



# AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

## AEON 信貸財務(亞洲)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 900)



### INTERIM REPORT

#### FOR THE SIX MONTHS ENDED

#### 31ST AUGUST 2019



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## **CORPORATE INFORMATION**

### **Board of Directors**

#### *Executive Directors*

Hideo Tanaka (*Managing Director*)  
Lai Yuk Kwong (*Deputy Managing Director*)  
Koh Yik Kung  
Tony Fung

#### *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 54, 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](mailto: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 2019, together with the comparative figures for the six months ended 31st August 2018 as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31st August 2019

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

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

*For the six months ended 31st August 2019*

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

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2019

		31.8.2019 (Unaudited) <i>HK\$'000</i>	28.2.2019 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
<b>Non-current assets</b>			
Property, plant and equipment	13(a)	61,855	70,365
Right-of-use assets	13(b)	113,354	–
Investment in an associate		14,586	15,449
Equity instruments at fair value through other comprehensive income	14	128,983	118,701
Advances and receivables	15	831,425	862,105
Prepayments, deposits and other debtors	18	69,131	60,040
Derivative financial instruments	26	9,164	15,469
Deferred tax assets	28	16,990	16,698
Restricted deposits	19	38,000	38,000
		<b>1,283,488</b>	<b>1,196,827</b>
<b>Current assets</b>			
Advances and receivables	15	3,878,618	4,021,782
Prepayments, deposits and other debtors	18	52,409	47,456
Amounts due from fellow subsidiaries	24	334	160
Amount due from immediate holding company		340	283
Amount due from an associate		56	39
Derivative financial instruments	26	439	17
Restricted deposits	19	55,214	381,466
Time deposits	20	157,647	152,536
Fiduciary bank balances	21	8	35
Bank balances and cash	22	777,751	380,083
		<b>4,922,816</b>	<b>4,983,857</b>
<b>Current liabilities</b>			
Creditors and accruals	23(a)	217,150	255,943
Contract liabilities	23(b)	13,591	9,486
Amounts due to fellow subsidiaries	24	48,085	42,920
Amount due to intermediate holding company		14	–
Amount due to ultimate holding company		36	28
Amount due to an associate		1,439	2,027
Bank borrowings	25	205,000	325,000
Collateralised debt obligation	29	1,100,500	701,600
Lease liabilities		40,923	–
Derivative financial instruments	26	854	11,069
Tax liabilities		54,452	33,515
		<b>1,682,044</b>	<b>1,381,588</b>
<b>Net current assets</b>		<b>3,240,772</b>	<b>3,602,269</b>
<b>Total assets less current liabilities</b>		<b>4,524,260</b>	<b>4,799,096</b>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)**At 31st August 2019*

		<b>31.8.2019</b>	28.2.2019
		<b>(Unaudited)</b>	(Audited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
<b>Capital and reserves</b>			
Share capital	27	269,477	269,477
Reserves		<b>3,016,257</b>	2,921,170
<b>Total equity</b>		<b>3,285,734</b>	3,190,647
<b>Non-current liabilities</b>			
Bank borrowings	25	<b>1,011,403</b>	1,056,483
Collateralised debt obligation	29	<b>149,500</b>	548,400
Lease liabilities		<b>73,091</b>	–
Derivative financial instruments	26	<b>4,532</b>	3,566
		<b>1,238,526</b>	1,608,449
		<b>4,524,260</b>	4,799,096

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 31st August 2019*

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



**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS***For the six months ended 31st August 2019*

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2019

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with 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 2019 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

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

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

### 2. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

##### *Definition of a lease*

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

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

##### *As a lessee*

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

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

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

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

*As a lessee (Continued)*

##### Right-of-use assets

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

The cost of right-of-use asset includes:

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

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

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

##### Refundable rental deposits

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

##### Lease liabilities

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

*As a lessee (Continued)*

##### Lease liabilities (Continued)

The lease payments include:

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

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

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

##### Lease modifications

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

*As a lessee (Continued)*

##### Taxation

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

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

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

*Definition of a lease*

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

##### *As a lessee*

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

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

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

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

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

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

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

## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

As a lessee (Continued)

