

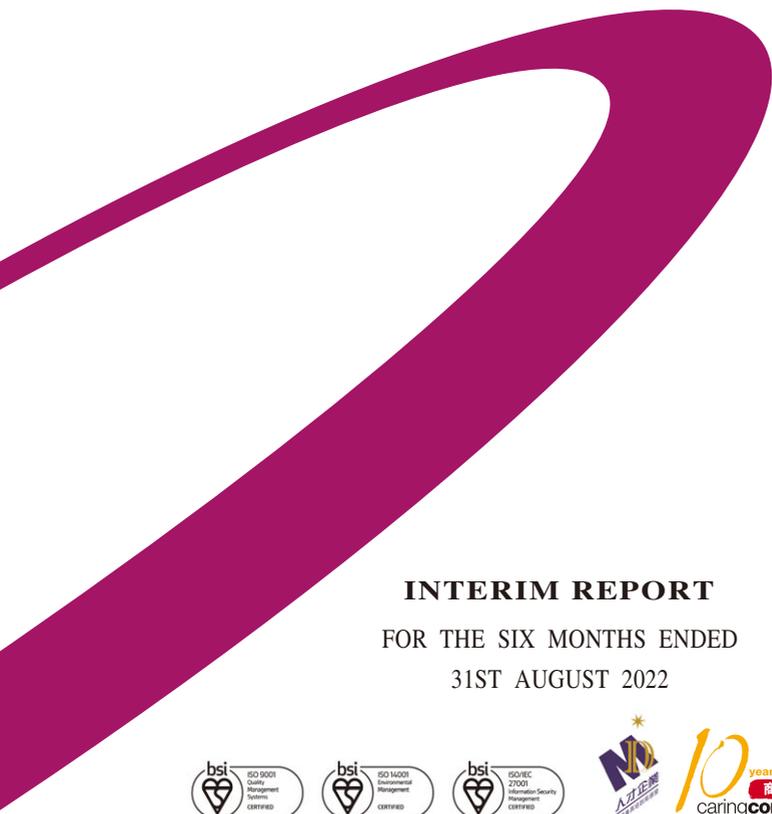


AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

AEON 信貸財務(亞洲)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock code: 900)



INTERIM REPORT

FOR THE SIX MONTHS ENDED

31ST AUGUST 2022



CONTENTS

	<i>Page</i>
<i>Corporate Information</i>	2
<i>Financial Statements</i>	
<i>Condensed Consolidated Statement of Profit or Loss</i>	3
<i>Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income</i>	4
<i>Condensed Consolidated Statement of Financial Position</i>	5
<i>Condensed Consolidated Statement of Changes in Equity</i>	7
<i>Condensed Consolidated Statement of Cash Flows</i>	8
<i>Notes to the Condensed Consolidated Financial Statements</i>	9
<i>Closure of Register of Members</i>	31
<i>Management Discussion and Analysis</i>	31
<i>Credit Business Model and Related Key Internal Controls</i>	39
<i>Management of Risks</i>	43
<i>Corporate Governance and Other Information</i>	46
<i>Report on Review of Condensed Consolidated Financial Statements</i>	51
<i>Glossary</i>	53

CORPORATE INFORMATION

Board of Directors

Executive Directors

Tomoharu Fukayama (*Managing Director*)

Lai Yuk Kwong (*Deputy Managing Director*)

Daisuke Takenaka

Wei Aiguo

Non-executive Directors

Tomoyuki Mitsufuji (*Chairman*)

Jin Huashu

Independent Non-executive Directors

Lee Ching Ming Adrian

Shing Mo Han Yvonne

Junko Dochi

Company Secretary

Hung Tun Shun Jason

Auditor

Deloitte Touche Tohmatsu

Registered Public Interest Entity Auditors

Share Registrar

Tricor Secretaries Limited

17/F, Far East Finance Centre,

16 Harcourt Road,

Hong Kong

Major Bankers

Mizuho Bank, Ltd.

Hong Kong Branch

MUFG Bank, Ltd.

Hong Kong Branch

Sumitomo Mitsui Banking Corporation

Hong Kong Branch

Registered Office

20/F, Mira Place Tower A

132 Nathan Road

Tsimshatsui, Kowloon

Hong Kong

Internet Address

Website address: <http://www.aeon.com.hk>

E-mail address: info@aeon.com.hk

Stock Code

900

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS*For the six months ended 31st August 2022*

		1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
	<i>Notes</i>		
Revenue	3	571,730	511,570
Interest income	5	479,715	434,580
Interest expense	6	(16,083)	(17,533)
Net interest income		463,632	417,047
Fees and commissions		59,377	45,383
Handling and late charges		32,638	31,607
Other income	7	16,475	3,806
Other gains and losses	8	143	(3,736)
Operating income		572,265	494,107
Operating expenses	9	(323,464)	(274,974)
Operating profit before impairment losses and impairment allowances		248,801	219,133
Impairment losses and impairment allowances		(89,538)	(34,843)
Recoveries of advances and receivables written-off		19,915	21,819
Gain on disposal of distressed assets		31,933	–
Share of results of an associate		–	890
Profit before tax		211,111	206,999
Income tax expense	10	(34,337)	(34,659)
Profit for the period		176,774	172,340
Profit for the period attributable to: Owners of the Company		176,774	172,340
Earnings per share – Basic	12	42.21 HK cents	41.15 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31st August 2022

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Profit for the period	<u>176,774</u>	<u>172,340</u>
Other comprehensive income (expense)		
Item that will not be reclassified to profit or loss:		
Fair value gain (loss) on equity instruments at fair value through other comprehensive income	8,224	(20,136)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(15,226)	935
Net adjustment on cash flow hedges	39,254	(1,341)
Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign operation	<u>–</u>	<u>3,783</u>
Other comprehensive income (expense) for the period	<u>32,252</u>	<u>(16,759)</u>
Total comprehensive income for the period	<u>209,026</u>	<u>155,581</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>209,026</u>	<u>155,581</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2022

		31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	<i>13(a)</i>	94,238	100,283
Right-of-use assets	<i>13(b)</i>	54,317	58,891
Goodwill		15,820	15,820
Equity instruments at fair value through other comprehensive income	<i>14</i>	79,301	71,077
Advances and receivables	<i>15</i>	964,166	750,797
Prepayments, deposits and other debtors	<i>18</i>	42,186	31,559
Derivative financial instruments	<i>24</i>	22,486	2,711
Deferred tax assets	<i>26</i>	4,989	1,250
		<u>1,277,503</u>	<u>1,032,388</u>
Current assets			
Advances and receivables	<i>15</i>	3,670,897	3,342,610
Prepayments, deposits and other debtors	<i>18</i>	92,407	64,165
Amount due from immediate holding company		3	2
Amount due from an intermediate holding company		31	44
Derivative financial instruments	<i>24</i>	1,016	–
Time deposits	<i>19</i>	67,479	193,374
Bank balances and cash	<i>20</i>	418,983	456,973
		<u>4,250,816</u>	<u>4,057,168</u>
Current liabilities			
Creditors and accruals	<i>21(a)</i>	205,867	184,160
Contract liabilities	<i>21(b)</i>	23,062	18,610
Amounts due to fellow subsidiaries	<i>22</i>	50,201	57,626
Amount due to an intermediate holding company		1,229	1,275
Bank borrowings	<i>23</i>	345,877	165,000
Lease liabilities		41,441	36,827
Derivative financial instruments	<i>24</i>	27	1,542
Tax liabilities		50,627	25,314
		<u>718,331</u>	<u>490,354</u>
Net current assets		<u>3,532,485</u>	<u>3,566,814</u>
Total assets less current liabilities		<u>4,809,988</u>	<u>4,599,202</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)*At 31st August 2022*

		31.8.2022	28.2.2022
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and reserves			
Share capital	25	269,477	269,477
Reserves		3,480,963	3,364,065
		<hr/>	<hr/>
Total equity		3,750,440	3,633,542
		<hr/>	<hr/>
Non-current liabilities			
Bank borrowings	23	994,141	919,139
Lease liabilities		12,326	20,762
Derivative financial instruments	24	53,081	25,759
		<hr/>	<hr/>
		1,059,548	965,660
		<hr/>	<hr/>
		4,809,988	4,599,202
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st August 2022

	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 2021 (Audited)	269,477	41,648	(24,750)	(10,847)	3,146,502	3,422,030
Profit for the period	–	–	–	–	172,340	172,340
Fair value loss on equity instruments at fair value through other comprehensive income	–	(20,136)	–	–	–	(20,136)
Exchange difference arising from translation of foreign operations	–	–	–	935	–	935
Net adjustment on cash flow hedges	–	–	(1,341)	–	–	(1,341)
Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign operation	–	–	–	3,783	–	3,783
Total comprehensive (expense) income for the period	–	(20,136)	(1,341)	4,718	172,340	155,581
Final dividend paid for 2020/21 (Note 11)	–	–	–	–	(75,378)	(75,378)
At 31st August 2021 (Unaudited)	<u>269,477</u>	<u>21,512</u>	<u>(26,091)</u>	<u>(6,129)</u>	<u>3,243,464</u>	<u>3,502,233</u>
At 1st March 2022 (Audited)	<u>269,477</u>	<u>47,255</u>	<u>(2,180)</u>	<u>(2,598)</u>	<u>3,321,588</u>	<u>3,633,542</u>
Profit for the period	–	–	–	–	176,774	176,774
Fair value gain on equity instruments at fair value through other comprehensive income	–	8,224	–	–	–	8,224
Exchange difference arising from translation of foreign operations	–	–	–	(15,226)	–	(15,226)
Net adjustment on cash flow hedges	–	–	39,254	–	–	39,254
Total comprehensive income (expense) for the period	–	8,224	39,254	(15,226)	176,774	209,026
Final dividend paid for 2021/22 (Note 11)	–	–	–	–	(92,128)	(92,128)
At 31st August 2022 (Unaudited)	<u>269,477</u>	<u>55,479</u>	<u>37,074</u>	<u>(17,824)</u>	<u>3,406,234</u>	<u>3,750,440</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st August 2022

