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AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 900)

UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 20TH MAY 2013

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) hereby announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the three months ended 20th May 2013, together with the comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months ended 20th May 2013

		Three months ended 20th May	
		2013	2012
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	279,469	279,550
Interest income		248,726	250,827
Interest expense		(24,083)	(24,627)
Net interest income		224,643	226,200
Other operating income	3	33,163	31,051
Other gains and losses	4	(406)	(965)
Operating income		257,400	256,286
Operating expenses	5	(114,746)	(104,948)
Operating profit before impairment allowances		142,654	151,338
Impairment losses and impairment allowances		(67,139)	(75,376)
Recoveries of advances and receivables written-off		11,543	13,663
Share of results of associates		(1,741)	(1,161)
Profit before tax		85,317	88,464
Income tax expense		(15,375)	(15,347)
Profit for the period		69,942	73,117
Attributable to:			
Owners of the Company		69,942	73,117

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months ended 20th May 2013

	Three months ended 20th May	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	<u>69,942</u>	<u>73,117</u>
Other comprehensive income (expense)		
Fair value (loss) gain on available-for-sale investments	(5,826)	7,637
Exchange difference arising from translation of foreign operations	3,769	(78)
Net adjustment on cash flow hedges	<u>8,679</u>	<u>4,402</u>
Other comprehensive income for the period	<u>6,622</u>	<u>11,961</u>
Total comprehensive income for the period	<u>76,564</u>	<u>85,078</u>
Total comprehensive income attributable to: Owners of the Company	<u>76,564</u>	<u>85,078</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th May 2013

		20th May 2013 (Unaudited) HK\$'000	20th February 2013 (Audited) HK\$'000
	<i>Notes</i>		
Non-current assets			
Property, plant and equipment		94,765	96,642
Investments in associates		15,684	17,125
Available-for-sale investments		38,484	44,309
Advances and receivables	6	1,299,247	1,314,805
Prepayments, deposits and other debtors		40,217	42,540
Derivative financial instrument	10	–	32
Restricted deposits		68,000	68,000
		1,556,397	1,583,453
Current assets			
Advances and receivables	6	3,519,057	3,500,862
Prepayments, deposits and other debtors		46,961	35,450
Amount due from an associate		799	979
Restricted deposits		202,361	115,958
Time deposits		215,001	372,083
Fiduciary bank balances		2,958	3,712
Bank balances and cash		272,196	156,309
		4,259,333	4,185,353
Current liabilities			
Creditors and accruals		170,331	147,994
Amounts due to fellow subsidiaries		89,475	51,616
Amount due to intermediate holding company		401	2,963
Amount due to ultimate holding company		90	90
Amount due to an associate		35	–
Bank borrowings	9	692,630	711,130
Bank overdrafts		240	2,370
Derivative financial instruments	10	6,397	8,875
Tax liabilities		24,973	21,361
		984,572	946,399
Net current assets		3,274,761	3,238,954
Total assets less current liabilities		4,831,158	4,822,407

		20th May 2013 (Unaudited) HK\$'000	20th February 2013 (Audited) HK\$'000
Capital and reserves			
Issued capital		41,877	41,877
Share premium and reserves		2,263,796	2,187,232
		<hr/>	<hr/>
Total equity		2,305,673	2,229,109
		<hr/>	<hr/>
Non-current liabilities			
Collateralised debt obligation		1,098,568	1,098,461
Bank borrowings	9	1,268,150	1,327,750
Derivative financial instruments	10	157,067	164,687
Deferred tax liabilities		1,700	2,400
		<hr/>	<hr/>
		2,525,485	2,593,298
		<hr/>	<hr/>
		4,831,158	4,822,407
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 20th May 2013

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital redemption reserve <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	Hedging reserve <i>HK\$'000</i>	Translation reserve <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 21st February 2012 (Audited)	41,877	227,330	270	17,938	(194,305)	10,323	1,946,172	2,049,605
Profit for the period	-	-	-	-	-	-	73,117	73,117
Fair value gain on available-for-sale investments	-	-	-	7,637	-	-	-	7,637
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(78)	-	(78)
Net adjustment on cash flow hedges	-	-	-	-	4,402	-	-	4,402
Total comprehensive income (expense) for the period	-	-	-	7,637	4,402	(78)	73,117	85,078
At 20th May 2012 (Unaudited)	41,877	227,330	270	25,575	(189,903)	10,245	2,019,289	2,134,683
At 21st February 2013 (Audited)	41,877	227,330	270	18,649	(165,979)	12,086	2,094,876	2,229,109
Profit for the period	-	-	-	-	-	-	69,942	69,942
Fair value loss on available-for-sale investments	-	-	-	(5,826)	-	-	-	(5,826)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	3,769	-	3,769
Net adjustment on cash flow hedges	-	-	-	-	8,679	-	-	8,679
Total comprehensive income (expense) for the period	-	-	-	(5,826)	8,679	3,769	69,942	76,564
At 20th May 2013 (Unaudited)	41,877	227,330	270	12,823	(157,300)	15,855	2,164,818	2,305,673

