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

UNAUDITED RESULTS FOR THE NINE MONTHS ENDED 30TH NOVEMBER 2023

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 nine months ended 30th November 2023 (the “reporting period” or “nine months of FY2023/24”), together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30th November 2023

	<i>Notes</i>	1.3.2023 to 30.11.2023 (Unaudited) HK\$'000	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000
Revenue	2	1,192,889	887,361
Interest income		1,005,105	743,246
Interest expense		(76,385)	(27,404)
Net interest income		928,720	715,842
Fees and commissions		94,878	94,870
Handling and late charges		92,906	49,245
Other income	4	7,638	17,988
Other gains and losses	5	(9,031)	325
Operating income		1,115,111	878,270
Operating expenses	6	(532,677)	(497,615)
Operating profit before impairment losses and impairment allowances		582,434	380,655
Impairment losses and impairment allowances		(264,148)	(140,176)
Recoveries of advances and receivables written-off		21,157	27,252
Gain on disposal of distressed assets		–	31,933
Profit before tax		339,443	299,664
Income tax expense		(57,180)	(49,350)
Profit for the period		282,263	250,314
Profit for the period attributable to: Owners of the Company		282,263	250,314
Earnings per share – Basic		67.40 HK cents	59.77 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30th November 2023

	1.3.2023 to 30.11.2023 (Unaudited) HK\$'000	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000
Profit for the period	<u>282,263</u>	<u>250,314</u>
Other comprehensive (expense) income		
Item that will not be reclassified to profit or loss:		
Fair value (loss) gain on equity instruments at fair value through other comprehensive income	(22,990)	9,275
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(3,819)	(21,559)
Net adjustment on cash flow hedges	<u>(12,044)</u>	<u>54,225</u>
Other comprehensive (expense) income for the period	<u>(38,853)</u>	41,941
Total comprehensive income for the period	<u>243,410</u>	<u>292,255</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>243,410</u>	<u>292,255</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th November 2023

		30.11.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		176,740	84,584
Right-of-use assets		120,052	43,077
Goodwill		15,820	15,820
Equity instruments at fair value through other comprehensive income		74,143	97,133
Advances and receivables	7	1,495,103	1,239,940
Prepayments, deposits and other debtors		35,348	64,282
Derivative financial instruments	11	25,610	34,768
Deferred tax assets		7,096	10,183
		1,949,912	1,589,787
Current assets			
Advances and receivables	7	5,064,931	4,404,568
Prepayments, deposits and other debtors		76,821	67,009
Amount due from immediate holding company		–	1
Amount due from an intermediate holding company		68	32
Amount due from ultimate holding company		–	9
Derivative financial instruments	11	–	878
Time deposits		5,028	13,073
Bank balances and cash		280,748	382,323
		5,427,596	4,867,893
Current liabilities			
Creditors and accruals		236,717	202,983
Contract liabilities		24,416	23,897
Amounts due to fellow subsidiaries		40,504	44,485
Amount due to an intermediate holding company		3,187	1,591
Borrowings from immediate holding company	10	790,000	–
Bank borrowings	10	390,361	789,977
Lease liabilities		107,965	34,392
Derivative financial instruments	11	28,192	–
Tax liabilities		64,501	93,507
		1,685,843	1,190,832
Net current assets		3,741,753	3,677,061
Total assets less current liabilities		5,691,665	5,266,848

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

At 30th November 2023

	<i>Notes</i>	30.11.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		3,673,761	3,622,983
Total equity		3,943,238	3,892,460
Non-current liabilities			
Bank borrowings	<i>10</i>	1,690,277	1,317,698
Lease liabilities		11,898	8,307
Derivative financial instruments	<i>11</i>	46,252	48,383
		1,748,427	1,374,388
		5,691,665	5,266,848

