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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 THREE MONTHS ENDED 31ST MAY 2015

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) hereby announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 31st May 2015, together with the comparative figures of the period from 21st February 2014 to 20th May 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31st May 2015

	<i>Notes</i>	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000	21.2.2014 to 20.5.2014 (Unaudited) HK\$'000	Percentage change %
Revenue	2	313,393	312,700	0.2
Interest income		278,854	283,662	(1.7)
Interest expense		(23,680)	(22,715)	4.2
Net interest income		255,174	260,947	(2.2)
Other operating income	3	37,500	30,034	24.9
Other gains and losses	4	84	(267)	131.5
Operating income		292,758	290,714	0.7
Operating expenses	5	(148,396)	(134,393)	10.4
Operating profit before impairment allowances		144,362	156,321	(7.7)
Impairment losses and impairment allowances		(79,263)	(84,532)	(6.2)
Recoveries of advances and receivables written-off		12,360	12,727	(2.9)
Share of results of associates		572	(7,609)	107.5
Profit before tax		78,031	76,907	1.5
Income tax expense		(14,211)	(15,569)	(8.7)
Profit for the period		63,820	61,338	4.0
Profit for the period attributable to: Owners of the Company		63,820	61,338	4.0

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31st May 2015

	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000	21.2.2014 to 20.5.2014 (Unaudited) HK\$'000	Percentage change %
Profit for the period	<u>63,820</u>	<u>61,338</u>	4.0
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Fair value gain (loss) on available-for-sale investments	2,575	(622)	
Exchange difference arising from translation of foreign operations	(1,353)	(6,463)	
Net adjustment on cash flow hedges	<u>(2,240)</u>	<u>7,140</u>	
Other comprehensive (expense) income for the period	<u>(1,018)</u>	<u>55</u>	
Total comprehensive income for the period	<u>62,802</u>	<u>61,393</u>	2.3
Total comprehensive income for the period attributable to:			
Owners of the Company	<u>62,802</u>	<u>61,393</u>	2.3

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st May 2015

		31st May 2015 (Unaudited) HK\$'000	28th February 2015 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		108,474	115,245
Investments in associates		45,864	49,647
Available-for-sale investments		27,082	24,507
Advances and receivables	6	1,184,248	1,224,888
Prepayments, deposits and other debtors		53,954	47,996
Derivative financial instruments	11	1,020	1,199
Restricted deposits		38,000	38,000
		1,458,642	1,501,482
Current assets			
Advances and receivables	6	4,109,926	4,064,751
Prepayments, deposits and other debtors		43,070	36,956
Amount due from intermediate holding company		14	298
Amounts due from fellow subsidiaries		772	490
Tax recoverable		1,008	874
Time deposits		144,102	113,528
Fiduciary bank balances		1,015	894
Bank balances and cash		181,589	232,156
		4,481,496	4,449,947
Current liabilities			
Creditors and accruals		262,708	210,200
Amounts due to fellow subsidiaries		49,575	48,901
Amount due to immediate holding company		1	6
Amount due to ultimate holding company		59	50
Amount due to an associate		1,428	1,577
Bank borrowings	9	361,500	495,500
Bank overdrafts		6,804	1,794
Collateralised debt obligation	10	549,790	549,731
Derivative financial instruments	11	14,274	18,380
Tax liabilities		27,974	13,536
		1,274,113	1,339,675
Net current assets		3,207,383	3,110,272
Total assets less current liabilities		4,666,025	4,611,754

		31st May 2015 (Unaudited) HK\$'000	28th February 2015 (Audited) HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		<u>2,240,668</u>	<u>2,177,866</u>
Total equity		<u>2,510,145</u>	<u>2,447,343</u>
Non-current liabilities			
Collateralised debt obligation	<i>10</i>	699,639	699,592
Bank borrowings	<i>9</i>	1,317,700	1,332,800
Derivative financial instruments	<i>11</i>	132,665	126,050
Deferred tax liabilities		<u>5,876</u>	<u>5,969</u>
		<u>2,155,880</u>	<u>2,164,411</u>
		<u>4,666,025</u>	<u>4,611,754</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31st May 2015

