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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 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 three months ended 31st May 2017, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31st May 2017

	<i>Notes</i>	1.3.2017 to 31.5.2017 (Unaudited) HK\$'000	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000
Revenue	2	309,764	309,525
Interest income		270,817	273,432
Interest expense		(22,068)	(23,688)
Net interest income		248,749	249,744
Other operating income	3	40,985	38,671
Other gains and losses	4	(64)	(12)
Operating income		289,670	288,403
Operating expenses	5	(133,747)	(137,871)
Operating profit before impairment allowances		155,923	150,532
Impairment losses and impairment allowances		(59,081)	(72,582)
Recoveries of advances and receivables written-off		12,588	14,587
Share of results of associates		844	(2,688)
Profit before tax		110,274	89,849
Income tax expense		(18,656)	(16,233)
Profit for the period		91,618	73,616
Profit for the period attributable to: Owners of the Company		91,618	73,616

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31st May 2017

	1.3.2017 to 31.5.2017 (Unaudited) HK\$'000	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000
Profit for the period	<u>91,618</u>	<u>73,616</u>
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on available-for-sale investments	691	(1,172)
Exchange difference arising from translation of foreign operations	2,498	(3,644)
Net adjustment on cash flow hedges	<u>(24,832)</u>	<u>9,301</u>
Other comprehensive (expense) income for the period	<u>(21,643)</u>	<u>4,485</u>
Total comprehensive income for the period	<u>69,975</u>	<u>78,101</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>69,975</u>	<u>78,101</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st May 2017

	<i>Notes</i>	31.5.2017 (Unaudited) <i>HK\$'000</i>	28.2.2017 (Audited) <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		94,543	100,494
Investments in associates		12,323	11,374
Available-for-sale investments		21,932	21,239
Advances and receivables	6	994,659	1,034,366
Prepayments, deposits and other debtors		20,252	16,772
Derivative financial instruments	11	3,980	10,354
Restricted deposits		38,000	38,000
		1,185,689	1,232,599
Current assets			
Advances and receivables	6	4,061,069	4,035,958
Prepayments, deposits and other debtors		49,478	40,436
Amounts due from fellow subsidiaries		67	1,180
Amount due from immediate holding company		–	7
Amount due from intermediate holding company		25	191
Amount due from an associate		73	73
Derivative financial instruments	11	–	44
Restricted deposits		217,316	145,216
Time deposits		161,554	165,763
Fiduciary bank balances		1,580	76
Bank balances and cash		482,326	470,257
		4,973,488	4,859,201
Current liabilities			
Creditors and accruals		245,903	219,948
Amounts due to fellow subsidiaries		46,999	49,460
Amount due to intermediate holding company		87	202
Amount due to ultimate holding company		44	35
Amount due to an associate		2,680	3,095
Bank borrowings	9	140,000	240,000
Derivative financial instruments	11	354	650
Tax liabilities		37,115	31,762
		473,182	545,152
Net current assets		4,500,306	4,314,049
Total assets less current liabilities		5,685,995	5,546,648

		31.5.2017	28.2.2017
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		2,542,569	2,472,594
		<hr/>	<hr/>
Total equity		2,812,046	2,742,071
		<hr/>	<hr/>
Non-current liabilities			
Collateralised debt obligation	<i>10</i>	1,250,000	1,250,000
Bank borrowings	<i>9</i>	1,532,979	1,481,281
Derivative financial instruments	<i>11</i>	84,582	66,724
Deferred tax liabilities		6,388	6,572
		<hr/>	<hr/>
		2,873,949	2,804,577
		<hr/>	<hr/>
		5,685,995	5,546,648
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31st May 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	-	-	-	-	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 31.5.2016 (Unaudited)	269,477	(4,687)	(111,802)	(6,046)	2,474,731	2,621,673
At 1.3.2017 (Audited)	269,477	(4,421)	(53,651)	(18,489)	2,549,155	2,742,071
Profit for the period	-	-	-	-	91,618	91,618
Fair value gain on available-for-sale investments	-	691	-	-	-	691
Exchange difference arising from translation of foreign operations	-	-	-	2,498	-	2,498
Net adjustment on cash flow hedges	-	-	(24,832)	-	-	(24,832)
Total comprehensive income (expense) for the period	-	691	(24,832)	2,498	91,618	69,975
At 31.5.2017 (Unaudited)	269,477	(3,730)	(78,483)	(15,991)	2,640,773	2,812,046

