AND CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that:

- the Group will continue as a going concern;
- to maintain healthy capital ratio to instil confidence in stakeholders during periods of uncertainty and turmoil in financial markets;
- funds are available at competitive costs to meet all contractual financial commitments; and
- to fund receivable growth and to generate reasonable returns from available funds.

The capital structure of the Group consists of debt (which includes bank borrowings and collateralised debt obligation), and equity attributable to owners of the Group (comprising share capital and reserves).

### Net debt to equity ratio

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

| | **2019** | 2018 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Debt *(Note a)* | **2,631,483** | 2,825,020 |
| Cash and cash equivalents | **(478,556)** | (721,762) |
| Net debt | **2,152,927** | 2,103,258 |
| Equity *(Note b)* | **3,190,647** | 3,005,041 |
| Net debt to equity ratio | **0.7** | 0.7 |

*Notes:*

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 22 and 25 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 28th February 2019, 54.8% of its funding was derived from total equity, 23.7% from direct borrowings from financial institutions and 21.5% from structured finance.

The net asset of the Group at 28th February 2019 was HK$3,190.6 million, as compared with HK$3,005.0 million at 28th February 2018. 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 are transacted and recorded in HKD and therefore its core assets are not subject to any exposure on 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 2019, capital commitments entered into were mainly related to the purchase of property, plant and equipment. The Group also had HK$78.5 million of other contractual commitments as of 28th February 2019, primarily related to the card and loan system replacement project.

## HUMAN RESOURCES

The total number of staff of the Group at 28th February 2019 and 28th February 2018 was 455(Hong Kong: 334; PRC: 121) and 575 (Hong Kong: 357; PRC: 218) respectively. Employees are remunerated according to the job nature and market trends, with annual increment to reward and motivate individual performance based on their competency. Apart from medical 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 programs and external training sponsorships for its employees. The in-house training programs include the yearly general training on AEON Code of Conduct, which reconfirms the necessity of corporate ethics to create a shared set of values among employees. The training programs aim to enhance employees' professional knowledge and skills for providing customers with quality service.

## 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 set out in Appendix 14 to the Listing Rules throughout the year ended 28th February 2019, 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. 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 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 2019 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 2018/19 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. Hideo Tanaka (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director), Ms. Koh Yik Kung and Mr. Tomoharu Fukayama as Executive Directors; Mr. Masaaki Mangetsu (Chairman) as Non-executive Director; and Mr. Lee Ching Ming, Adrian, Mr. Wong Hin Wing and Mr. Kenji Hayashi as Independent Non-executive Directors.

By order of the Board
**Hideo Tanaka**
*Managing Director*

Hong Kong, 24th April 2019