# AEON CREDIT SERVICE (ASIA) CO., LTD.

AEON信貸財務(亞洲)有限公司

*( Incorporated in Hong Kong with limited liability )*

(Stock code: 900)

**INTERIM REPORT**

FOR THE SIX MONTHS ENDED

31ST AUGUST 2018

ISO 9001 - QMS / FS 513193

ISO 14001 - EMS 538444

ISO 27001 - ISMS / IS 500955

Customer Satisfaction
ISO 10002 / CMS 513194

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Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發

**CONTENTS**

## CORPORATE INFORMATION

### Board of Directors

*Executive Directors*
Hideo Tanaka *(Managing Director)*
Lai Yuk Kwong *(Deputy Managing Director)*
Koh Yik Kung
Tomoharu Fukayama
Toru Hosokawa

*Non-executive Director*
Masaaki Mangetsu *(Chairman)*

*Independent Non-executive Directors*
Lee Ching Ming, Adrian
Wong Hin Wing
Kenji Hayashi

### Company Secretary

Koh Yik Kung

### Auditor

Deloitte Touche Tohmatsu
*Certified Public Accountants*

### Share Registrar

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

### Major Bankers

Mizuho Bank, Ltd.
Hong Kong Branch
MUFG Bank, Ltd.
Hong Kong Branch
Sumitomo Mitsui Banking Corporation
Hong Kong Branch

### Registered Office

20/F, Mira Place Tower A
132 Nathan Road
Tsimshatsui, Kowloon
Hong Kong

### Internet Address

Website address : http://www.aeon.com.hk
E-mail address : info@aeon.com.hk

### Stock Code

900

The Directors are pleased to announce the unaudited consolidated results of the Group for the six months ended 31st August 2018, together with the comparative figures for the six months ended 31 August 2017 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**
*For the six months ended 31st August 2018*

| | *Notes* | **1.3.2018 to 31.8.2018 (Unaudited)** ***HK$'000*** | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|---|
| Revenue | *3* | **653,394** | 625,959 |
| Interest income | *5* | **567,673** | 546,349 |
| Interest expense | *6* | **(42,866)** | (44,064) |
| Net interest income | | **524,807** | 502,285 |
| Fees and commissions | | **44,825** | 37,728 |
| Handling and late charges | | **40,896** | 41,882 |
| Other income | *7* | **2,773** | 2,869 |
| Other gains and losses | *8* | **(562)** | (7,874) |
| Operating income | | **612,739** | 576,890 |
| Operating expenses | *9* | **(268,368)** | (269,996) |
| Operating profit before impairment allowances | | **344,371** | 306,894 |
| Impairment losses and impairment allowances | | **(93,462)** | (119,672) |
| Recoveries of advances and receivables written-off | | **24,333** | 23,385 |
| Share of results of an associate | | **747** | 189 |
| Profit before tax | | **275,989** | 210,796 |
| Income tax expense | *10* | **(44,758)** | (37,012) |
| Profit for the period | | **231,231** | 173,784 |
| Profit for the period attributable to: | | | |
| Owners of the Company | | **231,231** | 173,784 |
| Earnings per share — Basic | *12* | **55.22 HK cents** | 41.50 HK cents |

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

*For the six months ended 31st August 2018*

| | **1.3.2018 to 31.8.2018 (Unaudited)** *HK$'000* | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Profit for the period | **231,231** | 173,784 |
| **Other comprehensive (expense) income** | | |
| Item that will not be reclassified to profit or loss: | | |
| Fair value loss on equity instruments at fair value through other comprehensive income | **(905)** | – |
| Items that may be reclassified subsequently to profit or loss: | | |
| Fair value loss on available-for-sale investments | **–** | (1,582) |
| Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sale investments | **–** | 6,003 |
| Exchange difference arising from translation of foreign operations | **(21,922)** | 13,162 |
| Net adjustment on cash flow hedges | **26,641** | (16,954) |
| Other comprehensive income for the period | **3,814** | 629 |
| Total comprehensive income for the period | **235,045** | 174,413 |
| Total comprehensive income for the period attributable to: | | |
| Owners of the Company | **235,045** | 174,413 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 31st August 2018*

| | *Notes* | **31.8.2018 (Unaudited) *HK$'000*** | 28.2.2018 (Audited) *HK$'000* |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | *13* | **73,010** | 87,223 |
| Investment in an associate | | **13,379** | 13,678 |
| Equity instruments at fair value through other comprehensive income | *14* | **87,929** | – |
| Available-for-sale investments | *14* | **–** | 15,900 |
| Advances and receivables | *15* | **883,675** | 981,330 |
| Prepayments, deposits and other debtors | *18* | **46,848** | 26,559 |
| Derivative financial instruments | *26* | **26,372** | 18,249 |
| Deferred tax assets | *28* | **14,752** | – |
| Restricted deposits | *19* | **38,000** | 38,000 |
| | | **1,183,965** | 1,180,939 |
| **Current assets** | | | |
| Advances and receivables | *15* | **3,979,344** | 4,202,214 |
| Prepayments, deposits and other debtors | *18* | **47,468** | 45,058 |
| Amounts due from fellow subsidiaries | *24* | **1,882** | 146 |
| Amount due from immediate holding company | | **274** | – |
| Amount due from intermediate holding company | | **22** | – |
| Amount due from an associate | | **38** | 350 |
| Derivative financial instruments | *26* | **143** | – |
| Restricted deposits | *19* | **320,461** | – |
| Time deposits | *20* | **115,907** | 103,533 |
| Fiduciary bank balances | *21* | **104** | 248 |
| Bank balances and cash | *22* | **545,630** | 660,488 |
| | | **5,011,273** | 5,012,037 |

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

*At 31st August 2018*

| | *Notes* | **31.8.2018 (Unaudited) *HK$'000*** | 28.2.2018 (Audited) *HK$'000* |
|---|---|---|---|
| **Current liabilities** | | | |
| Creditors and accruals | *23* | **244,965** | 235,808 |
| Contract liabilities | *23* | **10,135** | – |
| Amounts due to fellow subsidiaries | *24* | **37,019** | 56,705 |
| Amount due to intermediate holding company | | **14** | 154 |
| Amount due to ultimate holding company | | **14** | 33 |
| Amount due to an associate | | **2,233** | 2,904 |
| Bank borrowings | *25* | **415,000** | 345,000 |
| Derivative financial instruments | *26* | **13,900** | 1,865 |
| Tax liabilities | | **53,723** | 25,772 |
| | | **777,003** | 668,241 |
| **Net current assets** | | **4,234,270** | 4,343,796 |
| **Total assets less current liabilities** | | **5,418,235** | 5,524,735 |
| **Capital and reserves** | | | |
| Share capital | *27* | **269,477** | 269,477 |
| Reserves | | **2,780,940** | 2,735,564 |
| **Total equity** | | **3,050,417** | 3,005,041 |
| **Non-current liabilities** | | | |
| Collateralised debt obligation | *29* | **1,250,000** | 1,250,000 |
| Bank borrowings | *25* | **1,116,314** | 1,230,020 |
| Derivative financial instruments | *26* | **1,504** | 34,819 |
| Deferred tax liabilities | *28* | **–** | 4,855 |
| | | **2,367,818** | 2,519,694 |
| | | **5,418,235** | 5,524,735 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 31st August 2018*

| | Share capital *HK$'000* | Investment revaluation reserve *HK$'000* | Hedging reserve *HK$'000* | Translation reserve *HK$'000* | Accumulated profits *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|---|
| At 1st March 2017 (Audited) | 269,477 | (4,421) | (53,651) | (18,489) | 2,549,155 | 2,742,071 |
| Profit for the period | – | – | – | – | 173,784 | 173,784 |
| Fair value loss on available-for-sale investments | – | (1,582) | – | – | – | (1,582) |
| Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sale investments | – | 6,003 | – | – | – | 6,003 |
| Exchange difference arising from translation of foreign operations | – | – | – | 13,162 | – | 13,162 |
| Net adjustment on cash flow hedges | – | – | (16,954) | – | – | (16,954) |
| Total comprehensive income (expense) for the period | – | 4,421 | (16,954) | 13,162 | 173,784 | 174,413 |
| Final dividend paid for 2016/17 | – | – | – | – | (83,753) | (83,753) |
| | – | 4,421 | (16,954) | 13,162 | 90,031 | 90,660 |
| At 31st August 2017 (Unaudited) | 269,477 | – | (70,605) | (5,327) | 2,639,186 | 2,832,731 |

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

*For the six months ended 31st August 2018*

| | Share capital | Investment revaluation reserve | Hedging reserve | Translation reserve | Accumulated profits | Total |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 1st March 2018 (Audited)** | 269,477 | – | (19,529) | 2,296 | 2,752,797 | 3,005,041 |
| **Transitional adjustments on the initial application of HKFRS 9** *(Note 2)* | – | 63,175 | – | – | (160,716) | (97,541) |
| **Adjusted as at 1st March 2018** | 269,477 | 63,175 | (19,529) | 2,296 | 2,592,081 | 2,907,500 |
| **Profit for the period** | – | – | – | – | 231,231 | 231,231 |
| **Fair value loss on equity instruments at fair value through other comprehensive income** | – | (905) | – | – | – | (905) |
| **Exchange difference arising from translation of foreign operations** | – | – | – | (21,922) | – | (21,922) |
| **Net adjustment on cash flow hedges** | – | – | 26,641 | – | – | 26,641 |
| **Total comprehensive (expense) income for the period** | – | (905) | 26,641 | (21,922) | 231,231 | 235,045 |
| **Final dividend paid for 2017/18** | – | – | – | – | (92,128) | (92,128) |
| | – | (905) | 26,641 | (21,922) | 139,103 | 142,917 |
| **At 31st August 2018 (Unaudited)** | 269,477 | 62,270 | 7,112 | (19,626) | 2,731,184 | 3,050,417 |

