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

UNAUDITED RESULTS
FOR THE THREE MONTHS ENDED 31ST MAY 2020

The board (the “Board”) of directors (the “Directors”) of AEON Credit Service (Asia) Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31st May 2020, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the three months ended 31st May 2020

	<i>Notes</i>	1.3.2020 to 31.5.2020 (Unaudited) HK\$'000	1.3.2019 to 31.5.2019 (Unaudited) HK\$'000
Revenue	2	297,470	324,853
Interest income		258,310	283,956
Interest expense		(12,879)	(19,380)
Net interest income		245,431	264,576
Fees and commissions		20,921	21,368
Handling and late charges		18,239	19,529
Other income		1,121	3,232
Other gains and losses	4	46	(76)
Operating income		285,758	308,629
Operating expenses	5	(125,697)	(138,630)
Operating profit before impairment losses and impairment allowances		160,061	169,999
Impairment losses and impairment allowances		(80,030)	(53,968)
Recoveries of advances and receivables written-off		8,999	12,581
Share of results of an associate		1,061	230
Profit before tax		90,091	128,842
Income tax expense		(14,827)	(22,050)
Profit for the period		75,264	106,792
Profit for the period attributable to: Owners of the Company		75,264	106,792
Earnings per share – Basic		17.97 HK cents	25.50 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31st May 2020

	1.3.2020 to 31.5.2020 (Unaudited) HK\$'000	1.3.2019 to 31.5.2019 (Unaudited) HK\$'000
Profit for the period	<u>75,264</u>	<u>106,792</u>
Other comprehensive income (expense)		
Item that will not be reclassified to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	460	(213)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(5,678)	(8,974)
Net adjustment on cash flow hedges	<u>(1,491)</u>	<u>4,291</u>
Other comprehensive expense for the period	<u>(6,709)</u>	<u>(4,896)</u>
Total comprehensive income for the period	<u><u>68,555</u></u>	<u><u>101,896</u></u>
Total comprehensive income for the period attributable to: Owners of the Company	<u><u>68,555</u></u>	<u><u>101,896</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st May 2020

		31.5.2020	29.2.2020
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		99,257	105,173
Right-of-use assets		89,756	92,786
Investment in an associate		16,321	15,587
Equity instruments at fair value through other comprehensive income		81,532	81,071
Advances and receivables	6	663,753	719,765
Prepayments, deposits and other debtors		26,165	26,258
Derivative financial instruments	11	–	1,809
Deferred tax assets		9,831	8,769
		986,615	1,051,218
Current assets			
Advances and receivables	6	3,552,256	3,708,241
Prepayments, deposits and other debtors		61,868	70,425
Amount due from immediate holding company		–	250
Amount due from intermediate holding company		58	–
Amount due from an associate		37	81
Derivative financial instruments	11	–	353
Restricted deposits		38,000	38,000
Time deposits		146,071	150,812
Bank balances and cash		810,138	710,338
		4,608,428	4,678,500
Current liabilities			
Creditors and accruals		239,858	215,992
Contract liabilities		11,087	10,562
Amounts due to fellow subsidiaries		61,786	38,775
Amount due to immediate holding company		24	–
Amount due to intermediate holding company		323	283
Amount due to ultimate holding company		26	50
Amount due to an associate		1,657	3,203
Bank borrowings	9	345,000	370,000
Collateralised debt obligation	10	318,100	548,400
Lease liabilities		44,240	37,869
Derivative financial instruments	11	981	839
Tax liabilities		12,125	16,514
		1,035,207	1,242,487
Net current assets		3,573,221	3,436,013
Total assets less current liabilities		4,559,836	4,487,231

		31.5.2020	29.2.2020
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		3,112,620	3,044,065
		<u>3,382,097</u>	<u>3,313,542</u>
Equity			
Non-current liabilities			
Bank borrowings	9	1,108,224	1,099,102
Lease liabilities		47,537	56,760
Derivative financial instruments	11	21,978	17,827
		<u>1,177,739</u>	<u>1,173,689</u>
		<u>4,559,836</u>	<u>4,487,231</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31st May 2020