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

Notes:

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



### 3. REVENUE

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

### 4. SEGMENT INFORMATION

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

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

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

#### Segment revenue and results

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

*1.3.2019 to 31.8.2019 (Unaudited)*

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

#### 4. SEGMENT INFORMATION (Continued)

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

1.3.2018 to 31.8.2018 (Unaudited)

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

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

##### Geographical information

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

1.3.2019 to 31.8.2019 (Unaudited)

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

#### 4. SEGMENT INFORMATION (Continued)

##### Geographical information (Continued)

1.3.2018 to 31.8.2018 (Unaudited)

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

#### 5. INTEREST INCOME

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

#### 6. INTEREST EXPENSE

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

## 7. OTHER INCOME

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

## 8. OTHER GAINS AND LOSSES

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

## 9. OPERATING EXPENSES

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

## 10. INCOME TAX EXPENSE

	<b>1.3.2019 to 31.8.2019 (Unaudited) HK\$'000</b>	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
Current tax		
– Current period	<b>40,269</b>	45,710
Deferred tax ( <i>Note 28</i> )		
– Current period	<b>(292)</b>	(952)
	<b>39,977</b>	44,758

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

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

## 11. DIVIDENDS

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

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

## 12. EARNINGS PER SHARE – BASIC

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

## 13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

- (a) For property, plant and equipment, the Group spent on computer equipment and leasehold improvements of approximately HK\$9,263,000 during the current period (six months ended 31st August 2018: HK\$6,370,000).
- (b) For right-of-use assets, the Group entered into new lease agreements and lease modification for its head office and branches of which the lease terms ranges from 1 to 4 years. The Group is required to make fixed monthly payments. During the current period, the Group recognised additional HK\$88,229,000 of right-of-use assets and lease liabilities respectively.

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

	<b>31.8.2019</b>	28.2.2019
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Equity instruments at FVTOCI</b>		
– Listed investment in Hong Kong	6,074	7,530
– Unlisted investments	122,909	111,171
	<u>128,983</u>	<u>118,701</u>

The investments included above represent investments in both listed and unlisted equity investments that offer the Group the opportunity for return through dividend income and fair value gains.

#### 15. ADVANCES AND RECEIVABLES

	<b>31.8.2019</b>	28.2.2019
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Credit card receivables	3,745,911	3,842,292
Personal loan receivables	1,133,835	1,197,248
	<u>4,879,746</u>	<u>5,039,540</u>
Accrued interest and other receivables	85,362	87,840
	<u>4,965,108</u>	<u>5,127,380</u>
Gross advances and receivables	4,965,108	5,127,380
Impairment allowances ( <i>Note 16</i> )	(255,065)	(243,493)
	<u>4,710,043</u>	<u>4,883,887</u>
Current portion included under current assets	(3,878,618)	(4,021,782)
	<u>831,425</u>	<u>862,105</u>

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

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

An analysis of movements in the gross amount of advances and receivables during each of the two periods ended 31st August 2019 and 31st August 2018 are set out as below:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2019	4,816,267	128,325	182,788	5,127,380
Net repayment in advances and receivables	(36,087)	(198)	(11,961)	(48,246)
Transfer to 12 months ECL (Stage 1)	295,682	(288,076)	(7,606)	-
Transfer to lifetime ECL not credit impaired (Stage 2)	(407,275)	416,361	(9,086)	-
Transfer to lifetime ECL credit impaired (Stage 3)	(16,602)	(132,348)	148,950	-
Total transfer between stages	(128,195)	(4,063)	132,258	-
Amounts written-off as uncollectable	-	-	(110,232)	(110,232)
Exchange realignment	(2,455)	(206)	(1,133)	(3,794)
	<b>4,649,530</b>	<b>123,858</b>	<b>191,720</b>	<b>4,965,108</b>
At 31st August 2019				
	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2018	4,933,959	118,601	219,888	5,272,448
Net addition (repayment) in advances and receivables	2,048	(10,550)	(21,069)	(29,571)
Transfer to 12 months ECL (Stage 1)	226,259	(220,364)	(5,895)	-
Transfer to lifetime ECL not credit impaired (Stage 2)	(310,737)	318,751	(8,014)	-
Transfer to lifetime ECL credit impaired (Stage 3)	(25,803)	(108,693)	134,496	-
Total transfer between stages	(110,281)	(10,306)	120,587	-
Amounts written-off as uncollectable	-	-	(127,027)	(127,027)
Exchange realignment	(8,385)	(432)	(537)	(9,354)
	<b>4,817,341</b>	<b>97,313</b>	<b>191,842</b>	<b>5,106,496</b>
At 31st August 2018				