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

*For the six months ended 31st August 2018*

| | **1.3.2018 to 31.8.2018 (Unaudited)** | 1.3.2017 to 31.8.2017 (Unaudited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Net cash from operating activities** | **388,855** | 187,097 |
| Dividends received | **391** | 355 |
| Purchase of property, plant and equipment | **(1,315)** | (2,762) |
| Deposits paid for acquisition of property, plant and equipment | **(23,889)** | (9,040) |
| (Increase) decrease in time deposits with maturity of more than three months | **(2,394)** | 5,933 |
| **Net cash used in investing activities** | **(27,207)** | (5,514) |
| Placement of restricted deposits | **(1,011,359)** | (1,325,779) |
| Withdrawal of restricted deposits | **690,898** | 1,470,995 |
| Dividends paid | **(92,128)** | (83,753) |
| New bank loans raised | **–** | 80,000 |
| Repayment of bank loans | **(45,000)** | (230,000) |
| **Net cash used in financing activities** | **(457,589)** | (88,537) |
| **Net (decrease) increase in cash and cash equivalents** | **(95,941)** | 93,046 |
| **Effect of changes in exchange rate** | **(5,458)** | 6,820 |
| **Cash and cash equivalents at beginning of the period** | **721,762** | 602,090 |
| **Cash and cash equivalents at end of the period** | **620,363** | 701,956 |
| Being: | | |
| Time deposits with maturity of three months or less | **74,733** | 77,715 |
| Bank balances and cash | **545,630** | 624,241 |
| | **620,363** | 701,956 |

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31st August 2018*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the HKICPA as well as with the applicable disclosure requirements of Appendix 16 to the Listing Rules.

The financial information relating to the year ended 28th February 2018 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 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st August 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 28th February 2018.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

***Application of new and amendments to HKFRSs***

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatorily effective for the annual period beginning on or after 1st March 2018 for the preparation of the Group's condensed consolidated financial statements:

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transitional provisions in the respective standards and amendments which resulted in changes in accounting policies, amounts reported and/or disclosures as described below.

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments*

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

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

In addition, the Group applied the hedge accounting prospectively.

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* *(Continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of HKFRS 9*

*Classification and measurement of financial assets*

Debtors arising from contracts with customers are initially measured in accordance with HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15").

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value, including unquoted equity investments measured at cost less impairment under HKAS 39.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

*Equity instruments designated as at fair value through other comprehensive income ("FVTOCI")*

At the date of initial application/initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in OCI and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will be transferred to accumulated profits.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* *(Continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of HKFRS 9* (Continued)

*Equity instruments designated as at fair value through other comprehensive income ("FVTOCI") (Continued)*

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other operating income" line item in profit or loss.

The Directors reviewed and assessed the Group's financial assets as at 1st March 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts thereof are detailed in Note 2.1.2.

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including advances and receivables, other debtors, amounts due from fellow subsidiaries, immediate holding company, intermediate holding company and an associate, restricted deposits, time deposits, fiduciary bank balances, and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

The Group measures the loss allowances equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* (Continued)

#### *2.1.1 Key changes in accounting policies resulting from application of HKFRS 9* (Continued)

*Significant increase in credit risk*

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* *(Continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of HKFRS 9* (Continued)

*Significant increase in credit risk (Continued)*

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

For unused credit card limit, the date that the Group becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of an unused credit card limit, the Group considers changes in the risk of a default occurring on the advance to which an unused credit card limit relates.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

*Measurement and recognition of ECL*

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

For unused credit card limit, the ECL is the present value of the difference between the contractual cash flows that are due to the Group if the holder of the unused credit card limit utilises the limit, and the cash flows that the Group expects to receive if the limit is utilised.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* *(Continued)*

#### *2.1.1 Key changes in accounting policies resulting from application of HKFRS 9* (Continued)

*Measurement and recognition of ECL (Continued)*

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amounts, with the exception of advances and receivables where the corresponding adjustment is recognised through a loss allowance account.

As at 1st March 2018, the Directors reviewed and assessed the Group's existing financial assets and other instruments subject to expected credit loss requirements for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed in Note 2.1.2.

Hedge accounting

The Group has elected to adopt the new general hedge accounting in HKFRS 9. This requires the Group to ensure the hedge accounting relationships are aligned with its risk management objectives and strategy and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness.

For hedge effectiveness assessment, the Group considers whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk, which is when the hedging relationships meet all of the following hedge effectiveness requirements:

- there is an economic relationship between the hedged item and the hedging instrument;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the entity actually uses to hedge that quantity of hedged item.

If a hedging relationship ceases to meet the hedge effectiveness requirements relating to the hedge ratio but the risk management objective for that designated hedging relationship remains the same, the Group adjusts the hedge ratio of the hedging relationship (i.e. rebalances the hedge) so that it meets the qualifying criteria again.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments (Continued)*

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

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

| | *Notes* | **Available-for-sale investments** *HK$'000* | **Equity instruments at FVTOCI** *HK$'000* | **Advances and receivables** *HK$'000* | **Deferred tax (liabilities) assets** *HK$'000* | **Investment revaluation reserve** *HK$'000* | **Accumulated profits** *HK$'000* |
|---|---|---|---|---|---|---|---|
| **Closing balance at 28th February 2018 — HKAS 39** | | 15,900 | – | 5,183,544 | (4,855) | – | (2,752,797) |
| **Effect arising from initial application of HKFRS 9:** | | | | | | | |
| **Reclassification** | | | | | | | |
| From available-for-sale investments | *(a)* | (15,900) | 15,900 | – | – | 7,920 | (7,920) |
| **Remeasurement** | | | | | | | |
| Impairment under ECL model | *(b)* | – | – | (189,130) | 18,655 | – | 170,475 |
| From cost less impairment to fair value | *(a)* | – | 72,934 | – | – | (71,095) | (1,839) |
| Opening balance at 1st March 2018 | | – | 88,834 | 4,994,414 | 13,800 | (63,175) | (2,592,081) |

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* (Continued)

#### *2.1.2 Summary of effects arising from initial application of HKFRS 9* (Continued)

*(a) Available-for-sale investments*

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

*(b) Impairment under ECL model*

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.1 Impacts and changes in accounting policies on application of HKFRS 9 *Financial Instruments* (Continued)

#### *2.1.2 Summary of effects arising from initial application of HKFRS 9* (Continued)

*(b) Impairment under ECL model (Continued)*

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

Loss allowances for other financial assets at amortised cost mainly comprise other debtors, amounts due from fellow subsidiaries, immediate holding company, intermediate holding company and an associate, restricted deposits, time deposits, fiduciary bank balances, and bank balances and cash, are measured on 12m ECL basis and there had been no significant increase in credit risk since initial recognition and no additional impairment was recognised.

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

| | **Impairment allowance under HKAS 39** | **Effect of adoption of HKFRS 9** | **Impairment allowance under HKFRS 9** |
|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Advances and receivables | 88,904 | 189,130 | 278,034 |

*(c) Hedge accounting*

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

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Impacts and changes in accounting policies on application of HKFRS 15 *Revenue from Contracts with Customers*

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

The Group recognises revenue from the following major sources:

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1st March 2018. Any difference at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

#### *2.2.1 Key changes in accounting policies resulting from application of HKFRS 15*

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Impacts and changes in accounting policies on application of HKFRS 15 *Revenue from Contracts with Customers* (Continued)

#### *2.2.1 Key changes in accounting policies resulting from application of HKFRS 15* (Continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods service.

The revenue from fees and commissions, and handling and late charges are recognised at point in time.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Impacts and changes in accounting policies on application of HKFRS 15 *Revenue from Contracts with Customers* (Continued)

#### *2.2.1 Key changes in accounting policies resulting from application of HKFRS 15* (Continued)

*Contracts with multiple performance obligations (including allocation of transaction price)*

For contracts that contain more than one performance obligations (award credits for customers under customer loyalty programmes), the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

*Principal versus agent*

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified goods or service before that goods or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified goods or service by another party. In this case, the Group does not control the specified goods or service provided by another party before that goods or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The Group is a principal except for the Group acts as an agent in placing the insurable risks of their clients with insurers.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Impacts and changes in accounting policies on application of HKFRS 15 ***Revenue from Contracts with Customers*** *(Continued)*

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

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

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

* The amounts in this column are before the adjustments from the application of HKFRS 9.

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

The following tables summarise the impacts of applying HKFRS 15 on the Group's condensed consolidated statement of financial position as at 31st August 2018 and its condensed consolidated statement of profit or loss and other comprehensive income for the current interim period for each of the line items affected. Line items that were not affected by the changes have not been included.

