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AEON CREDIT SERVICE (ASIA) CO., LTD.

AEON 信貸財務(亞洲)有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 900)

**UNAUDITED RESULTS
FOR THE THREE MONTHS ENDED 31ST MAY 2024**

The board (the “Board”) of directors (the “Directors”) of AEON Credit Service (Asia) Company Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31st May 2024, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31st May 2024

	<i>Notes</i>	1.3.2024 to 31.5.2024 (Unaudited) HK\$'000	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000
Revenue	2	<u>426,547</u>	<u>379,953</u>
Interest income		362,235	317,631
Interest expense		<u>(31,605)</u>	<u>(20,422)</u>
Net interest income		330,630	297,209
Fees and commissions		34,039	31,759
Handling and late charges		30,273	30,563
Other income		5,597	1,123
Other gains and losses	4	<u>59</u>	<u>(6,894)</u>
Operating income		400,598	353,760
Operating expenses	5	<u>(189,300)</u>	<u>(176,807)</u>
Operating profit before impairment losses and impairment allowances		211,298	176,953
Impairment losses and impairment allowances		(117,623)	(68,049)
Recoveries of advances and receivables written-off		5,676	8,554
Profit before tax		99,351	117,458
Income tax expense		<u>(16,096)</u>	<u>(20,491)</u>
Profit for the period		<u>83,255</u>	<u>96,967</u>
Profit for the period attributable to: Owners of the Company		<u>83,255</u>	<u>96,967</u>
Earnings per share — Basic		<u>19.88 HK cents</u>	<u>23.16 HK cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

For the three months ended 31st May 2024

	1.3.2024 to 31.5.2024 (Unaudited) HK\$'000	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000
Profit for the period	<u>83,255</u>	<u>96,967</u>
Other comprehensive (expenses) income		
Item that will not be reclassified to profit or loss:		
Fair value loss on equity instruments at fair value through other comprehensive income	(10,489)	(6,891)
Items that may be reclassified subsequently to profit or loss:		
Exchange difference arising from translation of foreign operations	(1,028)	(2,605)
Fair value adjustment on cash flow hedges, net of tax	(3,689)	(16,520)
Reclassification of fair value adjustments on cash flow hedges to profit or loss	<u>5,822</u>	<u>4,142</u>
Other comprehensive expenses for the period	<u>(9,384)</u>	<u>(21,874)</u>
Total comprehensive income for the period	<u><u>73,871</u></u>	<u><u>75,093</u></u>
Total comprehensive income for the period attributable to:		
Owners of the Company	<u><u>73,871</u></u>	<u><u>75,093</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st May 2024

		31.5.2024 (Unaudited) <i>HK\$'000</i>	29.2.2024 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment	6	171,575	172,341
Intangible assets	6	29,667	31,133
Right-of-use assets	6	125,931	118,631
Goodwill		15,820	15,820
Equity instruments at fair value through other comprehensive income		82,155	92,644
Advances and receivables	7	1,521,735	1,512,414
Prepayments, deposits and other debtors		49,808	35,782
Derivative financial instruments	10	22,486	23,628
Deferred tax assets		10,170	5,454
		2,029,347	2,007,847
Current assets			
Advances and receivables	7	5,261,344	5,201,354
Prepayments, deposits and other debtors		93,390	78,691
Amount due from immediate holding company		175	1
Amount due from an intermediate holding company		65	31
Derivative financial instruments	10	1,319	–
Time deposits		14,626	15,319
Bank balances and cash		302,313	257,989
		5,673,232	5,553,385
Current liabilities			
Creditors and accruals		250,469	261,832
Contract liabilities		23,456	21,554
Amounts due to fellow subsidiaries		13,242	17,872
Amount due to an intermediate holding company		4,460	4,722
Borrowings from immediate holding company	9	800,000	800,000
Bank borrowings	9	635,921	468,685
Lease liabilities		40,684	38,243
Derivative financial instruments	10	66,941	59,109
Tax liabilities		4,509	5,526
		1,839,682	1,677,543
Net current assets		3,833,550	3,875,842
Total assets less current liabilities		5,862,897	5,883,689

