

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2022

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 2022, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31st August 2022

	Notes	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Revenue	3	571,730	511,570
Interest income	5	479,715	434,580
Interest expense	6	(16,083)	(17,533)
Net interest income		463,632	417,047
Fees and commissions		59,377	45,383
Handling and late charges		32,638	31,607
Other income	7	16,475	3,806
Other gains and losses	8	143	(3,736)
Operating income		572,265	494,107
Operating expenses	9	(323,464)	(274,974)
Operating profit before impairment losses and impairment allowances		248,801	219,133
Impairment losses and impairment allowances		(89,538)	(34,843)
Recoveries of advances and receivables written-off		19,915	21,819
Gain on disposal of distressed assets		31,933	–
Share of results of an associate		–	890
Profit before tax		211,111	206,999
Income tax expense	10	(34,337)	(34,659)
Profit for the period		176,774	172,340
Profit for the period attributable to: Owners of the Company		176,774	172,340
Earnings per share – Basic	12	42.21 HK cents	41.15 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31st August 2022

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Profit for the period	<u>176,774</u>	<u>172,340</u>
Other comprehensive income (expense)		
Item that will not be reclassified to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	8,224	(20,136)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(15,226)	935
Net adjustment on cash flow hedges	39,254	(1,341)
Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign operation	<u>–</u>	<u>3,783</u>
Other comprehensive income (expense) for the period	<u>32,252</u>	<u>(16,759)</u>
Total comprehensive income for the period	<u>209,026</u>	<u>155,581</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>209,026</u>	<u>155,581</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2022

		31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
	NOTES		
Non-current assets			
Property, plant and equipment		94,238	100,283
Right-of-use assets		54,317	58,891
Goodwill		15,820	15,820
Equity instruments at fair value through other comprehensive income		79,301	71,077
Advances and receivables	13	964,166	750,797
Prepayments, deposits and other debtors	16	42,186	31,559
Derivative financial instruments	19	22,486	2,711
Deferred tax assets	20	4,989	1,250
		<u>1,277,503</u>	<u>1,032,388</u>
Current assets			
Advances and receivables	13	3,670,897	3,342,610
Prepayments, deposits and other debtors	16	92,407	64,165
Amount due from immediate holding company		3	2
Amount due from an intermediate holding company		31	44
Derivative financial instruments	19	1,016	–
Time deposits		67,479	193,374
Bank balances and cash		418,983	456,973
		<u>4,250,816</u>	<u>4,057,168</u>
Current liabilities			
Creditors and accruals	17(a)	205,867	184,160
Contract liabilities	17(b)	23,062	18,610
Amounts due to fellow subsidiaries		50,201	57,626
Amount due to an intermediate holding company		1,229	1,275
Bank borrowings	18	345,877	165,000
Lease liabilities		41,441	36,827
Derivative financial instruments	19	27	1,542
Tax liabilities		50,627	25,314
		<u>718,331</u>	<u>490,354</u>
Net current assets		<u>3,532,485</u>	<u>3,566,814</u>
Total assets less current liabilities		<u>4,809,988</u>	<u>4,599,202</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31st August 2022

		31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
	NOTES		
Capital and reserves			
Share capital		269,477	269,477
Reserves		<u>3,480,963</u>	<u>3,364,065</u>
Total equity		<u>3,750,440</u>	<u>3,633,542</u>
Non-current liabilities			
Bank borrowings	18	994,141	919,139
Lease liabilities		12,326	20,762
Derivative financial instruments	19	<u>53,081</u>	<u>25,759</u>
		<u>1,059,548</u>	<u>965,660</u>
		<u>4,809,988</u>	<u>4,599,202</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st August 2022

	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Hedging reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st March 2021 (Audited)	269,477	41,648	(24,750)	(10,847)	3,146,502	3,422,030
Profit for the period	–	–	–	–	172,340	172,340
Fair value loss on equity instruments at fair value through other comprehensive income	–	(20,136)	–	–	–	(20,136)
Exchange difference arising from translation of foreign operations	–	–	–	935	–	935
Net adjustment on cash flow hedges	–	–	(1,341)	–	–	(1,341)
Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign operation	–	–	–	3,783	–	3,783
Total comprehensive (expense) income for the period	–	(20,136)	(1,341)	4,718	172,340	155,581
Final dividend paid for 2020/21 (Note 11)	–	–	–	–	(75,378)	(75,378)
At 31st August 2021 (Unaudited)	269,477	21,512	(26,091)	(6,129)	3,243,464	3,502,233
At 1st March 2022 (Audited)	269,477	47,255	(2,180)	(2,598)	3,321,588	3,633,542
Profit for the period	–	–	–	–	176,774	176,774
Fair value gain on equity instruments at fair value through other comprehensive income	–	8,224	–	–	–	8,224
Exchange difference arising from translation of foreign operations	–	–	–	(15,226)	–	(15,226)
Net adjustment on cash flow hedges	–	–	39,254	–	–	39,254
Total comprehensive income (expense) for the period	–	8,224	39,254	(15,226)	176,774	209,026
Final dividend paid for 2021/22 (Note 11)	–	–	–	–	(92,128)	(92,128)
At 31st August 2022 (Unaudited)	269,477	55,479	37,074	(17,824)	3,406,234	3,750,440

