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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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 31ST AUGUST 2016

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 six months ended 31st August 2016, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31st August 2016

	<i>Notes</i>	1.3.2016 to 31.8.2016 (Unaudited) HK\$'000	1.3.2015 to 31.8.2015 (Unaudited) HK\$'000
Revenue	3	606,598	628,960
Interest income	5	535,329	556,674
Interest expense	6	(46,949)	(47,232)
Net interest income		488,380	509,442
Other operating income	7	75,664	78,035
Other gains and losses	8	(109)	(111)
Operating income		563,935	587,366
Operating expenses	9	(272,675)	(300,717)
Gain on sale of advances and receivables		21,114	–
Other expenses	9	–	(8,158)
Operating profit before impairment allowances		312,374	278,491
Impairment losses and impairment allowances		(147,819)	(159,359)
Recoveries of advances and receivables written-off		27,082	27,287
Share of results of associates		(6,061)	468
Profit before tax		185,576	146,887
Income tax expense	10	(33,434)	(27,139)
Profit for the period		152,142	119,748
Profit for the period attributable to: Owners of the Company		152,142	119,748
Earnings per share – Basic	12	36.33 HK cents	28.60 HK cents

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31st August 2016

	1.3.2016 to 31.8.2016 (Unaudited) HK\$'000	1.3.2015 to 31.8.2015 (Unaudited) HK\$'000
Profit for the period	<u>152,142</u>	<u>119,748</u>
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Fair value gain (loss) on available-for-sale investments	674	(1,404)
Exchange difference arising from translation of foreign operations	(9,186)	(13,559)
Net adjustment on cash flow hedges	<u>(1,311)</u>	<u>17,908</u>
Other comprehensive (expense) income for the period	<u>(9,823)</u>	<u>2,945</u>
Total comprehensive income for the period	<u>142,319</u>	<u>122,693</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>142,319</u>	<u>122,693</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31st August 2016

	<i>Notes</i>	31.8.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	13	119,349	123,177
Investments in associates		31,567	39,598
Available-for-sale investments	14	22,819	22,145
Advances and receivables	15	1,103,283	1,186,140
Prepayments, deposits and other debtors	18	13,615	30,298
Derivative financial instruments	21	438	1,244
Restricted deposits		38,000	38,000
		1,329,071	1,440,602
Current assets			
Advances and receivables	15	4,032,810	4,059,463
Prepayments, deposits and other debtors	18	74,983	34,092
Amounts due from fellow subsidiaries		232	5
Amount due from immediate holding company		137	6
Amount due from intermediate holding company		233	423
Amount due from an associate		132	–
Derivative financial instruments	21	–	241
Tax recoverable		1,465	1,465
Restricted deposits		92,284	–
Time deposits		134,419	98,105
Fiduciary bank balances		47	238
Bank balances and cash		329,925	306,944
		4,666,667	4,500,982
Current liabilities			
Creditors and accruals	19	241,768	244,130
Amounts due to fellow subsidiaries		50,545	49,830
Amount due to intermediate holding company		205	58
Amount due to ultimate holding company		35	52
Amounts due to associates		3,258	1,358
Bank borrowings	20	607,900	560,786
Collateralised debt obligation	23	549,878	549,782
Derivative financial instruments	21	13,748	22,364
Tax liabilities		27,143	8,895
		1,494,480	1,437,255
Net current assets		3,172,187	3,063,727
Total assets less current liabilities		4,501,258	4,504,329
Capital and reserves			
Share capital		269,477	269,477
Reserves		2,341,036	2,274,095
Total equity		2,610,513	2,543,572
Non-current liabilities			
Bank borrowings	20	1,065,000	1,145,000
Collateralised debt obligation	23	700,000	700,000
Derivative financial instruments	21	116,299	106,214
Deferred tax liabilities	22	9,446	9,543
		1,890,745	1,960,757
		4,501,258	4,504,329

