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

UNAUDITED RESULTS FOR THE NINE MONTHS ENDED 30TH NOVEMBER 2022

The board (the “Board”) of directors (the “Directors”) of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the nine months ended 30th November 2022 (the “reporting period” or “nine months of FY2022/23”), together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30th November 2022

	<i>Notes</i>	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000	1.3.2021 to 30.11.2021 (Unaudited) HK\$'000
Revenue	2	887,361	770,280
Interest income		743,246	651,735
Interest expense		(27,404)	(24,558)
Net interest income		715,842	627,177
Fees and commissions		94,870	69,859
Handling and late charges		49,245	48,686
Other income	4	17,988	4,669
Other gains and losses	5	325	(3,614)
Operating income		878,270	746,777
Operating expenses	6	(497,615)	(421,475)
Operating profit before impairment losses and impairment allowances		380,655	325,302
Impairment losses and impairment allowances		(140,176)	(65,022)
Recoveries of advances and receivables written-off		27,252	30,597
Gain on disposal of distressed assets		31,933	–
Share of results of an associate		–	962
Profit before tax		299,664	291,839
Income tax expense		(49,350)	(48,583)
Profit for the period		250,314	243,256
Profit for the period attributable to: Owners of the Company		250,314	243,256
Earnings per share – Basic		59.77 HK cents	58.09 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30th November 2022

	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000	1.3.2021 to 30.11.2021 (Unaudited) HK\$'000
Profit for the period	<u>250,314</u>	<u>243,256</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	9,275	(25,597)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(21,559)	3,605
Net adjustment on cash flow hedges	54,225	11,475
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>41,941</u>	<u>(6,734)</u>
Total comprehensive income for the period	<u>292,255</u>	<u>236,522</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>292,255</u>	<u>236,522</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th November 2022

	<i>Notes</i>	30.11.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		92,587	100,283
Right-of-use assets		47,603	58,891
Goodwill		15,820	15,820
Equity instruments at fair value through other comprehensive income		80,352	71,077
Advances and receivables	7	1,081,108	750,797
Prepayments, deposits and other debtors		51,246	31,559
Derivative financial instruments	11	34,973	2,711
Deferred tax assets		7,243	1,250
		1,410,932	1,032,388
Current assets			
Advances and receivables	7	3,996,622	3,342,610
Prepayments, deposits and other debtors		70,168	64,165
Amount due from immediate holding company		3	2
Amount due from an intermediate holding company		31	44
Derivative financial instruments	11	2,064	–
Time deposits		12,673	193,374
Bank balances and cash		553,106	456,973
		4,634,667	4,057,168
Current liabilities			
Creditors and accruals		194,395	184,160
Contract liabilities		23,021	18,610
Amounts due to fellow subsidiaries		38,810	57,626
Amount due to an intermediate holding company		1,100	1,275
Bank borrowings	10	568,026	165,000
Lease liabilities		35,404	36,827
Derivative financial instruments	11	–	1,542
Tax liabilities		66,860	25,314
		927,616	490,354
Net current assets		3,707,051	3,566,814
Total assets less current liabilities		5,117,983	4,599,202

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

At 30th November 2022

		30.11.2022	28.2.2022
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		3,472,064	3,364,065
		<hr/>	<hr/>
Total equity		3,741,541	3,633,542
		<hr/>	<hr/>
Non-current liabilities			
Bank borrowings	<i>10</i>	1,312,599	919,139
Lease liabilities		11,898	20,762
Derivative financial instruments	<i>11</i>	51,945	25,759
		<hr/>	<hr/>
		1,376,442	965,660
		<hr/>	<hr/>
		5,117,983	4,599,202
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30th November 2022