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st August 2022

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Net cash (used in) from operating activities	(312,019)	169,447
Dividends received	36	279
Proceeds on disposal of property, plant and equipment	–	1
Purchase of property, plant and equipment	(9,464)	(31,255)
Deposits paid for acquisition of property, plant and equipment	(19,035)	(11,759)
Placement of time deposits with maturity of more than three months	(64,408)	(255,298)
Release of time deposits with maturity of more than three months	61,102	29,622
Net cash used in investing activities	(31,769)	(268,410)
Repayment of lease liabilities	(25,812)	(26,090)
Dividends paid	(92,128)	(75,378)
New bank loans raised	616,137	150,000
Repayments of bank loans	(315,000)	(140,000)
Net cash from (used in) financing activities	183,197	(91,468)
Net decrease in cash and cash equivalents	(160,591)	(190,431)
Effect of changes in exchange rate	(1,450)	7,349
Cash and cash equivalents at beginning of the period	588,963	864,964
Cash and cash equivalents at end of the period	426,922	681,882
Being:		
Time deposits with maturity of three months or less	7,939	127,101
Bank balances and cash	418,983	554,781
	426,922	681,882

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2022

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (“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 (“Listing Rules”).

The financial information relating to the year ended 28th February 2022 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 2022 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 additional accounting policies resulting from application of amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st August 2022 are the same as those presented in the Group’s annual financial statements for the year ended 28th February 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1st March 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

The application of the amendments to HKFRSs in the current interim period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Interest income	479,715	434,580
Fees and commissions		
Credit cards – issuing	31,851	27,628
Credit cards – acquiring	13,969	3,612
Insurance	13,557	14,143
Handling and late charges	32,638	31,607
Revenue from contracts with customers	92,015	76,990
Total revenue	571,730	511,570

1.3.2022 to 31.8.2022 (Unaudited)

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Total HK\$'000
Interest income	370,525	109,099	91	479,715
Fees and commissions	45,820	–	13,557	59,377
Handling and late charges	30,792	1,846	–	32,638
Segment revenue	447,137	110,945	13,648	571,730

1.3.2021 to 31.8.2021 (Unaudited)

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Total HK\$'000
Interest income	344,826	89,754	–	434,580
Fees and commissions	31,240	–	14,143	45,383
Handling and late charges	29,467	2,140	–	31,607
Segment revenue	405,533	91,894	14,143	511,570

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 agency and brokerage services

4. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

1.3.2022 to 31.8.2022 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	447,137	110,945	13,648	571,730
RESULT				
Segment results	158,462	36,805	14,592	209,859
Unallocated operating income				3,539
Unallocated expenses				(2,287)
Profit before tax				211,111

1.3.2021 to 31.8.2021 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	405,533	91,894	14,143	511,570
RESULT				
Segment results	158,429	44,809	7,118	210,356
Unallocated operating income				1,088
Unallocated expenses				(5,335)
Share of results of an associate				890
Profit before tax				206,999

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit before tax earned by each segment without allocation of certain other operating income (including dividend income and government grants), unallocated expenses (including head office expenses and exchange loss on reclassification adjustment for the cumulative exchange differences upon de-registration of a foreign subsidiary) and share of results of an associate. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

4. SEGMENT INFORMATION (Continued)

Geographical information

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

1.3.2022 to 31.8.2022 (Unaudited)

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
REVENUE	561,187	10,543	571,730
RESULT			
Segment results	208,147	1,712	209,859
Unallocated operating income			3,539
Unallocated expenses			(2,287)
Profit before tax			211,111

1.3.2021 to 31.8.2021 (Unaudited)

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
REVENUE	502,987	8,583	511,570
RESULT			
Segment results	212,183	(1,827)	210,356
Unallocated operating income			1,088
Unallocated expenses			(5,335)
Share of results of an associate			890
Profit before tax			206,999