## 2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

### 2.2 Impacts and changes in accounting policies on application of HKFRS 15 *Revenue from Contracts with Customers* (Continued)

#### *2.2.2 Summary of effects arising from initial application of HKFRS 15* (Continued)

*Impact on the condensed consolidated statement of financial position*

| | As reported | Reclassification | Amounts without application of HKFRS 15 |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| | | *(Note)* | |
| **Current Liabilities** | | | |
| Creditors and accruals | 244,965 | 10,135 | 255,100 |
| Contract liabilities | 10,135 | (10,135) | – |

Except as described above, the application of other amendments to HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

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

As a result of the changes in the entity's accounting policies above, the opening condensed consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each individual line item.

| | 28th February 2018 (audited) | HKFRS 9 | HKFRS 15 | 1st March 2018 (restated) |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Non-current assets** | | | | |
| Available-for-sale investments | 15,900 | (15,900) | – | – |
| Equity instruments at FVTOCI | – | 88,834 | – | 88,834 |
| Advances and receivables | 981,330 | (35,805) | – | 945,525 |
| Deferred tax assets | – | 13,800 | – | 13,800 |
| Others with no adjustments | 183,709 | – | – | 183,709 |
| | 1,180,939 | 50,929 | – | 1,231,868 |

2. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

2.3 **Impacts on opening condensed consolidated statement of financial position arising from the application of all new standards** *(Continued)*

| | 28th February 2018 (audited) | HKFRS 9 | HKFRS 15 | 1st March 2018 (restated) |
|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Current assets** | | | | |
| Advances and receivables | 4,202,214 | (153,325) | – | 4,048,889 |
| Others with no adjustments | 809,823 | – | – | 809,823 |
| | 5,012,037 | (153,325) | – | 4,858,712 |
| **Current liabilities** | | | | |
| Creditors and accruals | 235,808 | – | (9,061) | 226,747 |
| Contract liabilities | – | – | 9,061 | 9,061 |
| Others with no adjustments | 432,433 | – | – | 432,433 |
| | 668,241 | – | – | 668,241 |
| **Net current assets** | 4,343,796 | (153,325) | – | 4,190,471 |
| **Total assets less current liabilities** | 5,524,735 | (102,396) | – | 5,422,339 |
| **Capital and reserves** | | | | |
| Reserves | 2,735,564 | (97,541) | – | 2,638,023 |
| Others with no adjustments | 269,477 | – | – | 269,477 |
| | 3,005,041 | (97,541) | – | 2,907,500 |
| **Non-current liabilities** | | | | |
| Deferred tax liabilities | 4,855 | (4,855) | – | – |
| Others with no adjustments | 2,514,839 | – | – | 2,514,839 |
| | 2,519,694 | (4,855) | – | 2,514,839 |
| | 5,524,735 | (102,396) | – | 5,422,339 |

## 3. REVENUE

| | **1.3.2018 to 31.8.2018 (Unaudited)** ***HK$'000*** | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Interest income (under HKFRS 9) | **567,673** | 546,349 |
| Fees and commissions | | |
| Credit cards | **36,328** | 29,738 |
| Insurance | **8,497** | 7,990 |
| Handling and late charges | **40,896** | 41,882 |
| | **653,394** | 625,959 |

## 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 |
| Instalment loans | – | Provide personal loan financing to individuals |
| Insurance | – | Provide insurance brokerage and agency services |

**Segment revenue and results**

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

***1.3.2018 to 31.8.2018 (Unaudited)***

| | **Credit cards** ***HK$'000*** | **Instalment loans** ***HK$'000*** | **Insurance** ***HK$'000*** | **Consolidated** ***HK$'000*** |
|---|---|---|---|---|
| **REVENUE** | **487,821** | **157,009** | **8,564** | **653,394** |
| **RESULTS** | | | | |
| Segment results | **213,905** | **65,833** | **6,071** | **285,809** |
| Unallocated operating income | | | | **1,653** |
| Unallocated expenses | | | | **(12,220)** |
| Share of results of an associate | | | | **747** |
| Profit before tax | | | | **275,989** |

4. **SEGMENT INFORMATION** *(Continued)*

**Segment revenue and results** *(Continued)*

*1.3.2017 to 31.8.2017 (Unaudited)*

| | Credit cards *HK$'000* | Instalment loans *HK$'000* | Insurance *HK$'000* | Consolidated *HK$'000* |
|---|---|---|---|---|
| REVENUE | 447,286 | 170,566 | 8,107 | 625,959 |
| RESULTS | | | | |
| Segment results | 178,543 | 43,294 | 3,176 | 225,013 |
| Unallocated operating income | | | | 4,850 |
| Unallocated expenses | | | | (11,415) |
| Impairment loss on available-for-sale investments | | | | (7,841) |
| Share of results of an associate | | | | 189 |
| Profit before tax | | | | 210,796 |

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

## 4. SEGMENT INFORMATION *(Continued)*

### Geographical information

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

***1.3.2018 to 31.8.2018 (Unaudited)***

| | **Hong Kong** | **PRC** | **Consolidated** |
|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **REVENUE** | **631,743** | **21,651** | **653,394** |
| **RESULTS** | | | |
| Segment results | **291,968** | **(6,159)** | **285,809** |
| Unallocated operating income | | | **1,653** |
| Unallocated expenses | | | **(12,220)** |
| Share of results of an associate | | | **747** |
| Profit before tax | | | **275,989** |

*1.3.2017 to 31.8.2017 (Unaudited)*

| | Hong Kong | PRC | Consolidated |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| REVENUE | 597,364 | 28,595 | 625,959 |
| RESULTS | | | |
| Segment results | 230,269 | (5,256) | 225,013 |
| Unallocated operating income | | | 4,850 |
| Unallocated expenses | | | (11,415) |
| Impairment loss on available-for-sale investments | | | (7,841) |
| Share of results of an associate | | | 189 |
| Profit before tax | | | 210,796 |

## 5. INTEREST INCOME

| | **1.3.2018 to 31.8.2018 (Unaudited)** ***HK$'000*** | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Advances | **562,539** | 540,685 |
| Impaired advances | **2,816** | 3,536 |
| Time deposits, restricted deposits and bank balances | **2,318** | 2,128 |
| | **567,673** | 546,349 |

## 6. INTEREST EXPENSE

| | **1.3.2018 to 31.8.2018 (Unaudited)** ***HK$'000*** | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Interest on bank borrowings | **17,925** | 15,296 |
| Interest on collateralised debt obligation | **10,327** | 5,238 |
| Net interest expense on interest rate swap contracts | **14,614** | 23,530 |
| | **42,866** | 44,064 |

## 7. OTHER INCOME

| | **1.3.2018 to 31.8.2018 (Unaudited)** ***HK$'000*** | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Dividends received from financial instruments | | |
| Listed equity securities | **391** | 355 |
| Others | **2,382** | 2,514 |
| | **2,773** | 2,869 |

## 8. OTHER GAINS AND LOSSES

| | **1.3.2018 to 31.8.2018 (Unaudited)** ***HK$'000*** | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Exchange gain (loss) | | |
| Exchange gain on hedging instrument released from cash flow hedge reserve | **1,100** | 3,200 |
| Exchange loss on a bank loan | **(1,100)** | (3,200) |
| Other exchange (losses) gains, net | **(150)** | 134 |
| Hedge ineffectiveness on cash flow hedges | **(66)** | (66) |
| Losses on disposal/write-off of property, plant and equipment | **(346)** | (101) |
| Impairment loss on available-for-sale investments | **–** | (7,841) |
| | **(562)** | (7,874) |

## 9. OPERATING EXPENSES

| | **1.3.2018 to 31.8.2018 (Unaudited)** ***HK$'000*** | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Depreciation | **19,681** | 21,199 |
| General administrative expenses | **81,189** | 78,654 |
| Marketing and promotion expenses | **23,704** | 28,162 |
| Minimum operating lease rentals in respect of rented premises, advertising space and equipment | **36,483** | 38,509 |
| Other operating expenses | **28,394** | 23,744 |
| Staff costs including Directors' emoluments | **78,917** | 79,728 |
| | **268,368** | 269,996 |

## 10. INCOME TAX EXPENSE

| | **1.3.2018 to 31.8.2018 (Unaudited)** *HK$'000* | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Current tax | | |
| — Current period | **45,710** | 37,538 |
| Deferred tax *(Note 28)* | | |
| — Current period | **(952)** | (526) |
| | **44,758** | 37,012 |

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

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits of the China subsidiaries for both periods.

## 11. DIVIDENDS

On 13th July 2018, a dividend of 22.0 HK cents (six months ended 31st August 2017: 20.0 HK cents) per share amounting to a total of HK$92,128,000 (six months ended 31st August 2017: HK$83,753,000) was paid to shareholders as the final dividend for 2017/18.

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 16th October 2018. The interim dividend will be paid on 31st October 2018. 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$231,231,000 (six months ended 31st August 2017: HK$173,784,000) and on the number of shares of 418,766,000 (six months ended 31st August 2017: 418,766,000) in issue during the period.

## 13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent on computer equipment and leasehold improvements of approximately HK$6,370,000 (six months ended 31st August 2017: HK$11,268,000).

