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AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 900)

UNAUDITED RESULTS FOR THE NINE MONTHS ENDED 20TH NOVEMBER 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 nine months ended 20th November 2013, together with comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 20th November 2013

		Nine months ended 20th November	
		2013	2012
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	2	855,786	835,741
Interest income		765,016	749,289
Interest expense		(72,116)	(76,517)
Net interest income		692,900	672,772
Other operating income	3	96,140	91,998
Other gains and losses	4	(1,037)	12,369
Operating income		788,003	777,139
Operating expenses	5	(382,200)	(327,069)
Operating profit before impairment allowances		405,803	450,070
Impairment losses and impairment allowances		(228,194)	(213,969)
Recoveries of advances and receivables written-off		35,596	38,309
Share of results of associates		(3,461)	(3,735)
Profit before tax		209,744	270,675
Income tax expense		(40,360)	(44,922)
Profit for the period		169,384	225,753
Profit for the period attributable to:			
Owners of the Company		169,384	225,753

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 20th November 2013

	Nine months ended 20th November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the period	<u>169,384</u>	<u>225,753</u>
Other comprehensive (expense) income		
Items that may be subsequently reclassified to profit or loss:		
Fair value loss on available-for-sale investments	(15,238)	(1,066)
Exchange difference arising from translation of foreign operations	5,273	1,921
Net adjustment on cash flow hedges	<u>35,412</u>	<u>6,500</u>
Other comprehensive income for the period	<u>25,447</u>	<u>7,355</u>
Total comprehensive income for the period	<u>194,831</u>	<u>233,108</u>
Total comprehensive income for the period attributable to: Owners of the Company	<u>194,831</u>	<u>233,108</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th November 2013

		20th November 2013	20th February 2013
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment		98,067	96,642
Investments in associates		14,073	17,125
Available-for-sale investments		29,071	44,309
Advances and receivables	6	1,317,204	1,314,805
Prepayments, deposits and other debtors		51,663	42,540
Derivative financial instruments	10	446	32
Restricted deposits		68,000	68,000
		1,578,524	1,583,453
Current assets			
Advances and receivables	6	3,820,556	3,500,862
Prepayments, deposits and other debtors		43,127	35,450
Amount due from an associate		–	979
Restricted deposits		126,539	115,958
Time deposits		303,230	372,083
Fiduciary bank balances		3,772	3,712
Bank balances and cash		147,406	156,309
		4,444,630	4,185,353
Current liabilities			
Creditors and accruals		184,849	147,994
Amounts due to fellow subsidiaries		49,737	51,616
Amount due to intermediate holding company		–	2,963
Amount due to ultimate holding company		34	90
Amount due to an associate		2,537	–
Bank borrowings	9	770,099	711,130
Bank overdrafts		5,785	2,370
Derivative financial instruments	10	1,528	8,875
Tax liabilities		45,788	21,361
		1,060,357	946,399
Net current assets		3,384,273	3,238,954
Total assets less current liabilities		4,962,797	4,822,407

		20th November 2013 (Unaudited) HK\$'000	20th February 2013 (Audited) HK\$'000
Capital and reserves			
Issued capital		41,877	41,877
Share premium and reserves		<u>2,235,495</u>	<u>2,187,232</u>
Total equity		<u>2,277,372</u>	<u>2,229,109</u>
Non-current liabilities			
Collateralised debt obligation		1,098,781	1,098,461
Bank borrowings	9	1,447,600	1,327,750
Derivative financial instruments	10	135,944	164,687
Deferred tax liabilities		<u>3,100</u>	<u>2,400</u>
		<u>2,685,425</u>	<u>2,593,298</u>
		<u>4,962,797</u>	<u>4,822,407</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 20th November 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>
Balance 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	-	-	-	-	-	-	225,753	225,753
Fair value loss on available-for-sale investments	-	-	-	(1,066)	-	-	-	(1,066)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	1,921	-	1,921
Net adjustment on cash flow hedges	-	-	-	-	6,500	-	-	6,500
Total comprehensive (expense) income for the period	-	-	-	(1,066)	6,500	1,921	225,753	233,108
Final dividend paid for 2011/12	-	-	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for 2012/13	-	-	-	-	-	-	(71,190)	(71,190)
	-	-	-	(1,066)	6,500	1,921	79,185	86,540
Balance at 20th November 2012 (Unaudited)	41,877	227,330	270	16,872	(187,805)	12,244	2,025,357	2,136,145
Balance 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	-	-	-	-	-	-	169,384	169,384
Fair value loss on available-for-sale investments	-	-	-	(15,238)	-	-	-	(15,238)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	5,273	-	5,273
Net adjustment on cash flow hedges	-	-	-	-	35,412	-	-	35,412
Total comprehensive (expense) income for the period	-	-	-	(15,238)	35,412	5,273	169,384	194,831
Final dividend paid for 2012/13	-	-	-	-	-	-	(75,378)	(75,378)
Interim dividend paid for 2013/14	-	-	-	-	-	-	(71,190)	(71,190)
	-	-	-	(15,238)	35,412	5,273	22,816	48,263
Balance at 20th November 2013 (Unaudited)	41,877	227,330	270	3,411	(130,567)	17,359	2,117,692	2,277,372

