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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 2020

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 2020, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31st August 2020

	<i>Notes</i>	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Revenue	3	574,460	654,867
Interest income	5	498,644	567,281
Interest expense	6	(24,091)	(37,788)
Net interest income		474,553	529,493
Fees and commissions		40,668	48,620
Handling and late charges		35,148	38,966
Other income	7	8,917	1,627
Other gains and losses	8	123	(7,623)
Operating income		559,409	611,083
Operating expenses	9	(257,536)	(280,780)
Operating profit before impairment losses and impairment allowances		301,873	330,303
Impairment losses and impairment allowances		(140,127)	(124,290)
Recoveries of advances and receivables written-off		18,371	24,166
Share of results of an associate		1,523	192
Profit before tax		181,640	230,371
Income tax expense	10	(29,239)	(39,977)
Profit for the period		152,401	190,394
Profit for the period attributable to: Owners of the Company		152,401	190,394
Earnings per share – Basic	12	36.39 HK cents	45.47 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31st August 2020

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Profit for the period	<u>152,401</u>	<u>190,394</u>
Other comprehensive income (expense)		
Item that will not be reclassified to profit or loss:		
Fair value gain on equity instruments at fair value through other comprehensive income	31,560	10,396
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	2,528	(15,967)
Net adjustment on cash flow hedges	<u>(14,855)</u>	<u>2,392</u>
Other comprehensive income (expense) for the period	<u>19,233</u>	<u>(3,179)</u>
Total comprehensive income for the period	<u>171,634</u>	<u>187,215</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>171,634</u>	<u>187,215</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2020

	<i>Notes</i>	31.8.2020 (Unaudited) <i>HK\$'000</i>	29.2.2020 (Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		96,376	105,173
Right-of-use assets		83,905	92,786
Interest in an associate		17,369	15,587
Equity instruments at fair value through other comprehensive income		112,631	81,071
Advances and receivables	13	617,136	719,765
Prepayments, deposits and other debtors	16	24,378	26,258
Derivative financial instruments	19	–	1,809
Deferred tax assets	20	8,130	8,769
		959,925	1,051,218
Current assets			
Advances and receivables	13	3,326,146	3,708,241
Prepayments, deposits and other debtors	16	60,884	70,425
Amount due from immediate holding company		–	250
Amount due from intermediate holding company		96	–
Amount due from an associate		39	81
Derivative financial instruments	19	–	353
Restricted deposits		–	38,000
Time deposits		131,568	150,812
Bank balances and cash		765,290	710,338
		4,284,023	4,678,500
Current liabilities			
Creditors and accruals	17(a)	228,304	215,992
Contract liabilities	17(b)	10,804	10,562
Amounts due to fellow subsidiaries		56,838	38,775
Amount due to immediate holding company		57	–
Amount due to intermediate holding company		335	283
Amount due to ultimate holding company		10	50
Amount due to an associate		1,677	3,203
Bank borrowings	18	365,000	370,000
Collateralised debt obligation	21	–	548,400
Lease liabilities		47,412	37,869
Derivative financial instruments	19	2,940	839
Tax liabilities		24,836	16,514
		738,213	1,242,487
Net current assets		3,545,810	3,436,013
Total assets less current liabilities		4,505,735	4,487,231

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

At 31st August 2020

	<i>Notes</i>	31.8.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		3,123,571	3,044,065
Total equity		3,393,048	3,313,542
Non-current liabilities			
Bank borrowings	<i>18</i>	1,045,435	1,099,102
Lease liabilities		39,568	56,760
Derivative financial instruments	<i>19</i>	27,684	17,827
		1,112,687	1,173,689
		4,505,735	4,487,231

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st August 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	-	-	-	-	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 (<i>Note 11</i>)	-	-	-	-	(92,128)	(92,128)
	-	12,119	2,392	(15,967)	96,543	95,087
At 31st August 2019 (Unaudited)	269,477	105,161	(1,346)	(29,180)	2,941,622	3,285,734
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