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Net cash (used in) from operating activities	(312,019)	169,447
Dividends received	36	279
Proceeds on disposal of property, plant and equipment	–	1
Purchase of property, plant and equipment	(9,464)	(31,255)
Deposits paid for acquisition of property, plant and equipment	(19,035)	(11,759)
Placement of time deposits with maturity of more than three months	(64,408)	(255,298)
Release of time deposits with maturity of more than three months	61,102	29,622
Net cash used in investing activities	(31,769)	(268,410)
Repayment of lease liabilities	(25,812)	(26,090)
Dividends paid	(92,128)	(75,378)
New bank loans raised	616,137	150,000
Repayments of bank loans	(315,000)	(140,000)
Net cash from (used in) financing activities	183,197	(91,468)
Net decrease in cash and cash equivalents	(160,591)	(190,431)
Effect of changes in exchange rate	(1,450)	7,349
Cash and cash equivalents at beginning of the period	588,963	864,964
Cash and cash equivalents at end of the period	426,922	681,882
Being:		
Time deposits with maturity of three months or less	7,939	127,101
Bank balances and cash	418,983	554,781
	426,922	681,882

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2022

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants 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 financial information relating to the year ended 28th February 2022 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 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than additional accounting policies resulting from application of amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31st August 2022 are the same as those presented in the Group's annual financial statements for the year ended 28th February 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the Group's annual period beginning on 1st March 2022 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	COVID-19-Related Rent Concessions beyond 30th June 2021
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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

3. REVENUE

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Interest income	479,715	434,580
Fees and commissions		
Credit cards – issuing	31,851	27,628
Credit cards – acquiring	13,969	3,612
Insurance	13,557	14,143
Handling and late charges	32,638	31,607
Revenue from contracts with customers	92,015	76,990
Total revenue	571,730	511,570

1.3.2022 to 31.8.2022 (Unaudited)

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Total HK\$'000
Interest income	370,525	109,099	91	479,715
Fees and commissions	45,820	–	13,557	59,377
Handling and late charges	30,792	1,846	–	32,638
Segment revenue	447,137	110,945	13,648	571,730

1.3.2021 to 31.8.2021 (Unaudited)

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

4. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

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

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

4. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

1.3.2022 to 31.8.2022 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	447,137	110,945	13,648	571,730
RESULT				
Segment results	158,462	36,805	14,592	209,859
Unallocated operating income				3,539
Unallocated expenses				(2,287)
Profit before tax				211,111

1.3.2021 to 31.8.2021 (Unaudited)

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

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit before tax earned by each segment without allocation of certain other operating income (including dividend income and government grants), unallocated expenses (including head office expenses and exchange loss on reclassification adjustment for the cumulative exchange differences upon de-registration of a foreign subsidiary) and share of results of an associate. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

4. SEGMENT INFORMATION (Continued)

Geographical information

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

1.3.2022 to 31.8.2022 (Unaudited)

	Hong Kong <i>HK\$'000</i>	Mainland China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	561,187	10,543	571,730
RESULT			
Segment results	208,147	1,712	209,859
Unallocated operating income			3,539
Unallocated expenses			(2,287)
Profit before tax			211,111

1.3.2021 to 31.8.2021 (Unaudited)

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

5. INTEREST INCOME

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Non-credit impaired advances	475,725	426,917
Credit impaired advances	3,070	5,859
Time deposits and bank balances	920	1,804
	<u>479,715</u>	<u>434,580</u>

6. INTEREST EXPENSE

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Interest on bank borrowings	15,163	15,443
Interest on lease liabilities	768	1,041
Net interest expense on interest rate swap contracts	152	1,049
	<u>16,083</u>	<u>17,533</u>

7. OTHER INCOME

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Dividends received from financial instruments		
Listed equity securities	36	89
Unlisted equity securities	–	190
Government grants	2,496	–
Marketing support fund	12,889	2,493
Others	1,054	1,034
	<u>16,475</u>	<u>3,806</u>

The Group recognised government grants of HK\$2,496,000 in respect of pandemic related subsidies under Employment Support Scheme provided by the Hong Kong Government (six months ended 31st August 2021: Nil).

8. OTHER GAINS AND LOSSES

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange (loss) gain on hedging instrument released from cash flow hedge reserve	(45,235)	6,800
Exchange gain (loss) on bank loans	45,235	(6,800)
Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign subsidiary	–	(3,783)
Other exchange gain, net	27	65
Hedge ineffectiveness on cash flow hedges	202	137
Losses on disposal of property, plant and equipment	(86)	(155)
	<u>143</u>	<u>(3,736)</u>

9. OPERATING EXPENSES

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	14,145	14,356
Depreciation on right-of-use assets	26,398	26,663
Expenses relating to short-term leases	1,734	802
	<u>28,132</u>	<u>27,465</u>
General administrative expenses	93,792	81,060
Marketing and promotion expenses	57,040	43,529
Other operating expenses	34,541	30,092
Staff costs including Directors' emoluments	95,814	78,472
	<u>323,464</u>	<u>274,974</u>

10. INCOME TAX EXPENSE

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Current tax		
– Hong Kong Profits Tax	37,256	32,095
– PRC Enterprise Income Tax	820	–
Deferred tax (<i>Note 26</i>)	(3,739)	2,564
	34,337	34,659

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

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

11. DIVIDENDS

On 15th July 2022, a dividend of 22.0 HK cents (six months ended 31st August 2021: 18.0 HK cents) per share amounting to a total of HK\$92,128,000 (six months ended 31st August 2021: HK\$75,378,000) was paid to shareholders as the final dividend for 2021/22.

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 14th October 2022. The interim dividend will be paid on 28th October 2022. 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\$176,774,000 (six months ended 31st August 2021: HK\$172,340,000) and on the number of shares of 418,766,000 (six months ended 31st August 2021: 418,766,000) in issue during the period.

13. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

- (a) The Group acquired property, plant and equipment approximately HK\$8,532,000 during the current period (six months ended 31st August 2021: HK\$11,075,000).
- (b) The Group leases various offices, office equipment, branches, director and staff quarters and motor vehicles (31st August 2021: offices, branches, director and staff quarters) for its operations. Lease contracts are entered into for fixed term of 1 to 5 years (28th February 2022: 1 to 5 years). The Group is required to make fixed monthly payments. During the current period, the Group recognised additional HK\$22,029,000 (six months ended 31st August 2021: HK\$18,932,000) of right-of-use assets and HK\$21,913,000 of lease liabilities (six months ended 31st August 2021: HK\$12,519,000).

14. EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Equity instruments at FVTOCI		
– Listed investment in Hong Kong	2,256	2,309
– Unlisted investments	77,045	68,768
	<u>79,301</u>	<u>71,077</u>

The investments included above represent investments in both listed and unlisted equity investments that offer the Group the opportunity for return through dividend income and fair value gains.

15. ADVANCES AND RECEIVABLES

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Credit card receivables	3,705,682	3,304,452
Personal loan receivables	1,046,088	905,434
	<u>4,751,770</u>	<u>4,209,886</u>
Accrued interest and other receivables	70,270	64,664
	<u>4,822,040</u>	<u>4,274,550</u>
Gross advances and receivables	4,822,040	4,274,550
Impairment allowances (<i>Note 16</i>)	(186,977)	(181,143)
	<u>4,635,063</u>	<u>4,093,407</u>
Current portion included under current assets	(3,670,897)	(3,342,610)
	<u>964,166</u>	<u>750,797</u>

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

15. ADVANCES AND RECEIVABLES (Continued)

An analysis of movements in the gross amount of advances and receivables during each of the two periods ended 31st August 2022 and 31st August 2021 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 2022	4,058,094	63,425	153,031	4,274,550
Net advance (repayment) in advances and receivables	663,409	(17,119)	(6,235)	640,055
Transfer to 12 months ECL (Stage 1)	105,192	(102,511)	(2,681)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(199,103)	204,612	(5,509)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(3,325)	(88,318)	91,643	–
Total transfer between stages	(97,236)	13,783	83,453	–
Amounts written-off as uncollectable	–	–	(84,329)	(84,329)
Exchange realignment	(7,684)	(87)	(465)	(8,236)
	4,616,583	60,002	145,455	4,822,040
At 31st August 2022	4,616,583	60,002	145,455	4,822,040
	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 2021	3,830,376	71,986	159,910	4,062,272
Net advance (repayment) in advances and receivables	102,103	(13,335)	(14,791)	73,977
Transfer to 12 months ECL (Stage 1)	92,276	(88,418)	(3,858)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(164,321)	172,557	(8,236)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(6,504)	(85,812)	92,316	–
Total transfer between stages	(78,549)	(1,673)	80,222	–
Amounts written-off as uncollectable	–	–	(77,821)	(77,821)
Exchange realignment	393	10	29	432
	3,854,323	56,988	147,549	4,058,860
At 31st August 2021	3,854,323	56,988	147,549	4,058,860

15. ADVANCES AND RECEIVABLES (Continued)

(a) Credit card receivables

The term of credit card instalment plans entered into with customers ranges from 3 months to 4 years (28th February 2022: 3 months to 4 years).

All credit card receivables are denominated in HKD. The credit card receivables carry effective interest ranging from 26.8% to 43.5% (28th February 2022: 26.8% to 43.5%) per annum.