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 20th May 2013

	Three months ended 20th May	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash from operating activities	129,758	149,543
Proceeds from disposal of available-for-sale investment	–	31,081
Purchase of property, plant and equipment	(4,737)	(3,309)
Deposits paid for acquisition of property, plant and equipment	(1,611)	(4,802)
Net cash (used in) from investing activities	(6,348)	22,970
Placement of restricted deposits	(728,906)	(436,880)
Withdrawal of restricted deposits	642,503	343,318
New bank loans raised	5,179,500	5,147,515
Repayment of bank loans	(5,259,062)	(5,188,000)
Net cash used in financing activities	(165,965)	(134,047)
Net (decrease) increase in cash and cash equivalents	(42,555)	38,466
Effect of changes in exchange rate	3,490	(117)
Cash and cash equivalents at 21st February	526,022	354,273
Cash and cash equivalents at 20th May	486,957	392,622
Being:		
Time deposits	215,001	247,441
Bank balances and cash	272,196	151,375
Bank overdrafts	(240)	(6,194)
	486,957	392,622

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 20th May 2013

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 20th February 2013.

2. REVENUE

	Three months ended 20th May	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	248,726	250,827
Fees and commissions	19,017	17,300
Handling and late charges	11,726	11,423
	<u>279,469</u>	<u>279,550</u>

3. OTHER OPERATING INCOME

	Three months ended 20th May	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Dividends on available-for-sale investments		
Listed equity securities	170	638
Fees and commissions		
Credit card	8,673	8,129
Insurance	10,344	9,171
Handling and late charges	11,726	11,423
Others	2,250	1,690
	<u>33,163</u>	<u>31,051</u>

4. OTHER GAINS AND LOSSES

	Three months ended 20th May	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Exchange gains (losses)		
Exchange gains on hedging instruments released		
from cash flow hedge reserve	480	840
Exchange losses on bank loans	(480)	(840)
Exchange losses, net	(353)	(912)
Hedge ineffectiveness on cash flow hedges	(53)	(53)
	<u>(406)</u>	<u>(965)</u>

5. OPERATING EXPENSES

	Three months ended 20th May	
	2013 (Unaudited) HK\$'000	2012 (Unaudited) HK\$'000
Depreciation	9,812	8,757
General administrative expenses	31,594	28,683
Marketing and promotion expenses	13,231	12,691
Operating lease rentals in respect of rented premises, advertising space and equipment	14,955	12,752
Other operating expenses	13,054	11,499
Staff costs including Directors' emoluments	32,100	30,566
	<u>114,746</u>	<u>104,948</u>

6. ADVANCES AND RECEIVABLES

	20th May 2013 (Unaudited) HK\$'000	20th February 2013 (Audited) HK\$'000
	Credit card receivables	3,053,747
Instalment loans receivable	1,771,546	1,762,881
Hire purchase debtors	5,130	6,118
	<u>4,830,423</u>	<u>4,824,111</u>
Accrued interest and other receivables	118,910	118,392
	<u>4,949,333</u>	<u>4,942,503</u>
Gross advances and receivables		
Impairment allowances (<i>Note 7</i>)		
– individually assessed	(59,312)	(56,365)
– collectively assessed	(71,717)	(70,471)
	<u>(131,029)</u>	<u>(126,836)</u>
	<u>4,818,304</u>	<u>4,815,667</u>
Current portion included under current assets	(3,519,057)	(3,500,862)
	<u>1,299,247</u>	<u>1,314,805</u>

7. IMPAIRMENT ALLOWANCES

	20th May 2013 (Unaudited) HK\$'000	20th February 2013 (Audited) HK\$'000	
Analysis by products as:			
Credit card receivables	59,201	58,979	
Instalment loans receivable	66,500	62,434	
Hire purchase debtors	173	266	
Accrued interest and other receivables	5,155	5,157	
	131,029	126,836	
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 21st February 2013	56,365	70,471	126,836
Impairment losses and impairment allowances	65,893	1,246	67,139
Amounts written-off as uncollectible	(62,954)	–	(62,954)
Exchange realignment	8	–	8
At 20th May 2013	59,312	71,717	131,029
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 21st February 2012	62,768	66,688	129,456
Impairment losses and impairment allowances	74,703	673	75,376
Amounts written-off as uncollectible	(78,387)	–	(78,387)
At 20th May 2012	59,084	67,361	126,445

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:

	20th May 2013 (Unaudited) HK\$'000	%*	20th February 2013 (Audited) HK\$'000	%*
Overdue 1 month but less than 2 months	152,155	3.1	146,499	3.0
Overdue 2 months but less than 3 months	45,840	0.9	30,970	0.6
Overdue 3 months but less than 4 months	25,610	0.5	21,618	0.4
Overdue 4 months or above	64,516	1.3	61,959	1.3
	288,121	5.8	261,046	5.3