	Share capital HK\$'000	Investment revaluation reserve HK\$'000	Hedging reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
At 1st March 2021 (Audited)	269,477	41,648	(24,750)	(10,847)	3,146,502	3,422,030
Profit for the period	-	-	-	-	243,256	243,256
Fair value loss on equity instruments at fair value through other comprehensive income	-	(25,597)	-	-	-	(25,597)
Exchange difference arising from translation of foreign operations	-	-	-	3,605	-	3,605
Net adjustment on cash flow hedges	-	-	11,475	-	-	11,475
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	-	(25,597)	11,475	7,388	243,256	236,522
Final dividend paid for the year from 1.3.2020 to 28.2.2021	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for the year from 1.3.2021 to 28.2.2022	-	-	-	-	(92,128)	(92,128)
	-	(25,597)	11,475	7,388	75,750	69,016
At 30th November 2021 (Unaudited)	269,477	16,051	(13,275)	(3,459)	3,222,252	3,491,046
At 1st March 2022 (Audited)	269,477	47,255	(2,180)	(2,598)	3,321,588	3,633,542
Profit for the period	-	-	-	-	250,314	250,314
Fair value gain on equity instruments at fair value through other comprehensive income	-	9,275	-	-	-	9,275
Exchange difference arising from translation of foreign operations	-	-	-	(21,559)	-	(21,559)
Net adjustment on cash flow hedges	-	-	54,225	-	-	54,225
Total comprehensive income (expense) for the period	-	9,275	54,225	(21,559)	250,314	292,255
Final dividend paid for the year from 1.3.2021 to 28.2.2022	-	-	-	-	(92,128)	(92,128)
Interim dividend paid for the year from 1.3.2022 to 28.2.2023	-	-	-	-	(92,128)	(92,128)
	-	9,275	54,225	(21,559)	66,058	107,999
At 30th November 2022 (Unaudited)	269,477	56,530	52,045	(24,157)	3,387,646	3,741,541

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30th November 2022

	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000	1.3.2021 to 30.11.2021 (Unaudited) HK\$'000
Net cash (used in) from operating activities	<u>(652,527)</u>	<u>95,484</u>
Dividends received	89	618
Proceeds on disposal of property, plant and equipment	–	1
Purchase of property, plant and equipment	(13,692)	(9,561)
Deposits paid for acquisition of property, plant and equipment	(30,058)	(13,560)
Placement of time deposits with maturity of more than three months	(70,986)	(265,419)
Release of time deposits with maturity of more than three months	<u>117,864</u>	<u>236,138</u>
Net cash from (used in) investing activities	<u>3,217</u>	<u>(51,783)</u>
Repayment of lease liabilities	(39,300)	(39,844)
Dividends paid	(184,257)	(167,506)
New bank loans raised	3,369,232	350,000
Repayment of bank loans	<u>(2,525,349)</u>	<u>(527,795)</u>
Net cash from (used in) financing activities	<u>620,326</u>	<u>(385,145)</u>
Net decrease in cash and cash equivalents	<u>(28,984)</u>	<u>(341,444)</u>
Effect of changes in exchange rate	<u>(1,847)</u>	<u>7,767</u>
Cash and cash equivalents at beginning of the period	<u>588,963</u>	<u>864,964</u>
Cash and cash equivalents at end of the period	<u>558,132</u>	<u>531,287</u>
Being:		
Time deposits with maturity of three months or less	5,026	121,876
Bank balances and cash	<u>553,106</u>	<u>409,411</u>
	<u>558,132</u>	<u>531,287</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th November 2022

1. BASIS OF PREPARATION

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

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.

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

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the nine months ended 30th November 2022 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 28th February 2022.

Application of amendments to HKFRSs

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

Amendments to HKFRS 3	Reference to the Conceptual Framework
Amendment to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 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 period has had no material impact on the Group’s financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. REVENUE

	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000	1.3.2021 to 30.11.2021 (Unaudited) HK\$'000
Interest income	743,246	651,735
Fees and commissions		
Credit cards – issuing	53,072	42,314
Credit cards – acquiring	22,658	6,499
Insurance	19,140	21,046
Handling and late charges	49,245	48,686
	<u>887,361</u>	<u>770,280</u>