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the nine months ended 20th November 2013

	Nine months ended 20th November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash (used in) from operating activities	(64,845)	285,433
Dividends received	171	924
Proceeds from disposal of available-for-sale investments	–	74,247
Proceeds from disposal of property, plant and equipment	10	–
Purchase of property, plant and equipment	(27,353)	(14,221)
Deposits paid for acquisition of property, plant and equipment	(15,775)	(12,264)
Net cash (used in) from investing activities	(42,947)	48,686
Placement of restricted deposits	(2,060,726)	(1,883,274)
Withdrawal of restricted deposits	2,050,145	1,663,457
Dividends paid	(146,568)	(146,568)
New bank loans raised	36,421,561	13,771,655
Repayment of bank loans	(36,242,562)	(13,721,000)
Net cash from (used in) financing activities	21,850	(315,730)
Net (decrease) increase in cash and cash equivalents	(85,942)	18,389
Cash and cash equivalents at 21st February	526,022	354,273
Effect of changes in exchange rate	4,771	1,660
Cash and cash equivalents at 20th November	444,851	374,322
Being:		
Time deposits	303,230	213,977
Bank balances and cash	147,406	162,991
Bank overdrafts	(5,785)	(2,646)
	444,851	374,322

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 20th November 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

	Nine months ended 20th November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest income	765,016	749,289
Fees and commissions	54,290	50,846
Handling and late charges	36,480	35,606
	<u>855,786</u>	<u>835,741</u>

3. OTHER OPERATING INCOME

	Nine months ended 20th November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Dividends received on available-for-sale investments		
Listed equity securities	171	924
Fees and commissions		
Credit card	27,794	21,522
Insurance	26,496	29,324
Handling and late charges	36,480	35,606
Others	5,199	4,622
	<u>96,140</u>	<u>91,998</u>

4. OTHER GAINS AND LOSSES

	Nine months ended 20th November	
	2013	2012
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Exchange (losses) gains		
Exchange losses on hedging instruments released from cash flow hedge reserve	(180)	(120)
Exchange gains on bank loans	180	120
Exchange losses, net	(318)	(1,573)
Hedge ineffectiveness on cash flow hedges	(158)	(158)
Net losses on disposal of property, plant and equipment	(561)	–
Gain on disposal of available-for-sale investments	–	14,100
	<u>(1,037)</u>	<u>12,369</u>

5. OPERATING EXPENSES

	Nine months ended 20th November	
	2013	2012
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Depreciation	30,256	26,673
General administrative expenses	106,262	91,876
Marketing and promotion expenses	51,959	39,089
Operating lease rentals in respect of rented premises, advertising space and equipment	47,720	40,890
Other operating expenses	45,111	37,365
Staff costs including Directors' emoluments	100,892	91,176
	<u>382,200</u>	<u>327,069</u>

6. ADVANCES AND RECEIVABLES

	20th November	20th February
	2013	2013
	(Unaudited) HK\$'000	(Audited) HK\$'000
Credit card receivables	3,350,950	3,055,112
Instalment loans receivable	1,810,938	1,762,881
Hire purchase debtors	3,188	6,118
	<u>5,165,076</u>	<u>4,824,111</u>
Accrued interest and other receivables	120,598	118,392
	<u>5,285,674</u>	<u>4,942,503</u>
Gross advances and receivables	5,285,674	4,942,503
Impairment allowances (<i>note 7</i>)		
– individually assessed	(81,496)	(56,365)
– collectively assessed	(66,418)	(70,471)
	<u>(147,914)</u>	<u>(126,836)</u>
	<u>5,137,760</u>	<u>4,815,667</u>
Current portion included under current assets	(3,820,556)	(3,500,862)
	<u>1,317,204</u>	<u>1,314,805</u>

