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

**FINAL RESULTS FOR THE YEAR ENDED 29TH FEBRUARY 2020**

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 29th February 2020, together with the comparative figures as follows:

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the year ended 29th February 2020*

	<i>Notes</i>	<b>2020</b> <b>HK\$'000</b>	2019 HK\$'000
Revenue	5	<b>1,297,686</b>	1,322,678
Interest income	7	<b>1,115,725</b>	1,136,919
Interest expense	8	<b>(68,300)</b>	(82,067)
Net interest income		<b>1,047,425</b>	1,054,852
Fees and commissions		<b>104,388</b>	102,614
Handling and late charges		<b>77,573</b>	83,145
Other income	9	<b>3,781</b>	4,940
Other gains and losses	10	<b>(8,001)</b>	(813)
Operating income		<b>1,225,166</b>	1,244,738
Operating expenses	11	<b>(565,933)</b>	(567,569)
Operating profit before impairment losses and impairment allowances		<b>659,233</b>	677,169
Impairment losses and impairment allowances		<b>(258,744)</b>	(203,717)
Recoveries of advances and receivables written-off		<b>43,536</b>	48,133
Share of results of an associate		<b>905</b>	2,537
Profit before tax		<b>444,930</b>	524,122
Income tax expense	12	<b>(74,847)</b>	(86,868)
Profit for the year		<b>370,083</b>	437,254
Profit for the year attributable to: Owners of the Company		<b>370,083</b>	437,254
Earnings per share – Basic	14	<b>88.37 HK cents</b>	104.41 HK cents

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 29th February 2020

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Profit for the year	<u>370,083</u>	<u>437,254</u>
<b>Other comprehensive (expense) income</b>		
Item that will not be reclassified to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	(37,516)	29,867
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(11,738)	(15,509)
Net adjustment on cash flow hedges	<u>(13,678)</u>	<u>15,791</u>
Other comprehensive (expense) income for the year	<u>(62,932)</u>	<u>30,149</u>
Total comprehensive income for the year	<u>307,151</u>	<u>467,403</u>
Total comprehensive income for the year attributable to:		
Owners of the Company	<u>307,151</u>	<u>467,403</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 29th February 2020

	<i>Notes</i>	<b>29.2.2020</b> <i>HK\$'000</i>	28.2.2019 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	<i>15</i>	<b>105,173</b>	70,365
Right-of-use assets	<i>15</i>	<b>92,786</b>	–
Investment in an associate		<b>15,587</b>	15,449
Equity instruments at fair value through other comprehensive income	<i>16</i>	<b>81,071</b>	118,701
Advances and receivables	<i>17</i>	<b>719,765</b>	862,105
Prepayments, deposits and other debtors	<i>19</i>	<b>26,258</b>	60,040
Derivative financial instruments	<i>23</i>	<b>1,809</b>	15,469
Deferred tax assets	<i>24</i>	<b>8,769</b>	16,698
Restricted deposits		–	38,000
		<b>1,051,218</b>	1,196,827
<b>Current assets</b>			
Advances and receivables	<i>17</i>	<b>3,708,241</b>	4,021,782
Prepayments, deposits and other debtors	<i>19</i>	<b>70,425</b>	47,456
Amounts due from fellow subsidiaries		–	160
Amount due from immediate holding company		<b>250</b>	283
Amount due from an associate		<b>81</b>	39
Derivative financial instruments	<i>23</i>	<b>353</b>	17
Restricted deposits		<b>38,000</b>	381,466
Time deposits		<b>150,812</b>	152,536
Fiduciary bank balances		–	35
Bank balances and cash		<b>710,338</b>	380,083
		<b>4,678,500</b>	4,983,857
<b>Current liabilities</b>			
Creditors and accruals	<i>20(a)</i>	<b>215,992</b>	255,943
Contract liabilities	<i>20(b)</i>	<b>10,562</b>	9,486
Amounts due to fellow subsidiaries		<b>38,775</b>	42,920
Amount due to intermediate holding company		<b>283</b>	–
Amount due to ultimate holding company		<b>50</b>	28
Amount due to an associate		<b>3,203</b>	2,027
Bank borrowings	<i>21</i>	<b>370,000</b>	325,000
Collateralised debt obligation	<i>25</i>	<b>548,400</b>	701,600
Lease liabilities	<i>22</i>	<b>37,869</b>	–
Derivative financial instruments	<i>23</i>	<b>839</b>	11,069
Tax liabilities		<b>16,514</b>	33,515
		<b>1,242,487</b>	1,381,588
<b>Net current assets</b>		<b>3,436,013</b>	3,602,269
<b>Total assets less current liabilities</b>		<b>4,487,231</b>	4,799,096

	<i>Notes</i>	<b>29.2.2020</b> <b>HK\$'000</b>	28.2.2019 <i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital		<b>269,477</b>	269,477
Reserves		<b>3,044,065</b>	2,921,170
		<hr/>	<hr/>
<b>Total equity</b>		<b>3,313,542</b>	3,190,647
		<hr/>	<hr/>
<b>Non-current liabilities</b>			
Bank borrowings	<i>21</i>	<b>1,099,102</b>	1,056,483
Collateralised debt obligation	<i>25</i>	–	548,400
Lease liabilities	<i>22</i>	<b>56,760</b>	–
Derivative financial instruments	<i>23</i>	<b>17,827</b>	3,566
		<hr/>	<hr/>
		<b>1,173,689</b>	1,608,449
		<hr/>	<hr/>
		<b>4,487,231</b>	4,799,096
		<hr/>	<hr/>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 29th February 2020