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 31st May 2017

	1.3.2017 to 31.5.2017 (Unaudited) HK\$'000	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000
Net cash from operating activities	131,874	159,081
Purchase of property, plant and equipment	(2,000)	(2,037)
Deposits paid for acquisition of property, plant and equipment	(2,590)	(1,577)
Decrease in time deposits with maturity of more than three months	5,708	14,148
Net cash from investing activities	1,118	10,534
Placement of restricted deposits	(724,726)	(168,399)
Withdrawal of restricted deposits	652,626	136,604
New bank loans raised	50,000	359,000
Repayment of bank loans	(100,000)	(386,115)
Net cash used in financing activities	(122,100)	(58,910)
Net increase in cash and cash equivalents	10,892	110,705
Effect of changes in exchange rate	2,361	(1,131)
Cash and cash equivalents at beginning of the period	602,090	349,283
Cash and cash equivalents at end of the period	615,343	458,857
Being:		
Time deposits with maturity of three months or less	133,017	97,081
Bank balances and cash	482,326	361,776
	615,343	458,857

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31st May 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 three months ended 31st May 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 is 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 31.5.2017 (Unaudited) HK\$’000	1.3.2016 to 31.5.2016 (Unaudited) HK\$’000
Interest income	270,817	273,432
Fees and commissions	17,933	16,932
Handling and late charges	21,014	19,161
	<u>309,764</u>	<u>309,525</u>

3. OTHER OPERATING INCOME

	1.3.2017 to 31.5.2017 (Unaudited) HK\$’000	1.3.2016 to 31.5.2016 (Unaudited) HK\$’000
Fees and commissions		
Credit card	13,250	10,659
Insurance	4,683	6,273
Handling and late charges	21,014	19,161
Others	2,038	2,578
	<u>40,985</u>	<u>38,671</u>

4. OTHER GAINS AND LOSSES

	1.3.2017 to 31.5.2017 (Unaudited) HK\$'000	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange loss on hedging instruments released from cash flow hedge reserve	(1,600)	(300)
Exchange gain on a bank loan	1,600	300
Other exchange losses, net	47	45
Hedge ineffectiveness on cash flow hedges	(33)	(53)
Losses on disposal/write-off of property, plant and equipment	(78)	(4)
	(64)	(12)

5. OPERATING EXPENSES

	1.3.2017 to 31.5.2017 (Unaudited) HK\$'000	1.3.2016 to 31.5.2016 (Unaudited) HK\$'000
Depreciation	10,617	11,458
General administrative expenses	39,762	41,574
Marketing and promotion expenses	13,194	13,636
Minimum operating lease rentals in respect of rented premises, advertising space and equipment	18,511	17,905
Other operating expenses	11,651	11,130
Staff costs including Directors' emoluments	40,012	42,168
	133,747	137,871

6. ADVANCES AND RECEIVABLES

	31.5.2017 (Unaudited) HK\$'000	28.2.2017 (Audited) HK\$'000
Credit card receivables	3,628,155	3,611,021
Instalment loan receivables	1,433,338	1,469,708
Hire purchase debtors	1	26
	5,061,494	5,080,755
Accrued interest and other receivables	88,212	90,642
	5,149,706	5,171,397
Gross advances and receivables	5,149,706	5,171,397
Impairment allowances (<i>note 7</i>)		
– individually assessed	(55,805)	(58,146)
– collectively assessed	(38,173)	(42,927)
	(93,978)	(101,073)
	5,055,728	5,070,324
Current portion included under current assets	(4,061,069)	(4,035,958)
	994,659	1,034,366

7. IMPAIRMENT ALLOWANCES

	31.5.2017 (Unaudited) HK\$'000	28.2.2017 (Audited) HK\$'000	
Analysis by products as:			
Credit card receivables	38,581	41,034	
Instalment loan receivables	53,024	57,377	
Accrued interest and other receivables	2,373	2,662	
	93,978	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	63,835	(4,754)	59,081
Amounts written-off as uncollectable	(66,236)	–	(66,236)
Exchange realignment	60	–	60
At 31.5.2017	55,805	38,173	93,978
	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	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

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:

	31.5.2017 (Unaudited) HK\$'000	%*	28.2.2017 (Audited) HK\$'000	%*
Overdue 1 month but less than 2 months	69,301	1.4	77,933	1.5
Overdue 2 months but less than 3 months	44,954	0.9	43,281	0.8
Overdue 3 months but less than 4 months	26,330	0.5	31,806	0.6
Overdue 4 months or above	58,940	1.1	60,967	1.2
	199,525	3.9	213,987	4.1

