



AEON CREDIT SERVICE (ASIA) COMPANY LIMITED

AEON 信貸財務(亞洲)有限公司

(Incorporation in Hong Kong with limited liability)
(Stock code: 900)

AEON

2003/04 FINAL RESULTS

The Directors of AEON Credit Service (Asia) Company Limited (the “Company”) are pleased to announce the audited results of the Company for the year ended 20th February 2004 (with comparative figures for the previous year) as follows:

INCOME STATEMENT

		Year ended 20th February		
	Notes	2004 HK\$'000	2003 HK\$'000	Change %
Turnover	(c)	771,176	789,201	(2.3)
Interest income		479,804	659,026	(27.2)
Interest expense		(116,945)	(143,864)	(18.7)
Net interest income		362,859	515,162	(29.6)
Credit card securitisation income	(d)	252,235	192,192	31.2
Other operating income		108,924	109,899	(0.9)
Other loss		(632)	(1,500)	(57.9)
Operating income		723,386	815,753	(11.3)
Operating expenses	(e)	(233,756)	(274,144)	(14.7)
Operating profit before charge for bad and doubtful debts		489,630	541,609	(9.6)
Charge for bad and doubtful debts		(343,931)	(403,414)	(14.7)
Profit before taxation		145,699	138,195	5.4
Income tax	(f)	(26,337)	(20,890)	26.1
Net profit for the year		119,362	117,305	1.8
Earnings per share	(g)	28.50 cents	28.01 cents	1.8
Dividend per share				
Interim		5.00 cents	5.00 cents	
Final		9.00 cents	8.00 cents	
Cost to income ratio		32.3%	33.6%	
Dividend payout ratio		49.1%	46.4%	

BALANCE SHEET

	20th February 2004 HK\$'000	20th February 2003 HK\$'000
Non-current assets		
Property, plant and equipment	72,601	85,744
Interest in associates	10,744	10,711
Investment securities	8,882	9,782
Hire purchase debtors	16,653	19,802
Instalment loans receivable	157,866	59,259
Retained interests in securitisation trust	261,195	231,984
Pledged time deposits	–	100,494
	<u>527,941</u>	<u>517,776</u>
Current assets		
Other investments	697	383
Hire purchase debtors	155,486	196,284
Instalment loans receivable	470,759	279,818
Credit card receivables	944,317	1,085,708
Retained interests in securitisation trust	652,336	500,630
Prepayments, deposits, interest receivable and other debtors	125,934	124,344
Pledged time deposits	–	6,000
Time deposits	29,000	153,580
Bank balances and cash	78,077	82,429
	<u>2,456,606</u>	<u>2,429,176</u>
Current liabilities		
Creditors and accrued charges	40,946	33,305
Amount due to securitisation trust	41,657	31,136
Amount due to immediate holding company	963	11
Amount due to a fellow subsidiary	32,159	32,928
Amount due to ultimate holding company	47	47
Issued debt securities	–	326,713
Bank borrowings – repayable within one year	809,910	651,245
Taxation	21,238	861
	<u>946,920</u>	<u>1,076,246</u>
Net current assets	<u>1,509,686</u>	<u>1,352,930</u>
Total assets less current liabilities	<u>2,037,627</u>	<u>1,870,706</u>
Capital and reserves		
Issued capital	41,877	41,877
Share premium and reserves	1,141,750	1,076,828
	<u>1,183,627</u>	<u>1,118,705</u>
Non-current liabilities		
Bank borrowings – repayable after one year	835,000	750,000
Deferred taxation	19,000	2,001
	<u>854,000</u>	<u>752,001</u>
	<u>2,037,627</u>	<u>1,870,706</u>

Notes:

(a) Results announcement

The financial information relating to the financial year ended 20th February 2004 included in this preliminary final results announcement does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 20th February 2004 will be available on the website of The Stock Exchange of Hong Kong Limited. The auditors have expressed an unqualified opinion on those financial statements in their report dated 14th April 2004.