	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 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	<b>269,477</b>	<b>93,042</b>	<b>(3,738)</b>	<b>(13,213)</b>	<b>2,845,079</b>	<b>3,190,647</b>
Profit for the year	-	-	-	-	370,083	370,083
Fair value loss on equity instruments at fair value through other comprehensive income	-	(37,516)	-	-	-	(37,516)
Exchange difference arising from translation of foreign operations	-	-	-	(11,738)	-	(11,738)
Net adjustment on cash flow hedges	-	-	(13,678)	-	-	(13,678)
Total comprehensive (expense) income for the year	-	(37,516)	(13,678)	(11,738)	370,083	307,151
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)
Interim dividend paid for 2019/20	-	-	-	-	(92,128)	(92,128)
	-	(35,793)	(13,678)	(11,738)	184,104	122,895
At 29th February 2020	<b>269,477</b>	<b>57,249</b>	<b>(17,416)</b>	<b>(24,951)</b>	<b>3,029,183</b>	<b>3,313,542</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 29th February 2020

	2020 HK\$'000	2019 HK\$'000
<b>Operating activities</b>		
Profit before tax	444,930	524,122
Adjustment for:		
Amortisation of upfront cost of borrowings	523	388
Depreciation on property, plant and equipment	36,773	37,569
Depreciation on right-of-use-assets	46,868	–
Dividends received from financial instruments	(929)	(894)
Impairment losses and impairment allowances recognised in respect of advances and receivables	258,744	203,717
Interest expense	67,777	81,679
Interest income	(1,115,725)	(1,136,919)
Losses on disposal of property, plant and equipment	697	512
Losses on termination of lease contracts	7,067	–
Share of results of an associate	(905)	(2,537)
Operating cash flows before movements in working capital	(254,180)	(292,363)
Decrease (increase) in advances and receivables	191,958	(102,171)
Increase in prepayments, deposits and other debtors	(16,101)	(3,679)
Decrease (increase) in amounts due from fellow subsidiaries	160	(14)
Decrease (increase) in amount due from immediate holding company	20	(283)
(Increase) decrease in amount due from an associate	(44)	311
Decrease in fiduciary bank balances	35	213
(Decrease) increase in creditors and accruals	(43,626)	33,948
Increase in contract liabilities	1,076	425
Decrease in amounts due to fellow subsidiaries	(4,203)	(13,785)
Increase (decrease) in amount due to intermediate holding company	283	(154)
Increase (decrease) in amount due to ultimate holding company	22	(5)
Increase (decrease) in amount due to an associate	1,176	(877)
Cash used in operations	(123,424)	(378,434)
Tax paid	(83,919)	(82,023)
Interest paid	(68,326)	(83,118)
Interest received	1,118,449	1,137,860
<b>Net cash from operating activities</b>	<b>842,780</b>	<b>594,285</b>

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
<b>Investing activities</b>		
Dividends received	929	894
Proceeds from disposal of equity instruments at fair value through other comprehensive income	114	–
Proceeds from disposal of property, plant and equipment	53	4
Purchase of property, plant and equipment	(15,421)	(14,564)
Deposits paid for acquisition of property, plant and equipment	(26,552)	(45,303)
Placement of time deposits with maturity of more than three months	(93,348)	(56,323)
Release of time deposits with maturity of more than three months	48,433	42,259
	<u>(85,792)</u>	<u>(73,033)</u>
<b>Net cash used in investing activities</b>		
<b>Financing activities</b>		
Placement of restricted deposits	(841,930)	(2,378,616)
Withdrawal of restricted deposits	1,223,396	1,997,150
Repayment of lease liabilities	(52,091)	–
Dividends paid	(184,256)	(184,256)
New bank loans raised	415,565	150,000
Repayment of bank loans	(325,000)	(345,000)
Repayment of collateralised debt obligation	(701,600)	–
	<u>(465,916)</u>	<u>(760,722)</u>
<b>Net cash used in financing activities</b>		
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>291,072</b>	<b>(239,470)</b>
<b>Effect of changes in exchange rate</b>	<b>(4,641)</b>	<b>(3,736)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>478,556</b>	<b>721,762</b>
<b>Cash and cash equivalents at end of the year</b>	<b><u>764,987</u></b>	<b><u>478,556</u></b>
Being:		
Time deposits with maturity of three months or less	54,649	98,473
Bank balances and cash	710,338	380,083
	<u>764,987</u>	<u>478,556</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 29th February 2020

## 1. STATUTORY CONSOLIDATED FINANCIAL STATEMENTS

The financial information relating to the years ended 29th February 2020 and 28th February 2019 included in this preliminary announcement of annual results for the year ended 29th February 2020 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 2019 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 29th February 2020 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 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

In addition, the Group has early applied Amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform*. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

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 positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.



### 3.1 HKFRS 16 Leases

The Group has applied HKFRS 16 *Leases* (“HKFRS 16”) for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“HKAS 17”), and the related interpretations.

#### *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 this standard 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 retrospectively with the cumulative effect recognised at the date of initial application, 1st March 2019.

As at 1st March 2019, the Group recognised additional lease liabilities and right-of-use assets at amounts equal to the related lease liabilities by applying HKFRS 16.C8(b)(ii) transition. Any difference at the date of initial application is recognised in the opening accumulated profits and comparative information has not been restated.

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; and
- 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.

