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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST AUGUST 2021

The board (the “Board”) of directors (the “Directors”) of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st August 2021, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31st August 2021

| | <i>Notes</i> | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|---|--------------|---|---|
| Revenue | 3 | 511,570 | 574,460 |
| Interest income | 5 | 434,580 | 498,644 |
| Interest expense | 6 | (17,533) | (24,091) |
| Net interest income | | 417,047 | 474,553 |
| Fees and commissions | | 45,383 | 40,668 |
| Handling and late charges | | 31,607 | 35,148 |
| Other income | 7 | 3,806 | 8,917 |
| Other gains and losses | 8 | (3,736) | 123 |
| Operating income | | 494,107 | 559,409 |
| Operating expenses | 9 | (274,974) | (257,536) |
| Operating profit before impairment losses and impairment allowances | | 219,133 | 301,873 |
| Impairment losses and impairment allowances | | (34,843) | (140,127) |
| Recoveries of advances and receivables written-off | | 21,819 | 18,371 |
| Share of results of an associate | | 890 | 1,523 |
| Profit before tax | | 206,999 | 181,640 |
| Income tax expense | 10 | (34,659) | (29,239) |
| Profit for the period | | 172,340 | 152,401 |
| Profit for the period attributable to: Owners of the Company | | 172,340 | 152,401 |
| Earnings per share – Basic | 12 | 41.15 HK cents | 36.39 HK cents |

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31st August 2021

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|--|---|---|
| Profit for the period | <u>172,340</u> | <u>152,401</u> |
| Other comprehensive (expense) income | | |
| Item that will not be reclassified to profit or loss: | | |
| Fair value (loss) gain on equity instruments at fair value through other comprehensive income | (20,136) | 31,560 |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange difference arising from translation of foreign operations | 935 | 2,528 |
| Net adjustment on cash flow hedges | (1,341) | (14,855) |
| Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign operation | <u>3,783</u> | <u>–</u> |
| Other comprehensive (expense) income for the period | <u>(16,759)</u> | <u>19,233</u> |
| Total comprehensive income for the period | <u>155,581</u> | <u>171,634</u> |
| Total comprehensive income for the period attributable to: Owners of the Company | <u>155,581</u> | <u>171,634</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2021

| | <i>Notes</i> | 31.8.2021 (Unaudited) HK\$'000 | 28.2.2021 (Audited) HK\$'000 |
|--|--------------|---|------------------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 103,770 | 107,214 |
| Right-of-use assets | | 74,145 | 82,278 |
| Interest in an associate | | 20,417 | 19,406 |
| Equity instruments at fair value through other comprehensive income | | 45,334 | 65,470 |
| Advances and receivables | <i>13</i> | 627,458 | 589,136 |
| Prepayments, deposits and other debtors | <i>16</i> | 22,866 | 16,349 |
| Deferred tax assets | <i>20</i> | – | 2,509 |
| | | <hr/> 893,990 | <hr/> 882,362 |
| Current assets | | | |
| Advances and receivables | <i>13</i> | 3,255,924 | 3,254,632 |
| Prepayments, deposits and other debtors | <i>16</i> | 54,186 | 51,446 |
| Amount due from intermediate holding company | | 29 | – |
| Amount due from an associate | | 37 | 37 |
| Derivative financial instruments | <i>19</i> | 147 | – |
| Time deposits | | 383,351 | 135,302 |
| Bank balances and cash | | 554,781 | 759,587 |
| | | <hr/> 4,248,455 | <hr/> 4,201,004 |
| Current liabilities | | | |
| Creditors and accruals | <i>17(a)</i> | 246,096 | 263,789 |
| Contract liabilities | <i>17(b)</i> | 20,106 | 16,301 |
| Amounts due to fellow subsidiaries | | 38,546 | 63,741 |
| Amount due to intermediate holding company | | 843 | 1,497 |
| Amount due to ultimate holding company | | 1 | 14 |
| Amount due to an associate | | 1,871 | 1,672 |
| Bank borrowings | <i>18</i> | 454,329 | 527,635 |
| Lease liabilities | | 41,252 | 42,002 |
| Derivative financial instruments | <i>19</i> | 1,097 | 4,384 |
| Tax liabilities | | 39,582 | 20,726 |
| | | <hr/> 843,723 | <hr/> 941,761 |
| Net current assets | | <hr/> 3,404,732 | <hr/> 3,259,243 |
| Total assets less current liabilities | | <hr/> 4,298,722 | <hr/> 4,141,605 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

At 31st August 2021

| | <i>Notes</i> | 31.8.2021 (Unaudited) HK\$'000 | 28.2.2021 (Audited) HK\$'000 |
|----------------------------------|--------------|---|------------------------------------|
| Capital and reserves | | | |
| Share capital | | 269,477 | 269,477 |
| Reserves | | 3,232,756 | 3,152,553 |
| Total equity | | 3,502,233 | 3,422,030 |
| Non-current liabilities | | | |
| Bank borrowings | <i>18</i> | 732,182 | 655,246 |
| Lease liabilities | | 30,654 | 42,692 |
| Derivative financial instruments | <i>19</i> | 33,598 | 21,637 |
| Deferred tax liabilities | <i>20</i> | 55 | – |
| | | 796,489 | 719,575 |
| | | 4,298,722 | 4,141,605 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st August 2021