5. INTEREST INCOME

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Non-credit impaired advances	475,725	426,917
Credit impaired advances	3,070	5,859
Time deposits and bank balances	920	1,804
	479,715	434,580

6. INTEREST EXPENSE

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Interest on bank borrowings	15,163	15,443
Interest on lease liabilities	768	1,041
Net interest expense on interest rate swap contracts	152	1,049
	16,083	17,533

7. OTHER INCOME

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Dividends received from financial instruments		
Listed equity securities	36	89
Unlisted equity securities	–	190
Government grants	2,496	–
Marketing support fund	12,889	2,493
Others	1,054	1,034
	16,475	3,806

The Group recognised government grants of HK\$2,496,000 in respect of pandemic related subsidies under Employment Support Scheme provided by the Hong Kong Government (six months ended 31st August 2021: Nil).

8. OTHER GAINS AND LOSSES

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Exchange gain (loss)		
Exchange (loss) gain on hedging instrument released from cash flow hedge reserve	(45,235)	6,800
Exchange gain (loss) on bank loans	45,235	(6,800)
Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign subsidiary	–	(3,783)
Other exchange gain, net	27	65
Hedge ineffectiveness on cash flow hedges	202	137
Losses on disposal of property, plant and equipment	(86)	(155)
	143	(3,736)

9. OPERATING EXPENSES

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	14,145	14,356
Depreciation on right-of-use assets	26,398	26,663
Expenses relating to short-term leases	1,734	802
	28,132	27,465
General administrative expenses	93,792	81,060
Marketing and promotion expenses	57,040	43,529
Other operating expenses	34,541	30,092
Staff costs including Directors' emoluments	95,814	78,472
	323,464	274,974

10. INCOME TAX EXPENSE

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Current tax		
– Hong Kong Profits Tax	37,256	32,095
– PRC Enterprise Income Tax	820	–
Deferred tax (<i>Note 20</i>)	(3,739)	2,564
	<u>34,337</u>	<u>34,659</u>

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

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

11. DIVIDENDS

On 15th July 2022, a dividend of 22.0 HK cents (six months ended 31st August 2021: 18.0 HK cents) per share amounting to a total of HK\$92,128,000 (six months ended 31st August 2021: HK\$75,378,000) was paid to shareholders as the final dividend for 2021/22.

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 14th October 2022. The interim dividend will be paid on 28th October 2022. 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\$176,774,000 (six months ended 31st August 2021: HK\$172,340,000) and on the number of shares of 418,766,000 (six months ended 31st August 2021: 418,766,000) in issue during the period.

13. ADVANCES AND RECEIVABLES

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Credit card receivables	3,705,682	3,304,452
Personal loan receivables	1,046,088	905,434
	4,751,770	4,209,886
Accrued interest and other receivables	70,270	64,664
Gross advances and receivables	4,822,040	4,274,550
Impairment allowances (<i>Note 14</i>)	(186,977)	(181,143)
	4,635,063	4,093,407
Current portion included under current assets	(3,670,897)	(3,342,610)
Amount due after one year	964,166	750,797

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

14. IMPAIRMENT ALLOWANCES

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Analysis by products as:		
Credit card receivables	96,672	98,876
Personal loan receivables	87,732	79,936
Accrued interest and other receivables	2,573	2,331
	<u>186,977</u>	<u>181,143</u>

An analysis of changes in impairment allowances including commitments on unused credit card limit during each of the two periods ended 31st August 2022 and 31st August 2021 are set out as below:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2022	72,719	22,067	86,357	181,143
Net advance (repayment) in advances and receivables	12,110	(6,188)	(3,446)	2,476
Transfer to 12 months Expected Credit Loss ("ECL") (Stage 1)	38,537	(37,057)	(1,480)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(3,635)	6,679	(3,044)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(61)	(31,925)	31,986	–
Total transfer between stages	34,841	(62,303)	27,462	–
Remeasurement of ECL during the period	(33,943)	68,875	52,130	87,062
Amounts written-off as uncollectable	–	–	(84,329)	(84,329)
Exchange realignment	94	52	479	625
At 31st August 2022	<u>85,821</u>	<u>22,503</u>	<u>78,653</u>	<u>186,977</u>