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30th November 2023

	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 2022 (Audited)	269,477	47,255	(2,180)	(2,598)	3,321,588	3,633,542
Profit for the period	-	-	-	-	250,314	250,314
Fair value gain on equity instruments at fair value through other comprehensive income	-	9,275	-	-	-	9,275
Exchange difference arising from translation of foreign operations	-	-	-	(21,559)	-	(21,559)
Net adjustment on cash flow hedges	-	-	54,225	-	-	54,225
Total comprehensive income (expense) for the period	-	9,275	54,225	(21,559)	250,314	292,255
Final dividend paid for the year from 1.3.2021 to 28.2.2022	-	-	-	-	(92,128)	(92,128)
Interim dividend paid for the year from 1.3.2022 to 28.2.2023	-	-	-	-	(92,128)	(92,128)
	-	9,275	54,225	(21,559)	66,058	107,999
At 30th November 2022 (Unaudited)	269,477	56,530	52,045	(24,157)	3,387,646	3,741,541
At 1st March 2023 (Audited)	269,477	73,311	50,342	(11,613)	3,510,943	3,892,460
Profit for the period	-	-	-	-	282,263	282,263
Fair value loss on equity instruments at fair value through other comprehensive income	-	(22,990)	-	-	-	(22,990)
Exchange difference arising from translation of foreign operations	-	-	-	(3,819)	-	(3,819)
Net adjustment on cash flow hedges	-	-	(12,044)	-	-	(12,044)
Total comprehensive (expense) income for the period	-	(22,990)	(12,044)	(3,819)	282,263	243,410
Final dividend paid for the year from 1.3.2022 to 28.2.2023	-	-	-	-	(92,128)	(92,128)
Interim dividend paid for the year from 1.3.2023 to 29.2.2024	-	-	-	-	(100,504)	(100,504)
	-	(22,990)	(12,044)	(3,819)	89,631	50,778
At 30th November 2023 (Unaudited)	269,477	50,321	38,298	(15,432)	3,600,574	3,943,238

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30th November 2023

	1.3.2023 to 30.11.2023 (Unaudited) HK\$'000	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000
Net cash (used in) operating activities	(559,966)	(652,527)
Dividends received	71	89
Proceeds on disposal of property, plant and equipment	7	–
Purchase of property, plant and equipment	(48,137)	(13,692)
Deposits paid for acquisition of property, plant and equipment	(44,110)	(30,058)
Placement of time deposits with maturity of more than three months	(1,650)	(70,986)
Release of time deposits with maturity of more than three months	7,858	117,864
Net cash (used in) from investing activities	(85,961)	3,217
Repayment of lease liabilities	(45,502)	(39,300)
Dividends paid	(192,632)	(184,257)
New borrowings from immediate holding company raised	7,970,000	–
Repayment of borrowings from immediate holding company	(7,180,000)	–
New bank loans raised	10,002,176	3,369,232
Repayment of bank loans	(10,009,989)	(2,525,349)
Net cash from financing activities	544,053	620,326
Net decrease in cash and cash equivalents	(101,874)	(28,984)
Effect of changes in exchange rate	(1,508)	(1,847)
Cash and cash equivalents at beginning of the period	387,508	588,963
Cash and cash equivalents at end of the period	284,126	558,132
Being:		
Time deposits with maturity of three months or less	3,378	5,026
Bank balances and cash	280,748	553,106
	284,126	558,132

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th November 2023

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 28th February 2023 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 2023 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.

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

Other than change in accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the nine months ended 30th November 2023 are the same as those presented in the Group’s annual consolidated financial statements for the year ended 28th February 2023.

Application of amendments to HKFRSs

In the current period, the Group has applied the following new and amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group’s annual period beginning on 1st March 2023 for the preparation of the Group’s condensed consolidated financial statements:

HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17)	Insurance Contracts
Amendments to HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to HKAS 8	Definition of Accounting Estimates
Amendments to HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to HKAS 12	International Tax Reform – Pillar Two Model Rules

The application of 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.

