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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)**

**INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST AUGUST 2019**

The board (the “Board”) of directors (the “Directors”) of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st August 2019, together with comparative figures of the previous period as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the six months ended 31st August 2019*

	<i>Notes</i>	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	<b>1.3.2018 to 31.8.2018 (Unaudited) HK\$'000</b>
Revenue	3	<b>654,867</b>	653,394
Interest income	5	<b>567,281</b>	567,673
Interest expense	6	<b>(37,788)</b>	(42,866)
Net interest income		<b>529,493</b>	524,807
Fees and commissions		<b>48,620</b>	44,825
Handling and late charges		<b>38,966</b>	40,896
Other income	7	<b>1,627</b>	2,773
Other gains and losses	8	<b>(7,623)</b>	(562)
Operating income		<b>611,083</b>	612,739
Operating expenses	9	<b>(280,780)</b>	(268,368)
Operating profit before impairment losses and impairment allowances		<b>330,303</b>	344,371
Impairment losses and impairment allowances		<b>(124,290)</b>	(93,462)
Recoveries of advances and receivables written-off		<b>24,166</b>	24,333
Share of results of an associate		<b>192</b>	747
Profit before tax		<b>230,371</b>	275,989
Income tax expense	10	<b>(39,977)</b>	(44,758)
Profit for the period		<b>190,394</b>	231,231
Profit for the period attributable to: Owners of the Company		<b>190,394</b>	231,231
Earnings per share – Basic	12	<b>45.47 HK cents</b>	55.22 HK cents

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the six months ended 31st August 2019*

	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
Profit for the period	<u><b>190,394</b></u>	<u>231,231</u>
<b>Other comprehensive income (expense)</b>		
Item that will not be reclassified to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	<b>10,396</b>	(905)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	<b>(15,967)</b>	(21,922)
Net adjustment on cash flow hedges	<u><b>2,392</b></u>	<u>26,641</u>
Other comprehensive (expense) income for the period	<u><b>(3,179)</b></u>	<u>3,814</u>
Total comprehensive income for the period	<u><b>187,215</b></u>	<u>235,045</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u><b>187,215</b></u>	<u>235,045</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2019

	<i>Notes</i>	<b>31.8.2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	28.2.2019 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>61,855</b>	70,365
Right-of-use assets		<b>113,354</b>	–
Investment in an associate		<b>14,586</b>	15,449
Equity instruments at fair value through other comprehensive income		<b>128,983</b>	118,701
Advances and receivables	<i>13</i>	<b>831,425</b>	862,105
Prepayments, deposits and other debtors	<i>16</i>	<b>69,131</b>	60,040
Derivative financial instruments	<i>19</i>	<b>9,164</b>	15,469
Deferred tax assets	<i>20</i>	<b>16,990</b>	16,698
Restricted deposits		<b>38,000</b>	38,000
		<b>1,283,488</b>	1,196,827
<b>Current assets</b>			
Advances and receivables	<i>13</i>	<b>3,878,618</b>	4,021,782
Prepayments, deposits and other debtors	<i>16</i>	<b>52,409</b>	47,456
Amounts due from fellow subsidiaries		<b>334</b>	160
Amount due from immediate holding company		<b>340</b>	283
Amount due from an associate		<b>56</b>	39
Derivative financial instruments	<i>19</i>	<b>439</b>	17
Restricted deposits		<b>55,214</b>	381,466
Time deposits		<b>157,647</b>	152,536
Fiduciary bank balances		<b>8</b>	35
Bank balances and cash		<b>777,751</b>	380,083
		<b>4,922,816</b>	4,983,857
<b>Current liabilities</b>			
Creditors and accruals	<i>17(a)</i>	<b>217,150</b>	255,943
Contract liabilities	<i>17(b)</i>	<b>13,591</b>	9,486
Amounts due to fellow subsidiaries		<b>48,085</b>	42,920
Amount due to intermediate holding company		<b>14</b>	–
Amount due to ultimate holding company		<b>36</b>	28
Amount due to an associate		<b>1,439</b>	2,027
Bank borrowings	<i>18</i>	<b>205,000</b>	325,000
Collateralised debt obligation	<i>21</i>	<b>1,100,500</b>	701,600
Lease liabilities		<b>40,923</b>	–
Derivative financial instruments	<i>19</i>	<b>854</b>	11,069
Tax liabilities		<b>54,452</b>	33,515
		<b>1,682,044</b>	1,381,588
<b>Net current assets</b>		<b>3,240,772</b>	3,602,269
<b>Total assets less current liabilities</b>		<b>4,524,260</b>	4,799,096