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</b> <i>HK\$'000</i>
Operating lease commitments disclosure at 28th February 2019	69,580
Lease liabilities discounted at relevant incremental borrowing rate	67,602
Less: Recognition exemption – short term leases	(5,543)
Practical expedients – leases with lease term ending within 12 months from the date of initial application	(6,825)
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 at 1st March 2019	<u>55,234</u>
Analysed as:	
Current	34,416
Non-current	20,818
	<u>55,234</u>

*Note:*

- (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, included in other debtors, 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 are immaterial and not recognised at the date of initial application, 1st March 2019.

Upon application of HKFRS 16, on transition, the Group recognised lease liabilities of HK\$55,234,000 and right-of-use assets of HK\$55,234,000 in the consolidated statement of financial position at 1st March 2019.

For the purpose of reporting cash flows from operating activities under indirect method for the year ended 29th February 2020, movements in working capital have been computed based on the opening consolidated statement of financial position at 1st March 2019 after taking into account of the adjustments to lease liabilities and right-of-use assets above.

The application of HKFRS 16 has no material impact on the accumulated profits at 1st March 2019.

### **3.2 Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform**

In November 2019, HKICPA issued Amendments to HKFRS 9, HKAS 39 and HKFRS 7 *Interest Rate Benchmark Reform*. These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the on-going interest rate benchmark reforms.

The Group has chosen to early apply these amendments for the reporting period ended 29th February 2020, which are mandatory for annual reporting periods beginning on or after 1st March 2020. Adopting these amendments allows the Group to continue hedge accounting during the period of uncertainty arising from interest rate benchmark reforms.

The application of amendments to HKFRS 9 has no impact on the Group's financial positions and performance for the prior years.

#### 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 2019, except for the adoption of the new and amendments to HKFRSs as disclosed in note 3 above.

#### 5. REVENUE

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest income ( <i>Note 7</i> )	<u>1,115,725</u>	<u>1,136,919</u>
Fees and commissions		
– Credit cards	75,422	76,036
– Insurance	28,966	26,578
Handling and late charges	<u>77,573</u>	<u>83,145</u>
Revenue from contracts with customers	<u>181,961</u>	<u>185,759</u>
Total revenue	<u><b>1,297,686</b></u>	<u>1,322,678</u>

#### 6. SEGMENT INFORMATION

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

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

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

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit before tax earned by each segment without allocation of certain other operating income (including dividend income), 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.

## 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 29th February 2020

	<b>Credit cards</b> <i>HK\$'000</i>	<b>Personal loans</b> <i>HK\$'000</i>	<b>Insurance</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>REVENUE</b>	<b>996,223</b>	<b>272,444</b>	<b>29,019</b>	<b>1,297,686</b>
<b>RESULT</b>				
Segment results	<b>364,072</b>	<b>67,811</b>	<b>12,933</b>	<b>444,816</b>
Unallocated operating income				<b>4,110</b>
Unallocated expenses				<b>(4,901)</b>
Share of results of an associate				<b>905</b>
Profit before tax				<b>444,930</b>

### For the year ended 28th February 2019

	<b>Credit cards</b> <i>HK\$'000</i>	<b>Personal loans</b> <i>HK\$'000</i>	<b>Insurance</b> <i>HK\$'000</i>	<b>Consolidated</b> <i>HK\$'000</i>
<b>REVENUE</b>	<b>991,098</b>	<b>304,823</b>	<b>26,757</b>	<b>1,322,678</b>
<b>RESULT</b>				
Segment results	<b>387,949</b>	<b>123,005</b>	<b>11,920</b>	<b>522,874</b>
Unallocated operating income				<b>3,606</b>
Unallocated expenses				<b>(4,895)</b>
Share of results of an associate				<b>2,537</b>
Profit before tax				<b>524,122</b>

## Geographical information

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

### For the year ended 29th February 2020

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>	<b>1,284,903</b>	<b>12,783</b>	<b>1,297,686</b>
<b>RESULT</b>			
Segment results	<b>460,230</b>	<b>(15,414)</b>	<b>444,816</b>
Unallocated operating income			<b>4,110</b>
Unallocated expenses			<b>(4,901)</b>
Share of results of an associate			<b>905</b>
Profit before tax			<b>444,930</b>

### For the year ended 28th February 2019

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>REVENUE</b>	<b>1,287,927</b>	<b>34,751</b>	<b>1,322,678</b>
<b>RESULT</b>			
Segment results	<b>538,671</b>	<b>(15,797)</b>	<b>522,874</b>
Unallocated operating income			<b>3,606</b>
Unallocated expenses			<b>(4,895)</b>
Share of results of an associate			<b>2,537</b>
Profit before tax			<b>524,122</b>

## 7. INTEREST INCOME

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-credit impaired advances	<b>1,098,401</b>	1,126,783
Credit impaired advances	<b>10,223</b>	5,282
Time deposits, restricted deposits and bank balances	<b>7,101</b>	4,854
	<b>1,115,725</b>	1,136,919

**8. INTEREST EXPENSE**

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on bank borrowings	<b>34,658</b>	35,291
Interest on collateralised debt obligation	<b>25,061</b>	21,327
Interest on lease liabilities	<b>2,971</b>	–
Net interest expense on interest rate swap contracts	<b>5,610</b>	25,449
	<hr/> <b>68,300</b> <hr/>	<hr/> 82,067 <hr/>

**9. OTHER INCOME**

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends received from financial instruments		
– Listed equity securities	<b>781</b>	781
– Unlisted equity securities	<b>148</b>	113
Others	<b>2,852</b>	4,046
	<hr/> <b>3,781</b> <hr/>	<hr/> 4,940 <hr/>