* Percentage of gross advances and receivables

9. BANK BORROWINGS

	31.5.2017 (Unaudited) HK\$'000	28.2.2017 (Audited) HK\$'000
Bank loans, unsecured	1,672,979	1,721,281
Carrying amount repayable (<i>Note</i>)		
Within one year	140,000	240,000
Between one and two years	415,000	335,000
Between two and five years	1,057,979	1,071,281
Over five years	60,000	75,000
	1,672,979	1,721,281
Amount repayable within one year included under current liabilities	(140,000)	(240,000)
Amount repayable after one year	1,532,979	1,481,281

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

10. COLLATERALISED DEBT OBLIGATION

	31.5.2017 (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
Amount repayable within one year included under current liabilities	–	–
Amount repayable after one year	1,250,000	1,250,000

11. DERIVATIVE FINANCIAL INSTRUMENTS

	31.5.2017 (Unaudited)		28.2.2017 (Audited)	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Interest rate swaps	–	84,936	813	67,374
Cross-currency interest rate swap	3,834	–	9,482	–
Interest rate caps	146	–	103	–
	3,980	84,936	10,398	67,374
Current portion	–	(354)	(44)	(650)
Non-current portion	3,980	84,582	10,354	66,724

All derivative financial instruments entered by the Group that remain outstanding at 31st May 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 31st May 2017, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK\$1,436,255,000** and **HK\$255,316,000** respectively (28.2.2017: HK\$1,488,199,000 and HK\$183,216,000).

FINANCIAL REVIEW

1. Global economic activities picked up further in the first quarter of 2017 and similarly domestic demand in Hong Kong also held up well, supported by favourable employment conditions and more positive business sentiment.
2. For the first quarter ended 31st May 2017, the Group's revenue remained flat year over year, posting 0.1% growth to reach HK\$309.8 million. Due to the continued improvement in operating expenses and impairment losses and impairment allowances, the Group reported a net profit for the period of HK\$91.6 million, an increase of 24.5% compared to the previous corresponding period.
3. During the period under review, the Group put more emphasis on growing its credit card spending through offerings of mass promotions and exclusive member events such as the Ocean Park Chill Out Joyful Event. On the other hand, the Group continued to exercise a cautious approach to lending activities due to the expected uncertain economic conditions and global geopolitical risk concerns. This had led to a stall in terms of growth for the Group's receivables. As a result, interest income fell 1.0% to HK\$270.8 million.
4. Amid a wave of rising interest rates by the Federal Reserve, the Group's interest expense decreased by 6.8% to HK\$22.1 million compared to the same period last year partly because our funding strategy is focused on the long term. Net interest income dropped by 0.4% to HK\$248.8 million for the three months ended 31st May, 2017.
5. Other operating income increased by 6.0% to HK\$41.0 million from a year earlier, attributed to the growth in fees and commission income.
6. The Group managed to streamline and automate across its operations, resulting in a drop in staff costs and general administrative expenses by 5.1% and 4.4% respectively from a year earlier. Overall operating expenses decreased by 3.0% when compared to the corresponding period of the previous year, reaching HK\$133.8 million. In the period under review, the Group's cost-to-income ratio improved from 47.8% to 46.2% in the first quarter of this year.
7. Due partly to the low unemployment rate, effective credit assessment and prompt collection action, the Group recorded HK\$59.1 million of impairment losses and impairment allowances for the first quarter ended 31st May 2017, down from HKD\$72.6 million or 18.6% in the previous corresponding period.
8. For China business, the Group continued to prioritize the improvement of asset quality and focus on the enhancement of its operation efficiency. These actions resulted in a reduction in loss of HK\$5.4 million, from HK\$7.9 million in the previous corresponding period to HK\$2.5 million in the current period.

9. At 31st May 2017, 49.0% of the Group's funding was derived from total equity, 29.2% from bank borrowings and 21.8% from structured finance. Including the collateralised debt obligation, 4.8% of these borrowings will mature within one year, 14.2% between one and two years, 79.0% between two and five years and 2.0% over five years.
10. The Group continues to focus on our commitment to sustaining the loyalty of our customers and community. The Group's ongoing investment in enhancing our market position in digital lending, modernizing our branches and building the skills of our staff will ensure that its operations remain competitive, and that consistent returns are provided to our shareholders.

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, 23rd June 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.