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st August 2020

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Net cash from operating activities	734,855	396,893
Dividends received	89	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	(5,432)	(3,573)
Deposits paid for acquisition of property, plant and equipment	(7,308)	(19,520)
Placement of time deposits with maturity of more than three months	(12,403)	(25,932)
Release of time deposits with maturity of more than three months	29,281	15,930
Net cash generated from (used in) investing activities	4,227	(32,555)
Placement of restricted deposits	(1,358,808)	(613,929)
Withdrawal of restricted deposits	1,396,808	940,181
Repayment of lease liabilities	(23,717)	(30,803)
Dividends paid	(92,128)	(92,128)
New bank loans raised	83,038	100,000
Repayment of bank loans	(145,000)	(265,000)
Repayment of collateralised debt obligation	(548,400)	–
Net cash (used in) generated from financing activities	(688,207)	38,321
Net increase in cash and cash equivalents	50,875	402,659
Effect of changes in exchange rate	1,070	(5,812)
Cash and cash equivalents at beginning of the period	764,987	478,556
Cash and cash equivalents at end of the period	816,932	875,403
Being:		
Time deposits with maturity of three months or less	51,642	97,652
Bank balances and cash	765,290	777,751
	816,932	875,403

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 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 (“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 29th February 2020 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 29th February 2020 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 Hong Kong Financial Reporting Standards (“HKFRSs”) and application of certain accounting policies which became relevant to the Group, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st August 2020 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 29th February 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and 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 2020 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business

The application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current 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.

In addition, the Group has applied the following accounting policies which became relevant to the Group in the current interim period.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate.

Government grants relate to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable. Such grants are presented under “other income”.

3. REVENUE

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Interest income	498,644	567,281
Fees and commissions		
Credit cards	28,008	34,623
Insurance	12,660	13,997
Handling and late charges	35,148	38,966
Revenue from contracts with customers	75,816	87,586
Total revenue	574,460	654,867

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	32,742	2,406	–	35,148
Segment revenue	449,535	112,265	12,660	574,460

1.3.2019 to 31.8.2019 (Unaudited)

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Total HK\$'000
Interest income	429,635	137,592	54	567,281
Fees and commissions	34,623	–	13,997	48,620
Handling and late charges	33,465	5,501	–	38,966
Segment revenue	497,723	143,093	14,051	654,867

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:

1.3.2020 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

1.3.2019 to 31.8.2019 (Unaudited)

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

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:

1.3.2020 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

1.3.2019 to 31.8.2019 (Unaudited)

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

5. INTEREST INCOME

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Non-credit impaired advances	489,000	559,845
Credit impaired advances	5,787	4,731
Time deposits, restricted deposits and bank balances	3,857	2,705
	498,644	567,281

6. INTEREST EXPENSE

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Interest on bank borrowings	15,189	14,500
Interest on collateralised debt obligation	2,864	15,068
Interest on lease liabilities	1,333	1,353
Net interest expense on interest rate swap contracts	4,705	6,867
	24,091	37,788

7. OTHER INCOME

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Dividends received from financial instruments		
Listed equity securities	89	391
Government grants	5,891	–
Others	2,937	1,236
	8,917	1,627

8. OTHER GAINS AND LOSSES

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange (loss) gain on hedging instrument released from cash flow hedge reserve	(3,552)	275
Exchange gain (loss) on bank loans	3,552	(275)
Other exchange losses, net	(11)	(151)
Hedge ineffectiveness on cash flow hedges	136	(66)
Losses on disposal of property, plant and equipment	(2)	(339)
Losses on termination of lease contracts	–	(7,067)
	<u>123</u>	<u>(7,623)</u>

9. OPERATING EXPENSES

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	16,594	17,013
Depreciation on right-of-use assets	23,615	23,042
Expenses relating to short-term leases and other leases with lease terms ending within 12 months from the date of initial application of HKFRS 16 <i>Leases</i>	3,926	10,663
	27,541	33,705
General administrative expenses	77,643	81,243
Marketing and promotion expenses	26,494	37,766
Other operating expenses	31,907	32,623
Staff costs including Directors' emoluments	77,357	78,430
	<u>257,536</u>	<u>280,780</u>