	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 2019 (Audited)	269,477	93,042	(3,738)	(13,213)	2,845,079	3,190,647
Profit for the period	-	-	-	-	106,792	106,792
Fair value loss on equity instruments at fair value through other comprehensive income	-	(213)	-	-	-	(213)
Exchange difference arising from translation of foreign operations	-	-	-	(8,974)	-	(8,974)
Net adjustment on cash flow hedges	-	-	4,291	-	-	4,291
Total comprehensive (expense) income for the period	-	(213)	4,291	(8,974)	106,792	101,896
At 31st May 2019 (Unaudited)	<u>269,477</u>	<u>92,829</u>	<u>553</u>	<u>(22,187)</u>	<u>2,951,871</u>	<u>3,292,543</u>
At 1st March 2020 (Audited)	<u>269,477</u>	<u>57,249</u>	<u>(17,416)</u>	<u>(24,951)</u>	<u>3,029,183</u>	<u>3,313,542</u>
Profit for the period	-	-	-	-	75,264	75,264
Fair value gain on equity instruments at fair value through other comprehensive income	-	460	-	-	-	460
Exchange difference arising from translation of foreign operations	-	-	-	(5,678)	-	(5,678)
Net adjustment on cash flow hedges	-	-	(1,491)	-	-	(1,491)
Total comprehensive income (expense) for the period	-	460	(1,491)	(5,678)	75,264	68,555
At 31st May 2020 (Unaudited)	<u>269,477</u>	<u>57,709</u>	<u>(18,907)</u>	<u>(30,629)</u>	<u>3,104,447</u>	<u>3,382,097</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31st May 2020

	1.3.2020 to 31.05.2020 (Unaudited) HK\$'000	1.3.2019 to 31.05.2019 (Unaudited) HK\$'000
Net cash from operating activities	<u>356,938</u>	<u>151,516</u>
Purchase of property, plant and equipment	(2,834)	(1,455)
Deposits paid for acquisition of property, plant and equipment	(213)	(10,661)
Placement of time deposits with maturity of more than three months	(12,403)	(6,455)
Release of time deposits with maturity of more than three months	<u>20,235</u>	<u>–</u>
Net cash generated from (used in) investing activities	<u>4,785</u>	<u>(18,571)</u>
Placement of restricted deposits	(721,723)	(874,006)
Withdrawal of restricted deposits	721,723	1,007,309
Repayment of lease liabilities	(12,122)	(12,409)
New bank loans raised	83,038	–
Repayment of bank loans	(95,000)	(230,291)
Repayment of collateralised debt obligations	<u>(230,300)</u>	<u>–</u>
Net cash used in financing activities	<u>(254,384)</u>	<u>(109,397)</u>
Net increase in cash and cash equivalents	107,339	23,548
Effect of changes in exchange rate	(1,831)	(4,927)
Cash and cash equivalents at beginning of the period	<u>764,987</u>	<u>478,556</u>
Cash and cash equivalents at end of the period	<u>870,495</u>	<u>497,177</u>
Being:		
Time deposits with maturity of three months or less	60,357	103,327
Bank balances and cash	<u>810,138</u>	<u>393,850</u>
	<u>870,495</u>	<u>497,177</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31st May 2020

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The financial information relating to the year ended 29th February 2020 that is included in the unaudited results for the three months ended 31st May 2020 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements is as follows:

The Company will deliver the financial statements for the year ended 29th February 2020 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong 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 Hong Kong Companies Ordinance.

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the three months ended 31st May 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 29th February 2020.

