

Managing Director's Operational Review



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 2002. During the year under review, Hong Kong experienced a continued slow down in the economic situation, rising unemployment rate and escalating number of personal bankruptcies. In view thereof, the Company has implemented new procedures to take prompt collection actions and exercised tight control on cost, especially the funding cost and advertising expenses. At the same time, to strengthen the preventive measures on default risk, the Company has continued to enhance its infrastructure on application channel and fraud detection.

PERFORMANCE REVIEW

Despite the difficult operating environment, the Company recorded a slight increase in net profit for the year ended 20th February 2002 to HK\$211.0 million. At the operating level, the Company recorded a growth in operating profit before provisions by 11.1% to HK\$415.3 million. Earnings per share were 50.39 HK cents when compared with 50.15 HK cents 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 5.0 HK cents, the total dividend for the year was 13.0 HK cents. The dividend payout ratio for this year was 25.8%, which was 24.9% last year.

Operating income before interest expenses for the year was HK\$882.6 million, an increase of 5.2% over last year. Interest income increased by 4.4% to HK\$804.1 million, mainly resulted from the growth in personal loan business. With the general decline in market interest rates, interest expense fell by 10.9% to HK\$170.8 million in 2001/02 from HK\$191.8 million in 2000/01. As a result, the Company's net interest income recorded an increase of 9.6% to HK\$633.3 million from HK\$578.1 million in 2000/01.

Other operating income increased by 13.9% to HK\$78.5 million from HK\$68.9 million in 2000/01. During the year, the Company continued to exercise stringent cost control and had successfully improved the cost-to-income ratio from 42.2% to 41.6%. Charge for bad and doubtful debts for the year increased by 74.4% to HK\$235.4 million from HK\$135.0 million in 2000/01.

Total debtor balance as at 20th February 2002 was HK\$2,924.2 million, an increase of HK\$183.5 million as compared with HK\$2,740.7 million as at 20th February 2001. As at 20th February 2002, the Company had bank borrowings amounted to HK\$1,609.7 million and HK\$540.0 million issued debt securities backed by credit card receivables.

Shareholders' funds were strengthened by 17.4% to HK\$1,055.8 million as at 20th February 2002 mainly due to the increase in retained earnings. Total debt-to-equity ratio improved from 2.5 in 2000/01 to 2.1 in 2001/02.

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BUSINESS DEVELOPMENT

Credit Card Business

Credit card business continued to be the core business of the Company. On the card recruitment side, the Company had changed its recruitment strategy in the second half of the year. Instead of launching massive promotion programs for recruiting house card members, we had concentrated on recruiting new affinity card members inside Jusco stores. In addition to the AEON Jusco MasterCard, the AEON Jusco American Express Card was launched in June 2001. The total number of affinity cards issued with Jusco reached 410,000 as at 20th February 2002. Upon becoming a Visa International member in September 2001, the Company was the first non-banking institution to issue cards under three famous brand names in Hong Kong. We introduced the recently launched AEON Visa Card and the Hologram AEON Hello Kitty MasterCard to our inactive customers to stimulate their usage and resulted in an increase in overall active ratio. We recorded a net increase of 77,000 cards this year, with the number of cards issued reaching 800,000 as at 20th February 2002.



New cards launched under American Express, Visa and MasterCard brands

Cash Dispensing Machine Network



Cardholders can enjoy cash advance facilities through a network of 2,300 ATMs

After joining the MasterCard Cirrus and Visa Plus network, our cardholders have been enjoying more convenient cash advance service through a network of 2,300 ATMs. This combined ATM network also enables non-AEON card members to have access to our cash dispensing machine network which as a result had converted some non-members to become our members.

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Shenzhen Call Center

The Shenzhen call center has been providing support to our collection and tele-marketing operation. The know-how and experience gained from the Shenzhen call center will be useful for our entry into the consumer finance business in China. To enhance the existing operation, we had increased the number of staff to 80 for collection and 40 for tele-marketing.



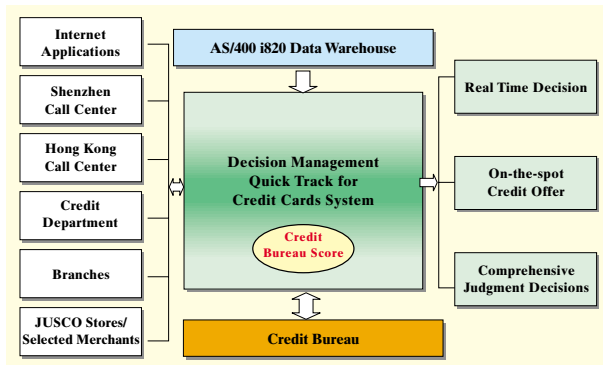
Shenzhen Call Center – Tele-marketing Section

PROSPECTS

Looking ahead, Hong Kong's economy is forecast to turn positive in the latter half of the year as the US pulls out of recession. The road of recovery, however, will be tough, as the Hong Kong economy is faced with dual challenge of structural adjustments and cyclical factors.

