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

UNAUDITED RESULTS FOR THE THREE MONTHS ENDED 20TH MAY 2014

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 2014, together with the comparative figures of the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 20th May 2014

		Three months ended 20th May		
		2014	2013	
		(Unaudited)	(Unaudited)	Percentage
	<i>Notes</i>	HK\$'000	HK\$'000	change
				%
Revenue	2	312,700	279,469	11.9
Interest income		283,662	248,726	14.0
Interest expense		(22,715)	(24,083)	(5.7)
Net interest income		260,947	224,643	16.2
Other operating income	3	30,034	33,163	(9.4)
Other gains and losses	4	(267)	(406)	(34.2)
Operating income		290,714	257,400	12.9
Operating expenses	5	(134,393)	(114,746)	17.1
Operating profit before impairment allowances		156,321	142,654	9.6
Impairment losses and impairment allowances		(84,532)	(67,139)	25.9
Recoveries of advances and receivables written-off		12,727	11,543	10.3
Share of results of associates		(7,609)	(1,741)	337.0
Profit before tax		76,907	85,317	(9.9)
Income tax expense		(15,569)	(15,375)	1.3
Profit for the period		61,338	69,942	(12.3)
Attributable to:				
Owners of the Company		61,338	69,942	(12.3)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 20th May 2014

	Three months ended 20th May		
	2014	2013	Percentage
	(Unaudited)	(Unaudited)	change
	HK\$'000	HK\$'000	%
Profit for the period	<u>61,338</u>	<u>69,942</u>	(12.3)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Fair value loss on available-for-sale investments	(622)	(5,826)	(89.3)
Exchange difference arising from translation of foreign operations	(6,463)	3,769	(271.5)
Net adjustment on cash flow hedges	<u>7,140</u>	<u>8,679</u>	(17.7)
Other comprehensive income for the period	<u>55</u>	<u>6,622</u>	(99.2)
Total comprehensive income for the period	<u>61,393</u>	<u>76,564</u>	(19.8)
Total comprehensive income for the period attributable to:			
Owners of the Company	<u>61,393</u>	<u>76,564</u>	(19.8)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 20th May 2014

	<i>Notes</i>	20th May 2014 (Unaudited) HK\$'000	20th February 2014 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment		108,016	111,368
Investments in associates		48,164	15,162
Available-for-sale investments		25,483	26,105
Advances and receivables	6	1,285,429	1,292,429
Prepayments, deposits and other debtors		44,985	44,183
Derivative financial instruments	10	631	1,025
Restricted deposits		68,000	68,000
		1,580,708	1,558,272
Current assets			
Advances and receivables	6	3,979,300	3,975,192
Prepayments, deposits and other debtors		34,158	39,718
Amount due from immediate holding company		–	1,395
Amounts due from fellow subsidiaries		47	73
Restricted deposits		62,909	–
Time deposits		310,100	361,660
Fiduciary bank balances		3,163	3,074
Bank balances and cash		213,771	158,394
		4,603,448	4,539,506
Current liabilities			
Creditors and accruals		196,488	170,094
Amounts due to fellow subsidiaries		76,106	59,854
Amount due to ultimate holding company		58	49
Amount due to an associate		3,542	1,434
Bank borrowings	9	835,000	797,500
Bank overdrafts		3,969	5,025
Derivative financial instruments	10	1,751	1,740
Tax liabilities		7,006	6,473
		1,123,920	1,042,169
Net current assets		3,479,528	3,497,337
Total assets less current liabilities		5,060,236	5,055,609

		20th May 2014	20th February 2014
		(Unaudited)	(Audited)
	<i>Notes</i>	HK\$'000	HK\$'000
Capital and reserves			
Share capital		269,477	41,877
Reserves		2,137,491	2,303,698
		<hr/>	<hr/>
Total equity		2,406,968	2,345,575
		<hr/>	<hr/>
Non-current liabilities			
Collateralised debt obligation		1,098,993	1,098,887
Bank borrowings	9	1,437,600	1,487,750
Derivative financial instruments	10	111,075	118,597
Deferred tax liabilities		5,600	4,800
		<hr/>	<hr/>
		2,653,268	2,710,034
		<hr/>	<hr/>
		5,060,236	5,055,609
		<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 20th May 2014

	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 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 (expense) income for the period	-	-	-	(5,826)	8,679	3,769	69,942	76,564
At 20th May 2013 (Unaudited)	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>12,823</u>	<u>(157,300)</u>	<u>15,855</u>	<u>2,164,818</u>	<u>2,305,673</u>
At 21st February 2014 (Audited)	<u>41,877</u>	<u>227,330</u>	<u>270</u>	<u>445</u>	<u>(113,110)</u>	<u>18,507</u>	<u>2,170,256</u>	<u>2,345,575</u>
Profit for the period	-	-	-	-	-	-	61,338	61,338
Fair value loss on available- for-sale investments	-	-	-	(622)	-	-	-	(622)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(6,463)	-	(6,463)
Net adjustment on cash flow hedges	-	-	-	-	7,140	-	-	7,140
Total comprehensive (expense) income for the period	-	-	-	(622)	7,140	(6,463)	61,338	61,393
Transfer upon abolition of par value under the new Hong Kong Companies Ordinance (<i>Note</i>)	<u>227,600</u>	<u>(227,330)</u>	<u>(270)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 20th May 2014 (Unaudited)	<u>269,477</u>	<u>-</u>	<u>-</u>	<u>(177)</u>	<u>(105,970)</u>	<u>12,044</u>	<u>2,231,594</u>	<u>2,406,968</u>

