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AEON CREDIT SERVICE (ASIA) CO., LTD.

AEON 信貸財務 (亞洲) 有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 900)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST AUGUST 2018

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 2018, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31st August 2018

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

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31st August 2018

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2018

	<i>Notes</i>	31.8.2018 (Unaudited) <i>HK\$'000</i>	28.2.2018 (Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	13	73,010	87,223
Investment in an associate		13,379	13,678
Equity instruments at fair value through other comprehensive income	14	87,929	–
Available-for-sale investments	14	–	15,900
Advances and receivables	15	883,675	981,330
Prepayments, deposits and other debtors	18	46,848	26,559
Derivative financial instruments	21	26,372	18,249
Deferred tax assets	22	14,752	–
Restricted deposits		38,000	38,000
		1,183,965	1,180,939
Current assets			
Advances and receivables	15	3,979,344	4,202,214
Prepayments, deposits and other debtors	18	47,468	45,058
Amounts due from fellow subsidiaries		1,882	146
Amount due from immediate holding company		274	–
Amount due from intermediate holding company		22	–
Amount due from an associate		38	350
Derivative financial instruments	21	143	–
Restricted deposits		320,461	–
Time deposits		115,907	103,533
Fiduciary bank balances		104	248
Bank balances and cash		545,630	660,488
		5,011,273	5,012,037
Current liabilities			
Creditors and accruals	19	244,965	235,808
Contract liabilities	19	10,135	–
Amounts due to fellow subsidiaries		37,019	56,705
Amount due to intermediate holding company		14	154
Amount due to ultimate holding company		14	33
Amount due to an associate		2,233	2,904
Bank borrowings	20	415,000	345,000
Derivative financial instruments	21	13,900	1,865
Tax liabilities		53,723	25,772
		777,003	668,241
Net current assets		4,234,270	4,343,796
Total assets less current liabilities		5,418,235	5,524,735

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

At 31st August 2018

		31.8.2018	28.2.2018
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		2,780,940	2,735,564
		<hr/>	<hr/>
Total equity		3,050,417	3,005,041
		<hr/>	<hr/>
Non-current liabilities			
Collateralised debt obligation	23	1,250,000	1,250,000
Bank borrowings	20	1,116,314	1,230,020
Derivative financial instruments	21	1,504	34,819
Deferred tax liabilities	22	–	4,855
		<hr/>	<hr/>
		2,367,818	2,519,694
		<hr/>	<hr/>
		5,418,235	5,524,735
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st August 2018

	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 2017 (Audited)	269,477	(4,421)	(53,651)	(18,489)	2,549,155	2,742,071
Profit for the period	–	–	–	–	173,784	173,784
Fair value loss on available-for-sale investments	–	(1,582)	–	–	–	(1,582)
Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sale investments	–	6,003	–	–	–	6,003
Exchange difference arising from translation of foreign operations	–	–	–	13,162	–	13,162
Net adjustment on cash flow hedges	–	–	(16,954)	–	–	(16,954)
Total comprehensive income (expense) for the period	–	4,421	(16,954)	13,162	173,784	174,413
Final dividend paid for 2016/17	–	–	–	–	(83,753)	(83,753)
	–	4,421	(16,954)	13,162	90,031	90,660
At 31st August 2017 (Unaudited)	<u>269,477</u>	<u>–</u>	<u>(70,605)</u>	<u>(5,327)</u>	<u>2,639,186</u>	<u>2,832,731</u>
At 1st March 2018 (Audited)	<u>269,477</u>	<u>–</u>	<u>(19,529)</u>	<u>2,296</u>	<u>2,752,797</u>	<u>3,005,041</u>
Transitional adjustments on the initial application of HKFRS 9 (Note 2)	–	63,175	–	–	(160,716)	(97,541)
Adjusted as at 1st March 2018	269,477	63,175	(19,529)	2,296	2,592,081	2,907,500
Profit for the period	–	–	–	–	231,231	231,231
Fair value loss on equity instruments at fair value through other comprehensive income	–	(905)	–	–	–	(905)
Exchange difference arising from translation of foreign operations	–	–	–	(21,922)	–	(21,922)
Net adjustment on cash flow hedges	–	–	26,641	–	–	26,641
Total comprehensive (expense) income for the period	–	(905)	26,641	(21,922)	231,231	235,045
Final dividend paid for 2017/18	–	–	–	–	(92,128)	(92,128)
	–	(905)	26,641	(21,922)	139,103	142,917
At 31st August 2018 (Unaudited)	<u><u>269,477</u></u>	<u><u>62,270</u></u>	<u><u>7,112</u></u>	<u><u>(19,626)</u></u>	<u><u>2,731,184</u></u>	<u><u>3,050,417</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st August 2018

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

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2018

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 28th February 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 28th February 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

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

Application of new and amendments to HKFRSs

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

In addition, the Group applied the hedge accounting prospectively.

