

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 2023

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 2023, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31st August 2023

	Notes	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Revenue	3	783,109	571,730
Interest income	5	657,771	479,715
Interest expense	6	(46,721)	(16,083)
Net interest income		611,050	463,632
Fees and commissions		62,748	59,377
Handling and late charges		62,590	32,638
Other income	7	5,377	16,475
Other gains and losses	8	(9,085)	143
Operating income		732,680	572,265
Operating expenses	9	(351,383)	(323,464)
Operating profit before impairment losses and impairment allowances		381,297	248,801
Impairment losses and impairment allowances		(164,633)	(89,538)
Recoveries of advances and receivables written-off		14,201	19,915
Gain on disposal of distressed assets		–	31,933
Profit before tax		230,865	211,111
Income tax expense	10	(39,439)	(34,337)
Profit for the period		191,426	176,774
Profit for the period attributable to: Owners of the Company		191,426	176,774
Earnings per share – Basic	12	45.71 HK cents	42.21 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31st August 2023

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Profit for the period	<u>191,426</u>	<u>176,774</u>
Other comprehensive (expense) income		
Item that will not be reclassified to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	(21,306)	8,224
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(6,292)	(15,226)
Net adjustment on cash flow hedges	<u>(7,145)</u>	<u>39,254</u>
Other comprehensive (expense) income for the period	<u>(34,743)</u>	<u>32,252</u>
Total comprehensive income for the period	<u>156,683</u>	<u>209,026</u>
Total comprehensive income for the period attributable to:		
Owners of the Company	<u>156,683</u>	<u>209,026</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2023

		31.8.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
	NOTES		
Non-current assets			
Property, plant and equipment		172,083	84,584
Right-of-use assets		131,896	43,077
Goodwill		15,820	15,820
Equity instruments at fair value through other comprehensive income		75,827	97,133
Advances and receivables	13	1,424,727	1,239,940
Prepayments, deposits and other debtors	16	25,496	64,282
Derivative financial instruments	19	30,673	34,768
Deferred tax assets		5,115	10,183
		<u>1,881,637</u>	<u>1,589,787</u>
Current assets			
Advances and receivables	13	4,780,681	4,404,568
Prepayments, deposits and other debtors	16	73,780	67,009
Amount due from immediate holding company		3	1
Amount due from an intermediate holding company		166	32
Amount due from ultimate holding company		–	9
Derivative financial instruments	19	–	878
Time deposits		15,588	13,073
Bank balances and cash		331,214	382,323
		<u>5,201,432</u>	<u>4,867,893</u>
Current liabilities			
Creditors and accruals	17(a)	231,950	202,983
Contract liabilities	17(b)	23,890	23,897
Amounts due to fellow subsidiaries		45,135	44,485
Amount due to an intermediate holding company		6,566	1,591
Borrowings from immediate holding company	18	500,000	–
Bank borrowings	18	198,600	789,977
Lease liabilities		39,419	34,392
Derivative financial instruments	19	614	–
Tax liabilities		46,343	93,507
		<u>1,092,517</u>	<u>1,190,832</u>
Net current assets		<u>4,108,915</u>	<u>3,677,061</u>
Total assets less current liabilities		<u>5,990,552</u>	<u>5,266,848</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

At 31st August 2023

		31.8.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
	NOTES		
Capital and reserves			
Share capital		269,477	269,477
Reserves		<u>3,687,538</u>	<u>3,622,983</u>
Total equity		<u>3,957,015</u>	<u>3,892,460</u>
Non-current liabilities			
Borrowings from immediate holding company	18	100,000	–
Bank borrowings	18	1,772,164	1,317,698
Lease liabilities		91,343	8,307
Derivative financial instruments	19	<u>70,030</u>	<u>48,383</u>
		<u>2,033,537</u>	<u>1,374,388</u>
		<u>5,990,552</u>	<u>5,266,848</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st August 2023

	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 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
At 1st March 2023 (Audited)	269,477	73,311	50,342	(11,613)	3,510,943	3,892,460
Profit for the period	–	–	–	–	191,426	191,426
Fair value loss on equity instruments at fair value through other comprehensive income	–	(21,306)	–	–	–	(21,306)
Exchange difference arising from translation of foreign operations	–	–	–	(6,292)	–	(6,292)
Net adjustment on cash flow hedges	–	–	(7,145)	–	–	(7,145)
Total comprehensive (expense) income for the period	–	(21,306)	(7,145)	(6,292)	191,426	156,683
Final dividend paid for 2022/23 (Note 11)	–	–	–	–	(92,128)	(92,128)
At 31st August 2023 (Unaudited)	269,477	52,005	43,197	(17,905)	3,610,241	3,957,015