| | 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 2020 (Audited) | 269,477 | 57,249 | (17,416) | (24,951) | 3,029,183 | 3,313,542 |
| Profit for the period | - | - | - | - | 152,401 | 152,401 |
| Fair value gain on equity instruments at fair value through other comprehensive income | - | 31,560 | - | - | - | 31,560 |
| Exchange difference arising from translation of foreign operations | - | - | - | 2,528 | - | 2,528 |
| Net adjustment on cash flow hedges | - | - | (14,855) | - | - | (14,855) |
| Total comprehensive income (expense) for the period | - | 31,560 | (14,855) | 2,528 | 152,401 | 171,634 |
| Final dividend paid for 2019/20 (<i>Note 11</i>) | - | - | - | - | (92,128) | (92,128) |
| At 31st August 2020 (Unaudited) | 269,477 | 88,809 | (32,271) | (22,423) | 3,089,456 | 3,393,048 |
| At 1st March 2021 (Audited) | 269,477 | 41,648 | (24,750) | (10,847) | 3,146,502 | 3,422,030 |
| Profit for the period | - | - | - | - | 172,340 | 172,340 |
| Fair value loss on equity instruments at fair value through other comprehensive income | - | (20,136) | - | - | - | (20,136) |
| Exchange difference arising from translation of foreign operations | - | - | - | 935 | - | 935 |
| Net adjustment on cash flow hedges | - | - | (1,341) | - | - | (1,341) |
| Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign operation | - | - | - | 3,783 | - | 3,783 |
| Total comprehensive (expense) income for the period | - | (20,136) | (1,341) | 4,718 | 172,340 | 155,581 |
| Final dividend paid for 2020/21 (<i>Note 11</i>) | - | - | - | - | (75,378) | (75,378) |
| At 31st August 2021 (Unaudited) | 269,477 | 21,512 | (26,091) | (6,129) | 3,243,464 | 3,502,233 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st August 2021

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|--|---|---|
| Net cash from operating activities | 169,447 | 734,855 |
| Dividends received | 279 | 89 |
| Proceeds on disposal of property, plant and equipment | 1 | – |
| Purchase of property, plant and equipment | (31,255) | (5,432) |
| Deposits paid for acquisition of property, plant and equipment | (11,759) | (7,308) |
| Placement of time deposits with maturity of more than three months | (255,298) | (12,403) |
| Release of time deposits with maturity of more than three months | 29,622 | 29,281 |
| Net cash (used in) from investing activities | (268,410) | 4,227 |
| Placement of restricted deposits | – | (1,358,808) |
| Withdrawal of restricted deposits | – | 1,396,808 |
| Repayment of lease liabilities | (26,090) | (23,717) |
| Dividends paid | (75,378) | (92,128) |
| New bank loans raised | 150,000 | 83,038 |
| Repayments of bank loans | (140,000) | (145,000) |
| Repayment of collateralised debt obligation | – | (548,400) |
| Net cash used in financing activities | (91,468) | (688,207) |
| Net (decrease) increase in cash and cash equivalents | (190,431) | 50,875 |
| Effect of changes in exchange rate | 7,349 | 1,070 |
| Cash and cash equivalents at beginning of the period | 864,964 | 764,987 |
| Cash and cash equivalents at end of the period | 681,882 | 816,932 |
| Being: | | |
| Time deposits with maturity of three months or less | 127,101 | 51,642 |
| Bank balances and cash | 554,781 | 765,290 |
| | 681,882 | 816,932 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2021

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 28th February 2021 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 2021 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st August 2021 are the same as those presented in the Group’s annual financial statements for the year ended 28th February 2021.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1st March 2021 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|--|--|
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2 |

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

Impacts and changes in accounting policies on application of Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 “Interest Rate Benchmark Reform – Phase 2”

Accounting policies

Financial instruments

Changes in the basis for determining the contractual cash flows as a result of interest rate benchmark reform

For changes in the basis for determining the contractual cash flows of a financial asset or financial liability to which the amortised cost measurement applies as a result of interest rate benchmark reform, the Group applies the practical expedient to account for these changes by updating the effective interest rate, such change in effective interest rate normally has no significant effect on the carrying amount of the relevant financial asset or financial liability.

A change in the basis for determining the contractual cash flows is required by interest rate benchmark reform if and only if, both these conditions are met:

- the change is necessary as a direct consequence of interest rate benchmark reform; and
- the new basis for determining the contractual cash flows is economically equivalent to the previous basis (ie the basis immediately preceding the change).

For other changes made to a financial asset or financial liability in addition to changes to the basis for determining the contractual cash flows required by interest rate benchmark reform, the Group first applies the practical expedient to the changes required by interest rate benchmark reform by updating the effective interest rate. The Group then applies the applicable requirements in HKFRS 9 *Financial Instruments* on modification of a financial asset or a financial liability to the additional changes to which the practical expedient does not apply.

Hedge accounting

For changes made to the hedged risk, hedged item or hedging instrument required by interest rate benchmark reform, the Group amends the formal designation of a hedging relationship to reflect the changes by the end of the reporting period during which the relevant changes were made. Such an amendment to the formal designation of the hedging relationship constitutes neither the discontinuation of the hedging relationship nor the designation of a new hedging relationship.