* Percentage of gross advances and receivables

9. BANK BORROWINGS

	20th May 2013 (Unaudited) HK\$'000	20th February 2013 (Audited) HK\$'000
Bank loans, unsecured	1,960,780	2,038,880
Carrying amount repayable (<i>Note</i>)		
Within one year	692,630	711,130
Between one and two years	305,000	235,000
Between two and five years	918,150	1,047,750
Over five years	45,000	45,000
	1,960,780	2,038,880
Amount repayable within one year included under current liabilities	(692,630)	(711,130)
Amount repayable after one year	1,268,150	1,327,750

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

	20th May 2013 (Unaudited)		20th February 2013 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	–	162,383	–	172,886
Cross-currency interest rate swaps	–	1,081	32	676
	–	163,464	32	173,562
Current portion	–	(6,397)	–	(8,875)
Non-current portion	–	157,067	32	164,687

All derivative financial instruments entered by the Group that remained outstanding at 20th May 2013 and 20th February 2013 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 swaps

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

11. PLEDGE OF ASSETS

At 20th May 2013, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,669,326,000** and **HK\$270,361,000** respectively (20th February 2013: HK\$1,730,590,000 and HK\$183,958,000).

FINANCIAL REVIEW

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

- AEON Micro Finance (Shenyang) Co., Ltd.
- AEON Micro Finance (Tianjin) Co., Ltd.
- AEON Micro Finance (Shenzhen) Co., Ltd. (*Note*)
- AEON Insurance Brokers (HK) Limited
- AEON Education and Environment Fund Limited

and associates:

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

Note: This subsidiary is a wholly foreign owned enterprise. It started business in April 2013.

2. Despite customers’ cautious approach to spending which led to a slow recovery in demand for revolving transactions, the Group recorded interest income of HK\$249 million in the first three months which was similar to that of last year.

3. With the renewal of long-term indebtedness at lower interest rates in previous years and lower funding cost, interest expense in the first three months was HK\$24.1 million, as compared with HK\$24.6 million in the previous corresponding period.
4. Net interest income of the Group recorded a decrease of HK\$1.6 million to HK\$224.6 million from HK\$226.2 million in 2012/13.
5. In the second half of last year, the Group set up a second micro-finance subsidiary in Tianjin. In April this year, another micro-finance subsidiary started its business in Shenzhen. During this review period, the running costs of these newly set up micro-finance subsidiaries, and the expansion and relocation costs of local branch network had contributed to an increase in the operating expenses by 9.3% from HK\$104.9 million in 2012/13 to HK\$114.7 million in the first three months of 2013/14.
6. At the operating level before impairment allowances, the Group recorded an operating profit of HK\$142.7 million for the three months ended 20th May 2013, representing a decrease of 5.7% from HK\$151.3 million in the previous corresponding period.
7. With proactive collection actions and cautious approval process, impairment losses and impairment allowances for the first three months continued to record a decrease of 10.9% from HK\$75.4 million in 2012/13 to HK\$67.1 million.
8. For the three months ended 20th May 2013, the Group recorded a net profit of HK\$69.9 million, representing a decrease of 4.3% when compared with the previous corresponding period.
9. Although the growth of card cash advance receivables was sluggish, the card credit purchase receivables and instalment loan receivables continued to record an upward trend thanks to the overwhelming responses to the marketing programmes. As a result, the Group recorded an increase in gross advances of HK\$6.3 million during the period. Gross advances at 20th May 2013 were HK\$4,830.4 million, as compared to HK\$4,824.1 million at 20th February 2013.
10. The increase in restricted deposits was related to the arrangement under the collateralised debt obligation. Furthermore, the movement in time deposits and bank balances and cash was related to the capital injection for a micro-finance subsidiary and bank balances kept by subsidiaries in China.
11. The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th May 2013, 43.0% of its funding was derived from total equity, 36.5% from direct borrowings from financial institutions and 20.5% from structured finance.
12. Including the collateralised debt obligation, 22.6% of these indebtedness will mature within one year, 10.0% between one and two years, 65.9% 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 cautious when dealing in the shares of the Company.

By order of the Board
Fung Kam Shing, Barry
Managing Director

Hong Kong, 18th June 2013

As at the date of this announcement, the Board of Directors comprises Mr. Fung Kam Shing, Barry (Managing Director), Ms. Koh Yik Kung, Ms. Chan Fung Kuen, Dorothy and Ms. Tomoko Misaki as Executive Directors; Mr. Masanori Kosaka (Chairman) and Mr. Lai Yuk Kwong as Non-executive Directors; and Dr. Hui Ching Shan, Mr. Wong Hin Wing and Prof. Tong Jun as Independent Non-executive Directors.