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st August 2023

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Net cash used in operating activities	(327,527)	(312,019)
Dividends received	36	36
Proceeds from sale of property, plant and equipment	7	–
Purchase of property, plant and equipment	(50,442)	(9,464)
Deposits paid for acquisition of property, plant and equipment	(26,237)	(19,035)
Placement of time deposits with maturity of more than three months	–	(64,408)
Release of time deposits with maturity of more than three months	7,858	61,102
Net cash used in investing activities	(68,778)	(31,769)
Repayment of lease liabilities	(30,726)	(25,812)
Dividends paid	(92,128)	(92,128)
New borrowings from immediate holding company raised	5,600,000	–
Repayment of borrowings from immediate holding company	(5,000,000)	–
New bank loans raised	6,305,064	616,137
Repayment of bank loans	(6,424,869)	(315,000)
Net cash from financing activities	357,341	183,197
Net decrease in cash and cash equivalents	(38,964)	(160,591)
Effect of changes in exchange rate	(1,742)	(1,450)
Cash and cash equivalents at beginning of the period	387,508	588,963
Cash and cash equivalents at end of the period	346,802	426,922
Being:		
Time deposits with maturity of three months or less	15,588	7,939
Bank balances and cash	331,214	418,983
	346,802	426,922

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2023

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 2023 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 2023 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 financial instruments, which are measured at revalued amounts or fair values, as appropriate.

Other than change in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st August 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 28th February 2023.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following new and 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 2023 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

Except as described below, the application of the new and 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.

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs (Continued)

2.1 *Impacts on application of Amendments to HKAS 8 Definition of Accounting Estimates*

The amendments define accounting estimates as “monetary amounts in financial statements that are subject to measurement uncertainty”. An accounting policy may require items in financial statements to be measured in a way that involves measurement uncertainty. In such a case, an entity develops an accounting estimate to achieve the objective set out by the accounting policy. The amendments to HKAS 8 clarify the distinction between changes in accounting estimates, and changes in accounting policies and the correction of errors.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements.

2.2 *Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

2.2.1 *Accounting policies*

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 requirements to the lease liabilities, the provisions for decommissioning and restoration and the related assets separately. The Group recognises a deferred tax asset related to lease liabilities to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised and a deferred tax liability for all taxable temporary differences.

2.2.2 *Transition and summary of effects*

As disclosed in the Group’s annual financial statements for the year ended 28th February 2023, the Group previously applied the HKAS 12 requirements to assets and liabilities arising from a single transaction as a whole and temporary differences relating to the relevant assets and liabilities were assessed on a net basis. Upon the application of the amendments, the Group assessed the relevant assets and liabilities separately. In accordance with the transition provision:

- (i) the Group has applied the new accounting policy retrospectively to leasing transactions and provisions for decommissioning and restoration that occurred on or after 1st March 2023;

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Application of amendments to HKFRSs (Continued)

2.2 *Impacts and changes in accounting policies on application of Amendments to HKAS 12 Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Continued)*

2.2.2 *Transition and summary of effects (Continued)*

- (ii) the Group also, as at 1st March 2023, recognised a deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised) and a deferred tax liability for all deductible and taxable temporary difference associated with right-of-use-assets, lease liabilities and provisions for decommissioning and restoration and the corresponding amounts recognised as part of the cost of the related asset.

The application of the amendments has had no material impact on the Group's financial position and performance.

2.3 *Impacts on application of Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies*

In addition, the Group will apply Amendments to HKAS 1 and HKFRS Practice Statement 2 Disclosure of Accounting Policies which are mandatorily effective for the Group's annual period beginning on 1st March 2023 for the preparation of the Group's consolidated financial statements for the year ending 29th February 2024.

HKAS 1 is amended to replace all instances of the term "significant accounting policies" with "material accounting policy information". Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

HKFRS Practice Statement 2 Making Materiality Judgements (the "Practice Statement") is also amended to illustrate how an entity applies the "four-step materiality process" to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

The application of the amendments in the current period had no material impact on the condensed consolidated financial statements but is expected to affect the disclosures of the Group's accounting policies in the Group's annual consolidated financial statements for the year ending 29th February 2024.