Cash flows hedges

When a hedged item in a cash flow hedge is amended to reflect the changes that are required by the interest rate benchmark reform, the amount accumulated in the cash flow hedge reserve is deemed to be based on the alternative benchmark rate on which the hedged future cash flows are determined.

Transition and summary of effects

As at 1st March 2021, the Group has several United States Dollars London Interbank Offered Rate and Japanese Yen London Interbank Offered Rate bank borrowings which may be subject to interest rate benchmark reform.

The Group intends to apply the practical expedient in relation to the changes in contractual cash flows resulting from the interest rate benchmark reform for bank borrowings measured at amortised cost. The amendments have had no impact on the condensed consolidated financial statements as none of the above contracts has been transitioned to the relevant replacement rates during the interim period. The impacts on application of the amendments, if any, including additional disclosures, will be reflected in the Group’s consolidated financial statements for the year ending 28th February 2022.

3. REVENUE

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|---------------------------------------|---|---|
| Interest income | <u>434,580</u> | <u>498,644</u> |
| Fees and commissions | | |
| Credit cards | 31,240 | 28,008 |
| Insurance | 14,143 | 12,660 |
| Handling and late charges | <u>31,607</u> | <u>35,148</u> |
| Revenue from contracts with customers | <u>76,990</u> | <u>75,816</u> |
| Total revenue | <u>511,570</u> | <u>574,460</u> |

1.3.2021 to 31.8.2021 (Unaudited)

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

1.3.2020 to 31.8.2020 (Unaudited)

| | Credit cards HK\$'000 | Personal loans HK\$'000 | Insurance HK\$'000 | Total HK\$'000 |
|---------------------------|--------------------------|-------------------------------|-----------------------|-----------------------|
| Interest income | 388,785 | 109,859 | – | 498,644 |
| Fees and commissions | 28,008 | – | 12,660 | 40,668 |
| Handling and late charges | <u>32,742</u> | <u>2,406</u> | – | <u>35,148</u> |
| Segment revenue | <u>449,535</u> | <u>112,265</u> | <u>12,660</u> | <u>574,460</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 agency and brokerage services |

4. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

1.3.2021 to 31.8.2021 (Unaudited)

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

1.3.2020 to 31.8.2020 (Unaudited)

| | Credit cards <i>HK\$'000</i> | Personal loans <i>HK\$'000</i> | Insurance <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|----------------------------------|---------------------------------|--------------------------------------|------------------------------|---------------------------------|
| REVENUE | 449,535 | 112,265 | 12,660 | 574,460 |
| RESULT | | | | |
| Segment results | 150,410 | 24,000 | 6,247 | 180,657 |
| Unallocated operating income | | | | 809 |
| Unallocated expenses | | | | (1,349) |
| Share of results of an associate | | | | 1,523 |
| Profit before tax | | | | 181,640 |

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit before tax earned by each segment without allocation of certain other operating income (including dividend income), 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.

4. SEGMENT INFORMATION (Continued)

Geographical information

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

1.3.2021 to 31.8.2021 (Unaudited)

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

1.3.2020 to 31.8.2020 (Unaudited)

| | Hong Kong <i>HK\$'000</i> | Mainland China <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|----------------------------------|------------------------------|--------------------------------------|---------------------------------|
| REVENUE | 568,929 | 5,531 | 574,460 |
| RESULT | | | |
| Segment results | 184,167 | (3,510) | 180,657 |
| Unallocated operating income | | | 809 |
| Unallocated expenses | | | (1,349) |
| Share of results of an associate | | | 1,523 |
| Profit before tax | | | 181,640 |

5. INTEREST INCOME

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|--|---|---|
| Non-credit impaired advances | 426,917 | 489,000 |
| Credit impaired advances | 5,859 | 5,787 |
| Time deposits, restricted deposits and bank balances | 1,804 | 3,857 |
| | <u>434,580</u> | <u>498,644</u> |

6. INTEREST EXPENSE

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|--|---|---|
| Interest on bank borrowings | 15,443 | 15,189 |
| Interest on collateralised debt obligation | – | 2,864 |
| Interest on lease liabilities | 1,041 | 1,333 |
| Net interest expense on interest rate swap contracts | 1,049 | 4,705 |
| | <u>17,533</u> | <u>24,091</u> |

7. OTHER INCOME

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|---|---|---|
| Dividends received from financial instruments | | |
| Listed equity securities | 89 | 89 |
| Unlisted equity securities | 190 | – |
| Government grants | – | 5,891 |
| Others | 3,527 | 2,937 |
| | <u>3,806</u> | <u>8,917</u> |

8. OTHER GAINS AND LOSSES

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|--|---|---|
| Exchange gain (loss) | | |
| Exchange gain (loss) on hedging instrument released from cash flow hedge reserve | 6,800 | (3,552) |
| Exchange (loss) gain on bank loans | (6,800) | 3,552 |
| Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign operation | (3,783) | – |
| Other exchange gain (loss), net | 65 | (11) |
| Hedge ineffectiveness on cash flow hedges | 137 | 136 |
| Losses on disposal of property, plant and equipment | (155) | (2) |
| | (3,736) | 123 |