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <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 21st February 2014 (Audited)	41,877	227,330	270	445	(113,110)	18,507	2,170,256	2,345,575
Profit for the period	-	-	-	-	-	-	61,338	61,338
Fair value loss on available-for-sale investments	-	-	-	(622)	-	-	-	(622)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(6,463)	-	(6,463)
Net adjustment on cash flow hedges	-	-	-	-	7,140	-	-	7,140
Total comprehensive (expense) income for the period	-	-	-	(622)	7,140	(6,463)	61,338	61,393
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance	227,600	(227,330)	(270)	-	-	-	-	-
At 20th May 2014 (Unaudited)	269,477	-	-	(177)	(105,970)	12,044	2,231,594	2,406,968
At 1st March 2015 (Audited)	269,477	-	-	(1,153)	(136,064)	13,179	2,301,904	2,447,343
Profit for the period	-	-	-	-	-	-	63,820	63,820
Fair value gain on available-for-sale investments	-	-	-	2,575	-	-	-	2,575
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(1,353)	-	(1,353)
Net adjustment on cash flow hedges	-	-	-	-	(2,240)	-	-	(2,240)
Total comprehensive income (expense) for the period	-	-	-	2,575	(2,240)	(1,353)	63,820	62,802
At 31st May 2015 (Unaudited)	269,477	-	-	1,422	(138,304)	11,826	2,365,724	2,510,145

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31st May 2015

	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000	21.2.2014 to 20.5.2014 (Unaudited) HK\$'000
Net cash generated from operating activities	130,567	134,343
Purchase of property, plant and equipment	(1,522)	(4,007)
Deposits paid for acquisition of property, plant and equipment	(8,227)	(2,763)
Investment in an associate	–	(39,389)
(Increase) decrease in time deposit with maturity of more than three months	(13,144)	3,845
Net cash used in investing activities	(22,893)	(42,314)
Placement of restricted deposits	–	(326,653)
Withdrawal of restricted deposits	–	263,743
New bank loans raised	1,974,000	25,923,400
Repayment of bank loans	(2,123,000)	(25,935,900)
Net cash used in financing activities	(149,000)	(75,410)
Net (decrease) increase in cash and cash equivalents	(41,326)	16,619
Effect of changes in exchange rate	3,179	(7,901)
Cash and cash equivalents at beginning of the period	294,534	511,184
Cash and cash equivalents at end of the period	256,387	519,902
Being:		
Time deposits with maturity of three months or less	81,602	310,100
Bank balances and cash	181,589	213,771
Bank overdrafts	(6,804)	(3,969)
	256,387	519,902

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31st May 2015

1. BASIS OF PREPARATION

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the period from 21st February 2014 to 28th February 2015.

The condensed consolidated financial statements for the current period cover the period from 1st March 2015 to 31st May 2015. The corresponding comparative amounts shown for the condensed consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows and related notes cover the period from 21st February 2014 to 20th May 2014 and therefore may not be comparable with amounts shown for the current period.

2. REVENUE

	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000	21.2.2014 to 20.5.2014 (Unaudited) HK\$'000
Interest income	278,854	283,662
Fees and commissions	18,716	16,552
Handling and late charges	15,823	12,486
	<u>313,393</u>	<u>312,700</u>

3. OTHER OPERATING INCOME

	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000	21.2.2014 to 20.5.2014 (Unaudited) HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	465	–
Fees and commissions		
Credit card	10,816	9,721
Insurance	7,900	6,831
Handling and late charges	15,823	12,486
Others	2,496	996
	<u>37,500</u>	<u>30,034</u>

4. OTHER GAINS AND LOSSES

	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000	21.2.2014 to 20.5.2014 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange loss on hedging instrument released from cash flow hedge reserve	(100)	(150)
Exchange gain on a bank loan	100	150
Other exchange gains (losses), net	137	(214)
Hedge ineffectiveness on cash flow hedges	(53)	(53)
	<u>84</u>	<u>(267)</u>

5. OPERATING EXPENSES

	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000	21.2.2014 to 20.5.2014 (Unaudited) HK\$'000
Depreciation	10,566	10,662
General administrative expenses	36,172	33,294
Marketing and promotion expenses	19,505	18,728
Operating lease rentals in respect of rented premises, advertising space and equipment	18,159	16,690
Other operating expenses	16,602	16,760
Staff costs including Directors' emoluments	47,392	38,259
	<u>148,396</u>	<u>134,393</u>

6. ADVANCES AND RECEIVABLES

	31.5.2015 (Unaudited) HK\$'000	28.2.2015 (Audited) HK\$'000
Credit card receivables	3,583,470	3,554,916
Instalment loans receivable	1,743,004	1,772,360
Hire purchase debtors	1,398	1,514
	<u>5,327,872</u>	<u>5,328,790</u>
Accrued interest and other receivables	108,047	109,166
	<u>5,435,919</u>	<u>5,437,956</u>
Gross advances and receivables		
Impairment allowances (<i>Note 7</i>)		
– individually assessed	(89,915)	(92,403)
– collectively assessed	(51,830)	(55,914)
	<u>(141,745)</u>	<u>(148,317)</u>
	<u>5,294,174</u>	<u>5,289,639</u>
Current portion included under current assets	(4,109,926)	(4,064,751)
	<u>1,184,248</u>	<u>1,224,888</u>