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31st August 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 1.3.2015 (Audited)	269,477	(1,153)	(136,064)	13,179	2,301,904	2,447,343
Profit for the period	-	-	-	-	119,748	119,748
Fair value loss on available-for-sale investments	-	(1,404)	-	-	-	(1,404)
Exchange difference arising from translation of foreign operations	-	-	-	(13,559)	-	(13,559)
Net adjustment on cash flow hedges	-	-	17,908	-	-	17,908
Total comprehensive (expense) income for the period	-	(1,404)	17,908	(13,559)	119,748	122,693
Final dividend paid for the period from 21.2.2014 to 28.2.2015	-	-	-	-	(75,378)	(75,378)
	-	(1,404)	17,908	(13,559)	44,370	47,315
At 31.8.2015 (Unaudited)	269,477	(2,557)	(118,156)	(380)	2,346,274	2,494,658
At 1.3.2016 (Audited)	269,477	(3,515)	(121,103)	(2,402)	2,401,115	2,543,572
Profit for the period	-	-	-	-	152,142	152,142
Fair value gain on available-for-sale investments	-	674	-	-	-	674
Exchange difference arising from translation of foreign operations	-	-	-	(9,186)	-	(9,186)
Net adjustment on cash flow hedges	-	-	(1,311)	-	-	(1,311)
Total comprehensive income (expense) for the period	-	674	(1,311)	(9,186)	152,142	142,319
Final dividend paid for the period from 1.3.2015 to 29.2.2016	-	-	-	-	(75,378)	(75,378)
	-	674	(1,311)	(9,186)	76,764	66,941
At 31.8.2016 (Unaudited)	269,477	(2,841)	(122,414)	(11,588)	2,477,879	2,610,513

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31st August 2016

	1.3.2016 to 31.8.2016 (Unaudited) HK\$'000	1.3.2015 to 31.8.2015 (Unaudited) HK\$'000
Net cash from operating activities	<u>269,938</u>	<u>274,549</u>
Dividends received	139	465
Purchase of property, plant and equipment	(4,302)	(3,409)
Deposits paid for acquisition of property, plant and equipment	(3,493)	(10,917)
Decrease (increase) in time deposits with maturity of more than three months	<u>13,902</u>	<u>(15,605)</u>
Net cash from (used in) investing activities	<u>6,246</u>	<u>(29,466)</u>
Placement of restricted deposits	(507,790)	(45,012)
Withdrawal of restricted deposits	415,506	–
Dividends paid	(75,378)	(75,378)
New bank loans raised	670,000	5,156,806
Repayment of bank loans	<u>(702,158)</u>	<u>(5,306,500)</u>
Net cash used in financing activities	<u>(199,820)</u>	<u>(270,084)</u>
Net increase (decrease) in cash and cash equivalents	76,364	(25,001)
Effect of changes in exchange rate	(1,850)	(2,441)
Cash and cash equivalents at beginning of the period	<u>349,283</u>	<u>294,534</u>
Cash and cash equivalents at end of the period	<u>423,797</u>	<u>267,092</u>
Being:		
Time deposits with maturity of three months or less	93,872	32,097
Bank balances and cash	329,925	236,203
Bank overdrafts	<u>–</u>	<u>(1,208)</u>
	<u>423,797</u>	<u>267,092</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31st August 2016

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 2016 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 29th February 2016 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. PRINCIPAL ACCOUNTING POLICIES

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.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for six months ended 31st August 2016 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 29th February 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group’s condensed consolidated financial statements:

Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE

	1.3.2016 to 31.8.2016 (Unaudited) HK\$'000	1.3.2015 to 31.8.2015 (Unaudited) HK\$'000
Interest income	535,329	556,674
Fees and commissions	33,203	38,157
Handling and late charges	38,066	34,129
	<u>606,598</u>	<u>628,960</u>

4. SEGMENT INFORMATION

Services from which operation and reportable segments derive their revenues

The Group's operating and reportable segments are as follows:

Credit card	–	Provide credit card services to individuals and acquiring services for member-stores
Instalment loan	–	Provide personal loan financing to individuals
Insurance	–	Provide insurance brokerage and agency services
Hire purchase	–	Provide vehicle financing and hire purchase financing for household products and other consumer products to individuals

Segment revenue and results

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

1.3.2016 to 31.8.2016 (Unaudited)

	Credit card HK\$'000	Instalment loan HK\$'000	Insurance HK\$'000	Hire purchase HK\$'000	Consolidated HK\$'000
REVENUE	<u>412,768</u>	<u>182,697</u>	<u>11,123</u>	<u>10</u>	<u>606,598</u>
RESULT					
Segment results	<u>162,073</u>	<u>34,407</u>	<u>2,876</u>	<u>–</u>	199,356
Unallocated operating income					3,234
Unallocated expenses					(10,953)
Share of results of associates					<u>(6,061)</u>
Profit before tax					<u>185,576</u>

4. SEGMENT INFORMATION (Cont'd)

Segment revenue and results (Cont'd)

1.3.2015 to 31.8.2015 (Unaudited)

	Credit card <i>HK\$'000</i>	Instalment loan <i>HK\$'000</i>	Insurance <i>HK\$'000</i>	Hire purchase <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>424,144</u>	<u>188,123</u>	<u>16,645</u>	<u>48</u>	<u>628,960</u>
RESULT					
Segment results	<u>132,316</u>	<u>14,444</u>	<u>2,845</u>	<u>–</u>	149,605
Unallocated operating income					3,850
Unallocated expenses					(7,036)
Share of results of associates					<u>468</u>
Profit before tax					<u>146,887</u>

The accounting policies of operating and reportable segments are the same as the Group's accounting policies. Segment results represent the profit earned by each segment without allocation of certain income (including dividend income), unallocated head office expenses and share of results of associates. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and performance assessment.