3. REVENUE

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Interest income	657,771	479,715
Fees and commissions		
Credit cards – issuing	31,223	31,851
Credit cards – acquiring	20,469	13,969
Insurance	11,056	13,557
Handling and late charges	62,590	32,638
Revenue from contracts with customers	125,338	92,015
Total revenue	783,109	571,730

1.3.2023 to 31.8.2023 (Unaudited)

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Total HK\$'000
Interest income	516,080	141,691	–	657,771
Fees and commissions	51,692	–	11,056	62,748
Handling and late charges	56,280	6,310	–	62,590
Segment revenue	624,052	148,001	11,056	783,109

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

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:

1.3.2023 to 31.8.2023 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	624,052	148,001	11,056	783,109
RESULT				
Segment results	200,034	26,925	4,984	231,943
Unallocated operating income				1,438
Unallocated expenses				(2,516)
Profit before tax				230,865

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

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). 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:

1.3.2023 to 31.8.2023 (Unaudited)

	Hong Kong HK\$'000	Mainland China HK\$'000	Consolidated HK\$'000
REVENUE	770,192	12,917	783,109
RESULT			
Segment results	229,638	2,305	231,943
Unallocated operating income			1,438
Unallocated expenses			(2,516)
Profit before tax			230,865

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

5. INTEREST INCOME

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Non-credit impaired advances	651,073	475,725
Credit impaired advances	6,530	3,070
Time deposits and bank balances	168	920
	657,771	479,715

6. INTEREST EXPENSE

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Interest on bank borrowings	50,433	15,163
Interest on lease liabilities	1,707	768
Net interest expense on interest rate swap contracts	(5,419)	152
	46,721	16,083

7. OTHER INCOME

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Dividends received from financial instruments		
Listed equity securities	36	36
Government grants	–	2,496
Marketing support fund	3,938	12,889
Others	1,403	1,054
	5,377	16,475

8. OTHER GAINS AND LOSSES

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange loss on hedging instrument released from cash flow hedge reserve	(15,770)	(45,235)
Exchange gain on bank loans	15,770	45,235
Other exchange (loss) gain, net	(21)	27
Hedge ineffectiveness on cash flow hedges	202	202
Losses on disposal of property, plant and equipment	(9,266)	(86)
	<u>(9,085)</u>	<u>143</u>

9. OPERATING EXPENSES

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	21,097	14,145
Depreciation on right-of-use assets	28,542	26,398
Expenses relating to short-term leases	2,337	1,734
	<u>30,879</u>	<u>28,132</u>
General administrative expenses	101,085	93,792
Marketing and promotion expenses	53,636	57,040
Other operating expenses	39,779	34,541
Staff costs including Directors' emoluments	104,907	95,814
	<u>351,383</u>	<u>323,464</u>

10. INCOME TAX EXPENSE

	1.3.2023 to 31.8.2023 (Unaudited) HK\$'000	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000
Current tax		
– Hong Kong Profits Tax	29,899	37,256
– PRC Enterprise Income Tax	80	820
Deferred tax	9,460	(3,739)
	39,439	34,337

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 20th July 2023, a dividend of 22.0 HK cents (six months ended 31st August 2022: 22.0 HK cents) per share amounting to a total of HK\$92,128,000 (six months ended 31st August 2022: HK\$92,128,000) was paid to shareholders as the final dividend for 2022/23.

In respect of the current interim period, the Directors have declared an interim dividend of 24.0 HK cents per share amounting to HK\$100,504,000 payable to the shareholders of the Company whose names appear on the Register of Members on 17th October 2023. The interim dividend will be paid on 31st October 2023. 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\$191,426,000 (six months ended 31st August 2022: HK\$176,774,000) and on the number of shares of 418,766,000 (six months ended 31st August 2022: 418,766,000) in issue during the period.

13. ADVANCES AND RECEIVABLES

	31.8.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Credit card receivables	4,817,439	4,481,038
Personal loan receivables	1,449,298	1,263,929
	<hr/>	<hr/>
	6,266,737	5,744,967
Accrued interest and other receivables	173,166	91,250
	<hr/>	<hr/>
Gross advances and receivables	6,439,903	5,836,217
Impairment allowances (<i>Note 14</i>)	(234,495)	(191,709)
	<hr/>	<hr/>
	6,205,408	5,644,508
Current portion included under current assets	(4,780,681)	(4,404,568)
	<hr/>	<hr/>
Amount due after one year	1,424,727	1,239,940
	<hr/>	<hr/>

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

14. IMPAIRMENT ALLOWANCES

	31.8.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Analysis by products as:		
Credit card receivables	153,489	122,910
Personal loan receivables	75,929	66,229
Accrued interest and other receivables	5,077	2,570
	234,495	191,709

An analysis of changes in impairment allowances including commitments on unused credit card limit during each of the two periods ended 31st August 2023 and 31st August 2022 are set out as below:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2023	97,642	18,878	75,189	191,709
Net advance (repayment) in advances and receivables	13,053	8,012	(4,494)	16,571
Transfer to 12 months Expected Credit Loss ("ECL") (Stage 1)	28,749	(26,909)	(1,840)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(3,544)	7,299	(3,755)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(645)	(45,181)	45,826	–
Total transfer between stages	24,560	(64,791)	40,231	–
Remeasurement of ECL during the period	(18,167)	64,476	101,753	148,062
Amounts written-off as uncollectable	–	–	(121,573)	(121,573)
Exchange realignment	(57)	(43)	(174)	(274)
At 31st August 2023	117,031	26,532	90,932	234,495