(b) Significant Accounting Policies

The accounting policies adopted are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 20th February 2003, except for the adoption of the Hong Kong Financial Reporting Standard – Statement of Standard Accounting Practice (SSAP) 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants. The adoption of this SSAP has not had any material effect on the results for the current or prior accounting periods.

(c) Turnover

Turnover represents interest income, annual fees and commission income received and receivable from credit finance services provided to outside customers and investment income from the seller and subordinated interests in securitisation trust received during the year. Turnover is analysed as follows:

	Year ended 20th February	
	2004	2003
	HK\$'000	HK\$'000
Interest income	479,804	659,026
Fees and commissions	32,280	37,786
Investment income from the seller and subordinated interests in securitisation trust	259,092	92,389
	<u>771,176</u>	<u>789,201</u>

(d) Credit card securitisation income

Credit card securitisation income represents the combined effect of gains on sales of credit card receivables, investment income from the seller and subordinated interests in securitisation trust and unrealised gains and losses on the interest-only strips and cash reserve account in the securitisation trust.

(e) Operating expenses

Included in operating expenses is depreciation of HK\$28,331,000 (2002/03: HK\$25,931,000).

(f) Income tax

	Year ended 20th February	
	2004	2003
	HK\$'000	HK\$'000
Provision for the year		
Hong Kong	28,653	26,886
Overprovision in prior years		
Hong Kong	(3,347)	–
Deferred taxation		
For the year	843	(5,996)
Effect on change in tax rate	188	–
	<u>26,337</u>	<u>20,890</u>

Hong Kong Profits Tax is calculated at 17.5% (2002/03: 16.0%) on the estimated assessable profit for the year.

(g) Earnings per share

The calculation of earnings per share is based on the net profit for the year of HK\$119,362,000 (2002/03: HK\$117,305,000) and on the number of 418,766,000 (2002/03: 418,766,000) shares in issue during the year.

SUPPLEMENTARY INFORMATION

(1) Business and geographical segments

i) Business segments

For management purposes, the Company is currently organised into three operating divisions – credit card, hire purchase and instalment loan. These divisions are the basis on which the Company reports its primary segment information.

Principal activities are as follows:

- Credit card – Provide credit card services to individuals and acquiring services for member-stores
- Hire purchase – Provide vehicle financing and hire purchase financing for household products and other consumer products to individuals
- Instalment loan – Provide personal loan financing to individuals

Segment information about these businesses is presented below:

2003/04

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
INCOME STATEMENT					
TURNOVER	<u>613,242</u>	<u>16,943</u>	<u>139,213</u>	<u>1,778</u>	<u>771,176</u>
RESULT					
Net interest income	270,738	(8,688)	108,992	(8,183)	362,859
Credit card securitisation income	252,235	–	–	–	252,235
Other operating income	87,738	14,722	6,204	260	108,924
Other loss	–	–	–	(632)	(632)
Charge for bad and doubtful debts	<u>(285,147)</u>	<u>(2,038)</u>	<u>(56,746)</u>		<u>(343,931)</u>
Segment results	<u>325,564</u>	<u>3,996</u>	<u>58,450</u>		
Unallocated operating expenses				(233,756)	<u>(233,756)</u>
Profit before taxation					<u>145,699</u>
BALANCE SHEET					
ASSETS					
Total assets	<u>1,939,149</u>	<u>172,315</u>	<u>644,998</u>	<u>228,085</u>	<u>2,984,547</u>
LIABILITIES					
Segment liabilities	893,871	195,992	484,097	–	1,573,960
Unallocated corporate liabilities	–	–	–	226,960	226,960
Total liabilities	<u>893,871</u>	<u>195,992</u>	<u>484,097</u>	<u>226,960</u>	<u>1,800,920</u>