2. REVENUE

	1.3.2020 to 31.5.2020 (Unaudited) HK\$’000	1.3.2019 to 31.5.2019 (Unaudited) HK\$’000
Interest income	258,310	283,956
Fees and commissions		
– Credit cards	14,389	15,222
– Insurance	6,532	6,146
Handling and late charges	18,239	19,529
	297,470	324,853

3. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

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

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

Segment revenue and results

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

1.3.2020 to 31.5.2020 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>231,509</u>	<u>59,429</u>	<u>6,532</u>	<u>297,470</u>
RESULT				
Segment results	<u>72,943</u>	<u>12,824</u>	<u>3,464</u>	89,231
Unallocated operating income				395
Unallocated expenses				(596)
Share of results of an associate				1,061
Profit before tax				<u>90,091</u>

1.3.2019 to 31.5.2019 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>247,699</u>	<u>70,970</u>	<u>6,184</u>	<u>324,853</u>
RESULT				
Segment results	<u>97,216</u>	<u>28,112</u>	<u>3,263</u>	128,591
Unallocated operating income				670
Unallocated expenses				(649)
Share of results of an associate				230
Profit before tax				<u>128,842</u>

Geographical information

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

1.3.2020 to 31.5.2020 (Unaudited)

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	295,030	2,440	297,470
RESULT			
Segment results	90,640	(1,409)	89,231
Unallocated operating income			395
Unallocated expenses			(596)
Share of results of an associate			1,061
Profit before tax			90,091

1.3.2019 to 31.5.2019 (Unaudited)

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	320,705	4,148	324,853
RESULT			
Segment results	133,600	(5,009)	128,591
Unallocated operating income			670
Unallocated expenses			(649)
Share of results of an associate			230
Profit before tax			128,842

4. OTHER GAINS AND LOSSES

	1.3.2020 to 31.5.2020 (Unaudited) HK\$'000	1.3.2019 to 31.5.2019 (Unaudited) HK\$'000
Exchange gain (loss)		
Exchange gain on hedging instruments released from cash flow hedge reserve	3,443	75
Exchange loss on a bank loan	(3,443)	(75)
Other exchange losses, net	(22)	(43)
Hedge ineffectiveness on cash flow hedges, net	68	(33)
	46	(76)

5. OPERATING EXPENSES

	1.3.2020 to 31.5.2020 (Unaudited) HK\$'000	1.3.2019 to 31.5.2019 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	9,031	8,410
Depreciation on right-of-use assets	11,587	12,731
Expenses relating to short-term leases (2019: short-term leases and other leases with lease terms ending within 12 months from the date of initial application of HKFRS 16 "Leases")	1,958	5,772
	13,545	18,503
General administrative expenses	38,066	41,586
Marketing and promotion expenses	13,336	16,009
Other operating expenses	15,824	15,349
Staff costs including directors' emoluments	35,895	38,773
	125,697	138,630

6. ADVANCES AND RECEIVABLES

	31.5.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Credit card receivables	3,467,302	3,579,077
Personal loan receivables	947,891	1,025,858
	4,415,193	4,604,935
Accrued interest and other receivables	81,363	85,579
	4,496,556	4,690,514
Gross advances and receivables	4,496,556	4,690,514
Impairment allowances (<i>note 7</i>)	(280,547)	(262,508)
	4,216,009	4,428,006
Current portion included under current assets	(3,552,256)	(3,708,241)
	663,753	719,765

7. IMPAIRMENT ALLOWANCES

	31.5.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Analysis by products as:		
Credit card receivables	154,948	140,022
Personal loan receivables	119,038	115,923
Accrued interest and other receivables	6,561	6,563
	<u>280,547</u>	<u>262,508</u>

An analysis of movements in impairment allowances during each of the two periods ended 31st May 2020 and 31st May 2019 are set out as below:

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2020	91,705	49,711	121,092	262,508
Net (repayment) addition in advances and receivables	(2,482)	1,407	(16,097)	(17,172)
Transfer to 12 months expected credit loss (Stage 1)	41,232	(37,619)	(3,613)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(3,603)	7,121	(3,518)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(7)	(28,742)	28,749	–
Total transfer between stages	37,622	(59,240)	21,618	–
Remeasurement of expected credit loss during the period	(30,248)	53,247	74,203	97,202
Amounts written-off as uncollectable	–	–	(61,945)	(61,945)
Exchange realignment	(5)	(2)	(39)	(46)
At 31st May 2020	<u>96,592</u>	<u>45,123</u>	<u>138,832</u>	<u>280,547</u>