(b) Personal loan receivables

Most of the personal loan receivables entered into with customers ranges from 6 months to 5 years (28th February 2022: 6 months to 5 years) and are denominated in HKD. The personal loan receivables carry effective interest ranging from 2.3% to 50.7% (28th February 2022: 3.1% to 52.3%) per annum.

16. IMPAIRMENT ALLOWANCES

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Analysis by products as:		
Credit card receivables	96,672	98,876
Personal loan receivables	87,732	79,936
Accrued interest and other receivables	2,573	2,331
	186,977	181,143

16. IMPAIRMENT ALLOWANCES (Continued)

An analysis of changes in impairment allowances including commitments on unused credit card limit during each of the two periods ended 31st August 2022 and 31st August 2021 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 2022	72,719	22,067	86,357	181,143
Net advance (repayment) in advances and receivables	12,110	(6,188)	(3,446)	2,476
Transfer to 12 months ECL (Stage 1)	38,537	(37,057)	(1,480)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(3,635)	6,679	(3,044)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(61)	(31,925)	31,986	–
Total transfer between stages	34,841	(62,303)	27,462	–
Remeasurement of ECL during the period	(33,943)	68,875	52,130	87,062
Amounts written-off as uncollectable	–	–	(84,329)	(84,329)
Exchange realignment	94	52	479	625
	85,821	22,503	78,653	186,977
At 31st August 2022	85,821	22,503	78,653	186,977
	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 2021	80,218	30,777	107,509	218,504
Net advance (repayment) in advances and receivables	2,014	(5,293)	(9,145)	(12,424)
Transfer to 12 months ECL (Stage 1)	37,477	(35,092)	(2,385)	–
Transfer to lifetime ECL not credit impaired (Stage 2)	(3,241)	8,333	(5,092)	–
Transfer to lifetime ECL credit impaired (Stage 3)	(128)	(34,057)	34,185	–
Total transfer between stages	34,108	(60,816)	26,708	–
Remeasurement of ECL during the period	(44,993)	56,208	36,052	47,267
Amounts written-off as uncollectable	–	–	(77,821)	(77,821)
Exchange realignment	(7)	(7)	(34)	(48)
	71,340	20,869	83,269	175,478
At 31st August 2021	71,340	20,869	83,269	175,478

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:

	31.8.2022 (Unaudited)		28.2.2022 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	41,609	0.9	45,261	1.1
Overdue 2 months but less than 3 months	29,938	0.6	29,930	0.7
Overdue 3 months but less than 4 months	13,350	0.3	13,588	0.3
Overdue 4 months or above	46,577	1.0	56,816	1.4
	<u>131,474</u>	<u>2.8</u>	<u>145,595</u>	<u>3.5</u>

* *Percentage of gross advances and receivables*

18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Deposits for property, plant and equipment	32,846	15,436
Rental and other deposits	14,955	16,736
Prepaid operating expenses	46,050	45,712
Other debtors	40,742	17,840
	<u>134,593</u>	<u>95,724</u>
Current portion included under current assets	(92,407)	(64,165)
	<u>42,186</u>	<u>31,559</u>

19. TIME DEPOSITS

Time deposits carry fixed rates ranging from 0.21% to 1.95% (six months ended 31st August 2021: 0.03% to 2.25%) per annum during the current interim period.

	HKD <i>HK\$'000</i>	RMB <i>HK\$'000</i>	Total <i>HK\$'000</i>
31.8.2022 (Unaudited)			
Time deposit with maturity of three months or less	–	7,939	7,939
Time deposit with maturity of more than three months	–	59,540	59,540
	<u>–</u>	<u>67,479</u>	<u>67,479</u>
28.2.2022 (Audited)			
Time deposit with maturity of three months or less	100,000	31,990	131,990
Time deposit with maturity of more than three months	–	61,384	61,384
	<u>100,000</u>	<u>93,374</u>	<u>193,374</u>

20. BANK BALANCES AND CASH

Bank balances carry prevailing market interest rates.

The carrying amounts of the bank balances and cash are denominated in the following currencies:

	HKD <i>HK\$'000</i>	RMB <i>HK\$'000</i>	USD <i>HK\$'000</i>	Total <i>HK\$'000</i>
31.8.2022 (Unaudited)				
Bank balances and cash	<u>401,869</u>	<u>15,012</u>	<u>2,102</u>	<u>418,983</u>
28.2.2022 (Audited)				
Bank balances and cash	<u>444,166</u>	<u>10,877</u>	<u>1,930</u>	<u>456,973</u>

21. CREDITORS AND ACCRUALS/CONTRACT LIABILITIES

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

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Less than 1 month	74,952	34,121
Over 1 month but less than 3 months	4,436	3,379
Over 3 months	1,169	678
	80,557	38,178

- (b) At 31st August 2022, included in contract liabilities is deferred revenue in relation to customer loyalty programmes of HK\$23,062,000 (28th February 2022: HK\$18,610,000).

22. AMOUNTS DUE TO FELLOW SUBSIDIARIES

The amounts are unsecured, non-interest bearing and repayable on demand except for HK\$47,518,000 (28th February 2022: HK\$55,283,000) which is trade-related.

The aged analysis of amounts due to fellow subsidiaries that are trade-related based on the invoice date at the end of the reporting period is as follows:

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Less than 1 month	47,518	55,283

23. BANK BORROWINGS

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Bank loans, unsecured	<u>1,340,018</u>	<u>1,084,139</u>
Carrying amount repayable (<i>Note</i>)		
Within one year	345,877	165,000
Within a period of more than one year but not exceeding two years	60,000	160,000
Within a period of more than two years but not exceeding five years	<u>934,141</u>	<u>759,139</u>
	1,340,018	1,084,139
Amount repayable within one year included under current liabilities	<u>(345,877)</u>	<u>(165,000)</u>
Amount repayable after one year	<u>994,141</u>	<u>919,139</u>

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

The carrying amounts of the bank borrowings are denominated in the following currencies:

	RMB HK\$'000	HKD HK\$'000	JPY HK\$'000	Total HK\$'000
31.8.2022 (Unaudited)				
Bank loans	<u>15,877</u>	<u>1,090,000</u>	<u>234,141</u>	<u>1,340,018</u>
28.2.2022 (Audited)				
Bank loans	<u>–</u>	<u>805,000</u>	<u>279,139</u>	<u>1,084,139</u>

HKD bank loans of HK\$440,000,000 (28th February 2022: HK\$290,000,000) were arranged at fixed interest rates ranging from 2.08% to 2.98% (28th February 2022: 2.08% to 2.66%) per annum. Other HKD bank loans were arranged at floating interest rates ranging from 0.55% plus HIBOR to 0.70% plus HIBOR (28th February 2022: 0.55% plus HIBOR to 0.70% plus HIBOR) per annum.

JPY bank loans were arranged at floating interest rates at 0.40% plus TONA (28th February 2022: 0.40% plus TONA), thus exposing the Group to cash flow interest rate risk.

All RMB bank loans were arranged at fixed interest rates ranging from 3.65% to 3.70% per annum (28th February 2022: nil).

At 31st August 2022, the Group had available unutilised overdrafts and non-committed short term bank loan facilities of HK\$386,900,000 (28th February 2022: HK\$448,655,000) and HK\$702,993,100 (28th February 2022: HK\$855,600,000) respectively.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	31.8.2022 (Unaudited)		28.2.2022 (Audited)	
	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate swaps	23,502	27	2,711	3,927
Cross-currency interest rate swap	–	53,081	–	23,374
	<u>23,502</u>	<u>53,108</u>	<u>2,711</u>	<u>27,301</u>
Current portion	(1,016)	(27)	–	(1,542)
	<u>22,486</u>	<u>53,081</u>	<u>2,711</u>	<u>25,759</u>
Non-current portion				

All derivative financial instruments entered into by the Group that remain outstanding at 31st August 2022 and 28th February 2022 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.

Details of major derivative financial instruments for hedging purposes are as follows:

Cash flow hedges:

Interest rate swaps

The Group uses interest rate swaps to minimise its exposures to cash flow changes of its floating-rate bank borrowings by swapping certain HKD floating-rate bank borrowings with aggregate principal of HK\$650,000,000 (28th February 2022: HK\$515,000,000) from floating rates to fixed rates. The interest rate swaps with aggregate notional amount of HK\$650,000,000 (28th February 2022: HK\$515,000,000) have fixed interest payments quarterly at fixed interest rates ranging from 1.95% to 3.89% (28th February 2022: 1.95% to 3.05%) per annum and floating interest receipts quarterly ranging from 0.55% plus HIBOR to 0.70% plus HIBOR (28th February 2022: 0.55% plus HIBOR to 0.70% plus HIBOR) per annum for periods up until August 2027 (28th February 2022: until September 2026).

24. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Cash flow hedges: (Continued)

Interest rate swaps (Continued)

The interest rate swaps and the corresponding bank borrowings have similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, and the Directors consider that the interest rate swaps are highly effective hedging instruments. Interest rate swaps are designated as cash flow hedging instruments from floating interest rates to fixed interest rates.

During the period, net adjustment on the above-mentioned cash flow hedges amounted to HK\$23,711,000 (six months ended 31st August 2021: HK\$1,846,000) and is included in other comprehensive income.

The fair values of the interest rate swaps are determined by using the discounted cash flow method based on HIBOR yield curves at the end of the reporting period.

Cross-currency interest rate swap

The Group uses cross-currency interest rate swaps designated as highly effective hedging instrument to minimise its exposures to foreign currency and cash flow interest rate risk of its JPY bank borrowings by swapping the floating-rate JPY bank borrowings to fixed-rate HKD bank borrowings.