	Credit card HK\$'000	Hire purchase HK\$'000	Instalment loan HK\$'000	Corporate and other operations HK\$'000	Combined HK\$'000
INCOME STATEMENT					
TURNOVER	<u>669,736</u>	<u>26,995</u>	<u>83,487</u>	<u>8,983</u>	<u>789,201</u>
RESULT					
Net interest income	461,496	(4,161)	64,987	(7,160)	515,162
Credit card securitisation income	192,192	–	–	–	192,192
Other operating income	52,550	21,091	1,512	34,746	109,899
Other loss	–	–	–	(1,500)	(1,500)
Charge for bad and doubtful debts	<u>(318,418)</u>	<u>(12,364)</u>	<u>(72,632)</u>		<u>(403,414)</u>
Segment results	<u>387,820</u>	<u>4,566</u>	<u>(6,133)</u>		
Unallocated operating expenses				(274,144)	<u>(274,144)</u>
Profit before taxation					<u>138,195</u>
BALANCE SHEET					
ASSETS					
Total assets	<u>1,988,875</u>	<u>216,672</u>	<u>351,324</u>	<u>390,081</u>	<u>2,946,952</u>
LIABILITIES					
Segment liabilities	1,240,029	164,694	211,064	–	1,615,787
Unallocated corporate liabilities	–	–	–	212,460	212,460
Total liabilities	<u>1,240,029</u>	<u>164,694</u>	<u>211,064</u>	<u>212,460</u>	<u>1,828,247</u>

ii) *Geographical segments*

All the Company's interest income, fee and commission income and profit are derived from operations carried out in Hong Kong.

(2) **Hire purchase debtors**

	20th February 2004 HK\$'000	20th February 2003 HK\$'000
Due:		
Within one year	161,710	204,097
In the second to fifth year inclusive	17,396	20,931
	<u>179,106</u>	<u>225,028</u>
Allowance for bad and doubtful debts	(6,967)	(8,942)
	<u>172,139</u>	<u>216,086</u>
Current portion included under current assets	(155,486)	(196,284)
Amount due after one year	<u>16,653</u>	<u>19,802</u>

(3) **Instalment loans receivable**

	20th February 2004 HK\$'000	20th February 2003 HK\$'000
Due:		
Within one year	506,317	310,091
In the second to fifth year inclusive	169,789	65,670
	<hr/>	<hr/>
Allowance for bad and doubtful debts	676,106 (47,481)	375,761 (36,684)
	<hr/>	<hr/>
Current portion included under current assets	628,625 (470,759)	339,077 (279,818)
	<hr/>	<hr/>
Amount due after one year	157,866	59,259
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(4) **Credit card receivables**

	20th February 2004 HK\$'000	20th February 2003 HK\$'000
Credit card receivables	1,080,251	1,275,944
Allowance for bad and doubtful debts	(135,934)	(190,236)
	<hr/>	<hr/>
	944,317	1,085,708
	<hr/> <hr/>	<hr/> <hr/>

(5) **Overdue debtor balance**

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 2004		20th February 2003	
	HK\$'000	%*	HK\$'000	%*
Overdue 1 month but less than 2 months	135,315	7.0	176,250	9.4
Overdue 2 months but less than 3 months	23,609	1.2	34,420	1.8
Overdue 3 months or above	95,470	4.9	129,332	6.9
	<hr/>	<hr/>	<hr/>	<hr/>
	254,394	13.1	340,002	18.1
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

* *Percentage of total debtor balance*

(6) **Pledge of assets**

- (a) At 20th February 2003, the Company's issued debt securities were secured by credit card receivables of HK\$550,167,000. With the full repayment of the issued debt securities, the charge was released during the year.
- (b) At 20th February 2003, the Company's bank facilities of HK\$200,000,000 with HK\$50,000,000 utilised by the Company were secured by hire purchase debtors of HK\$102,854,000. The bank facilities were cancelled and the charge was released during the year.
- (c) As at 20th February 2003, time deposits of HK\$100,494,000 were pledged pursuant to the terms of the securitisation agreement for the issued debt securities. With the full repayment of the issued debt securities, the charge was released during the year.
- (d) At 20th February 2003, the Company also pledged time deposits of HK\$6,000,000 to banks to secure the short-term general banking facilities and the sharing of ATM network. With the cancellation of the short-term general banking facilities and the sharing of ATM network, the charge was released during the year.