7. IMPAIRMENT ALLOWANCES

	31.5.2015 (Unaudited) HK\$'000	28.2.2015 (Audited) HK\$'000	
Analysis by products as:			
Credit card receivables	42,197	48,577	
Instalment loans receivable	98,115	98,116	
Hire purchase debtors	23	23	
Accrued interest and other receivables	1,410	1,601	
	141,745	148,317	
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 1.3.2015	92,403	55,914	148,317
Impairment losses and impairment allowances	83,347	(4,084)	79,263
Amounts written-off as uncollectable	(85,835)	–	(85,835)
At 31.5.2015	89,915	51,830	141,745
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 21.2.2014	81,207	66,153	147,360
Impairment losses and impairment allowances	93,441	(8,909)	84,532
Amounts written-off as uncollectable	(73,248)	–	(73,248)
At 20.5.2014	101,400	57,244	158,644

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:

	31.5.2015 (Unaudited) HK\$'000	%*	28.2.2015 (Audited)	%*
Overdue 1 month but less than 2 months	91,021	1.7	90,731	1.7
Overdue 2 months but less than 3 months	49,196	0.9	44,743	0.8
Overdue 3 months but less than 4 months	25,559	0.5	28,749	0.5
Overdue 4 months or above	92,882	1.7	97,208	1.8
	258,658	4.8	261,431	4.8

* Percentage of gross advances and receivables

9. BANK BORROWINGS

	31.5.2015 (Unaudited) <i>HK\$'000</i>	28.2.2015 (Audited) <i>HK\$'000</i>
Bank loans, unsecured	1,679,200	1,828,300
Carrying amount repayable (<i>Note</i>)		
Within one year	361,500	495,500
Between one and two years	507,700	527,800
Between two and five years	725,000	680,000
Over five years	85,000	125,000
	1,679,200	1,828,300
Amount repayable within one year included under current liabilities	(361,500)	(495,500)
Amount repayable after one year	1,317,700	1,332,800

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

10. COLLATERALIZED DEBT OBLIGATION

	31.5.2015 (Unaudited) <i>HK\$'000</i>	28.2.2015 (Audited) <i>HK\$'000</i>
Collateralized debt obligation	1,250,000	1,250,000
Less: upfront cost	(571)	(677)
	1,249,429	1,249,323
Carrying amount repayable		
Within one year	549,790	549,731
Between one and five years	549,639	549,592
Over five years	150,000	150,000
	1,249,429	1,249,323
Amount repayable within one year included under current liabilities	(549,790)	(549,731)
Amount repayable after one year	699,639	699,592

11. DERIVATIVE FINANCIAL INSTRUMENTS

	31.5.2015 (Unaudited)		28.2.2015 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	–	146,202	166	143,640
Cross-currency interest rate swap	–	737	–	790
Interest rate caps	1,020	–	1,033	–
	<u>1,020</u>	<u>146,939</u>	<u>1,199</u>	<u>144,430</u>
Current portion	–	(14,274)	–	(18,380)
Non-current portion	<u>1,020</u>	<u>132,665</u>	<u>1,199</u>	<u>126,050</u>

All derivative financial instruments entered by the Group that remain outstanding at 31st May 2015 and 28th February 2015 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.

Cash flow hedges:

Interest rate swaps

The Group uses interest rate swaps to minimise its exposures to cash flow changes of its floating-rate bank borrowings and collateralised debt obligation by swapping certain Hong Kong Dollar (“HKD”) floating-rate bank borrowings and collateralised debt obligation from floating rates to fixed rates. The interest rate swaps, the corresponding bank borrowings and collateralised debt obligation have similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, and the Directors consider that the interest rate swaps are highly effective hedging instruments. Interest rate swaps are designated as cash flow hedging instruments from floating interest rates to fixed interest rates.

Cross-currency interest rate swap

The Group uses cross-currency interest rate swap designated as highly effective hedging instruments to minimise its exposures to foreign currency and cash flow interest rate risk of its United States Dollars (“USD”) bank borrowing by swapping the floating-rate USD bank borrowing to fixed-rate HKD bank borrowing. The cross-currency interest rate swap and the corresponding bank borrowing have the same terms and the Directors consider that the cross-currency interest rate swap is highly effective hedging instruments.