The JPY cross-currency interest rate swaps with notional amount of JPY4,150,000,000 (28th February 2022: JPY4,150,000,000) (equivalent to HK\$300,398,000 at the date of inception of the bank borrowings) have fixed currency payments in HKD at exchange rates of JPY to HKD at 0.07 (28th February 2022: 0.07), fixed interest payments quarterly in HKD ranging from 2.17% to 2.72% (28th February 2022: 2.17% to 2.72%) per annum and floating interest receipts quarterly in JPY at 0.40% plus TONA (28th February 2022: 0.40% plus TONA) per annum for periods up until March 2026 (28th February 2022: until March 2026).

The cross-currency interest rate swap and the corresponding bank borrowing have the same terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, and the Directors consider that the cross-currency interest rate swap is highly effective hedging instrument.

During the period, net adjustment on the above-mentioned cash flow hedges amounted to HK\$15,543,000 (six months ended 31st August 2021: HK\$505,000) and is included in other comprehensive income.

The fair value of the cross-currency interest rate swap is determined by using the discounted cash flow method based on TONA (28th February 2022: TONA) yield curves and the forward exchange rates between JPY and HKD (28th February 2022: JPY and HKD) estimated at the end of the reporting period.

25. SHARE CAPITAL

	Number of shares	Share capital <i>HK\$'000</i>
Issued and fully paid		
At 1st March 2022 and 31st August 2022		
– Ordinary shares with no par value	418,766,000	269,477

26. DEFERRED TAX ASSETS/LIABILITIES

The followings are the major deferred tax assets (liabilities) recognised by the Group and movements thereon during six months ended 31st August 2022 and 31st August 2021:

	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2022 (Audited)	(14,077)	15,327	1,250
Credit to profit or loss for the period	1,482	2,257	3,739
	(12,595)	17,584	4,989
At 31st August 2022 (Unaudited)			
	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1st March 2021 (Audited)	(15,410)	17,919	2,509
Credit (charge) to profit or loss for the period	455	(3,019)	(2,564)
	(14,955)	14,900	(55)

27. CAPITAL COMMITMENTS

	31.8.2022 (Unaudited) <i>HK\$'000</i>	28.2.2022 (Audited) <i>HK\$'000</i>
Contracted for but not provided in the condensed consolidated financial statements:		
Purchase of property, plant and equipment	62,612	39,886

28. RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with related parties:

	(Unaudited)									
	Fellow subsidiaries		Immediate holding company		Intermediate holding company		Ultimate holding company		Associate	
	1.3.2022 to 31.8.2022	1.3.2021 to 31.8.2021	1.3.2022 to 31.8.2022	1.3.2021 to 31.8.2021	1.3.2022 to 31.8.2022	1.3.2021 to 31.8.2021	1.3.2022 to 31.8.2022	1.3.2021 to 31.8.2021	1.3.2022 to 31.8.2022	1.3.2021 to 31.8.2021
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest income received	1,812	2,237	-	-	-	-	-	-	-	-
Commissions received	11,386	4,311	-	-	-	-	-	-	-	-
Dividends received	36	89	-	-	-	-	-	-	-	-
Service fees received	-	-	788	796	9	-	-	-	-	210
Licence fees paid	8,894	6,680	-	-	-	-	-	-	-	-
Service fees paid	3,017	1,790	6,117	7,005	3,122	3,345	10	-	-	11,691
Gift certificates paid	6,373	1,390	-	-	-	-	-	-	-	-
Interest on lease liabilities	145	-	-	-	-	-	-	-	-	-

Compensation of key management personnel

The remuneration of Directors and other members of key management during the period was as follows:

	1.3.2022 to 31.8.2022 (Unaudited) HK\$'000	1.3.2021 to 31.8.2021 (Unaudited) HK\$'000
Short-term benefits	5,209	5,169
Post-employment benefits	141	166
	5,350	5,335

The remuneration of Directors is determined by the Remuneration Committee having regard to the Group's operating results, performance of individuals and market trends.

29. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Name of subsidiaries	Place of incorporation/ registration and operation	Proportion of ownership interest directly held by the Company				Principal activities
		Share capital/paid-up capital		Company		
		31.8.2022 (Unaudited)	28.2.2022 (Audited)	31.8.2022 (Unaudited)	28.2.2022 (Audited)	
AEON Insurance Brokers (HK) Limited	Hong Kong	HK\$1,000,000	HK\$1,000,000	100%	100%	Insurance brokerage services
AEON Micro Finance (Tianjin) Co., Ltd (<i>Note</i>)	Mainland China	RMB100,000,000	RMB100,000,000	100%	100%	Microfinance business under voluntary liquidation
AEON Micro Finance (Shenzhen) Co., Ltd (<i>Note</i>)	Mainland China	RMB150,000,000	RMB150,000,000	100%	100%	Microfinance business
AEON Information Service (Shenzhen) Co., Ltd. (<i>Note</i>)	Mainland China	HK\$2,000,000	HK\$2,000,000	100%	100%	Provision of business process outsourcing services

Note: The companies are wholly foreign owned enterprises, solely funded by Taiwan, Hong Kong or Macao corporate body established in Mainland China.

30. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value measurements recognised in the condensed consolidated statement of financial position

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurements recognised in the condensed consolidated statement of financial position
(Continued)

	31.8.2022 (Unaudited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Derivative financial assets	–	23,502	–	23,502
Equity instruments at fair value through other comprehensive income				
– Listed equity securities	2,256	–	–	2,256
– Unlisted equity securities	–	–	77,045	77,045
Total	2,256	23,502	77,045	102,803
Derivative financial liabilities	–	53,108	–	53,108
	28.2.2022 (Audited)			Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	
Derivative financial assets	–	2,711	–	2,711
Equity instruments at fair value through other comprehensive income				
– Listed equity securities	2,309	–	–	2,309
– Unlisted equity securities	–	–	68,768	68,768
Total	2,309	2,711	68,768	73,788
Derivative financial liabilities	–	27,301	–	27,301

30. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (Continued)

Fair value measurements recognised in the condensed consolidated statement of financial position (Continued)

There were no transfers between Levels in the current period.

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Group's condensed consolidated financial statements approximate to their fair values using the discounted cash flow analysis:

	31.8.2022 (Unaudited)		28.2.2022 (Audited)	
	Carrying amount HK\$'000	Fair value HK\$'000	Carrying amount HK\$'000	Fair value HK\$'000
Bank borrowings	1,340,018	1,382,262	1,084,139	1,114,972

The fair value of listed equity securities is determined with reference to quoted market bid price from the Stock Exchange.

The fair values of unlisted equity investments have been arrived at on the basis of valuations which were principally arrived at using the market approach for business enterprises valuation with reference to the market capitalisation of listed entities in similar industries with consideration of marketability discount.

The fair value of derivative financial instruments is measured by the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates and foreign exchange rates between JPY and HKD (for cross-currency interest rate swap), which is observable at the end of the reporting period.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 13th October 2022 to Friday, 14th October 2022, 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 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Wednesday, 12th October 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The COVID-19 pandemic (the "Pandemic") has lingered on for almost three years. Although many countries and regions around the world have become accustomed to the business environment under the Pandemic and the resultant "new normal", the ongoing uncertainty brought about by the Pandemic, together with heightened geopolitical risks in the first half of 2022, has hindered the global economic recovery to various degrees. In Hong Kong, GDP fell by 2.6% compared with the same period last year. Private consumption expenditure also decreased by 2.8% year-on-year.

Following the launch of a range of economic stimulus measures during the six months ended 31st August 2022 ("1H2022" or the "reporting period"), including the easing of the flight suspension mechanism, the launch of the second round of the Consumption Voucher Scheme and the shortening of quarantine periods for inbound travellers to Hong Kong, the consumer spending market in Hong Kong continued to show a slight recovery, with unemployment rates recording a progressive drop over the past few months.

Amid this market environment on an upward trend, the Group has taken a number of timely initiatives during the reporting period to drive healthy growth in both sales and receivables and maintain a quality portfolio.

With regard to marketing, the Group resumed mass promotion activities, including the Summer Spending Mass Promotion, 10X Bonus Points Dining Rewards and other joint promotion programs with new and existing business partners to boost both credit card and personal loan sales. The Group also organized roadshows in exhibitions and shopping malls to attract new customers.

For brand building, the Group engaged celebrities to promote personal loans and its first ever cashback credit card, AEON Card Wakuwaku (the "Wakuwaku Card"). The launch of the Wakuwaku Card has better positioned the Group to attract a greater number of customers who predominantly shop online under the new normal and are generally savvy about spending rewards and incentives. More than 40,000 cards were issued within a four-month period.

To further enhance the reach and use cases of its existing products and services, the Group has been running new promotions with a major payment solution provider in the market. In addition to increasing marketing activities for its online channels, the Group also revamped its physical branch network by opening new branches in different districts, including Kwun Tong, Yau Tong and Kwai Chung.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (Continued)

Regarding credit management, through the continued enhancement of the Group's credit assessment model, which helps strike a better balance between customers' financial needs and credit risk, customers enjoyed increased credit facilities that remain affordable. At the same time, the implementation of analytical tool in collection has contributed to a lower risk of an increase in delinquent receivables.

With the above-mentioned measures in place, the Group achieved a 24.2% increase in overall sales when compared with the six months ended 31st August 2021 ("1H2021", or the "Previous Period"), with sales in the second quarter recording an increase of 25.2% as compared with the first quarter of this financial year, thereby keeping the advance and receivable balance on a rising trend in the second quarter. The gross advance and receivable balance at 31st August 2022 recorded an increase of 12.8% when compared with the balance at 28th February 2022. On the other hand, the percentage of overdue advances and receivables to gross advances and receivables declined from 4.1% at 28th February 2021 and 3.5% at 28th February 2022 to 2.8% at 31st August 2022.