5. INTEREST INCOME

	1.3.2016 to 31.8.2016 (Unaudited) <i>HK\$'000</i>	1.3.2015 to 31.8.2015 (Unaudited) <i>HK\$'000</i>
Advances	532,175	553,202
Impaired advances	1,512	1,750
Time deposits, restricted deposits and bank balances	<u>1,642</u>	<u>1,722</u>
	<u>535,329</u>	<u>556,674</u>

6. INTEREST EXPENSE

	1.3.2016 to 31.8.2016 (Unaudited) <i>HK\$'000</i>	1.3.2015 to 31.8.2015 (Unaudited) <i>HK\$'000</i>
Interest on bank borrowings and overdrafts	15,693	14,884
Interest on collateralised debt obligation	4,004	3,916
Net interest expense on interest rate swap contracts	<u>27,252</u>	<u>28,432</u>
	<u>46,949</u>	<u>47,232</u>

7. OTHER OPERATING INCOME

	1.3.2016 to 31.8.2016 (Unaudited) HK\$'000	1.3.2015 to 31.8.2015 (Unaudited) HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	139	465
Fees and commissions		
Credit card	22,148	21,512
Insurance	11,055	16,645
Handling and late charges	38,066	34,129
Others	4,256	5,284
	<u>75,664</u>	<u>78,035</u>

8. OTHER GAINS AND LOSSES

	1.3.2016 to 31.8.2016 (Unaudited) HK\$'000	1.3.2015 to 31.8.2015 (Unaudited) HK\$'000
Exchange (loss) gain		
Exchange loss on hedging instrument released from cash flow hedge reserve	(850)	(300)
Exchange gain on a bank loan	850	300
Other exchange losses, net	–	(6)
Hedge ineffectiveness on cash flow hedges	(105)	(105)
Losses on disposal of property, plant and equipment	(4)	–
	<u>(109)</u>	<u>(111)</u>

9. OPERATING EXPENSES / OTHER EXPENSES

	1.3.2016 to 31.8.2016 (Unaudited) HK\$'000	1.3.2015 to 31.8.2015 (Unaudited) HK\$'000
Operating expenses		
Depreciation	22,854	22,521
General administrative expenses	82,919	80,515
Marketing and promotion expenses	27,289	39,388
Operating lease rentals in respect of rented premises, advertising space and equipment	36,166	36,211
Other operating expenses	22,750	28,049
Staff costs including Directors' emoluments	80,697	94,033
	<u>272,675</u>	<u>300,717</u>

9. OPERATING EXPENSES / OTHER EXPENSES (Cont'd)

Other expenses

The Group invested in the establishment of prepaid card business. However, due to the uncertainty and various other considerations surrounding the proposed regulatory regime for stored-value facilities, this project had been suspended and all incurred expenses of HK\$8,158,000 were written off during the six months ended 31st August 2015 and included under other expenses.

10. INCOME TAX EXPENSE

	1.3.2016 to 31.8.2016 (Unaudited) HK\$'000	1.3.2015 to 31.8.2015 (Unaudited) HK\$'000
Current tax		
– Current period	33,531	21,514
Deferred tax (<i>Note 22</i>)		
– Current period	(97)	5,625
	<u>33,434</u>	<u>27,139</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both periods.

PRC Enterprise Income Tax is calculated at 25% of the estimated assessable profits of the China subsidiaries for both periods.

11. DIVIDENDS

On 13th July 2016, a dividend of **18.0 HK cents** (six months ended 31st August 2015: 18.0 HK cents) per share amounting to a total of **HK\$75,378,000** (six months ended 31st August 2015: HK\$75,378,000) was paid to shareholders as the final dividend for 2015/16.