14. IMPAIRMENT ALLOWANCES (Continued)

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2021	80,218	30,777	107,509	218,504
Net advance (repayment) in advances and receivables	2,014	(5,293)	(9,145)	(12,424)
Transfer to 12 months ECL (Stage 1)	37,477	(35,092)	(2,385)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(3,241)	8,333	(5,092)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(128)	(34,057)	34,185	–
Total transfer between stages	34,108	(60,816)	26,708	–
Remeasurement of ECL during the period	(44,993)	56,208	36,052	47,267
Amounts written-off as uncollectable	–	–	(77,821)	(77,821)
Exchange realignment	(7)	(7)	(34)	(48)
At 31st August 2021	<u>71,340</u>	<u>20,869</u>	<u>83,269</u>	<u>175,478</u>

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:

	31.8.2022 (Unaudited) HK\$'000	%*	28.2.2022 (Audited) HK\$'000	%*
Overdue 1 month but less than 2 months	41,609	0.9	45,261	1.1
Overdue 2 months but less than 3 months	29,938	0.6	29,930	0.7
Overdue 3 months but less than 4 months	13,350	0.3	13,588	0.3
Overdue 4 months or above	46,577	1.0	56,816	1.4
	<u>131,474</u>	<u>2.8</u>	<u>145,595</u>	<u>3.5</u>

* Percentage of gross advances and receivables

16. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Deposits for property, plant and equipment	32,846	15,436
Rental and other deposits	14,955	16,736
Prepaid operating expenses	46,050	45,712
Other debtors	40,742	17,840
	134,593	95,724
Current portion included under current assets	(92,407)	(64,165)
Amount due after one year	42,186	31,559

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:

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Less than 1 month	74,952	34,121
Over 1 month but less than 3 months	4,436	3,379
Over 3 months	1,169	678
	80,557	38,178

- (b) At 31st August 2022, included in contract liabilities is deferred revenue in relation to customer loyalty programmes of HK\$23,062,000 (28th February 2022: HK\$18,610,000).

18. BANK BORROWINGS

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Bank loans, unsecured	1,340,018	1,084,139
Carrying amount repayable (<i>Note</i>)		
Within one year	345,877	165,000
Within a period of more than one year but not exceeding two years	60,000	160,000
Within a period of more than two years but not exceeding five years	934,141	759,139
	1,340,018	1,084,139
Amount repayable within one year included under current liabilities	(345,877)	(165,000)
Amount repayable after one year	994,141	919,139

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

	31.8.2022 (Unaudited)		28.2.2022 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	23,502	27	2,711	3,927
Cross-currency interest rate swap	–	53,081	–	23,374
	23,502	53,108	2,711	27,301
Current portion	(1,016)	(27)	–	(1,542)
Non-current portion	22,486	53,081	2,711	25,759

All derivative financial instruments entered into by the Group that remain outstanding at 31st August 2022 and 28th February 2022 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings, the designated hedged items.

20. DEFERRED TAX ASSETS/LIABILITIES

The followings are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during six months ended 31st August 2022 and 31st August 2021:

	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2022 (Audited)	(14,077)	15,327	1,250
Credit to profit or loss for the period	1,482	2,257	3,739
At 31st August 2022 (Unaudited)	(12,595)	17,584	4,989
	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2021 (Audited)	(15,410)	17,919	2,509
Credit (charge) to profit or loss for the period	455	(3,019)	(2,564)
At 31st August 2021 (Unaudited)	(14,955)	14,900	(55)

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 13th October 2022 to Friday, 14th October 2022, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 12th October 2022.

Compliance with Corporate Governance Code

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 applicable to the Company for the six months ended 31st August 2022 and set out then in Appendix 14 to the Listing Rules, with the exception of code provision B.2.2 which is explained below.

Code provision B.2.2 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 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.

Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for securities transactions by Directors pursuant to its own Securities Dealing Code. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code/the Company's own Securities Dealing Code throughout the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The COVID-19 pandemic (the “Pandemic”) has lingered on for almost three years. Although many countries and regions around the world have become accustomed to the business environment under the Pandemic and the resultant “new normal”, the ongoing uncertainty brought about by the Pandemic, together with heightened geopolitical risks in the first half of 2022, has hindered the global economic recovery to various degrees. In Hong Kong, GDP fell by 2.6% compared with the same period last year. Private consumption expenditure also decreased by 2.8% year-on-year.

Following the launch of a range of economic stimulus measures during the six months ended 31st August 2022 (“1H2022” or the “reporting period”), including the easing of the flight suspension mechanism, the launch of the second round of the Consumption Voucher Scheme and the shortening of quarantine periods for inbound travellers to Hong Kong, the consumer spending market in Hong Kong continued to show a slight recovery, with unemployment rates recording a progressive drop over the past few months.