## 15. ADVANCES AND RECEIVABLES (Continued)

### (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 2019: 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 2019, the carrying amount of the credit card receivables under this financing transaction was HK\$1,596,073,000 (28th February 2019: HK\$1,675,261,000). The principal amount of the collateralised debt obligation is HK\$1,250,000,000 (28th February 2019: HK\$1,250,000,000) (see note 29).

### (b) Personal loan receivables

Most of the personal loan receivables entered into with customers ranges from 6 months to 4 years and are denominated in HKD. The personal loan receivables carry effective interest ranging from 3.5% to 56.5% (28th February 2019: 3.5% to 56.5%) per annum.

## 16. IMPAIRMENT ALLOWANCES

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



**16. IMPAIRMENT ALLOWANCES** (Continued)

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

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

## 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:

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

\* Percentage of gross advances and receivables

## 18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

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

## 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 0.74% to 2.6% (six months ended 31st August 2018: 0.69% to 1.85%) per annum during the current interim period. Restricted deposits of HK\$55,214,000 (28th February 2019: HK\$381,466,000) will mature within one year from 31st August 2019.

## 20. TIME DEPOSITS

Time deposits are denominated in RMB and carry fixed rates ranging from 1.5% to 1.9% (six months ended 31st August 2018: 1.6% to 1.8%) per annum during the current interim period.

	<b>31.8.2019</b> <b>(Unaudited)</b> <i>HK\$'000</i>	28.2.2019 (Audited) <i>HK\$'000</i>
Time deposit with maturity of three months or less	<b>97,652</b>	98,473
Time deposit with maturity of more than three months	<b>59,995</b>	54,063
	<b><u>157,647</u></b>	<u>152,536</u>

## 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 segregated bank account. 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:

	<b>HKD</b> <i>HK\$'000</i>	<b>RMB</b> <i>HK\$'000</i>	<b>USD</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>31.8.2019 (Unaudited)</b>				
Bank balances and cash	<b><u>767,450</u></b>	<b><u>9,664</u></b>	<b><u>637</u></b>	<b><u>777,751</u></b>
<b>28.2.2019 (Audited)</b>				
Bank balances and cash	<b><u>355,880</u></b>	<b><u>23,261</u></b>	<b><u>942</u></b>	<b><u>380,083</u></b>

### 23. CREDITORS AND ACCRUALS/CONTRACT LIABILITIES

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

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

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

### 24. AMOUNTS DUE FROM/TO FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand except for HK\$42,502,000 (28th February 2019: HK\$39,244,000) 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:

	<b>31.8.2019</b> <b>(Unaudited)</b> <b>HK\$'000</b>	28.2.2019 (Audited) HK\$'000
Less than 1 month	<b>42,502</b>	39,244

## 25. BANK BORROWINGS

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

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

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

	<b>HKD</b> <b>HK\$'000</b>	<b>USD</b> <b>HK\$'000</b>	<b>Total</b> <b>HK\$'000</b>
<b>31.8.2019 (Unaudited)</b>			
Bank loans	<b>824,203</b>	<b>392,200</b>	<b>1,216,403</b>
<b>28.2.2019 (Audited)</b>			
Bank loans	990,000	391,483	1,381,483

HKD bank loans of HK\$190,000,000 (28th February 2019: HK\$340,000,000) are arranged at fixed interest rates ranging from 2.06% to 2.64% (28th February 2019: 1.38% 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 2019: 0.60% plus HIBOR) per annum and the USD borrowing is arranged at floating interest rate at 0.95% plus LIBOR (28th February 2019: 0.95% plus LIBOR) per annum, thus exposing the Group to cash flow interest rate risk.