Regarding information technology development, the Group continued to dedicate additional resources to the issuing phase of its new card and loan system project and the replacement of its net-member and mobile application systems, aiming to enhance the customer experience through new payment solutions, the flexibility in offering product benefits and the ease of access to even better data analytical tools and services.

As for the Mainland China business, with the launch of new personal loan products, the microfinance subsidiary in Shenzhen achieved an increasing monthly profit trend throughout the three months ended 31st August 2022 ("Q2 FY2022"). The newly acquired wholly owned subsidiary, AEON Information Service (Shenzhen) Co., Ltd. ("AIS") provided effective telemarketing activities to the Group to increase the sales of personal loans and cash advances.

Interim Dividend

In view of the Group's sound fundamentals and to once again share its fruitful results with shareholders, the Board has resolved to declare an interim dividend of 22.0 HK cents per share (1H2021: 22.0 HK cents per share), representing a dividend payout ratio of 52.1%, which is in line with the Group's policy of paying no less than 30% of its net profit for the period concerned as dividends each year.

Financial Review

Profit before tax for 1H2022 was HK\$211.1 million, an increase of 2.0%, or HK\$4.1 million, when compared with 1H2021. After deducting income tax expenses of HK\$34.3 million, the Group recorded an increase in profit of 2.6%, with profit after tax increasing from HK\$172.3 million for 1H2021 to HK\$176.8 million for 1H2022. Earnings per share increased from 41.15 HK cents to 42.21 HK cents for the reporting period.

The net debt to equity ratio increased from 0.1 at 28th February 2022 to 0.2 at 31st August 2022, while the total equity to total assets ratio was 67.8% and 71.4% at 31st August 2022 and 28th February 2022, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Net asset value per share (after interim dividend) was HK\$8.7 at 31st August 2022, compared with a net asset value per share (after final dividend) of HK\$8.5 at 28th February 2022.

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for 1H2022 was HK\$571.7 million, an increase of 11.8%, or HK\$60.1 million when compared with the HK\$511.6 million recorded in 1H2021.

Net interest income

As there was an overall increase in the sales and receivables balance in the reporting period compared with the previous period, the Group correspondingly recorded an increase in interest income of 10.4%, or HK\$45.1 million, from HK\$434.6 million in the previous period to HK\$479.7 million in the reporting period.

Following the repayment of certain long-term bank borrowings upon maturity in the second half of the previous financial year and more use of short-term bank borrowings to finance temporary cash requirements, interest expense recorded a decrease of 8.3%, or HK\$1.4 million, from HK\$17.5 million in the previous period to HK\$16.1 million in the reporting period. However, due to a general increase in interest rates for more recent bank borrowings, the Group's average funding cost increased from 2.5% in the previous period to 2.6% in 1H2022.

Consequently, the Group's net interest income for 1H2022 was HK\$463.6 million, representing an increase of 11.2%, or HK\$46.6 million, when compared with 1H2021.

Operating income

With the continued increase in credit card sales throughout 1H2022, there was an increase in fees and commissions from the credit card issuing business of 15.3%, or HK\$4.2 million, to HK\$31.9 million for the reporting period. For the credit card acquiring business, with the launch of the acquiring service for AEON Stores in the second half of the previous financial year, fees and commissions increased from HK\$3.6 million in the previous period to HK\$14.0 million. Consequently, the total fees and commissions from the credit card business increased by 46.7% to reach HK\$45.8 million in the reporting period. For the insurance intermediary business, fees and commissions fell slightly by 4.1%, or HK\$0.6 million, to HK\$13.6 million in the reporting period due to some anticipated changes in insurance distribution channels. Overall, the Group recorded an increase in fees and commissions of 30.8%, or HK\$14.0 million, from HK\$45.4 million for 1H2021 to HK\$59.4 million for 1H2022. With a higher transaction volume from increasing sales and receivables in the reporting period, handling and late charges increased by 3.3%, or HK\$1.0 million, to HK\$32.6 million in the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis (Continued)

Operating income (Continued)

For other income, upon completely fulfilling the terms and conditions of the marketing support fund received under an insurance distribution agreement with an insurance partner of the Company, the Group recognized an income of HK\$7.8 million. In addition, the Group recorded an income relating to the receipt of government subsidies of HK\$2.5 million under the Employment Support Scheme in the reporting period. In the previous period, the Group recorded a loss from reclassification adjustments for the cumulative exchange differences upon de-registration of a subsidiary in Mainland China of HK\$3.8 million.

In total, the Group's operating income for 1H2022 recorded an increase of 15.8%, or HK\$78.2 million, from HK\$494.1 million in 1H2021 to HK\$572.3 million in the reporting period.

Operating expenses

In order to capture the business growth opportunities and to promote the Group's brand, more marketing and advertising activities were launched in 1H2022, resulting in an increase in marketing and promotion expenses of 31.0%, or HK\$13.5 million, to HK\$57.0 million in the reporting period. Following the full acquisition of an associate to become a subsidiary of the Company and the expansion of the branch network, staff costs recorded an increase of 22.1%, or HK\$17.3 million, to HK\$95.8 million in the reporting period. With the cost incurred in acquiring service for AEON Stores and the increase in card sales, there was a corresponding increase in card association fees and computer-related expenses in the reporting period, resulting in an increase in general administrative expenses of 15.7%, or HK\$12.7 million, to HK\$93.8 million in the reporting period. Overall operating expenses recorded an increase of 17.6%, or HK\$48.5 million, from HK\$275.0 million in the previous period to HK\$323.5 million in the reporting period. The cost-to-income ratio slightly increased from 55.7% for 1H2021 to 56.5% for 1H2022.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$248.8 million in 1H2022, representing an increase of 13.5% from the HK\$219.1 million recorded in 1H2021.

Impairment losses and impairment allowances

The prudent credit assessment approach currently employed by the Group continued to enable it to build a portfolio of superior quality, which led to a reduction in overdue or unrecoverable advances and receivables. However, there was a big difference in the impact of expected key economic indicators on impairment allowances in the reporting period and the previous period. In 1H2021, an anticipated rebound in key economic indicators primarily due to the rollout of COVID-19 vaccines led to a reversal in impairment allowances. Nevertheless, the continued suspension of overseas travel, high global inflation and the stagnation of the Mainland Chinese property market led to weakened expected economic indicators in the reporting period. Together with the substantial increase in gross advances and receivables in 1H2022, there was an increase in impairment losses and impairment allowances in the reporting period, up by 157%, or HK\$54.7 million, from HK\$34.8 million in 1H2021 to HK\$89.5 million in 1H2022.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Consolidated Statement of Profit or Loss Analysis (Continued)

Gain on disposal of distressed assets

In order to dedicate more resources for well-timed collection of delinquent receivables, the Group disposed of its written-off receivables accumulated over the past few years and recorded a gain on their disposal at HK\$31.9 million in the reporting period.

Consolidated Statement of Financial Position Analysis

The Group's total equity at 31st August 2022 was HK\$3,750.4 million, representing a growth of 3.2%, or HK\$116.9 million, compared with a balance of HK\$3,633.5 million at 28th February 2022.

Total assets at 31st August 2022 were HK\$5,528.3 million, compared with total assets of HK\$5,090.0 million at 28th February 2022.

Advances and Receivables

With the launch of successful marketing activities and the expansion of the service network, both cash advances sales and personal loan sales recorded an increase of 44.9% and 69.8%, respectively, in 1H2022 when compared with 1H2021. Personal loan receivables increased from HK\$905.4 million at 28th February 2022 to HK\$1,046.1 million at 31st August 2022, while credit card receivables increased substantially from HK\$3,304.5 million at 28th February 2022 to HK\$3,705.7 million at 31st August 2022.

Overall, the Group's gross advances and receivables were HK\$4,822.0 million at 31st August 2022, increased by HK\$547.4 million as compared with HK\$4,274.6 million at 28th February 2022. Impairment allowances amounted to HK\$187.0 million at 31st August 2022, covering 3.9% of gross advances and receivables, as compared with HK\$181.1 million, covering 4.2% of gross advances and receivables at 28th February 2022. The percentage of overdue advances and receivables to gross advances and receivables was 2.8% at 31st August 2022, compared with 3.5% at 28th February 2022 and 3.4% at 31st August 2021.

Bank Borrowings

Due to the increase in the gross advances and receivables balance, the Group maintained a higher level of bank borrowings in the reporting period, with a balance of HK\$1,340.0 million at 31st August 2022 and HK\$1,084.1 million at 28th February 2022. For bank borrowings at 31st August 2022, 34.0% had fixed interest rates and 66.0% were hedged against interest rate and/or currency exchange rate fluctuation by interest rate and/or currency swaps. Of these bank borrowings, 25.8% will mature within one year, 4.5% between one and two years and 69.7% between two and five years.

The average duration of bank borrowings was 2.6 years at 31st August 2022, compared with 2.9 years at 28th February 2022.

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 1H2022, 78.2% of the Group's revenue was derived from credit card operations, compared with 79.3% in 1H2021, while personal loan operations accounted for 19.4% of the Group's revenue, compared with 18.0% in the previous period. As for segment results, credit card operations accounted for 75.5% of the Group's whole operations as compared with 75.3% in the previous period, while personal loan operations accounted for 17.5% as compared with 21.3% in the previous period.