3. SEGMENT INFORMATION

Services from which operating and reportable segments derive their revenues

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

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

Segment revenue and results

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

1.3.2022 to 30.11.2022 (Unaudited)

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

1.3.2021 to 30.11.2021 (Unaudited)

	Credit cards HK\$'000	Personal loans HK\$'000	Insurance HK\$'000	Consolidated HK\$'000
REVENUE	<u>611,204</u>	<u>138,029</u>	<u>21,047</u>	<u>770,280</u>
RESULT				
Segment results	<u>224,037</u>	<u>60,568</u>	<u>10,485</u>	295,090
Unallocated operating income				1,847
Unallocated expenses				(6,060)
Share of results of an associate				962
Profit before tax				<u>291,839</u>

3. SEGMENT INFORMATION (Continued)

Geographical information

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

1.3.2022 to 30.11.2022 (Unaudited)

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

1.3.2021 to 30.11.2021 (Unaudited)

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	757,310	12,970	770,280
RESULT			
Segment results	297,377	(2,287)	295,090
Unallocated operating income			1,847
Unallocated expenses			(6,060)
Share of results of an associate			962
Profit before tax			291,839

4. OTHER INCOME

	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000	1.3.2021 to 30.11.2021 (Unaudited) HK\$'000
Dividends received from financial instruments		
Listed equity securities	89	142
Unlisted equity securities	–	476
Government grants	2,496	–
Marketing support fund	13,637	2,493
Others	1,766	1,558
	<u>17,988</u>	<u>4,669</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 (nine months ended 30th November 2021: Nil).

5. OTHER GAINS AND LOSSES

	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000	1.3.2021 to 30.11.2021 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange (loss) gain on hedging instrument released from cash flow hedge reserve	(46,895)	16,420
Exchange gain (loss) on a bank loan	46,895	(16,420)
Reclassification adjustments for the cumulative exchange differences upon de-registration of a foreign operation	–	(3,783)
Other exchange gain, net	212	89
Hedge ineffectiveness on cash flow hedges, net	303	238
Losses on disposal of property, plant and equipment	(190)	(158)
	<u>325</u>	<u>(3,614)</u>

6. OPERATING EXPENSES

	1.3.2022 to 30.11.2022 (Unaudited) HK\$'000	1.3.2021 to 30.11.2021 (Unaudited) HK\$'000
Depreciation on property, plant and equipment	21,614	21,651
Depreciation on right-of-use assets	39,924	40,674
Expenses relating to short-term leases	2,858	1,445
	<u>42,782</u>	42,119
General administrative expenses	143,709	124,731
Marketing and promotion expenses	91,267	65,071
Other operating expenses	52,501	47,211
Staff costs including Directors' emoluments	145,742	120,692
	<u>497,615</u>	<u>421,475</u>

7. ADVANCES AND RECEIVABLES

	30.11.2022 (Unaudited) <i>HK\$'000</i>	28.2.2022 (Audited) <i>HK\$'000</i>
Credit card receivables	4,047,100	3,304,452
Personal loan receivables	1,152,411	905,434
	5,199,511	4,209,886
Accrued interest and other receivables	77,657	64,664
	5,277,168	4,274,550
Gross advances and receivables	(199,438)	(181,143)
Impairment allowances (<i>Note 8</i>)	5,077,730	4,093,407
	(3,996,622)	(3,342,610)
Current portion included under current assets	1,081,108	750,797
Amount due after one year	1,081,108	750,797

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

8. IMPAIRMENT ALLOWANCES

	30.11.2022 (Unaudited) <i>HK\$'000</i>	28.2.2022 (Audited) <i>HK\$'000</i>
Analysis by products as:		
Credit card receivables	103,505	98,876
Personal loan receivables	93,076	79,936
Accrued interest and other receivables	2,857	2,331
	199,438	181,143