	Stage 1 HK\$'000	Stage 2 HK\$'000	Stage 3 HK\$'000	Total HK\$'000
At 1st March 2019	107,811	48,575	87,107	243,493
Net addition (repayment) in advances and receivables	518	(5,233)	(3,060)	(7,775)
Transfer to 12 months expected credit loss (Stage 1)	54,220	(52,419)	(1,801)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(4,700)	7,141	(2,441)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(176)	(23,250)	23,426	–
Total transfer between stages	49,344	(68,528)	19,184	–
Remeasurement of expected credit loss during the period	(44,518)	61,558	44,703	61,743
Amounts written-off as uncollectable	–	–	(59,372)	(59,372)
Exchange realignment	(426)	(11)	(7)	(444)
At 31st May 2019	<u>112,729</u>	<u>36,361</u>	<u>88,555</u>	<u>237,645</u>

8. 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:

	31.05.2020 (Unaudited)		29.02.2020 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	91,447	2.0	143,457	3.1
Overdue 2 months but less than 3 months	57,644	1.3	59,422	1.3
Overdue 3 months but less than 4 months	35,922	0.8	35,930	0.8
Overdue 4 months or above	86,008	1.9	69,820	1.5
	<u>271,021</u>	<u>6.0</u>	<u>308,629</u>	<u>6.7</u>

* *Percentage of gross advances and receivables*

9. BANK BORROWINGS

	31.5.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Carrying amount repayable (<i>Note</i>)		
Within one year	345,000	370,000
Within a period of more than one year but not more than two years	522,069	529,162
Within a period of more than two years but not more than five years	504,130	569,940
Within a period of more than five years	82,025	–
	1,453,224	1,469,102
Amount repayable within one year included under current liabilities	(345,000)	(370,000)
Amount repayable after one year	1,108,224	1,099,102

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

10. COLLATERALISED DEBT OBLIGATION

	31.5.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Tranche A	84,050	199,200
Tranche B	84,050	199,200
Tranche C	150,000	150,000
	318,100	548,400
Amount repayable within one year included under current liabilities	(318,100)	(548,400)
Amount repayable after one year	–	–

11. DERIVATIVE FINANCIAL INSTRUMENTS

	31.5.2020 (Unaudited)		29.2.2020 (Audited)	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Interest rate swaps	–	10,266	353	9,613
Cross-currency interest rate swaps	–	12,693	1,809	9,053
	–	22,959	2,162	18,666
Current portion	–	(981)	(353)	(839)
Non-current portion	–	21,978	1,809	17,827

All derivative financial instruments entered by the Group that remain outstanding at 31st May 2020 and 29th February 2020 are for hedging purposes. 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.

12. PLEDGE OF ASSETS

At 31st May 2020, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK\$1,418,688,000** and **HK\$38,000,000** respectively (29th February 2020: HK\$1,482,338,000 and HK\$38,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

COVID-19 continued to impact the whole world throughout the first quarter, resulting in an almost complete halt of business activities and international travel across different countries. With the implementation of group gathering ban and self-isolation for inbound travellers, economic activities in Hong Kong drastically contracted, resulting in a corresponding surge in unemployment rates and sharp drop in domestic consumption.

Against this backdrop, the Group suspended marketing activities on personal loans, card cash advance and overseas spending while concentrating on stimulating domestic spending on daily necessities. At the same time, the Group re-visited its credit assessment criteria to further contain its credit risk exposure. Credit environment was noticeably deteriorated in the first quarter, resulting in an increase in impairment losses and impairment allowances.

Financial Review

For the three months ended 31st May 2020, profit before tax was HK\$90.1 million, a decrease of HK\$38.7 million when compared with the previous period. After deducting income tax expense of HK\$14.8 million, the Group recorded a decrease in profit of 29.5%, with profit after tax reducing from HK\$106.8 million in the previous period to HK\$75.3 million in the current period. Earnings per share decreased from 25.50 HK cents to 17.97 HK cents for the reporting period.

Net debt to equity ratio was 0.3 and 0.4 at 31st May 2020 and 29th February 2020 respectively, while equity to total assets ratio was 60.5% and 57.8% at 31st May 2020 and 29th February 2020 respectively.