9. OPERATING EXPENSES

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|---|---|---|
| Depreciation on property, plant and equipment | 14,356 | 16,594 |
| Depreciation on right-of-use assets | 26,663 | 23,615 |
| Expenses relating to short-term leases | 802 | 3,926 |
| | 27,465 | 27,541 |
| General administrative expenses | 81,060 | 77,643 |
| Marketing and promotion expenses | 43,529 | 26,494 |
| Other operating expenses | 30,092 | 31,907 |
| Staff costs including Directors' emoluments | 78,472 | 77,357 |
| | 274,974 | 257,536 |

10. INCOME TAX EXPENSE

| | 1.3.2021 to 31.8.2021 (Unaudited) HK\$'000 | 1.3.2020 to 31.8.2020 (Unaudited) HK\$'000 |
|---------------------------------|---|---|
| Current tax | | |
| – Hong Kong Profits Tax | 32,095 | 28,600 |
| Deferred tax (<i>Note 20</i>) | 2,564 | 639 |
| | 34,659 | 29,239 |

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

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

11. DIVIDENDS

On 16th July 2021, a dividend of 18.0 HK cents (six months ended 31st August 2020: 22.0 HK cents) per share amounting to a total of HK\$75,378,000 (six months ended 31st August 2020: HK\$92,128,000) was paid to shareholders as the final dividend for 2020/21.

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 2021. The interim dividend will be paid on 29th October 2021. 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\$172,340,000 (six months ended 31st August 2020: HK\$152,401,000) and on the number of shares of 418,766,000 (six months ended 31st August 2020: 418,766,000) in issue during the period.

13. ADVANCES AND RECEIVABLES

| | 31.8.2021 (Unaudited) HK\$'000 | 28.2.2021 (Audited) HK\$'000 |
|---|---|------------------------------------|
| Credit card receivables | 3,214,894 | 3,214,899 |
| Personal loan receivables | 783,050 | 781,014 |
| | 3,997,944 | 3,995,913 |
| Accrued interest and other receivables | 60,916 | 66,359 |
| | 4,058,860 | 4,062,272 |
| Gross advances and receivables | 4,058,860 | 4,062,272 |
| Impairment allowances (<i>Note 14</i>) | (175,478) | (218,504) |
| | 3,883,382 | 3,843,768 |
| Current portion included under current assets | (3,255,924) | (3,254,632) |
| | 627,458 | 589,136 |
| Amount due after one year | 627,458 | 589,136 |

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

14. IMPAIRMENT ALLOWANCES

| | 31.8.2021 (Unaudited) HK\$'000 | 28.2.2021 (Audited) HK\$'000 |
|--|---|--|
| Analysis by products as: | | |
| Credit card receivables | 96,297 | 115,771 |
| Personal loan receivables | 76,902 | 99,518 |
| Accrued interest and other receivables | 2,279 | 3,215 |
| | 175,478 | 218,504 |

An analysis of changes in impairment allowances including commitments on unused credit card limit during each of the two periods ended 31st August 2021 and 31st August 2020 are set out as below:

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

14. IMPAIRMENT ALLOWANCES (Continued)

| | 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 in advances and receivables | (6,960) | (876) | (23,007) | (30,843) |
| Transfer to 12 months ECL (Stage 1) | 73,305 | (65,482) | (7,823) | – |
| Transfer to lifetime ECL not credit impaired (Stage 2) | (6,087) | 13,533 | (7,446) | – |
| Transfer to lifetime ECL credit impaired (Stage 3) | (39) | (60,188) | 60,227 | – |
| Total transfer between stages | 67,179 | (112,137) | 44,958 | – |
| Remeasurement of ECL during the period | (58,238) | 98,406 | 130,802 | 170,970 |
| Amounts written-off as uncollectable | – | – | (145,728) | (145,728) |
| Exchange realignment | 47 | 19 | 291 | 357 |
| At 31st August 2020 | <u>93,733</u> | <u>35,123</u> | <u>128,408</u> | <u>257,264</u> |

15. OVERDUE ADVANCES AND RECEIVABLES

Set out below is an analysis of gross balance of advances and receivables (excluding impairment allowances) which is overdue for more than 1 month:

| | 31.8.2021 (Unaudited) | | 28.2.2021 (Audited) | |
|---|--------------------------|------------|------------------------|------------|
| | HK\$'000 | %* | HK\$'000 | %* |
| Overdue 1 month but less than 2 months | 34,187 | 0.8 | 44,087 | 1.1 |
| Overdue 2 months but less than 3 months | 32,565 | 0.8 | 37,261 | 0.9 |
| Overdue 3 months but less than 4 months | 15,052 | 0.4 | 20,330 | 0.5 |
| Overdue 4 months or above | 55,013 | 1.4 | 66,909 | 1.6 |
| | <u>136,817</u> | <u>3.4</u> | <u>168,587</u> | <u>4.1</u> |

* Percentage of gross advances and receivables

16. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

| | 31.8.2021 (Unaudited) HK\$'000 | 28.2.2021 (Audited) HK\$'000 |
|---|---|------------------------------------|
| Deposits for property, plant and equipment | 10,933 | 4,342 |
| Rental and other deposits | 16,005 | 16,874 |
| Prepaid operating expenses | 39,731 | 35,072 |
| Other debtors | 10,383 | 11,507 |
| | <hr/> | <hr/> |
| | 77,052 | 67,795 |
| Current portion included under current assets | (54,186) | (51,446) |
| | <hr/> | <hr/> |
| Amount due after one year | 22,866 | 16,349 |
| | <hr/> | <hr/> |

17. CREDITORS AND ACCRUALS/CONTRACT LIABILITIES

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

| | 31.8.2021 (Unaudited) HK\$'000 | 28.2.2021 (Audited) HK\$'000 |
|-------------------------------------|---|------------------------------------|
| Less than 1 month | 57,467 | 78,219 |
| Over 1 month but less than 3 months | 3,950 | 1,964 |
| Over 3 months | 655 | 2,718 |
| | <hr/> | <hr/> |
| | 62,072 | 82,901 |
| | <hr/> | <hr/> |

- (b) At 31st August 2021, included in contract liabilities is deferred revenue in relation to customer loyalty programmes of HK\$20,106,000 (28th February 2021: HK\$16,301,000).

