

# Managing Director's Operational Review

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**Kazuhide KAMITANI**  
*Managing Director*

## INTRODUCTION

On behalf of the Board of Directors, I am pleased to present to you the Annual Report of the Company for the year ended 20th February 2001. Last year was a very challenging year for the Company as we faced a very keen competition in the credit card market. In view of this, the Company had spent a great effort in establishing a solid foundation for its future business growth. During the year under review, the Company launched A $\epsilon$ ON-SPOT™ and also set up its call center in Shenzhen, China in June. In November, we completed the Customer Relationship Management (“CRM”) and in December, we used the CRM to market the AEON American Express Card to our inactive and sleeping customer database.

## PERFORMANCE REVIEW

The Company has continued to record an increase in net profit for six consecutive years since its listing on The Stock Exchange of Hong Kong Limited, with net profit for the year ended 20th February 2001 increased by 16.7% from the previous year to HK\$210.0 million. Earnings per share were 50.15 HK cents, an increase of 16.7% over last year. We have recommended the payment of a final dividend of 8.0 HK cents per share and, together with the interim dividend of 4.5 HK cents, total dividend for the year was 12.5 HK cents per share.

Total revenue for the year was HK\$842.1 million, an increase of 2.1% over last year. To cater for the demand of personal finance, the Company introduced web-loan and A $\epsilon$ ON-CASH to the personal loan portfolio. Sales transactions for personal loan increased by 115.0% over last year. To minimize the impact of interest rate fluctuation, the Company increased its portion of long-term bank borrowings from 70.0% to 80.0%, with interest expenses increased by 4.9% or HK\$9.0 million. The Company's net interest income recorded a moderate increase of 2.6% to HK\$578.1 million from HK\$563.7 million in 2000.

During the year, the management continued to exercise stringent cost control despite the ongoing expansion and had successfully improved its cost to income ratio from 43.0% to 42.2%. Operating expenses decreased from HK\$276.2 million to HK\$273.1 million. Charge for bad and doubtful debts fell by 15.2% to HK\$135.0 million from HK\$159.2 million in 2000.

Total debtor balance as at 20th February 2001 was HK\$2,740.7 million, an increase of HK\$105.3 million when compared with HK\$2,635.4 million as at 20th February 2000.

As at 20th February 2001, the Company had bank borrowings amounted to HK\$1,616.6 million, of which HK\$461.6 million is repayable within one year, and HK\$540 million issued debt securities backed by credit card receivables.

The shareholders' funds of the Company were further strengthened by 22.3% to HK\$865.8 million as at 20th February 2001 mainly due to an increase in retained earnings. Debt-to-equity ratio improved from 3.2 in 2000 to 2.6 in 2001.

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## BUSINESS DEVELOPMENT

### Credit Card Business

Credit card business continued to be the core business of the Company. The number of cardholders had increased by 108,000 to 723,000 as at 20th February 2001. This was attributed to the launching of new types of credit cards and aggressive marketing programs. During the three days' Jusco Private Sales in December 2000, we received 30,000 applications for the AEON Jusco MasterCard, which set a new record for our card recruiting exercise. With the granting of licence by American Express, the AEON American Express Card was launched in December 2000 and 22,000 members were recruited up to 20th February 2001. Besides the AEON American Express Card, we had also launched another two types of cards in the market, namely the AEON HKN Net MasterCard and the AEON Hon Po MasterCard, which had not only widened our customer base but also enabled our customers to choose the card that most suited their spending behavior.



*New cards launched under MasterCard and American Express brands*



*Secure payment for online transactions*

### E-Commerce Activities

The launch of AeON-SPOT™ in June 2000 has created a channel for the Company to provide consumer finance products to Internet users and merchants. AeON-SPOT™ provides an alternate secure payment method that truly resolves security concerns of online merchants and customers. To-date the number of AeON-SPOT™ enabled online merchants has increased to about 70.

### Shenzhen Call Center

The call center in Shenzhen, China was set up in June 2000, handling outbound calls for tele-marketing and collection jobs. The number of operators had increased to 50 by end of the year, with the number of monthly successful contacts for tele-marketing and collection reaching 300,000 and 75,000 respectively.



*Shenzhen Call Center*

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## Customer Relationship Management

Customer Relationship Management (“CRM”) was completed in November 2000. The core of the CRM is a customer data warehouse with powerful analytical functions. This enables the Company’s marketing personnel to perform real-time customer demographic and spending pattern analysis. Insights are provided to support target marketing. In December 2000, the Company made use of the CRM to perform customer demographic analysis on the database and market the AEON American Express Card to target customers with good response. We expect the CRM initiative to bring about improved active ratio, more effective customer loyalty, retention and recruitment programs, and product developments that better target demands.



Use CRM to support AEON American Express Card marketing

## PROSPECTS

Credit card business will continue to be the core business of the Company in the coming year. In addition, the Company will also make use of the completed infrastructure and customer database to perform direct selling and cross-selling for personal loan and other financial and consumer products and services to the customers.



First card issuer to offer top three most popular credit card brands in Hong Kong

## Credit Card Business Continues Unceasing Growth

On credit card business, Visa International has granted the Company a licence to issue Visa card. As the first card issuer in Hong Kong who can offer the top three most popular credit card brands at the option of both merchants and customers, the Company targets to issue at least five affinity cards in the coming year. Through the issuance of cards that match different lifestyles of customers, based on the concept of daily use cards, the Company will continue to develop new markets. We expect our cardholder base to reach 1,000,000 within three years.