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**(Continued)**

*At 31st August 2019*

	<i>Notes</i>	<b>31.8.2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	28.2.2019 (Audited) HK\$'000
<b>Capital and reserves</b>			
Share capital		<b>269,477</b>	269,477
Reserves		<b>3,016,257</b>	2,921,170
<b>Total equity</b>		<b>3,285,734</b>	3,190,647
<b>Non-current liabilities</b>			
Bank borrowings	<i>18</i>	<b>1,011,403</b>	1,056,483
Collateralised debt obligation	<i>21</i>	<b>149,500</b>	548,400
Lease liabilities		<b>73,091</b>	–
Derivative financial instruments	<i>19</i>	<b>4,532</b>	3,566
		<b>1,238,526</b>	1,608,449
		<b>4,524,260</b>	4,799,096

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 31st August 2019*

	Share capital <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2018 (Audited)	269,477	63,175	(19,529)	2,296	2,592,081	2,907,500
Profit for the period	-	-	-	-	231,231	231,231
Fair value loss on equity instruments at fair value through other comprehensive income	-	(905)	-	-	-	(905)
Exchange difference arising from translation of foreign operations	-	-	-	(21,922)	-	(21,922)
Net adjustment on cash flow hedges	-	-	26,641	-	-	26,641
Total comprehensive (expense) income for the period	-	(905)	26,641	(21,922)	231,231	235,045
Final dividend paid for 2017/18	-	-	-	-	(92,128)	(92,128)
	-	(905)	26,641	(21,922)	139,103	142,917
At 31st August 2018 (Unaudited)	<u>269,477</u>	<u>62,270</u>	<u>7,112</u>	<u>(19,626)</u>	<u>2,731,184</u>	<u>3,050,417</u>
At 1st March 2019 (Audited)	<u>269,477</u>	<u>93,042</u>	<u>(3,738)</u>	<u>(13,213)</u>	<u>2,845,079</u>	<u>3,190,647</u>
Profit for the period	-	-	-	-	190,394	190,394
Fair value gain on equity instruments at fair value through other comprehensive income	-	10,396	-	-	-	10,396
Exchange difference arising from translation of foreign operations	-	-	-	(15,967)	-	(15,967)
Net adjustment on cash flow hedges	-	-	2,392	-	-	2,392
Total comprehensive income (expense) for the period	-	10,396	2,392	(15,967)	190,394	187,215
Investment revaluation reserve reclassified to accumulated profits upon disposal of equity instruments at fair value through other comprehensive income	-	1,723	-	-	(1,723)	-
Final dividend paid for 2018/19	-	-	-	-	(92,128)	(92,128)
	-	12,119	2,392	(15,967)	96,543	95,087
At 31st August 2019 (Unaudited)	<u>269,477</u>	<u>105,161</u>	<u>(1,346)</u>	<u>(29,180)</u>	<u>2,941,622</u>	<u>3,285,734</u>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st August 2019

	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
<b>Net cash from operating activities</b>	<b>396,893</b>	388,855
Dividends received	391	391
Proceeds on disposal of equity instruments at fair value through other comprehensive income	114	–
Proceeds on disposal of property, plant and equipment	35	–
Purchase of property, plant and equipment	(3,573)	(1,315)
Deposits paid for acquisition of property, plant and equipment	(19,520)	(23,889)
Placement of time deposits with maturity of more than three months	(25,932)	(14,364)
Release of time deposits with maturity of more than three months	15,930	11,970
<b>Net cash used in investing activities</b>	<b>(32,555)</b>	(27,207)
Placement of restricted deposits	(613,929)	(1,011,359)
Withdrawal of restricted deposits	940,181	690,898
Repayment of lease liabilities	(30,803)	–
Dividends paid	(92,128)	(92,128)
New bank loans raised	100,000	–
Repayment of bank loans	(265,000)	(45,000)
<b>Net cash generated from (used in) financing activities</b>	<b>38,321</b>	(457,589)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>402,659</b>	(95,941)
<b>Effect of changes in exchange rate</b>	<b>(5,812)</b>	(5,458)
<b>Cash and cash equivalents at beginning of the period</b>	<b>478,556</b>	721,762
<b>Cash and cash equivalents at end of the period</b>	<b>875,403</b>	620,363
Being:		
Time deposits with maturity of three months or less	97,652	74,733
Bank balances and cash	777,751	545,630
	<b>875,403</b>	620,363

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2019

## 1. BASIS OF PREPARATION

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

The financial information relating to the year ended 28th February 2019 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 28th February 2019 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st August 2019 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 28th February 2019.

### *Application of new and amendments to HKFRSs and an interpretation*

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs and an interpretation issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1st March 2019 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2.1 Impacts and changes in accounting policies on application of HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases*, and the related interpretations.

#### 2.1.1. Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

##### *Definition of a lease*

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

##### *As a lessee*

##### Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the financial statements would not differ materially from individual leases within the portfolio.

The Group also applies practical expedient not to separate non-lease components from lease component, and instead account for the lease component and any associated non-lease components as a single lease component.

##### Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.



## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2.1 Impacts and changes in accounting policies on application of HKFRS 16 Leases (Continued)

#### 2.1.1. Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

*As a lessee (Continued)*

##### Right-of-use assets

Except for short-term leases and leases of low value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

##### Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

##### Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2.1 Impacts and changes in accounting policies on application of HKFRS 16 Leases (Continued)

#### 2.1.1. Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

*As a lessee (Continued)*

Lease liabilities (Continued)

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right of-use assets) whenever the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2.1 Impacts and changes in accounting policies on application of HKFRS 16 Leases (Continued)

#### 2.1.1. Key changes in accounting policies resulting from application of HKFRS 16 (Continued)

*As a lessee (Continued)*

##### Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

#### 2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

##### *Definition of a lease*

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply these standards to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1st March 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

##### *As a lessee*

The Group has applied HKFRS 16 initially on 1st March 2019. As permitted by HKFRS 16, the Group has elected not to restate comparative figures. Any adjustments to the carrying amounts of assets and liabilities at the date of transaction are recognised in the opening balance in the condensed consolidated statement of financial position at 1st March 2019.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

- i. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;
- ii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;
- iii. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment; and
- iv. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

### 2.1 Impacts and changes in accounting policies on application of HKFRS 16 Leases (Continued)

#### 2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 (Continued)

*As a lessee (Continued)*

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised right-of-use assets and lease liabilities of HK\$55,234,000 respectively at 1st March 2019.

For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 31st August 2019, movements in working capital have been computed based on opening condensed consolidated statement of financial position at 1st March 2019 as adjusted above.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied is 3.0%.

	<b>At 1st March 2019 HK\$'000</b>
Operating lease commitments disclosed at 28th February 2019	<b>69,580</b>
Lease liabilities discounted at relevant incremental borrowing rates	<b>67,602</b>
Less: Recognition exemption – short-term leases	<b>(12,368)</b>
Lease liabilities at 1st March 2019	<b>55,234</b>
Analysed as:	
Current	<b>34,416</b>
Non-current	<b>20,818</b>
	<b>55,234</b>

*Notes:*

- (a) The carrying amount of right-of-use assets at 1st March 2019 is relating to operating leases of land and buildings recognised upon application of HKFRS 16.
- (b) Before the application of HKFRS 16, the Group considered refundable rental deposits paid as rights and obligations under leases to which HKAS 17 applied. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use of the underlying assets and should be adjusted to reflect the discounting effect at transition. However, the adjustments to present value is insignificant to be recognised at the date of initial application, 1st March 2019.

### 3. REVENUE

	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
Interest income	<b>567,281</b>	567,673
Fees and commissions		
Credit cards	<b>34,623</b>	32,564
Insurance	<b>13,997</b>	12,261
Handling and late charges	<b>38,966</b>	40,896
	<b>654,867</b>	653,394

### 4. 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 brokerage and agency services

#### Segment revenue and results

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

#### 1.3.2019 to 31.8.2019 (Unaudited)

	<b>Credit cards HK\$'000</b>	<b>Personal loans HK\$'000</b>	<b>Insurance HK\$'000</b>	<b>Consolidated HK\$'000</b>
<b>REVENUE</b>	<b>497,723</b>	<b>143,093</b>	<b>14,051</b>	<b>654,867</b>
<b>RESULT</b>				
Segment results	<b>180,774</b>	<b>43,310</b>	<b>6,464</b>	<b>230,548</b>
Unallocated operating income				<b>1,686</b>
Unallocated expenses				<b>(2,055)</b>
Share of results of an associate				<b>192</b>
Profit before tax				<b>230,371</b>

#### 4. SEGMENT INFORMATION (Continued)

##### Segment revenue and results (Continued)

1.3.2018 to 31.8.2018 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>484,057</u>	<u>157,009</u>	<u>12,328</u>	<u>653,394</u>
RESULT				
Segment results	<u>206,728</u>	<u>62,928</u>	<u>6,023</u>	275,679
Unallocated operating income				1,653
Unallocated expenses				(2,090)
Share of results of an associate				<u>747</u>
Profit before tax				<u>275,989</u>

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of certain income (including dividend income), unallocated head office expenses and share of results of an associate. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

##### Geographical information

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

1.3.2019 to 31.8.2019 (Unaudited)

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>647,608</u>	<u>7,259</u>	<u>654,867</u>
RESULT			
Segment results	<u>241,845</u>	<u>(11,297)</u>	230,548
Unallocated operating income			1,686
Unallocated expenses			(2,055)
Share of results of an associate			<u>192</u>
Profit before tax			<u>230,371</u>

#### 4. SEGMENT INFORMATION (Continued)

##### Geographical information (Continued)

1.3.2018 to 31.8.2018 (Unaudited)

	Hong Kong <i>HK\$'000</i>	PRC <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>631,743</u>	<u>21,651</u>	<u>653,394</u>
RESULT			
Segment results	<u>282,386</u>	<u>(6,707)</u>	275,679
Unallocated operating income			1,653
Unallocated expenses			(2,090)
Share of results of an associate			<u>747</u>
Profit before tax			<u>275,989</u>