On the consumer finance side, we expect to continue to experience a high level of default risk in the first half, which will then turn into a competitive operating environment with the recovery of the economy.

The Company will continue to maintain credit card business as its core business 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 some other financial and consumer products and services to the customers.



Implement auto-judgement system to offer instant approval on applications received on-site

Emphasis on Portfolio Quality in Growing our Receivables

The increase in personal bankruptcies will continue to be a major concern in this financial year. To tackle this default risk, the Company is in the process of enhancing the judgement criteria, the assessment of credit limit and the collection actions. We will bring in and apply new technique and know-how from Japan. In addition, the Company will make use of the new auto-judgement system, which adopts the latest I.T. technology, to process applications for credit card, hire purchase and personal

loan. By linking up this system with the system of our member-stores, the Company can offer instant approval for applications received on-site. By automating our approval procedure, we not only improve our judgement standard but can also respond instantly to any changes in the market conditions.

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Fraud Detection and Proactive Collection Action

For an early detection of credit card fraud, the Company will implement an alarm system for credit card fraud detection. Similar system is commonly used in Japan to perform analysis on bad debt with result feedback to the credit judgement side for immediate corrective actions. On the collection action, the Company will take a proactive approach in contacting late payment customers. We will increase the number of staff in the Shenzhen call center from the existing 120 to 180 to increase the frequency of calls to our customers. Moreover, we will send our outdoor visit team to perform site visit at an early stage and immediately pass the lost contact customer cases to outside collection agents.



Increase number of staff in the Shenzhen Call Center to 180



Perform target marketing with member-stores

Implement Merchant Support System to increase Active Ratio

The Company will implement the AEON Customer Total Information Open Network (“ACTION”) system, which is a merchant support system that performs analysis on customer personal information and spending pattern. We will use the analyzed data to develop tailor-made services for our customers. We aim to shift our customers’ other card spending to our card which in turn is expected to increase the active ratio.

China Business

With China being admitted to the World Trade Organization, we will keep a close eye on the developments in the mainland. We are currently conducting feasibility study on the local market business environment and regulations to explore the different scenarios to start the consumer finance business in China.



Well-prepared to enter the China Market

Future

The Company is actively exploring business opportunities for business growth to generate both interest income and non-interest income.

With the completion of the data warehouse and customer relationship management, the Company will remain in a competitive position even after the implementation of positive information sharing amongst financial institutions in Hong Kong.

SYSTEMS DEVELOPMENT

The Company continues to enhance its systems to meet customers’ changing needs and expectations and to improve risk detection and efficiencies within the Company.

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To cope with the increase in the business volume and the demand for a better system performance, the core production machine was upgraded to a more advanced model. During the year under review, the Company had completed the operating systems for the AEON Jusco American Express Card, the MasterCard Cirrus ATM acquirer and issuer service, Knowledge Management and Customer Relationship Management projects, and the launching of the AEON Visa Card. Besides, work has already started on the development of auto-judgement system, the ACTION system, the upgrading of auto-calling system and Visa Plus ATM acquirer and issuer service.

HUMAN RESOURCES COMMITMENT

The total number of staff as at 20th February 2002 and 20th February 2001 was 340 and 336 respectively. A series of programmes is in place to retain quality staff and to realize 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 continued to put emphasis on staff training and development, with training being provided on both new product knowledge and servicing skills. The Company is well positioned to face the challenges ahead with a resilient and dedicated workforce.



Environmental Study Trip to Australia

CONTRIBUTION TO THE SOCIETY

Besides the growth in size and profits, the Company remains dedicated to civic responsibilities. We emphasize on three key words, "peace", "people" and "community", in our Company's philosophy. 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.

The Company organized the Home Environmental Ambassador Project and the Eco Living Club through the AEON Jusco Education and Environment Fund Limited (the "Fund") to arouse public awareness towards conservation of the global environment. A study trip was organized at the beginning of this year for outstanding ambassadors to study the environmental programs in Australia with reference to Manly and Sydney. Moreover, the Fund had made donations to support tree planting in Inner Mongolia, China, the formation of Tsinghua-AEON Jusco Education Fund, the set up of Yuan Qing Primary School in GuiZhou, the support of Green Pioneer Training Program in Hong Kong and the publication of "Green-Roots" and "Green Sprouts".



*Tsinghua-AEON Jusco Education Fund
- Scholarship Presentation Ceremony*

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ACKNOWLEDGEMENT

With the goal of achieving total customer satisfaction in mind, we believe 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 take this opportunity to express our sincere gratitude to our customers, our shareholders and our business partners for their continuous support, dedication and loyalty and for their contribution to a successful year of the Company. Our thanks also go to our dedicated staff who are our precious assets and invaluable to our goal to achieve the highest customer satisfaction.

A handwritten signature in black ink, appearing to read 'Kamitani'.

Kazuhide KAMITANI

Managing Director

Hong Kong, 25th April 2002