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

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| **Listed shares in Hong Kong at quoted price** | | |
| – Equity instruments at fair value through other comprehensive income | **7,690** | – |
| – Available-for-sale investments | **–** | 8,595 |
| | **7,690** | 8,595 |
| **Unlisted investments** | | |
| – Equity instruments at fair value through other comprehensive income | **80,239** | – |
| – Available-for-sale investments, at cost | **–** | 7,305 |
| | **80,239** | 7,305 |

## 15. ADVANCES AND RECEIVABLES

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Credit card receivables | **3,781,620** | 3,808,249 |
| Instalment loan receivables | **1,242,073** | 1,375,933 |
| | **5,023,693** | 5,184,182 |
| Accrued interest and other receivables | **82,803** | 88,266 |
| Gross advances and receivables | **5,106,496** | 5,272,448 |
| Impairment allowances *(Note 16)* | **(243,477)** | (88,904) |
| | **4,863,019** | 5,183,544 |
| Current portion included under current assets | **(3,979,344)** | (4,202,214) |
| Amount due after one year | **883,675** | 981,330 |

All advances and receivables are unsecured. In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The management has delegated to different departments responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. The Board has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's advances and receivables portfolio.

### (a) Credit card receivables

The term of credit card instalment plans entered into with customers ranges from 3 months to 4 years.

All credit card receivables are denominated in HKD. The credit card receivables carry effective interest ranging from 26.8% to 43.5% (28th February 2018: 26.8% to 43.5%) per annum.

*Asset backed financing transaction*

The Group entered into asset backed financing transaction, which is collateralised by the Group's revolving credit card receivables portfolio. At 31st August 2018, the carrying amount of the credit card receivables under this financing transaction was HK$1,577,205,000 (28th February 2018: HK$1,660,345,000). The principal amount of the collateralised debt obligation is HK$1,250,000,000 (28th February 2018: HK$1,250,000,000) (see Note 29).

## 15. ADVANCES AND RECEIVABLES *(Continued)*

### (b) Instalment loan receivables

Most of the instalment loan receivables entered into with customers ranges from 6 months to 4 years and are denominated in HKD. The instalment loan receivables carry effective interest ranging from 3.5% to 56.5% (28th February 2018: 3.1% to 50.7%) per annum.

## 16. IMPAIRMENT ALLOWANCES

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Analysis by products as: | | |
| Credit card receivables | **116,382** | 38,785 |
| Instalment loan receivables | **121,583** | 48,128 |
| Accrued interest and other receivables | **5,512** | 1,991 |
| | **243,477** | 88,904 |

| ECL Model Under HKFRS 9 | **Stage 1** | **Stage 2** | **Stage 3** | **Total** |
|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| At 1st March 2018 | **115,555** | **51,856** | **110,623** | **278,034** |
| Impairment losses and impairment allowances | **(3,708)** | **(10,335)** | **107,505** | **93,462** |
| Amounts written-off as uncollectable | **–** | **–** | **(127,027)** | **(127,027)** |
| Exchange realignment | **–** | **–** | **(992)** | **(992)** |
| At 31st August 2018 | **111,847** | **41,521** | **90,109** | **243,477** |

| Incurred Credit Loss Model Under HKAS 39 | Individual assessment | Collective assessment | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st March 2017 | 58,146 | 42,927 | 101,073 |
| Impairment losses and impairment allowances | 127,051 | (7,379) | 119,672 |
| Amounts written-off as uncollectable | (136,267) | – | (136,267) |
| Exchange realignment | 219 | – | 219 |
| At 31st August 2017 | 49,149 | 35,548 | 84,697 |

## 17. 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:

| | **31.8.2018 (Unaudited)** | | 28.2.2018 (Audited) | |
|---|---|---|---|---|
| | ***HK$'000*** | ***%**** | *HK$'000* | *%** |
| Overdue 1 month but less than 2 months | **69,841** | **1.4** | 91,926 | 1.7 |
| Overdue 2 months but less than 3 months | **43,948** | **0.9** | 45,406 | 0.9 |
| Overdue 3 months but less than 4 months | **26,010** | **0.5** | 28,745 | 0.6 |
| Overdue 4 months or above | **45,904** | **0.9** | 54,588 | 1.0 |
| | **185,703** | **3.7** | 220,665 | 4.2 |

* *Percentage of gross advances and receivables*

## 18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

| | **31.8.2018 (Unaudited)** | 28.2.2018 (Audited) |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Deposits for property, plant and equipment | **29,846** | 8,967 |
| Rental and other deposits | **21,198** | 22,933 |
| Prepaid operating expenses | **34,720** | 29,608 |
| Other debtors | **8,552** | 10,109 |
| | **94,316** | 71,617 |
| Current portion included under current assets | **(47,468)** | (45,058) |
| Amount due after one year | **46,848** | 26,559 |

## 19. RESTRICTED DEPOSITS

The restricted deposits are in relation to the arrangement under collateralised debt obligation. This represents time deposits carrying at fixed rates ranging from 0.69% to 1.85% (six months ended 31st August 2017: 0.30% to 0.53%) per annum during the current interim period. Restricted deposits of HK$320,461,000 (28th February 2018: HK$nil) will mature within one year from 31st August 2018.

## 20. TIME DEPOSITS

RMB time deposits with maturity of three months or less carry fixed rates ranging from 1.6% to 1.8% (six months ended 31st August 2017: 1.5% to 1.8%) per annum during the current interim period. At 31st August 2018, the Group had RMB time deposits with maturity of three months or less of HKD74,733,000 (28th February 2018: HKD61,274,000) equivalent.

RMB time deposits with maturity of more than three months carry fixed rates ranging from 1.8% to 2.3% (six months ended 31st August 2017: 1.8% to 2.0%) per annum during the current interim period. At 31st August 2018, the Group had RMB time deposits with maturity of more than three months of HKD41,174,000 (28th February 2018: HKD42,259,000) equivalent.

## 21. FIDUCIARY BANK BALANCES

The fiduciary bank balances are in relation to the money deposited by clients in the course of the conduct of the regulated activities under insurance brokerage business. These clients' monies are maintained in one or more segregated bank accounts. The Group has recognised the corresponding payables to respective clients. However, the Group does not have a currently enforceable right to offset those payables with the deposits placed.

## 22. BANK BALANCES AND CASH

Bank balances carry prevailing market interest rates.

The carrying amounts of the bank balances and cash are denominated in the following currencies:

| | **HKD** | **RMB** | **USD** | **Total** |
|---|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **31st August 2018 (Unaudited)** | | | | |
| Bank balances and cash | **534,423** | **11,063** | **144** | **545,630** |
| 28th February 2018 (Audited) | | | | |
| Bank balances and cash | 643,195 | 17,078 | 215 | 660,488 |

## 23. CREDITORS AND ACCRUALS/CONTRACT LIABILITIES

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

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Less than 1 month | **59,352** | 58,422 |
| Over 1 month but less than 3 months | **3,640** | 3,910 |
| Over 3 months | **3,598** | 3,702 |
| | **66,590** | 66,034 |

At 31st August 2018, included in contract liabilities is deferred revenue in relation to customer loyalty programmes of HK$10,135,000 (28th February 2018: HK$9,061,000 included in creditors and accruals) and was reclassified to contract liabilities upon application of HKFRS 15 since 1st March 2018.

## 24. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand except for HK$32,908,000 (28th February 2018: HK$50,554,000) which is trade-related.

The aged analysis of amounts due to fellow subsidiaries that are trade-related based on the invoice date at the end of the reporting period is as follows:

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Less than 1 month | **32,908** | 50,554 |

## 25. BANK BORROWINGS

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Bank loans, unsecured | **1,531,314** | 1,575,020 |
| Carrying amount repayable *(Note)* | | |
| Within one year | **415,000** | 345,000 |
| Within a period of more than one year but not exceeding two years | **205,000** | 175,000 |
| Within a period of more than two years but not exceeding five years | **851,314** | 965,020 |
| Over five years | **60,000** | 90,000 |
| | **1,531,314** | 1,575,020 |
| Amount repayable within one year included under current liabilities | **(415,000)** | (345,000) |
| Amount repayable after one year | **1,116,314** | 1,230,020 |

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

The carrying amounts of the bank borrowings are denominated in the following currencies:

| | **HKD** | **USD** | **Total** |
|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| **31.8.2018 (Unaudited)** | | | |
| Bank loans | **1,140,000** | **391,314** | **1,531,314** |
| 28.2.2018 (Audited) | | | |
| Bank loans | 1,185,000 | 390,020 | 1,575,020 |

HKD bank loans of HK$220,000,000 (28th February 2018: HK$220,000,000) are arranged at fixed interest rates ranging from 1.68% to 2.64% (28th February 2018: 1.68% to 2.64%) per annum and expose the Group to fair value interest rate risk. Other HKD bank loans are arranged at floating interest rates at 0.60% plus HIBOR (28th February 2018: 0.60% plus HIBOR) per annum and the USD borrowing is arranged at floating interest rate at 0.95% plus LIBOR (28th February 2018: 0.95% plus LIBOR) per annum, thus exposing the Group to cash flow interest rate risk.

At 31st August 2018, the Group had available unutilised overdrafts and non-committed short term bank loan facilities of HK$730,900,000 (28th February 2018: HK$730,900,000) and HK$674,685,000 (28th February 2018: HK$681,905,000) respectively.

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

| | **31.8.2018 (Unaudited)** | | 28.2.2018 (Audited) | |
|---|---|---|---|---|
| | **Assets** | **Liabilities** | Assets | Liabilities |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Interest rate swaps | **6,648** | **15,404** | 2,473 | 36,684 |
| Cross-currency interest rate swap | **19,867** | **–** | 15,770 | – |
| Interest rate caps | **–** | **–** | 6 | – |
| | **26,515** | **15,404** | 18,249 | 36,684 |
| Current portion | **(143)** | **(13,900)** | – | (1,865) |
| Non-current portion | **26,372** | **1,504** | 18,249 | 34,819 |

All derivative financial instruments entered into by the Group that remain outstanding at 31st August 2018 and 28th February 2018 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings and collateralised debt obligation, the designated hedged items.