10. INCOME TAX EXPENSE

	1.3.2020 to 31.8.2020 (Unaudited) HK\$'000	1.3.2019 to 31.8.2019 (Unaudited) HK\$'000
Current tax		
– Hong Kong Profits Tax	28,600	40,269
Deferred tax (<i>Note 20</i>)	639	(292)
	29,239	39,977

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 14th July 2020, a dividend of 22.0 HK cents (six months ended 31st August 2019: 22.0 HK cents) per share amounting to a total of HK\$92,128,000 (six months ended 31st August 2019: HK\$92,128,000) was paid to shareholders as the final dividend for 2019/20.

In respect of the current interim period, the Directors have declared an interim dividend of 22.0 HK cents per share amounting to HK\$92,128,000 payable to the shareholders of the Company whose names appear on the Register of Members on 16th October 2020. The interim dividend will be paid on 30th October 2020. 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\$152,401,000 (six months ended 31st August 2019: HK\$190,394,000) and on the number of shares of 418,766,000 (six months ended 31st August 2019: 418,766,000) in issue during the period.

13. ADVANCES AND RECEIVABLES

	31.8.2020	29.2.2020
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
Credit card receivables	3,262,165	3,579,077
Personal loan receivables	867,331	1,025,858
	<u>4,129,496</u>	<u>4,604,935</u>
Accrued interest and other receivables	71,050	85,579
	<u>4,200,546</u>	<u>4,690,514</u>
Gross advances and receivables	4,200,546	4,690,514
Impairment allowances (<i>Note 14</i>)	(257,264)	(262,508)
	<u>3,943,282</u>	<u>4,428,006</u>
Current portion included under current assets	(3,326,146)	(3,708,241)
	<u>617,136</u>	<u>719,765</u>
Amount due after one year	617,136	719,765

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

14. IMPAIRMENT ALLOWANCES

	31.8.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Analysis by products as:		
Credit card receivables	139,792	140,022
Personal loan receivables	112,027	115,923
Accrued interest and other receivables	5,445	6,563
	257,264	262,508

An analysis of changes in impairment allowances including commitments on unused credit card limit during each of the two periods ended 31st August 2020 and 31st August 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 in advances and receivables	(6,960)	(876)	(23,007)	(30,843)
Transfer to 12 months Expected Credit Loss ("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	93,733	35,123	128,408	257,264

14. IMPAIRMENT ALLOWANCES (Continued)

	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 repayment in advances and receivables	(837)	(70)	(6,092)	(6,999)
Transfer to 12 months ECL (Stage 1)	104,962	(101,088)	(3,874)	–
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	95,156	(133,478)	38,322	–
Remeasurement of ECL during the period	(90,779)	125,308	96,760	131,289
Amounts written-off as uncollectable	–	–	(110,232)	(110,232)
Exchange realignment	(302)	(294)	(1,890)	(2,486)
At 31st August 2019	<u>111,049</u>	<u>40,041</u>	<u>103,975</u>	<u>255,065</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:

	31.8.2020 (Unaudited)		29.2.2020 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	53,192	1.3	143,457	3.1
Overdue 2 months but less than 3 months	41,942	1.0	59,422	1.3
Overdue 3 months but less than 4 months	27,282	0.6	35,930	0.8
Overdue 4 months or above	79,696	1.9	69,820	1.5
	<u>202,112</u>	<u>4.8</u>	<u>308,629</u>	<u>6.7</u>

* Percentage of gross advances and receivables

16. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	31.8.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Deposits for property, plant and equipment	15,732	14,814
Rental and other deposits	17,596	21,188
Prepaid operating expenses	40,222	49,030
Other debtors	11,712	11,651
	<u>85,262</u>	<u>96,683</u>
Current portion included under current assets	<u>(60,884)</u>	<u>(70,425)</u>
Amount due after one year	<u>24,378</u>	<u>26,258</u>

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:

	31.8.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Less than 1 month	58,747	57,372
Over 1 month but less than 3 months	2,017	3,070
Over 3 months	3,499	2,563
	<u>64,263</u>	<u>63,005</u>

- (b) At 31st August 2020, included in contract liabilities is deferred revenue in relation to customer loyalty programmes of HK\$10,804,000 (29th February 2020: HK\$10,562,000).