For credit cards, through the successful brand-building exercise and various marketing activities, the Group recorded an increase in credit card sales and continued to accumulate revolving credit card balances in the reporting period. This resulted in the revenue from credit card operations recording an increase of 10.3%, or HK\$41.6 million, from HK\$405.5 million in 1H2021 to HK\$447.1 million in 1H2022. Nevertheless, with the increase in impairment losses and impairment allowances due to the weakened expected economic indicators and also marketing and promotion expenses, the segment result only recorded at a similar level of HK\$158.5 million and HK\$158.4 million in 1H2022 and 1H2021 respectively.

For personal loans, thanks to the success of the personalized marketing activities following the opening of new branches, the personal loan receivables balance at 31st August 2022 increased substantially by 33.6% as compared with the balance as at 31st August 2021. Revenue from personal loan operations increased by 20.7%, or HK\$19.0 million, from HK\$91.9 million in 1H2021 to HK\$110.9 million in 1H2022. Nevertheless, the increase in impairment losses and impairment allowances dragged down the segment results from HK\$44.8 million in 1H2021 to HK\$36.8 million in 1H2022, recording a decrease of HK\$8.0 million.

Due to the reduction in telemarketing activities in preparation of some changes in insurance distribution channels, revenue from insurance operations recorded a decrease of HK\$0.5 million, from HK\$14.1 million in 1H2021 to HK\$13.6 million in 1H2022. With the recognition of the marketing supporting fund received under an insurance distribution agreement as income, the segment result for the reporting period was HK\$14.6 million, compared with HK\$7.1 million in the previous period.

In relation to financial results by geographical location, with the substantial improvement in sales and both credit card and personal loan receivables balances, revenue from the Hong Kong operations recorded an increase of 11.6%, or HK\$58.2 million, from HK\$503.0 million in 1H2021 to HK\$561.2 million in 1H2022. Segment results from the Hong Kong operations recorded a decrease of 1.9%, or HK\$4.1 million, from HK\$212.2 million in 1H2021 to HK\$208.1 million in 1H2022, due to the increase in marketing and promotion expenses, general administrative expenses, and also impairment losses and impairment allowances from the weakened expected economic indicators.

In regard to the Mainland China operations, with the launch of new personal loan products in the micro-finance subsidiary in Shenzhen, revenue recorded an overall increase of HK\$1.9 million, from HK\$8.6 million in 1H2021 to HK\$10.5 million in 1H2022. The Group continued with the liquidation proceedings for its subsidiary in Tianjin. Through continued efforts in asset quality and cost control, the segment results improved from a loss of HK\$1.8 million in 1H2021 to a profit of HK\$1.7 million in 1H2022.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

The continued uncertainty over the Pandemic, together with the spread of inflationary pressure around the world and the adjustment to the Hong Kong base rate in response to the US Federal Reserve interest rate hike, will affect consumer sentiment to a certain extent in the second half of financial year 2022. On the other hand, with the further shortening of the quarantine period for inbound travelers, and progressive resumption of overseas travel in the near future, more economic activities can be expected. The unemployment rate in Hong Kong is expected to remain stable, which will provide opportunities for the Group's continued business expansion during the second half of the financial year. However, the potential regulatory change on interest rate caps and threshold under the Money Lenders Ordinance could make the financing market more competitive and challenging.

The Group will focus on maintaining the momentum of sales and receivables growth in this recovering yet competitive and challenging market, while also closely monitoring the asset quality as much as possible. On the marketing side, the Group will continue to launch mass promotion activities for both its credit card and personal loan businesses, such as the AEON x Ocean Park "Admission Ticket Promotion," so as to capture any possible surge in consumer spending in the market. Moreover, the Group will further strengthen its customer relationship management and foster customer engagement through different channels. New products and digital services will be explored, and more branches will be opened in strategic and convenient locations to enable customers to experience our services and ensure the Group stays ahead in this competitive environment.

The Group embraces sustainability and believes that improving its environment, social and governance performance is crucial to its long-term business development. Certain sustainability-related key performance indicators have also been set to measure the Group's overall level of sustainability. The Group will continue to commit significant resources to digitalization in order to improve its internal business processes to achieve greater sustainability and enhance its ability to respond both the continuously evolving market environment and climate change. Alongside the completion of major information technology projects in the near future, the Group will aim to employ more paperless payment solutions to reduce its impact on the environment.

For the Mainland China businesses, the microfinance subsidiary in Shenzhen will continue to focus on exploring business opportunities in the Greater Bay Area to grow its receivables with sound asset quality. The Group will also make greater use of its recently acquired subsidiary as a business process center to enhance the Group's operational effectiveness in order to create greater value for its shareholders.

With the Group's strong liquidity position and balance sheet, it is well prepared to move forward and capture new potential business opportunities to outperform and stay ahead of its peers in the face of a competitive market environment.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Funding and Capital Management

The Group manages its capital to ensure that:

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

Net debt to equity ratio

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

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

	31.8.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Debt (Note a)	1,340,018	1,084,139
Cash and cash equivalents	(426,922)	(588,963)
Net debt	913,096	495,176
Equity (Note b)	3,750,440	3,633,542
Net debt to equity ratio	0.2	0.1

Notes:

- (a) Debt comprises bank borrowings as detailed in Note 23.
- (b) Equity includes all capital and reserves of the Group.

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

The Group's principal operations are transacted and recorded in HKD and thereby its core assets are not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings. At 31st August 2022, capital commitments entered into were mainly related to the purchase of property, plant and equipment.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Human Resources

At 31st August 2022 and 28th February 2022, the Group's total number of employees was 511 (Hong Kong: 346; PRC: 165) and 510 (Hong Kong: 358; PRC: 152), respectively. The Group continues to recognize and reward its staff in a manner similar to that disclosed in its 2021/22 Annual Report.

CREDIT BUSINESS MODEL AND RELATED KEY INTERNAL CONTROLS (FOR FY2021 AND 1H FY2022)

Overview

To meet the diverging and constantly evolving credit needs of our existing as well as prospective customers, consumer credit financing services available from the Group continued to be delivered by the Company in Hong Kong through extending personal loans and issuing credit cards exclusively to individuals. The microfinance subsidiary of the Company in Shenzhen engages in money lending business in the Mainland China, which accounted for 1.7% and 1.8% of the Group's revenue respectively for FY2021 and 1H FY2022.

In Hong Kong, the Company has been conducting its personal loan business as a licensed money lender under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong), while credit cards are issued under the licences granted by the relevant international card associations.

The Company generally offers personal loan products of fixed but larger loan amounts with longer repayment periods to meet customers' cash flow requirements for specific personal purposes, while credit card products offer revolving credit facilities for retail transactions of smaller amount and for unanticipated cash needs for a shorter period of time. Credit extended under both personal loan products and credit card products is entirely made on an unsecured basis, and no guarantee or collateral is required of any borrower or cardholder. The Company mainly competes with other licensed money lenders, authorised banking institutions and non-bank credit card issuers.

The Company, as a licensed money lender, may provide credit facilities through simpler and swifter approval procedures that have the flexibility to be more responsive and tailored to its customers' specific circumstances. For personal loan business, the Company provides instalment loans to customers and earns interest income for their durations, with the loan amount mostly ranging from HK\$10,000 to either 12 times of the monthly salary or HK\$1,000,000 (whichever is the lower) for FY2021 and 1H FY2022, interest rates ranging from 3.1% up to 52.3% for FY2021 and 2.3% up to 50.7% for 1H FY2022 (depending on the loan amount and tenor, as well the credit risks identified with regard to the nature of the loan and the aspects taken into account in the relevant credit assessment as stated in the sub-paragraph headed 'Credit Assessment' down below), and tenors mostly ranging from six months to five years for FY2021 and 1H FY2022.

For card issuing business, the Company issues different brands of credit cards with approved credit limits to individuals. To maintain the credit facility, cardholders may be charged an annual fee. For card credit purchase transactions, the Company receives interchange fees from the various card associations for 'off-us' transactions (i.e. transactions going through the card associations' networks) and commission directly from certain merchants for 'on-us' transactions (i.e. transactions going through the Company's own network only but not the card associations' networks) and card instalment plans. Cardholders are provided with interest-free period of up to around 53 days, before interest will be imposed on the unrepaid balances after the relevant payment due date (i.e. 2nd of each month). For card cash advance transactions, one-time cash advance handling charge will be imposed, with the interest starts running on the unrepaid balance from the cash advance drawdown. Monthly minimum payment amount will be specified for each credit card account. Late payment charge will be imposed for each minimum payment not received by the payment due date. For FY2021 and 1H FY2022, the Company provides credit limits under credit card facilities mostly ranging from HK\$5,000 to HK\$400,000, with effective interest rates ranging from 26.8% to 43.5% (depending on the card types and the nature of the card transactions, e.g. cash advance transactions).

For the year ended 28th February 2022 and 1H FY2022, all of the customers in the Group's consumer credit financing business are either residing in Hong Kong or the Mainland China.

CREDIT BUSINESS MODEL AND RELATED KEY INTERNAL CONTROLS (FOR FY2021 AND 1H FY2022) (Continued)

Customer Acquisition

The Company has been reaching out to its personal loan customers through online and media advertising, telemarketing and the Company's extensive branch network. This creates a customer base largely comprising individuals with stable income stream. Credit card customers are approached by the Company through merchant referral and roadshow, in addition to those channels used for personal loan customers. The Company organises various promotional activities with retail co-branded partners to create customer brand loyalty, which helps maintain a steady credit card customer stream of predominantly housewives and working women who enjoy shopping within our retail merchant network. To expand its customer profile to the younger generations and the male customer segments, the Company launched the AEON Card Wakuwaku in 1H FY2022, which has positioned the Company to attract customers in the age range of 20 to 30 who tend to use credit card for shopping online and are generally savvy about spending rewards and incentives. With around 49% of the Company's customers currently in the age range of 40 to 60, this customer diversification initiative is expected to go some way towards reducing the impact of possible structural change in the economy and the emergence of a technology-driven spending mode.