At 31st August 2019, the Group had available unutilised overdrafts and non-committed short term bank loan facilities of HK\$821,740,000 (28th February 2019: HK\$730,900,000) and HK\$1,070,972,000 (28th February 2019: HK\$1,342,050,000) respectively.

On 5th September 2019, the Group entered into a term loan of JPY4,150,000,000, with the drawdown in three tranches from September 2019 to March 2020, and the corresponding repayment dates from September 2024 to March 2026.

## 26. DERIVATIVE FINANCIAL INSTRUMENTS

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

All derivative financial instruments entered into by the Group that remain outstanding at 31st August 2019 and 28th February 2019 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings and collateralised debt obligation, the designated hedged items.

Details 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\$785,000,000 (28th February 2019: HK\$650,000,000) from floating rates to fixed rates. The interest rate swaps with aggregate notional amount of HK\$785,000,000 (28th February 2019: HK\$650,000,000) have fixed interest payments quarterly at fixed interest rates ranging from 2.29% to 3.29% (28th February 2019: 2.3% to 3.3%) per annum and floating interest receipts quarterly ranging from 0.55% plus HIBOR to 0.60% plus HIBOR (28th February 2019: 0.60% plus HIBOR) per annum for periods up until July 2023 (28th February 2019: until March 2022).

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 2019: 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 2019: 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 2019: 3.2% to 3.8%) per annum and floating interest receipts monthly from 0.40% plus HIBOR to 0.55% plus HIBOR (28th February 2019: 0.40% plus HIBOR to 0.55% plus HIBOR) per annum for periods up until August 2019 and July 2020 (28th February 2019: until August 2019 and July 2020) respectively.

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

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

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

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\$10,476,000 (six months ended 31st August 2018: HK\$26,140,000) 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 2019: 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 2019: USD to HKD at 7.76), fixed interest payments quarterly in HKD at 2.27% (28th February 2019: 2.27%) per annum and floating interest receipts quarterly in USD at 0.95% plus LIBOR (28th February 2019: 0.95% plus LIBOR) per annum for periods up until September 2021 (28th February 2019: 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.

During the period, net adjustment on the above-mentioned cash flow hedges amounted to HK\$8,084,000 (six months ended 31st August 2018: HK\$507,000) 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 <i>HK\$'000</i>
<b>Issued and fully paid</b>		
At 1st March 2019 and 31st August 2019		
– Ordinary shares with no par value	<b>418,766,000</b>	<b>269,477</b>

## 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 2019 and 31st August 2018:

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

## 29. COLLATERALISED DEBT OBLIGATION

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



## 29. COLLATERALISED DEBT OBLIGATION (Continued)

- (a) The Group entered into a HK\$1,250,000,000 collateralised debt obligation financing transaction (the “Transaction”) with the three tranches arranged at floating interest rates from 0.40% plus HIBOR per annum to 0.55% plus HIBOR per annum. Three corresponding interest rate swaps 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 was 3.6% (six months ended 31st August 2018: 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”). The Group holds the entire undivided interest in the credit card receivables transferred. In accordance with HKFRS 10 *Consolidated Financial Statements*, the Trust is controlled by the Group and the results thereof are consolidated by the Group in its condensed consolidated financial statements. According to HKFRS 9, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group’s condensed consolidated financial statements.

## 30. CAPITAL COMMITMENTS

	<b>31.8.2019</b>	28.2.2019
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Contracted for but not provided in the condensed consolidated financial statements:		
Purchase of property, plant and equipment	<b>30,453</b>	31,615

## 31. PLEDGE OF ASSETS

At 31st August 2019, the collateralised debt obligation was secured by credit card receivables and restricted deposits of HK\$1,596,073,000 and HK\$93,214,000 respectively (28th February 2019: HK\$1,675,261,000 and HK\$419,466,000) (see Notes 15(a) and 19).