		31.5.2024	29.2.2024
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		3,872,387	3,798,516
		<u>4,141,864</u>	<u>4,067,993</u>
Total equity			
Non-current liabilities			
Bank borrowings	9	1,607,069	1,709,571
Lease liabilities		90,744	84,097
Deferred tax liabilities		–	88
Derivative financial instruments	10	23,220	21,940
		<u>1,721,033</u>	<u>1,815,696</u>
		<u>5,862,897</u>	<u>5,883,689</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31st May 2024

	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 2023 (Audited)	269,477	73,311	50,342	(11,613)	3,510,943	3,892,460
Profit for the period	–	–	–	–	96,967	96,967
Fair value loss on equity instruments at fair value through other comprehensive income	–	(6,891)	–	–	–	(6,891)
Exchange difference arising from translation of foreign operations	–	–	–	(2,605)	–	(2,605)
Fair value adjustment on cash flow hedges, net of tax	–	–	(16,520)	–	–	(16,520)
Reclassification of fair value adjustments on cash flow hedges to profit or loss	–	–	4,142	–	–	4,142
Total comprehensive (expense) income for the period	–	(6,891)	(12,378)	(2,605)	96,967	75,093
At 31st May 2023 (Unaudited)	<u>269,477</u>	<u>66,420</u>	<u>37,964</u>	<u>(14,218)</u>	<u>3,607,910</u>	<u>3,967,553</u>
At 1st March 2024 (Audited)	<u>269,477</u>	<u>68,821</u>	<u>35,582</u>	<u>(16,468)</u>	<u>3,710,581</u>	<u>4,067,993</u>
Profit for the period	–	–	–	–	83,255	83,255
Fair value loss on equity instruments at fair value through other comprehensive income	–	(10,489)	–	–	–	(10,489)
Exchange difference arising from translation of foreign operations	–	–	–	(1,028)	–	(1,028)
Fair value adjustment on cash flow hedges, net of tax	–	–	(3,689)	–	–	(3,689)
Reclassification of fair value adjustments on cash flow hedges to profit or loss	–	–	5,822	–	–	5,822
Total comprehensive (expense) income for the period	–	(10,489)	2,133	(1,028)	83,255	73,871
At 31st May 2024 (Unaudited)	<u>269,477</u>	<u>58,332</u>	<u>37,715</u>	<u>(17,496)</u>	<u>3,793,836</u>	<u>4,141,864</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31st May 2024

	1.3.2024 to 31.5.2024 (Unaudited) HK\$'000	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000
Net cash from (used in) operating activities	3,734	(187,229)
Purchase of property, plant and equipment and intangible assets	(4,123)	(2,263)
Deposits paid for acquisition of property, plant and equipment and intangible assets	(15,274)	(62,802)
Placement of time deposits with maturity of more than three months	(3,849)	–
Release of time deposits with maturity of more than three months	1,650	6,780
Net cash used in investing activities	(21,596)	(58,285)
Repayment of lease liabilities	(14,449)	(14,995)
New borrowings from immediate holding company raised	–	3,150,000
Repayment of borrowings from immediate holding company	–	(2,850,000)
New bank loans raised	3,267,900	4,367,786
Repayment of bank loans	(3,194,016)	(4,406,567)
Net cash from financing activities	59,435	246,224
Net increase in cash and cash equivalents	41,573	710
Effect of changes in exchange rate	(137)	(369)
Cash and cash equivalents at beginning of the period	271,658	387,508
Cash and cash equivalents at end of the period	313,094	387,849
Being:		
Time deposits with maturity of three months or less	10,781	13,358
Bank balances and cash	302,313	374,491
	313,094	387,849

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31st May 2024

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 29th February 2024 that is included in the unaudited results for the three months ended 31st May 2024 as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those consolidated financial statements. Further information relating to these statutory financial statements is as follows:

The Company will deliver the financial statements for the year ended 29th February 2024 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

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.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the three months ended 31st May 2024 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 29th February 2024.