Cardholder base is a key source for the cross-selling of personal loans and other financial services provided by the Company. To create additional cross-selling synergy, the Company has been running 'card-binding' offer promotions in 1H FY2022 with a major payment solution provider in the market.

Credit Assessment

For credit assessment on personal loan, Credit Control Department of the Company, with the support from our outsourcing business process centre, will perform credit background checks on applications received, taking into account aspects such as occupation, income, age, credit status and history, as well as credit reports issued by credit reference agency, in approval and interest rate setting. Approval amount of up to HK\$400,000 will be judged by credit officer and to be approved by a credit manager, and amount above HK\$400,000 has to be escalated to the senior management for approval. In view of the skill set and knowledge necessary for approving personal loan products, the approval process for personal loans has not yet been fully automated. Any re-financing of personal loans will be considered as a new application, with related supporting documents on latest income sources and contact details to be submitted for undergoing the approval process.

For credit cards assessment, credit facilities with approved credit limits generally lower than those for personal loan amounts on average are offered to cardholders on application approval. The interest rates for both card cash advance and card credit purchase beyond interest-free period are fixed for each card type for all cardholders. The credit limits are granted on largely the same bases as stated above for personal loan products. Approval amount of credit limit up to HK\$100,000 will be judged automatically using the auto-judgement system, which is preset with credit approval criteria consistent with those as to be followed in manual credit assessment, in the outsourcing business process centre, with credit limit amount between HK\$100,000 and HK\$400,000 to be approved by credit officer and credit manager, and for amount above HK\$400,000 to be escalated to the senior management for approval. For card credit purchase or cash advance instalment plan loans drawn under credit card facilities with fixed repayment terms, the interest rates (no interest for card credit purchase instalment plan loans) and the duration of the loans are fixed across all card types. On quarterly basis, the Company will review the credit limit under credit card facilities for credit needs identification, which will involve review of cardholders' repayment history and the latest reports issued by credit reference agency.

CREDIT BUSINESS MODEL AND RELATED KEY INTERNAL CONTROLS (FOR FY2021 AND 1H FY2022) (Continued)

Credit Assessment (Continued)

To enhance the reliability of the judgement model for both personal loans and credit cards, the Company utilizes the advanced report from credit reference agency with credit scores that it has subscribed for to more accurately predict customer default probability during credit assessment process.

In order to prevent the Company's products and services from being illegitimately used for money laundering and terrorism financing, the Company will perform customer due diligence through Anti-Money Laundering and Counter-Financing of Terrorism checks to assess the related risk level of the customers. The Company has also been using a web-based application of alarm system for credit card fraud effectuation for real time monitoring of authorisation data so as to detect and prevent fraudulent transactions and minimize fraud-related losses.

Credit Management

Regarding credit management, the Company uses its outsourcing business process center in Shenzhen to perform reminder calls, while the collection team in Hong Kong and outside collection agencies will arrange for reminder letters and legal demand letters to be sent, and will perform outdoor visits to follow up on the customers' payments. The Company will make reminder calls for contactable accounts overdue within 60 days, while reminder letters, legal demand letters, outdoor visits or deployment to outside collection agencies will be arranged once the customers cannot be reached or their repayments have been overdue for more than 60 days. In case customers have financial difficulties in fulfilling the minimum monthly repayment amount, the Company may enter into restructuring arrangement with the customers as appropriate to reduce their debt burden.

Internal Control

Credit Control Department regularly reviews its credit judgement guideline to ensure the ongoing suitability of the judgment criteria. Monthly credit policy meetings will be held to coordinate and harmonise practices amongst departments responsible for sales and marketing, credit assessment and collections for striking the latest optimal balance between revenue and credit cost. The Company holds its monthly Risk Management Committee meetings to review the key risk indicators for the whole enterprise so as to more effectively identify and mitigate the overall risk to its credit business, while monthly business review meetings are held to report the key performance indicators of the credit business to the senior management.

Income and Source of Funding

For the year ended 28th February 2022, interest income from money lending business accounted for 83.8% of the Group's revenue (1H FY2022: 83.9%). Details of the aggregate principal amount and interest receivable, duration and the effective interest rates of the loans under credit card facilities and personal loans are listed in note 15 to the condensed consolidated financial statements in this interim report. The Group also received fees and commissions from credit card transactions and from handling and late charges from credit card and personal loan transactions, which accounted for 7.2% and 6.4% respectively of the Group's revenue in FY2021 (1H FY2022: 8.0% and 5.7% respectively).

CREDIT BUSINESS MODEL AND RELATED KEY INTERNAL CONTROLS (FOR FY2021 AND 1H FY2022) (Continued)

Income and Source of Funding (Continued)

The source of funding for both credit card and personal loan business comes from bank borrowings and the internal resources of the Group. At 31st August 2022 and 28th February 2022, the Group's bank borrowings are either with fixed interest rates or hedged against interest rate fluctuation by means of interest rate swaps. Moreover, the Group has an evenly distributed bank borrowing portfolio to lessen the impact of short-term interest rate fluctuations. The average duration of bank borrowings was 2.6 years at 31st August 2022, as compared with 2.9 years at 28th February 2022.

Regarding liquidity risk, the Group continues to utilise long-term bank borrowings to fund its receivables growth, with the majority of tenors for the receivables being within one to two years. The Group therefore does not have any liquidity risk issues.

In relation to capital base, at 31st August 2022, 74% of its funding was derived from total equity, and 26% from direct borrowings from financial institutions, with debt-to-equity ratio being 0.2 (28th February 2022: 0.1). 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 operating requirements.

Money Lending Business in the Mainland China

In the Mainland China, the microfinance subsidiary in Shenzhen, AMF(SZ), provides loans to the general public residing in Shenzhen under its microfinance licence granted by the Shenzhen Local Financial Supervision and Administration Bureau. The microfinance subsidiary provides instalment loans to individuals and earns interest income for the durations of such loans, with the loan amounts mostly ranging from RMB1,000 to RMB50,000 for FY2021 and from RMB1,000 to RMB200,000 for 1H FY2022, interest rates ranging from 7.2% up to 20.4% for FY2021 and 7.2% up to 24.0% for 1H FY2022 (depending on the loan amount and tenor, as well the credit risks identified with regard to the nature of the loan and the aspects taken into account in the relevant credit assessment) and tenors mostly ranging from six months to two years for FY2021 and 1H FY2022.

The credit assessment, credit monitoring, risk management and internal control are similar to that for the Company's personal loan business in Hong Kong.

MANAGEMENT OF RISKS

The Group's major financial instruments include equity instruments at FVTOCI, advances and receivables, other debtors, time deposits, bank balances and cash, amount due from intermediate holding company and immediate holding company, bank borrowings, creditors, lease liabilities, amounts due to fellow subsidiaries, intermediate holding company, and derivative financial instruments.

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems and reviewing their effectiveness. The risk management and internal control systems are designed to provide reasonable, but not absolute assurance against misstatement or loss and to manage rather than eliminate risks of failure in operating systems or in achievement of the Group's business objectives.

Each division across the Company embraces the Company's Enterprise Risk Management framework for their process management in day-to-day business activities. The Group has established policies, procedures and controls for measuring, monitoring and controlling market, credit, liquidity, capital, operational and cyber security risks, which are monitored by the Board through the management-level Risk Management Committee comprising the Executive Directors and members of senior management on an on-going basis. The major risk control tool kits are key risk indicators and key performance indicators that are set up for critical business processes. The management manages and monitors these indicators to ensure effective risk management and internal controls are in place in the operating units. The internal auditors of the Group also perform regular audits to ensure compliance with the policies and procedures.

Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risks, including:

- currency swap to convert the foreign currency debts to the functional currency of the relevant group entity; and
- interest rate swaps and interest rate caps to mitigate the cash flow interest rate risk.

The use of financial derivatives is governed by the Group's policies approved by the Board, which provide written principles on foreign exchange risk, interest rate risk, and the use of derivative financial instruments. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk. The Group does not enter into or trade derivative financial instruments for speculative purposes.

MANAGEMENT OF RISKS (Continued)

Market risk (Continued)

Foreign currency risk management

Certain bank balances and bank borrowings of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk as a result of a change in foreign currency exchange rates.

To minimise the foreign currency risk, the Group has been using cross currency swaps designed to convert the foreign currency debts to the functional currency of the relevant group entity. The critical terms of these currency swaps are similar to those of hedged borrowings. Hence, the net foreign currency risk after taking derivative financial instruments into consideration is not material to the Group.

Interest rate risk management

The Group's exposures to fair value interest rate risk relates primarily to fixed-rate lendings and borrowings, including variable rate borrowings under hedge accounting to change from variable rate to fixed rate. All interest-bearing financial assets are exposed to fair value interest rate risk only.

The Group's cash flow interest rate risk relates primarily to floating-rate financial liabilities except those under hedge accounting to change from variable rate to fixed rate.

The Group monitors the interest rate exposure through assessing the interest rate gap of its interest bearing financial assets and financial liabilities. To minimise the cash flow interest rate gap, the Group has been using interest rate swaps to convert a proportion of its variable rate debts to fixed rate. The critical terms of these interest rate swaps are similar to those of hedged borrowings.

Other price risks

The Group is exposed to equity price risk through its equity instruments at FVTOCI. The management will monitor the price movements and take appropriate actions when it is required.