In respect of the current interim period, the Directors have declared an interim dividend of **18.0 HK cents** per share amounting to **HK\$75,378,000** payable to the shareholders of the Company whose names appear on the Register of Members on 18th October 2016. The interim dividend will be paid on 31st October 2016. This interim dividend was declared after the interim reporting date, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

12. EARNINGS PER SHARE – BASIC

The calculation of basic earnings per share is based on the unaudited profit for the period of **HK\$152,142,000** (six months ended 31st August 2015: HK\$119,748,000) and on the number of shares of **418,766,000** (six months ended 31st August 2015: 418,766,000) in issue during the period.

13. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent on computer equipment and leasehold improvements of approximately **HK\$19,125,000** (six months ended 31st August 2015: HK\$47,190,000).

14. AVAILABLE-FOR-SALE INVESTMENTS

	31.8.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Listed equity securities, at fair value		
Hong Kong	13,675	13,001
Unlisted equity securities, at cost	9,144	9,144
	22,819	22,145

15. ADVANCES AND RECEIVABLES

	31.8.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Credit card receivables	3,584,247	3,577,431
Instalment loan receivables	1,613,035	1,697,234
Hire purchase debtors	225	749
	5,197,507	5,275,414
Accrued interest and other receivables	89,145	106,515
	5,286,652	5,381,929
Gross advances and receivables		
Impairment allowances (<i>Note 16</i>)		
– individually assessed	(106,542)	(90,723)
– collectively assessed	(44,017)	(45,603)
	(150,559)	(136,326)
	5,136,093	5,245,603
Current portion included under current assets	(4,032,810)	(4,059,463)
	1,103,283	1,186,140

Included in the advances and receivables are secured credit card receivables and instalment loan receivables of **HK\$nil** (29.2.2016: HK\$5,444,000) and **HK\$nil** (29.2.2016: HK\$12,570,000) respectively. The Group holds collateral over these balances. The Directors consider the exposure of credit risk of the secured receivables, after taking into account the value of the collateral, is insignificant, as the fair value of the collateral (property interests) is higher than the outstanding amount of these receivables at the end of the reporting period. Other advances and receivables are unsecured.

16. IMPAIRMENT ALLOWANCES

	31.8.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000	
Analysis by products as:			
Credit card receivables	34,754	34,235	
Instalment loan receivables	113,247	100,643	
Hire purchase debtors	2	6	
Accrued interest and other receivables	2,556	1,442	
	150,559	136,326	
	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	149,405	(1,586)	147,819
Amounts written-off as uncollectable	(132,131)	–	(132,131)
Exchange realignment	(1,455)	–	(1,455)
At 31.8.2016	106,542	44,017	150,559
	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	166,802	(7,443)	159,359
Amounts written-off as uncollectable	(180,937)	–	(180,937)
Exchange realignment	(1,170)	–	(1,170)
At 31.8.2015	77,098	48,471	125,569

17. OVERDUE ADVANCES AND RECEIVABLES

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

	31.8.2016 (Unaudited) HK\$'000	%*	29.2.2016 (Audited) HK\$'000	%*
Overdue 1 month but less than 2 months	71,875	1.4	89,934	1.7
Overdue 2 months but less than 3 months	43,959	0.8	45,420	0.8
Overdue 3 months but less than 4 months	30,100	0.6	27,229	0.5
Overdue 4 months or above	106,820	2.0	89,738	1.7
	252,754	4.8	252,321	4.7

* Percentage of gross advances and receivables

18. PREPAYMENTS, DEPOSITS AND OTHER DEBTORS

	31.8.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Deposits for property, plant and equipment	4,008	15,338
Rental and other deposits	21,879	19,664
Prepaid operating expenses	22,169	23,198
Other debtors	40,542	6,190
	88,598	64,390
Current portion included under current assets	(74,983)	(34,092)
Amount due after one year	13,615	30,298

19. CREDITORS AND ACCRUALS

The aged analysis of creditors presented based on the invoice date at the end of the reporting period is as follows:

	31.8.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Current	78,937	68,355
Over 1 month but less than 3 months	1,742	1,877
Over 3 months	3,236	5,895
	83,915	76,127

Included in creditors and accruals is deferred revenue in relation to customer loyalty programmes of **HK\$11,282,000** (29.2.2016: HK\$8,143,000).