18. BANK BORROWINGS

	31.8.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Bank loans, unsecured	1,410,435	1,469,102
Carrying amount repayable (<i>Note</i>)		
Within one year	365,000	370,000
Within a period of more than one year but not exceeding two years	452,106	529,162
Within a period of more than two years but not exceeding five years	509,319	569,940
Within a period of more than five years	84,010	–
	1,410,435	1,469,102
Amount repayable within one year included under current liabilities	(365,000)	(370,000)
Amount repayable after one year	1,045,435	1,099,102

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

19. DERIVATIVE FINANCIAL INSTRUMENTS

	31.8.2020 (Unaudited)		29.2.2020 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	–	13,778	353	9,613
Cross-currency interest rate swap	–	16,846	1,809	9,053
	–	30,624	2,162	18,666
Current portion	–	(2,940)	(353)	(839)
Non-current portion	–	27,684	1,809	17,827

All derivative financial instruments entered into by the Group that remain outstanding at 31st August 2020 and 29th February 2020 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.

20. 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 2020 and 31st August 2019:

	Accelerated tax depreciation HK\$'000	Impairment allowances HK\$'000	Others HK\$'000	Total HK\$'000
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>
	Accelerated tax depreciation HK\$'000	Impairment allowances HK\$'000	Others HK\$'000	Total HK\$'000
At 1st March 2019 (Audited)	(7,902)	24,600	–	16,698
Credit (charge) to profit or loss for the period	<u>521</u>	<u>(229)</u>	<u>–</u>	<u>292</u>
At 31st August 2019 (Unaudited)	<u>(7,381)</u>	<u>24,371</u>	<u>–</u>	<u>16,990</u>

21. COLLATERALISED DEBT OBLIGATION

	31.8.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Tranche A	–	199,200
Tranche B	–	199,200
Tranche C	–	150,000
	<u>–</u>	<u>548,400</u>
Amount repayable within one year included under current liabilities	<u>–</u>	<u>(548,400)</u>
Amount repayable after one year	<u>–</u>	<u>–</u>

The Group transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the “Trust”) pursuant to a collateralised debt obligation financing transaction (the “Transaction”). 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 *Financial Instruments*, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group’s condensed consolidated financial statements. The Trust was terminated on 4th September 2020.

22. PLEDGE OF ASSETS

The Group has no pledged asset at 31st August 2020 as the related collateralised debt obligation was fully repaid on 4th August 2020. At 29th February 2020, the collateralised debt obligation was secured by credit card receivables and restricted deposits of HK\$1,482,338,000 and HK\$38,000,000 respectively.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 15th October 2020 to Friday, 16th October 2020, 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, 14th October 2020.

CORPORATE GOVERNANCE

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 Corporate Governance Code as set in Appendix 14 to the Listing Rules throughout the six months ended 31st August 2020, 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for securities transactions by Directors. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Hong Kong's economy was seriously hit by the COVID-19 pandemic (the "Pandemic") in the first half of this year, with unprecedented restriction on international travel and social distancing measures imposed on dining and recreational activities, leading to a substantial reduction in retail, travel and entertainment related spending. Even though there was increased spending in daily consumption items, the demand for consumer finance remained sluggish as local market outlook remained skeptical. Credit environment remained relatively stable with the first round of employment subsidies from the government to the labour market already paid out.

Against this backdrop, the Group concentrated its marketing efforts on AEON credit cards inside AEON stores while reducing the frequency and scale of mass promotions. In the meantime, the Group continued to deploy its strategies to stimulate online usage, including adding more features to the Company's mobile application and revamping the Company's website, all in a bid to deliver convenient service experience to our customers.