#### 5. INTEREST INCOME

	<b>1.3.2019 to 31.8.2019 (Unaudited) <i>HK\$'000</i></b>	1.3.2018 to 31.8.2018 (Unaudited) <i>HK\$'000</i>
Non-credit impaired advances	<b>559,845</b>	562,539
Credit impaired advances	<b>4,731</b>	2,816
Time deposits, restricted deposits and bank balances	<u><b>2,705</b></u>	<u>2,318</u>
	<u><b>567,281</b></u>	<u>567,673</u>

#### 6. INTEREST EXPENSE

	<b>1.3.2019 to 31.8.2019 (Unaudited) <i>HK\$'000</i></b>	1.3.2018 to 31.8.2018 (Unaudited) <i>HK\$'000</i>
Interest on bank borrowings	<b>14,500</b>	17,925
Interest on collateralised debt obligation	<b>15,068</b>	10,327
Interest on lease liabilities	<b>1,353</b>	–
Net interest expense on interest rate swap contracts	<u><b>6,867</b></u>	<u>14,614</u>
	<u><b>37,788</b></u>	<u>42,866</u>

## 7. OTHER INCOME

	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
Dividends received from financial instruments		
Listed equity securities	<b>391</b>	391
Others	<b>1,236</b>	2,382
	<b>1,627</b>	2,773

## 8. OTHER GAINS AND LOSSES

	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
Exchange gain (loss)		
Exchange gain on hedging instrument released from cash flow hedge reserve	<b>275</b>	1,100
Exchange loss on a bank loan	<b>(275)</b>	(1,100)
Other exchange losses, net	<b>(151)</b>	(150)
Hedge ineffectiveness on cash flow hedges	<b>(66)</b>	(66)
Losses on disposal of property, plant and equipment	<b>(339)</b>	(346)
Losses on lease modification	<b>(7,067)</b>	–
	<b>(7,623)</b>	(562)

## 9. OPERATING EXPENSES

	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	<b>17,013</b>	19,681
Depreciation on right-of-use assets	<b>23,042</b>	–
Operating lease rentals in respect of rented premises, advertising space and equipment	<b>10,663</b>	36,483
General administrative expenses	<b>81,243</b>	81,189
Marketing and promotion expenses	<b>37,766</b>	23,704
Other operating expenses	<b>32,623</b>	28,394
Staff costs including Directors' emoluments	<b>78,430</b>	78,917
	<b>280,780</b>	268,368



## 10. INCOME TAX EXPENSE

	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
Current tax		
– Current period	<b>40,269</b>	45,710
Deferred tax ( <i>Note 20</i> )		
– Current period	<u>(292)</u>	<u>(952)</u>
	<b><u>39,977</u></b>	<b><u>44,758</u></b>

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 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.

## 11. DIVIDENDS

On 12th July 2019, a dividend of 22.0 HK cents (six months ended 31st August 2018: 22.0 HK cents) per share amounting to a total of HK\$92,128,000 (six months ended 31st August 2018: HK\$92,128,000) was paid to shareholders as the final dividend for 2018/19.

In respect of the current interim period, the Directors have declared an interim dividend of 22.0 HK cents per share amounting to HK\$92,128,000 payable to the shareholders of the Company whose names appear on the Register of Members on 18th October 2019. The interim dividend will be paid on 31st October 2019. This interim dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

## 12. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the unaudited profit for the period of HK\$190,394,000 (six months ended 31st August 2018: HK\$231,231,000) and on the number of shares of 418,766,000 (six months ended 31st August 2018: 418,766,000) in issue during the period.

**13. ADVANCES AND RECEIVABLES**

	<b>31.8.2019</b> <b>(Unaudited)</b> <i>HK\$'000</i>	28.2.2019 (Audited) <i>HK\$'000</i>
Credit card receivables	<b>3,745,911</b>	3,842,292
Personal loan receivables	<b>1,133,835</b>	1,197,248
	<b>4,879,746</b>	5,039,540
Accrued interest and other receivables	<b>85,362</b>	87,840
	<b>4,965,108</b>	5,127,380
Gross advances and receivables	<b>4,965,108</b>	5,127,380
Impairment allowances ( <i>Note 14</i> )	<b>(255,065)</b>	(243,493)
	<b>4,710,043</b>	4,883,887
Current portion included under current assets	<b>(3,878,618)</b>	(4,021,782)
	<b>831,425</b>	862,105
Amount due after one year	<b>831,425</b>	862,105

**14. IMPAIRMENT ALLOWANCES**

	<b>31.8.2019</b> <b>(Unaudited)</b> <i>HK\$'000</i>	28.2.2019 (Audited) <i>HK\$'000</i>
Analysis by products as:		
Credit card receivables	<b>143,450</b>	127,790
Personal loan receivables	<b>105,936</b>	110,058
Accrued interest and other receivables	<b>5,679</b>	5,645
	<b>255,065</b>	243,493

#### 14. IMPAIRMENT ALLOWANCES (Continued)

An analysis of movements in impairment allowances during each of the two periods ended 31st August 2019 and 31st August 2018 are set out as below:

	<b>Stage 1</b> <i>HK\$'000</i>	<b>Stage 2</b> <i>HK\$'000</i>	<b>Stage 3</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st March 2019	<b>107,811</b>	<b>48,575</b>	<b>87,107</b>	<b>243,493</b>
Net repayment in advances and receivables	<b>(837)</b>	<b>(70)</b>	<b>(6,092)</b>	<b>(6,999)</b>
Transfer to 12 months				
Expected Credit Loss (Stage 1)	<b>104,962</b>	<b>(101,088)</b>	<b>(3,874)</b>	–
Transfer to lifetime				
Expected Credit Loss not credit impaired (Stage 2)	<b>(9,422)</b>	<b>14,051</b>	<b>(4,629)</b>	–
Transfer to lifetime				
Expected Credit Loss credit impaired (Stage 3)	<b>(384)</b>	<b>(46,441)</b>	<b>46,825</b>	–
Total transfer between stages	<b>95,156</b>	<b>(133,478)</b>	<b>38,322</b>	–
Impact on period-end expected credit loss of expenses transferred between stages during the period	<b>(90,779)</b>	<b>125,308</b>	<b>63,551</b>	<b>98,080</b>
Movements due to changes in credit risk	–	–	<b>33,209</b>	<b>33,209</b>
Amounts written-off as uncollectable	–	–	<b>(110,232)</b>	<b>(110,232)</b>
Exchange realignment	<b>(302)</b>	<b>(294)</b>	<b>(1,890)</b>	<b>(2,486)</b>
<b>At 31st August 2019</b>	<b>111,049</b>	<b>40,041</b>	<b>103,975</b>	<b>255,065</b>
	<i>Stage 1</i> <i>HK\$'000</i>	<i>Stage 2</i> <i>HK\$'000</i>	<i>Stage 3</i> <i>HK\$'000</i>	<i>Total</i> <i>HK\$'000</i>
At 1st March 2018	115,556	51,855	110,623	278,034
Net addition (repayment) in advances and receivables	47	(4,557)	(10,248)	(14,758)
Transfer to 12 months				
Expected Credit Loss (Stage 1)	98,054	(95,186)	(2,868)	–
Transfer to lifetime				
Expected Credit Loss not credit impaired (Stage 2)	(7,246)	11,144	(3,898)	–
Transfer to lifetime				
Expected Credit Loss credit impaired (Stage 3)	(602)	(46,950)	47,552	–
Total transfer between stages	90,206	(130,992)	40,786	–
Impact on period-end expected credit loss of expenses transferred between stages during the period	(93,549)	125,435	42,354	74,240
Movements due to changes in credit risk	–	–	33,980	33,980
Amounts written-off as uncollectable	–	–	(127,027)	(127,027)
Exchange realignment	(413)	(220)	(359)	(992)
<b>At 31st August 2018</b>	<b>111,847</b>	<b>41,521</b>	<b>90,109</b>	<b>243,477</b>

## 15. OVERDUE ADVANCES AND RECEIVABLES

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

	31.8.2019 (Unaudited)		28.2.2019 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	93,918	1.9	93,505	1.8
Overdue 2 months but less than 3 months	50,622	1.0	51,409	1.0
Overdue 3 months but less than 4 months	26,719	0.5	25,744	0.5
Overdue 4 months or above	60,048	1.2	50,290	1.0
	<u>231,307</u>	<u>4.6</u>	<u>220,948</u>	<u>4.3</u>

\* Percentage of gross advances and receivables

## 16. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	31.8.2019 (Unaudited) HK\$'000	28.2.2019 (Audited) HK\$'000
Deposits for property, plant and equipment	56,206	41,278
Rental and other deposits	23,762	20,490
Prepaid operating expenses	34,395	36,123
Other debtors	7,177	9,605
	<u>121,540</u>	<u>107,496</u>
Current portion included under current assets	<u>(52,409)</u>	<u>(47,456)</u>
	<u>69,131</u>	<u>60,040</u>

## 17. 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:

	31.8.2019 (Unaudited) HK\$'000	28.2.2019 (Audited) HK\$'000
Less than 1 month	58,194	43,623
Over 1 month but less than 3 months	11,446	6,303
Over 3 months	4,300	3,814
	<u>73,940</u>	<u>53,740</u>

(b) At 31st August 2019, included in contract liabilities is deferred revenue in relation to customer loyalty programmes of HK\$13,591,000 (28th February 2019: HK\$9,486,000).