Amid this market environment on an upward trend, the Group has taken a number of timely initiatives during the reporting period to drive healthy growth in both sales and receivables and maintain a quality portfolio.

With regard to marketing, the Group resumed mass promotion activities, including the Summer Spending Mass Promotion, 10X Bonus Points Dining Rewards and other joint promotion programs with new and existing business partners to boost both credit card and personal loan sales. The Group also organized roadshows in exhibitions and shopping malls to attract new customers.

For brand building, the Group engaged celebrities to promote personal loans and its first ever cashback credit card, AEON Card Wakuwaku (the “Wakuwaku Card”). The launch of the Wakuwaku Card has better positioned the Group to attract a greater number of customers who predominantly shop online under the new normal and are generally savvier about spending rewards and incentives. More than 40,000 cards were issued within a four-month period.

To further enhance the reach and use cases of its existing products and services, the Group has been running new promotions with a major payment solution provider in the market. In addition to increasing marketing activities for its online channels, the Group also revamped its physical branch network by opening new branches in different districts, including Kwun Tong, Yau Tong and Kwai Chung.

Regarding credit management, through the continued enhancement of the Group’s credit assessment model, which helps strive a better balance between customers’ financial needs and credit risk, customers enjoyed increased credit facilities that remain affordable. At the same time, the implementation of analytical tool in collection has contributed to a lower risk of an increase in delinquent receivables.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

With the above-mentioned measures in place, the Group achieved a 24.2% increase in overall sales when compared with the six months ended 31st August 2021 (“1H2021”, or the “Previous Period”), with sales in the second quarter recording an increase of 25.2% as compared with the first quarter of this financial year, thereby keeping the advance and receivable balance on a rising trend in the second quarter. The gross advance and receivable balance at 31st August 2022 recorded an increase of 12.8% when compared with the balance at 28th February 2022. On the other hand, the percentage of overdue advances and receivables to gross advances and receivables declined from 4.1% at 28th February 2021 and 3.5% at 28th February 2022 to 2.8% at 31st August 2022.

Regarding information technology development, the Group continued to dedicate additional resources to the issuing phase of its new card and loan system project and the replacement of its net-member and mobile application systems, aiming to enhance the customer experience through new payment solutions, the flexibility in offering product benefits and the ease of access to even better data analytical tools and services.

As for the Mainland China business, with the launch of new personal loan products, the microfinance subsidiary in Shenzhen achieved an increasing monthly profit trend throughout the three months ended 31st August 2022 (“Q2 FY2022”). The newly acquired wholly owned subsidiary, AEON Information Service (Shenzhen) Co., Ltd. (“AIS”) provided effective telemarketing activities to the Group to increase the sales of personal loans and cash advances.

Interim Dividend

In view of the Group’s sound fundamentals and to once again share its fruitful results with shareholders, the Board has resolved to declare an interim dividend of 22.0 HK cents per share (1H2021: 22.0 HK cents per share), representing a dividend payout ratio of 52.1%, which is in line with the Group’s policy of paying no less than 30% of its net profit for the period concerned as dividends each year.

Financial Review

Profit before tax for 1H2022 was HK\$211.1 million, an increase of 2.0%, or HK\$4.1 million, when compared with 1H2021. After deducting income tax expenses of HK\$34.3 million, the Group recorded an increase in profit of 2.6%, with profit after tax increasing from HK\$172.3 million for 1H2021 to HK\$176.8 million for 1H2022. Earnings per share increased from 41.15 HK cents to 42.21 HK cents for the reporting period.

The net debt to equity ratio increased from 0.1 at 28th February 2022 to 0.2 at 31st August 2022, while the total equity to total assets ratio was 67.8% and 71.4% at 31st August 2022 and 28th February 2022, respectively.

Net asset value per share (after interim dividend) was HK\$8.7 at 31st August 2022, compared with a net asset value per share (after final dividend) of HK\$8.5 at 28th February 2022.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss – Analysis

Revenue

Revenue for 1H2022 was HK\$571.7 million, an increase of 11.8%, or HK\$60.1 million when compared with the HK\$511.6 million recorded in 1H2021.

Net interest income

As there was an overall increase in the sales and receivables balance in the reporting period compared with the previous period, the Group correspondingly recorded an increase in interest income of 10.4%, or HK\$45.1 million, from HK\$434.6 million in the previous period to HK\$479.7 million in the reporting period.