## 32. 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	
	1.3.2019 to	1.3.2018 to	1.3.2019 to	1.3.2018 to	1.3.2019 to	1.3.2018 to	1.3.2019 to	1.3.2018 to
	31.8.2019	31.8.2018	31.8.2019	31.8.2018	31.8.2019	31.8.2018	31.8.2019	31.8.2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income received	<u>2,540</u>	<u>2,637</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Commissions received	<u>2,674</u>	<u>3,553</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Dividends received	<u>391</u>	<u>391</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Service fees received	<u>-</u>	<u>-</u>	<u>571</u>	<u>492</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Licence fees paid	<u>5,803</u>	<u>5,567</u>	<u>-</u>	<u>-</u>	<u>36</u>	<u>15</u>	<u>-</u>	<u>-</u>
Service fees paid	<u>-</u>	<u>-</u>	<u>6,561</u>	<u>6,945</u>	<u>-</u>	<u>-</u>	<u>10,315</u>	<u>15,275</u>
Gift certificates paid	<u>2,861</u>	<u>2,680</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Development fees paid	<u>5,345</u>	<u>2,590</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

### Compensation of key management personnel

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

	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000
Short-term benefits	<u>7,751</u>	<u>5,596</u>
Post-employment benefits	<u>36</u>	<u>18</u>
	<u><b>7,787</b></u>	<u><b>5,614</b></u>

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

### 33. 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
		31.8.2019	28.2.2019	31.8.2019	28.2.2019	
		(Unaudited)	(Audited)	(Unaudited)	(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 2019 and 28th February 2019, assets in this special purpose entity mainly consist of credit card receivables, restricted deposits, time deposits, subordinated beneficiary and seller beneficiary.

### 34. 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).

### 34. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

	31.8.2019 (Unaudited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Derivative financial assets	–	9,603	–	9,603
Financial instruments at fair value through other comprehensive income				
Listed equity securities	6,074	–	–	6,074
Unlisted equity securities	–	–	122,909	122,909
	<u>6,074</u>	<u>–</u>	<u>122,909</u>	<u>138,586</u>
Total	<u>6,074</u>	<u>9,603</u>	<u>122,909</u>	<u>138,586</u>
Derivative financial liabilities	–	5,386	–	5,386
	<u>–</u>	<u>5,386</u>	<u>–</u>	<u>5,386</u>
	28.2.2019 (Audited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Derivative financial assets	–	15,486	–	15,486
Financial instruments at fair value through other comprehensive income				
Listed equity securities	7,530	–	–	7,530
Unlisted equity investments	–	–	111,171	111,171
	<u>7,530</u>	<u>–</u>	<u>111,171</u>	<u>134,187</u>
Total	<u>7,530</u>	<u>15,486</u>	<u>111,171</u>	<u>134,187</u>
Derivative financial liabilities	–	14,635	–	14,635
	<u>–</u>	<u>14,635</u>	<u>–</u>	<u>14,635</u>

#### 34. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

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

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:

	31.8.2019 (Unaudited)		28.2.2019 (Audited)	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Bank borrowings	<u>1,216,403</u>	<u>1,222,088</u>	<u>1,381,483</u>	<u>1,386,925</u>

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

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### ***Business Review***

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

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

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

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

### ***Financial Review***

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *Financial Review (Continued)*

#### *Profit or loss analysis*

##### Revenue

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

##### Net interest income

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

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

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

##### Operating income

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *Financial Review (Continued)*

#### *Profit or loss analysis (Continued)*

##### Operating expenses

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

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

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

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

##### Impairment losses and impairment allowance

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

##### *Statement of financial position analysis*

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

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



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### *Segment Information*

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

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

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

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

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

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

## MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

### *Prospects*

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

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

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

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

### *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).

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Funding and Capital Management (Continued)

#### 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:

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

#### Notes:

- (a) Debt comprises bank borrowings and collateralised debt obligation as detailed in Notes 25 and 29 respectively.
- (b) Equity includes all capital and reserves of the Group.

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

### ***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 2019, 57.2% of its funding was derived from total equity, 21.1% from bank borrowings and 21.7% from structured finance.