20. BANK BORROWINGS

	31.8.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Bank loans, unsecured	1,672,900	1,705,786
Carrying amount repayable (<i>Note</i>)		
Within one year	607,900	560,786
Between one and two years	55,000	190,000
Between two and five years	965,000	870,000
Over five years	45,000	85,000
	1,672,900	1,705,786
Amount repayable within one year included under current liabilities	(607,900)	(560,786)
Amount repayable after one year	1,065,000	1,145,000

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

21. DERIVATIVE FINANCIAL INSTRUMENTS

	31.8.2016 (Unaudited)		29.2.2016 (Audited)	
	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>	Assets <i>HK\$'000</i>	Liabilities <i>HK\$'000</i>
Interest rate swaps	–	129,138	57	128,578
Cross-currency interest rate swap	–	909	241	–
Interest rate caps	438	–	1,187	–
	<u>438</u>	<u>130,047</u>	<u>1,485</u>	<u>128,578</u>
Current portion	–	(13,748)	(241)	(22,364)
Non-current portion	<u>438</u>	<u>116,299</u>	<u>1,244</u>	<u>106,214</u>

All derivative financial instruments entered by the Group that remain outstanding at 31st August 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.

22. DEFERRED TAX LIABILITIES

The followings are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during each of the two periods ended 31st August 2016 and 31st August 2015:

	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
As 1.3.2016	17,068	(7,525)	9,543
(Credit) charge to profit or loss for the period	<u>(359)</u>	<u>262</u>	<u>(97)</u>
At 31.8.2016	<u>16,709</u>	<u>(7,263)</u>	<u>9,446</u>
	Accelerated tax depreciation <i>HK\$'000</i>	Impairment allowances <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1.3.2015	15,308	(9,339)	5,969
Charge to profit or loss for the period	<u>4,220</u>	<u>1,405</u>	<u>5,625</u>
At 31.8.2015	<u>19,528</u>	<u>(7,934)</u>	<u>11,594</u>

23. COLLATERALISED DEBT OBLIGATION

- (a) The Group entered into a HK\$1,250,000,000 collateralised debt obligation financing transaction (the “Transaction”). The Transaction consists of three tranches – Tranche A, Tranche B and Tranche C. The revolving period for Tranche A ended in January 2016 while the revolving periods for Tranche B and Tranche C will end in January 2017 and July 2020 respectively. The three tranches are arranged at floating interest rates from 0.35% plus HIBOR per annum to 0.55% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Three corresponding interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, are arranged to swap these three tranches from floating rates to fixed rates from 3.2% to 3.9% per annum.
- (b) In September 2014, the Group extended the revolving periods of Tranche A and Tranche B by entering into two new tranches – New Tranche A and New Tranche B. The revolving period for New Tranche A started from February 2016 while the revolving period for New Tranche B will start from February 2017 and both will end in August 2019. The two tranches under New Tranche A and New Tranche B are arranged at floating interest rates of 0.40% plus HIBOR per annum, thus exposing the Group to cash flow interest rate risk. Two corresponding new interest rate swaps with similar terms, such as principal amounts, interest rate spread, start dates, maturity dates and counterparties, are arranged to swap these two new tranches from floating rates to fixed rates at 3.5% to 3.8% per annum. The effective interest rate after taking into account the executed interest rate swaps was 3.6% (six months ended 31st August 2015: 3.7%) per annum during the period.
- (c) Pursuant to the Transaction, the Group transferred credit card receivables in Hong Kong to Horizon Master Trust (AEON 2006-1) (the “Trust”) established and operated in Hong Kong solely for this financing purpose of which the lender, an independent third party, is also the trustee. The Group is the sole beneficiary of the Trust, which holds the entire undivided interest in the credit card receivables transferred. In accordance with HKFRS 10, the Trust is controlled by the Group and the results thereof are consolidated by the Group in its condensed consolidated financial statements. According to HKAS 39 *Financial Instruments: Recognition and Measurement*, both assets transferred and debt issued under the Transaction have not been derecognised and remained in the Group’s condensed consolidated financial statements. The Transaction is backed by the credit card receivables transferred and with the carrying amount denominated in HKD.

24. PLEDGE OF ASSETS

At 31st August 2016, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK\$1,567,362,000** and **HK\$130,284,000** respectively (29.2.2016: HK\$1,670,046,000 and HK\$38,000,000).

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed on 18th October 2016 on which date no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on 17th October 2016.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code") throughout the six months ended 31st August 2016, with the exceptions of code provisions A.4.1 and A.4.2 which are explained below.

Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The second limb of code provision A.4.2 provides that every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The Company's Non-executive Directors are not appointed for a specific term and Directors are not subject to retirement by rotation. However, all Directors, including executive, non-executive and independent non-executive, are subject to retirement at each annual general meeting of the Company in accordance with the articles of association of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as its own code for securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 31st August 2016, the Group recorded a profit attributable to owners of HK\$152.1 million, representing an increase of 27% or HK\$32.4 million when compared to HK\$119.7 million for the six months ended 31st August 2015. The Group's basic earnings per share increased from 28.60 HK cents per share in 2015/16 to 36.33 HK cents per share in 2016/17.