In the first half of the year, the Group continued to adopt a cautious approach in extending credit to better control asset quality. Moreover, the implementation of default alert mechanism had considerably reduced the default rates of our overdue advances and receivables. The Group continued with its development of the new card and loan system, while streamlining the cost structure of both its Hong Kong operations and the two microfinance subsidiaries in Shenzhen and Tianjin.

Interim Dividend

In view of the sound fundamentals of the Group, the Board has declared an interim dividend of 22.0 HK cents per share (2019/20 Interim: 22.0 HK cents per share), representing a dividend payout ratio of 60.5%, compared to 48.4% in 2019/20.

Financial Review

For the six months ended 31st August 2020 ("1H2020"), profit before tax was HK\$181.6 million, a decrease of HK\$48.7 million when compared with the six month ended 31st August 2019 ("1H2019", or "previous period"). After deducting income tax expense of HK\$29.2 million, the Group recorded a decrease in profit of 20.0%, with profit after tax reducing from HK\$190.4 million in the previous period to HK\$152.4 million in the 1H2020. Earnings per share decreased from 45.47 HK cents to 36.39 HK cents for the reporting period.

Net debt to equity ratio was 0.2 at 31st August 2020 and 0.4 at 29th February 2020, while total equity to total assets ratio was 64.7% and 57.8% at 31st August 2020 and 29th February 2020 respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for the period was HK\$574.5 million, a decrease of 12.3% or HK\$80.4 million when compared with HK\$654.9 million in the previous period.

Net interest income

The Pandemic almost brought a complete halt to both domestic and overseas spending initiatives, with reduction in overall sales for the half year of 2020/21 when compared to the previous period. Together with a decrease in revolving credit card balances and personal loan balances, the Group recorded a decrease in interest income of 12.1% or HK\$68.7 million, from HK\$567.3 million in the previous period to HK\$498.6 million in the reporting period.

Given the favourable interest rate market and the repayment of collateralized debt obligation and certain long-term borrowings, the Group's average funding cost reduced from 3.0% in the previous period to 2.5% in the reporting period. Interest expense recorded a decrease of 36.2% or HK\$13.7 million, from HK\$37.8 million in the previous period to HK\$24.1 million in the reporting period.

Consequently, net interest income of the Group in the current period was HK\$474.6 million, representing a decrease of 10.4% or HK\$54.9 million when compared with the corresponding period in 2019/20.

Operating income

Following the decrease in credit card sales, there was a drop in fees and commissions from the credit card business of 19.1% or HK\$6.6 million to HK\$28.0 million in the current period. There was also a drop in fees and commissions from the insurance business of HK\$1.3 million to HK\$12.7 million in the current period due to the working arrangement under the Pandemic. The Group recorded an overall decrease in fees and commission of HK\$7.9 million from HK\$48.6 million in the first half of 2019/20 to HK\$40.7 million in 2020/21.

Following a drop in demand for cash advance in the first half, handling and late charges recorded a decrease of 9.8% or HK\$3.8 million to HK\$35.1 million in the current period. The Group applied and recognised government subsidies of HK\$5.9 million under the Employment Support Scheme, resulting in other income being HK\$8.9 million in the current period, compared to HK\$1.6 million in the previous period.

Operating income of the Group for the first half of 2020/21 recorded a drop of HK\$51.7 million from HK\$611.1 million in the 1H2019 to HK\$559.4 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis (Continued)

Operating expenses

During the period under review, there was a reduction in marketing and promotion expenses due to the reduced mass promotion activities, resulting in a decrease of HK\$11.3 million in those expenses when compared to the previous period. With reduction in the number of ATMs and the closure of less profitable branches, expenses related to leases decreased by around HK\$6.2 million when compared to the previous period. There was also a reduction in expenses related to ATM operations, resulting in a drop of HK\$3.6 million in general administrative expenses when compared to the previous period. Overall operating expenses recorded a drop of HK\$23.3 million from HK\$280.8 million in the previous period to HK\$257.5 million in the current period. Cost-to-income ratio remained at around 46.0% for both periods.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$301.9 million for the 1H2020, representing a decrease of 8.6% from HK\$330.3 million in the previous period.

