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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 2017

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 2017, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30th November 2017

	<i>Notes</i>	1.3.2017 to 30.11.2017 (Unaudited) HK\$'000	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000
Revenue	2	950,182	913,043
Interest income		830,659	804,507
Interest expense		(65,268)	(69,074)
Net interest income		765,391	735,433
Other operating income	3	126,441	115,745
Other gains and losses	4	(7,877)	(870)
Operating income		883,955	850,308
Operating expenses	5	(412,838)	(408,230)
Gain on sale of advances and receivables		–	21,114
Operating profit before impairment allowances		471,117	463,192
Impairment losses and impairment allowances		(177,139)	(219,407)
Recoveries of advances and receivables written-off		37,094	40,022
Share of results of associates		640	(8,157)
Profit before tax		331,712	275,650
Income tax expense		(57,694)	(49,643)
Profit for the period		274,018	226,007
Profit for the period attributable to: Owners of the Company		274,018	226,007
Earnings per share – Basic		65.43 HK cents	53.97 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30th November 2017

	1.3.2017 to 30.11.2017 (Unaudited) HK\$'000	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000
Profit for the period	<u>274,018</u>	<u>226,007</u>
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on available-for-sale investments	(2,522)	(587)
Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for-sales investments	6,003	–
Exchange difference arising from translation of foreign operations	11,850	(18,828)
Net adjustment on cash flow hedges	<u>(16,574)</u>	<u>40,178</u>
Other comprehensive (expense) income for the period	<u>(1,243)</u>	<u>20,763</u>
Total comprehensive income for the period	<u>272,775</u>	<u>246,770</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>272,775</u>	<u>246,770</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th November 2017

	<i>Notes</i>	30.11.2017 (Unaudited) <i>HK\$'000</i>	28.2.2017 (Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		83,250	100,494
Investments in associates		12,517	11,374
Available-for-sale investments		16,878	21,239
Advances and receivables	6	967,249	1,034,366
Prepayments, deposits and other debtors		33,511	16,772
Derivative financial instruments	11	11,133	10,354
Restricted deposits		38,000	38,000
		1,162,538	1,232,599
Current assets			
Advances and receivables	6	4,248,325	4,035,958
Prepayments, deposits and other debtors		40,071	40,436
Amounts due from fellow subsidiaries		1,192	1,180
Amount due from immediate holding company		–	7
Amount due from intermediate holding company		3	191
Amount due from an associate		497	73
Derivative financial instruments	11	83	44
Restricted deposits		256,962	145,216
Time deposits		93,865	165,763
Fiduciary bank balances		52	76
Bank balances and cash		332,327	470,257
		4,973,377	4,859,201
Current liabilities			
Creditors and accruals		256,671	219,948
Amounts due to fellow subsidiaries		40,411	49,460
Amount due to intermediate holding company		125	202
Amount due to ultimate holding company		25	35
Amounts due to associates		2,475	3,095
Bank borrowings	9	245,000	240,000
Derivative financial instruments	11	386	650
Tax liabilities		78,016	31,762
		623,109	545,152
Net current assets		4,350,268	4,314,049
Total assets less current liabilities		5,512,806	5,546,648
Capital and reserves			
Share capital		269,477	269,477
Reserves		2,611,011	2,472,594
Total equity		2,880,488	2,742,071
Non-current liabilities			
Collateralised debt obligation	10	1,250,000	1,250,000
Bank borrowings	9	1,328,973	1,481,281
Derivative financial instruments	11	48,820	66,724
Deferred tax liabilities		4,525	6,572
		2,632,318	2,804,577
		5,512,806	5,546,648

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30th November 2017

	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 1.3.2016 (Audited)	269,477	(3,515)	(121,103)	(2,402)	2,401,115	2,543,572
Profit for the period	-	-	-	-	226,007	226,007
Fair value loss on available-for-sale investments	-	(587)	-	-	-	(587)
Exchange difference arising from translation of foreign operations	-	-	-	(18,828)	-	(18,828)
Net adjustment on cash flow hedges	-	-	40,178	-	-	40,178
Total comprehensive (expense) income for the period	-	(587)	40,178	(18,828)	226,007	246,770
Final dividend paid for the year from 1.3.2015 to 29.2.2016	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for the year from 1.3.2016 to 28.2.2017	-	-	-	-	(75,378)	(75,378)
	-	(587)	40,178	(18,828)	75,251	96,014
At 30.11.2016 (Unaudited)	269,477	(4,102)	(80,925)	(21,230)	2,476,366	2,639,586
At 1.3.2017 (Audited)	269,477	(4,421)	(53,651)	(18,489)	2,549,155	2,742,071
Profit for the period	-	-	-	-	274,018	274,018
Fair value loss on available-for-sale investments	-	(2,522)	-	-	-	(2,522)
Investment revaluation reserve reclassified to profit or loss in relation to impairment loss on available-for sales investment	-	6,003	-	-	-	6,003
Exchange difference arising from translation of foreign operations	-	-	-	11,850	-	11,850
Net adjustment on cash flow hedges	-	-	16,574	-	-	16,574
Total comprehensive income for the period	-	3,481	16,574	11,850	274,018	305,923
Final dividend paid for the year from 1.3.2016 to 28.2.2017	-	-	-	-	(83,753)	(83,753)
Interim dividend paid for the year from 1.3.2017 to 28.2.2018	-	-	-	-	(83,753)	(83,753)
	-	3,481	16,574	11,850	106,512	138,417
At 30.11.2017 (Unaudited)	269,477	(940)	(37,077)	(6,639)	2,655,667	2,880,488