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

Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

The Group's principal operations are transacted and recorded in HKD and therefore its core assets are not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings.

The Group also had HK\$78.5 million of other contractual commitments as of 31st August 2019, primarily related to the card and loan system replacement project.

### ***Human Resources***

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

## 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 equity instruments at FVTOCI, advances and receivables, other debtors, restricted deposits, time deposits, fiduciary bank balances, bank balances and cash, bank borrowings, collateralised debt obligation, creditors, amounts due to fellow subsidiaries, intermediate holding company, ultimate holding company and an associate and derivative instruments in designated hedge accounting relationships.

The management manages and monitors these exposures to ensure appropriate measures are implemented in 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.

There has been no material change to the Group's exposure to market, credit, liquidity or operational risks or the manner in which it manages and measures such risks for the period under review.

### *Market risk*

The Group's activities expose itself 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.

## **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 deposits, 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 by converting the foreign currency debts to the functional currency of the relevant group entity. The critical terms of these currency swaps broadly match 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 value of 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 changed 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 as changed 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 broadly match those of the relevant 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 equity instrument at FVTOCI. The Group invested in certain unquoted equity securities for long term strategic purposes which had been designated as FVTOCI. The management will monitor the price movements and take appropriate actions to mitigate equity price risk when 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 2019 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 Board has the overall responsibility for the Group's credit policies and oversees the credit quality of the Group's asset portfolio. Management of credit risk has been delegated to 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 this regard, the management considers that the Group's credit risk is under adequate control. In addition, adequate impairment losses are made for irrecoverable accounts, and monitoring of any significant increase in credit risk is carried out through performing impairment assessment under ECL model upon application of HKFRS 9.

The Group is also potentially exposed to loss in an amount equal to the total unused credit card limit granted to credit card customers. However, any likely amount of loss is expected to be less than the total unused credit card limit, as the continuing validity of credit facilities are contingent upon customers maintaining specific credit standards. The Group monitors the credit worthiness of its customers and has the contractual right to unilaterally cancel the credit facilities granted. The management considers that the Group's credit risk is contained. At 31st August 2019, unused credit card limit of HK\$26,931,830,000 (28th February 2019: HK\$27,733,823,000) is unrecorded in the consolidated statement of financial position.

Other than the concentration of credit risk on liquid funds and derivative financial instruments entered into with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

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

### ***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 through continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities, and maintaining a conservative level of long-term funding to finance its short-term financial assets.

### ***Capital risk***

The Group's policy is to maintain a strong capital base to support the Group's continuation as a going concern and the development of the Group's business. During the period under review, the Group relied principally on internally generated capital as well as bank borrowings and structured finance 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 of loss resulting from internal or external events such as operational incidents, accidents and circulation of 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, monitoring, mitigation and prevention. The primary responsibility of each division head and branch manager is to manage inherent risks to ensure that they are within the tolerance levels under the risk appetite approved by the Board and to link business decisions to such risk appetite. 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 operational and business continuity, high quality of customer service and effective risk control through proactive management, operational excellence and alignment with best market practices. The management manages significant risks and ensures that different risks to be mitigated 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, employees and other stakeholders. The Company has complied with the code provisions of the CG Code throughout the six months ended 31st August 2019, with the exceptions of code provisions A.4.1 and A.4.2 which are explained below.

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

The Company's Non-executive Directors are not appointed for a specific term and Directors are not subject to retirement by rotation. However, all Directors, including the executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the articles of association of the Company.