Interest rate caps

The Group entered into interest rate caps to minimize its exposures to interest rate changes of its collateralised debt obligation transaction during the amortisation periods. The interest rates will be capped at the minimum of 10% or 1-month HIBOR.

12. PLEDGE OF ASSETS

At 31st May 2015, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,667,835,000** and **HK\$38,000,000** respectively (28th February 2015: HK\$1,697,384,000 and HK\$38,000,000).

FINANCIAL REVIEW

1. The unaudited consolidated results included the financial statements of the following subsidiaries:

- AEON Insurance Brokers (HK) Limited
- AEON Micro Finance (Shenyang) Co., Ltd.
- AEON Micro Finance (Tianjin) Co., Ltd.
- AEON Micro Finance (Shenzhen) Co., Ltd.

and associates:

- AEON Information Service (Shenzhen) Co., Ltd.
- AEON Credit Guarantee (China) Co., Ltd.

2. During the first quarter of 2015/16, the Company recorded a continued growth in card credit purchase sales following the launch of a series of marketing programmes such as the overseas spending promotion. Meanwhile, there was slow-down in tourist spending and overall retail market sales, leading to the tightening up of our credit control on certain segments. As a result, our sales in card cash advance and personal loan were affected.

3. Although interest income dropped by 1.7% as a result of a drop in sales of card cash advance and personal loan, higher card credit purchase sales has boosted up other operating income, which consists of card commission and handling charges, from HK\$30.0 million in previous year to HK\$37.5 million this year. Also, there was a strong growth in loan sales in China. Consequently, revenues were HK\$313.4 million, an increase of 0.2% when compared to the first three months of last year. In anticipation of an increase in market interest rate in the near future, the Company has capitalized on the current low interest environment to secure more long term funding and reduce short term funding. As a result, interest expense in the first three months was HK\$23.7 million, an increase of 4.2% when compared with HK\$22.7 million in the previous period.

4. Net interest income of the Group for the first quarter of 2015/16 was HK\$255.2 million, a decrease of HK\$5.7 million from HK\$260.9 million for the first three months of 2014/15.

5. During the period under review, the workforce in the three microfinance subsidiaries in China has increased to cope with their continued expansion. Coupled with the increase in outsourcing fees and operating lease rentals incurred by the Company, there was an increase in operating expenses by 10.4% from HK\$134.4 million in 2014/15 to HK\$148.4 million for the first three months of 2015/16.

6. At the operating level before impairment allowances, the Group recorded an operating profit of HK\$144.4 million for the three months ended 31st May 2015, representing a drop of 7.7% from HK\$156.3 million in the previous period.

7. The Group has tightened up its credit approval and taken prompt collection actions which contributed to a drop in overdue balances and impairment allowances. Impairment losses and impairment allowances for the period decreased by 6.2% from HK\$84.5 million in 2014/15 to HK\$79.3 million.
8. For the three months ended 31st May 2015, the Group recorded a net profit of HK\$63.8 million, representing an increase of 4.0% when compared with the previous period.
9. At 31st May 2015, 46.2% of the Group's funding was derived from total equity, 30.9% from bank borrowings and 22.9% from structured finance.
10. At 31st May 2015, 21.5% of the bank borrowings will mature within one year, 30.2% between one and two years, 43.2% between two and five years and 5.1% over five years.
11. The Company had a HK\$1,100,000,000 collateralised debt obligation financing transaction (the "Existing Transaction"). The Existing Transaction consists of two tranches – Tranche A and Tranche B. The amount under Tranche A and Tranche B is HK\$550,000,000 each. The revolving periods for Tranche A and Tranche B will end in January 2016 and January 2017 respectively. In September 2014, the Company extended the revolving periods of Tranche A and Tranche B and secured an additional Tranche C of HK\$150,000,000 to the Existing Transaction. The revolving periods for new Tranche A and new Tranche B will start from February 2016 and February 2017 respectively and both end in August 2019. The revolving period for Tranche C has started from October 2014 and will end in July 2020.

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 cautious when dealing in the shares of the Company.

By order of the Board
Hideo Tanaka
Managing Director

Hong Kong, 26th June 2015

As at the date of this announcement, the Board of Directors comprises Mr. Hideo Tanaka (Managing Director), Mr. Lai Yuk Kwong, Ms. Koh Yik Kung and Mr. Kiyoshi Wada as Executive Directors; Mr. Masanori Kosaka (Chairman) as Non-executive Director; and Mr. Ip Yuk Keung, Mr. Wong Hin Wing and Prof. Tong Jun as Independent Non-executive Directors.