Net asset value per share (after final dividend) at 31st May 2020 was HK\$7.9, as compared with the net asset value per share (after final dividend) of HK\$7.7 at 29th February 2020.

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for the period was HK\$297.5 million, a decrease of 8.4% or HK\$27.4 million when compared with HK\$324.9 million in the previous period.

Net interest income

With a significant drop in consumer spending, card credit purchase sales and card advance sales for the period recorded a decrease of 13.0% and 28.5% respectively when compared with the previous period. The Group recorded a decrease in interest income of 9.0% or HK\$25.6 million, from HK\$283.9 million in the first three months ended 31st May 2019 to HK\$258.3 million in the reporting period.

Together with a reduction in bank borrowings and the drop in average funding cost from 3.1% in the first quarter of 2019/20 to 2.5% in the reporting period, the Group's interest expense recorded a decrease of 33.5% or HK\$6.5 million, from HK\$19.4 million in the previous period to HK\$12.9 million in the reporting period.

Consequently, net interest income of the Group in the current period was HK\$245.4 million, representing a decrease of HK\$19.1 million when compared with the corresponding period in 2019/20.

Operating income

Following the drop in credit card sales, fees and commissions from the credit card business recorded a drop of HK\$0.8 million to HK\$14.4 million in the current period. For the purpose of better assessment of individual segment performance, marketing support fund for the insurance agency business previously recorded under credit cards in the first quarter of 2019/20 is now presented under insurance. Fees and commissions from the insurance business increased from HK\$6.1 million to HK\$6.5 million, resulting from an increase in the corporate insurance business. Consequently, the Group recorded a slight decrease of HK\$0.4 million in fees and commissions from HK\$21.4 million in the first three months of 2019/20 to HK\$20.9 million in the current period. Following the drop in card cash advance sales and payment of delinquent charges, there was a decrease in handling and late charges of HK\$1.3 million in the reporting period.

Operating income of the Group for the first three months of 2020/21 recorded a decrease of HK\$22.9 million from HK\$308.6 million in 2019/20 to HK\$285.8 million in the reporting period.

Operating expenses

In view of the foreseeable deterioration in economic situation, the Group had exercised tight control on operating expenses and continued to re-visit its cost structure to improve operation efficiency. With the suspension of certain marketing activities, marketing and promotion expenses recorded a decrease of HK\$2.7 million when compared with the previous period. Following the restructuring of its branch and ATM networks, expenses related to leases recorded a decrease of around HK\$5.0 million when compared with the previous period. With an effort to streamline back-office operations through digitalization, staff costs and general administrative expenses recorded a decrease of HK\$2.9 million and HK\$3.5 million respectively when compared with the previous period.

Overall operating expenses recorded a decrease of HK\$12.9 million from HK\$308.6 million in the previous period to HK\$285.8 million in the current period. Cost-to-income ratio decreased from 44.9% in the previous period to 44.0% in the current period.

At the operating level before impairment losses and impairment allowances, the Group recorded an operating profit of HK\$160.0 million for the three months ended 31st May 2020, a decrease of 5.8% or HK\$9.9 million when compared with the previous period.

Impairment losses and impairment allowances

The contracted economic activities in the first quarter resulted in a surge in unemployment rates, which adversely affected the quality of the Group's credit portfolio. There was an increase of 48.3% or HK\$26.1 million in impairment losses and impairment allowances from HK\$54.0 million in the first three months of 2019/20 to HK\$80.0 million in the first three months of 2020/21. Such adverse situation is expected to continue at least for the rest of this financial year and the Group will focus on containing asset quality in the coming quarters.

Statement of Financial Position Analysis

The Group's equity at 31st May 2020 was HK\$3,382.1 million, representing a growth of 2.1% or HK\$68.6 million when compared with the balance of HK\$3,313.5 million at 29th February 2020.

Gross advances and receivables recorded a decrease of 4.1%, or HK\$194.0 million, from HK\$4,690.5 million at 29th February 2020 to HK\$4,496.6 million at 31st May 2020. At the same time, overdue advances and receivables decreased from HK\$308.6 million at 29th February 2020 to HK\$271.0 million at 31st May 2020. Total assets at 31st May 2020 were HK\$5,595.0 million, as compared to total assets of HK\$5,729.7 million at 29th February 2020.