(7) Financial instruments

(a) Derivatives

Derivatives refer to financial contracts whose values depend on the values of one or more underlying assets or indices.

At the balance sheet date, the contractual or notional amounts of each significant class of derivatives for the Company entered into for hedging purposes with financial institutions are summarized as follows:

	20th February 2004 HK\$'000	20th February 2003 HK\$'000
Interest rate contracts:		
Swaps	625,000	440,000
Caps	–	570,000
	<u>625,000</u>	<u>1,010,000</u>

The contractual or notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts of risk.

- (b) The credit risk on derivative financial instruments is limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agents.
- (c) As a result of the securitisation transaction entered in September 2002, the Company has entered into forward contracts with Nihon (Hong Kong) Company Limited, a special purpose entity (a “SPE”) incorporated in Hong Kong formed for the sole purpose of the transaction, to sell credit card receivables to the SPE from time to time in accordance with the terms of the agreement.

FINAL DIVIDEND

The Directors will recommend at the forthcoming Annual General Meeting to be held on Thursday, 17th June 2004 the payment of a final dividend of 9.0 HK cents per share. This final dividend, if approved, will be paid on or before Thursday, 8th July 2004 to shareholders whose names appear on the Register of Members of the Company on Thursday, 17th June 2004.

Together with the interim dividend of 5.0 HK cents per share, the total dividend per share for the year is 14.0 HK cents, representing a dividend payout ratio of 49.1%.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 11th June 2004 to Thursday, 17th June 2004, both days inclusive. During this period, no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of share accompanied by the relevant share certificates must be lodged with the Company’s Share Registrars, Secretaries Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 10th June 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Performance

Following the implementation of positive credit data sharing in the second half of the financial year, the Company launched a series of affinity cards to recruit new members. Together with the launch of various spending campaigns and the use of tele-marketing to cross-sell loan products to the customers, the Company recorded an increase in the overall sales volume by 18.0% when compared with last year. On credit risk, with the unemployment rate still at a high level of over 7%, the overall charge off rate remained at double digit. In view of the slow economic recovery, the Company continued to exercise tight control on the operating expenses, especially on advertising and branch-related expenses. Against this background, the Company achieved a slight profit growth, with net profit increased by 1.8% to HK\$119.4 million from HK\$117.3 million in 2002/03. Earnings per share increased by 1.8% from 28.01 HK cents to 28.50 HK cents in 2003/04. Net asset value as at 20th February 2004 amounted to HK\$2.83 per share, an increase of 5.8%.

At the operating level, the Company recorded a decrease in operating profit before charge for bad and doubtful debts by 9.6% from HK\$541.6 million in 2002/03 to HK\$489.6 million in 2003/04. With the record of gains on sales of credit card receivables at the time of securitisation and gain on disposal of investment securities and other investments in the previous year, the operating income before interest expense recorded a drop of HK\$119.3

million, from HK\$959.6 million in 2002/03 to HK\$840.3 million in 2003/04. Under the securitisation program backed by credit card receivables, the Company is required to sell from time to time certain designated credit card receivables to a special purpose entity. Interest income and fees and commissions of these credit card receivables are distributed back to the Company in the form of investment income from the seller and subordinated interests in securitisation trust. As a result, interest income decreased by 27.2% to HK\$479.8 million, and with the drop in interest expense by 18.7% to HK\$117.0 million, the Company's net interest income recorded a drop of 29.6% to HK\$362.9 million.