18. BANK BORROWINGS

| | 31.8.2021 (Unaudited) HK\$'000 | 28.2.2021 (Audited) HK\$'000 |
|---|---|------------------------------------|
| Bank loans, unsecured | 1,186,511 | 1,182,881 |
| Carrying amount repayable (<i>Note</i>) | | |
| Within one year | 454,329 | 527,635 |
| Within a period of more than one year but not exceeding two years | 230,000 | 165,000 |
| Within a period of more than two years but not exceeding five years | 502,182 | 407,100 |
| Within a period of more than five years | – | 83,146 |
| | 1,186,511 | 1,182,881 |
| Amount repayable within one year included under current liabilities | (454,329) | (527,635) |
| Amount repayable after one year | 732,182 | 655,246 |

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

| | 31.8.2021 (Unaudited) | | 28.2.2021 (Audited) | |
|-----------------------------------|--|---------------------------------------|------------------------|-------------------------|
| | Assets HK\$'000 | Liabilities HK\$'000 | Assets HK\$'000 | Liabilities HK\$'000 |
| Interest rate swaps | – | 13,273 | – | 11,182 |
| Cross-currency interest rate swap | 147 | 21,422 | – | 14,839 |
| | 147 | 34,695 | – | 26,021 |
| Current portion | (147) | (1,097) | – | (4,384) |
| Non-current portion | – | 33,598 | – | 21,637 |

All derivative financial instruments entered into by the Group that remain outstanding at 31st August 2021 and 28th February 2021 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings, the designated hedged items.

20. DEFERRED TAX ASSETS/LIABILITIES

The followings are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during six months ended 31st August 2021 and 31st August 2020:

| | Accelerated tax depreciation <i>HK\$'000</i> | Impairment allowances <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|--|-----------------------------------|----------------------------------|
| At 1st March 2021 (Audited) | (15,410) | 17,919 | – | 2,509 |
| Credit (charge) to profit or loss for the period | <u>455</u> | <u>(3,019)</u> | <u>–</u> | <u>(2,564)</u> |
| At 31st August 2021 (Unaudited) | <u>(14,955)</u> | <u>14,900</u> | <u>–</u> | <u>(55)</u> |
| | Accelerated tax depreciation <i>HK\$'000</i> | Impairment allowances <i>HK\$'000</i> | Others <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| At 1st March 2020 (Audited) | (14,528) | 22,994 | 303 | 8,769 |
| Credit (charge) to profit or loss for the period | <u>1,267</u> | <u>(2,107)</u> | <u>201</u> | <u>(639)</u> |
| At 31st August 2020 (Unaudited) | <u>(13,261)</u> | <u>20,887</u> | <u>504</u> | <u>8,130</u> |

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 15th October 2021 to Monday, 18th October 2021, 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, 13th October 2021.

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 2021, 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 pursuant to its own Securities Dealing Code. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code/the Company's own Securities Dealing Code throughout the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Despite the roll out of various vaccines in many parts of the world, the COVID-19 pandemic (the “Pandemic”) continued to pose a significant threat to the Asia Pacific and other regions throughout the first half of FY2021 due to the more contagious Delta variant. Full resumption of business and tourism travel is thus not expected to happen in the near future. Following the further relaxation of social distancing rules and the launch of the government’s Consumption Voucher Scheme to encourage consumer spending in local retail, catering and service sectors, economic activities in Hong Kong showed some signs of recovery amid a still generally uncertain market outlook. At the same time, the credit environment remained relatively stable during this period, with a progressive drop in unemployment rates.

Against this backdrop, the Group resumed its marketing efforts for AEON credit cards and also increased the frequency and scale of mass promotions, including the launch of the well-established AEON x Ocean Park promotion. Taking advantage of the changes in customer spending behavior under the Pandemic, the Group continued to stimulate and facilitate online credit utilization, most notably in the recent introduction of a new credit card application function in the Group’s mobile application, in a bid to deliver a more rewarding experience to our customers. By improving the Group’s credit assessment criteria to strike a better balance between customers’ financial needs and prudent credit risk management, customers can enjoy greater flexibility in obtaining new credit facilities. Effective collection activities have helped contain the risk of an increase in delinquent receivables.

With the above-mentioned actions in place, the Group achieved an increase in overall sales of 22.4% when compared with the first half of last year (“1H2020”, or the “previous period”), with card cash advances and personal loan sales recording an increase of 12.3% in the second quarter as compared with the first quarter of this year, thereby bringing the advance and receivable balance back to a rising trend in the second quarter. The percentage of overdue advances and receivables to gross advances and receivables reduced from 4.8% at 31st August 2020 and 4.2% at 28th February 2021 to 3.4% as at 31st August 2021.