2. REVENUE

	1.3.2024 to 31.5.2024 (Unaudited) HK\$’000	1.3.2023 to 31.5.2023 (Unaudited) HK\$’000
Interest income	362,235	317,631
Fees and commissions		
— Credit cards — issuing	13,299	16,252
— Credit cards — acquiring	13,046	9,908
— Insurance	7,694	5,599
Handling and late charges	30,273	30,563
	426,547	379,953

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:

1.3.2024 to 31.5.2024 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	332,731	86,122	7,694	426,547
RESULT				
Segment results	98,503	(2,159)	3,135	99,479
Unallocated operating income				591
Unallocated expenses				(719)
Profit before tax				99,351

1.3.2023 to 31.5.2023 (Unaudited)

	Credit cards <i>HK\$'000</i>	Personal loans <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	303,693	70,661	5,599	379,953
RESULT				
Segment results	108,633	14,072	2,390	125,095
Unallocated operating income				821
Unallocated expenses				(8,458)
Profit before tax				117,458

Geographical information

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

1.3.2024 to 31.5.2024 (Unaudited)

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	418,296	8,251	426,547
RESULT			
Segment results	98,049	1,430	99,479
Unallocated operating income			591
Unallocated expenses			(719)
Profit before tax			99,351

1.3.2023 to 31.5.2023 (Unaudited)

	Hong Kong <i>HK\$'000</i>	People's Republic of China <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	373,330	6,623	379,953
RESULT			
Segment results	123,821	1,274	125,095
Unallocated operating income			821
Unallocated expenses			(8,458)
Profit before tax			117,458

4. OTHER GAINS AND LOSSES

	1.3.2024 to 31.5.2024 (Unaudited) HK\$'000	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange (loss) on hedging instruments released from cash flow hedge reserve	(9,130)	(6,225)
Exchange gain on a bank loan	9,130	6,225
Other exchange (losses) gains, net	(13)	116
Hedge ineffectiveness on cash flow hedges, net	101	101
Losses on disposal of property, plant and equipment	(29)	(7,111)
	59	(6,894)

5. OPERATING EXPENSES

	1.3.2024 to 31.5.2024 (Unaudited) HK\$'000	1.3.2023 to 31.5.2023 (Unaudited) HK\$'000
Depreciation and amortization on property, plant and equipment and intangible asset	11,795	10,466
Depreciation on right-of-use assets	15,667	14,463
Expenses relating to short-term leases	662	1,407
	16,329	15,870
General administrative expenses	55,108	49,904
Marketing and promotion expenses	26,899	25,267
Other operating expenses	18,374	22,258
Staff costs including directors' emoluments	60,795	53,042
	189,300	176,807

6. PROPERTY, PLANT AND EQUIPMENT, INTANGIBLE ASSETS & RIGHT-OF-USE ASSETS

During the period, the Group recognised addition of approximately **HK\$3,785,000** (2023: HK\$100,615,000), **HK\$3,691,000** (2023: HK\$Nil), **HK\$2,159,000** (2023: HK\$1,543,000) and **HK\$22,955,000** (2023: HK\$53,896,000) on computer equipment & intangible assets, furniture and fixtures, leasehold improvements and right-of-use assets respectively.

7. ADVANCES AND RECEIVABLES

	31.5.2024 (Unaudited) HK\$'000	29.2.2024 (Audited) HK\$'000
Credit card receivables	5,237,155	5,188,549
Personal loan receivables	1,600,695	1,573,989
	6,837,850	6,762,538
Accrued interest and other receivables	199,978	198,321
	7,037,828	6,960,859
Gross advances and receivables	7,037,828	6,960,859
Impairment allowances (<i>note 8</i>)	(254,749)	(247,091)
	6,783,079	6,713,768
Current portion included under current assets	(5,261,344)	(5,201,354)
	1,521,735	1,512,414
Amount due after one year	1,521,735	1,512,414

An analysis in the gross amount of advances and receivables as at 31st May 2024 and 29th February 2024 are set out as below:

	31.5.2024		29.2.2024	
	(Unaudited)		(Audited)	
	<i>HK\$'000</i>	%*	<i>HK\$'000</i>	%*
Stage 1	6,744,193	95.8	6,682,702	96.0
Stage 2	75,153	1.1	75,389	1.1
Stage 3	218,482	3.1	202,768	2.9
Total	<u>7,037,828</u>	<u>100.0</u>	<u>6,960,859</u>	<u>100.0</u>

* *Percentage of gross advances and receivables*

Stage 1 covers the advances and receivables that have not deteriorated significantly in credit quality since initial recognition. Stage 2 covers the advances and receivables that have deteriorated significantly in credit quality since initial recognition. Stage 3 covers the advances and receivables for which credit loss events occur and become credit-impaired.