Credit card securitisation income for the year was HK\$252.2 million, as compared with HK\$192.2 million in 2002/03. The Company recorded an increase in both handling, late and storage charges and servicer fee on credit card securitisation, however, without another gain on disposal of investment securities, other operating income decreased by 0.9% to HK\$108.9 million from HK\$109.9 million in 2002/03. During the year, the Company continued to exercise stringent control on operating expenses, especially on staff costs and advertising expenses, which resulted in a further drop of cost-to-income ratio to 32.3%.

The Company's charge for bad and doubtful debts decreased by 14.7% or HK\$59.5 million to HK\$343.9 million from HK\$403.4 million in the previous year. This was attributed to the tightened credit control, prompt collection efforts and improved credit quality as a result of lower personal bankruptcies. Considering the drop in overdue debtor balance for 3 months or above, the Company reduced the amount of allowance for bad and doubtful debts. Allowance for bad and doubtful debts amounted to HK\$190.4 million as at 20th February 2004, a decrease of HK\$45.5 million when compared with previous year and representing 9.8% of total outstanding receivables.

Even though additional amount of credit card receivables was transferred to the special purpose vehicle under the enlarged securitisation program, total debtor balance still recorded an increase of HK\$58.8 million, from HK\$1,876.7 million as at 20th February 2003 to HK\$1,935.5 million as at 20th February 2004. The Company had retained interests in the securitisation trust in the forms of seller interest, subordinated interest, interest-only strips and cash reserve account amounting to HK\$913.5 million, as compared with HK\$732.6 million as at 20th February 2003. As at 20th February 2004, the Company had bank borrowings amounted to HK\$1,644.9 million. Shareholders' funds were strengthened by 5.8% to HK\$1,183.6 million as at 20th February 2004 mainly due to the increase in retained earnings.

Review of Operation

The implementation of positive credit data sharing in Hong Kong allows the Company to have a better understanding on the credit exposure of new applicants and results in a better approval rate. To minimize the advertising expenses, the Company has used its merchant network as the recruitment base and launched new affinity cards to capture new customer database. A series of affinity cards was launched in the second half of the year, which included the IDD 007 AEON Visa Card, the Japan Home Visa Card, the MJ Life Privilege MasterCard and the Katiga MasterCard. The newly acquired member base will become a new backbone for the Company to cross-sell personal loan products, which in turn would increase both personal loan and card sales.

With its branch network transforming into marketing centers, the Company's fifteen branches now actively participate in card and merchant recruitment and tele-marketing activities. This has strengthened its marketing force in expanding the merchant network for card and personal loan products and recruiting new members. Together with the launch of insurance and purpose loan products, the branch network has become a focal point for cross-selling exercise.

On the customer service side, besides the convenience store payment network, the Company has also signed up with a bank to offer payment service to its customers through their phone banking, internet banking and ATM network. Being an agent of Octopus Card, cardholders can now enjoy the automatic add-value service to their Octopus cards. The discount merchant network has been expanded to provide additional card benefits to cardholders, with the number of discount merchant outlets reaching around 1,200 in Hong Kong and 4,500 in China.

With the full repayment of the HK\$540 million issued debt securities in last October, and the diversification of funding sources through structured finance to cater for the growth in receivables, the Company has utilized the platform of the off-balance asset securitisation entered in 2002 to obtain an additional funding of HK\$250 million in January this year.

For outsourcing business, the Company is now providing both hire purchase consultation service and collection service to external third parties through the call center in Shenzhen and the special accounts control team in Hong Kong. In addition, the Company is managing a bonus point program for a sizeable customer base for one of its business partners.

Prospects

Although Hong Kong still encounters problems like huge deficit, continued deflation and high unemployment, the economic situation is expected to continue to recover in the coming one year. On the other hand, the operating environment for consumer finance business will become more competitive and challenging, as the competition amongst financial institutions to increase their market share in consumer loans will intensify. In order for the players to achieve better results, they must be innovative and adaptive to the needs of the customers. As one of the leading participants in this field, the Company will make use of its niche in the market and progress to tackle the challenges coming ahead. The mission for Year 2004 is to launch products that meet the needs of the public, to provide quality service to our customers, and to develop credit related business.