### ***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.

## CORPORATE GOVERNANCE AND OTHER INFORMATION *(Continued)*

### *Directors' Interest in Shares*

At 31st August 2019, the interests of the Directors and their associates in the shares, and underlying shares 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) *Long positions in the shares of the Company*

<i>Director</i>	<i>Number of shares held under personal interests</i>	<i>Percentage of the issued share capital of the Company</i>
Hideo Tanaka	28,600	0.01

(b) *Long positions in the shares of AFS – intermediate holding company of the Company*

<i>Directors</i>	<i>Number of shares held under personal interests</i>	<i>Percentage of the issued share capital of AFS</i>
Masaaki Mangetsu	5,080	0.01
Hideo Tanaka	891	0.01

(c) *Long positions in the shares of AEON Japan – ultimate holding company of the Company*

<i>Director</i>	<i>Number of shares held under personal interests</i>	<i>Percentage of the issued share capital of AEON Japan</i>
Masaaki Mangetsu	1,591	0.01

(d) *Long positions in the shares of ACS Malaysia – a fellow subsidiary of the Company*

<i>Director</i>	<i>Number of shares held under personal interests</i>	<i>Percentage of the issued share capital of ACS Malaysia</i>
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 any shares, underlying shares or debentures of the Company or any of its associated corporations at 31st August 2019.

## CORPORATE GOVERNANCE AND OTHER INFORMATION *(Continued)*

### *Substantial Shareholders' Interests in Shares*

At 31st August 2019, 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 in the issued share capital of the Company:

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares held</b>	<b>Percentage of the issued share capital of the Company</b>
AEON Japan <i>(Note 1)</i>	Beneficial owner/Interest of a controlled corporation	281,138,000	67.13
AFS <i>(Note 2)</i>	Interest of a controlled corporation	221,364,000	52.86
AFS (HK) <i>(Note 3)</i>	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

#### *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 47.35% 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), 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 share capital of the Company at 31st August 2019.

## CORPORATE GOVERNANCE AND OTHER INFORMATION *(Continued)*

### *Changes in Information of Directors*

The changes in the information of Directors since the publication of the 2018/19 Annual Report are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

<b>Name of Directors</b>	<b>Details of Changes</b>
Masaaki Mangetsu	<ul style="list-style-type: none"><li>• Appointed as a director of AEON Micro Finance (Shenzhen) Co., Ltd on 28th May 2019</li><li>• Retired as a director of AEON Credit Service Co., Ltd. on 13th June 2019</li><li>• Appointed as a director of ACS Malaysia on 20th June 2019</li></ul>
Hideo Tanaka	<ul style="list-style-type: none"><li>• Received an annual discretionary bonus of HK\$634,000 in June 2019</li></ul>
Lai Yuk Kwong	<ul style="list-style-type: none"><li>• Received an annual discretionary bonus of HK\$379,000 in June 2019</li></ul>
Koh Yik Kung	<ul style="list-style-type: none"><li>• Received an annual discretionary bonus of HK\$156,000 in June 2019</li><li>• Entitled to an annual base salary of HK\$1,896,000 with effect from 21st June 2019</li></ul>
Tomoharu Fukayama	<ul style="list-style-type: none"><li>• Retired as an Executive Director on 21st June 2019</li></ul>
Tony Fung	<ul style="list-style-type: none"><li>• Appointed as an Executive Director on 21st June 2019</li><li>• Entitled to an annual base salary of HK\$1,896,000 with effect from 21st June 2019</li></ul>
Lee Ching Ming, Adrian	<ul style="list-style-type: none"><li>• Entitled to an annual fee of HK\$330,000 with effect from 1st July 2019</li></ul>
Wong Hin Wing	<ul style="list-style-type: none"><li>• Entitled to an annual fee of HK\$330,000 with effect from 1st July 2019</li><li>• Appointed as a member of the Betting and Lotteries Commission on 1st August 2019</li></ul>
Kenji Hayashi	<ul style="list-style-type: none"><li>• Entitled to an annual fee of HK\$330,000 with effect from 1st July 2019</li></ul>

## **CORPORATE GOVERNANCE AND OTHER INFORMATION** *(Continued)*

### ***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.

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

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

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

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

Hong Kong, 30th September 2019



**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 36, which comprise the condensed consolidated statement of financial position as of 31st August 2019 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

30th September 2019

## **GLOSSARY**

AEON Japan	AEON Co., Ltd.
ACS 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
ECL	Expected Credit Loss
FVTOCI	Fair value through other comprehensive income
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
JPY	Japanese Yen, the lawful currency of Japan



**GLOSSARY** *(Continued)*

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