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AEON CREDIT SERVICE (ASIA) COMPANY LIMITED
AEON 信貸財務（亞洲）有限公司
(Incorporated in Hong Kong with limited liability)
(Stock Code: 900)

UNAUDITED RESULTS FOR THE NINE MONTHS ENDED 30TH NOVEMBER 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 nine months ended 30th November 2016, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30th November 2016

	<i>Notes</i>	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000	1.3.2015 to 30.11.2015 (Unaudited) HK\$'000
Revenue	2	913,043	941,296
Interest income		804,507	832,166
Interest expense		(69,074)	(70,880)
Net interest income		735,433	761,286
Other operating income	3	115,745	115,278
Other gains and losses	4	(870)	(204)
Operating income		850,308	876,360
Operating expenses	5	(408,230)	(455,584)
Gain on sale of advances and receivables		21,114	–
Other expenses	5	–	(8,158)
Operating profit before impairment allowances		463,192	412,618
Impairment losses and impairment allowances		(219,407)	(232,440)
Recoveries of advances and receivables written-off		40,022	42,894
Share of results of associates		(8,157)	(2,524)
Profit before tax		275,650	220,548
Income tax expense		(49,643)	(41,526)
Profit for the period		226,007	179,022
Profit for the period attributable to: Owners of the Company		226,007	179,022

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30th November 2016

	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000	1.3.2015 to 30.11.2015 (Unaudited) HK\$'000
Profit for the period	<u>226,007</u>	<u>179,022</u>
Other comprehensive (expense) income		
Items that may be reclassified subsequently to profit or loss:		
Fair value loss on available-for-sale investments	(587)	(1,866)
Exchange difference arising from translation of foreign operations	(18,828)	(13,205)
Net adjustment on cash flow hedges	<u>40,178</u>	<u>15,220</u>
Other comprehensive income for the period	<u>20,763</u>	149
Total comprehensive income for the period	<u>246,770</u>	<u>179,171</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>246,770</u>	<u>179,171</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30th November 2016

	<i>Notes</i>	30.11.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		110,441	123,177
Investments in associates		28,302	39,598
Available-for-sale investments		21,559	22,145
Advances and receivables	6	1,073,351	1,186,140
Prepayments, deposits and other debtors		12,393	30,298
Derivative financial instruments	11	6,340	1,244
Restricted deposits		38,000	38,000
		1,290,386	1,440,602
Current assets			
Advances and receivables	6	4,063,499	4,059,463
Prepayments, deposits and other debtors		40,379	34,092
Amounts due from fellow subsidiaries		143	5
Amount due from immediate holding company		4	6
Amount due from intermediate holding company		221	423
Amount due from an associate		74	–
Derivative financial instruments	11	62	241
Tax recoverable		1,465	1,465
Restricted deposits		128,869	–
Time deposits		123,604	98,105
Fiduciary bank balances		50	238
Bank balances and cash		360,410	306,944
		4,718,780	4,500,982
Current liabilities			
Creditors and accruals		246,099	244,130
Amounts due to fellow subsidiaries		52,500	49,830
Amount due to intermediate holding company		7	58
Amount due to ultimate holding company		43	52
Amounts due to associates		3,198	1,358
Bank borrowings	9	220,000	560,786
Collateralised debt obligation	10	549,925	549,782
Derivative financial instruments	11	5,567	22,364
Tax liabilities		45,016	8,895
		1,122,355	1,437,255
Net current assets		3,596,425	3,063,727
Total assets less current liabilities		4,886,811	4,504,329

		30.11.2016	29.2.2016
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and reserves			
Share capital		269,477	269,477
Reserves		2,370,109	2,274,095
Total equity		2,639,586	2,543,572
Non-current liabilities			
Bank borrowings	<i>9</i>	1,452,850	1,145,000
Collateralised debt obligation	<i>10</i>	700,000	700,000
Derivative financial instruments	<i>11</i>	86,593	106,214
Deferred tax liabilities		7,782	9,543
		2,247,225	1,960,757
		4,886,811	4,504,329