Following the repayment of certain long-term bank borrowings upon maturity in the second half of the previous financial year and more use of short-term bank borrowings to finance temporary cash requirements, interest expense recorded a decrease of 8.3%, or HK\$1.4 million, from HK\$17.5 million in the previous period to HK\$16.1 million in the reporting period. However, due to a general increase in interest rates for more recent bank borrowings, the Group's average funding cost increased from 2.5% in the previous period to 2.6% in 1H2022.

Consequently, the Group's net interest income for 1H2022 was HK\$463.6 million, representing an increase of 11.2%, or HK\$46.6 million, when compared with 1H2021.

Operating income

With the continued increase in credit card sales throughout 1H2022, there was an increase in fees and commissions from the credit card issuing business of 15.3%, or HK\$4.2 million, to HK\$31.9 million for the reporting period. For the credit card acquiring business, with the launch of the acquiring service for AEON Stores in the second half of the previous financial year, fees and commissions increased from HK\$3.6 million in the previous period to HK\$14.0 million. Consequently, the total fees and commissions from the credit card business increased by 46.7% to reach HK\$45.8 million in the reporting period. For the insurance intermediary business, fees and commissions fell slightly by 4.1%, or HK\$0.6 million, to HK\$13.6 million in the reporting period due to some anticipated changes in insurance distribution channels. Overall, the Group recorded an increase in fees and commissions of 30.8%, or HK\$14.0 million, from HK\$45.4 million for 1H2021 to HK\$59.4 million for 1H2022. With a higher transaction volume from increasing sales and receivables in the reporting period, handling and late charges increased by 3.3%, or HK\$1.0 million, to HK\$32.6 million in the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss – Analysis (Continued)

Operating income (Continued)

For other income, upon completely fulfilling the terms and conditions of the marketing support fund received under an insurance distribution agreement with an insurance partner of the Company, the Group recognized an income of HK\$7.8 million. In addition, the Group recorded an income relating to the receipt of government subsidies of HK\$2.5 million under the Employment Support Scheme in the reporting period. In the previous period, the Group recorded a loss from reclassification adjustments for the cumulative exchange differences upon de-registration of a subsidiary in Mainland China of HK\$3.8 million.

In total, the Group's operating income for 1H2022 recorded an increase of 15.8%, or HK\$78.2 million, from HK\$494.1 million in 1H2021 to HK\$572.3 million in the reporting period.

Operating expenses

In order to capture the business growth opportunities and to promote the Group's brand, more marketing and advertising activities were launched in 1H2022, resulting in an increase in marketing and promotion expenses of 31.0%, or HK\$13.5 million, to HK\$57.0 million in the reporting period. Following the full acquisition of an associate to become a subsidiary of the Company and the expansion of the branch network, staff costs recorded an increase of 22.1%, or HK\$17.3 million, to HK\$95.8 million in the reporting period. With the cost incurred in acquiring service for AEON Stores and the increase in card sales, there was a corresponding increase in card association fees and computer-related expenses in the reporting period, resulting in an increase in general administrative expenses of 15.7%, or HK\$12.7 million, to HK\$93.8 million in the reporting period. Overall operating expenses recorded an increase of 17.6%, or HK\$48.5 million, from HK\$275.0 million in the previous period to HK\$323.5 million in the reporting period. The cost-to-income ratio slightly increased from 55.7% for 1H2021 to 56.5% for 1H2022.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$248.8 million in 1H2022, representing an increase of 13.5% from the HK\$219.1 million recorded in 1H2021.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss – Analysis (Continued)

Impairment losses and impairment allowances

The prudent credit assessment approach currently employed by the Group continued to enable it to build a portfolio of superior quality, which led to a reduction in overdue or unrecoverable advances and receivables. However, there was a big difference in the impact of expected key economic indicators on impairment allowances in the reporting period and the previous period. In 1H2021, an anticipated rebound in key economic indicators primarily due to the rollout of COVID-19 vaccines led to a reversal in impairment allowances. Nevertheless, the continued suspension of overseas travel, high global inflation and the stagnation of the Mainland Chinese property market led to weakened expected economic indicators in the reporting period. Together with the substantial increase in gross advances and receivables in 1H2022, there was an increase in impairment losses and impairment allowances in the reporting period, up by 157%, or HK\$54.7 million, from HK\$34.8 million in 1H2021 to HK\$89.5 million in 1H2022.

Gain on disposal of distressed assets

In order to dedicate more resources for well-timed collection of delinquent receivables, the Group disposed of its written-off receivables accumulated over the past few years and recorded a gain on their disposal at HK\$31.9 million in the reporting period.