## 18. BANK BORROWINGS

	<b>31.8.2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	28.2.2019 (Audited) HK\$'000
Bank loans, unsecured	<b>1,216,403</b>	1,381,483
Carrying amount repayable ( <i>Note</i> )		
Within one year	<b>205,000</b>	325,000
Within a period of more than one year but not exceeding two years	<b>365,000</b>	370,000
Within a period of more than two years but not exceeding five years	<b>646,403</b>	656,483
Within a period of more than five years	–	30,000
	<b>1,216,403</b>	1,381,483
Amount repayable within one year included under current liabilities	<b>(205,000)</b>	(325,000)
Amount repayable after one year	<b>1,011,403</b>	1,056,483

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

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

	<b>31.8.2019</b> <b>(Unaudited)</b>		28.2.2019 (Audited)	
	<b>Assets</b> <b>HK\$'000</b>	<b>Liabilities</b> <b>HK\$'000</b>	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	<b>1,588</b>	<b>5,386</b>	2,164	14,635
Cross-currency interest rate swap	<b>8,015</b>	–	13,322	–
	<b>9,603</b>	<b>5,386</b>	15,486	14,635
Current portion	<b>(439)</b>	<b>(854)</b>	(17)	(11,069)
Non-current portion	<b>9,164</b>	<b>4,532</b>	15,469	3,566

All derivative financial instruments entered into by the Group that remain outstanding at 31st August 2019 and 28th February 2019 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.

## 20. DEFERRED TAX ASSETS/LIABILITIES

The followings are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during each of the two periods ended 31st August 2019 and 31st August 2018:

	<b>Accelerated tax depreciation <i>HK\$'000</i></b>	<b>Impairment allowances <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
At 1st March 2019 (Audited)	(7,902)	24,600	16,698
Credit (charge) to profit or loss for the period	<u>521</u>	<u>(229)</u>	<u>292</u>
At 31st August 2019 (Unaudited)	<u>(7,381)</u>	<u>24,371</u>	<u>16,990</u>
	<b>Accelerated tax depreciation <i>HK\$'000</i></b>	<b>Impairment allowances <i>HK\$'000</i></b>	<b>Total <i>HK\$'000</i></b>
At 1st March 2018 (Audited)	(10,909)	24,709	13,800
Credit (charge) to profit or loss for the period	<u>2,347</u>	<u>(1,395)</u>	<u>952</u>
At 31st August 2018 (Unaudited)	<u>(8,562)</u>	<u>23,314</u>	<u>14,752</u>

## 21. COLLATERALISED DEBT OBLIGATION

	<b>31.8.2019 (Unaudited) <i>HK\$'000</i></b>	28.2.2019 (Audited) <i>HK\$'000</i>
Tranche A	<b>550,000</b>	550,000
Tranche B	<b>550,000</b>	550,000
Tranche C	<b>150,000</b>	150,000
	<b>1,250,000</b>	1,250,000
Amount repayable within one year included under current liabilities	<b>(1,100,500)</b>	(701,600)
Amount repayable after one year	<b>149,500</b>	548,400

The Group transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the "Trust"). The Group holds the entire undivided interest in the credit card receivables transferred. In accordance with HKFRS 10 *Consolidated Financial Statements*, the Trust is controlled by the Group and the results thereof are consolidated by the Group in its condensed consolidated financial statements. According to HKFRS 9, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group's condensed consolidated financial statements.

## 22. PLEDGE OF ASSETS

At 31st August 2019, the collateralised debt obligation was secured by credit card receivables and restricted deposits of HK\$1,596,073,000 and HK\$93,214,000 respectively (28th February 2019: HK\$1,675,261,000 and HK\$419,466,000).

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Thursday, 17th October 2019 to Friday, 18th October 2019, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 16th October 2019.

## **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 as set in Appendix 14 to the Listing Rules throughout the six months ended 31st August 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 period under review.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

Despite the low unemployment rate in Hong Kong in the reporting period, the escalation of US-China trade war and recent social instability in Hong Kong had affected inbound tourism and domestic consumption. Credit environment was noticeably affected in the later part of the first half year.

Against this backdrop, the Group's credit purchase sales in the first half still managed to achieve a growth of 2.0% over the prior period. Throughout this period, the Group continued to deploy the strategies of enhancing card benefits and utilizing new technologies to deliver premium service experience to our customers, including the introduction of new mobile app functions such as e-ticket push notification.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Business Review (Continued)

During the period under review, the Group opened two new flagship branches in Causeway Bay and Central in addition to the flagship branch in Mongkok. The objectives of our flagship branches, which are located in prime locations, are to promote our brand image and enhance customer experience.

Following the ATM skimming fraud in May 2019, the Group decided to terminate the operation of a major portion of our ATMs and reduce the number of its ATMs from 128 ATMs as of 1st March 2019 to 18 as of 31st August 2019. At the same time, the Group decided to speed up its investment in and development of mobile payment solutions while maintaining only those ATMs located inside its branches.

### Financial Review

For the six months ended 31st August 2019, profit before tax was HK\$230.4 million, a decrease of HK\$45.6 million when compared with the previous period. After deducting income tax expense of HK\$40.0 million, the Group recorded a decrease in profit of 17.7%, with profit after tax reducing from HK\$231.2 million in the previous period to HK\$190.4 million in the first half of 2019/20. Earnings per share decreased from 55.22 HK cents to 45.47 HK cents for the reporting period.