8. IMPAIRMENT ALLOWANCES (Continued)

An analysis of movements in impairment allowances including commitments on unused credit limit during each of the two periods ended 30th November 2022 and 30th November 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	20,927	(7,496)	(5,457)	7,974
Transfer to 12 months Expected Credit Loss (Stage 1)	57,479	(55,306)	(2,173)	–
Transfer to lifetime Expected Credit Loss not credit impaired (Stage 2)	(5,695)	10,149	(4,454)	–
Transfer to lifetime Expected Credit Loss credit impaired (Stage 3)	(130)	(48,840)	48,970	–
Total transfer between stages	51,654	(93,997)	42,343	–
Remeasurement of Expected Credit Loss during the period	(54,997)	106,255	80,944	132,202
Amounts written-off as uncollectable	–	–	(122,777)	(122,777)
Exchange realignment	115	94	687	896
At 30th November 2022	90,418	26,923	82,097	199,438
	<i>Stage 1 HK\$'000</i>	<i>Stage 2 HK\$'000</i>	<i>Stage 3 HK\$'000</i>	<i>Total HK\$'000</i>
At 1st March 2021	80,218	30,777	107,509	218,504
Net advance (repayment) in advances and receivables	6,287	(7,739)	(11,785)	(13,237)
Transfer to 12 months Expected Credit Loss (Stage 1)	56,320	(52,809)	(3,511)	–
Transfer to lifetime Expected Credit Loss not credit impaired (Stage 2)	(4,902)	11,937	(7,035)	–
Transfer to lifetime Expected Credit Loss credit impaired (Stage 3)	(162)	(47,538)	47,700	–
Total transfer between stages	51,256	(88,410)	37,154	–
Remeasurement of Expected Credit Loss during the period	(64,298)	86,339	56,218	78,259
Amounts written-off as uncollectable	–	–	(103,630)	(103,630)
Exchange realignment	(24)	(23)	(106)	(153)
At 30th November 2021	73,439	20,944	85,360	179,743

9. 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:

	30.11.2022 (Unaudited)		28.2.2022 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	52,429	1.0	45,261	1.1
Overdue 2 months but less than 3 months	33,429	0.6	29,930	0.7
Overdue 3 months but less than 4 months	15,472	0.3	13,588	0.3
Overdue 4 months or above	49,673	0.9	56,816	1.4
	<u>151,003</u>	<u>2.8</u>	<u>145,595</u>	<u>3.5</u>

* Percentage of gross advances and receivables

10. BANK BORROWINGS

	30.11.2022 (Unaudited) HK\$'000	28.2.2022 (Audited) HK\$'000
Bank loans, unsecured	<u>1,880,625</u>	<u>1,084,139</u>
Carrying amount repayable (<i>Note</i>)		
Within one year	568,026	165,000
Within a period of more than one year but not exceeding two years	144,136	160,000
Within a period of more than two years but not exceeding five years	<u>1,168,463</u>	<u>759,139</u>
	1,880,625	1,084,139
Amount repayable within one year included under current liabilities	<u>(568,026)</u>	<u>(165,000)</u>
Amount repayable after one year	<u>1,312,599</u>	<u>919,139</u>

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

11. DERIVATIVE FINANCIAL INSTRUMENTS

	30.11.2022 (Unaudited)		28.2.2022 (Audited)	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Interest rate swaps	37,037	959	2,711	3,927
Cross-currency interest rate swap	–	50,986	–	23,374
	<u>37,037</u>	<u>51,945</u>	<u>2,711</u>	<u>27,301</u>
Current portion	(2,064)	–	–	(1,542)
	<u>34,973</u>	<u>51,945</u>	<u>2,711</u>	<u>25,759</u>

All derivative financial instruments entered into by the Group that remain outstanding at 30th November 2022 and 28th February 2022 are for hedging purposes. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings, the designated hedged items.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

With the relaxation of social distancing and hotel quarantine measures for inbound travelers, both overseas and local consumer spendings showed a progressive recovery in the three months ended 30th November 2022 (the “third quarter”). However, such recovery was curbed by the global rise of interest rates which affected the property and stock markets in Hong Kong. Meanwhile, Hong Kong’s tourism industry continued to be affected by the anti-epidemic measures, which dampened the desire of overseas tourists to visit Hong Kong.