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 slowdown on the growth of advances and receivables. As a result, the Group recorded a decrease in interest income of 3.8% or HK\$21.3 million, from HK\$556.7 million in the previous period to HK\$535.3 million in the current period. With a stable funding environment, the average funding cost remained stable at 3.1% in both periods. Consequently, net interest income of the Group for the first six months in 2016/17 was HK\$488.4 million, representing a decrease of 4.1% or HK\$21.1 million when compared with the first six months in 2015/16.

The fraud alerts on bogus phone calls in Hong Kong has a negative effect on telemarketing sales. As a result, the insurance commission decreased by 33.6% or HK\$5.6 million to HK\$11.1 million in the current period. Notwithstanding the increase in handling and late charges, the overall other operating income still decreased by HK\$2.4 million from HK\$78.0 million in 2015/16 to HK\$75.7 million for the first six months in 2016/17.

During the first half of 2016/17, the Group exercised tight control on marketing and promotion expenses. Following the review of manpower requirement and the necessary adjustment made in the second half of last financial year, staff costs decreased by HK\$13.3 million when compared with the previous period. This led to an overall decrease in operating expenses by 9.3% from HK\$300.7 million from the last period to HK\$272.7 million in the current period.

In order to avoid any adverse impact on the value of the collateral arising from economic uncertainty and to improve the efficiency of the credit management manpower, the Group has sold all secured receivables and certain written-off portfolio in the current period and recorded a gain on sale of advances and receivables of HK\$21.1 million in the current period. This one-time income contributed to an increase in the net profit for the Group.

At the operating level before impairment allowances, the Group recorded an operating profit of HK\$312.4 million for the six months ended 31st August 2016, representing an increase of 12.2% from HK\$278.5 million for the first half of last financial year. During the period under review, the Group's cautious credit judgment and asset quality management has resulted in a decrease in impairment losses and impairment allowances of 7.2% or HK\$11.5 million from HK\$159.4 million in 2015/16 to HK\$147.8 million. Recoveries of advances and receivables written-off amounted to HK\$27.1 million, representing a decrease of HK\$0.2 million when compared with HK\$27.3 million in 2015/16.

The Group recorded a decrease in its receivables by HK\$77.9 million to HK\$5,197.5 million as at 31st August 2016, when compared to HK\$5,275.4 million as at 29th February 2016. Impairment allowances amounted to HK\$150.6 million as at 31st August 2016, when compared with HK\$136.3 million as at 29th February 2016. Total equity was strengthened by 2.6% to HK\$2,610.5 million as at 31st August 2016 mainly due to the increase in accumulated profits and reserves. Net asset value per share (after interim dividend) was HK\$6.1 as at 31st August 2016, when compared with the net asset value (after final dividend) per share of HK\$5.9 as at 29th February 2016.

Segment Information

The Group's business comprises four operating segments, namely credit card, instalment loan, insurance and hire purchase. In the first half of 2016/17, credit card operation accounted for 68.0% of the Group's revenue, as compared to 67.4% in the previous period. For segment result, credit card operation accounted for 81.3% of the Group's whole operations as compared to 88.4% in the previous period, while instalment loan operation accounted for 17.3% of the Group's segment result as compared to 9.7% in the previous period.

In the first half of 2016/17, the Group recorded an increase in card credit purchase sales. The increase was offset by the sluggish growth on card cash advance portfolio. As a result, revenue from credit card operation in 2016/17 decreased by 2.7% or HK\$11.4 million from HK\$424.1 million in 2015/16 to HK\$412.8 million in 2016/17. With the decrease in marketing and promotion expenses, staff costs and other operating expenses, together with the one-time revenue from the sale of advances and receivables of certain credit card portfolio, the segment result for the period from credit card operation recorded an increase of HK\$29.8 million from HK\$132.3 million in 2015/16 to HK\$162.1 million in 2016/17.

Under the uncertain economic environment, the Group's prudent lending approach in both Hong Kong and China aiming at improving asset quality had resulted in a slowdown of instalment loan business. As a result, revenue from instalment loan operation decreased by 2.9% or HK\$5.4 million from HK\$188.1 million in 2015/16 to HK\$182.7 million in 2016/17. Following the implementation of cost-reduction initiatives by the microfinance subsidiaries in China and the decrease in their running costs, coupled with the one-time revenue from the sale of advances and receivables of certain instalment loan portfolio, segment result for the period from instalment loan operation recorded an increase of HK\$20.0 million from HK\$14.4 million in 2015/16 to HK\$34.4 million in 2016/17.