8. IMPAIRMENT ALLOWANCES

	31.5.2024	29.2.2024
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Analysis by products as:		
Credit card receivables	145,069	146,731
Unused credit card limit	1,949	1,880
Personal loan receivables	102,399	93,147
Accrued interest and other receivables	5,332	5,333
	<u>254,749</u>	<u>247,091</u>

An analysis of movements in impairment allowances during each of the two periods ended 31st May 2024 and 31st May 2023 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 2024	123,881	32,208	91,001	247,090
Net addition (repayment) in advances and receivables	3,259	(3,882)	7,887	7,264
Transfer to 12 months expected credit loss (Stage 1)	7,523	(7,222)	(301)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,704)	2,294	(590)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(837)	(27,763)	28,600	–
Total transfer between stages	4,982	(32,691)	27,709	–
Remeasurement of expected credit loss during the period	(2,151)	35,969	76,541	110,359
Amounts written-off as uncollectable	–	–	(109,930)	(109,930)
Exchange realignment	(10)	(5)	(19)	(34)
At 31st May 2024	<u>129,961</u>	<u>31,599</u>	<u>93,189</u>	<u>254,749</u>
	<i>Stage 1</i> <i>HK\$'000</i>	<i>Stage 2</i> <i>HK\$'000</i>	<i>Stage 3</i> <i>HK\$'000</i>	<i>Total</i> <i>HK\$'000</i>
At 1st March 2023	97,642	18,878	75,189	191,709
Net addition in advances and receivables	5,970	4,260	10,531	20,761
Transfer to 12 months expected credit loss (Stage 1)	21,936	(21,548)	(388)	–
Transfer to lifetime expected credit loss not credit impaired (Stage 2)	(1,403)	4,503	(3,100)	–
Transfer to lifetime expected credit loss credit impaired (Stage 3)	(57)	(13,455)	13,512	–
Total transfer between stages	20,476	(30,500)	10,024	–
Remeasurement of expected credit loss during the period	(14,904)	31,681	30,511	47,288
Amounts written-off as uncollectable	–	–	(45,193)	(45,193)
Exchange realignment	(25)	(19)	(85)	(129)
At 31st May 2023	<u>109,159</u>	<u>24,300</u>	<u>80,977</u>	<u>214,436</u>

9. BANK BORROWINGS/BORROWINGS FROM IMMEDIATE HOLDING COMPANY

	31.5.2024 (Unaudited)		29.2.2024 (Audited)	
	Borrowings from immediate		Borrowings from immediate	
	Bank borrowings	holding company	Bank borrowings	holding company
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Carrying amount repayable (<i>Note</i>)				
Within one year	635,921	800,000	468,685	800,000
Within a period of more than one year but not more than two years	827,069	–	720,000	–
Within a period of more than two years but not more than five years	780,000	–	989,571	–
	<u>2,242,990</u>	<u>800,000</u>	<u>2,178,256</u>	<u>800,000</u>
Amount repayable within one year included under current liabilities	<u>(635,921)</u>	<u>(800,000)</u>	<u>(468,685)</u>	<u>(800,000)</u>
Amount repayable after one year	<u>1,607,069</u>	<u>–</u>	<u>1,709,571</u>	<u>–</u>