Impairment losses and impairment allowances

Despite the rising unemployment rate in Hong Kong in the first half, the early default detection action taken by the Group had successfully reduced the overdue advances and receivables from HK\$308.6 million at 29th February 2020 to HK\$202.1 million at 31st August 2020. With the deterioration of asset quality since the second half of last year, impairment losses and impairment allowances recorded an increase of 12.7% or HK\$15.8 million, from HK\$124.3 million in the 1H2019 to HK\$140.1 million in the first half of the reporting period.

Consolidated Statement of Financial Position Analysis

The Group's total equity at 31st August 2020 was HK\$3,393.0 million, representing a growth of 2.4% or HK\$79.5 million when compared to the balance of HK\$3,313.5 million at 29th February 2020.

Total assets at 31st August 2020 were HK\$5,243.9 million compared to total assets of HK\$5,729.7 million at 29th February 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Financial Position Analysis (Continued)

Advances and Receivables

Due to weakening credit demand in the market and temporary suspension of marketing activities on loan business, personal loan receivables decreased by 15.5% from HK\$1,025.9 million at 29th February 2020 to HK\$867.3 million at 31st August 2020. Moreover, the impact of the Pandemic on consumer spending resulted in a decrease in credit card sales, with credit card receivables also recording a decrease of 8.9%, or HK\$316.9 million, from HK\$3,579.1 million at 29th February 2020 to HK\$3,262.2 million at 31st August 2020. Overall, the Group recorded a decrease in its gross advances and receivables of HK\$490.0 million to HK\$4,200.5 million at 31st August 2020, when compared to HK\$4,690.5 million at 29th February 2020. Impairment allowances amounted to HK\$257.3 million at 31st August 2020, covering 6.1% of gross advances and receivables, as compared to HK\$262.5 million, covering 5.6% of gross advances and receivables at 29th February 2020. Percentage of overdue advances and receivables to gross advances and receivables was 4.8% at 31st August 2020, compared to 6.7% at 29th February 2020.

Bank Borrowings

The Group had repaid the collateralised debt obligation and certain bank borrowings in the first half, with total indebtedness reducing from HK\$2,017.5 million at 29th February 2020 to HK\$1,410.4 million at 31st August 2020. For bank borrowings at 31st August 2020, 9.9% were with fixed interest rates and 90.1% were hedged against interest rate fluctuation by interest rate swaps. 25.9% of the bank borrowings will mature within one year, 32.0% between one and two years, 36.1% between two and five years, and 6.0% over five years.

The average duration of bank borrowings was 2.0 years at 31st August 2020, compared to 1.6 years at 29th February 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information

The Group's business comprises three operating segments, namely credit cards, personal loans, and insurance intermediary business. In the 1H2020, 78.3% of the Group's revenue was derived from credit card operations, compared to 76.0% in the previous period, while personal loan operations accounted for 19.5% of the Group's revenue, compared to 21.9% in the previous period. For segment results, credit card operations accounted for 83.3% of the Group's whole operations as compared to 78.4% in the previous period, while personal loan operations accounted for 13.3% as compared to 18.8% in the previous period.

During the period under review, the Group recorded a decrease in credit card sales and receivable balance, with revenue from credit card operations recording a decrease of 9.7% or HK\$48.2 million from HK\$497.7 million in 1H2019 to HK\$449.5 million in 1H2020. Despite an effective control of operating expenses and reduction in funding costs, segment results for the period recorded a decrease of HK\$30.4 million from HK\$180.8 million in 1H2019 to HK\$150.4 million in 1H2020.

For personal loans, the continuously unfavourable market conditions resulting in weak demand for loan products continued to drag down personal loan receivables. Consequently, revenue from personal loan operations decreased by 21.5% or HK\$30.8 million from HK\$143.1 million in 1H2019 to HK\$112.3 million in 1H2020. As the Group continued to exercise tight expense control and prudent asset quality management, segment results for the period recorded a decrease of HK\$19.3 million from HK\$43.3 million in 1H2019 to HK\$24.0 million in 1H2020.