Regarding information technology development, the Group began the second phase of its core system replacement project and commenced the replacement of its net-member and mobile application systems intended to deliver a better customer experience.

With respect of the development of the merchant acquiring business, the Group entered into a card acquiring merchant agreement with AEON Stores (Hong Kong) Co., Limited (“AEON Stores”) for the processing of retail transaction payments made by non-AEON cards, with full implementation across all AEON Stores anticipated in the second half of FY2021. Together with the advanced acquiring system in place, the Group is set to expand the acquiring service both in terms of business volumes and scope, which, in return, will create more merchant co-operation opportunities and enable the addition of new benefits for our cardholders.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

As for the China business, through focused business expansion in selected merchant sectors and effective credit assessment, the microfinance subsidiary in Shenzhen achieved profit on a monthly basis throughout the second quarter. Moreover, the liquidation proceedings of the microfinance subsidiary in Shenyang were completed, with the remaining equity in the sum of HK\$36.2 million paid to the Company in August 2021 and to be used by the Company for repaying its own certain matured bank borrowings.

Interim Dividend

In view of the sound fundamentals of the Group and to share the fruitful results with shareholders, the Board has resolved to declare an interim dividend of 22.0 HK cents per share (1H2020: 22.0 HK cents per share), representing a dividend payout ratio of 53.5%, which was in line with the Group's policy of paying no less than 30% of its net profit as dividends each year.

Financial Review

For the six months ended 31st August 2021 ("1H2021"), profit before tax was HK\$207.0 million, an increase of 14.0% or HK\$25.4 million when compared with 1H2020. After deducting income tax expenses of HK\$34.7 million, the Group recorded an increase in profit of 13.1%, with profit after tax increasing from HK\$152.4 million for 1H2020 to HK\$172.3 million for 1H2021. Earnings per share increased by 13.1% from 36.39 HK cents to 41.15 HK cents for the reporting period.

Net debt to equity ratio remained at 0.1 at 31st August 2021, while total equity to total assets ratio was 68.1% and 67.3% at 31st August 2021 and 28th February 2021, respectively.

Net asset value per share (after interim dividend) was HK\$8.1 at 31st August 2021, compared with the net asset value per share (after final dividend) of HK\$8.0 at 28th February 2021.

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for 1H2021 was HK\$511.6 million, a decrease of 10.9% or HK\$62.9 million when compared with the HK\$574.5 million recorded in 1H2020.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis (Continued)

Net interest income

Although there was an overall increase in sales in the reporting period as compared with the previous period, the fact that such an increase to generate growth in receivable balances was progressively taking place in the second quarter resulted in lower monthly revolving credit card balances and personal loan balances in the reporting period than in the previous period. The Group correspondingly recorded a decrease in interest income of 12.8% or HK\$64.1 million, from HK\$498.6 million in the previous period to HK\$434.6 million in the reporting period.

Following the repayment of certain long-term bank borrowings, interest expense recorded a decrease of 27.2% or HK\$6.6 million, from HK\$24.1 million in the previous period to HK\$17.5 million in the reporting period. The Group's average funding cost remained stable at 2.5% for both the previous period and the reporting period.

Consequently, the Group's net interest income for 1H2021 was HK\$417.0 million, representing a decrease of 12.1% or HK\$57.5 million when compared with 1H2020.

Operating income

Following the increase in credit card sales, there was an increase in fees and commissions from the credit card business of 11.5% or HK\$3.2 million to HK\$31.2 million for the reporting period. There was also an increase in fees and commissions from the insurance business of 11.7% or HK\$1.5 million to HK\$14.1 million in the reporting period due to the resumption of sales activities. The Group therefore recorded an increase in overall fees and commission of 11.6% or HK\$4.7 million from HK\$40.7 million for 1H2020 to HK\$45.4 million for 1H2021.

With more customers making payments on schedule in the reporting period, handling and late charges recorded a decrease of 10.1% or HK\$3.5 million to HK\$31.6 million in the reporting period. The Group recorded a loss on liquidation of the microfinance subsidiary in Shenyang of HK\$3.8 million under other gains and losses in the reporting period, while there was an income recorded relating to the recognition of government subsidies of HK\$5.9 million under the Employment Support Scheme under other income in the previous period.

The Group's operating income for 1H2021 recorded a drop of 11.7% or HK\$65.3 million, declining from HK\$559.4 million in 1H2020 to HK\$494.1 million in the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis (Continued)

Operating expenses

During the period under review, the Group launched various marketing activities to widen its customer portfolio and capture the potential sales opportunities arising from the recovery in consumer spending. As a result, marketing and promotion expenses recorded an increase of 64.3% or HK\$17.0 million to HK\$43.5 million in the reporting period. With the continued upgrade of card features and functionalities to enrich the customer experience, there was an increase in card issuing related expenses in the reporting period, resulting in an increase in general administrative expenses of 4.4% or HK\$3.4 million to HK\$81.1 million in the reporting period. Overall operating expenses recorded an increase of 6.8% or HK\$17.4 million, from HK\$257.5 million in the previous period to HK\$275.0 million in the reporting period. Although the additional marketing expenses incurred by the Group have successfully driven up sales in the reporting period, it will take more time for the receivable balances to recover and generate more revenue, and, as a result, the cost-to-income ratio increased from 46.0% for 1H2020 to 55.7% for 1H2021.