Revenue from insurance operation recorded a decrease of HK\$5.5 million from HK\$16.6 million in 2015/16 to HK\$11.1 million in 2016/17 due to the negative effect of fraud alerts on bogus phone calls on telemarketing sales. After taking into account the decrease in operating expenses, the segment result for the period from insurance operation increased by HK\$0.1 million from HK\$2.8 million in 2015/16 to HK\$2.9 million in 2016/17.

Due to the continuous shift of usage to card instalment plan, revenue from hire purchase operation accounted for an insignificant portion of the Group's revenue and segment result.

Business Review

The first half of 2016 proved to be a challenging one globally. The slowdown in inbound tourism from the Mainland and sluggish local consumption have constrained Hong Kong's retail sales while financial market volatility, RMB depreciation and Fed rate normalization have further weakened consumer confidence.

Against this challenging backdrop, the Group's total sales for the six months ended 31st August 2016 were 100% when compared to the same period last year. During this period, the Group continued to drive new card acquisitions by keeping pace with the changing behaviour and card usage preferences of our customers as an increasing number of them are embracing the transition to online shopping, particularly in the travel, clothing and department store sectors. The Group capitalized on this trend by promoting our products through digital marketing and social media such as Facebook. Additionally, having possession of a diverse portfolio across credit card and loan products allowed the Group to leverage flexibility and present a unified image and brand confidence to customers across all platforms.

Despite strong market competitions, the Group continued to promote its competitive edge and focused on value-added enhancements such as 4X bonus points, and a frequent flyer mileage program for both new and existing customers. As a result, the number of cards issued increased by a respectable 9%, up from 4% in the same period last year.

The Group's credit purchase and card cash advance sales increased by 1% and 5% respectively when compared to the same period last year. Personal loan sales declined 9% due to a more prudent lending approach aimed at improving asset quality.

During the period under review, the Group launched an assortment of promotions catered to drive sales and customer engagement. AEON Private Sale and Thanksgiving Day Sale were held in collaboration with AEON Stores to deliver a unique and rewarding shopping experience to our customers. The Hung Fook Tong herbal products spending reward, KFC combo set promotion, Circle K stamp promotion and Royal Caribbean cruise promotion were welcomed by customers and furthered the Group's market penetration of new customer segments.

In-house credit purchase and card instalment sales attributed to AEON Stores declined 14% in the first half of 2016/17, compared to a 4% growth in the same period in 2015. The negative impact on sales was mainly attributable to the partial closure of two prominent stores due to renovation. Nevertheless, the partnership with AEON Stores represents a unique opportunity in the market and the Group will continue to utilize and leverage this synergy to drive results.

The drop in in-house sales was offset by an upsurge in overseas spending, which increased by 26% over the same period in 2015. As no transaction fees are imposed by the Company on foreign currency transactions, an emphasis was put on this benefit in conjunction with exclusive card incentives of the AEON Card JAL MasterCard when driving the overseas sales segment.

By implementing cost-reduction initiatives and adopting a prudent lending policy, the Group's microfinance business in China continued to show improvement in its overall performance. The three microfinance companies will continue to explore and cultivate new revenue streams by identifying the best options for the business.

Furthermore, the Group continued to invest heavily in its products, technologies and the development of its network. The newly renovated Kornhill Branch will allow our frontline staff to promote a highly efficient face-to-face engagement with visitors and at the same time, paving the way for the digitalization of business operation and e-marketing. Digital is an integral part of the Group's strategy as technology and mobility are changing the way our customers access information, choose products and obtain services.

Prospects

Brexit and the geopolitical tensions in Europe and the Middle East will continue to cause global economic uncertainty. In Mainland China, despite the current economic slowdown and domestic rebalancing, the economic prospect is still promising. The strong central government is believed to have committed itself to promote a gradual and sustainable economic growth.

The Hong Kong economy will likely be restrained by the low global growth environment, sluggish trade and tourism performance. The correction of residential properties is likely to affect domestic demand and private consumption. However, the low interest rate environment and steady labour market should provide some buffer to the potential impact on local consumption and business sentiment.

The Group has scheduled a diverse mix of products and services for launch in the second half of the year. The upcoming Jet Payment service will bring more convenience to our customers by offering payment functionalities at Jetco ATMs. Moreover, instant card issuance capability at branches will expand to include VISA, MasterCard and JCB alongside UnionPay, which has been available since 2012.