Note: The Company has no authorised share capital and its shares have no par value since the commencement date of the new Hong Kong Companies Ordinance (i.e. 3rd March 2014).

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the three months ended 20th May 2014

	Three months ended 20th May	
	2014	2013
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from operating activities	134,343	129,758
Purchase of property, plant and equipment	(4,007)	(4,737)
Deposits paid for acquisition of property, plant and equipment	(2,763)	(1,611)
Investment in an associate	(39,389)	–
Decrease in time deposit with maturity of more than three months	3,845	–
Net cash used in investing activities	(42,314)	(6,348)
Placement of restricted deposits	(326,653)	(728,906)
Withdrawal of restricted deposits	263,743	642,503
New bank loans raised	25,923,400	5,179,500
Repayment of bank loans	(25,935,900)	(5,259,062)
Net cash used in financing activities	(75,410)	(165,965)
Net increase (decrease) in cash and cash equivalents	16,619	(42,555)
Effect of changes in exchange rate	(7,901)	3,490
Cash and cash equivalents at 21st February	511,184	526,022
Cash and cash equivalents at 20th May	519,902	486,957
Being:		
Time deposits	310,100	215,001
Bank balances and cash	213,771	272,196
Bank overdrafts	(3,969)	(240)
	519,902	486,957

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 20th May 2014

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 2014.

2. REVENUE

	Three months ended 20th May	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Interest income	283,662	248,726
Fees and commissions	16,552	19,017
Handling and late charges	12,486	11,726
	<u>312,700</u>	<u>279,469</u>

3. OTHER OPERATING INCOME

	Three months ended 20th May	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Dividends on available-for-sale investments		
Listed equity securities	–	170
Fees and commissions		
Credit card	9,721	8,673
Insurance	6,831	10,344
Handling and late charges	12,486	11,726
Others	996	2,250
	<u>30,034</u>	<u>33,163</u>

4. OTHER GAINS AND LOSSES

	Three months ended 20th May	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Exchange (losses) gains		
Exchange (losses) gains on hedging instruments released from cash flow hedge reserve	(150)	480
Exchange gains (losses) on bank loans	150	(480)
Exchange losses, net	(214)	(353)
Hedge ineffectiveness on cash flow hedges	(53)	(53)
	<u>(267)</u>	<u>(406)</u>

5. OPERATING EXPENSES

	Three months ended 20th May	
	2014 (Unaudited) HK\$'000	2013 (Unaudited) HK\$'000
Depreciation	10,662	9,812
General administrative expenses	33,294	31,594
Marketing and promotion expenses	18,728	13,231
Operating lease rentals in respect of rented premises, advertising space and equipment	16,690	14,955
Other operating expenses	16,760	13,054
Staff costs including Directors' emoluments	38,259	32,100
	134,393	114,746

6. ADVANCES AND RECEIVABLES

	20th May 2014 (Unaudited) HK\$'000	20th February 2014 (Audited) HK\$'000
	Credit card receivables	3,525,114
Instalment loans receivable	1,781,159	1,775,736
Hire purchase debtors	2,053	2,545
	5,308,326	5,299,114
Accrued interest and other receivables	115,047	115,867
	5,423,373	5,414,981
Gross advances and receivables		
Impairment allowances (<i>Note 7</i>)		
– individually assessed	(101,400)	(81,207)
– collectively assessed	(57,244)	(66,153)
	(158,644)	(147,360)
	5,264,729	5,267,621
Current portion included under current assets	(3,979,300)	(3,975,192)
	1,285,429	1,292,429

7. IMPAIRMENT ALLOWANCES

	20th May 2014 (Unaudited) HK\$'000	20th February 2014 (Audited) HK\$'000	
Analysis by products as:			
Credit card receivables	60,459	61,084	
Instalment loans receivable	96,565	84,058	
Hire purchase debtors	59	57	
Accrued interest and other receivables	1,561	2,161	
	158,644	147,360	
	Individual assessment HK\$'000	Collective assessment HK\$'000	Total HK\$'000
At 21st February 2014	81,207	66,153	147,360
Impairment losses and impairment allowances	93,441	(8,909)	84,532
Amounts written-off as uncollectable	(73,248)	-	(73,248)
At 20th May 2014	101,400	57,244	158,644
	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 uncollectable	(62,946)	-	(62,946)
At 20th May 2013	59,312	71,717	131,029