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30th November 2017

	1.3.2017 to 30.11.2017 (Unaudited) HK\$'000	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000
Net cash from operating activities	232,563	411,992
Dividends received	710	916
Purchase of property, plant and equipment	(5,201)	(6,839)
Deposits paid for acquisition of property, plant and equipment	(16,524)	(5,431)
(Increase) decrease in time deposits with maturity of more than three months	(15,353)	13,470
Net cash (used in) from investing activities	(36,368)	2,116
Placement of restricted deposits	(1,582,742)	(965,110)
Withdrawal of restricted deposits	1,470,995	836,241
Dividends paid	(167,506)	(150,756)
New bank loans raised	90,000	1,158,295
Repayment of bank loans	(240,000)	(1,191,408)
Net cash used in financing activities	(429,253)	(312,738)
Net (decrease) increase in cash and cash equivalents	(233,058)	101,370
Effect of changes in exchange rate	6,376	(5,927)
Cash and cash equivalents at beginning of the period	602,090	349,283
Cash and cash equivalents at end of the period	375,408	444,726
Being:		
Time deposits with maturity of three months or less	43,081	84,316
Bank balances and cash	332,327	360,410
	375,408	444,726

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th November 2017

1. BASIS OF PREPARATION

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

The financial information relating to the year ended 28th February 2017 that is included in the unaudited results for the nine months ended 30th November 2017 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 as follows:

The Company has delivered the financial statements for the year ended 28th February 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. REVENUE

	1.3.2017 to 30.11.2017 (Unaudited) HK\$’000	1.3.2016 to 30.11.2016 (Unaudited) HK\$’000
Interest income	830,659	804,507
Fees and commissions	56,469	50,104
Handling and late charges	63,054	58,432
	950,182	913,043

3. OTHER OPERATING INCOME

	1.3.2017 to 30.11.2017 (Unaudited) HK\$'000	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	710	849
Unlisted equity securities	–	67
Fees and commissions		
Credit card	45,281	34,707
Insurance	11,188	15,397
Handling and late charges	63,054	58,432
Others	6,208	6,293
	<u>126,441</u>	<u>115,745</u>

4. OTHER GAINS AND LOSSES

	1.3.2017 to 30.11.2017 (Unaudited) HK\$'000	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange (loss) gain on hedging instrument released from cash flow hedge reserve	(2,400)	55
Exchange gain (loss) on a bank loan	2,400	(55)
Other exchange gain (loss), net	166	(181)
Hedge ineffectiveness on cash flow hedges	(99)	(138)
Losses on disposal of property, plant and equipment	(102)	(551)
Impairment loss recognised in respect of available for sales investments	(7,842)	–
	<u>(7,877)</u>	<u>(870)</u>

5. OPERATING EXPENSES

	1.3.2017 to 30.11.2017 (Unaudited) HK\$'000	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000
Depreciation	31,457	34,174
General administrative expenses	119,522	124,123
Marketing and promotion expenses	46,253	41,586
Minimum Operating lease rentals in respect of rented premises, advertising space and equipment	57,832	54,510
Other operating expenses	36,808	34,680
Staff costs including Directors' emoluments	120,966	119,157
	<u>412,838</u>	<u>408,230</u>

6. ADVANCES AND RECEIVABLES

	30.11.2017 (Unaudited) HK\$'000	28.2.2017 (Audited) HK\$'000
Credit card receivables	3,803,683	3,611,021
Instalment loan receivables	1,403,466	1,469,708
Hire purchase debtors	<u>–</u>	<u>26</u>
	5,207,149	5,080,755
Accrued interest and other receivables	<u>92,117</u>	<u>90,642</u>
	5,299,266	5,171,397
Gross advances and receivables		
Impairment allowances (<i>note 7</i>)		
– individually assessed	(47,525)	(58,146)
– collectively assessed	(36,167)	(42,927)
	<u>(83,692)</u>	<u>(101,073)</u>
	5,215,574	5,070,324
Current portion included under current assets	<u>(4,248,325)</u>	<u>(4,035,958)</u>
	967,249	1,034,366

All advances and receivables are unsecured.