2. REVENUE

	1.3.2023 to 30.11.2023 (Unaudited) HK\$'000	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000
Interest income	1,005,105	743,246
Fees and commissions		
Credit cards – issuing	45,219	53,072
Credit cards – acquiring	32,052	22,658
Insurance	17,607	19,140
Handling and late charges	92,906	49,245
	<u>1,192,889</u>	<u>887,361</u>

3. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

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

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

Segment revenue and results

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

1.3.2023 to 30.11.2023 (Unaudited)

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Consolidated HK\$'000
REVENUE	<u>945,285</u>	<u>229,997</u>	<u>17,607</u>	<u>1,192,889</u>
RESULT				
Segment results	<u>295,426</u>	<u>37,508</u>	<u>7,694</u>	<u>340,628</u>
Unallocated operating income				2,409
Unallocated operating expenses				<u>(3,594)</u>
Profit before tax				<u>339,443</u>

1.3.2022 to 30.11.2022 (Unaudited)

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Consolidated HK\$'000
REVENUE	<u>694,582</u>	<u>173,492</u>	<u>19,287</u>	<u>887,361</u>
RESULT				
Segment results	<u>234,349</u>	<u>48,108</u>	<u>16,721</u>	299,178
Unallocated operating income				4,440
Unallocated operating expenses				<u>(3,954)</u>
Profit before tax				<u>299,664</u>

3. SEGMENT INFORMATION (Continued)

Geographical information

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

1.3.2023 to 30.11.2023 (Unaudited)

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	1,172,404	20,485	1,192,889
RESULT			
Segment results	335,493	5,135	340,628
Unallocated operating income			2,409
Unallocated operating expenses			(3,594)
Profit before tax			339,443

1.3.2022 to 30.11.2022 (Unaudited)

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	871,370	15,991	887,361
RESULT			
Segment results	296,195	2,983	299,178
Unallocated operating income			4,440
Unallocated operating expenses			(3,954)
Profit before tax			299,664

4. OTHER INCOME

	1.3.2023 to 30.11.2023 (Unaudited) HK\$'000	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000
Dividends received from financial instruments		
Listed equity securities	71	89
Government grants	–	2,496
Marketing support fund	5,229	13,637
Others	2,338	1,766
	<u>7,638</u>	<u>17,988</u>

5. OTHER GAINS AND LOSSES

	1.3.2023 to 30.11.2023 (Unaudited) HK\$'000	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange loss on hedging instrument released from cash flow hedge reserve	(18,260)	(46,895)
Exchange gain on a bank loan	18,260	46,895
Other exchange (loss) gain, net	(61)	212
Hedge ineffectiveness on cash flow hedges, net	303	303
Losses on disposal of property, plant and equipment	(9,282)	(190)
Gain on lease modification	9	–
	<u>(9,031)</u>	<u>325</u>

6. OPERATING EXPENSES

	1.3.2023 to 30.11.2023 (Unaudited) HK\$'000	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	31,619	21,614
Depreciation on right-of-use assets	42,904	39,924
Expenses relating to short-term leases	3,136	2,858
	<u>46,040</u>	42,782
General administrative expenses	154,841	143,709
Marketing and promotion expenses	83,087	91,267
Other operating expenses	56,219	52,501
Staff costs including Directors' emoluments	160,871	145,742
	<u>532,677</u>	<u>497,615</u>

7. ADVANCES AND RECEIVABLES

	30.11.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Credit card receivables	5,091,392	4,481,038
Personal loan receivables	1,539,278	1,263,929
	6,630,670	5,744,967
Accrued interest and other receivables	184,158	91,250
	6,814,828	5,836,217
Gross advances and receivables	(254,794)	(191,709)
Impairment allowances (<i>Note 8</i>)	6,560,034	5,644,508
	(5,064,931)	(4,404,568)
Current portion included under current assets	1,495,103	1,239,940
Amount due after one year	1,495,103	1,239,940

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

8. IMPAIRMENT ALLOWANCES

	30.11.2023 (Unaudited) HK\$'000	28.2.2023 (Audited) HK\$'000
Analysis by products as:		
Credit card receivables	165,126	122,910
Personal loan receivables	84,501	66,229
Accrued interest and other receivables	5,167	2,570
	254,794	191,709

8. IMPAIRMENT ALLOWANCES (Continued)

An analysis of movements in impairment allowances including commitments on unused credit limit during each of the two periods ended 30th November 2023 and 30th November 2022 are set out as below:

	Stage 1 <i>HK\$'000</i>	Stage 2 <i>HK\$'000</i>	Stage 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2023	97,642	18,878	75,189	191,709
Net advance in advances and receivables	20,984	3,406	540	24,930
Transfer to 12 months Expected Credit Loss (Stage 1)	33,929	(31,546)	(2,383)	–
Transfer to lifetime Expected Credit Loss not credit impaired (Stage 2)	(5,327)	9,518	(4,191)	–
Transfer to lifetime Expected Credit Loss credit impaired (Stage 3)	(1,295)	(63,596)	64,891	–
Total transfer between stages	27,307	(85,624)	58,317	–
Remeasurement of Expected Credit Loss during the period	(26,643)	91,464	174,397	239,218
Amounts written-off as uncollectable	–	–	(200,887)	(200,887)
Exchange realignment	(60)	(41)	(75)	(176)
At 30th November 2023	119,230	28,083	107,481	254,794
	<i>Stage 1 HK\$'000</i>	<i>Stage 2 HK\$'000</i>	<i>Stage 3 HK\$'000</i>	<i>Total HK\$'000</i>
At 1st March 2022	72,719	22,067	86,357	181,143
Net advance (repayment) in advances and receivables	20,927	(7,496)	(5,457)	7,974
Transfer to 12 months Expected Credit Loss (Stage 1)	57,479	(55,306)	(2,173)	–
Transfer to lifetime Expected Credit Loss not credit impaired (Stage 2)	(5,695)	10,149	(4,454)	–
Transfer to lifetime Expected Credit Loss credit impaired (Stage 3)	(130)	(48,840)	48,970	–
Total transfer between stages	51,654	(93,997)	42,343	–
Remeasurement of Expected Credit Loss during the period	(54,997)	106,255	80,944	132,202
Amounts written-off as uncollectable	–	–	(122,777)	(122,777)
Exchange realignment	115	94	687	896
At 30th November 2022	90,418	26,923	82,097	199,438

9. ANALYSIS OF ADVANCES AND RECEIVABLES BY STAGE

Set out below is an analysis of gross balance of advances and receivables (excluding impairment allowances):

	30.11.2023 (Unaudited)		28.2.2023 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Stage 1	6,492,726	95.3	5,582,236	95.7
Stage 2	77,638	1.1	84,229	1.4
Stage 3	244,464	3.6	169,752	2.9
	<u>6,814,828</u>	<u>100.0</u>	<u>5,836,217</u>	<u>100.0</u>

* Percentage of gross advances and receivables

Stage 1 covers the advances and receivables which credit risk has not significantly increased since initial recognition.

Stage 2 covers the advances and receivables which credit risk has significantly increased since initial recognition.

Stage 3 covers the advances and receivables for which credit loss events occurred and become credit-impaired.

10. BANK BORROWINGS/BORROWINGS FROM IMMEDIATE HOLDING COMPANY

	30.11.2023 (Unaudited)		28.2.2023 (Audited)	
	Bank borrowings HK\$'000	Borrowings from immediate holding company HK\$'000	Bank borrowings HK\$'000	Borrowings from immediate holding company HK\$'000
Carrying amount repayable (<i>Note</i>)				
Within one year	390,361	790,000	789,977	–
Within a period of more than one year but not more than two years	599,470	–	201,917	–
Within a period of more than two years but not more than five years	1,090,807	–	1,115,781	–
	<u>2,080,638</u>	<u>790,000</u>	<u>2,107,675</u>	<u>–</u>
Amount repayable within one year included under current liabilities	<u>(390,361)</u>	<u>(790,000)</u>	<u>(789,977)</u>	<u>–</u>
Amount repayable after one year	<u>1,690,277</u>	<u>–</u>	<u>1,317,698</u>	<u>–</u>

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

	30.11.2023 (Unaudited)		28.2.2023 (Audited)	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Interest rate swaps	25,610	2,886	35,646	942
Cross-currency interest rate swap	–	71,558	–	47,441
	<u>25,610</u>	<u>74,444</u>	<u>35,646</u>	<u>48,383</u>
Current portion	–	(28,192)	(878)	–
	<u>25,610</u>	<u>46,252</u>	<u>34,768</u>	<u>48,383</u>

All derivative financial instruments entered into by the Group that remain outstanding at 30th November 2023 and 28th February 2023 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings, the designated hedged items.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Hong Kong economy continued its recovery trajectory into the third quarter of the year ending 29th February 2024 (“FY2023”), with further resurgence in inbound tourism and private consumption. However, amidst continued macro challenges such as historically high inflation across many parts of the world, rising US policy rates, continued pressure on the property market in Mainland China and geopolitical conflicts, economic and social activities had still not returned to pre-pandemic levels for the nine months ended 30th November 2023 (“first nine months of FY2023” or the “Reporting Period”). Despite improved market and business sentiment, consumers’ confidence in the local and wider economy had yet to be fully restored.