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 2014 (Unaudited) HK\$'000	%*	20th February 2014 (Audited) HK\$'000	%*
Overdue 1 month but less than 2 months	140,072	2.6	142,006	2.6
Overdue 2 months but less than 3 months	42,380	0.8	46,056	0.9
Overdue 3 months but less than 4 months	26,989	0.5	30,204	0.6
Overdue 4 months or above	111,359	2.0	84,384	1.5
	320,800	5.9	302,650	5.6

* Percentage of gross advances and receivables

9. BANK BORROWINGS

	20th May 2014 (Unaudited) HK\$'000	20th February 2014 (Audited) HK\$'000
Bank loans, unsecured	2,272,600	2,285,250
Carrying amount repayable (<i>Note</i>)		
Within one year	835,000	797,500
Between one and two years	290,000	330,000
Between two and five years	1,032,600	1,042,750
Over five years	115,000	115,000
	2,272,600	2,285,250
Amount repayable within one year included under current liabilities	(835,000)	(797,500)
Amount repayable after one year	1,437,600	1,487,750

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

10. DERIVATIVE FINANCIAL INSTRUMENTS

	20th May 2014 (Unaudited)		20th February 2014 (Audited)	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Interest rate swaps	631	111,307	1,025	119,034
Cross-currency interest rate swap	–	1,519	–	1,303
	631	112,826	1,025	120,337
Current portion	–	(1,751)	–	(1,740)
Non-current portion	631	111,075	1,025	118,597

All derivative financial instruments entered by the Group that remain outstanding at 20th May 2014 and 20th February 2014 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 swap

The Group uses cross-currency interest rate swap 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 borrowing by swapping the floating-rate USD bank borrowing to fixed-rate HKD bank borrowing. The cross-currency interest rate swap and the corresponding bank borrowing have the same terms and the Directors consider that the cross-currency interest rate swap is highly effective hedging instruments.

11. PLEDGE OF ASSETS

At 20th May 2014, the collateralised debt obligation of the Group was secured by credit card receivables and restricted deposits of **HK\$1,812,780,000** and **HK\$130,909,000** respectively (20th February 2014: HK\$1,858,759,000 and HK\$68,000,000).

FINANCIAL REVIEW

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

- AEON Insurance Brokers (HK) Limited
- AEON Micro Finance (Shenyang) Co., Ltd.
- AEON Micro Finance (Tianjin) Co., Ltd.
- AEON Micro Finance (Shenzhen) Co., Ltd.

and associates:

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

2. The Group recorded double-digit growth in both card cash advance and credit purchase sales transactions following the launch of a series of successful marketing programmes to stimulate revolving transactions and credit purchase spending. Interest income in the first three months was HK\$283.7 million, representing an increase of 14.0% from HK\$248.7 million in the previous corresponding period.

3. With the renewal of long-term bank borrowings with lower interest rates, interest expense in the first three months was HK\$22.7 million, a decrease of 5.7% when compared with HK\$24.1 million in the previous corresponding period.

4. Net interest income of the Group recorded an increase of HK\$36.3 million to HK\$260.9 million from HK\$224.6 million in 2013/14.
5. AEON Micro Finance (Shenzhen) Co., Ltd. commenced its operation in last April. During this review period, the running costs of this subsidiary, coupled with relocation costs of local branch network and the marketing expenses of various marketing activities, had contributed to an increase in the operating expenses by 17.1% from HK\$114.7 million in 2013/14 to HK\$134.4 million for the first three months of 2014/15.
6. At the operating level before impairment allowances, the Group recorded an operating profit of HK\$156.3 million for the three months ended 20th May 2014, representing an increase of 9.6% from HK\$142.7 million in the previous corresponding period.
7. During the period under review, impairment losses and impairment allowances increased by 25.9% to HK\$84.5 million from HK\$67.1 million in 2013/14 due to increase in overdue advances and receivables and the provision of impairment allowances on the advances.
8. For the three months ended 20th May 2014, the Group recorded a net profit of HK\$61.3 million, representing a decrease of 12.3% when compared with the previous corresponding period.
9. Gross advances at 20th May 2014 were HK\$5,308.3 million, representing an increase of HK\$9.2 million when compared to 20th February 2014.
10. The Group relies principally on its internally generated capital, bank borrowings and structured finance to fund its business. At 20th May 2014, 41.7% of its funding was derived from total equity, 39.3% from bank borrowings and 19.0% from structured finance.
11. Including the collateralised debt obligation, 24.8% of these indebtedness will mature within one year, 24.9% between one and two years, 46.9% between two and five years and 3.4% 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, 17th June 2014

As at the date of this announcement, the Board of Directors comprises Mr. Fung Kam Shing, Barry (Managing Director), Ms. Koh Yik Kung, Mr. Tomoyuki Kawahara and Mr. Fong Chung Leung, Gerald 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.