**10. OTHER GAINS AND LOSSES**

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Exchange gain (loss)		
Exchange gain on hedging instrument released from cash flow hedge reserve	<b>3,469</b>	1,075
Exchange loss on a bank loan	<b>(3,469)</b>	(1,075)
Other exchange losses, net	<b>(262)</b>	(170)
Hedge ineffectiveness on cash flow hedges, net	<b>25</b>	(131)
Losses on disposal of property, plant and equipment	<b>(697)</b>	(512)
Losses on termination of lease contracts	<b>(7,067)</b>	–
	<hr/> <b>(8,001)</b> <hr/>	<hr/> (813) <hr/>

## 11. OPERATING EXPENSES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Auditor's remuneration	3,248	3,201
Depreciation on property, plant and equipment	36,773	37,569
Depreciation on right-of-use assets	46,868	–
Expenses relating to short term leases and other leases with lease terms ending within 12 months from the date of initial application of HKFRS 16	14,321	–
Minimum operating lease rentals in respect of rented premises, advertising space and equipment	–	71,255
	61,189	71,255
General administrative expenses	164,294	162,834
Marketing and promotion expenses	81,881	77,949
Other operating expenses	62,561	58,807
Staff costs including directors' emoluments	155,987	155,954
	<u>565,933</u>	<u>567,569</u>

## 12. INCOME TAX EXPENSE

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Current tax		
– Current year	67,868	91,513
– Overprovision in respect of prior years	(950)	(1,747)
	<u>66,918</u>	89,766
Deferred tax ( <i>Note 24</i> )		
– Current year	7,929	(2,898)
	<u>74,847</u>	<u>86,868</u>

### 13. DIVIDENDS

	<b>2020</b> <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Dividends recognised as distribution during the year:		
Final dividend paid of <b>22.0 HK cents</b> in respect of 2019 (2019: 22.0 HK cents in respect of 2018) per share	<b>92,128</b>	92,128
Interim dividend paid of <b>22.0 HK cents</b> in respect of 2020 (2019: 22.0 HK cents in respect of 2019) per share	<b>92,128</b>	92,128
	<b>184,256</b>	184,256
Final dividend proposed of <b>22.0 HK cents</b> in respect of 2020 (2019: 22.0 HK cents in respect of 2019) per share	<b>92,128</b>	92,128

The Directors have recommended a final dividend of **22.0 HK cents** per share. Subject to the approval of the shareholders at the annual general meeting of the Company (the “2020 AGM”), the final dividend will be paid on 14th July 2020 to shareholders whose names appear on the register of members of the Company on 3rd July 2020. 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\$370,083,000** (2019: HK\$437,254,000) and on the number of shares of **418,766,000** (2019: 418,766,000) in issue during the year.

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

During the year, the Group recognised additional of approximately **HK\$70,133,000**, **HK\$2,502,000** and **HK\$91,479,000** on computer equipment, leasehold improvements and right-of-use assets respectively.

### 16. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<b>29.2.2020</b> <i>HK\$'000</i>	28.2.2019 <i>HK\$'000</i>
Equity instruments at fair value through other comprehensive income		
– Listed investment in Hong Kong	<b>5,417</b>	7,530
– Unlisted investments	<b>75,654</b>	111,171
	<b>81,071</b>	118,701



## 17. ADVANCES AND RECEIVABLES

	29.2.2020 <i>HK\$'000</i>	28.2.2019 <i>HK\$'000</i>
Credit card receivables	3,579,077	3,842,292
Personal loan receivables	<u>1,025,858</u>	<u>1,197,248</u>
	4,604,935	5,039,540
Accrued interest and other receivables	<u>85,579</u>	<u>87,840</u>
Gross advances and receivables	4,690,514	5,127,380
Impairment allowances ( <i>Note 18</i> )	<u>(262,508)</u>	<u>(243,493)</u>
	4,428,006	4,883,887
Current portion included under current assets	<u>(3,708,241)</u>	<u>(4,021,782)</u>
Amount due after one year	<u>719,765</u>	<u>862,105</u>

## 18. IMPAIRMENT ALLOWANCES

	29.2.2020 <i>HK\$'000</i>	28.2.2019 <i>HK\$'000</i>
Analysis by products as:		
Credit card receivables	140,022	127,790
Personal loan receivables	115,923	110,058
Accrued interest and other receivables	<u>6,563</u>	<u>5,645</u>
	<u>262,508</u>	<u>243,493</u>

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

### Expected Credit Loss (“ECL”) model under HKFRS 9

	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2019	107,811	48,575	87,107	243,493
Net repayment in advances and receivables	(3,082)	(6,360)	(17,651)	(27,093)
Transfer to 12 months ECL (Stage 1)	176,491	(167,313)	(9,178)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(19,061)	29,466	(10,405)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(686)	(93,143)	93,829	–
Total transfer between stages	156,744	(230,990)	74,246	–
Remeasurement of ECL during the year	(169,832)	238,421	217,248	285,837
Amounts written-off as uncollectable	–	–	(240,560)	(240,560)
Exchange realignment	64	65	702	831
At 29th February 2020	<u>91,705</u>	<u>49,711</u>	<u>121,092</u>	<u>262,508</u>