Although the pace of market recovery was not as fast as anticipated, the Group took a number of customised, proactive measures during the Reporting Period to drive healthy growth in both sales and receivables, with an objective to build a quality portfolio that is expected to provide income, growth and resilience at the same time.

In terms of marketing, the Group utilized targeted and attractive promotions to better publicise its competitive products and services to the right customers. In addition to organizing themed roadshows at exhibitions and shopping malls to expand its reach, the Group launched various incentive programs to stimulate local dining and overseas spending.

To further enhance the security and convenience to credit card users, in addition to the biometric authentication on the Company’s new mobile application and one-time passwords for online transactions, new functions such as UnionPay QR Pay, UnionPay QR Cash, Apple Pay and Google Pay had been added in to provide its customers with alternative means to make payments and cash withdrawals.

In order to diversify its branch network and meet an increasing demand for face-to-face advisory services, the Group continued to revamp and expand its branch network and set up dedicated insurance consultation counters to enhance the customer experience.

Regarding the ongoing monitoring of the quality of the credit portfolio, the Group continued to enhance its credit assessment model with updated market indicators and adopted up-to-date analytical tools for account management. This has significantly helped control the increase in delinquent receivables.

As a result of these measures, the Group’s overall sales for the first nine months of FY2023 increased by 18.5% compared with the same period last year (“first nine months of FY2022” or the “Previous Period”), and the gross advances and receivables balance increased by 16.8% from the end of February 2023. The Group’s credit risk management proved effective against the market’s increasing bankruptcy trend in the second and third quarters of FY2023, with the percentage of the Group’s more risky or otherwise credit impaired advances and receivables (i.e., stage 2 and stage 3 receivables) to total advances and receivables increasing slightly from 4.3% as at 28th February 2023 to just 4.7% as at 30th November 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (continued)

In addition to business growth, the Group attaches great importance to fuse sustainability and business operations. In early September 2023, the Group began to gradually phase out traditional first-use PVC plastics in its credit cards in favour of post-consumer recycled poly vinyl chloride (“rPVC”) plastics approved by the Global Recycled Standard (GRS). This move will enable the more environmentally conscious consumers to have access to sustainable credit card products.

As for the Mainland China business, AEON Micro Finance (Shenzhen) Co., Ltd. (“AMF(SZ)”) achieved an increasing sales trend throughout the Reporting Period, while AEON Information Service (Shenzhen) Co., Ltd. (“AIS”) provided the Group with effective telemarketing and other business process outsourcing support to increase sales of personal loans and cash advances.

Financial Review

Profit before tax for the first nine months of FY2023 was HK\$339.4 million, an increase of 13.3%, or HK\$39.8 million, when compared with the Previous Period. After deducting income tax expenses of HK\$57.2 million, the Group recorded an increase in profit of 12.8%, and profit after tax increased from HK\$250.3 million for the first nine months of FY2022 to HK\$282.3 million for the Reporting Period. Earnings per share increased from 59.77 HK cents to 67.40 HK cents for the Reporting Period.

The net debt to equity ratio increased from 0.5 as at 28th February 2023 to 0.7 as at 30th November 2023, while the total equity to total assets ratio was 53.4% and 60.3% as at 30th November 2023 and 28th February 2023, respectively.

Net asset value per share was HK\$9.4 as at 30th November 2023, compared with a net asset value per share (after final dividend) of HK\$9.1 as at 28th February 2023.

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for the first nine months of FY2023 was HK\$1,192.9 million, an increase of 34.4%, or HK\$305.5 million, compared with HK\$887.4 million recorded in the Previous Period.

