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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 2016

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 2016, together with the comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31st May 2016

	<i>Notes</i>	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000
Revenue	2	309,525	313,393
Interest income		273,432	278,854
Interest expense		(23,688)	(23,680)
Net interest income		249,744	255,174
Other operating income	3	38,671	37,500
Other gains and losses	4	(12)	84
Operating income		288,403	292,758
Operating expenses	5	(137,871)	(148,396)
Operating profit before impairment allowances		150,532	144,362
Impairment losses and impairment allowances		(72,582)	(79,263)
Recoveries of advances and receivables written-off		14,587	12,360
Share of results of associates		(2,688)	572
Profit before tax		89,849	78,031
Income tax expense		(16,233)	(14,211)
Profit for the period		73,616	63,820
Profit for the period attributable to: Owners of the Company		73,616	63,820

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31st May 2016

	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000
Profit for the period	<u>73,616</u>	<u>63,820</u>
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Fair value (loss) gain on available-for-sale investments	(1,172)	2,575
Exchange difference arising from translation of foreign operations	(3,644)	(1,353)
Net adjustment on cash flow hedges	<u>9,301</u>	<u>(2,240)</u>
Other comprehensive income (expense) for the period	<u>4,485</u>	<u>(1,018)</u>
Total comprehensive income for the period	<u>78,101</u>	<u>62,802</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>78,101</u>	<u>62,802</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st May 2016

		31st May 2016 (Unaudited) HK\$'000	29th February 2016 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		122,727	123,177
Investments in associates		35,603	39,598
Available-for-sale investments		20,972	22,145
Advances and receivables	6	1,166,790	1,186,140
Prepayments, deposits and other debtors		24,768	30,298
Derivative financial instruments	11	611	1,244
Restricted deposits		38,000	38,000
		<u>1,409,471</u>	<u>1,440,602</u>
Current assets			
Advances and receivables	6	4,018,730	4,059,463
Prepayments, deposits and other debtors		36,138	34,092
Amount due from immediate holding company		151	6
Amount due from intermediate holding company		513	423
Amounts due from fellow subsidiaries		65	5
Amount due from an associate		76	–
Derivative financial instruments	11	–	241
Tax recoverable		1,465	1,465
Restricted deposits		31,795	–
Time deposits		138,342	98,105
Fiduciary bank balances		323	238
Bank balances and cash		361,776	306,944
		<u>4,589,374</u>	<u>4,500,982</u>
Current liabilities			
Creditors and accruals		265,415	244,130
Amount due to ultimate holding company		61	52
Amount due to intermediate holding company		5	58
Amounts due to fellow subsidiaries		41,889	49,830
Amounts due to associates		3,381	1,358
Bank borrowings	9	513,166	560,786
Collateralised debt obligation	10	549,830	549,782
Derivative financial instruments	11	17,360	22,364
Tax liabilities		9,561	8,895
		<u>1,400,668</u>	<u>1,437,255</u>
Net current assets		<u>3,188,706</u>	<u>3,063,727</u>
Total assets less current liabilities		<u>4,598,177</u>	<u>4,504,329</u>

		31st May 2016 (Unaudited) HK\$'000	29th February 2016 (Audited) HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		2,352,196	2,274,095
		<hr/>	<hr/>
Total equity		2,621,673	2,543,572
		<hr/>	<hr/>
Non-current liabilities			
Bank borrowings	<i>9</i>	1,165,000	1,145,000
Collateralised debt obligation	<i>10</i>	700,000	700,000
Derivative financial instruments	<i>11</i>	101,677	106,214
Deferred tax liabilities		9,827	9,543
		<hr/>	<hr/>
		1,976,504	1,960,757
		<hr/>	<hr/>
		4,598,177	4,504,329
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31st May 2016

	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 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)	<u>269,477</u>	<u>1,422</u>	<u>(138,304)</u>	<u>11,826</u>	<u>2,365,724</u>	<u>2,510,145</u>
At 1st March 2016 (Audited)	<u>269,477</u>	<u>(3,515)</u>	<u>(121,103)</u>	<u>(2,402)</u>	<u>2,401,115</u>	<u>2,543,572</u>
Profit for the period	-	-	-	-	73,616	73,616
Fair value loss on available-for-sale investments	-	(1,172)	-	-	-	(1,172)
Exchange difference arising from translation of foreign operations	-	-	-	(3,644)	-	(3,644)
Net adjustment on cash flow hedges	-	-	9,301	-	-	9,301
Total comprehensive (expense) income for the period	-	(1,172)	9,301	(3,644)	73,616	78,101
At 31st May 2016 (Unaudited)	<u>269,477</u>	<u>(4,687)</u>	<u>(111,802)</u>	<u>(6,046)</u>	<u>2,474,731</u>	<u>2,621,673</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31st May 2016