In order to capitalise on the consumers’ increasing overseas spending, the Group launched the “Japan Travel Spending Promotion”, which offered up to 20 times bonus points for spendings in Japan. The Group also launched a series of promotions, including the AEON x Ocean Park Admission Ticket Promotion, to encourage the use of its credit cards and loan products. Moreover, the Group increased its exposure in different media channels to promote its brand and products and also equipped its branches with the resources needed to provide financial advisory services to its customers.

With the above-mentioned measures in place, sales in the third quarter increased by 8.1% compared with the second quarter of FY2022/23, with the gross advances and receivables balance at 30th November 2022 up by 9.4% against the balance at 31st August 2022. Sales for the nine months ended 30th November 2022 (the “reporting period” or “nine months of FY2022/23”) recorded an overall increase of 28.3% when compared with the nine months ended 30th November 2021 (the “previous period” or “nine months of FY2021/22”). The default rates of overdue advances and receivables remained stable as prudent credit assessment provided suitable credit exposure for customers. The percentage of overdue advances and receivables to total advances and receivables was maintained at 2.8% at 30th November 2022 as compared with 31st August 2022, and recorded a decrease when compared with the 3.5% recorded on 28th February 2022.

Regarding the insurance intermediary business, the Group entered into a new distribution partnership with Chubb Life Insurance Company Limited (“Chubb Life Hong Kong”) to expand its offline and online insurance sales channels in the third quarter. By developing the Company’s sales channels at its branches and on its website and mobile app, the Company’s customers can now access and purchase a wide range of insurance products more conveniently.

To improve the customers’ experience, the Group’s branches in Kornhill, Whampoa and Yuen Long were revamped with a modern interior design to station additional consultation counters to accommodate more efficient and tailored customer services.

In terms of development in information technology, the Group continued to deploy significant resources in developing its new card and loan system project and the replacement of its netmember and mobile application solutions to better ensure that the new systems can be launched as anticipated.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Business Review (continued)

Regarding development in sustainability, the Group has established a sustainability-linked loan framework and entered into agreements for three sustainability-linked loans (the “Loans”) in the third quarter, with a total carrying amount of HK\$320 million and a term of three years. The Loans form part of the Group’s first sustainable financing initiative, and demonstrate the Group’s commitment to sustainability by linking the interest margins of the Loans to the Group’s environment, social and governance key performance indicators.

In Mainland China, the microfinance subsidiary in Shenzhen continued to deliver monthly profits in the third quarter and progressively increased its receivables.

Financial Review

For the nine months of FY2022/23, profit before tax was HK\$299.7 million, an increase of HK\$7.8 million, or 2.7%, compared with the nine months of FY2021/22. After deducting income tax expenses of HK\$49.4 million, the Group recorded an increase in profit after tax of HK\$7.1 million, or 2.9%, from HK\$243.3 million in the previous period to HK\$250.3 million in the reporting period. Earnings per share increased from 58.09 HK cents to 59.77 HK cents for the reporting period.

The net debt to equity ratio was 0.4 and 0.1 at 30th November 2022 and 28th February 2022, respectively, while the total equity to total assets ratio was 61.9% and 71.4% at 30th November 2022 and 28th February 2022, respectively.

The net asset value per share was HK\$8.9 at 30th November 2022 (28th February 2022 (after final dividend): HK\$8.5).

Consolidated Profit or Loss Analysis

Revenue

Revenue for the reporting period was HK\$887.4 million, an increase of HK\$117.1 million, or 15.2%, from HK\$770.3 million in the previous period.

Net interest income

During the reporting period, the Group’s interest income increased by HK\$91.5 million, or 14.0%, from HK\$651.7 million in the previous period to HK\$743.2 million in the reporting period due to the overall increase in sales and revolving credit card and personal loan balances as a result of the improved market sentiment.