MANAGEMENT OF RISKS (Continued)

Credit risk

Credit risk refers to the risk that the Group's counterparties' default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to advances and receivables (including unused credit limit), other debtors, amount due from intermediate holding company, time deposits, derivative financial instruments and bank balances and cash.

In order to minimise the credit risk, the Group has established policies and systems for the monitoring and control of credit risk. The management has delegated different departments responsible for determination of credit limits, credit approvals and other monitoring processes to ensure that follow-up action is taken to recover overdue debts. The Board has overall responsibility for the Group's credit policies and oversees the credit quality of the Group's asset portfolio. In this regard, management considers that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under Expected Credit Loss model.

The Group is potentially exposed to loss in an amount equal to the total unused credit card limit granted to credit card customers. The Group monitors the credit quality of the customers and has contractual right to cancel the credit facilities granted, therefore management considers that the Group's credit risk is limited. At 31st August 2022, unused credit card limit of HK\$33,361,068,000 (28th February 2022: HK\$29,702,994,000) was unrecorded in the consolidated statement of financial position.

Other than concentration of credit risk on liquid funds and derivative financial instruments which are deposited or entered with several banks with high credit-ratings, the Group does not have any other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The Group has laid down an appropriate liquidity risk management framework for the management of the short, medium and long-term funding and liquidity management requirements, which is reviewed regularly by the Directors. The Group manages liquidity risk by maintaining adequate reserves and banking facilities by continuously monitoring forecast and actual cash flows and maintain a conservative level of long-term funding to finance its short-term financial assets.

Capital risk

The Group's policy is to maintain a strong capital base to support the development of the Group's business. During the period under review, the Group relied principally on internally generated capital and bank borrowings for the working capital. The funding position is monitored and reviewed regularly to ensure it is within internally established limits and at reasonable costs.

MANAGEMENT OF RISKS (Continued)

Operational risk

Operational risk is the risk event loss resulting from operation incidents, accidents and rumours. The Group's operational risk covers processing risk, human risk, information technology risk, tangible risk and reputational risk. The Group's policy is to implement operational risk management framework across the Group. It provides risk management and internal control systems for risk identification, assessment, mitigation and prevention. The primary responsibility of each division head, department head and branch manager is to manage inherent risks within the tolerance levels. The key inherent risks are processing, data security, compliance and financial crime. All business units set up procedures and key risk indicators and key performance indicators to ensure operation continuity capacity, high quality of customer service and effective risk control through proactive management, operational excellence and alignment with best market practices. Management manages significant risks and ensures mitigating risks are prioritized and controlled adequately.

Cyber security risk

Cyber security risk is the risk of loss resulting from a cyber attack or information security breach on the Group. The Group has put in place adequate resources to manage cyber security risk, improve cyber resilience as well as to ensure adequate cyber security awareness throughout the Group. The Group also periodically engaged qualified professional assessors to conduct assessments and simulation attacks to assess the robustness of the Group's cyber security controls.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Compliance with Corporate Governance Code

The Company is committed to maintaining a high standard of corporate governance to balance the interests of shareholders, customers, employees and other stakeholders. The Company has complied with the code provisions of the CG Code as applicable to the Company for the six months ended 31st August 2022 and set out then in Appendix 14 to the Listing Rules, with the exception of code provision B.2.2 which is explained below.

Code provision B.2.2 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 Directors are not subject to retirement by rotation. However, all Directors, including the executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the articles of association of the Company.

Compliance with Model Code

The Company has adopted the Model Code as its own code for securities transactions by Directors pursuant to its own Securities Dealing Code. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code/the Company's own Securities Dealing Code throughout the period under review.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Directors' Interest in Shares, Underlying Shares and Debentures

At 31st August 2022, the interests of the Directors and their associates in the shares, and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) *Long positions in the shares of the Company*

<i>Directors</i>	<i>Number of shares held under personal interests</i>	<i>Percentage of the issued share capital of the Company</i>
Tomoharu Fukayama	70,000	0.02
Lai Yuk Kwong	10,000	0.01

(b) *Long positions in the shares of AFS – intermediate holding company of the Company*

<i>Directors</i>	<i>Number of shares held under personal interests</i>	<i>Percentage of the issued share capital of AFS</i>
Tomoyuki Mitsufuji	3,367	0.01
Tomoharu Fukayama	6,334	0.01
Daisuke Takenaka	154	0.01

Other than the holdings disclosed above, none of the Directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31st August 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Substantial Shareholders' Interests in Shares

At 31st August 2022, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

Name	Nature of interest	Number of shares held	Percentage of the issued share capital of the Company
AEON Japan (<i>Note 1</i>)	Beneficial owner/Interest of a controlled corporation	286,088,000	68.32
AFS (<i>Note 2</i>)	Interest of a controlled corporation	226,314,000	54.04
AFS (HK) (<i>Note 3</i>)	Beneficial owner	226,314,000	54.04
FMR LLC	Interest of controlled corporations	41,875,560	9.99
Fidelity Puritan Trust	Beneficial owner	25,109,949	5.99

Notes:

1. AEON Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 48.08% of the issued share capital of AFS, the holding company of AFS (HK), and 60.59% of the issued share capital of AEON Stores respectively, was deemed to be interested in the 226,314,000 shares and 3,784,000 shares owned by AFS (HK) and AEON Stores respectively.
2. AFS owned 100% of the issued share capital of AFS (HK) and was deemed to be interested in the 226,314,000 shares owned by AFS (HK).
3. Out of 226,314,000 shares, 213,114,000 shares were held by AFS (HK), and 8,250,000 shares and 4,950,000 shares were held by the Hongkong and Shanghai Banking Corporation Limited and Everbright Securities Investment Services (HK) Limited respectively, both as nominees on behalf of AFS (HK).

Other than as disclosed above, the Company had not been notified of any other relevant interests or short positions in the share capital of the Company at 31st August 2022.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

The changes in the information of Directors since the publication of the 2021/22 Annual Report are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Name of Directors	Details of Changes
Tomoharu Fukayama	<ul style="list-style-type: none">• Received an annual discretionary bonus of HK\$640,000 in June 2022• Entitled to an annual base salary of HK\$1,176,000 with effect from 23rd June 2022
Lai Yuk Kwong	<ul style="list-style-type: none">• Received an annual discretionary bonus of HK\$400,000 in June 2022
Daisuke Takenaka	<ul style="list-style-type: none">• Received an annual discretionary bonus of HK\$212,116 in June 2022• Entitled to an annual base salary of HK\$954,000 with effect from 23rd June 2022
Wei Aiguo	<ul style="list-style-type: none">• Appointed as an Executive Director on 23rd June 2022• Entitled to an annual base salary of HK\$1,440,000 with effect from 23rd June 2022
Jin Huashu	<ul style="list-style-type: none">• Entitled to an annual base salary of CNY577,500 and a contractual bonus of CNY274,000 from AEON Micro Finance (Shenzhen) Co., Ltd with effect from 1st July 2022
Shing Mo Han Yvonne	<ul style="list-style-type: none">• Entitled to an annual fee of HK\$340,000 with effect from 1st July 2022
Junko Dochi	<ul style="list-style-type: none">• Entitled to an annual fee of HK\$340,000 with effect from 1st July 2022

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Purchase, Sale or Redemption of Listed Securities

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

Review of Unaudited Financial Information

The Audit Committee has reviewed the unaudited interim financial report for the six months ended 31st August 2022. In addition, the condensed consolidated financial statements for the six months ended 31st August 2022 have been reviewed by our auditor, Messrs. Deloitte Touche Tohmatsu, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA and an unqualified review report is issued.

By order of the Board
Tomoharu Fukayama
Managing Director

Hong Kong, 26th September 2022



TO THE BOARD OF DIRECTORS OF AEON CREDIT SERVICE (ASIA) COMPANY LIMITED
(incorporated in Hong Kong with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of AEON Credit Service (Asia) Company Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 3 to 30, which comprise the condensed consolidated statement of financial position as of 31st August 2022 and the related condensed consolidated statement of profit or loss, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

26th September 2022

GLOSSARY

AEON Japan	AEON Co., Ltd.
AEON Stores	AEON Stores (Hong Kong) Co., Limited
AFS	AEON Financial Service Co., Ltd.
AFS (HK)	AEON Financial Service (Hong Kong) Co., Limited
AIB	AEON Insurance Brokers (HK) Limited
AMF (SZ)	AEON Micro Finance (Shenzhen) Co., Ltd
Board	the board of Directors of the Company
CG Code	Corporate Governance Code as set out in Appendix 14 to the Listing Rules
Companies Ordinance	Companies Ordinance (Chapter 622 of the Laws of Hong Kong) as amended from time to time
Company	AEON Credit Service (Asia) Company Limited
Director(s)	the director(s) of the Company
ECL	Expected Credit Loss
FVTOCI	Fair value through other comprehensive income
Group	the Company and its subsidiaries
HIBOR	Hong Kong Interbank Offered Rate
HKAS	Hong Kong Accounting Standards
HKD or HK\$	Hong Kong dollars, the lawful currency of Hong Kong
HKFRSs	Hong Kong Financial Reporting Standards
HKICPA	Hong Kong Institute of Certified Public Accountants
Hong Kong	Hong Kong Special Administrative Region of the PRC
JPY	Japanese Yen, the lawful currency of Japan

GLOSSARY (Continued)

Listing Rules	Rules Governing the Listing of Securities on the Stock Exchange
Mainland China or PRC	the People's Republic of China
Model Code	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
RMB	Renminbi, the lawful currency of the PRC
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended from time to time
Stock Exchange	The Stock Exchange of Hong Kong Limited
TONA	Tokyo Overnight Average Rate
USD	United States Dollars, the lawful currency of the United States of America