At the operating level and before impairment allowances, the Group recorded an operating profit of HK\$219.1 million in 1H2021, representing a decrease of 27.4% from the HK\$301.9 million recorded in 1H2020.

Impairment losses and impairment allowances

The continued refinement of the approach to credit assessment helped the Group to build up a better-quality portfolio. Coupled with the anticipated improvement in the economic situation and a drop in the unemployment rate, as well as its effective collection efforts to reduce overdue advances and receivables, there was a significant reduction in impairment losses and impairment allowances in the reporting period, recording a decrease of 75.1% or HK\$105.3 million, from HK\$140.1 million in 1H2020 to HK\$34.8 million in 1H2021.

Consolidated Statement of Financial Position Analysis

The Group's total equity at 31st August 2021 was HK\$3,502.2 million, representing a growth of 2.3% or HK\$80.2 million when compared with a balance of HK\$3,422.0 million at 28th February 2021.

Total assets at 31st August 2021 were HK\$5,142.4 million, as compared with total assets of HK\$5,083.4 million at 28th February 2021.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Financial Position Analysis (Continued)

Advances and Receivables

With the effective credit assessment efforts to cater for the increase in demand for loans, personal loan sales recorded an increase of 66.0% in 1H2021 when compared with 1H2020, and personal loan sales recorded an increase of 29.8% in the second quarter of the reporting period when compared with the first quarter, resulting in personal loan receivables increasing from HK\$781.0 million at 28th February 2021 to HK\$783.1 million at 31st August 2021.

There was no significant increase in the revolving credit card balances in the reporting period, with credit card receivables remaining at HK\$3,214.9 million at both 28th February 2021 and 31st August 2021.

Overall, the Group's gross advances and receivables remained at a stable level in 1H2021, sitting at HK\$4,058.9 million at 31st August 2021, as compared with the HK\$4,062.3 million recorded at 28th February 2021. Impairment allowances amounted to HK\$175.5 million at 31st August 2021, covering 4.3% of gross advances and receivables, as compared with HK\$218.5 million, covering 5.4% of gross advances and receivables at 28th February 2021. The percentage of overdue advances and receivables to gross advances and receivables was 3.4% at 31st August 2021, compared with 4.2% at 28th February 2021 and 4.8% at 31st August 2020.

Bank Borrowings

The Group maintained bank borrowings at a broadly similar level in the reporting period, with balances of HK\$1,186.5 million at 31st August 2021 and HK\$1,182.9 million at 28th February 2021. For bank borrowings at 31st August 2021, 7.6% had fixed interest rates and 92.4% were hedged against interest rate and currency exchange rate fluctuation by interest rate and currency swaps. Of these bank borrowings, 38.3% will mature within one year, 19.4% between one and two years and 42.3% between two and five years.

The average duration of bank borrowings was 2.0 years at 31st August 2021, compared with 1.9 years at 28th February 2021.

Segment Information

The Group's business comprises three operating segments, namely credit cards, personal loans and insurance intermediary business. For 1H2021, 79.3% of the Group's revenue was derived from credit card operations, compared with 78.3% in 1H2020, while personal loan operations accounted for 18.0% of the Group's revenue, compared with 19.5% in the previous period. As for segment results, credit card operations accounted for 75.3% of the Group's whole operations as compared with 83.3% in the previous period, while personal loan operations accounted for 21.3% as compared with 13.3% in the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information (Continued)

Through the launch of various different marketing activities, the Group recorded an increase in credit card sales and continued to accumulate revolving credit card balances in the reporting period. However, monthly revolving credit card balances were still lower than the previous period, resulting in revenue from credit card operations recording a decrease of 9.8% or HK\$44.0 million from HK\$449.5 million in 1H2020 to HK\$405.5 million in 1H2021. Thanks to a better-quality portfolio and an improved economic outlook, together with effective collection efforts to reduce overdue receivables, there was a sizable decrease in impairment losses and impairment allowances during the reporting period. As a result, the segment result recorded an increase of HK\$8.0 million, from HK\$150.4 million in 1H2020 to HK\$158.4 million in 1H2021.

For personal loans, the latest increase in loan sales was mainly reflected in the second quarter of the reporting period, with the balance of personal loan receivables at 31st August 2021 returning to the same level recorded at 28th February 2021. However, personal loan receivables only achieved 90.3% as compared with the balance at 31st August 2020. Consequently, revenue from personal loan operations decreased by 18.1% or HK\$20.4 million, from HK\$112.3 million in 1H2020 to HK\$91.9 million in 1H2021. Thanks in large part to more effective credit assessment and collection efforts, there was a sizable decrease in impairment losses and impairment allowances. As a result, segment results for the reporting period recorded an increase of HK\$20.8 million, from HK\$24.0 million in 1H2020 to HK\$44.8 million in 1H2021.

With full resumption of telemarketing activities, revenue from insurance operations recorded an increase of HK\$1.5 million, from HK\$12.7 million in 1H2020 to HK\$14.1 million in 1H2021. The segment result for the reporting period was HK\$7.1 million, as compared with HK\$6.2 million in the previous period.