Detail of major derivative financial instruments for hedging purposes are as follows:

**Cash flow hedges:**

***Interest rate swaps***

The Group uses interest rate swaps to minimise its exposures to cash flow changes of its floating-rate bank borrowings by swapping certain HKD floating-rate bank borrowings with aggregate principal of HK$920,000,000 (28th February 2018: HK$965,000,000) from floating rates to fixed rates. The interest rate swaps with aggregate notional amount of HK$920,000,000 (2018: HK$965,000,000) have fixed interest payments quarterly at fixed interest rates ranging from 2.3% to 3.3% (28th February 2018: 2.3% to 3.3%) per annum and floating interest receipts quarterly at 0.60% plus HIBOR (28th February 2018: 0.60% plus HIBOR) per annum for periods up until March 2022 (28th February 2018: until March 2022).

## 26. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

**Cash flow hedges:** *(Continued)*

***Interest rate swaps*** *(Continued)*

Besides bank borrowings, the Group also entered into interest rate swaps to minimise its exposures to cash flow changes of its collateralised debt obligation transaction. Two interest rate swaps with notional amounts of HK$550,000,000 each and one interest rate swap with notional amount of HK$150,000,000 (28th February 2018: two interest rate swaps for HK$550,000,000 each and one interest rate swap for HK$150,000,000) were entered into by the Group to swap its HK$1,250,000,000 (28th February 2018: HK$1,250,000,000) floating-rate financing facility from floating rates to fixed rates. The interest rate swaps have fixed interest payments monthly at fixed interest rates ranging from 3.2% to 3.8% (28th February 2018: 3.2% to 3.8%) per annum and floating interest receipts monthly from 0.40% plus HIBOR to 0.55% plus HIBOR (28th February 2018: 0.40% plus HIBOR to 0.55% plus HIBOR) per annum for periods up until August 2019 and July 2020 (28th February 2018: until August 2019 and July 2020) respectively.

The interest rate swaps, the corresponding bank borrowings and the collateralised debt obligation have similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, and the Directors consider that the interest rate swaps are highly effective hedging instruments. Interest rate swaps are designated as cash flow hedging instruments from floating interest rates to fixed interest rates.

During the period, net adjustment on the above-mentioned cash flow hedges amounted to HK$26,140,000 (six months ended 31st August 2017: HK$8,615,000) and is included in other comprehensive income.

The fair values of the interest rate swaps are determined by using the discounted cash flow method based on HIBOR yield curves at the end of the reporting period.

***Cross-currency interest rate swap***

The Group uses cross-currency interest rate swap designated as highly effective hedging instrument to minimise its exposures to foreign currency and cash flow interest rate risk of its USD bank borrowing by swapping the floating-rate USD bank borrowing to fixed-rate HKD bank borrowing.

The cross-currency interest rate swap with notional amount of USD50,000,000 (28th February 2018: USD50,000,000) (equivalent to HK$387,795,000 at the date of inception of the bank borrowing) has fixed currency payments in HKD at exchange rate of USD to HKD at 7.76 (28th February 2018: USD to HKD at 7.76), fixed interest payments quarterly in HKD at 2.27% (28th February 2018: 2.27%) per annum and floating interest receipts quarterly in USD at 0.95% plus LIBOR (28th February 2018: 0.95% plus LIBOR) per annum for periods up until September 2021 (28th February 2018: until September 2021).

The cross-currency interest rate swap and the corresponding bank borrowing have the same terms and the Directors consider that the cross-currency interest rate swap is highly effective hedging instrument.

**26. DERIVATIVE FINANCIAL INSTRUMENTS** *(Continued)*

**Cash flow hedges:** *(Continued)*

***Cross-currency interest rate swap*** *(Continued)*

During the period, net adjustment on the above-mentioned cash flow hedges amounted to HK$507,000 (six months ended 31st August 2017: HK$8,340,000) and is included in other comprehensive income.

The fair value of the cross-currency interest rate swap is determined by using the discounted cash flow method based on LIBOR yield curves and the forward exchange rates between USD and HKD estimated at the end of the reporting period.

**27. SHARE CAPITAL**

| | **Number of shares** | **Share capital** |
|---|---|---|
| | | ***HK$'000*** |
| **Issued and fully paid** | | |
| At 1st March 2018 and 31st August 2018 | | |
| — Ordinary shares with no par value | **418,766,000** | **269,477** |

**28. DEFERRED TAX ASSETS/LIABILITIES**

The followings are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during each of the two periods ended 31st August 2018 and 31st August 2017:

| | **Accelerated tax depreciation** | **Impairment allowances** | **Total** |
|---|---|---|---|
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| At 1st March 2018 (Audited) | **(10,909)** | **6,054** | **(4,855)** |
| Adjustments *(Note 2)* | **–** | **18,655** | **18,655** |
| Credit (charge) to profit or loss for the period | **2,347** | **(1,395)** | **952** |
| At 31st August 2018 (Unaudited) | **(8,562)** | **23,314** | **14,752** |

| | Accelerated tax depreciation | Impairment allowances | Total |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1st March 2017 (Audited) | (13,655) | 7,083 | (6,572) |
| Credit (charge) to profit or loss for the period | 1,744 | (1,218) | 526 |
| At 31st August 2017 (Unaudited) | (11,911) | 5,865 | (6,046) |

## 29. COLLATERALISED DEBT OBLIGATION

(a) The Group entered into a HK$1,250,000,000 collateralised debt obligation financing transaction (the "Transaction"). The Transaction consists of three tranches — Tranche A, Tranche B and Tranche C. The amount under Tranche A and Tranche B is HK$550,000,000 each and the amount under Tranche C is HK$150,000,000. The revolving periods for both Tranche A and Tranche B will end in September 2019 while the revolving period for Tranche C will end in July 2020. The three tranches were arranged at floating interest rates from 0.40% plus HIBOR per annum to 0.55% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Three corresponding interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, are arranged to swap these three tranches from floating rates to fixed rates from 3.2% to 3.8% per annum. The effective interest rate after taking into account the executed interest rate swaps was 3.6% (six months ended 31st August 2017: 3.6%) per annum during the period.

(b) Pursuant to the Transaction, the Group transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the "Trust") established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Group is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HKFRS 10 *Consolidated Financial Statements*, the Trust is controlled by the Group and the results thereof are consolidated by the Group in its consolidated financial statements. According to HKFRS 9, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group's consolidated financial statements. The Transaction is backed by the credit card receivables transferred and with the carrying amount denominated in HKD.

## 30. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Within one year | **54,689** | 54,160 |
| In the second to fifth year inclusive | **40,882** | 47,229 |
| | **95,571** | 101,389 |

Leases for rented premises are negotiated for an average term of two to three years and rentals are fixed for an average of one year.

## 31. CAPITAL COMMITMENTS

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Contracted for but not provided in the condensed consolidated financial statements: | | |
| Purchase of property, plant and equipment | **31,136** | 10,025 |

## 32. PLEDGE OF ASSETS

At 31st August 2018, the collateralised debt obligation was secured by credit card receivables and restricted deposits of HK$1,577,205,000 and HK$358,461,000 respectively (28th February 2018: HK$1,660,345,000 and HK$38,000,000) (see Notes 15(a) and 19).

## 33. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

| | **(Unaudited)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Fellow subsidiaries** | | **Immediate holding company** | | **Ultimate holding company** | | **An associate** | |
| | **1.3.2018 to 31.8.2018** | 1.3.2017 to 31.8.2017 | **1.3.2018 to 31.8.2018** | 1.3.2017 to 31.8.2017 | **1.3.2018 to 31.8.2018** | 1.3.2017 to 31.8.2017 | **1.3.2018 to 31.8.2018** | 1.3.2017 to 31.8.2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Interest income received | **2,637** | 2,661 | **–** | – | **–** | – | **–** | – |
| Commissions received | **3,553** | 3,526 | **–** | – | **–** | – | **–** | – |
| Dividends received | **391** | 355 | **–** | – | **–** | – | **–** | – |
| Service fees received | **–** | – | **492** | 548 | **–** | – | **–** | – |
| Licence fees paid | **5,567** | 4,852 | **–** | – | **15** | 18 | – | **–** |
| Service fees paid | **–** | – | **6,945** | 6,605 | **–** | – | **15,275** | 17,597 |
| Gift certificates paid | **2,680** | 3,070 | **–** | – | **–** | – | **–** | – |
| Development fees paid | **2,590** | 2,607 | **–** | – | **–** | – | **–** | – |

## 33. RELATED PARTY TRANSACTIONS *(Continued)*

**Compensation of key management personnel**

The remuneration of Directors and other members of key management during the period was as follows:

| | **1.3.2018 to 31.8.2018 (Unaudited)** *HK$'000* | 1.3.2017 to 31.8.2017 (Unaudited) *HK$'000* |
|---|---|---|
| Short-term benefits | **5,596** | 5,258 |
| Post-employment benefits | **18** | 12 |
| | **5,614** | 5,270 |

The remuneration of Directors and key executives is determined by the Remuneration Committee having regard to the Group's operating results, performance of individuals and market trends.