## Use of Customer Relationship Management Capabilities to Increase Active Ratio

The Company, in using the CRM capabilities, will perform analysis on customer information and translate the data into marketing campaigns with clear goals and objectives to achieve a higher active ratio. This includes the arrangement of special promotions or campaigns with merchants to offer attractive products, services or benefits to activate sleeping or inactive customers. Without increasing our marketing cost, we target to increase our active ratio from existing 36% to 40% and further to 50% in two years’ time.



Credit card database marketing using CRM

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## Network of Cash Dispensing Machines Surpassing 2,300 Units

We will further strengthen our cash dispensing machine network by increasing the number to 340. We plan to install additional 160 cash dispensing machines in the next 3 years to bring our cash dispensing machine network to 500. With the joining of the MasterCard Cirrus and Visa Plus networks, our cash dispensing machine network in Hong Kong will reach 2,300 in 2002, which will be accessible to non-AEON cardholders as well as providing a wider network for our cardholders. Besides generating a new revenue stream on both interest and fee income to the Company, we expect this new development would also bring in new customer base for the Company.



A network of 2,300 ATMs in 2002



Customer database will reach 3,000,000 within three years

## Enlarge Customer Database to Facilitate Data-Base Marketing

We have in place a vast customer database stored in our customer data warehouse, which includes the 720,000 cardholder database and 500,000 cancelled and hire purchase customer database. Moreover, this database will continue to enlarge through our marketing and collection activities, the call centers and Internet. We project our database to reach 3,000,000 within three years.

## New Business Areas Being Entered Through Direct Selling and Cross-selling

As for the direct selling and cross-selling business which complements the core business, we will make use of the completed infrastructure, namely our Hong Kong and Shenzhen call centers, our branch and cash dispensing machine network, AeON-SPOT™ and multi-media stations, the customer data warehouse and together with the CRM capabilities to perform direct selling and cross-selling for personal loan and other financial and consumer products and services to customers.

On 12th February 2001, the Company launched in the market its first product under AeON-Brand, that is AeON-CASH, a product based on speedy and easy concept. Customers only need to make a telephone call to our call center in Hong Kong and provide the minimum information. Within 30 minutes, customers will be informed of the outcome of their application, and if their application is approved, they can get their cash at any of our branches in the next 30 minutes. This product has been well received by the market. Our call center is receiving an average of 300 calls per day, with monthly sales volume reaching HK\$15 million.



AeON-Brand products



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*Number of calls received through Hong Kong call center will reach 1,500 per day*

The call center in Hong Kong plays an important role in the new products launched recently, namely AeON-CASH and AeON-AUTO328, which is a loan product for car owners who only need to purchase third party insurance. Other products adopting similar concept to be launched shortly in the market include AeON-CARD (offering card products), AeON-INS (offering insurance products), AeON-SHOP (sales of specialty products), AeON-BAND (offering ISP/broadband services) and AeON-TRAVEL (offering travel-related products). Upon the launching of these new products, we expect the number of calls received through our call center will increase to an average of 1,500 per day.

The above products are now marketed individually through newspaper advertisements, TV commercials, our call centers and website. Eventually, when the public is familiar with our new service concept, all the products will be marketed all together simultaneously to save cost.

## **SYSTEMS DEVELOPMENT**

The Company is planning ahead for further systems enhancement to meet customers' ever changing needs and expectations and to enhance efficiencies within the Company.

During the year under review, the Company had completed the operating systems for AeON-SPOT™, the call center in Shenzhen, the CRM and the AEON American Express Card. Moreover, the core system has been migrated to a new machine so as to provide a better and speedy service to the customers and to cater for the business growth. Besides, work has already started on the development of Visa Card operating system, the upgrading of CRM capabilities and existing auto-calling system, the MasterCard Cirrus and Visa Plus network systems.

## **HUMAN RESOURCES COMMITMENT**

The total number of staff as at 20th February 2001 and 20th February 2000 was 336 and 290 respectively. The management believes that it is "people" that make the difference and create success for the Company. A series of programmes is in place to recruit personnel with suitable qualifications, to retain quality staff and to realise employees' career potential. Besides providing a competitive remuneration and other staff benefits, discretionary bonus is also awarded to the staff based on individual performance.

The Company has also put emphasis on staff training and development. A customer service department was set up last year to provide training to staff for both new product knowledge and servicing skills. The Company is well positioned to face the challenges ahead with a resilient and dedicated workforce.

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## CONTRIBUTION TO THE SOCIETY

Over the years, the Company has been working hard to be a responsible corporate citizen placing special attention on local community and environment needs. We emphasize on three key words, “peace”, “people” and “community” in our Company’s philosophy. Besides the growth in size and profits, the Company remains dedicated to civic responsibilities. During the year, contributions were made to the society through its seven charity cards by donating 25% of the annual fee plus a predetermined percentage of credit charges to support vital charity causes in the community.



*Family Green Trip organized by Eco Living Club*

The Company organized the Home Environmental Ambassador Project and supported the formation of Eco Living Club through AEON Jusco Education and Environment Fund Limited (the “Fund”) to arouse public awareness towards conservation of the global environment. Activities conducted include carnivals, waste reuse workshops, waste collection and recycling programs, family green trip, volunteer recruitment and training. Moreover, the Fund has made donations to support agro-forestry in Pangyang, China, Yunnan Village doctors training and the formation of Tsinghua-AEON Jusco Education Fund.

## ACKNOWLEDGEMENT

As a company that recognizes the existing values of the society, we believe that we are promoting activities that make a positive social contribution while at the same time providing value-added benefits to our customers.

On behalf of the Board, I would like to express our appreciation and thanks to our customers, our shareholders, our business partners and staff for their support, dedication and loyalty and for their contribution to a successful year of the Company.

**Kazuhide KAMITANI**  
Managing Director

Hong Kong, 19th April 2001