ECL model under HKFRS 9	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2018	115,556	51,855	110,623	278,034
Net (repayment) addition in advances and receivables	(540)	53,772	(2,974)	50,258
Transfer to 12 months ECL (Stage 1)	267,804	(249,306)	(18,498)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(15,653)	22,127	(6,474)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(1,193)	(84,409)	85,602	–
Total transfer between stages	250,958	(311,588)	60,630	–
Remeasurement of ECL during the year	(258,009)	254,663	156,805	153,459
Amounts written-off as uncollectable	–	–	(237,584)	(237,584)
Exchange realignment	(154)	(127)	(393)	(674)
At 28th February 2019	<u>107,811</u>	<u>48,575</u>	<u>87,107</u>	<u>243,493</u>

## 19. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	<b>29.2.2020</b> <i>HK\$'000</i>	28.2.2019 <i>HK\$'000</i>
Deposits for property, plant and equipment	<b>14,814</b>	41,278
Rental and other deposits	<b>21,188</b>	20,490
Prepaid operating expenses	<b>49,030</b>	36,123
Other debtors	<b>11,651</b>	9,605
	<b>96,683</b>	107,496
Current portion included under current assets	<b>(70,425)</b>	(47,456)
Amount due after one year	<b>26,258</b>	60,040

## 20. CREDITORS AND ACCRUALS/CONTRACT LIABILITIES

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

	<b>29.2.2020</b> <i>HK\$'000</i>	28.2.2019 <i>HK\$'000</i>
Less than 1 month	<b>57,372</b>	43,623
Over 1 month but less than 3 months	<b>3,070</b>	6,303
Over 3 months	<b>2,563</b>	3,814
	<b>63,005</b>	53,740

- (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.

## 21. BANK BORROWINGS

	<b>29.2.2020</b> <i>HK\$'000</i>	28.2.2019 <i>HK\$'000</i>
Carrying amount repayable ( <i>Note</i> )		
Within one year	<b>370,000</b>	325,000
Within a period of more than one year but not more than two years	<b>529,162</b>	370,000
Within a period of more than two years but not more than five years	<b>569,940</b>	656,483
Within a period of more than five years	<u>–</u>	<u>30,000</u>
	<b>1,469,102</b>	1,381,483
Amount repayable within one year included under current liabilities	<u>(370,000)</u>	<u>(325,000)</u>
Amount repayable after one year	<b>1,099,102</b>	<b>1,056,483</b>

*Note:* The amounts due are based on schedule repayment dates set out in the loan agreements. At the end of the reporting periods, all bank borrowings are unsecured.

## 22. LEASE LIABILITIES

	<b>29.2.2020</b> <i>HK\$'000</i>
Lease liabilities payable:	
Within one year	<b>37,869</b>
Within a period of more than one year but not more than two years	<b>31,800</b>
Within a period of more than two years but not more than five years	<u>24,960</u>
	<b>94,629</b>
Amount due for settlement within one year included under current liabilities	<u>(37,869)</u>
Amount due for settlement after one year	<b>56,760</b>

## 23. DERIVATIVE FINANCIAL INSTRUMENTS

	29.2.2020		28.2.2019	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Interest rate swaps	<b>353</b>	<b>9,613</b>	2,164	14,635
Cross-currency interest rate swaps	<b>1,809</b>	<b>9,053</b>	13,322	–
	<u>2,162</u>	<u>18,666</u>	<u>15,486</u>	<u>14,635</u>
Current portion	<b>(353)</b>	<b>(839)</b>	(17)	(11,069)
	<u>1,809</u>	<u>17,827</u>	<u>15,469</u>	<u>3,566</u>
Non-current portion				

All derivative financial instruments entered into by the Group that remain outstanding at 29th February 2020 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.

## 24. DEFERRED TAX

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the years ended 29th February 2020 and 28th February 2019:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Impairment allowances</b> <i>HK\$'000</i>	<b>Others</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1st March 2018	10,909	(24,709)	–	(13,800)
(Credit) charge to profit or loss for the year	<u>(3,007)</u>	<u>109</u>	<u>–</u>	<u>(2,898)</u>
At 28th February 2019	<b>7,902</b>	<b>(24,600)</b>	–	<b>(16,698)</b>
Charge (credit) to profit or loss for the year	<u><b>6,626</b></u>	<u><b>1,606</b></u>	<u><b>(303)</b></u>	<u><b>7,929</b></u>
At 29th February 2020	<u><b>14,528</b></u>	<u><b>(22,994)</b></u>	<u><b>(303)</b></u>	<u><b>(8,769)</b></u>

## 25. COLLATERALISED DEBT OBLIGATION

	<b>29.2.2020</b> <i>HK\$'000</i>	28.2.2019 <i>HK\$'000</i>
Tranche A	<b>199,200</b>	550,000
Tranche B	<b>199,200</b>	550,000
Tranche C	<u><b>150,000</b></u>	<u>150,000</u>
	<b>548,400</b>	1,250,000
Amount repayable within one year included under current liabilities	<u><b>(548,400)</b></u>	<u>(701,600)</u>
Amount repayable after one year	<u>–</u>	<u>548,400</u>

## 26. PLEDGE OF ASSETS

At 29th February 2020, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK\$1,482,338,000** and **HK\$38,000,000** respectively (28th February 2019: HK\$1,675,261,000 and HK\$419,466,000).

## 27. EVENT AFTER THE REPORTING PERIOD

Arising from the new coronavirus (“COVID-19”) outbreak in early 2020, a series of precautionary and control measures have continued to be implemented across the globe. The Group is paying close attention to the development of the COVID-19 outbreak and evaluating its impact on the financial position, cash flows and operating results of the Group. Given the dynamic nature of the COVID-19 pandemic and the unpredictability of future development, it is not practicable to provide a reasonable estimate of its impacts on the Group’s financial position, cash flows and operating results for the first half and full year of 2020, at the date on which these consolidated financial statements are authorised for issue.