Segment Information

In the first three months of 2020/21, with a decrease in credit card sales, revenue from credit card operations in 2020/21 decreased by 6.5% or HK\$16.2 million from HK\$247.7 million in 2019/20 to HK\$231.5 million in 2020/21. Coupled with an increase in impairment losses and allowances, the segment results for the period recorded a decrease of HK\$24.3 million from HK\$97.2 million in 2019/20 to HK\$72.9 million in 2020/21.

For personal loans, in view of the market situation, the Group continued to tighten up its credit assessment, resulting in a slowdown in sales and reduction in receivable balance. Consequently, revenue from personal loan operations in the first three months of 2020/21 decreased by 16.3% or HK\$11.5 million from HK\$71.0 million in 2019/20 to HK\$59.4 million in the reporting period. The segment results for the period recorded a decrease of HK\$15.3 million from HK\$28.1 million in 2019/20 to HK\$12.8 million in 2020/21.

Insurance intermediary operations remained stable, with segment revenue and segment results being HK\$6.5 million and HK\$3.5 million respectively in the reporting period, as compared to HK\$6.2 million and HK\$3.2 million in the previous year.

In relation to financial information by geographical locations, revenue from Hong Kong operations recorded a decrease of 8.0% or HK\$25.7 million, from HK\$320.7 million in 2019/20 to HK\$295.0 million in 2020/21, resulting from the drop in card spending and revolving credit card balance. With the deterioration of asset quality, the segment results recorded a drop of 32.2% or HK\$43.0 million, from HK\$133.6 million in 2019/20 to HK\$90.6 million in 2020/21.

For China operations, the two microfinance subsidiaries in Shenzhen and Tianjin continued to tighten up their credit assessment and cost control. Sales in these subsidiaries remained sluggish in the reporting period, resulting in further decrease in revenue of HK\$1.7 million, from HK\$4.1 million in 2019/20 to HK\$2.4 million in 2020/21. On the other hand, their effort to control costs and improve asset quality resulted in reduction of loss in the period by HK\$3.6 million to HK\$1.4 million from HK\$5.0 million in 2019/20.

Prospects

Without a once-and-for-all solution to stop the spread of the novel coronavirus, and the continuing shutdown of cross-border travel, it will not be possible for any significant recovery in economic activities in the world in the coming months. At the same time as the social unrest in Hong Kong has yet to fully dissipate, the economy will inevitably deteriorate further for the rest of this year, thereby creating downward pressure on our revenue. As unemployment rates are also expected to climb, this will fuel the continued deterioration of our asset quality, leading in turn to higher levels of impairment losses and impairment allowances. The financial performance of the Group will therefore face considerable challenges for the rest of the financial year.

Our digitalization strategy and restructuring of branch and ATM network had minimized face-to-face contact and manual operations so as to avoid the impact on operations from future unexpected social events. Thankfully, the strong capital base and our low gearing will enable the Group to operate effectively in these turbulent financial markets. In the meantime, the Group will closely monitor the quality of our credit portfolio and take additional precautionary measures to ensure stability of our operations. To prepare for new business opportunities that may arise as and when normal market conditions return, the Group will continue to enhance card benefits and utilize new technologies to deliver premium customer service experience, including the introduction of new mobile app functions such as instant bonus point redemption and online personal loan disbursement through the Faster Payment System (FPS).

Please note that the quarterly results of the Group presented herein have not been audited or reviewed by the Company's auditors. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Tomoharu Fukayama
Managing Director

Hong Kong, 23rd June 2020

As at the date of this announcement, the Board comprises Mr. Tomoharu Fukayama (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director), Mr. Tony Fung and Mr. Daisuke Takenaka as Executive Directors; Mr. Masaaki Mangetsu (Chairman) as Non-executive Director; and Mr. Lee Ching Ming Adrian, Mr. Kenji Hayashi, Ms. Shing Mo Han Yvonne and Ms. Junko Dochi as Independent Non-executive Directors.