

Management Discussion and Analysis

The Company continues to be engaged in the provision of consumer credit finance services which include the issuance of credit cards, the provision of vehicle financing, hire purchase financing and personal loan financing.

In view of the changes in the lending environment and the consumer expectation, the Company had spent a great effort in establishing a solid foundation for its future business growth. During the year under review, the Company had completed its platform on e-commerce, call center and Customer Relationship Management, and expects a payoff in the coming year. Despite the diversification in the scope of its business, the Company continued to report a growth in earnings on its core business.

KEY FINANCIAL HIGHLIGHTS

The Company achieved a profit of HK\$210.0 million for the year ended 20th February 2001, representing an increase of HK\$30.0 million or 16.7% when compared with the previous year. Accordingly, the Company's earnings per share increased by 7.2 HK cents per share from 43.0 HK cents per share to 50.2 HK cents per share.

Net interest income recorded a moderate increase of 2.6% to HK\$578.1 million from HK\$563.7 million in 2000.

Operating expenses decreased from HK\$276.2 million to HK\$273.1 million, with cost to income ratio improved from 43.0% to 42.2%.

Charge for bad and doubtful debts fell by 15.2% to HK\$135.0 million from HK\$159.2 million in 2000.

As at 20th February 2001, total debtor balance increased by HK\$105.3 million from HK\$2,635.4 million to HK\$2,740.7 million.

The directors recommended the payment of a final dividend of 8.0 HK cents per share. Together with the interim dividend of 4.5 HK cents per share already paid, the total dividend for the year increased to 12.5 HK cents per share from 11.5 HK cents per share in 2000.

PERFORMANCE OF BUSINESS OPERATIONS

(a) Operating Income

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 AeON-CASH to the personal loan portfolio. Sales transactions for personal loan increased by 115.0% over last year. The processing of on-line hire purchase applications using our call center has speed up the processing time. Interest income increased by 3.1% to HK\$769.9

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million, which resulted mainly from the growth in personal loan business. 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.

The Company's other operating income fell by 12.4% to HK\$68.9 million from HK\$78.7 million in 2000, mainly due to the waiver of handling charge for cash advance in the second half of the year.

(b) Operating Expenses

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.

(c) Charge for Bad and Doubtful Debts

Charge for bad and doubtful debts fell by 15.2% or HK\$24.2 million to HK\$135.0 million from HK\$159.2 million in 2000. During the year under review, write-offs in credit card receivables slowed down as a result of the improvement in the market conditions and sentiment and the exercise of tight credit control policy. The total provision for bad and doubtful debts amounted to HK\$90.5 million and it represented 3.3% of the total debtor balance as at 20th February 2001.

BALANCE SHEET ANALYSIS

The Company's shareholders' funds as at 20th February 2001 was HK\$865.8 million, representing a growth of 22.3%, or HK\$157.7 million, when compared with the balance as at 20th February 2000. The net asset value per share as at 20th February 2001 was HK\$2.1 per share.

(a) Debtor Balance

During the year, with the launching of new personal loan products, instalment loans receivable reached HK\$167.2 million as at 20th February 2001, an increase of 92.4% or HK\$80.3 million when compared with last year. On the other hand, amidst a keen competition in the credit card market, credit card receivables continued to record an increase of HK\$25.9 million to HK\$2,253.0 million as at 20th February 2001. 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.

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Set out below is an analysis of debtor balance of hire purchase debtors, instalment loans receivable and credit card receivables which is overdue for more than 1 month:

	20th February 2001		20th February 2000	
	HK\$'000	%*	HK\$'000	%*
Over 1 month but less than 2 months	86,356	3.1	74,314	2.8
Over 2 months but less than 3 months	22,145	0.8	20,744	0.8
Over 3 months	<u>83,759</u>	<u>3.0</u>	<u>65,602</u>	<u>2.5</u>
	<u>192,260</u>	<u>6.9</u>	<u>160,660</u>	<u>6.1</u>

Should overdue debtor balance include only accounts that could not meet the minimum payment amount, the analysis would be as follows:

	20th February 2001		20th February 2000	
	HK\$'000	%*	HK\$'000	%*
Over 1 month but less than 2 months	68,302	2.5	64,226	2.4
Over 2 months but less than 3 months	19,798	0.7	15,314	0.6
Over 3 months	<u>81,779</u>	<u>3.0</u>	<u>63,538</u>	<u>2.4</u>
	<u>169,879</u>	<u>6.2</u>	<u>143,078</u>	<u>5.4</u>

* Percentage of total debtor balance

(b) Bank Borrowings and Capital Financing

The Company relied principally on its internally generated capital and bank borrowings to fund its business. The principal source of internally generated capital is from retained earnings. 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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In determining the dividend payment, consideration is given to rewarding shareholders with dividend income and retaining funds for future business development and expansion. For the year ended 20th February 2001, the Board recommended the payment of a final dividend of 8.0 HK cents per share, which together with an interim dividend of 4.5 HK cents per share, making a total dividend of 12.5 HK cents per share. The payout ratio for this fiscal year is 24.9%, which is comparable to that of last year.

COMPETITIVE ADVANTAGES

Synergy

The Company continued to benefit from the launching of various well-accepted credit cards and personal loan products in the market. Through the direct customer contact at different promotion counters and our call centers in Hong Kong and Shenzhen, the number of cardholders recruited and new personal loan customers continued to grow significantly in this financial year.

Know-how and Expertise

AEON Credit Service Co., Ltd. has extensive know-how and expertise in the consumer finance industry and has assisted the Company in tackling the changing market environment and bringing in innovative ideas on the marketing and recruitment programmes.

Targeted Customer Base

The targeted customer base of the Company is widely diversified. The new cardholders recruited in this financial year were mainly through the newly launched AEON American Express Card and also the AEON Jusco MasterCard. Around 80% of our customer database is in the age range of 21 to 40 years old, out of which 50% is young generation. Moreover, with the well-acceptance of AEON Hello Kitty MasterCard, the percentage of female cardholders has reached 50%.

Convenient Service

In providing our services, our emphasis is on convenience to our customers. With our extensive cash dispensing machine and branch network and the call centers in Hong Kong and Shenzhen, customers can enjoy our cash advance and personal loan services in a speedy and convenient way. As for credit purchase, with the joining forces of MasterCard, Visa and American Express merchant networks to our house and affinity cards merchant network, the combined merchant network will provide additional convenience and wide-ranging choice to our cardholders.



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FOUR ELEMENTS OF SUCCESS

The four key elements of success continued to result in a remarkable performance of the Company. They are (1) ongoing product and service innovation; (2) total consumer credit services; (3) operational cost effectiveness; and (4) a strong network of affiliated companies. Consumers in Hong Kong have widely accepted and appreciated the innovative consumer credit finance services provided at low costs by the Company.