Net interest income

With the gradual recovery of the economic situation, the Group implemented various marketing programs to meet the market demand, which resulted in the continued increase of credit card receivables and personal loan receivables. Together with the increase in the interest rate on card credit purchases, the Group recorded a significant increase in interest income of 35.2%, or HK\$261.9 million, from HK\$743.2 million in the Previous Period to HK\$1,005.1 million in the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (continued)

Consolidated Statement of Profit or Loss Analysis (continued)

Net interest income (continued)

The Group's interest expenses increased by HK\$49.0 million from HK\$27.4 million in the Previous Period to HK\$76.4 million in the Reporting Period as a result of the increase in the amount of borrowings to finance its receivable balances and in inter-bank lending rates. With a borrowing portfolio consisting of a mix of borrowing rates with different maturities, the Group managed to have its average cost of funds to increase only by 0.5% from 3.6% in the Previous Period to 4.1% in the first nine months of FY2023/24.

As a result, the Group's net interest income for the first nine months of FY2023 was HK\$928.7 million, an increase of 29.7%, or HK\$212.9 million, compared with the first nine months of FY2022.

Operating income

Although the value of credit card purchases increased significantly during the Reporting Period, the increase in commission income was offset by the increase in the cost of running the attractive cashback incentive scheme and campaigns, resulting in a decrease in fees and commissions from the credit card issuing business by HK\$7.9 million to HK\$45.2 million for the Reporting Period. For the credit card acquiring business, fees and commissions increased by HK\$9.4 million to HK\$32.1 million during the Reporting Period due to an increase in the number of card acquiring merchants and the transaction volume. Due to an adjustment period and market repositioning following the diversification of insurance distribution channels, fees and commissions from the insurance intermediary business decreased from HK\$19.1 million in the Previous Period to HK\$17.6 million in the Reporting Period. The Group recorded a similar level of fees and commissions of HK\$94.9 million for both the Reporting Period and the Previous Period.

As a result of the higher demand for cash advances and the increase in the number of customers making minimum payments in the first nine months of FY2023, handling and late charges increased by HK\$43.7 million to HK\$92.9 million for the Reporting Period.

In terms of other income, the Group recognized an income of HK\$4.1 million from card scheme sponsorship during the Reporting Period, while in the Previous Period, the Group recognized incomes from both the marketing support fund of HK\$7.8 million from an insurance partner and government subsidies of HK\$2.5 million, resulting in a decrease in other income by HK\$10.3 million to HK\$7.6 million for the first nine months of FY2023 compared with the Previous Period.

Following the completion of the new card and loan system and mobile app revamp projects, a loss on disposal of property, plant and equipment of HK\$9.3 million was recognized in other gains and losses during the Reporting Period, resulting in a loss of HK\$9.0 million for the first nine months of FY2023/24, compared with a gain of HK\$0.3 million for the Previous Period.

Overall, the Group's operating income for the Reporting Period increased by 27.0%, or HK\$236.8 million, from HK\$878.3 million for the first nine months of FY2022 to HK\$1,115.1 million for the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (continued)

Consolidated Statement of Profit or Loss Analysis (continued)

Operating expenses

Although the Group had conducted more marketing and advertising campaigns to capture the growing consumer demand in the wake of the COVID-19 pandemic, the effective use of a combination of traditional and digital marketing channels successfully reduced marketing and promotional expenses by HK\$8.2 million to HK\$83.1 million for the first nine months of FY2023. Following the launch of the new card and loan system and upgraded mobile application, depreciation of property, plant and equipment increased by HK\$10.0 million compared with the Previous Period. In order to capture the post-pandemic business growth, additional manpower was deployed to enhance branch operations and product development, resulting in the increase of staff costs by HK\$15.1 million compared with the Previous Period. In addition, general administrative expenses increased by HK\$11.1 million, compared with the Previous Period as a result of the increase in card sales and corresponding increase in card association fees.

Although total operating expenses increased by 7.1%, or HK\$35.1 million, from HK\$497.6 million in the Previous Period to HK\$532.7 million in the Reporting Period, the cost-to-income ratio decreased from 56.6% in the first nine months of FY2022 to 47.8% in the first nine months of FY2023 due to the increase in operating income.