7. IMPAIRMENT ALLOWANCES

	20th November 2013 (Unaudited) HK\$'000	20th February 2013 (Audited) HK\$'000	
Analysis by products as:			
Credit card receivables	64,769	58,979	
Instalment loans receivable	78,887	62,434	
Hire purchase debtors	152	266	
Accrued interest and other receivables	4,106	5,157	
	147,914	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	232,247	(4,053)	228,194
Amounts written-off as uncollectable	(207,116)	-	(207,116)
At 20th November 2013	81,496	66,418	147,914
	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	217,029	(3,060)	213,969
Amounts written-off as uncollectable	(220,093)	-	(220,093)
At 20th November 2012	59,704	63,628	123,332

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 November 2013 (Unaudited)		20th February 2013 (Audited)	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	143,424	2.7	146,499	3.0
Overdue 2 months but less than 3 months	43,550	0.8	30,970	0.6
Overdue 3 months but less than 4 months	26,714	0.5	21,618	0.4
Overdue 4 months or above	85,639	1.6	61,959	1.3
	299,327	5.6	261,046	5.3

* Percentage of gross advances and receivables

9. BANK BORROWINGS

	20th November 2013 (Unaudited) HK\$'000	20th February 2013 (Audited) HK\$'000
Bank loans, unsecured	<u>2,217,699</u>	<u>2,038,880</u>
Carrying amount repayable (<i>Note</i>)		
Within one year	770,099	711,130
Between one and two years	290,000	235,000
Between two and five years	1,042,600	1,047,750
Over five years	<u>115,000</u>	<u>45,000</u>
	2,217,699	2,038,880
Amount repayable within one year included under current liabilities	<u>(770,099)</u>	<u>(711,130)</u>
Amount repayable after one year	<u>1,447,600</u>	<u>1,327,750</u>

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

	20th November 2013 (Unaudited)		20th February 2013 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	446	135,079	–	172,886
Cross-currency interest rate swaps	–	2,393	32	676
	446	137,472	32	173,562
Current portion	–	(1,528)	–	(8,875)
Non-current portion	<u>446</u>	<u>135,944</u>	<u>32</u>	<u>164,687</u>

All derivative financial instruments entered by the Group that remain outstanding at 20th November 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 the 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 November 2013, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,739,399,000** and **HK\$194,539,000** 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.
- 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.

2. During the period under review, with the launch of strategic marketing programmes to stimulate customers on using revolving transactions as well as credit purchase spending, the Group recorded a double-digit growth in both card cash advance and credit purchase sales. However, the growth on local personal loan sales slowed down due to keen competition. Nevertheless, it was compensated by the steady sales performance of microfinance business in China. Interest income of the Group for the nine months ended 20th November 2013 was HK\$765.0 million, an increase of 2.1% when compared with HK\$749.3 million in the previous corresponding period.

3. With the renewals of long-term indebtedness at lower interest rates in previous years and lower funding cost, interest expense in the first nine months was HK\$72.1 million, a decrease of 5.8% when compared with HK\$76.5 million in the previous corresponding period.
4. Net interest income of the Group recorded an increase of HK\$20.1 million to HK\$692.9 million from HK\$672.8 million in 2012/13.
5. In the second half of last year, the Group set up the second microfinance subsidiary in Tianjin. In April this year, another microfinance subsidiary started its business in Shenzhen. During this review period, the running costs of these newly set up microfinance subsidiaries, together with the expansion and relocation costs of local branch network and the marketing expenses of various marketing activities had contributed to an increase in the operating expenses by 16.9% from HK\$327.1 million in 2012/13 to HK\$382.2 million for the first nine months in 2013/14.
6. At the operating level before impairment allowances, the Group recorded an operating profit of HK\$405.8 million for the nine months ended 20th November 2013, representing a decrease of 9.8% from HK\$450.1 million in the previous corresponding period.
7. With the provision of impairment allowances on the advances of microfinance subsidiaries, the impairment losses and impairment allowances of the Group for the first nine months increased by HK\$14.2 million from HK\$214.0 million in 2012/13 to HK\$228.2 million.
8. For the nine months ended 20th November 2013, the Group recorded a net profit of HK\$169.4 million, a decrease of HK\$56.4 million, when compared with HK\$225.8 million in the previous corresponding period.
9. Strong growth on credit card receivables helped to increase the Group's gross advances by HK\$341.0 million to HK\$5,165.1 million at 20th November 2013, as compared to HK\$4,824.1 million at 20th February 2013.
10. The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th November 2013, 40.8% of its funding was derived from total equity, 39.6% from direct borrowings and 19.6% from structured finance.
11. Including the collateralised debt obligation, 23.2% of the indebtedness will mature within one year, 8.7% between one and two years, 64.6% between two and five years and 3.5% 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
Fung Kam Shing, Barry
Managing Director

Hong Kong, 20th December 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 Mr. Ip Yuk Keung, Mr. Wong Hin Wing and Prof. Tong Jun as Independent Non-executive Directors.