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

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

Classification and measurement of financial assets

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

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

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

Equity instruments designated as at fair value through other comprehensive income (“FVTOCI”)

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

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

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

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

Impairment under ECL model

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

Significant increase in credit risk

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

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

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

Measurement and recognition of ECL

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

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

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

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

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

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

Hedge accounting

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

2.1.2 Summary of effects arising from initial application of HKFRS 9

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

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

(a) *Available-for-sale investments*

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

(b) Impairment under ECL model

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

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

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

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

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

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

(c) Hedge accounting

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

The Group recognises revenue from the following major sources:

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

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

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

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

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

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

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

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

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

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

Principal versus agent

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

2.2.2 Summary of effects arising from initial application of HKFRS 15

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

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

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

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

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

Impact on the condensed consolidated statement of financial position

	As reported <i>HK\$'000</i>	Reclassification <i>HK\$'000</i> <i>(Note)</i>	Amounts without application of HKFRS 15 <i>HK\$'000</i>
Current Liabilities			
Creditors and accruals	244,965	10,135	255,100
Contract liabilities	10,135	(10,135)	–
	<u> </u>	<u> </u>	<u> </u>

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

2. PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

	28th February 2018 (audited) HK\$'000	HKFRS 9 HK\$'000	HKFRS 15 HK\$'000	1st March 2018 (restated) HK\$'000
Non-current assets				
Available-for-sale investments	15,900	(15,900)	–	–
Equity instruments at FVTOCI	–	88,834	–	88,834
Advances and receivables	981,330	(35,805)	–	945,525
Deferred tax assets	–	13,800	–	13,800
Others with no adjustments	183,709	–	–	183,709
	<u>1,180,939</u>	<u>50,929</u>	<u>–</u>	<u>1,231,868</u>
Current assets				
Advances and receivables	4,202,214	(153,325)	–	4,048,889
Others with no adjustments	809,823	–	–	809,823
	<u>5,012,037</u>	<u>(153,325)</u>	<u>–</u>	<u>4,858,712</u>
Current liabilities				
Creditors and accruals	235,808	–	(9,061)	226,747
Contract liabilities	–	–	9,061	9,061
Others with no adjustments	432,433	–	–	432,433
	<u>668,241</u>	<u>–</u>	<u>–</u>	<u>668,241</u>
Net current assets	<u>4,343,796</u>	<u>(153,325)</u>	<u>–</u>	<u>4,190,471</u>
Total assets less current liabilities	<u>5,524,735</u>	<u>(102,396)</u>	<u>–</u>	<u>5,422,339</u>
Capital and reserves				
Reserves	2,735,564	(97,541)	–	2,638,023
Others with no adjustments	269,477	–	–	269,477
	<u>3,005,041</u>	<u>(97,541)</u>	<u>–</u>	<u>2,907,500</u>
Non-current liabilities				
Deferred tax liabilities	4,855	(4,855)	–	–
Others with no adjustments	2,514,839	–	–	2,514,839
	<u>2,519,694</u>	<u>(4,855)</u>	<u>–</u>	<u>2,514,839</u>
	<u>5,524,735</u>	<u>(102,396)</u>	<u>–</u>	<u>5,422,339</u>

3. REVENUE

	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000	1.3.2017 to 31.8.2017 (Unaudited) HK\$'000
Interest income (under HKFRS 9)	567,673	546,349
Fees and commissions		
Credit cards	36,328	29,738
Insurance	8,497	7,990
Handling and late charges	40,896	41,882
	<u>653,394</u>	<u>625,959</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
Instalment loans	–	Provide personal loan financing to individuals
Insurance	–	Provide insurance brokerage and agency services

Segment revenue and results

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

1.3.2018 to 31.8.2018 (Unaudited)

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

4. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

1.3.2017 to 31.8.2017 (Unaudited)

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

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

Geographical information

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

1.3.2018 to 31.8.2018 (Unaudited)

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

4. SEGMENT INFORMATION (Continued)

Geographical information (Continued)

1.3.2017 to 31.8.2017 (Unaudited)

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

5. INTEREST INCOME

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

6. INTEREST EXPENSE

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

7. OTHER INCOME

	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000	1.3.2017 to 31.8.2017 (Unaudited) HK\$'000
Dividends received from financial instruments		
Listed equity securities	391	355
Others	<u>2,382</u>	<u>2,514</u>
	<u><u>2,773</u></u>	<u><u>2,869</u></u>

8. OTHER GAINS AND LOSSES

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

9. OPERATING EXPENSES

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

10. INCOME TAX EXPENSE

	1.3.2018 to 31.8.2018 (Unaudited) HK\$'000	1.3.2017 to 31.8.2017 (Unaudited) HK\$'000
Current tax		
— Current period	45,710	37,538
Deferred tax (<i>Note 22</i>)		
— Current period	<u>(952)</u>	<u>(526)</u>
	<u>44,758</u>	<u>37,012</u>

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

The People's Republic of China Enterprise Income Tax is calculated at 25% of the estimated assessable profits of the China subsidiaries for both periods.

11. DIVIDENDS

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

In respect of the current interim period, the Directors have declared an interim dividend of 22.0 HK cents per share amounting to HK\$92,128,000 payable to the shareholders of the Company whose names appear on the Register of Members on 16th October 2018. The interim dividend will be paid on 31st October 2018. This interim dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

12. EARNINGS PER SHARE — BASIC

The calculation of basic earnings per share is based on the unaudited profit for the period of HK\$231,231,000 (six months ended 31st August 2017: HK\$173,784,000) and on the number of shares of 418,766,000 (six months ended 31st August 2017: 418,766,000) in issue during the period.