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

	31.5.2024 (Unaudited)		29.2.2024 (Audited)	
	Assets	Liabilities	Assets	Liabilities
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Interest rate swaps	23,805	991	23,628	2,471
Cross-currency interest rate swaps	–	89,170	–	78,578
	<u>23,805</u>	<u>90,161</u>	<u>23,628</u>	<u>81,049</u>
Current portion	<u>(1,319)</u>	<u>(66,941)</u>	<u>–</u>	<u>(59,109)</u>
Non-current portion	<u>22,486</u>	<u>23,220</u>	<u>23,628</u>	<u>21,940</u>

All derivative financial instruments entered by the Group that remain outstanding at 31st May 2024 and 29th February 2024 are for hedging purposes. The classification of current/non-current for derivative financial instruments is in accordance with the maturity or settlement dates of the corresponding bank borrowings, the designated hedged items.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Although the Hong Kong economy recorded moderate growth during the three months ended 31st May 2024 (“1QFY2024/25” or the “Reporting Period”), the high interest rate environment, combined with depressed capital and real estate markets and uncertainties associated with ongoing geopolitical conflicts and trade fragmentation, contributed to a continued high level of credit defaults and weakened economic indicators. For the same reasons, it is still taking time for consumers to regain confidence in the local and broader economic outlook. Amidst this challenging market environment, the Group made significant efforts to strengthen its credit assessment model to control the proportion of advances and receivables with higher credit risk, and adapted its credit risk management mechanism to timely reduce the likelihood of credit impairment. Meanwhile, the Group continued to use targeted marketing and marketing promotions with proven success, such as the Spring Spending Promotion to boost sales and receivables growth momentum, with total sales in 1QFY2024/25 increasing by 10.7% from the first quarter of the previous year (“1QFY2023/24” or the “Previous Period”), and the gross advances and receivables balance increased by 1.1% from the end of February 2024. The Group’s effective credit risk management, coupled with the relatively stable unemployment rate in Hong Kong, helped mitigate the continued deterioration of asset quality by quarter end, with the percentage of advances and receivables with credit risk increasing significantly and credit impaired (i.e., stage 2 and stage 3 receivables) to total advances and receivables increasing just slightly from 4.0% as at 29th February 2024 to 4.2% as at 31st May 2024.

Financial Review

The Group recorded profit before tax of HK\$99.4 million for the Reporting Period, a decrease of 15.4% or HK\$18.1 million from the Previous Period. With income tax expense of HK\$16.1 million, the Group’s profit after tax decreased by 14.1% or HK\$13.7 million to HK\$83.3 million from HK\$97.0 million in the Previous Period. Earnings per share decreased from 23.16 HK cents from Previous Period to 19.88 HK cents for the Reporting Period.

The net debt to equity ratio was 0.7 as at 31st May 2024 and 29th February 2024, while the equity to total assets ratio as at 31st May 2024 and 29th February 2024 remained at 53.8%. Net asset value per share (after final dividend) as at 31st May 2024 and 29th February 2024 was HK\$9.7 and HK\$9.5, respectively.

Consolidated Statement of Profit or Loss Analysis

Revenue

Revenue for 1QFY2024/25 was HK\$426.5 million, an increase of 12.3% or HK\$46.6 million compared with HK\$380.0 million in 1QFY2023/24.

Net interest income

With the continued increase in revolving credit card and personal loan receivables balances, the Group recorded a 14.0% or HK\$44.6 million increase in interest income from HK\$317.6 million in the Previous Period to HK\$362.2 million in the Reporting Period.

As a result of the continued increase in both borrowings and with market interest rates still high, the Group's interest expenses increased by 54.8% or HK\$11.2 million to HK\$31.6 million from HK\$20.4 million in the Previous Period. The average funding cost increased from 3.7% in the Previous Period to 4.1% in the Reporting Period.

As a result, the Group's net interest income for the Reporting Period was HK\$330.6 million, an increase of HK\$33.4 million from the Previous Period.