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30th November 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	-	-	-	-	179,022	179,022
Fair value loss on available-for-sale investments	-	(1,866)	-	-	-	(1,866)
Exchange difference arising from translation of foreign operations	-	-	-	(13,205)	-	(13,205)
Net adjustment on cash flow hedges	-	-	15,220	-	-	15,220
Total comprehensive (expense) income for the period	-	(1,866)	15,220	(13,205)	179,022	179,171
Final dividend paid for the period from 21.2.2014 to 28.2.2015	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for the year from 1.3.2015 to 29.2.2016	-	-	-	-	(75,378)	(75,378)
	-	(1,866)	15,220	(13,205)	28,266	28,415
At 30.11.2015 (Unaudited)	269,477	(3,019)	(120,844)	(26)	2,330,170	2,475,758
At 1.3.2016 (Audited)	269,477	(3,515)	(121,103)	(2,402)	2,401,115	2,543,572
Profit for the period	-	-	-	-	226,007	226,007
Fair value loss on available-for-sale investments	-	(587)	-	-	-	(587)
Exchange difference arising from translation of foreign operations	-	-	-	(18,828)	-	(18,828)
Net adjustment on cash flow hedges	-	-	40,178	-	-	40,178
Total comprehensive (expense) income for the period	-	(587)	40,178	(18,828)	226,007	246,770
Final dividend paid for the year from 1.3.2015 to 29.2.2016	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for the year from 1.3.2016 to 28.2.2017	-	-	-	-	(75,378)	(75,378)
	-	(587)	40,178	(18,828)	75,251	96,014
At 30.11.2016 (Unaudited)	269,477	(4,102)	(80,925)	(21,230)	2,476,366	2,639,586

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 30th November 2016

	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000	1.3.2015 to 30.11.2015 (Unaudited) HK\$'000
Net cash from operating activities	411,992	409,145
Dividends received	916	705
Purchase of property, plant and equipment	(6,839)	(2,082)
Deposits paid for acquisition of property, plant and equipment	(5,431)	(11,999)
Decrease (increase) in time deposits with maturity of more than three months	13,470	(18,072)
Net cash from (used in) investing activities	2,116	(31,448)
Placement of restricted deposits	(965,110)	(712,531)
Withdrawal of restricted deposits	836,241	601,433
Dividends paid	(150,756)	(150,756)
New bank loans raised	1,158,295	6,386,346
Repayment of bank loans	(1,191,408)	(6,520,217)
Net cash used in financing activities	(312,738)	(395,725)
Net increase (decrease) in cash and cash equivalents	101,370	(18,028)
Effect of changes in exchange rate	(5,927)	(2,306)
Cash and cash equivalents at beginning of the period	349,283	294,534
Cash and cash equivalents at end of the period	444,726	274,200
Being:		
Time deposits with maturity of three months or less	84,316	28,889
Bank balances and cash	360,410	245,311
	444,726	274,200

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30th November 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 the unaudited results for the nine months ended 30th November 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 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. REVENUE

	1.3.2016 to 30.11.2016 (Unaudited) HK\$’000	1.3.2015 to 30.11.2015 (Unaudited) HK\$’000
Interest income	804,507	832,166
Fees and commissions	50,104	58,489
Handling and late charges	58,432	50,641
	<u>913,043</u>	<u>941,296</u>

3. OTHER OPERATING INCOME

	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000	1.3.2015 to 30.11.2015 (Unaudited) HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	849	645
Unlisted equity securities	67	60
Fees and commissions		
Credit card	34,707	34,662
Insurance	15,397	23,827
Handling and late charges	58,432	50,641
Others	6,293	5,443
	115,745	115,278

4. OTHER GAINS AND LOSSES

	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000	1.3.2015 to 30.11.2015 (Unaudited) HK\$'000
Exchange gain (loss)		
Exchange gain (loss) on hedging instrument released from cash flow hedge reserve	55	(250)
Exchange (loss) gain on a bank loan	(55)	250
Other exchange losses, net	(181)	(46)
Hedge ineffectiveness on cash flow hedges	(138)	(158)
Losses on disposal of property, plant and equipment	(551)	–
	(870)	(204)