13. PROPERTY, PLANT AND EQUIPMENT

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

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

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

15. ADVANCES AND RECEIVABLES

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

All advances and receivables are unsecured.

16. IMPAIRMENT ALLOWANCES

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

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

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

17. OVERDUE ADVANCES AND RECEIVABLES

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

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

* Percentage of gross advances and receivables

18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

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

19. CREDITORS AND ACCRUALS/CONTRACT LIABILITIES

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

	31.8.2018 (Unaudited) <i>HK\$'000</i>	28.2.2018 (Audited) <i>HK\$'000</i>
Less than 1 month	59,352	58,422
Over 1 month but less than 3 months	3,640	3,910
Over 3 months	3,598	3,702
	66,590	66,034

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

20. BANK BORROWINGS

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

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

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

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

22. DEFERRED TAX ASSETS/LIABILITIES

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

	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2018 (Audited)	(10,909)	6,054	(4,855)
Adjustments (<i>Note 2</i>)	–	18,655	18,655
Credit (charge) to profit or loss for the period	<u>2,347</u>	<u>(1,395)</u>	<u>952</u>
At 31st August 2018 (Unaudited)	<u>(8,562)</u>	<u>23,314</u>	<u>14,752</u>
	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2017 (Audited)	(13,655)	7,083	(6,572)
Credit (charge) to profit or loss for the period	<u>1,744</u>	<u>(1,218)</u>	<u>526</u>
At 31st August 2017 (Unaudited)	<u>(11,911)</u>	<u>5,865</u>	<u>(6,046)</u>

23. COLLATERALISED DEBT OBLIGATION

- (a) The Group entered into a HK\$1,250,000,000 collateralised debt obligation financing transaction (the “Transaction”). The Transaction consists of three tranches — Tranche A, Tranche B and Tranche C. The amount under Tranche A and Tranche B is HK\$550,000,000 each and the amount under Tranche C is HK\$150,000,000. The revolving periods for both Tranche A and Tranche B will end in September 2019 while the revolving period for Tranche C will end in July 2020. The three tranches were arranged at floating interest rates from 0.40% plus HIBOR per annum to 0.55% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Three corresponding interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, are arranged to swap these three tranches from floating rates to fixed rates from 3.2% to 3.8% per annum. The effective interest rate after taking into account the executed interest rate swaps was 3.6% (six months ended 31st August 2017: 3.6%) per annum during the period.
- (b) Pursuant to the Transaction, the Group transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the “Trust”) established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Group is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HKFRS 10 *Consolidated Financial Statements*, the Trust is controlled by the Group and the results thereof are consolidated by the Group in its consolidated financial statements. According to HKFRS 9, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group’s consolidated financial statements. The Transaction is backed by the credit card receivables transferred and with the carrying amount denominated in HKD.

24. PLEDGE OF ASSETS

At 31st August 2018, the collateralised debt obligation was secured by credit card receivables and restricted deposits of HK\$1,577,205,000 and HK\$358,641,000 respectively (28th February 2018: HK\$1,660,345,000 and HK\$38,000,000).

CLOSURE OF REGISTER OF MEMBERS

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

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance to balance the interests of shareholders, customers, and employees. The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 31st August 2018, with the exceptions of code provisions A.4.1 and A.4.2 which are explained below.

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

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

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 the 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

Financial Review

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

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

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

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

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

Business Review

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

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

In the first half of the year, the Group started a new project to replace and upgrade its card and loan system. Based on current estimates, the project will cost approximately HK\$480.0 million over a period of ten years from the completion of the project in early 2020. The new system would improve operational efficiency, reduce system running costs and enhance its technical capability to cater for new technology, including mobile payment.

Segment Information

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information (Continued)

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

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

Prospects

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

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

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

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

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

Net debt to equity ratio

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

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

Notes:

- (a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 20 and 23 respectively.
- (b) Equity includes all capital and reserves of the Group.

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

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

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

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

The Group's principal operations are transacted and recorded in HKD and thereby its core assets are not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings. At 31st August 2018, capital commitments entered into were mainly related to the purchase of property, plant and equipment.

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

HUMAN RESOURCES

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 31st August 2018. The Interim Report for the six months ended 31st August 2018 has been reviewed in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA, by Messrs. Deloitte Touche Tohmatsu, whose unmodified review report will be included in the Interim Report to be sent to shareholders.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

The 2018 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. Hideo Tanaka (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director), Ms. Koh Yik Kung, Mr. Tomoharu Fukayama and Mr. Toru Hosokawa as Executive Directors; Mr. Masaaki Mangetsu (Chairman) as Non-executive Director; and Mr. Lee Ching Ming, Adrian, Mr. Wong Hin Wing and Mr. Kenji Hayashi as Independent Non-executive Directors.

By order of the Board
HIDEO TANAKA
Managing Director

Hong Kong, 27th September 2018