	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000
Net cash generated from operating activities	159,081	130,567
Purchase of property, plant and equipment	(2,037)	(1,522)
Deposits paid for acquisition of property, plant and equipment	(1,577)	(8,227)
Decrease (increase) in time deposits with maturity of more than three months	14,148	(13,144)
Net cash generated from (used in) investing activities	10,534	(22,893)
Placement of restricted deposits	(168,399)	(146,220)
Withdrawal of restricted deposits	136,604	146,220
New bank loans raised	359,000	1,974,000
Repayment of bank loans	(386,115)	(2,123,000)
Net cash used in financing activities	(58,910)	(149,000)
Net increase (decrease) in cash and cash equivalents	110,705	(41,326)
Effect of changes in exchange rate	(1,131)	3,179
Cash and cash equivalents at beginning of the period	349,283	294,534
Cash and cash equivalents at end of the period	458,857	256,387
Being:		
Time deposits with maturity of three months or less	97,081	81,602
Bank balances and cash	361,776	181,589
Bank overdrafts	–	(6,804)
	458,857	256,387

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31st May 2016

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 year ended 29th February 2016.

The financial information relating to the year ended 29th February 2016 that is included in the unaudited results for the three months ended 31st May 2016 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 required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance") is as follows:

The Company will deliver the consolidated financial statements for the year ended 29th February 2016 to the Registrar of Companies in due course 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 consolidated financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

2. REVENUE

	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000
Interest income	273,432	278,854
Fees and commissions	16,932	18,716
Handling and late charges	19,161	15,823
	<u>309,525</u>	<u>313,393</u>

3. OTHER OPERATING INCOME

	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000
Fees and commissions		
Credit card	10,659	10,816
Insurance	6,273	7,900
Handling and late charges	19,161	15,823
Others	2,578	2,961
	<u>38,671</u>	<u>37,500</u>

4. OTHER GAINS AND LOSSES

	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange loss on hedging instrument released from cash flow hedge reserve	(300)	(100)
Exchange gain on a bank loan	300	100
Other exchange gains, net	45	137
Hedge ineffectiveness on cash flow hedges	(53)	(53)
Losses on disposal of property, plant and equipment	(4)	–
	<u>(12)</u>	<u>84</u>

5. OPERATING EXPENSES

	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000	1.3.2015 to 31.5.2015 (Unaudited) HK\$'000
Depreciation	11,458	10,566
General administrative expenses	41,574	36,172
Marketing and promotion expenses	13,636	19,505
Operating lease rentals in respect of rented premises, advertising space and equipment	17,905	18,159
Other operating expenses	11,130	16,602
Staff costs including Directors' emoluments	42,168	47,392
	<u>137,871</u>	<u>148,396</u>

6. ADVANCES AND RECEIVABLES

	31.5.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Credit card receivables	3,553,190	3,577,431
Instalment loans receivable	1,673,807	1,697,234
Hire purchase debtors	443	749
	<u>5,227,440</u>	<u>5,275,414</u>
Accrued interest and other receivables	101,786	106,515
Gross advances and receivables	5,329,226	5,381,929
Impairment allowances (<i>Note 7</i>)		
– individually assessed	(99,446)	(90,723)
– collectively assessed	(44,260)	(45,603)
	<u>(143,706)</u>	<u>(136,326)</u>
Current portion included under current assets	<u>5,185,520</u> <u>(4,018,730)</u>	<u>5,245,603</u> <u>(4,059,463)</u>
Amount due after one year	<u>1,166,790</u>	<u>1,186,140</u>

7. IMPAIRMENT ALLOWANCES

	31.5.2016 (Unaudited) <i>HK\$'000</i>	29.2.2016 (Audited) <i>HK\$'000</i>	
Analysis by products as:			
Credit card receivables	33,011	34,235	
Instalment loans receivable	108,148	100,643	
Hire purchase debtors	4	6	
Accrued interest and other receivables	2,543	1,442	
	143,706	136,326	
	Individual assessment <i>HK\$'000</i>	Collective assessment <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1.3.2016	90,723	45,603	136,326
Impairment losses and impairment allowances	73,925	(1,343)	72,582
Amounts written-off as uncollectable	(64,787)	–	(64,787)
Exchange realignment	(415)	–	(415)
At 31.5.2016	99,446	44,260	143,706
	Individual assessment <i>HK\$'000</i>	Collective assessment <i>HK\$'000</i>	Total <i>HK\$'000</i>
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	(86,213)	–	(86,213)
Exchange realignment	378	–	378
At 31.5.2015	89,915	51,830	141,745

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:

	31.5.2016 (Unaudited) <i>HK\$'000</i>	%*	29.2.2016 (Audited) <i>HK\$'000</i>	%*
Overdue 1 month but less than 2 months	79,279	1.5	89,934	1.7
Overdue 2 months but less than 3 months	41,686	0.8	45,420	0.8
Overdue 3 months but less than 4 months	30,022	0.6	27,229	0.5
Overdue 4 months or above	99,033	1.8	89,738	1.7
	250,020	4.7	252,321	4.7