## 34. PARTICULARS OF SUBSIDIARIES AND A MASTER TRUST OF THE COMPANY

### (a) Subsidiary

| Name of subsidiaries | Place of incorporation/ registration and operation | Share capital/paid-up capital | | Proportion of ownership interest directly held by the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | **31st August 2018 (Unaudited)** | 28th February 2018 (Audited) | **31st August 2018 (Unaudited)** | 28th February 2018 (Audited) | |
| AEON Insurance Brokers (HK) Limited | Hong Kong | **HK$1,000,000** | HK$1,000,000 | **100%** | 100% | Insurance brokerage services |
| AEON Micro Finance (Shenyang) Co., Ltd | China | **HK$124,221,000** | HK$124,221,000 | **100%** | 100% | Microfinance business |
| AEON Micro Finance (Tianjin) Co., Ltd | China | **RMB100,000,000** | RMB100,000,000 | **100%** | 100% | Microfinance business |
| AEON Micro Finance (Shenzhen) Co., Ltd | China | **RMB150,000,000** | RMB150,000,000 | **100%** | 100% | Microfinance business |

### (b) Master trust

Horizon Master Trust (AEON 2006-1) is a special purpose entity set up for a collateralised debt obligation financing transaction. At 31st August 2018, assets in this special purpose entity mainly consist of credit card receivables, restricted deposits, time deposits, subordinated beneficiary and seller beneficiary (see Notes 15(a), 19 and 29).

## 35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

**Fair value measurements recognised in the condensed consolidated statement of financial position**

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

| | **31st August 2018 (Unaudited)** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Derivative financial assets | **–** | **26,515** | **–** | **26,515** |
| **Financial instruments at fair value through other comprehensive income** | | | | |
| Listed equity securities | **7,690** | **–** | **–** | **7,690** |
| Unlisted equity securities | **–** | **–** | **80,239** | **80,239** |
| Total | **7,690** | **26,515** | **80,239** | **114,444** |
| Derivative financial liabilities | **–** | **15,404** | **–** | **15,404** |

## 35. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

**Fair value measurements recognised in the condensed consolidated statement of financial position** *(Continued)*

| | 28th February 2018 (Audited) | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Derivative financial assets | – | 18,249 | – | 18,249 |
| **Financial instruments at fair value through other comprehensive income** | | | | |
| Listed equity securities | 8,595 | – | – | 8,595 |
| Total | 8,595 | 18,249 | – | 26,844 |
| Derivative financial liabilities | – | 36,684 | – | 36,684 |

There were no transfers between Levels in the current period.

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's condensed consolidated financial statements approximate to their fair values using the discounted cash flow analysis:

| | **31st August 2018 (Unaudited)** | | 28th February 2018 (Audited) | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair value** | Carrying amount | Fair value |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Bank borrowings | **1,531,314** | **1,533,064** | 1,575,020 | 1,582,070 |

The fair value of listed equity securities is determined with reference to quoted market bid price from the Stock Exchange.

The fair value of unlisted equity securities is estimated by market approach for business enterprises valuation with reference to market capitalisation of listed entities in similar industry with consideration of marketability discount.

The fair value of derivative financial instruments is measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between USD and HKD (for cross-currency interest rate swap), which is observable at the end of the reporting period.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 15th October 2018 to Tuesday, 16th October 2018, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 12th October 2018.

## MANAGEMENT DISCUSSION AND ANALYSIS

### *Financial Review*

For the six months ended 31st August 2018, the Group continued to expand its customer base to increase card usage. At the same time, the Group put efforts into growing its portfolio with products of higher yield. As a result, the Group recorded an increase in interest income of 3.9% or HK$21.3 million, from HK$546.3 million in the previous period to HK$567.7 million in the current period.

Leveraging long-term borrowings with relatively stable interest rates to offset the effects of rising interest rates, the average funding cost was maintained at 3.0% per annum in the current period, and interest expense was reduced from HK$44.1 million to HK$42.9 million. Consequently, net interest income of the Group in the current period was HK$524.8 million, representing an increase of 4.5% or HK$22.5 million when compared with the corresponding period in 2017/18.

Following the increase in credit card sales, there was an increase in fees and commissions from credit card business of 22.2% or HK$6.6 million to HK$36.3 million in the current period. With the development of new distribution channels for insurance products, including digital platform, fees and commissions from insurance business recorded a slight increase of HK$0.5 million to HK$8.5 million in the current period. The Group recorded an overall increase of HK$7.1 million in fees and commission from HK$37.7 million in the first half of 2017/18 to HK$44.8 million in 2018/19.

Operating income of the Group for the first half of 2018/19 recorded an increase of HK$35.8 million from HK$576.9 million in 2017/18 to HK$612.7 million.

During the period under review, the Group prudently utilized marketing and promotion expenses for generating new sales and brand building, resulting in a drop of HK$4.5 million in those expenses when compared with the previous period. Following the launch of different digitalization projects, including the revamped mobile application and new mobile tablets for card applications, there was an increase in system running costs. Overall operating expenses recorded a slight drop of HK$1.6 million from HK$270.0 million in the previous period to HK$268.4 million in the current period. Cost-to-income ratio improved from 46.8% in the previous period to 43.8% in the current period.

***Financial Review** (Continued)*

At the operating level before impairment allowances, the Group recorded an operating profit of HK$344.4 million for the six months ended 31st August 2018, representing an increase of 12.2% from HK$306.9 million in the previous period.

Credit quality remained strong in the first half of the year, attributable to the low unemployment rate in Hong Kong and the Group's effective asset quality management. Impairment losses and impairment allowances were HK$93.5 million and HK$119.7 million in the first half of 2018/19 and 2017/18 respectively. The calculation of impairment losses and impairment allowances in the first half of 2018/19 was based on the new accounting standard, HKFRS 9, effective from 1st March 2018, and the corresponding impairment losses and impairment allowances in the first half of 2017/18, calculated under the previous accounting standard, HKAS 39, had not been restated. If the calculation of impairment losses and impairment allowances in the first half of 2018/19 was based on HKAS 39, the amount would be HK$114.2 million.

Profit before tax in the first half of 2018/19 was HK$276.0 million, representing an increase of 30.9% or HK$65.2 million, from HK$210.8 million in the previous period.

After deducting income tax expense of HK$44.8 million, the Group recorded a profit attributable to owners of HK$231.2 million for the six months ended 31st August 2018, representing an increase of 33.1% or HK$57.4 million when compared to HK$173.8 million for the six months ended 31st August 2017. The Group's basic earnings per share increased from 41.50 HK cents in the first half of 2017/18 to 55.22 HK cents in the first half of 2018/19.

On the consolidated statement of financial position, following the Group's cautious approach on credit assessment, the Group recorded a decrease in its gross advances and receivables by HK$166.0 million to HK$5,106.5 million as at 31st August 2018, when compared to HK$5,272.4 million as at 28th February 2018. Impairment allowances amounted to HK$243.5 million as at 31st August 2018 following the adoption of HKFRS 9. Total equity was strengthened by 1.5% to HK$3,050.4 million as at 31st August 2018 due to the increase in accumulated profits and reserves. Net asset value per share (after interim dividend) was HK$7.1 as at 31st August 2018, when compared with the net asset value per share (after final dividend) of HK$7.0 as at 28th February 2018.

***Business Review***

Hong Kong retail sales recorded an upturn in the first half of 2018/19 as a result of a favourable labour market and an improvement on inbound tourism. Credit environment was relatively stable.

Against this backdrop, the Group's card credit purchase sales in the first half increased by 5% over the prior year period. Throughout this period, the Group continued to deploy its strategies of enhancing card benefits and utilizing new technologies to deliver premium service experience to our customers.

The Group launched various promotions which aimed to increase sales and customer engagement. The Macau Travel and Dining Rewards promotion and Reward-U promotion were well received by customers and furthered the Group's market penetration into new customer segments.

The Group also utilized e-ticket redemptions for AEON Ocean Park Halloween Joyful Event promotion that allowed customers to conveniently redeem tickets through mobile application.

In the first half of the year, the Group started a new project to replace and upgrade its card and loan system. Based on current estimates, the project will cost approximately HK$480.0 million over a period of ten years from the completion of the project in early 2020. The new system would improve operational efficiency, reduce system running costs and enhance its technical capability to cater for new technology, including mobile payment. In addition, the Group also launched a pilot project adopting artificial intelligence in its credit assessment process for card applications with the aim to improve its effectiveness and reliability.

***Segment Information***

The Group's business comprises three operating segments, namely credit cards, instalment loans, and insurance. In the first half of 2018/19, 74.7% of the Group's revenue was derived from credit card operations. For segment results, credit card operations accounted for 74.8% of the Group's whole operations as compared to 79.3% in the previous period, while instalment loan operations accounted for 23.0% of the Group's segment results as compared to 19.2% in the previous period.

In the first half of 2018/19, owing to the initiatives to increase customer base and stimulate card usage, the Group recorded an increase in card credit purchase sales. Together with the effort to increase the yield on card cash advance portfolio, revenue from credit card operations in 2018/19 increased by 9.1% or HK$40.5 million from HK$447.3 million in 2017/18 to HK$487.8 million in 2018/19. Following the effective utilization of marketing and promotion expenses to increase sales and prudent asset quality management, the segment results for the period from credit card operations recorded an increase of HK$35.4 million from HK$178.5 million in 2017/18 to HK$213.9 million in 2018/19.