5. OPERATING EXPENSES / OTHER EXPENSES

	1.3.2016 to 30.11.2016 (Unaudited) HK\$'000	1.3.2015 to 30.11.2015 (Unaudited) HK\$'000
Operating expenses		
Depreciation	34,174	35,078
General administrative expenses	124,123	126,507
Marketing and promotion expenses	41,586	57,911
Operating lease rentals in respect of rented premises, advertising space and equipment	54,510	54,248
Other operating expenses	34,680	44,154
Staff costs including Directors' emoluments	119,157	137,686
	408,230	455,584

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 nine months ended 30th November 2015 and included under other expenses.

6. ADVANCES AND RECEIVABLES

	30.11.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000
Credit card receivables	3,638,171	3,577,431
Instalment loans receivable	1,565,008	1,697,234
Hire purchase debtors	99	749
	5,203,278	5,275,414
Accrued interest and other receivables	89,656	106,515
	5,292,934	5,381,929
Gross advances and receivables	5,292,934	5,381,929
Impairment allowances (<i>note 7</i>)		
– individually assessed	(110,559)	(90,723)
– collectively assessed	(45,525)	(45,603)
	(156,084)	(136,326)
	5,136,850	5,245,603
Current portion included under current assets	(4,063,499)	(4,059,463)
	1,073,351	1,186,140

7. IMPAIRMENT ALLOWANCES

	30.11.2016 (Unaudited) HK\$'000	29.2.2016 (Audited) HK\$'000	
Analysis by products as:			
Credit card receivables	40,643	34,235	
Instalment loans receivable	112,723	100,643	
Hire purchase debtors	1	6	
Accrued interest and other receivables	2,717	1,442	
	156,084	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	219,485	(78)	219,407
Amounts written-off as uncollectable	(196,182)	–	(196,182)
Exchange realignment	(3,467)	–	(3,467)
At 30.11.2016	110,559	45,525	156,084
	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	240,470	(8,030)	232,440
Amounts written-off as uncollectable	(247,433)	–	(247,433)
Exchange realignment	(1,637)	–	(1,637)
At 30.11.2015	83,803	47,884	131,687

8. OVERDUE ADVANCES AND RECEIVABLES

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

	30.11.2016 (Unaudited) HK\$'000	%*	29.2.2016 (Audited)	%*
Overdue 1 month but less than 2 months	72,226	1.4	89,934	1.7
Overdue 2 months but less than 3 months	50,380	1.0	45,420	0.8
Overdue 3 months but less than 4 months	31,764	0.6	27,229	0.5
Overdue 4 months or above	111,022	2.0	89,738	1.7
	265,392	5.0	252,321	4.7

* Percentage of gross advances and receivables

9. BANK BORROWINGS

	30.11.2016 (Unaudited) <i>HK\$'000</i>	29.2.2016 (Audited) <i>HK\$'000</i>
Bank loans, unsecured	1,672,850	1,705,786
Carrying amount repayable (<i>Note</i>)		
Within one year	220,000	560,786
Between one and two years	235,000	190,000
Between two and five years	1,172,850	870,000
Over five years	45,000	85,000
	1,672,850	1,705,786
Amount repayable within one year included under current liabilities	(220,000)	(560,786)
Amount repayable after one year	1,452,850	1,145,000

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

10. COLLATERALIZED DEBT OBLIGATION

	30.11.2016 (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	(75)	(218)
	1,249,925	1,249,782
Amount repayable within one year included under current liabilities	(549,925)	(549,782)
Amount repayable after one year	700,000	700,000

11. DERIVATIVE FINANCIAL INSTRUMENTS

	30.11.2016 (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	62	92,160	57	128,578
Cross-currency interest rate swaps	6,142	–	241	–
Interest rate caps	198	–	1,187	–
	<u>6,402</u>	<u>92,160</u>	<u>1,485</u>	<u>128,578</u>
Current portion	(62)	(5,567)	(241)	(22,364)
	<u>6,340</u>	<u>86,593</u>	<u>1,244</u>	<u>106,214</u>

All derivative financial instruments entered by the Group that remain outstanding at 30th November 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.