With the special work arrangement under the Pandemic, revenue from insurance operations recorded a decrease of HK\$1.4 million from HK\$14.1 million in 1H2019 to HK\$12.7 million in 1H2020, and segment results being HK\$6.2 million, compared to HK\$6.5 million in the previous period.

In relation to financial information by geographical locations, revenue from Hong Kong operations recorded a decrease of 12.2% or HK\$78.7 million, from HK\$647.6 million in 1H2019 to HK\$568.9 million in 1H2020, mainly attributable to the drop in credit card sales and revolving credit card receivable balance. Despite an effective cost control and reduction in funding cost, segment results from Hong Kong operations recorded a decrease of 23.8% or HK\$57.6 million, from HK\$241.8 million in 1H2019 to HK\$184.2 million in 1H2020.

For Mainland China operations, the microfinance subsidiaries concentrated on cost and bad debt control to minimize losses. Although revenue from Mainland China operations recorded a decrease of HK\$1.8 million, from HK\$7.3 million in 1H2019 to HK\$5.5 million in 1H2020, losses from our Mainland China operations recorded a reduction of HK\$7.8 million, from a loss of HK\$11.3 million in 1H2019 to a loss of HK\$3.5 million in 1H2020.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

The Pandemic is expected to persist while the full resumption of normal social and travel activities is not expected to happen in the near future. Besides, unemployment rate in Hong Kong is yet to peak out, which will inevitably create more turbulence for the Group's operating environment in the second half.

Under this extremely challenging environment, the Group will primarily focus on containing any deterioration of asset quality as far as possible. The Group will emphasize on data analytical technique to strengthen its credit control activities. On the marketing side, the Group will resume its mass promotion activities for both credit card business and personal loan business so as to capture the possible surge of consumer spending in the market. Moreover, the Group will further strengthen its collaboration with AEON Stores (Hong Kong) Co., Limited to enhance the competitiveness of AEON credit card.

As financial technology is developing at a fast pace, the Group will continue to commit significant resources to digitalization in order to enhance operation efficiency and upgrade its ability to respond to market changes. These include the new card and loan system project and also continued enhancement of the Company's mobile applications and website.

With the add in of fund transfer for card cash advance to the bank accounts of customers through Faster Payment System in mobile application, cardholders started shifting their cash advance transactions from using ATM to mobile application. Upon assessing the profitability in maintaining the ATM network, the Group decided to cease the ATM operation in the fourth quarter of this year.

For the Mainland China businesses, the operating environment is still uncertain and the microfinance subsidiaries will mainly focus on improving asset quality. The Group will continue to assess the business prospects of its two microfinance subsidiaries and fine-tune their operating models when necessary, in order to create greater value for shareholders.

With the precautionary measures being taken, as well as the Group's strong liquidity position and capital base, the Group is well prepared to face the challenges ahead and to move forward to capture new business opportunities that may arise as and when market conditions start to recover.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Funding and Capital Management

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:

	31.8.2020 (Unaudited) HK\$'000	29.2.2020 (Audited) HK\$'000
Debt (<i>Note a</i>)	1,410,435	2,017,502
Cash and cash equivalents	(816,932)	(764,987)
Net debt	593,503	1,252,515
Equity (<i>Note b</i>)	3,393,048	3,313,542
Net debt to equity ratio	0.2	0.4

Notes:

- (a) Debt comprises bank borrowings and collateralised debt obligation as detailed in Notes 18 and 21 respectively.
- (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.

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 2020, capital commitments entered into were mainly related to the purchase of property, plant and equipment.

Human Resources

The total number of staff of the Group at 31st August 2020 and 29th February 2020 was 399 (Hong Kong: 349; PRC: 50) and 391 (Hong Kong: 338; PRC: 53) respectively. The Group continues to recognize and reward its staff similar to that disclosed in its 2019/20 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 2020. In addition, the condensed consolidated financial statements for the six months ended 31st August 2020 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 2020 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), 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.

By order of the Board
TOMOHARU FUKAYAMA
Managing Director

Hong Kong, 30th September 2020