Net debt to equity ratio was 0.5 and 0.7 at 31st August 2019 and 28th February 2019 respectively, while total equity to total assets ratio was 52.9% and 51.6% at 31st August 2019 and 28th February 2019 respectively.

Net asset value per share (after interim dividend) at 31st August 2019 was HK\$7.6, as compared with the net asset value per share (after final dividend) of HK\$7.4 at 28th February 2019.

### Profit or loss Analysis

#### *Revenue*

Revenue for the period was HK\$654.9 million, a slight increase of 0.2% or HK\$1.5 million when compared with HK\$653.4 million in the previous period.

#### *Net interest income*

Through the launch of different card promotion programs, card credit purchase sales for the period recorded an increase when compared with the previous period. However, following the suspension of our ATM service from May 2019 onwards due to ATM skimming fraud, card cash advance sales for the period recorded a decrease of 14.0% when compared with the previous period. By resizing the portfolio with greater emphasis on higher yield products, the Group recorded a slight decrease in interest income of 0.1% or HK\$0.4 million, from HK\$567.7 million in the previous financial period to HK\$567.3 million in the reporting period.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Profit or loss Analysis (Continued)

#### *Net interest income (Continued)*

The Group's average funding cost was 3.0% in the reporting period. With a reduction in bank borrowings, the Group's interest expense recorded a decrease of 11.8% or HK\$5.1 million, from HK\$42.9 million in the previous period to HK\$37.8 million in the reporting period.

Consequently, net interest income of the Group in the current period was HK\$529.5 million, representing an increase of HK\$4.7 million when compared with the corresponding period in 2018/19.

#### *Operating income*

Following the increase in credit card sales, there was an increase in fees and commissions from the credit card business of 6.3% or HK\$2.1 million to HK\$34.6 million in the current period. With the launch of new distribution channels and insurance products, fees and commissions from the insurance business recorded an increase of HK\$1.7 million to HK\$14.0 million in the current period. The Group recorded an overall increase of HK\$3.8 million in fees and commissions from HK\$44.8 million in the first half of 2018/19 to HK\$48.6 million in the current period. Following the drop in card cash advance sales, there was a decrease in handling and late charges of HK\$1.9 million in the reporting period.

With the early termination of lease/licence agreements for our ATMs in the first half, the Group incurred losses of HK\$7.1 million on lease modification, resulting in the increase in other losses to HK\$7.6 million in the reporting period.

Operating income of the Group for the first half of 2019/20 recorded a decrease of HK\$1.7 million from HK\$612.7 million in 2018/19 to HK\$611.1 million in the reporting period.

#### *Operating expenses*

During the period under review, there was an increase in marketing and promotion expenses to generate new sales and for brand building, resulting in an increase of HK\$14.1 million in those expenses when compared with the previous period.

With the launch of different digitalization projects, there was an increase in system running costs, resulting in the increase in other operating expenses in the first half by HK\$4.2 million when compared with the previous reporting period.

Overall operating expenses recorded an increase of HK\$12.4 million from HK\$268.4 million in the previous period to HK\$280.8 million in the current period. Cost-to-income ratio increased from 43.8% in the previous period to 45.9% in the current period.

At the operating level before impairment losses and impairment allowances, the Group recorded an operating profit of HK\$330.3 million for the six months ended 31st August 2019, representing a decrease of 4.1% from HK\$344.4 million in the previous period.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Profit or loss Analysis (Continued)

#### *Impairment losses and impairment allowance*

Despite the low unemployment rate in Hong Kong at less than 3.0%, the unstable economic outlook started to affect the quality of the Group's credit portfolio. There was an increase of HK\$30.8 million in impairment losses and impairment allowances from HK\$93.5 million in the first half of 2018/19 to HK\$124.3 million in the first half of 2019/20.

### Statement of Financial Position Analysis

The Group's total equity at 31st August 2019 was HK\$3,285.7 million, representing a growth of 3.0% or HK\$95.1 million when compared with the balance of HK\$3,190.6 million at 28th February 2019.

Total assets at 31st August 2019 were HK\$6,206.3 million, representing an increase of 0.4% or HK\$25.6 million when compared with total assets of HK\$6,180.7 million at 28th February 2019.

### Segment Information

The Group's business comprises three operating segments, namely credit cards, personal loans, and insurance. In the first half of 2019/20, 76.0% of the Group's revenue was derived from credit card operations. For segment results, credit card operations accounted for 78.4% of the Group's whole operations as compared to 75.0% in the previous period, while personal loan operations accounted for 18.8% of the Group's segment results as compared to 22.8% in the previous period.

In the first half of 2019/20, owing to various initiatives to stimulate card usage, the Group recorded an increase in card credit purchase sales. Together with the effort to increase the yield on card cash advance portfolio, revenue from credit card operations in 2019/20 increased by 2.8% or HK\$13.6 million from HK\$484.1 million in 2018/19 to HK\$497.7 million in 2019/20. However, due to the increase in marketing and promotion expenses to increase sales and deteriorating credit quality, the segment results for the period recorded a decrease of HK\$25.9 million from HK\$206.7 million in 2018/19 to HK\$180.8 million in 2019/20.