12. PLEDGE OF ASSETS

At 30th November 2016, the collateralised debt obligation was secured by credit card receivables and restricted deposits of **HK\$1,531,918,000** and **HK\$166,869,000** respectively (29.2.2016: HK\$1,670,046,000 and HK\$38,000,000).

FINANCIAL REVIEW

1. Under the uncertain economic environment, the Group continued to exercise a cautious approach on credit approval and focus on asset quality management. This led to a slowdown in the growth of advances and receivables. As a result, the Group recorded a decrease in interest income of 3.3% or HK\$27.7 million from HK\$832.2 million in the previous period to HK\$804.5 million in the current period.
2. Interest expense of the Group in the first nine months of this financial year was HK\$69.1 million, a slight decrease when compared with HK\$70.9 million in the previous corresponding period.
3. Net interest income of the Group in the first nine months of 2016/17 amounted to HK\$735.4 million, a decrease of HK\$25.9 million when compared to the previous corresponding period.
4. The fraud alerts on bogus phone calls in Hong Kong have had a negative impact on telemarketing sales. As a result, insurance commissions decreased by 35.4% or HK\$8.4 million to HK\$15.4 million in the reporting period. The decrease was offset by an increase in handling and late charges, which resulted in the overall growth of other operating income by HK\$0.5 million from HK\$115.3 million in the first nine months of 2015/16 to HK\$115.7 million for the corresponding period in 2016/17.
5. During the current period, the Group continued to exercise prudent cost management on marketing and promotion expenses. Also, by aligning talent to business objectives, staff costs were reduced by HK\$18.5 million when compared with the previous period. These measures led to an overall decrease in operating expenses by 10.4% from HK\$455.6 million from the last period to HK\$408.2 million in the current period.
6. 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 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.
7. At the operating level before impairment allowances, the Group recorded an operating profit of HK\$463.2 million for the nine months ended 30th November 2016, representing an increase of 12.3% from HK\$412.6 million in the previous corresponding period.
8. The Group's prudent management on credit risk exposure, coupled with the low unemployment rate in Hong Kong, had resulted in a decrease in impairment losses and impairment allowances of 5.6% from HK\$232.4 million in 2015/16 to HK\$219.4 million for the nine months ended 30th November 2016.

9. The Group shared HK\$8.2 million (2015: HK\$2.5 million) in losses of its associates for the nine months ended 30th November 2016 due to the restructuring of their operating model. On the other hand, the loss of our microfinance subsidiaries has reduced by HK\$15.2 million or 56.4% when compared with the last period, mainly due to better cost control at the subsidiaries.
10. For the nine months ended 30th November 2016, the Group recorded a net profit of HK\$226.0 million, as compared with HK\$179.0 million for the first nine months of 2015/16.
11. The Group's gross advances and receivables at 30th November 2016 amounted to HK\$5,292.9 millions, representing a decrease of 1.7% when compared with the balance at 29th February 2016.
12. At 30th November 2016, 47.4% of the Group's funding was derived from total equity, 30.1% from bank borrowings and 22.5% from structured finance. Including the collateralised debt obligation, 26.4% of these borrowings will mature within one year, 8.0% between one and two years, 64.1% between two and five years and 1.5% over five years.

Please note that the quarterly results of the Group presented herein have not been audited or reviewed by the Company's auditors. Shareholders of the Company and potential investors are advised to exercise caution when dealing in the shares of the Company.

By order of the Board
Hideo Tanaka
Managing Director

Hong Kong, 22nd December 2016

As 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; Mr. Lee Ching Ming, Adrian, Mr. Wong Hin Wing and Mr. Kenji Hayashi as Independent Non-executive Directors.