Consolidated Statement of Financial Position – Analysis

The Group's total equity at 31st August 2022 was HK\$3,750.4 million, representing a growth of 3.2%, or HK\$116.9 million, compared with a balance of HK\$3,633.5 million at 28th February 2022.

Total assets at 31st August 2022 were HK\$5,528.3 million, compared with total assets of HK\$5,090.0 million at 28th February 2022.

Advances and Receivables

With the launch of successful marketing activities and the expansion of the service network, both cash advances sales and personal loan sales recorded an increase of 44.9% and 69.8%, respectively, in 1H2022 when compared with 1H2021. Personal loan receivables increased from HK\$905.4 million at 28th February 2022 to HK\$1,046.1 million at 31st August 2022, while credit card receivables increased substantially from HK\$3,304.5 million at 28th February 2022 to HK\$3,705.7 million at 31st August 2022.

Overall, the Group's gross advances and receivables were HK\$4,822.0 million at 31st August 2022, increased by HK\$547.4 million as compared with HK\$4,274.6 million at 28th February 2022. Impairment allowances amounted to HK\$187.0 million at 31st August 2022, covering 3.9% of gross advances and receivables, as compared with HK\$181.1 million, covering 4.2% of gross advances and receivables at 28th February 2022. The percentage of overdue advances and receivables to gross advances and receivables was 2.8% at 31st August 2022, compared with 3.5% at 28th February 2022 and 3.4% at 31st August 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Financial Position – Analysis (Continued)

Bank Borrowings

Due to the increase in the gross advances and receivables balance, the Group maintained a higher level of bank borrowings in the reporting period, with a balance of HK\$1,340.0 million at 31st August 2022 and HK\$1,084.1 million at 28th February 2022. For bank borrowings at 31st August 2022, 34.0% had fixed interest rates and 66.0% were hedged against interest rate and/or currency exchange rate fluctuation by interest rate and/or currency swaps. Of these bank borrowings, 25.8% will mature within one year, 4.5% between one and two years and 69.7% between two and five years.

The average duration of bank borrowings was 2.6 years at 31st August 2022, compared with 2.9 years at 28th February 2022.

Segment Information

The Group's business comprises three operating segments, namely credit cards, personal loans and insurance intermediary business. For 1H2022, 78.2% of the Group's revenue was derived from credit card operations, compared with 79.3% in 1H2021, while personal loan operations accounted for 19.4% of the Group's revenue, compared with 18.0% in the previous period. As for segment results, credit card operations accounted for 75.5% of the Group's whole operations as compared with 75.3% in the previous period, while personal loan operations accounted for 17.5% as compared with 21.3% in the previous period.

For credit cards, through the successful brand-building exercise and various marketing activities, the Group recorded an increase in credit card sales and continued to accumulate revolving credit card balances in the reporting period. This resulted in the revenue from credit card operations recording an increase of 10.3%, or HK\$41.6 million, from HK\$405.5 million in 1H2021 to HK\$447.1 million in 1H2022. Nevertheless, with the increase in impairment losses and impairment allowances due to the weakened expected economic indicators and also marketing and promotion expenses, the segment result only recorded at a similar level of HK\$158.5 million and HK\$158.4 million in 1H2022 and 1H2021 respectively.

For personal loans, thanks to the success of the personalized marketing activities following the opening of new branches, the personal loan receivables balance at 31st August 2022 increased substantially by 33.6% as compared with the balance as at 31st August 2021. Revenue from personal loan operations increased by 20.7%, or HK\$19.0 million, from HK\$91.9 million in 1H2021 to HK\$110.9 million in 1H2022. Nevertheless, the increase in impairment losses and impairment allowances dragged down the segment results from HK\$44.8 million in 1H2021 to HK\$36.8 million in 1H2022, recording a decrease of HK\$8.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information (Continued)

Due to the reduction in telemarketing activities in preparation of some changes in insurance distribution channels, revenue from insurance operations recorded a decrease of HK\$0.5 million, from HK\$14.1 million in 1H2021 to HK\$13.6 million in 1H2022. With the recognition of the marketing supporting fund received under an insurance distribution agreement as income, the segment result for the reporting period was HK\$14.6 million, compared with HK\$7.1 million in the previous period.

