

Management Discussion and Analysis

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

Hong Kong economic situation continued to slow down in the past year, with rising unemployment rate and escalating number of personal bankruptcies. On the other hand, a more keen competition is noted in the consumer finance business with the entering of more new entrants. Despite the difficult operating environment, the Company still recorded a slight increase in net profit.

KEY FINANCIAL HIGHLIGHTS

The Company achieved a profit of HK\$211.0 million for the year ended 20th February 2002, representing an increase of 0.5% when compared with the previous year. Accordingly, the Company's earnings per share increased from 50.15 HK cents per share to 50.39 HK cents per share.

Net interest income recorded an increase of 9.6% to HK\$633.3 million from HK\$578.1 million in 2000/01.

Operating expenses amounted to HK\$296.4 million in 2001/02, with cost-to-income ratio improved from 42.2% to 41.6%.

Charge for bad and doubtful debts increased by 74.4% to HK\$235.4 million from HK\$135.0 million in 2000/01.

As at 20th February 2002, total debtor balance increased by HK\$183.5 million from HK\$2,740.7 million to HK\$2,924.2 million.

The directors recommended the payment of a final dividend of 8.0 HK cents per share. Together with the interim dividend of 5.0 HK cents per share already paid, the total dividend for the year increased to 13.0 HK cents per share from 12.5 HK cents per share in 2000/01.

PERFORMANCE OF BUSINESS OPERATIONS

(a) Operating Income

Operating income before interest expenses for the year was HK\$882.6 million, an increase of 5.2% over last year. To cater for the demand for personal finance, the Company added web-loan and AeON-CASH to the personal loan portfolio, with sales volume for personal loan increased by 75.0% 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.

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Other operating income increased by 13.9% to HK\$78.5 million from HK\$68.9 million in 2000/01, mainly resulted from the increase in fee income for handling, late and storage charges.

(b) Operating Expenses

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%. Operating expenses amounted to HK\$296.4 million in 2001/02 as compared with HK\$273.1 million in 2000/01.

(c) Charge for Bad and Doubtful Debts

Considering the murky economic prospects and the continuous increase in personal bankruptcies, the Company increased the amount of provision for bad and doubtful debts. Charge for bad and doubtful debts for the year increased by 74.4% from HK\$135.0 million in 2000/01 to HK\$235.4 million, with HK\$222.6 million being specific provision made and HK\$12.8 million being increase in general provision. The ratio of specific provision made to total debtor balance increased from 4.7% in 2000/01 to 7.6% in 2001/02.

BALANCE SHEET ANALYSIS

The Company's shareholders' funds as at 20th February 2002 was HK\$1,055.8 million, representing a growth of 17.4 %, or HK\$156.5 million, when compared with the balance as at 20th February 2001. Net asset value (after final dividend) per share as at 20th February 2002 was HK\$2.44 per share, compared with HK\$2.07 per share as at 20th February 2001.

(a) Debtor Balance

During the year, amidst a keen competition in the credit card market, credit card receivables continued to record an increase of HK\$84.6 million to HK\$2,337.6 million as at 20th February 2002. With the launching of new personal loan products, instalment loans receivable reached HK\$302.4 million as at 20th February 2002, an increase of 80.9% or HK\$135.2 million when compared with last year. Total debtor balance as at 20th February 2002 was HK\$2,924.2 million, an increase of HK\$183.5 million when compared with HK\$2,740.7 million as at 20th February 2001.

Provision for bad and doubtful debts as at 20th February 2002 increased sharply by 64.3% to HK\$148.7 million from HK\$90.5 million as at 20th February 2001. Provision for bad and doubtful debts as at 20th February 2002 represented 5.1% of the total debtor balance.

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

	20th February 2002		20th February 2001	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	116,692	4.0	86,356	3.1
Overdue 2 months but less than 3 months	32,177	1.1	22,145	0.8
Overdue 3 months or above	127,444	4.3	83,759	3.0
	<u>276,313</u>	<u>9.4</u>	<u>192,260</u>	<u>6.9</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 was from retained earnings. As at 20th February 2002, the Company had bank borrowings amounted to HK\$1,609.7 million, of which HK\$519.7 million was repayable within one year, and HK\$540.0 million issued debt securities backed by credit card receivables.

The Company had further strengthened its financial position as compared with 2000/01. As at 20th February 2002, total debt-to-equity ratio improved from 2.5 in 2000/01 to 2.1 in 2001/02. Taking into account the financial resources available to the Company including internally generated funds and available banking facilities, the Company had sufficient working capital to meet its present requirements.

In determining the dividend payment, consideration was given to rewarding shareholders with dividend income and retaining funds for future business development and expansion. In view of current unstable economic situation and the Company's plan to enter the China market, the board decided to reserve more funding to cater for the future business development of the Company. For the year ended 20th February 2002, the board recommended the payment of a final dividend of 8.0 HK cents per share, which together with an interim dividend of 5.0 HK cents per share, making a total dividend of 13.0 HK cents per share. The payout ratio for this fiscal year was 25.8%, which was comparable to that of last year.

As at 20th February 2002, capital commitments entered were mainly related to the purchase of property, plant and equipment. There was no major change in assets pledged when compared to that disclosed in the Company's 2000/01 Annual Report.

The Company's principal operations are transacted and recorded in Hong Kong dollar. During the year, the Company engaged in derivative activities mainly to hedge its balance sheet exposure.

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SEGMENT INFORMATION

The Company's business comprised mainly three operating divisions, namely credit card, hire purchase and instalment loan. In 2001/02 and 2000/01, over 85% of the Company's operating income after provisions was contributed from credit card operation. When compared to the corresponding period of last year, the operating income after provisions of credit card operation decreased by 11.5% to HK\$420.0 million while the operating income after provisions of instalment loan operation increased by 89.3% to HK\$38.1 million. The decrease in operating income after provisions of credit card operation was due to the higher than expected charge for bad and doubtful debts following the sharp increase in personal bankruptcies. The increase in operating income after provisions of instalment loan operation was due to the overwhelming response to the newly launched AeON-CASH and web-loan products.

COMPETITIVE ADVANTAGES

Synergy

The Company continued to benefit from its vast customer data-base and extensive infrastructure. Despite the tough operating environment, through the direct customer contacts at promotion counters, branches, internet and our call centers in Hong Kong and Shenzhen, we still maintained a growth in the credit card receivables and instalment loan receivables 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 had assisted the Company in tackling the changing market environment and introducing innovative marketing ideas and risk control measures.

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 affinity cards issued with Jusco, namely the AEON Jusco MasterCard and the AEON Jusco American Express Card. Around 60% of our customers was in the age range of 21 to 40 years old, out of which 40% was young generation. Moreover, with the well-acceptance of Hello Kitty Cards and affinity cards, the percentage of female cardholders had reached 55%.

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 at 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 provides additional convenience and wide-ranging choice to our cardholders.

FOUR ELEMENTS OF SUCCESS

The four key elements of success continued to result in 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.