On an operating level before impairment losses and impairment allowances, the Group recorded an operating profit of HK\$582.4 million for the first nine months of FY2023, representing an increase of 53.0% from the HK\$380.7 million recorded in the first nine months of FY2022.

Impairment losses and impairment allowances

The high interest rate environment during the Reporting Period, combined with a marked decline in transaction volume in capital and real estate markets and ongoing geopolitical conflicts, led to an increase in credit defaults and weakened economic indicators. Despite this, the Group made significant efforts to refine its credit assessment model to control the proportion of advances and receivables with higher credit risk and utilized effective credit risk management and fraud detection tools to reduce the likelihood of credit impaired assets. Despite the significant increase in gross advances and receivables during the Reporting Period, the Group was able to stabilize the increase in impairment losses and impairment allowances in the third quarter and recorded a progressive increase of just HK\$123.9 million, from HK\$140.2 million in the Previous Period to HK\$264.1 million in the Reporting Period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (continued)

Consolidated Statement of Financial Position Analysis

The Group's total equity as at 30th November 2023 was HK\$3,943.2 million, representing an increase of 1.3%, or HK\$50.8 million, compared with a balance of HK\$3,892.5 million as at 28th February 2023.

Total assets as at 30th November 2023 were HK\$7,377.5 million, compared with total assets of HK\$6,457.7 million as at 28th February 2023.

Advances and receivables

With the launch of successful marketing and advertising activities and the expansion of the service network to stimulate the sales during the Reporting Period, cash advance sales and personal loan sales recorded an increase of 21.0% and 32.5%, respectively, in the first nine months of FY2023 compared with the Previous Period. Personal loan receivables increased from HK\$1,263.9 million as at 28th February 2023 to HK\$1,539.3 million as at 30th November 2023, while credit card receivables increased significantly from HK\$4,481.0 million as at 28th February 2023 to HK\$5,091.4 million as at 30th November 2023.

Gross advances and receivables increased by 16.8%, or HK\$978.6 million, from HK\$5,836.2 million as at 28th February 2023 to HK\$6,814.8 million as at 30th November 2023. Gross advances and receivables exposed to higher credit risk or otherwise impaired amounted to HK\$254.0 million and HK\$322.1 million as at 28th February 2023 and 30th November 2023, respectively. Impairment allowances amounted to HK\$254.8 million as at 30th November 2023, representing 3.7% of gross advances and receivables, compared with HK\$191.7 million as at 28th February 2023, representing 3.3% of gross advances and receivables.

Bank borrowings and borrowings from immediate holding company ("total borrowings")

Due to the increase in the gross advances and receivables balance, the Group raised additional bank borrowings and borrowings from the immediate holding company during the Reporting Period, with a total balance of HK\$2,870.6 million as at 30th November 2023, compared with HK\$2,107.7 million as at 28th February 2023. Of these borrowings, 41.1% will mature within one year, 20.9% between one and two years and 38.0% between two and five years. Of the long-term bank borrowings with tenor longer than 1 year, 40.2% were at fixed interest rates and 59.8% were hedged against interest rate and/or currency exchange rate fluctuations through relevant swap instruments.

The average tenor of total borrowings as at 30th November 2023 was 1.5 years, compared with 1.9 years as at 28th February 2023.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information

The Group's business comprises three operating segments, namely credit cards, personal loans and insurance intermediary business. For the first nine months of FY2023, 79.2% of the Group's revenue was derived from credit card operations, compared with 78.3% in the Previous Period, while personal loan operations accounted for 19.3% of the Group's revenue, compared with 19.6% in the Previous Period. In terms of segment results, credit card operations accounted for 86.7% of the Group's total business, compared with 78.3% in the Previous Period, while personal loan operations accounted for 11.0%, compared with 16.1% in the Previous Period.

For credit cards, the Group recorded a progressive increase in credit card sales and continued to accumulate revolving credit card balances during the Reporting Period as a result of continuous brand building efforts to generate greater market awareness and the launch of well-received marketing programs. As a result, revenue from credit card operations increased by 36.1%, or HK\$250.7 million, to HK\$945.3 million from HK\$694.6 million in the Previous Period. This remarkable surge in revenue had more than offset the increase in borrowing costs and impairment losses and allowances, resulting in the segment result for the Reporting Period increasing by HK\$61.1 million, or 26.1%, to HK\$295.4 million from HK\$234.4 million in the Previous Period.