## **CLOSURE OF REGISTER OF MEMBERS**

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, 2nd July 2020 to Friday, 3rd July 2020, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 30th June 2020.

## **2020 ANNUAL GENERAL MEETING**

The notice convening the 2020 AGM, containing details of the time, date and venue of the 2020 AGM as well as the period and procedures of the closure of register of members for determining the entitlement to attend and vote at the 2020 AGM, will be published and despatched to shareholders in due course.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Business Review**

The Group faced an uncertain and challenging external market environment in the year under review. While sales performance in the first quarter was largely unaffected by the ongoing US-China trade war because of the relatively low unemployment rate, social unrests in the second quarter had a negative impact on local sales. Even though an increase in overseas spending through our marketing programs had helped minimize the negative impact, escalating social unrests in the third quarter resulted in a sales slowdown and increasing concern over asset quality. Coupled with the outbreak of COVID-19 in January 2020, sales were adversely impacted in the fourth quarter, and asset quality started to show early signs of deterioration. Credit card and personal loan sales recorded an overall drop of 5.3% for the year ended 29th February 2020.

Despite this adverse economic environment, the Group continued to put high priority on investing in digitalization to improve productivity and on expanding customer base through more attractive marketing programs. At the same time, the Group has taken a cautious approach in extending credit to control asset quality and implemented default alert mechanism for more effective credit risk management.

## **Operational Review**

During the year, the Group continued to deploy the dual strategies of enriching card member benefits and utilizing new technologies to deliver premium service to our customers in a more efficient and effective way. The Group launched different promotion programs during the year, including Weekend Special Promotion inside AEON Stores' outlets, Japan Spending Rewards Promotion and Ocean Park Promotion.

To improve customer convenience, several features were added to our mobile application, including online personal loan application and approval and fund transfer for card cash advance to customers' bank accounts through Faster Payment System.

To pursue the strategy of setting up branches in areas with a high concentration of shoppers, the Group opened two new flagship branches, Causeway Bay in May 2019 and Central in July 2019, in addition to the flagship branch in Mongkok that opened in 2018. Moreover, to realize cashless operation, all cash and cheque payment activities had been discontinued in branches.

Following the ATM skimming fraud in May 2019, the Group terminated the operations of its ATMs in convenience stores and MTR stations and maintained only 15 ATMs located within its branches as of 29th February 2020. Moreover, these ATMs had been enhanced for fraud prevention.

During the year, we continued with the development of the new card and loan system. The first phase acquiring system had been rolled out and put into use for selected merchants in the fourth quarter.

Meanwhile, the Mainland China businesses of the Group continued to be hindered by the small scale of their operations. We have therefore focused on cost and bad debt control. On 30th December 2019, the Group commenced voluntary liquidation of AEON Micro Finance (Shenyang) Co., Ltd., since the subsidiary had been continuously making losses since its establishment with no reasonable prospects of material improvement in the foreseeable future. The other two micro-finance companies in Shenzhen and Tianjin were streamlining their cost structures.

## **Financial Review**

For the year ended 29th February 2020, on an audited basis, profit before tax was HK\$444.9 million, a decrease of HK\$79.2 million when compared with the financial year ended 28th February 2019. After deducting income tax expense of HK\$74.8 million, the Group recorded a decrease in profit of 15.4%, with profit after tax decreasing from HK\$437.3 million in the previous financial year to HK\$370.1 million in 2019/20. Earnings per share decreased from 104.41 HK cents to 88.37 HK cents for the reporting year.

Return on assets was 6.5% in 2019/20, as compared with 7.1% in 2018/19, while return on equity was 11.2% in 2019/20, as compared with 13.7% in 2018/19.

Net debt to equity ratio was 0.4 at 29th February 2020 and 0.7 at 28th February 2019, while total equity to total assets ratio was 57.8% and 51.6% at 29th February 2020 and 28th February 2019 respectively.

Net asset value per share (after final dividend) at 29th February 2020 was HK\$7.7, as compared with the net asset value per share (after final dividend) of HK\$7.4 at 28th February 2019.

## **Consolidated Statement of Profit or Loss Analysis**

### *Revenue*

Revenue for the year was HK\$1,297.7 million, a decrease of 1.9% or HK\$25.0 million when compared with HK\$1,322.7 million in the previous financial year.

### *Net Interest Income*

Adverse impact from social unrest and the outbreak of COVID-19 ensued in card credit purchase sales in this financial year staying at similar level as last year. More stringent credit assessment and credit management led to a drop of card cash advance and personal loan sales by 22.1% when compared with last year. Despite an effort to increase the interest rates on loan product portfolio, the Group recorded a decrease in interest income of 1.9% or HK\$21.2 million, from HK\$1,136.9 million in the previous financial year to HK\$1,115.7 million in the current year.

With respect to the collateralized debt obligation arrangement, scheduled repayments had begun in the second half. For the purpose of making these scheduled repayments and to coincide with the maturity of other bank borrowings, the Group had entered into several new long-term banking borrowings (including syndicated loan facilities) with lower interest rates, resulting in the Group's average funding cost dropping from 3.0% in last year to 2.8% in the current year. The Group's interest expense recorded a decrease of 16.8% or HK\$13.8 million, from HK\$82.1 million in the previous financial year to HK\$68.3 million in the current year.

Consequently, net interest income of the Group for 2019/20 was HK\$1,047.4 million, representing a decrease of 0.7% or HK\$7.4 million when compared with HK\$1,054.9 million in 2018/19.