The Group will further enhance promotion activities across its entire product line to drive customer engagement and brand loyalty. The popular AEON Card JAL MasterCard will receive unique perks and enhancements catered to its cardholders to further stimulate usage.

The Group will further invest in the redesign and renovation across its entire branch network. The newly completed renovation of the Kornhill and Whampoa Branches demonstrates the Group's commitment to an efficient and customer friendly business environment.

Furthermore, the Group will continue to invest in technology to streamline business processes and maximize cost savings. Whereas meeting in-house productivity goals is imperative, complete customer satisfaction is equally vital. Implementations and improvements are continuously carried out across the Group's different platforms to simplify business processes as well as improve the overall user experience and operational efficiency.

The Group will continue to focus on enhancing the value of our existing customers and capitalizing on new business opportunities. The Group aims to strike a balance between the interests of our customers, our shareholders and the communities in which we serve when formulating our business strategies.

For the second half of 2016/17, the Group remains committed to creating value for our shareholders and strengthening our market position to ensure that we preserve our lead in terms of market share and profitability. The Group is confident in its business prospects and is looking forward to an overall satisfactory performance for the year 2016/17.

FUNDING AND CAPITAL MANAGEMENT

The Group manages its capital to ensure that:

- the Group will continue as a going concern;
- maximise the return to shareholders through the optimisation of the debt and equity balance and by pricing products commensurately with the level of risk; and
- funds are available at competitive costs to meet all contractual financial commitments, to fund debtor balance growth and to generate reasonable funds from available funds.

The capital structure of the Group consists of debt (which includes bank borrowings and collateralised debt obligation) and equity attributable to owners of the Group (comprising share capital and reserves).

Net debt to equity ratio

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with each class of capital.

The net debt to equity ratio at the period/year end was as follows:

	31.8.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Debt (<i>note a</i>)	2,922,778	2,955,568
Cash and cash equivalents	(423,797)	(349,283)
Net debt	2,498,981	2,606,285
Equity (<i>note b</i>)	2,610,513	2,543,572
Net debt to equity ratio	1.0	1.0

Notes:

- (a) Debt comprises bank borrowings and collateralised debt obligation as detailed in notes 20 and 23 respectively.
- (b) Equity includes all capital and reserves of the Group.

The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 31st August 2016, 47.2% of its funding was derived from total equity, 30.2% from bank borrowings and 22.6% from structured finance.

The principal source of internally generated capital was from accumulated profits. At 31st August 2016, the Group had bank borrowings, including cross-currency syndicated term loan, amounted to HK\$1,672.9 million, with 12.6% being fixed in interest rates and 87.4% being converted from floating interest rates to fixed interest rates using interest rate swaps. Including the collateralised debt obligation, 39.6% of these indebtedness will mature within one year, 1.9% between one and two years, 57.0% between two and five years and 1.5% over five years. The duration of indebtedness was around 2.2 years.

The Group's bank borrowings and collateralised debt obligation were denominated in Hong Kong Dollars, except for a syndicated term loan of USD50.0 million which was hedged by cross-currency interest rate swap.

The net asset of the Group at 31st August 2016 was HK\$2,610.5 million, as compared with HK\$2,543.6 million at 29th February 2016. Taking into account the financial resources available to the Group including internally generated funds and available banking facilities, the Group has sufficient working capital to meet its present requirements.

The Group's principal operations were transacted and recorded in HKD and thereby its core assets did not subject to any exposure on exchange rate fluctuation. During the period under review, the Group engaged in derivative financial instruments mainly to hedge exposure on interest rate and exchange rate fluctuations for its bank borrowings. At 31st August 2016, capital commitments entered were mainly related to the purchase of property, plant and equipment.

HUMAN RESOURCES

The total number of staff of the Group at 31st August 2016 and 29th February 2016 was 566 and 622 respectively. The Group continues to recognize and reward its staff similar to that disclosed in its 2015/16 Annual Report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM FINANCIAL INFORMATION

The Audit Committee has reviewed the unaudited consolidated interim results for the six months ended 31st August 2016. The Interim Report for the six months ended 31st August 2016 has been reviewed in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the HKICPA, by Messrs. Deloitte Touche Tohmatsu, whose unmodified review report will be included in the Interim Report to be sent to shareholders.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE'S WEBSITE

The 2016 Interim Report, containing the relevant information required by the Listing Rules, will be published on the respective websites of the Stock Exchange and the Company in due course.

BOARD OF DIRECTORS

At the date of this announcement, the Board of Directors 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.

By order of the Board
HIDEO TANAKA
Managing Director

Hong Kong, 30th September 2016