For personal loans, personal loan receivables as at 30th November 2023 increased by 33.6% as compared with the balance as at 30th November 2022 due to personalized marketing activities on social media, the expansion of the branch network and the promotion of instant loans. Revenue from personal loan operations increased by 32.6%, or HK\$56.5 million, from HK\$173.5 million in the Previous Period to HK\$230.0 million in the Reporting Period. However, with the gain on disposal of distressed assets recorded in the Previous Period, together with the increase in funding costs and impairment losses and impairment allowances during the Reporting Period, the segment result of the personal loan business decreased by HK\$10.6 million to HK\$37.5 million from HK\$48.1 million in the Previous Period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information (continued)

The insurance intermediary business went through a period of tactical changes and new product launches due to the restructuring of distribution channels. As a result, the growth momentum of the insurance intermediary business had been dampened slightly, and segment revenue for the Reporting Period amounted to HK\$17.6 million, a decrease of 8.7%, or HK\$1.7 million, compared with HK\$19.3 million for the Previous Period. The segment result was HK\$7.7 million for the Reporting Period, a decrease of 54.0%, or HK\$9.0 million, compared with HK\$16.7 million for the Previous Period, which included the recognition of the marketing support fund received under an insurance distribution agreement as income.

In terms of financial results by geographical location, with the gradual improvement in the economic climate and government activities to stimulate local spending, sales of both credit cards and personal loans continued to increase, with revenue from Hong Kong operations increasing by 34.6%, or HK\$301.0 million, from HK\$871.4 million in the first nine months of FY2022 to HK\$1,172.4 million in the first nine months of FY2023 due to higher revolving receivables balances. The segment result from the Hong Kong operation recorded an increase of 13.3%, or HK\$39.3 million, from HK\$296.2 million in the Previous Period to HK\$335.5 million in the Reporting Period.

As for the Mainland China operation, the Group focused on enhancing the business performance and corporate governance of its microfinance subsidiary in Shenzhen. Revenue recorded an overall increase of HK\$4.5 million, from HK\$16.0 million in the Previous Period to HK\$20.5 million in the Reporting Period. At the same time, the segment result increased to HK\$5.1 million in the Reporting Period from HK\$3.0 million in the Previous Period.

Prospects

Looking ahead, inbound tourism and private consumption should continue to fuel economic growth for the rest of the year. On the private consumption and visitor fronts, sustained improvement in household income and various government support initiatives may provide extra stimulus. The challenging external environment will continue to weigh on investment and consumption sentiment. Overall, the local economy is expected to continue its recovery from last year's pandemic-related lows.

In the face of mixed economic signals, the Group will strive to accelerate the growth momentum of sales and receivables, while keeping on improving credit assessment approaches and techniques to maintain a stable asset quality portfolio. On the marketing side, the Group will continue to launch mass promotion initiatives for both its credit card and personal loan businesses with gamification and incentives to capture increasing consumer spending in the market. New mobile payment products and digital services will continue to be launched to enrich the customer journey and ensure that the Group stays ahead in this competitive environment.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects (continued)

To further reduce its carbon footprint and energy consumption, the Group will endeavour to adopt more digitalised payment solutions and energy-saving solutions to reduce its environmental impact.

For the Mainland China operations, in addition to achieving continued business growth in its microfinance and business process centre subsidiaries in Shenzhen, the Group will continue to strengthen its corporate governance to achieve better management oversight, greater sustainability and create greater value for its shareholders.

The Group will remain committed to providing exceptional credit card services to meet the evolving needs of its customers and to expand its customer base with yet more innovative and customized offerings. With its strong liquidity position and balance sheet, the Group is poised to capitalize on the tremendous opportunities in the growing consumer finance market and continue its sustainable growth.

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

By order of the Board
TOMO HARU FUKAYAMA
Managing Director

Hong Kong, 4 January 2024

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