With the increase in funding costs for certain new bank borrowings to facilitate the increase in the receivables balance, the Group’s average funding cost increased from 2.5% in the previous period to 3.6% in the reporting period, with interest expenses up 11.6%, or HK\$2.8 million, from HK\$24.6 million in the previous period to HK\$27.4 million in the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Consolidated Profit or Loss Analysis (continued)

Net interest income (continued)

Consequently, the Group's net interest income in the reporting period was HK\$715.8 million, representing an increase of 14.1%, or HK\$88.7 million, when compared with the previous period.

Operating income

With the launch of the acquiring service for AEON Stores in August 2021, fees and commissions from the acquiring business increased by HK\$16.2 million to HK\$22.7 million in the reporting period. The increase in credit card sales also led to a 25.4% increase in fees and commissions from the issuing business to HK\$53.1 million. Consequently, the total fees and commissions from the credit card business increased by 55.1% to HK\$75.7 million in the reporting period. As for fees and commissions from the insurance intermediary business, due to the reduction in policies solicited during the transition period of changing insurance distribution channels, there was a decrease of HK\$2.0 million, bringing the total to HK\$19.1 million for the reporting period. The Group recorded an overall increase in fees and commissions of HK\$25.0 million in the reporting period, from HK\$69.9 million in the previous period to HK\$94.9 million. With a higher transaction volume from increasing sales and receivables in the reporting period, handling and late charges recorded an increase of HK\$0.6 million, or 1.1%, to HK\$49.3 million.

For other income, upon completely fulfilling the terms and conditions of the marketing support fund received under an insurance distribution agreement, the Group recognised an income of HK\$7.8 million in the second quarter of FY2022/23. Together with the receipt of a government subsidy of HK\$2.5 million under the Employment Support Scheme, other income in the nine months of FY2022/23 was HK\$18.0 million, as compared with HK\$4.7 million in the nine months of FY2021/22, which included a loss of HK\$3.8 million recognised from the liquidation of a subsidiary in Mainland China.

In total, the Group's operating income for the nine months of FY2022/23 recorded an increase of HK\$131.5 million to HK\$878.3 million in the reporting period from HK\$746.8 million in the previous period.

Operating expenses

During the reporting period, in order to raise the awareness of the Group's brand and utilise the post-pandemic growth opportunities, the Group launched multiple mass promotion activities and engaged celebrities for brand building. Marketing and promotion expenses increased by 40.3%, or HK\$26.2 million, to HK\$91.3 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 20.8%, or HK\$25.1 million, to HK\$145.7 million in the reporting period. With the cost incurred in acquiring service for AEON Stores and the increase in credit 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 15.2%, or HK\$19.0 million, to HK\$143.7 million in the reporting period. The overall operating expenses amounted to HK\$497.6 million in the reporting period, an increase of HK\$76.1 million from HK\$421.5 million in the previous period. The cost-to-income ratio increased slightly from 56.4% in the previous period to 56.7% in the reporting period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Consolidated Profit or Loss Analysis (continued)

Operating expenses (continued)

At the operating level, before impairment losses and impairment allowances, the Group recorded an operating profit of HK\$380.7 million for the nine months of FY2022/23, up 17.0% from HK\$325.3 million in the previous period.

Impairment losses and impairment allowances

The prudent credit assessment approach currently adopted by the Group and the use of data analytics continued to facilitate the development of a high quality portfolio, which has resulted in the percentage of overdue advances and receivables to gross advances and receivables remaining low at both 31st August 2022 and 30th November 2022. However, there was a big difference in the impact of expected key economic indicators on the impairment allowances. For the nine months of FY2021/22, with the rollout of COVID-19 vaccines, there was an anticipated rebound in key economic indicators which led to a substantial reversal in impairment allowance. However, during the reporting period, the prolonged pandemic measures, coupled with global inflation and the inactive Hong Kong stock market, led to a less favourable key economic indicators. Together with the substantial increase in gross advances and receivables in the reporting period, there was an increase in impairment losses and impairment allowances in the reporting period of HK\$75.2 million, or 115.6%, to HK\$140.2 million in the nine months of FY2022/23 from HK\$65.0 million in the nine months of FY2021/22.