On credit card business, tailor-made marketing programs will be launched to fit into the promotion schedule of individual merchants. This not only would increase the average card spending, but also would help to recruit new members effectively. Since merchant network is a cost-effective channel to recruit new members, the Company will issue more affinity cards in the coming one year. Moreover, the Company has successfully lined up with Octopus Card, internet service providers, mobile phone and insurance companies for recurrent transactions through its credit cards. By encouraging the customers to settle their monthly payments through credit cards, it not only offers convenience to customers, but also increases card active ratio.

In view of the expected increase in cash advance transactions in the second half, the Company will extend its cash dispensing machine network inside convenience stores, and in other high traffic and convenient locations to capture a new customer sector. The previous joint promotion programs with convenience stores have successfully boosted up the usage of cash dispensing machines, and more programs will be launched, including the offering of cash coupons to sleeping and in-active customers.

On personal loan business, the Company will make use of the merchant network to develop different purpose loan products to satisfy the demand in the market, such as beauty loans, decoration loans and car loans. With the use of positive data, more sizable loans would be granted to quality customers. The sales volume of personal loans is expected to grow by at least 10% in the coming year.

On the cost control side, the Company had completed the reform of its branch network to half of the original size. The Company will continue to study the different scenarios to streamline the branch operation to achieve a cost-effective operating model. With the use of Shenzhen call center for customer service, tele-marketing and collection activities, the Company aims to improve the efficiency of its back-office operation as well as to cut back on back-office operating costs.

On the customer quality side, following the launch of positive credit data sharing, the Company is now able to obtain more information on new applicants and, together with its auto-judgement system, provide a more accurate credit judgement on the new applicants. With the improvement in economic situation, the quality of existing customer portfolio is expected to improve as well.

LIQUIDITY AND FINANCIAL RESOURCES

The Company generally finances its business needs with internal cash flows and long term bank borrowings. As at 20th February 2004, the Company had net current assets of HK\$1,509.7 million. Out of the total borrowings of HK\$1,644.9 million, HK\$835.0 million is the long-term portion.

The Company has further strengthened its financial position as compared with 20th February 2003. As at 20th February 2004, total debt-to-equity ratio improved to 1.52 from 1.63 in the previous year. Taking into account the financial resources available to the Company including internally generated funds and available banking facilities, the Company has sufficient working capital to meet its present requirements.

HUMAN RESOURCES

The total number of staff as at 20th February 2004 and 20th February 2003 was 260 and 286 respectively. Employees are remunerated according to the job nature and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Apart from medical insurance and provident fund, discretionary bonuses are awarded to employees based on individual performance and the financial performance of the Company. The Company also provides in-house training programs and external training sponsorships to strengthen its human resources.

COMPLIANCE WITH CODE OF BEST PRACTICE

The Company has complied throughout the year ended 20th February 2004 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that the non-executive directors are not appointed for specific terms. They are subject to

retirement and re-election at the annual general meeting of the Company in accordance with Article 101 of the Company's Articles of Association.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company of its listed securities.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
MASANORI KOSAKA
Managing Director

Hong Kong, 14th April 2004

FIVE YEAR FINANCIAL SUMMARY

RESULTS

	Year ended 20th February				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
Net profit for the year	180,020	210,004	211,002	117,305	119,362
Earnings per share (HK cents)	42.99	50.15	50.39	28.01	28.50

ASSETS AND LIABILITIES

	20th February				2004 HK\$'000
	2000 HK\$'000	2001 HK\$'000	2002 HK\$'000	2003 HK\$'000	
Total assets	2,988,813	3,154,914	3,295,343	2,946,952	2,984,547
Total liabilities	2,252,145	2,255,639	2,239,506	1,828,247	1,800,920
Shareholders' funds	736,668	899,275	1,055,837	1,118,705	1,183,627

“Please also refer to the published version of this announcement in The Standard”.