14. IMPAIRMENT ALLOWANCES (Continued)

	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 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>

15. ANALYSIS OF ADVANCES AND RECEIVABLES BY STAGE

Set out below is an analysis of gross balance of advances and receivables (excluding impairment allowances):

	31.8.2023 (Unaudited) HK\$'000	%*	28.2.2023 (Audited) HK\$'000	%*
Stage 1	6,156,277	95.6	5,582,236	95.7
Stage 2	71,568	1.1	84,229	1.4
Stage 3	212,058	3.3	169,752	2.9
	<u>6,439,903</u>	<u>100.0</u>	<u>5,836,217</u>	<u>100.0</u>

* *Percentage of gross advances and receivables*

Stage 1 covers the advances and receivables which credit risk has not significantly increased since initial recognition.

Stage 2 covers the advances and receivables which credit risk has significantly increased since initial recognition.

Stage 3 covers the advances and receivables for which credit loss events occurred and become credit-impaired.

16. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	31.8.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Deposits for property, plant and equipment	13,972	55,407
Rental and other deposits	16,734	16,268
Prepaid operating expenses	48,545	40,987
Other debtors	20,025	18,629
	<hr/>	<hr/>
	99,276	131,291
Current portion included under current assets	(73,780)	(67,009)
	<hr/>	<hr/>
Amount due after one year	25,496	64,282
	<hr/>	<hr/>

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:

	31.8.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Less than 1 month	70,678	78,609
Over 1 month but less than 3 months	3,520	5,325
Over 3 months	276	842
	<hr/>	<hr/>
	74,474	84,776
	<hr/>	<hr/>

- (b) At 31st August 2023, included in contract liabilities is deferred revenue in relation to customer loyalty programmes of HK\$23,890,000 (28th February 2023: HK\$23,897,000).

18. BANK BORROWINGS/BORROWINGS FROM IMMEDIATE HOLDING COMPANY

	31.8.2023 (Unaudited)		28.2.2023 (Audited)	
	Bank borrowings HK\$'000	Borrowings from immediate holding company HK\$'000	Bank borrowings HK\$'000	Borrowings from immediate holding company HK\$'000
Carrying amounts repayable (<i>Note</i>)				
Within one year	198,600	500,000	789,977	–
Within a period of more than one year but not more than two years	360,696	100,000	201,917	–
Within a period of more than two years but not more than five years	1,411,468	–	1,115,781	–
	<u>1,970,764</u>	<u>600,000</u>	<u>2,107,675</u>	<u>–</u>
Amount repayable within one year included under current liabilities	<u>(198,600)</u>	<u>(500,000)</u>	<u>(789,977)</u>	<u>–</u>
Amount repayable after one year	<u>1,772,164</u>	<u>100,000</u>	<u>1,317,698</u>	<u>–</u>

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

	31.8.2023 (Unaudited)		28.2.2023 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	30,673	2,570	35,646	942
Cross-currency interest rate swap	–	67,460	–	47,441
Foreign exchange forward contract	–	614	–	–
	<u>30,673</u>	<u>70,644</u>	<u>35,646</u>	<u>48,383</u>
Current portion	<u>–</u>	<u>(614)</u>	<u>(878)</u>	<u>–</u>
Non-current portion	<u>30,673</u>	<u>70,030</u>	<u>34,768</u>	<u>48,383</u>

All derivative financial instruments entered into by the Group that remain outstanding at 31st August 2023 and 28th February 2023 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 JPY purchases, the designated hedged items and the forward contract.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 16th October 2023 to Tuesday, 17th October 2023, 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 Friday, 13th October 2023.

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 continued to comply with the code provisions of the Corporate Governance Code as applicable to the Company throughout the six months ended 31st August 2023 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

With the COVID-19 pandemic (the “Pandemic”) ceasing to be a public health emergency, economic and social activities steadily returned to normalcy during the six months ended 31st August 2023 (“1H2023” or the “Reporting Period”). However, given the macro challenges persisting amid rising US policy rates, continuing stress on the real property market in Mainland China and global economic slowdown, among others, consumers have yet to regain full confidence in the local and the wider economy to be returning to pre-Pandemic consumption levels.

As market recovery continued to gain momentum, the Group took a number of timely measures during the Reporting Period to drive healthy growth in both sales and receivables for a quality portfolio that should offer income, growth and resilience, all at the same time.