In relation to financial results by geographical location, with the substantial improvement in sales and both credit card and personal loan receivables balances, revenue from the Hong Kong operations recorded an increase of 11.6%, or HK\$58.2 million, from HK\$503.0 million in 1H2021 to HK\$561.2 million in 1H2022. Segment results from the Hong Kong operations recorded a decrease of 1.9%, or HK\$4.1 million, from HK\$212.2 million in 1H2021 to HK\$208.1 million in 1H2022, due to the increase in marketing and promotion expenses, general administrative expenses, and also impairment losses and impairment allowances from the weakened expected economic indicators.

In regard to the Mainland China operations, with the launch of new personal loan products in the microfinance subsidiary in Shenzhen, revenue recorded an overall increase of HK\$1.9 million, from HK\$8.6 million in 1H2021 to HK\$10.5 million in 1H2022. The Group continued with the liquidation proceedings for its subsidiary in Tianjin. Through continued efforts in asset quality and cost control, the segment results improved from a loss of HK\$1.8 million in 1H2021 to a profit of HK\$1.7 million in 1H2022.

Prospects

The continued uncertainty over the Pandemic, together with the spread of inflationary pressure around the world and the adjustment to the Hong Kong base rate in response to the US Federal Reserve interest rate hike, will affect consumer sentiment to a certain extent in the second half of financial year 2022. On the other hand, with the further shortening of the quarantine period for inbound travelers, and progressive resumption of overseas travel in the near future, more economic activities can be expected. The unemployment rate in Hong Kong is expected to remain stable, which will provide opportunities for the Group's continued business expansion during the second half of the financial year. However, the potential regulatory change on interest rate caps and threshold under the Money Lenders Ordinance could make the financing market more competitive and challenging.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (Continued)

The Group will focus on maintaining the momentum of sales and receivables growth in this recovering yet competitive and challenging market, while also closely monitoring the asset quality as much as possible. On the marketing side, the Group will continue to launch mass promotion activities for both its credit card and personal loan businesses, such as the AEON x Ocean Park “Admission Ticket Promotion,” so as to capture any possible surge in consumer spending in the market. Moreover, the Group will further strengthen its customer relationship management and foster customer engagement through different channels. New products and digital services will be explored, and more branches will be opened in strategic and convenient locations to enable customers to experience our services and ensure the Group stays ahead in this competitive environment.

The Group embraces sustainability and believes that improving its environment, social and governance performance is crucial to its long-term business development. Certain sustainability-related key performance indicators have also been set to measure the Group’s overall level of sustainability. The Group will continue to commit significant resources to digitalization in order to improve its internal business processes to achieve greater sustainability and enhance its ability to respond both the continuously evolving market environment and climate change. Alongside the completion of major information technology projects in the near future, the Group will aim to employ more paperless payment solutions to reduce its impact on the environment.

For the Mainland China businesses, the microfinance subsidiary in Shenzhen will continue to focus on exploring business opportunities in the Greater Bay Area to grow its receivables with sound asset quality. The Group will also make greater use of its recently acquired subsidiary as a business process center to enhance the Group’s operational effectiveness in order to create greater value for its shareholders.

With the Group’s strong liquidity position and balance sheet, it is well prepared to move forward and capture new potential business opportunities to outperform and stay ahead of its peers in the face of a competitive market environment.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Funding and Capital Management

The Group manages its capital to ensure that:

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

Net debt to equity ratio

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

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

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Debt (<i>Note a</i>)	1,340,018	1,084,139
Cash and cash equivalents	(426,922)	(588,963)
Net debt	913,096	495,176
Equity (<i>Note b</i>)	3,750,440	3,633,542
Net debt to equity ratio	0.2	0.1

Notes:

- (a) Debt comprises bank borrowings as detailed in Note 18.
- (b) Equity includes all capital and reserves of the Group.

The principal source of internally generated capital was from accumulated profits. 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)

Funding and Capital Management (Continued)

Net debt to equity ratio (Continued)

The Group's principal operations are transacted and recorded in HKD and thereby 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 2022, capital commitments entered into were mainly related to the purchase of property, plant and equipment.

Human Resources

At 31st August 2022 and 28th February 2022, the Group's total number of employees was 511 (Hong Kong: 346; PRC: 165) and 510 (Hong Kong: 358; PRC: 152), respectively. The Group continues to recognize and reward its staff in a manner similar to that disclosed in its 2021/22 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 2022. In addition, the condensed consolidated financial statements for the six months ended 31st August 2022 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 2022 Interim Report, containing the relevant information required by the Listing Rules, will be published on the respective websites of The Stock Exchange of Hong Kong Limited and the Company in due course.

BOARD OF DIRECTORS

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

By order of the Board
TOMOHARU FUKAYAMA
Managing Director

Hong Kong, 26th September 2022