For instalment loans, the Group continued to adopt prudent credit assessment aiming at controlling asset quality. This resulted in a slowdown in sales and reduction in the instalment loan receivables balance. Consequently, revenue from instalment loan operations in 2018/19 decreased by 7.9% or HK$13.6 million from HK$170.6 million in 2017/18 to HK$157.0 million in 2018/19. Following the effective control of operating expenses and prudent asset quality management, the segment results for the period from instalment loan operations recorded an increase of HK$22.5 million from HK$43.3 million in 2017/18 to HK$65.8 million in 2018/19.

With the re-activation of insurance agency business, revenue from insurance operations recorded a slight increase of HK$0.5 million from HK$8.1 million in 2017/18 to HK$8.6 million in 2018/19. There was a decrease in operating expenses following the revamp of insurance brokerage business. As a result, the segment results for the period from insurance operations increased by HK$2.9 million from HK$3.2 million in 2017/18 to HK$6.1 million in 2018/19.

In relation to financial information by geographical locations, revenue from Hong Kong operations recorded an increase of 5.8% or HK$34.4 million, from HK$597.4 million in 2017/18 to HK$631.7 million in 2018/19, attributable to the increase in credit card sales and increase in revolving credit card balance. Together with the favourable economic situation and effective cost control, the segment results from Hong Kong operations recorded an increase of 26.8% or HK$61.7 million, from HK$230.3 million in 2017/18 to HK$292.0 million in 2018/19.

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

For China operations, due to the increasing competition from online lending and the lack of effective distribution channels, the microfinance subsidiaries recorded a drop in their sales in the first half of the year. Revenue from China operations recorded a decrease of HK$6.9 million, from HK$28.6 million in 2017/18 to HK$21.7 million in 2018/19. Despite the continued review of their credit assessment process, their asset quality has yet to improve. Losses from our China operations recorded an increase of 17.2% or HK$0.9 million, from a loss of HK$5.3 million in 2017/18 to a loss of HK$6.2 million in 2018/19.

***Prospects***

The escalation of the trade conflict between China and the US, together with the expected raising of interest rates by the Federal Reserve, has caused economic uncertainties. Consumer spending and asset quality are expected to drop if the uncertainties persist, making us cautious about the outlook in the second half of the year. The Group will closely monitor the development and take precautionary measures against changing market sentiments.

The Group will continue to enhance its card benefits and launch premium promotional activities in the second half to capture new customer segments and reward loyal customers, including the launch of a brand new AEON premium card that allows customers to enjoy exclusive discounts and premium benefits. Moreover, the Group will further strengthen its collaboration with AEON Stores to enhance the competitiveness of AEON Card.

As financial technology is developing at a fast pace, investing in digitalization will continue to be the Group's strategic priority. In the second half of 2018/19, the Group will further enhance its mobile application by adding more functions to improve service convenience. New enhancements will include customer supporting functions and card/loan application submission aiming to reduce application processing time and improve the overall customer experience.

With the adoption of HKFRS 9 on impairment, the Group will continue to put more marketing efforts on increasing credit purchase sales to diversify its credit risk. The Group will also evaluate and enhance holistically its credit assessment and collection processes in a further attempt to reduce delinquent receivables and maximize revenue.

In the second half, there will not be any material improvements in our China operations. The Group will continue to review the credit assessment process of its subsidiaries and closely monitor their business operations and any regulatory changes in China to fine-tune their operating model when necessary.

***Funding and Capital Management***

The Group manages its capital to ensure that:

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

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

*Net debt to equity ratio*

The 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:

| | **31.8.2018** | 28.2.2018 |
|---|---|---|
| | **(Unaudited)** | (Audited) |
| | ***HK$'000*** | *HK$'000* |
| Debt *(Note a)* | **2,781,314** | 2,825,020 |
| Cash and cash equivalents | **(620,363)** | (721,762) |
| Net debt | **2,160,951** | 2,103,258 |
| Equity *(Note b)* | **3,050,417** | 3,005,041 |
| Net debt to equity ratio | **0.7** | 0.7 |

*Notes:*

(a) Debt comprises bank borrowings and collateralised debt obligation as detailed in Notes 25 and 29 respectively.

(b) Equity includes all capital and reserves of the Group.

***Funding and Capital Management*** *(Continued)*

*Net debt to equity ratio (Continued)*

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 31st August 2018, 52.3% of its funding was derived from total equity, 26.3% from bank borrowings and 21.4% from structured finance.

The principal source of internally generated capital was from accumulated profits. At 31st August 2018, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK$1,531.3 million, with 14.4% being fixed in interest rates and 85.6% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 14.9% of these indebtedness will mature within one year, 46.9% between one and two years, 36.0% between two and five years and 2.2% over five years. The duration of indebtedness was around 2.1 years.

The Group's bank borrowings and collateralised debt obligation were denominated in Hong Kong Dollars, except for a syndicated term loan of USD50.0 million which was hedged by cross-currency interest rate swap.

The net asset of the Group at 31st August 2018 was HK$3,050.4 million, as compared with HK$3,005.0 million at 28th February 2018. Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

The Group's principal operations are transacted and recorded in HKD and 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 2018, capital commitments entered into were mainly related to the purchase of property, plant and equipment.

The Group also had HK$78.5 million of other contractual commitments as of 31st August 2018, primarily related to the card and loan system replacement project.

***Human Resources***

The total number of staff of the Group at 31st August 2018 and 28th February 2018 was 480 (Hong Kong: 335; PRC: 145) and 575 (Hong Kong: 360; PRC: 215) respectively. The Group continues to recognize and reward its staff similar to that disclosed in its 2017/18 Annual Report.

## MANAGEMENT OF RISKS

The Group has established policies, procedures and controls for measuring, monitoring and controlling market, credit, liquidity, capital and operational risks, which are reviewed regularly by the Group's management. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

The Group's major financial instruments include available-for-sale investments, advances and receivables, other debtors, restricted deposits, time deposits, fiduciary bank balances, bank balances and cash and derivative financial assets, bank borrowings, bank overdrafts, collateralised debt obligation, creditors, amounts due to fellow subsidiaries, ultimate holding company and an associate and derivative financial liabilities.

The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group seeks to minimise the effects of cash flow risk by using derivative financial instruments to hedge the cash flow risk exposures. The use of financial derivatives is governed by the Group's policies approved by the Board, which provide written principles on foreign exchange risk, interest rate risk, and the use of derivative financial instruments. The Group does not enter into or trade derivative financial instruments for speculative purposes.

The Group's operational risk covers processing risk, human risk, system risk, tangible risk and reputational risk. There are risk management policies, regulations and guidelines approved by the management and the Board for adherence by all business units in the Group. The major risk control tool kits are key risk indicators and key performance indicators that are set up for critical business processes. The management manages and monitors these indicators to ensure effective risk management and internal controls are in place in the operating units.

***Market risk***

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates, interest rates and credit risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including:

- currency swap to convert the foreign currency debts to the functional currency of the relevant group entity; and

- interest rate swaps and interest rate caps to mitigate the cash flow interest rate risk.

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

**MANAGEMENT OF RISKS** *(Continued)*

***Market risk*** *(Continued)*

*Foreign currency risk management*

Foreign currency risk is the risk that the holding of foreign currency assets and liabilities will affect the Group's position as a result of a change in foreign currency exchange rates. Certain bank balances and bank borrowings of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk.

The Group's foreign currency risk exposure primarily relates to its USD denominated bank borrowings. To minimise the foreign currency risk in relation to the USD bank borrowings, the Group has been using cross currency interest rate swaps designed to hedge against the debts which are highly effective to convert the foreign currency debts to the functional currency of the relevant group entity. The critical terms of these currency swaps are similar to those of hedged borrowings. Hence, the net foreign currency risk after taking derivative financial instruments into consideration is not material to the Group.

*Interest rate risk management*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's exposures to fair value interest rate risk relates primarily to fixed-rate lendings and borrowings including variable rate borrowings under hedge accounting to change from variable rate to fixed rate. All interest-bearing financial assets are exposed to fair value interest rate risk only. The Group's cash flow interest rate risk relates primarily to floating-rate financial liabilities except those under hedge accounting to change from variable rate to fixed rate.

The Group monitors the interest rate exposure, through assessing the interest rate gap of its interest bearing financial assets and financial liabilities. To minimise the cash flow interest rate gap, the Group has been using interest rate swaps to convert a proportion of its variable rate debts to fixed rate. The critical terms of these interest rate swaps are similar to those of hedged borrowings. To minimise the exposures to interest rate changes of its collateralised debt obligation transaction during the amortisation periods, the Group has entered into interest rate caps to cap the interest rates.

*Other price risks*

The Group is exposed to equity price risk through its available-for-sale investments. The Group's equity price risk is mainly concentrated on equity securities operating in consumer credit finance services and related business. The management will monitor the price movements and take appropriate actions when it is required.

**MANAGEMENT OF RISKS** *(Continued)*

***Credit risk***

The Group's maximum exposures to credit risk in the event of the counterparties' failure to perform their obligations at 31st August 2018 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the condensed consolidated statement of financial position. The Group's credit risk is primarily attributable to its advances and receivables.

In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The management has delegated different divisions responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow- up action is taken to recover overdue debts. In addition, management reviews the recoverable amount of loans and receivables at each reporting date to ensure that adequate impairment allowances are made for irrecoverable amounts. In this regard, management considers that the Group's credit risk is significantly reduced.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

***Liquidity risk***

The Group has laid down an appropriate liquidity risk management framework for the management of the short, medium and long-term funding and liquidity management requirements, which is reviewed regularly by the Directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and maintain a conservative level of long-term funding to finance its short-term financial assets.