Operating income

Regarding the credit card issuing business, the attractive cash rebate scheme offered to stimulate sales continued to result in an increase in cash rebates that offset against commission income, resulting in an overall decrease in fees and commission of HK\$3.0 million to HK\$13.3 million from the credit card issuance business for the Reporting Period. For credit card acquiring business, fees and commissions increased by HK\$3.1 million to HK\$13.0 million in the Reporting Period as sales increased due to an increase in the number of card acquiring merchants and average transaction size. For insurance intermediary business, fees and commissions reported an increase of HK\$2.1 million from HK\$5.6 million in the Previous Period to HK\$7.7 million in the Reporting Period. Overall, the Group recorded an increase of HK\$2.3 million in fees and commissions to HK\$34.0 million from HK\$31.8 million in the Previous Period.

Handling and late charges for the Reporting Period remained at a similar level to that of the Previous Period. In terms of other income and other gains and losses, the Group recognized income in the form of marketing support fund from card associations of HK\$4.6 million in the Reporting Period, while following the completion of two major system projects in 1QFY2023/24, a loss on disposal of property, plant and equipment was recorded, resulting in other losses of HK\$6.9 million in the Previous Period.

The Group's operating income for 1QFY2024/25 recorded an increase of HK\$46.8 million to HK\$400.6 million from HK\$353.8 million in the Previous Period.

Operating expenses

Although the Group conducted more marketing and advertising campaigns to capture the growing consumer demand, the effective use of a combination of traditional and digital marketing channels resulted in an increase in marketing and promotional expenses of only HK\$1.6 million to HK\$26.9 million for the Reporting Period. Following the completion of various digitalization projects, depreciation of property, plant and equipment and amortization of intangible assets increased by HK\$1.3 million as compared with the Previous Period. As a result of the additional manpower employed to enhance product development and filling of vacancies for branch operations, and together with the increase in credit card transactions, staff costs and general administrative expenses increased by HK\$7.8 million and HK\$5.2 million, respectively, against the Previous Period.

Although total operating expenses recorded an increase of HK\$12.5 million to HK\$189.3 million from HK\$176.8 million in the Previous Period, the cost-to-income ratio decreased to 47.3% from 50.0% in the Previous Period due to the increase in operating income.

At the operating level before impairment losses and impairment allowances, the Group recorded operating profit of HK\$211.3 million for the Reporting Period, representing an increase of 19.4% or HK\$34.3 million compared with the Previous Period.

Impairment losses and impairment allowances

In the Previous Period, the removal of the pandemic as a public health emergency and the re-opening of borders had provided a short-term stimulus to the economy, which contributed to a lower level of impairment losses and impairment allowances in 1QFY2023/24. The number of personal bankruptcy cases in Hong Kong has increased since the second quarter of FY2023/24 and remains at a high level in 1QFY2024/25. Although the Group has reduced the proportion of advances and receivables with significantly increased credit risk and impaired loans through effective credit risk management, the prolonged deterioration in the capital market and slow recovery in inbound tourism resulted in an increase in the number of bankruptcy filings and credit default cases, leading to an increase in impairment losses and impairment allowances of HK\$49.6 million to HK\$117.6 million in the Reporting Period from HK\$68.0 million in the Previous Period.

Statement of Financial Position Analysis

The Group's total equity as at 31st May 2024 was HK\$4,141.9 million, representing an increase of 1.8% or HK\$73.9 million compared with the balance of HK\$4,068.0 million as at 29th February 2024. Total assets as at 31st May 2024 amounted to HK\$7,702.6 million compared with HK\$7,561.2 million as at 29th February 2024.

Gross advances and receivables increased by 1.1% or HK\$77.0 million to HK\$7,037.8 million as at 31st May 2024 from HK\$6,960.9 million as at 29th February 2024. The gross amount of advances and receivables subject to credit risk increased significantly and impaired credit amounted to HK\$293.6 million and HK\$278.2 million as at 31st May 2024 and 29th February 2024, respectively. Impairment allowances totaled HK\$254.7 million as at 31st May 2024, representing 3.6% of gross advances and receivables, compared with HK\$247.1 million as at 29th February 2024, which represented 3.5% of gross advances and receivables.

The Group's borrowings from banks and its immediate holding company as at 31st May 2024 amounted to HK\$3,043.0 million, of which HK\$1,435.9 million is repayable within one year, as compared with a balance of HK\$2,978.3 million as at 29th February 2024, with HK\$1,268.7 million repayable within one year. The average duration of borrowings as at 31st May 2024 was 1.2 years, compared with 1.4 years as at 29th February 2024.