### *Operating Income*

The slowdown of card credit purchase sales in the second half resulted in a slight decrease in fees and commissions from the credit card business of HK\$0.6 million to HK\$75.4 million in the current year. New products and promotion campaigns for the insurance business had been launched in the reporting year, resulting in fees and commissions from the insurance business recording an increase of HK\$2.4 million to HK\$29.0 million in the current year. Following the drop in card cash advance sales, handling and late charges decreased by 6.7% or HK\$5.6 million to HK\$77.6 million in the current year.

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 termination of lease contracts, with other losses for the reporting year being HK\$8.0 million.

Operating income of the Group for 2019/20 was HK\$1,225.2 million, representing a decrease of 1.6% or HK\$19.6 million when compared with HK\$1,244.7 million of 2018/19.

### *Operating Expenses*

During the year under review, there was an increase in marketing and promotion expenses to stimulate card spending and for brand building, resulting in an increase of 5.0% or HK\$3.9 million to HK\$81.9 million in the reporting year. With the launch of different digitalization projects, there was an increase in system running costs, resulting in an increase in both general administrative expenses and other operating expenses by HK\$1.4 million and HK\$3.8 million respectively. The Group continued to realign its manpower by streamlining back-office operations while increasing manpower for new system implementation, with staff costs maintaining at a level similar to that of last year. With the reduction of number of ATMs and the closure of branches of low profitability, expenses related to leases decreased by around HK\$10.1 million when compared with the previous year.

Overall operating expenses recorded a slight decrease of HK\$1.6 million from HK\$567.6 million in 2018/19 to HK\$565.9 million in the current year.

### *Cost-To-Income Ratio*

Despite an effective control of operating expenses, with a drop in operating income, the Group recorded an increase in its cost-to-income ratio from 45.6% in the previous year to 46.2% in the current year.

### *Impairment Losses and Impairment Allowances*

Unemployment rate in Hong Kong started to increase in the third quarter. Despite the Group's effective asset quality management and the adoption of default alert mechanism, deterioration of market environment in the fourth quarter brought about further increase in impairment losses and impairment allowances. There was an overall increase of 27.0% or HK\$55.0 million in impairment losses and impairment allowances from HK\$203.7 million in FY2018/19 to HK\$258.7 million for the year ended 29th February 2020.



## **Consolidated Statement of Financial Position Analysis**

The Group's total equity at 29th February 2020 was HK\$3,313.5 million, as compared with the balance of HK\$3,190.6 million at 28th February 2019, while total assets at 29th February 2020 were HK\$5,729.7 million, as compared with total assets of HK\$6,180.7 million at 28th February 2019.

### *Property, Plant and Equipment/Right-of-use Assets*

During the year, the Group spent approximately HK\$70.1 million on computer equipment and HK\$2.5 million on leasehold improvements. For right-of-use assets, the Group recorded an addition of HK\$91.5 million in the year.

### *Advances and Receivables*

Due to the Group's more prudent credit assessment approach and weakening credit demand in the market, personal loan receivables decreased by 14.3% from HK\$1,197.2 million at 28th February 2019 to HK\$1,025.9 million at 29th February 2020. Moreover, the temporary suspension of ATM network for six months and the recurring social incidents resulted in a decrease in credit card sales, with credit card receivables also recording a decrease of 6.9%, or HK\$263.2 million, from HK\$3,842.3 million at 28th February 2019 to HK\$3,579.1 million at 29th February 2020.

With the asset quality beginning to deteriorate, impairment allowances increased by HK\$19.0 million, from HK\$243.5 million at 28th February 2019 to HK\$262.5 million at 29th February 2020.

### *Indebtedness*

At 29th February 2020, the Group had bank borrowings (including syndicated term loan denominated in foreign currency) amounting to HK\$1,469.1 million, with 12.9% having fixed interest rates and 87.1% being hedged against interest rate fluctuation by means of interest rate swaps. Including the collateralised debt obligation, 45.5% of the indebtedness will mature within one year, 26.2% between one and two years, and 28.3% between two and five years.

The average duration of indebtedness was 1.6 years at 29th February 2020, as compared with 1.5 years at 28th February 2019.

## **Segment Information**

The Group's business comprises three principal operating segments, namely credit cards, personal loans and insurance intermediary. For the year ended 29th February 2020, credit card operations accounted for 76.8% of the Group's revenue, as compared to 74.8% in the previous financial year, while personal loan operations accounted for 21.0% of the Group's revenue, as compared to 23.0% in the previous financial year. For segment results, credit card operations in 2019/20 accounted for 81.8% of the Group's whole operations, as compared to 74.0% in the previous financial year, while personal loan operations accounted for 15.2% of the Group's results, as compared to 23.5% in the previous financial year.

During the year under review, despite the Group recording a decrease in credit card sales and receivables balance, with an effort to increase the portfolio of higher yield card cash advance products, revenue from credit card operations in 2019/20 recorded a slight increase of 0.5% or HK\$5.1 million from HK\$991.1 million in 2018/19 to HK\$996.2 million in 2019/20. Although the Group had effectively controlled the operating expenses, the deterioration of asset quality had increased the impairment losses and impairment allowances by 13.4% or HK\$19.9 million. Consequently, the results from credit card segment recorded an overall decrease of 6.2% or HK\$23.9 million from HK\$387.9 million in the previous financial year to HK\$364.1 million in 2019/20.