## MANAGEMENT OF RISKS *(Continued)*

### *Capital risk*

The Group's policy is to maintain a strong capital base to support the development of the Group's business. During the period under review, the Group relied principally on internally generated capital as well as structured finance and bank borrowings for the working capital. The funding position is monitored and reviewed regularly to ensure it is within internally established limits and at reasonable costs.

### *Operational risk*

Operational risk is the risk event loss resulting from operation incidents, accidents and rumours. The Group's policy is to implement operational risk management framework across the Group. It provides risk management and internal control systems for risk identification, assessment, mitigation and prevention. The primary responsibility of each division head and branch manager is to manage inherent risks within the tolerance levels that are within the risk appetite approved by the Board. The key inherent risks are processing, data security, compliance and financial crime. All business units set up procedures and key risk indicators and key performance indicators to ensure operation continuity capacity, high quality of customer service and effective risk control through proactive management, operational excellence and alignment with best market practices. Management manages significant risks and ensures mitigating risks are prioritized and control adequately.

## CORPORATE GOVERNANCE AND OTHER INFORMATION

### *Compliance with Corporate Governance Code*

The Company is committed to maintaining a high standard of corporate governance to balance the interests of shareholders, customers, and employees. The Company has complied with the code provisions of the CG Code throughout the six months ended 31st August 2018, with the exceptions of code provisions A.4.1 and A.4.2 which are explained below.

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The second limb of code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Non-executive Directors are not appointed for a specific term and Directors are not subject to retirement by rotation. However, all Directors, including 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 as its own code for securities transactions by Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.

### *Directors' Interest in Shares*

At 31st August 2018, the interests of the Directors and their associates in the shares, underlying shares and debentures of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

*(a) The Company*

| *Directors* | *Number of shares held under personal interests* | *Percentage of the issued share capital of the Company* |
|---|---:|---:|
| Hideo Tanaka | 28,600 | 0.01 |
| Tomoharu Fukayama | 10,000 | 0.01 |

*(b) AFS — intermediate holding company of the Company*

| *Directors* | *Number of shares held under personal interests* | *Percentage of the issued share capital of AFS* |
|---|---:|---:|
| Masaaki Mangetsu | 3,721 | 0.01 |
| Hideo Tanaka | 831 | 0.01 |
| Tomoharu Fukayama | 4,396 | 0.01 |
| Toru Hosokawa | 816 | 0.01 |

***Directors' Interest in Shares*** *(Continued)*

*(c) AEON Japan — ultimate holding company of the Company*

| *Director* | *Number of shares held under personal interests* | *Percentage of the issued share capital of AEON Japan* |
|---|---|---|
| Masaaki Mangetsu | 1,591 | 0.01 |

*(d) AEON Malaysia — a fellow subsidiary of the Company*

| *Director* | *Number of shares held under personal interests* | *Percentage of the issued share capital of AEON Malaysia* |
|---|---|---|
| Hideo Tanaka | 14,400 | 0.01 |

Other than the holdings disclosed above, none of the Directors nor their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations at 31st August 2018.

***Substantial Shareholders' Interests in Shares***

At 31st August 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests and short positions in the shares and underlying shares of the Company:

| **Name** | **Nature of interest** | **Number of issued ordinary shares held** | **Percentage of the issued share capital of the Company** |
|---|---|---|---|
| AEON Japan *(Note 1)* | Beneficial owner/Interest of a controlled corporation | 281,138,000 | 67.13 |
| AFS *(Note 2)* | Interest of a controlled corporation | 221,364,000 | 52.86 |
| AFS (HK) *(Note 3)* | Beneficial owner | 221,364,000 | 52.86 |
| FMR LLC | Interest of controlled corporations | 33,508,000 | 8.00 |
| Fidelity Puritan Trust | Beneficial owner | 21,810,000 | 5.21 |

***Substantial Shareholders' Interests in Shares*** *(Continued)*

*Notes:*

1. AEON Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 44.86% of the issued share capital of AFS, the holding company of AFS (HK), and 60.59% of the issued share capital of AEON Stores respectively, was deemed to be interested in the 221,364,000 shares and 3,784,000 shares owned by AFS (HK) and AEON Stores respectively.

2. AFS owned 100% of the issued share capital of AFS (HK) and was deemed to be interested in the 221,364,000 shares owned by AFS (HK).

3. Out of 221,364,000 shares, 213,114,000 shares were held by AFS (HK) and 7,700,000 shares were held by the Hongkong and Shanghai Banking Corporation Limited and 550,000 shares were held by Tokai Tokyo Securities (Asia) Limited respectively, as nominees on behalf of AFS (HK).

Other than as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company at 31st August 2018.

### *Changes in Information of Directors*

The changes in the information of Directors since the publication of the 2017/18 Annual Report are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

| **Name of Directors** | **Details of Changes** |
|---|---|
| Hideo Tanaka | • Received an annual discretionary bonus of HK$503,000 in June 2018<br>• Entitled to an annual base salary of HK$1,164,000 with effect from 21st June 2018 |
| Lai Yuk Kwong | • Received an annual discretionary bonus of HK$374,000 in June 2018 |
| Koh Yik Kung | • Received an annual discretionary bonus of HK$138,000 in June 2018 |
| Tomoharu Fukayama | • Received an annual discretionary bonus of HK$370,000 in June 2018<br>• Entitled to an annual base salary of HK$900,000 with effect from 21st June 2018 |
| Toru Hosokawa | • Received an annual discretionary bonus of HK$459,000 in June 2018<br>• Entitled to an annual base salary of HK$948,000 with effect from 21st June 2018 |
| Lee Ching Ming, Adrian | • Entitled to an annual fee of HK$319,000 with effect from 1st July 2018 |
| Wong Hin Wing | • Appointed as an independent non-executive director of Jiangxi Bank Co., Ltd. (Stock Code: 1916) on 28th February 2018<br>• Entitled to an annual fee of HK$319,000 with effect from 1st July 2018 |
| Kenji Hayashi | • Entitled to an annual fee of HK$319,000 with effect from 1st July 2018 |

### *Loan Facility with Covenants relating to Specific Performance of the Controlling Shareholder*

In accordance with the disclosure requirements of Rule 13.21 of the Listing Rules, the Directors reported below the loan facility which exists during the period and includes a condition relating to specific performance of the controlling shareholder of the Company.

On 9th September 2016, the Company obtained a term loan of USD50,000,000 (the “Facility”) from a syndicate of banks, with the repayment date on 20th September 2021.

### ***Loan Facility with Covenants relating to Specific Performance of the Controlling Shareholder*** *(Continued)*

Under the Facility, the Company has given an undertaking to the lenders that the Company would continue to be a consolidated subsidiary of AFS, which is a controlling shareholder of the Company currently holding approximately 52.86% of the issued share capital of the Company. A breach of the above undertaking will constitute an event of default. If the event occurs, the Facility may become due and payable on demand.

During the period under review, no repayment was made under the Facility.

### ***Purchase, Sale or Redemption of Listed Securities***

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### ***Review of Unaudited Financial Information***

The Audit Committee has reviewed the unaudited interim financial report for the six months ended 31st August 2018. In addition, the condensed consolidated financial statements for the six months ended 31st August 2018 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 HKICPA and an unqualified review report is issued.

By order of the Board
**HIDEO TANAKA**
*Managing Director*

Hong Kong, 27th September 2018

Deloitte. 德勤

**TO THE BOARD OF DIRECTORS OF AEON CREDIT SERVICE (ASIA) COMPANY LIMITED**
*(incorporated in Hong Kong with limited liability)*

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of AEON Credit Service (Asia) Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 46, which comprise the condensed consolidated statement of financial position as of 31st August 2018 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review 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. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

27th September 2018

## GLOSSARY

| | |
|---|---|
| AEON Japan | AEON Co., Ltd. |
| AEON Malaysia | AEON Credit Service (M) Berhad |
| AEON Stores | AEON Stores (Hong Kong) Co., Limited |
| AFS | AEON Financial Service Co., Ltd. |
| AFS (HK) | AEON Financial Service (Hong Kong) Co., Limited |
| Board | the board of Directors of the Company |
| CG Code | Corporate Governance Code as set out in Appendix 14 to the Listing Rules |
| China or PRC | the People's Republic of China |
| Company | AEON Credit Service (Asia) Company Limited |
| Companies Ordinance | Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended from time to time |
| Director(s) | the director(s) of the Company |
| Group | the Company and its subsidiaries |
| HKD or HK$ | Hong Kong dollars, the lawful currency of Hong Kong |
| HIBOR | Hong Kong Interbank Offered Rate |
| HKAS | Hong Kong Accounting Standard |
| HKFRSs | Hong Kong Financial Reporting Standards |
| HKICPA | Hong Kong Institute of Certified Public Accountants |
| Hong Kong | Hong Kong Special Administrative Region of the PRC |
| LIBOR | London Interbank Offered Rate |
| Listing Rules | Rules Governing the Listing of Securities on the Stock Exchange |

| | |
|---|---|
| Model Code | Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| RMB | Renminbi, the lawful currency of the PRC |
| SFO | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time |
| Stock Exchange | The Stock Exchange of Hong Kong Limited |
| USD | United States Dollars, the lawful currency of the United States of America |