Segment Information

For the Reporting Period, revenue from credit card operations increased by 9.6%, or HK\$29.0 million, to HK\$332.7 million from HK\$303.7 million in the Previous Period due to the increase in credit card receivables balances. However, due to the increase in borrowing costs and impairment losses and allowances, the segment result for the Reporting Period recorded a decrease of HK\$10.1 million to HK\$98.5 million from HK\$108.6 million in 1QFY2023/24.

As for personal loan operations, revenue increased by 21.9% or HK\$15.5 million in 1QFY2024/25 to HK\$86.1 million from HK\$70.7 million in the Previous Period as receivables balances gradually increased. However, this increase in revenue could not offset the persistently high funding costs and the increase in impairment losses and allowances during the Reporting Period, leading the segment result to record a loss of HK\$2.2 million in the Reporting Period as compared with a profit of HK\$14.1 million in 1QFY2023/24.

The insurance intermediary business has smoothly progressed through the change in business model and products, and resumed progressive growth during the Reporting Period, with segment revenue and result amounting to HK\$7.7 million and HK\$3.1 million, respectively, for the Reporting Period, compared with HK\$5.6 million and HK\$2.4 million for the Previous Period.

By geographical location, revenue from Hong Kong operations recorded an increase of 12.0% or HK\$45.0 million to HK\$418.3 million in 1QFY2024/25 from HK\$373.3 million in 1QFY2023/24 due to higher receivables balances, while the segment result decreased by 20.8% or HK\$25.8 million to HK\$98.0 million from HK\$123.8 million in 1QFY2023/24 due to high funding costs and depressed consumer sentiment.

As for the Mainland China operations, the Group focused on improving the financial performance and diversifying the loan products of its microfinance subsidiary in Shenzhen. Sales of this subsidiary achieved stable growth during the Reporting Period, resulting in an increase in revenue of HK\$1.6 million to HK\$8.3 million from HK\$6.6 million in 1QFY2023/24. The segment result increased slightly to HK\$1.4 million for the Reporting Period from HK\$1.3 million for 1QFY2023/24.

Prospects

With the Government's efforts to promote a mega-event economy to attract more inbound tourism, the Hong Kong economy is expected to record further growth for the rest of the year. Rising employment income should also incentivise and support higher private consumption, but changing consumption patterns within the local retail markets may still pose challenges. Following successful marketing and brand building efforts, the Group will place greater emphasis on making the best use of both mobile application and traditional marketing channels to promote its credit card personal loan and other products, and introduce unique features in the "AEON HK" mobile application (the "Mobile App") to enrich the customer experience and capture the growing demand for contactless mobile payment services. The launch of the virtual card function in the Mobile App in the second quarter will provide customers with an instant access to credit for making purchases right after card approval and activation, without the need to make any physical visit.

Although the credit environment is expected to remain challenging due to high interest rates, the Group will continue to increase its receivables while closely monitoring the effectiveness of credit assessment and credit management improvement, as well as to achieve better maturity matching requirements, so as to minimize credit and liquidity risk.

In terms of digitalization of operations, the Group has completed the upgrade of its credit application processing platform and will further enhance its call center platform and provide responsive interaction with its customers. In addition, the Group has just opened a Shatin branch to expand its service network to provide face-to-face financial and related advisory services. In addition, data analytics tools will continue to be enhanced to improve the effectiveness of the Group's marketing, credit assessment and credit management activities.

For the Mainland China operation, 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 and abundant financial resources.

With the expected improving economic outlook in Hong Kong and the Greater Bay Area, the Group will continue to devote resources to provide exceptional consumer finance services to meet the evolving needs of its customers and to expand its customer base with more innovative and customized products. With the Group's strong liquidity position and balance sheet and proven management capabilities in many respects, the Group is well positioned to take advantage of the opportunities in the recovering consumer finance market to attain rebound growth in the remainder of the year.

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

By order of the Board
Wei Aiguo
Managing Director

Hong Kong, 26th June 2024

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