In relation to financial information by geographical locations, although sales have shown progressive recoveries for both credit cards and personal loans, monthly revolving credit card balances and personal loan receivable balances in the reporting period were still lower than that of the previous period, and, as a result, revenue from the Hong Kong operations recorded a decrease of 11.6% or HK\$65.9 million, from HK\$568.9 million in 1H2020 to HK\$503.0 million in 1H2021. Through the enhancement of credit assessment methods to build up a quality portfolio, together with effective collection efforts and an improvement in the economic outlook, impairment allowances on doubtful and loss receivables were reduced, and there was a sizable decrease in impairment losses and impairment allowances. As a result, segment results from Hong Kong operations recorded an increase of 15.2% or HK\$28.0 million, from HK\$184.2 million in 1H2020 to HK\$212.2 million in 1H2021.

In regard to Mainland China operations, through efficient control of costs and bad debts, the microfinance subsidiary in Shenzhen has achieved monthly profit throughout the second quarter, with a profit of HK\$0.3 million in 1H2021, compared with a loss of HK\$1.9 million in 1H2020. The Group completed the liquidation of the microfinance subsidiary in Shenyang in the reporting period and continued with the liquidation proceedings for another subsidiary in Tianjin. Revenue from its Mainland China operations recorded an increase of HK\$3.1 million, from HK\$5.5 million in 1H2020 to HK\$8.6 million in 1H2021, while losses from our Mainland China operations recorded a reduction of HK\$1.7 million, from a loss of HK\$3.5 million in 1H2020 to a loss of HK\$1.8 million in 1H2021.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

With an increasing number of incentives being introduced to encourage vaccine, the vaccination rate is expected to rise. However, the emergence of the more contagious Delta variant may impede the rate of resumption of normal social activities and overseas travel in the near future. The government's consumption voucher scheme will propel the use of electronic payment methods to new highs. The unemployment rate in Hong Kong is expected to remain stable, which will create opportunities for the Group's continued business expansion during the second half of the year.

Amid this competitive and challenging business environment, which is also providing new opportunities, the Group will primarily focus on continued sales and receivables growth, while also containing any deterioration of asset quality as far as possible. The Group will make greater use of data analytics to strengthen its marketing and credit control activities. On the marketing side, the Group will increase mass promotion activities for both its credit card and personal loan business so as to capture any possible surge in consumer spending in the market. Moreover, the Group will further strengthen its mobile application and net-member functions and marketing activities to enhance the convenience and benefits of using the Group's online services.

As financial technology is developing at a fast pace, the Group will continue to commit significant resources to digitalization in order to enhance operational efficiency and upgrade its ability to respond to market changes. Alongside the issuing phase of new card and loan system projects and the revamp of the Group's mobile application and net-member systems, the Group will also commence a project in the second half of FY2021 to enhance the data warehouse so as to strengthen future campaign management capabilities.

For the Mainland China businesses, the operating environment remains competitive and the microfinance subsidiary in Shenzhen will focus on growing its receivables with sound asset quality in the hope of achieving yearly profit. The Group will allocate more resources to the upgrade of the information technology infrastructure in the Shenzhen operation and continue to fine-tune the operating model, when necessary, in order to create greater value for shareholders.

It is difficult to reliably predict when cross-border travel and related economic activities will fully resume. With the continued upgrade in technology development and analytical techniques, as well as the Group's strong liquidity position and balance sheet, the Group should be adequately resilient and responsive to upcoming challenges in the second half of the year and be able to move forward to capture new business opportunities to drive business growth and stay ahead in the face of a competitive business environment.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Funding and Capital Management

The Group manages its capital to ensure that:

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

Net debt to equity ratio

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

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

| | 31.8.2021 (Unaudited) HK\$'000 | 28.2.2021 (Audited) HK\$'000 |
|---------------------------|---|------------------------------------|
| Debt (<i>Note a</i>) | 1,186,511 | 1,182,881 |
| Cash and cash equivalents | (681,882) | (864,964) |
| Net debt | 504,629 | 317,917 |
| Equity (<i>Note b</i>) | 3,502,233 | 3,422,030 |
| Net debt to equity ratio | 0.1 | 0.1 |

Notes:

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

The principal source of internally generated capital was from accumulated profits. Taking into account the financial resources available to the Group, including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Funding and Capital Management (Continued)

Net debt to equity ratio (Continued)

The Group's principal operations are transacted and recorded in HKD and thereby its core assets are not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings. At 31st August 2021, capital commitments entered into were mainly related to the purchase of property, plant and equipment.

Human Resources

At 31st August 2021 and 28th February 2021, the Group's total number of employees was 377 (Hong Kong: 339; PRC: 38) and 379 (Hong Kong: 334; PRC: 45) respectively. The Group continues to recognize and reward its staff in a manner similar to that disclosed in its 2020/21 Annual Report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

REVIEW OF UNAUDITED FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited interim financial results for the six months ended 31st August 2021. In addition, the condensed consolidated financial statements for the six months ended 31st August 2021 have been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and an unqualified review report is issued.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

The 2021 Interim Report, containing the relevant information required by the Listing Rules, will be published on the respective websites of the Stock Exchange and the Company in due course.

BOARD OF DIRECTORS

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

By order of the Board
TOMOHARU FUKAYAMA
Managing Director

Hong Kong, 28th September 2021