7. IMPAIRMENT ALLOWANCES

	30.11.2017 (Unaudited) HK\$'000	28.2.2017 (Audited) HK\$'000	
Analysis by products as:			
Credit card receivables	36,771	41,034	
Instalment loan receivables	44,652	57,377	
Accrued interest and other receivables	2,269	2,662	
	83,692	101,073	
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 1.3.2017	58,146	42,927	101,073
Impairment losses and impairment allowances	183,899	(6,760)	177,139
Amounts written-off as uncollectable	(194,864)	–	(194,864)
Exchange realignment	344	–	344
At 30.11.2017	47,525	36,167	83,692
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 1.3.2016	90,723	45,603	136,326
Impairment losses and impairment allowances	219,485	(78)	219,407
Amounts written-off as uncollectable	(196,182)	–	(196,182)
Exchange realignment	(3,467)	–	(3,467)
At 30.11.2016	110,559	45,525	156,084

8. OVERDUE ADVANCES AND RECEIVABLES

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

	30.11.2017 (Unaudited) HK\$'000	%	28.2.2017 (Audited) HK\$'000	%
Overdue 1 month but less than 2 months	72,652	1.4	77,933	1.5
Overdue 2 months but less than 3 months	41,178	0.8	43,281	0.8
Overdue 3 months but less than 4 months	28,073	0.5	31,806	0.6
Overdue 4 months or above	50,377	0.9	60,967	1.2
	192,280	3.6	213,987	4.1

* Percentage of gross advances and receivables

9. BANK BORROWINGS

	30.11.2017 (Unaudited) HK\$'000	28.2.2017 (Audited) HK\$'000
Bank loans, unsecured	1,573,973	1,721,281
Carrying amount repayable (<i>Note</i>)		
Within one year	245,000	240,000
Between one and two years	275,000	335,000
Between two and five years	963,973	1,071,281
Over five years	90,000	75,000
	1,573,973	1,721,281
Amount repayable within one year included under current liabilities	(245,000)	(240,000)
Amount repayable after one year	1,328,973	1,481,281

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

10. COLLATERALISED DEBT OBLIGATION

	30.11.2017 (Unaudited) HK\$'000	28.2.2017 (Audited) HK\$'000
Tranche A	550,000	550,000
Tranche B	550,000	550,000
Tranche C	150,000	150,000
	1,250,000	1,250,000
Less: Upfront cost	–	–
	1,250,000	1,250,000
Amount repayable within one year included under current liabilities	–	–
Amount repayable after one year	1,250,000	1,250,000

11. DERIVATIVE FINANCIAL INSTRUMENTS

	30.11.2017 (Unaudited)		28.2.2017 (Audited)	
	Assets	Liabilities	Assets	Liabilities
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest rate swaps	83	49,206	813	67,374
Cross-currency interest rate swaps	11,083	–	9,482	–
Interest rate caps	50	–	103	–
	<u>11,216</u>	<u>49,206</u>	<u>10,398</u>	<u>67,374</u>
Current portion	(83)	(386)	(44)	(650)
	<u>11,133</u>	<u>48,820</u>	<u>10,354</u>	<u>66,724</u>
Non-current portion				

All derivative financial instruments entered by the Group that remain outstanding at 30th November 2017 and 28th February 2017 are for hedging purposes. The credit risk on those derivative financial instruments is limited as the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The classification of current/non-current for derivative financial instruments is in accordance with the maturity dates of the corresponding bank borrowings and collateralised debt obligation, the designated hedged items.

12. PLEDGE OF ASSETS

At 30th November 2017, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK\$1,685,307,000** and **HK\$294,962,000** respectively (28th February 2017: HK\$1,488,199,000 and HK\$183,216,000).