With regard to marketing, the Group utilized targeted marketing and attractive marketing promotions such as “Muk Muk Buy to Earn” and “Ocean Park x AEON Card emoji® Summer Splash 2023” to better make known to the right customers its competitive products and services. The Group also organized thematic roadshows at exhibitions and shopping malls to increase our reach. Following on the popularity of the cash-back loyalty incentive scheme established under AEON CARD WAKUWAKU, with approximately 81,000 cards issued within just the first year, the Group launched similar incentive programs such as the “AEON Card Japan Spending Rewards” and “AEON UnionPay Card – Mainland China & Macau Spending Rewards” to stimulate local dining and overseas spending.

To enhance credit card service and security, the revamped mobile apps incorporate biometric authentication, along with one-time password for online transactions and short message service alert for high-risk card transactions. In addition, the AEON UnionPay Card was enhanced with “QR Pay” and “QR Cash” functions to make payment and cash withdrawals simpler and more handy.

In order to diversify its branch network and meet customers’ growing demand for face-to-face advisory services, the Group continued to revamp and expand its branch network. Of special note is, the new Tuen Mun branch from late March 2023, with almost double the floor area of its predecessor and a dedicated insurance consultation counter for providing an enhanced customer experience.

Regarding credit management, the continued enhancement of the Group’s credit assessment model with updated market indicators, which helps achieve a finer balance between customers’ financial needs and credit risk, has allowed customers to get access to flexible credit facilities that remain relevant and affordable. At the same time, implementation of a new analytical tool in collections department has gone some significant way to control the increase in delinquent receivables.

With the above measures in place, the Group achieved an overall increase in sales of 24.6% in 1H2023 compared with the first half of last year (“1H2022” or the “Previous Period”), and the gross advances and receivables balance increased by 10.3% from the end of February 2023. The Group’s credit risk management has proved itself effective against the market’s increasing bankruptcy trend in the second quarter, with the percentage of the Group’s higher credit risk or otherwise credit impaired advances and receivables (i.e. stage 2 and stage 3 receivables) to total advances and receivables maintained at similar level as at 31st August 2023 and 28th February 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

Regarding information technology, the rollout of the new card and loan system project, AEON Netmember service and “AEON HK” Mobile App will provide a flexible and integrated platform for the creation and delivery of new payment solutions and product benefits, as well as easy access to better data analytics tools and services in the near future.

In addition to business growth, the Group also places great emphasis on integrating sustainability into its business operations. In early April 2023, the new branch uniforms made from environmentally friendly materials were introduced. Using recycled materials, for the new uniforms will help reduce the Group’s carbon footprint. More comfortable outfit for staff members is conducive to higher productivity, thus transforming their overall work experience.

As for the Mainland China business, the Company completed the capital injection of RMB50 million into AEON Micro Finance (Shenzhen) Co., Ltd. (“AMF(SZ)”) in the second quarter to meet the capital requirements for further business growth in the personal loan business. AMF(SZ) achieved an increasing sales trend throughout the Reporting Period, while AEON Information Service (Shenzhen) Co., Ltd. (“AIS”) provided the Group with effective telemarketing activities to increase personal loan and cash advance sales.

Interim Dividend

In view of the Group’s strong and sound financial position and in order to once again share its fruitful results with shareholders, the Board has resolved to declare an interim dividend of 24.0 HK cents per share (1H2022: 22.0 HK cents per share), representing a dividend payout ratio of 52.5%, which is in line with the Group’s policy of paying no less than 30% of its net profit for the period as dividends each year.

Financial Review

Although there was no disposal of distressed assets in the Reporting Period as in the case of the Previous Period with a gain of HK\$31.9 million, profit before tax for 1H2023 was HK\$230.9 million, an increase of 9.4%, or HK\$19.8 million, when compared with 1H2022. After deducting income tax expenses of HK\$39.4 million, the Group recorded an increase in profit of 8.3%, and profit after tax increased from HK\$176.8 million for 1H2022 to HK\$191.4 million for 1H2023. Earnings per share increased from 42.21 HK cents to 45.71 HK cents for the Reporting Period.

The net debt to equity ratio increased from 0.5 as at 28th February 2023 to 0.6 as at 31st August 2023, while the total equity to total assets ratio was 55.9% and 60.3% as at 31st August 2023 and 28th February 2023, respectively.

Net asset value per share (after interim dividend) was HK\$9.2 as at 31st August 2023, compared with a net asset value per share (after final dividend) of HK\$9.1 as at 28th February 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for 1H2023 was HK\$783.1 million, an increase of 37.0%, or HK\$211.4 million, when compared with the HK\$571.7 million recorded in 1H2022.