For personal loans, the Group continued to adopt prudent credit assessment, resulting in the slowdown in sales and reduction in the personal loan receivables balance. Consequently, revenue from personal loan operations in 2019/20 decreased by 8.9% or HK\$13.9 million from HK\$157.0 million in 2018/19 to HK\$143.1 million in the reporting period. The segment results for the period recorded a decrease of HK\$19.6 million from HK\$62.9 million in 2018/19 to HK\$43.3 million in 2019/20.

Following the launch of different insurance products for the insurance agency business, revenue from insurance operations recorded an increase of HK\$1.7 million to HK\$14.1 million in 2019/20, with segment results for the period increased slightly by HK\$0.5 million from HK\$6.0 million in 2018/19 to HK\$6.5 million in 2019/20.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **Segment Information (Continued)**

In relation to financial information by geographical locations, revenue from Hong Kong operations recorded an increase of 2.5% or HK\$15.9 million, from HK\$631.7 million in 2018/19 to HK\$647.6 million in 2019/20, attributable to the increase in credit card sales and revolving credit card balance. However, due to the increase in spending on advertising and credit quality showing signs of deterioration, the segment results recorded a drop of 14.4% or HK\$40.6 million, from HK\$282.4 million in 2018/19 to HK\$241.8 million in 2019/20.

For China operations, the three microfinance subsidiaries continued to underperform. Sales in these subsidiaries continued to decrease in the reporting period, resulting in the decrease in revenue of HK\$14.4 million, from HK\$21.7 million in 2018/19 to HK\$7.3 million in 2019/20. Despite their efforts to control costs and improve the quality of their assets, the loss in the period increased by HK\$4.5 million to HK\$11.3 million from HK\$6.7 million in 2018/19.

### **Prospects**

The US-China trade war may not end soon. And there is no end in sight for the current social unrest in Hong Kong. The economy will inevitably deteriorate. The Group will closely monitor the development and take precautionary measures accordingly, especially on the potential increase in unemployment rate, which may accelerate the deterioration in credit quality in the second half.

For customer's convenience, in the second half of 2019/20, the Group will introduce online personal loans whereby customers can apply personal loans through our mobile app using their mobile phones without visiting our branches. Moreover, upon the implementation of the 'Faster Payment System ("FPS")', it will provide more convenient cash advance transfer to customers' bank accounts through the FPS service.

For the acquiring phase of the new card and loan system, the pilot testing on selected merchants has commenced, with planned migration to the new card and loan system for selected merchants in the fourth quarter of this year. Upon using the new system, new terminals will be provided to the merchants to enable merchants to provide flexible payment solution to their customers.

The Group does not foresee any material improvements in our China operations. The Group will reassess the business prospects of the three microfinance subsidiaries, especially for the microfinance subsidiary in Shenyang.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Net debt to equity ratio

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

	<b>31.8.2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	28.2.2019 (Audited) HK\$'000
Debt ( <i>Note a</i> )	<b>2,466,403</b>	2,631,483
Cash and cash equivalents	<b>(875,403)</b>	(478,556)
Net debt	<b>1,591,000</b>	2,152,927
Equity ( <i>Note b</i> )	<b>3,285,734</b>	3,190,647
Net debt to equity ratio	<b>0.5</b>	0.7

*Notes:*

- (a) Debt comprises bank borrowings and collateralised debt obligation as detailed in Notes 18 and 21 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 31st August 2019, 57.2% of its funding was derived from total equity, 21.1% from bank borrowings and 21.7% from structured finance.

The principal source of internally generated capital was from accumulated profits. At 31st August 2019, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK\$1,216.4 million, with 47.8% being fixed in interest rates and 52.2% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 52.9% of these indebtedness will mature within one year, 20.9% between one and two years and 26.2% between two and five years. The duration of indebtedness was around 1.2 years.

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.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **Net debt to equity ratio (Continued)**

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 period under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings. At 31st August 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 31st August 2019, primarily related to the card and loan system replacement project.

### **HUMAN RESOURCES**

The total number of staff of the Group at 31st August 2019 and 28th February 2019 was 414 (Hong Kong: 349; PRC: 65) and 455 (Hong Kong: 334; PRC: 121) respectively. The Group continues to recognize and reward its staff in such manner similar to that disclosed in its 2018/19 Annual Report.

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

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

### **REVIEW OF UNAUDITED FINANCIAL INFORMATION**

The Audit Committee has reviewed the unaudited interim financial results for the six months ended 31st August 2019. In addition, the condensed consolidated financial statements for the six months ended 31st August 2019 have been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and an unqualified review report is issued.

### **PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE**

The 2019 Interim Report, containing the relevant information required by the Listing Rules, will be published on the respective websites of the Stock Exchange 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. Tony Fung 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, 30th September 2019