OPERATIONS AND FINANCIAL REVIEW

1. For the nine months ended 30th November 2017, the Group recorded a profit attributable to owners of HK\$274.0 million, representing an increase of 21.2% or HK\$48.0 million when compared to HK\$226.0 million for the nine months ended 30th November 2016. The Group's basic earnings per share increased from 53.97 HK cents to 65.43 HK cents when compared with the previous period. Return on average total assets was 4.5% while return on average ordinary shareholders' equity was 9.5%.
2. The economic environment in Hong Kong improved further in the third quarter, with the unemployment rate maintained at a low level of 3.1% and the strengthened local consumer sentiment. Under the improving economic environment, the Group launched different marketing initiatives to seek for new customer base and to stimulate growth in its receivables. This led to an overall increase in advances and receivables. As a result, the Group recorded an increase in interest income of 3.3% or HK\$26.2 million from HK\$804.5 million in the previous period to HK\$830.7 million in the current period.
3. Interest expense of the Group in the first nine months of this financial year was HK\$65.3 million, a slight decrease when compared with HK\$69.1 million in the previous corresponding period.
4. Net interest income of the Group in the first nine months of 2017/18 amounted to HK\$765.4 million, an increase of HK\$30 million when compared to the previous corresponding period.
5. Following the revamp of the Group's insurance intermediary business model in the first half of 2017/18, fees and commissions from the insurance business started to pick up in the third quarter, but recorded a drop of HK\$4.1 million in the first nine months when compared with the same period last year. The decrease was offset by an increase in fees and commissions from the credit card business. Together with the increase in handling charges, overall other operating income increased by HK\$10.7 million from HK\$115.7 million in the first nine months of 2016/17 to HK\$126.4 million for the nine months ended 30th November 2017.
6. During the period under review, due to the prolonged decline in the fair value of its available-for-sale investments, the Group recorded impairment losses of HK\$7.8 million under other gains and losses.
7. The Group utilized additional marketing and promotion expenses to generate new sales and for brand building, ensuing in a slight increase of HK\$4.7 million in the expenses when compared with the previous period. With the general increment of rentals for the head office and branches, operating lease rentals increased by HK\$3.3 million when compared with the previous period. Following the close monitoring of other operating and administrative expenses, overall operating expenses recorded an increase of HK\$4.6 million from HK\$408.2 million in the last period to HK\$412.8 million in the current period. Cost-to-income ratio reduced from 48.0% for the nine months of 2016/17 to 46.7% in the first nine months of this year.

8. At the operating level before impairment allowances, excluding the gain from sale of advances and receivables of HK\$21.1 million in the first nine months of 2016/17, the Group recorded an operating profit of HK\$471.1 million for the nine months ended 30th November 2017, representing an increase of 6.6% from HK\$442.1million in the previous corresponding period.
9. The Group's continued focus on asset quality management, coupled with the low unemployment rate in Hong Kong, had resulted in a decrease in impairment losses and impairment allowances by 19.3% from HK\$219.4 million in 2016/17 to HK\$177.1 million for the nine months ended 30th November 2017.
10. Microfinance subsidiaries in China continued to incur a loss of HK\$4.3 million in the third quarter of 2017/18, as compared with HK\$3.2 million loss in the third quarter of 2016/17, due to increasing controls and restrictions in China. Following the continuous monitoring of the effectiveness of marketing activities, together with the reduction in impairment losses and impairment allowances, operating results of the subsidiaries for the nine months ended 30th November 2017 recorded a year-over-year reduction in loss of HK\$2.4 million, from HK\$11.9 million in 2016/17 to HK\$9.5 million in 2017/18. The Group will closely monitor the business operations of its subsidiaries and the regulatory changes in China to adjust their operating model where necessary.
11. Following the continued loss of one of its associates in China, AEON Credit Guarantee (China) Co., Ltd., the Group decided to liquidate the associate in the fourth quarter of last year. With the turnaround of the result of another associate, AEON Information Service (Shenzhen) Co., Ltd., in the first nine months, share of profit of this associate was HK\$0.6 million for the nine months ended 30th November 2017 as compared with share of loss of associates of HK\$8.2 million in the previous period.
12. The Group's gross advances and receivables at 30th November 2017 amounted to HK\$5,299.3 million, representing an increase of 2.5% when compared with the balance at 28th February 2017.
13. At 30th November 2017, 50.5% of the Group's funding was derived from total equity, 27.6% from bank borrowings and 21.9% from structured finance. Including the collateralised debt obligation, 12.0% of these borrowings will mature within one year, 12.9% between one and two years, 72.6% between two and five years and 2.5% over five years.

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
Hideo Tanaka
Managing Director

Hong Kong, 21st December 2017

As at the date of this announcement, the Board comprises Mr. Hideo Tanaka (Managing Director), Mr. Lai Yuk Kwong (Deputy Managing Director), Ms. Koh Yik Kung, Mr. Tomoharu Fukayama and Mr. Toru Hosokawa as Executive Directors; Mr. Masaaki Mangetsu (Chairman) as Non-executive Director; and Mr. Lee Ching Ming, Adrian, Mr. Wong Hin Wing and Mr. Kenji Hayashi as Independent Non-executive Directors.