Net interest income

As the economy gradually recovered from the Pandemic, the Group implemented various marketing programs to meet the market demand, which resulted in the continued increase of revolving credit card receivables and personal loan receivables. Together with the increase in the interest rate on card credit purchases, the Group recorded a significant increase in interest income of 37.1%, or HK\$178.1 million, from HK\$479.7 million in the Previous Period to HK\$657.8 million in the Reporting Period.

The Group's interest expenses recorded an increase of HK\$30.6 million, from HK\$16.1 million in the Previous Period to HK\$46.7 million in the Reporting Period as a result of an increase in both the amount of bank borrowings to finance the debtor receivable balances and the generally higher interest rates in line with the market. With a bank borrowing portfolio comprising a mix of bank borrowing rates and different maturities, the Group managed to have a gradual increase from 2.6% in the Previous Period to 3.9% in 1H2023 for its average cost of funds.

As a result, the Group's net interest income for 1H2023 was HK\$611.1 million, representing an increase of 31.8%, or HK\$147.4 million, compared with 1H2022.

Operating income

Although the value of credit card purchases increased significantly during the Reporting Period, increase in commission income was offset by increase in the cost of running the attractive cashback incentive scheme, resulting in a slight decrease in fees and commissions from credit card issuing business by HK\$0.6 million to HK\$31.2 million in the Reporting Period. For credit card acquiring business, fees and commissions increased by HK\$6.5 million to HK\$20.5 million during the Reporting Period as sales increased due to an increase in the number of card acquiring merchants and the average transaction size. Due to an adjustment period and market repositioning following diversification in insurance distribution channels, fees and commissions from the insurance intermediary business fell from HK\$13.6 million in the Previous Period to HK\$11.1 million in the Reporting Period. Overall, the Group recorded an increase in fees and commissions of 5.7%, or HK\$3.4 million, from HK\$59.4 million in 1H2022 to HK\$62.8 million in 1H2023.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis (Continued)

Operating income (Continued)

As a result of the higher demand for cash advances and the increase in the number of customers making minimum payments in 1H2023, handling and late charges increased by HK\$30.0 million to HK\$62.6 million for 1H2023.

In terms of other income, the Group recognized an income of HK\$3.2 million from card scheme sponsorship in 1H2023, while in 1H2022, the Group recognized income of both the marketing support fund of HK\$7.8 million from an insurance partner upon complete fulfilment of relevant contractual terms and conditions and government subsidies of HK\$2.5 million under the Employment Support Scheme, which resulted in a decrease of other income by HK\$11.1 million to HK\$5.4 million for 1H2023 compared with the Previous Period.

Following the completion of the new card and loan system and mobile apps revamp projects, a loss on disposal of property, plant and equipment of HK\$9.3 million was recognized in other gains and losses during the Reporting Period, resulting in a loss of HK\$9.1 million in 1H2023, compared to a gain of HK\$0.1 million in 1H2022.

Overall, the Group's operating income for 1H2023 recorded an increase of 28.0%, or HK\$160.4 million, from HK\$572.3 million in 1H2022 to HK\$732.7 million in the Reporting Period.

Operating expenses

Although the Group have been conducting more marketing and advertising promotional activities to capture the growing consumer demand after the Pandemic, effective use of a combination of traditional and digital marketing channels successfully reduced marketing and promotional expenses by HK\$3.4 million to HK\$53.6 million in 1H2023. With the launch of new card and loan system and upgraded mobile apps, additional manpower to support the back-office digitalization and new systems, together with an increase in card association fees due to the increase in card sales, depreciation on property, plant and equipment, staff costs and general administrative expenses increased by HK\$7.0 million, HK\$9.1 million and HK\$7.3 million, respectively, compared with the Previous Period.

Although total operating expenses increased by 8.6%, or HK\$27.9 million, from HK\$323.5 million in the Previous Period to HK\$351.4 million in the Reporting Period, the cost-to-income ratio decreased from 56.5% in 1H2022 to 48.0% in 1H2023 due to the increase in operating income.

At the operating level before impairment losses and impairment allowances, the Group recorded an operating profit of HK\$381.3 million in 1H2023, representing an increase of 53.3% from the HK\$248.8 million recorded in 1H2022.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis (Continued)

Impairment losses and impairment allowances

The high global inflation and interest rate environment in 1H2023, coupled with a continuing pressure on the real property market in Mainland China, led to an increase in credit defaults and weakened expected economic indicators. Nevertheless, the Group made significant efforts to fine-tune the credit assessment model to reduce the proportion of advances and receivables with higher credit risk, and used effective credit risk management and fraud detection tools to reduce the possibility of the occurrence of credit impaired assets. Despite the significant increase in gross advances and receivables after the Pandemic in 1H2023, impairment losses and impairment allowances recorded a gradual increase of HK\$75.1 million to HK\$164.6 million in 1H2023 from HK\$89.5 million in 1H2022.