Gain on disposal of distressed assets

In order to devote more resources to the timely collection of delinquent receivables, the Group disposed of its written-off receivables accumulated over the past few years in the second quarter and recorded a gain on disposal of HK\$31.9 million in the reporting period.

Consolidated Statement of Financial Position Analysis

The Group's total equity at 30th November 2022 was HK\$3,741.6 million, representing an increase of HK\$108.0 million, or 3.0%, from HK\$3,633.5 million at 28th February 2022.

Total assets at 30th November 2022 were HK\$6,045.6 million, representing an increase of HK\$956 million, or 18.8%, from HK\$5,089.6 million at 28th February 2022.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Consolidated Statement of Financial Position Analysis (Continued)

Advances and Receivables

With the launch of successful marketing and brand building endeavours and the expansion of the service network, there was a growing demand for consumer loans which increased the personal loan receivables by HK\$247.0 million to HK\$1,152.4 million at 30th November 2022 from HK\$905.4 million at 28th February 2022. Moreover, subsequent to the launch of the AEON Card Wakuwaku and the gradual relaxation of social distancing measures, credit card receivables recorded an increase of HK\$742.6 million, or 22.5%, to HK\$4,047.1 million at 30th November 2022 from HK\$3,304.5 million at 28th February 2022. The Group's gross advances and receivables amounted to HK\$5,277.2 million at 30th November 2022, as compared with HK\$4,822.0 million at 31st August 2022 and HK\$4,274.6 million at 28th February 2022, respectively. Impairment allowances amounted to HK\$199.4 million at 30th November 2022, accounting for 3.8% of gross advances and receivables, as compared with HK\$181.1 million at 28th February 2022, accounting for 4.2% of gross advances and receivables. The percentage of overdue advances and receivables to gross advances and receivables was 2.8% at 30th November 2022, as compared with 2.8% at 31st August 2022 and 3.5% at 28th February 2022, respectively.

Bank Borrowings

The Group's total debt increased from HK\$1,084.1 million as at 28th February 2022 to HK\$1,880.6 million at 30th November 2022 as the increase in the receivables balance resulted in more bank borrowings. At 30th November 2022, 51.5% of the bank borrowings had fixed interest rates, while 48.5% were hedged against interest rate fluctuation by interest rate swaps. Amongst the total outstanding bank borrowings, 30.2% will mature within one year, 7.7% between one and two years and 62.1% between two and five years.

The average duration of bank borrowings was 2.2 years and 2.9 years at 30th November 2022 and 28th February 2022, respectively.

Segment Information

For the nine months of FY2022/23, 78.3% of the Group's revenue was derived from credit card operations, compared with 79.3% in the previous period. Personal loan operations accounted for 19.6% of the Group's revenue, compared with 17.9% in the previous period. For segment results, credit card operations accounted for 78.3% of the Group's entire operations, compared with 75.9% in the previous period, while personal loan operations accounted for 16.1%, as compared with 20.5% in the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Segment Information (Continued)

For the credit card operations, most of the credit lines offered by the Company range from HK\$5,000 to HK\$400,000, with effective interest rates ranging from 26.8% to 43.5% for the reporting period and the previous period. During the reporting period, the Group's credit card sales and revolving balances continued to grow through successful brand building endeavours and various marketing programs, with revenue from credit card operations recording an increase of HK\$83.4 million, or 13.6%, to HK\$694.6 million in the nine months of FY2022/23 from HK\$611.2 million in the nine months of FY2021/22. Nevertheless, due to the increase in impairment losses and impairment allowances, the segment results of the credit card business for the reporting period only recorded a slight increase of HK\$10.3 million to HK\$234.4 million in the nine months of FY2022/23 from HK\$224.0 million in the nine months of FY2021/22.