For personal loans, the marketing strategy of shifting emphasis from personal loans to credit purchase products as well as the emergence of unfavourable market conditions resulted in both a slowdown in sales and an increase in impairment losses and allowances. Revenue from personal loans operations decreased by 10.6% or HK\$32.4 million from HK\$304.8 million in 2018/19 to HK\$272.4 million in 2019/20. Impairment losses and impairment allowances recorded an increase of 63.8% or HK\$35.1 million. As a result, the segment results for the year from personal loans operations recorded a decrease of HK\$55.2 million from HK\$123.0 million in 2018/19 to HK\$67.8 million in the current financial year.

Insurance intermediary operations maintained a stable business growth, with revenue recording an increase of HK\$2.3 million to reach HK\$29.0 million in the current year, and the segment results being HK\$12.9 million, as compared to HK\$11.9 million in the previous financial year.

In relation to the financial information by geographical locations, Hong Kong operations accounted for 99.0% of the Group's revenue, as compared to 97.4% in the previous financial year, while China operations accounted for 1.0% of the Group's revenue, as compared to 2.6% in the previous financial year. For segment results, the losses from China operations impacted the Group's results by around 3.0% in both years.

Revenue from Hong Kong operations recorded a decrease of 0.2% or HK\$3.0 million, from HK\$1,287.9 million in 2018/19 to HK\$1,284.9 million in 2019/20, attributable to the drop in sales in the second half. Contributing to the deterioration of asset quality from continued social unrest and coronavirus outbreak in the second half, the segment results of Hong Kong operations recorded a decrease of 14.6% or HK\$78.4 million from HK\$538.7 million in 2018/19 to HK\$460.2 million in 2019/20.

For China operations, the microfinance subsidiaries postponed selected marketing activities and concentrated on cost and bad debt control to minimize losses. As a result, revenue from China operations recorded a decrease of HK\$22.0 million, from HK\$34.8 million in 2018/19 to HK\$12.8 million in 2019/20. On the other hand, the effort to reduce costs and bad debts had resulted in overall segment results of our China operations recording a slight reduction of loss of HK\$0.4 million, from a loss of HK\$15.8 million in 2018/19 to a loss of HK\$15.4 million in 2019/20.

## **Funding and Capital Risk Management**

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 29th February 2020, 62.2% of its funding was derived from total equity, 27.6% from direct borrowings from financial institutions and 10.2% from structured finance.

The net asset of the Group at 29th February 2020 was HK\$3,313.5 million, as compared with HK\$3,190.6 million at 28th February 2019. 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 29th February 2020, capital commitments entered into were mainly related to the purchase of property, plant and equipment.

## **Prospects**

The COVID-19 is getting more serious and widespread in the whole world at this time, resulting in a halt of business activities and international travel in different countries. At the same time, the trade war between China and the United States has yet to be fully settled, while the social unrests in Hong Kong are still simmering. If the pandemic cannot be stopped soon, economic activities in Hong Kong are expected to drastically contract, with a corresponding surge in unemployment rates and bankruptcy cases. This will inevitably create a more turbulent operating environment for the Group, and will adversely affect the Group's financial performance in FY2020. Such an adverse impact has in fact already been evident in form of reduced sales and increase in overdue advances and receivables in February 2020. In addition, competition will continue to intensify with new virtual banking players coming into the market and the increasing popularity and ease of use of e-money and mobile payment solutions.

Under this extremely challenging environment, the Group will focus on containing asset quality. Besides consistently exercising prudent credit assessment, the Group will temporarily suspend marketing activities on the loan business until the market situation shows signs of improving. In the meantime, the Group will implement cost control through prudent management of mass promotion campaigns and streamlining of its operations.

Notwithstanding the unfavourable environment, the Group will continue to commit significant resources to digitalization to strengthen operation efficiency and upgrade our ability to respond to changes in the market. That will enable us to enhance functions of our mobile applications and website usage. The Group will also continue to introduce new product benefits and to provide premium user experience to our customers. Furthermore, the Group has started to explore the feasibility and practical implications for adopting artificial intelligence in its data analysis methodologies to enhance the Group's marketing, credit assessment and credit management capabilities.

A key platform for this technology upgrade is the new card and loan system project. The phase one acquiring system had been successfully launched in September 2019. To ensure the quality of the phase two issuing system and other related systems, the estimated project completion date has been re-scheduled from early 2020 to 2023. The total estimated project cost has also been revised from HK\$480 million to HK\$630 million. That will include front-end capital expenditures of HK\$180 million to be depreciated over a period of ten years, and on-going maintenance and support charges of HK\$450 million to be expensed over a period of ten years from the completion of the project.

For the Mainland China business, the operating environment will be constrained by the expected slowdown of economic activities in China due to the trade war and COVID-19. As a result, the two continuing microfinance subsidiaries will mainly focus on improving asset quality and streamlining their operations to minimize losses.

It is difficult to predict the timeframe that the current grave uncertainties in economic situation will last for. There is little doubt that they will have a significant impact on the Group's sales and asset quality in the coming months. Inevitably there will be a deterioration in the profitability of the Group in FY20/21. With the precautionary measures being taken, and together with the Group's strong business partner relationships, as well as the Group's strong liquidity position and balance sheet, the Group is well prepared to face the challenges ahead and to move forward to capture new business opportunities that may arise as and when normal market conditions return.

## **HUMAN RESOURCES**

The total number of staff of the Group as at 29th February 2020 and 28th February 2019 was 391 (Hong Kong: 338; PRC: 53) and 455 (Hong Kong: 334; PRC: 121) 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 and compliance, 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 29th February 2020, 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 29th February 2020 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 2019/20 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. 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, 9th April 2020