Consolidated Statement of Financial Position Analysis

The Group's total equity as at 31st August 2023 was HK\$3,957.0 million, representing an increase of 1.7%, or HK\$64.5 million, compared with a balance of HK\$3,892.5 million as at 28th February 2023.

Total assets as at 31st August 2023 were HK\$7,083.1 million, compared with total assets of HK\$6,457.7 million as at 28th February 2023.

Advances and receivables

With the launch of successful marketing and advertising activities and the expansion of the service network to stimulate the sales after the end of the Pandemic, cash advance sales and personal loan sales recorded an increase of 27.5% and 43.2%, respectively, in 1H2023 when compared with 1H2022. Personal loan receivables increased from HK\$1,263.9 million as at 28th February 2023 to HK\$1,449.3 million as at 31st August 2023, while credit card receivables increased substantially from HK\$4,481.0 million as at 28th February 2023 to HK\$4,817.4 million as at 31st August 2023.

Gross advances and receivables increased by 10.3%, or HK\$603.7 million, to HK\$6,439.9 million as at 31st August 2023 from HK\$5,836.2 million as at 28th February 2023. Gross advances and receivables exposed to high credit risk and credit impaired increased progressively and amounted to HK\$254.0 million and HK\$283.6 million as at 28th February 2023 and 31st August 2023, respectively. Impairment allowances stood at HK\$234.5 million as at 31st August 2023, representing 3.6% of gross advances and receivables, compared with HK\$191.7 million as at 28th February 2023, representing 3.3% of gross advances and receivables.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Financial Position Analysis (Continued)

Indebtedness

Due to the increase in the gross advances and receivables balance, the Group raised additional bank borrowings and borrowings from immediate holding company during the Reporting Period, with a balance of HK\$2,570.8 million as at 31st August 2023, compared with HK\$2,107.7 million as at 28th February 2023. Of the indebtedness as at 31st August 2023, 57.5% had fixed interest rates and 42.5% were hedged against interest rate and/or currency exchange rate fluctuations through relevant swap instruments. Of these indebtedness, 27.2% will mature within one year, 17.9% between one and two years and 54.9% between two and five years.

The average duration of indebtedness at 31st August 2023 was 2.1 years, compared with 1.9 years as at 28th February 2023.

Segment information

The Group's business comprises three operating segments, namely credit cards, personal loans and insurance intermediary business. For 1H2023, 79.7% of the Group's revenue was derived from credit card related operations, compared with 78.2% in 1H2022, while personal loan operations accounted for 18.9% of the Group's revenue, compared with 19.4% in the Previous Period. As for segment results, credit card operations accounted for 86.2% of the Group's overall business, compared with 75.5% in the Previous Period, while personal loan operations accounted for 11.6%, compared with 17.5% in the Previous Period.

For credit cards, the Group recorded a progressive increase in credit card sales and continued to accumulate revolving credit card balances during the Reporting Period as a result of continuous brand building efforts to generate greater market awareness and the launch of well-received marketing programs. As a result, revenue from credit card operations increased by 39.6%, or HK\$177.0 million, to HK\$624.1 million from HK\$447.1 million in 1H2022. This remarkable surge in revenue successfully mitigated the impact of the rise in borrowing costs and impairment losses and allowances, resulting in the segment result for the Reporting Period increasing by HK\$41.6 million or 26.3% to HK\$200.0 million from HK\$158.4 million in 1H2022.

For personal loans, through personalized marketing activities in social media, the expansion of the branch network and the promotion of instant loans, the personal loan receivables balance as at 31st August 2023 increased by 38.5% as compared with the balance as at 31st August 2022. Revenue from personal loan operations increased by 33.4%, or HK\$37.1 million, from HK\$110.9 million in 1H2022 to HK\$148.0 million in 1H2023. However, with the increase in funding costs and impairment losses and impairment allowances during the Reporting Period, together with the recording of a gain on disposal of distressed assets in the Previous Period, the segment results of personal loan operations decreased by HK\$9.9 million to HK\$26.9 million from HK\$36.8 million in 1H2022.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment information (Continued)

The insurance intermediary business went through a period of tactical changes and launches of new product line due to the restructuring of the distribution channels. As a result, the growth momentum of the insurance intermediary business suffered slightly, with segment revenue amounting to HK\$11.1 million for the Reporting Period, a decrease of 19%, or HK\$2.5 million, compared with HK\$13.6 million for the Previous Period. The segment results amounted to HK\$5.0 million for the Reporting Period, a decrease of 65.8%, or HK\$9.6 million, when compared with HK\$14.6 million for the Previous Period, which included the recognition of the marketing supporting fund received under an insurance distribution agreement as income.