For the personal loan operations, most of the loans provided by the Company range from HK\$10,000 to either 12 times of an applicant's monthly salary or HK\$1,000,000 (whichever is lower) for the reporting period and the previous period, with interest rates ranging from 2.3% to 50.7% in the reporting period and 3.1% to 52.3% in the previous period. Thanks to the success of the personalised marketing activities, personal loan receivables already returned to pre-pandemic levels, with revenue from the personal loan business increasing by HK\$35.5 million, or 25.7%, to HK\$173.5 million in the nine months of FY2022/23 from HK\$138.0 million in the nine months of FY2020/21. The increase in receivables balances and the weakening of key economic factors led to an increase in impairment allowances, resulting in a decrease in the segment results of HK\$12.5 million to HK\$48.1 million in the nine months of FY2022/23 from HK\$60.6 million in the nine months of FY2021/22.

Due to the reduction in telemarketing activities during the transition period of change of insurance principal, revenue from insurance operations recorded a decrease of HK\$1.8 million to HK\$19.3 million in the nine months of FY2022/23 from HK\$21.0 million in the nine months of FY2021/22. With the recognition of an insurance marketing support fund received under an insurance distribution agreement of HK\$7.8 million, the segment results for the reporting period stood at HK\$16.7 million, as compared with HK\$10.5 million in the previous period.

In terms of the financial results by geographical locations, 98.2% of the Group's revenue was derived from the Hong Kong operations for the nine months of FY2022/23, compared with 98.3% in the previous period. The Mainland China operations accounted for 1.8% of the Group's revenue, compared with 1.7% in the previous period.

With the significant improvement in sales and credit card and personal loan receivable balances, revenue from the Hong Kong operations recorded an increase of HK\$114.1 million, or 15.1%, to HK\$871.4 million in the nine months of FY2022/23 from HK\$757.3 million in the nine months of FY2021/22. However, due to the increase in impairment losses and impairment allowances and marketing and promotion expenses, the segment results of the Hong Kong operations recorded a slight decrease of HK\$1.2 million, or 0.4%, to HK\$296.2 million in the nine months of FY2022/23 from HK\$297.4 million in the nine months of FY2021/22.

For operations in Mainland China, subsequent to the launch of a new personal loan product under the Group's microfinance subsidiary in Shenzhen, revenue increased by HK\$3.0 million to HK\$16.0 million in the nine months of FY2022/23 from HK\$13.0 million in the nine months of FY2021/22, with profits of HK\$3.0 million in the reporting period compared with losses of HK\$2.3 million in the previous period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Prospects

Following the resumption of international travels, flight capacity is expected to gradually recover and social distancing measures will be expected to be relaxed in the fourth quarter of the year ended 28th February 2023 (the “fourth quarter”), resulting in more sales opportunities and driving receivables growth. However, regulatory changes in interest rate cap and threshold and the upward adjustment of the Hong Kong base rate may impact the Group’s interest rate spread.

In this challenging market environment, the Group will launch mass promotion activities in the fourth quarter, such as “Festival Spending Rewards”, to stimulate sales growth during festival seasons and “AEON Too Easy Tax Loan Cash Rebate Offer” to meet customers’ needs during the tax season. Moreover, the Group will further strengthen its customer relationship management and foster customer engagement through different channels. As the regulatory changes in interest rate cap will have relatively little impact on the existing customer portfolio, the Group will take the opportunity to expand into underserved areas with its more refined credit assessment approach.

On the operations side, the Group will continue to commit significant resources to digitalisation in order to improve its internal business processes and achieve greater sustainability. Alongside the completion of major information technology projects in the near future, the Group will aim to employ more digitalised payment solutions for customers to reduce its impact on the environment.

With the pandemic increasing public awareness of personal and family health protection, the Group will continue to leverage in its new partnership with Chubb Life Hong Kong to generate more synergistic benefits and to increase the agency fee income through different insurance distribution channels. The Group will also continue to explore other new business opportunities in order to diversify its revenue streams.

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

By order of the Board
TOMOHARU FUKAYAMA
Managing Director

Hong Kong, 21st December 2022

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