* Percentage of gross advances and receivables

9. BANK BORROWINGS

	31.5.2016 (Unaudited) <i>HK\$'000</i>	29.2.2016 (Audited) <i>HK\$'000</i>
Bank loans, unsecured	1,678,166	1,705,786
Carrying amount repayable (<i>Note</i>)		
Within one year	513,166	560,786
Between one and two years	140,000	190,000
Between two and five years	940,000	870,000
Over five years	85,000	85,000
	1,678,166	1,705,786
Amount repayable within one year included under current liabilities	(513,166)	(560,786)
Amount repayable after one year	1,165,000	1,145,000

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

10. COLLATERALISED DEBT OBLIGATION

	31.5.2016 (Unaudited) <i>HK\$'000</i>	29.2.2016 (Audited) <i>HK\$'000</i>
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	(170)	(218)
	1,249,830	1,249,782
Amount repayable within one year included under current liabilities	(549,830)	(549,782)
Amount repayable after one year	700,000	700,000

11. DERIVATIVE FINANCIAL INSTRUMENTS

	31.5.2016 (Unaudited)		29.2.2016 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	17	118,630	57	128,578
Cross-currency interest rate swap	–	407	241	–
Interest rate caps	594	–	1,187	–
	<u>611</u>	<u>119,037</u>	<u>1,485</u>	<u>128,578</u>
Current portion	–	(17,360)	(241)	(22,364)
	<u>611</u>	<u>101,677</u>	<u>1,244</u>	<u>106,214</u>
Non-current portion				

All derivative financial instruments entered by the Group that remain outstanding at 31st May 2016 and 29th February 2016 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 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 uses interest rate caps to minimize its exposures to interest rate changes of its collateralised debt obligation transaction during the amortisation periods.

12. PLEDGE OF ASSETS

At 31st May 2016, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,611,380,000** and **HK\$69,795,000** (29.2.2016: HK\$1,670,046,000 and HK\$38,000,000) respectively.

FINANCIAL REVIEW

1. Under the uncertain economic environment, the Group continued to exercise cautious approach on credit approval and focus on asset quality management. This led to a slow down on the growth of advances and receivables. As a result, the Group recorded a decrease in interest income of 1.9% or HK\$5.4 million, from HK\$278.9 million in previous period to HK\$273.4 million in current period. With a stable funding environment, interest expense of the Group in the first three months of this year and previous year maintained at HK\$23.7 million. As a result, net interest income of the Group for the first quarter of 2016/17 was HK\$249.7 million, representing a decrease of 2.1% or HK\$5.4 million from HK\$255.2 million in 2015/16.
2. During the first quarter of 2016/17, the Group exercised tight control on marketing and promotion expenses. As the Group has revisited the manpower requirement and made the necessary adjustment in the second half of last financial year, staff costs decreased by HK\$5.2 million when compared with previous period. This led to an overall decrease in operating expenses by 7.1% from HK\$148.4 million in 2015/16 to HK\$137.9 million for the first three months of 2016/17.
3. At the operating level before impairment allowances, the Group recorded an operating profit of HK\$150.5 million for the three months ended 31st May 2016, representing an increase of 4.3% from HK\$144.4 million in the previous period.
4. The Group's continued prudent management on credit risk exposure, coupled with low unemployment rate in Hong Kong, had resulted in a decrease in impairment losses and impairment allowances of 8.4% from HK\$79.3 million in 2015/16 to HK\$72.6 million for the first three months of 2016/17.
5. The Group shared HK\$2.7 million losses of its associates during the first quarter of this financial year due to the restructuring of operating model. This was compensated by a better business performance of our microfinance subsidiaries in China. As a result, overall financial performance of the Group in China maintained at similar level as last year.
6. For the three months ended 31st May 2016, the Group recorded a net profit of HK\$73.6 million, representing an increase of 15.3% when compared with the first quarter of last year.
7. The Group's gross advances and receivables at 31st May 2016 was HK\$5,329.2 million, representing a decrease of 1%, when compared with the balance at 29th February 2016.
8. At 31st May 2016, 47.3% of the Group's funding was derived from total equity, 30.2% from bank borrowings and 22.5% from structured finance.
9. Including the collateralised debt obligation, 36.3% of these borrowings will mature within one year, 4.8% between one and two years, 56.0% between two and five years and 2.9% over five years.

Please note that the quarterly results of the Group presented herein have not been audited or reviewed by the Company's auditor. 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, 24th June 2016

At the date of this announcement, the Board comprises Mr. Hideo Tanaka (Managing Director), Ms. Koh Yik Kung, Mr. Kiyoshi Wada, Mr. Tomoharu Fukayama and Mr. Toru Hosokawa as Executive Directors; Mr. Takamitsu Moriyama (Chairman) as Non-executive Director; and Mr. Ip Yuk Keung, Mr. Wong Hin Wing and Mr. Kenji Hayashi as Independent Non-executive Directors.