In terms of financial results by geographical location, as the overall economic climate is improving and market confidence is gradually increasing, with the significant stimulation of consumer spending boosting sales for both credit card and personal loan business, revenue from the Hong Kong operations recorded an increase of 37.2%, or HK\$209.0 million, from HK\$561.2 million in 1H2022 to HK\$770.2 million in 1H2023 due to higher revolving receivables balances. Segment results from the Hong Kong operation recorded an increase of 10.3%, or HK\$21.5 million, from HK\$208.1 million in 1H2022 to HK\$229.6 million in 1H2023.

As for the Mainland China operation, the Group focused on improving the financial performance and diversifying the loan products of its microfinance subsidiary in Shenzhen. Revenue recorded an overall increase of HK\$2.4 million, from HK\$10.5 million in 1H2022 to HK\$12.9 million in 1H2023. In addition, following completion of the liquidation process of the microfinance subsidiary in Tianjin, the results of this segment increased to HK\$2.3 million in 1H2023 from HK\$1.7 million in 1H2022.

Prospects

The resilience of the global economy in the second half of this year (“2H2023”) will continue to be tested by the impact of rapid monetary tightening, geopolitical rivalry and geoeconomic fragmentation. A prolonged period of high interest rates will sustain the dampening of consumer confidence. Notwithstanding these unfavourable circumstances, there are evident signs of recovery in Hong Kong on many fronts. Tourism and other service-related industries see an obvious rebound as a result of increased visitor arrivals from Mainland China. Overall, the local economy is expected to recover from last year’s Pandemic-related lows.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (Continued)

The Group will strive to accelerate the momentum of sales and receivables growth in this recovering but still competitive and challenging market, while improving the credit assessment technique to maintain a stable asset quality. On the marketing side, the Group will continue to launch mass promotion initiatives for both its credit card and personal loan businesses, such as the “AEON x Ocean Park “Admission Ticket Promotion”” and others with exciting gamification and incentives, in order to capture an anticipated surge in consumer spending in the market. Moreover, the Group will further strengthen its customer relationship management and foster customer engagement through various channels. New contactless payment products and digital services are expected to be launched to enrich the customer journey and ensure that the Group stays ahead in this competitive environment.

To further reduce its carbon footprint and energy consumption, the Company will accelerate its efforts to gradually remove traditional first-use PVC plastics from its credit cards. From September 2023, the newly produced AEON CARD WAKUWAKU will be the first batch of credit cards to be made from more sustainable plastic approved by the Global Recycled Standard. This initiative is in line with the Group’s commitment to sustainability and expands the more sustainable card offerings to the more environmentally conscious consumers. After completion of major information technology projects, the Group will strive to employ more paperless payment solutions to reduce its impact on the environment.

For the Mainland China operation, in addition to achieving continued business growth in its microfinance and business process centre subsidiaries in Shenzhen, the Group has established sustainability-related key performance indicators in these two subsidiaries as well to determine the Group’s overall level of sustainability. The Group will continue to improve its internal business processes to achieve greater sustainability and create greater value for its shareholders.

This year marks the 30th anniversary of AEON Credit Card since the first issue in 1993. Going forward, the Group will continue to enhance the customer experience by launching convenient and premium services. It will remain committed to providing exceptional credit card services, meeting the evolving needs of its customers and expanding its customer base with more innovative and tailored offerings. With the Group’s strong liquidity position and balance sheet, it will capture the vast opportunities in the growing consumer finance market and deliver sustainable growth in the years ahead.

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:

	31.8.2023 HK\$'000	28.2.2023 <i>HK\$'000</i>
Debt (<i>Note a</i>)	2,701,526	2,150,374
Cash and cash equivalents	(346,802)	(387,507)
Net debt	2,354,724	1,762,867
Equity (<i>Note b</i>)	3,957,015	3,892,460
Net debt to equity ratio	0.6	0.5

Notes:

- (a) Debt comprises lease liabilities, bank borrowings and borrowings from immediate holding company.
- (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)

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 2023, capital commitments entered into were mainly related to the purchase of property, plant and equipment.

Human Resources

At 31st August 2023 and 28th February 2023, the Group's total number of employees was 558 (Hong Kong: 379; PRC: 179) and 545 (Hong Kong: 373; PRC: 172), respectively. The Group continues to recognize and reward its staff in a manner similar to that disclosed in its 2022/23 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 2023. In addition, the condensed consolidated financial statements for the six months ended 31st August 2023 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 2023 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) 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, Ms. Junko Dochi and Mr. Choi Ping Chung as Independent Non-executive Directors.

By order of the Board
TOMOHARU FUKAYAMA
Managing Director

Hong Kong, 28th September 2023