

Chairman's Statement



Yoshiki MORI
Chairman

Despite the rising energy cost as well as interest rate, the global economy continued to grow in the year under review. The Japanese economy rebounded from the trough primarily due to the substantial increase in domestic demand and the resolve of banks' bad debt crisis. Moreover, the deflationary situation that has plagued Japan for years is beginning to ease off. In Hong Kong, the economic situation continued to perform well in the past one year. With the improvement of the economy, the number of unemployed people in Hong Kong dropped to a 4-year new low. Investment and consumption sentiments continued to improve. As for consumer loan business, fierce competition is still ever increasing amongst market players as financial institutions looked for lending opportunities with higher interest margin. Despite such a competitive and challenging operating environment, AEON Credit Service (Asia) Company Limited (the "Company") continued to expand its market segment and generate new receivables. With the joining as a China UnionPay member, the Company can now issue credit cards under the five popular brands in the market. I am pleased to report that the Company recorded a net profit of HK\$186.1 million, an increase of 27.6% when compared with last year.

The Group's Philosophy

The Company is a member of the AEON Group and a subsidiary of AEON Credit Service Co., Ltd. ("AEON Credit Japan"), which is listed on the main section of the Tokyo Stock Exchange. The unchanging corporate mission of AEON Credit Japan is to constantly benefit its cardholders through quality financial services. In Japan and the rest of Asia, the management philosophy is to support cardholders' lifestyles and enable each individual to maximize future opportunities through effective use of credit. AEON Credit Japan is determined to listen to the customers' voice and will continue to repay their trust and expectations by providing financial services that bear closely with their daily livings and needs. At the same time, AEON Credit Japan seeks to earn customers' trust by striving hard to raise standards of corporate behaviour in the financial services industry, adhering to a strict code of corporate ethics and engaging in activities that conserve the environment and contribute to society. AEON Credit Japan always follows the belief that customers are the starting point for management decisions. The aim is to let its customers, local communities, suppliers and business partners understand its belief and management philosophy and establish a stronger and trustworthy relationship.

The core activities of AEON Credit Japan are credit card and personal loan business. At the same time, through its subsidiaries, AEON Credit Japan is also involved in other financial service activities, including loan management, loan recovery and insurance agency business. AEON Credit Japan aims to be a leading company in Asia's credit markets by continuing to develop and grow the business of overseas subsidiaries and by entering new markets. Besides Hong Kong, AEON Credit Japan has overseas operations and offices in Thailand, Malaysia, Indonesia, Taiwan and the People's Republic of China (the "PRC").

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To promote corporate social responsibility, *AEON* Credit Japan will continue to develop highly effective security systems - a reflection of the importance attached to protecting personal data. In the area of social contribution and environmental conservation, *AEON* Credit Japan engages in a wide range of activities, from volunteer services at the local level, to global environmental protection work. Our belief is “To contribute to the local community” and make the local people live a happy life. Having obtained ISO14001 certification for environmental management systems, *AEON* Credit Japan will continue to reduce the consumption of paper and energy. On a global basis, *AEON* Group members support environmental conservation, international cultural and personal exchanges, regional cultural activities, and other causes through the *AEON* 1% Club.

The Company's Performance

For the year under review, the Company continued striving to provide services tailored to customers' needs. To achieve this goal, we enhanced our bonus point system, extended our ATM and branch networks and launched new affinity card and loan products. We also stepped up our efforts to attract new customers and enhanced our card-issuing and loan approval process. With the extensive merchant networks, the Company organized various promotion activities to recruit new members and at the same time to increase our card usage. In view of the fact that more customers travel to China for work and leisure, the Company launched *AEON* UnionPay credit card, which offers cardholders a range of unique dining, entertainment and lifestyle benefits. Cardholders can enjoy discount shopping, dining, golfing, and entertainment privileges at over 1,000 merchants outlets in Shenzhen and Zhuhai. To strengthen our card benefits, we further extended our collaboration with other leading merchants to offer unique benefits to customers. On loan products, in addition to cross selling and up-selling loan products to selected inactive and sleeping customers, the Company continued to promote its existing loan programs and launch new purpose loan programs with its merchants.

With the view to grasp the opportunity to enter the consumer finance market in the PRC in the near future, more back-office jobs have been transferred to the call center in Shenzhen. The call center in Shenzhen is now taking an active role in telemarketing, customer service, collection, credit judgement and risk management activities. Moreover, the Company is in the process of building up a business alliance network to launch hire purchase products.

To contribute to the local community, the Company made donations to different charitable organizations and organized staff to participate in the “walk for your heart” walkathon to support cardiac patients. Moreover, through *AEON* Education and Environment Fund Limited (“*AEON* Fund”), the Company actively promoted the concept of environmental protection in Hong Kong and the PRC.

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Outlook

The year ahead will be a challenging year for consumer finance business. Realignment in the consumer finance industry is leading to intensified competition as emerging information technology and internet heavyweights enter the market, and major banking groups reinforce their retail strategies. In such an operating environment, we will strive to achieve the goals outlined in our basic management policy and medium-term vision by implementing the following strategies: (1) develop a range of financial service businesses focused on our cardholder base; (2) achieve a qualitative shift in our credit card business; (3) strengthen our capital and funding base; and (4) enhance efforts to promote corporate social responsibility.

We have already seen growth in consumer spending and borrowing. With the expected increase in job and investment opportunities in the market, the demand for consumer loans will continue to increase. In light of the declining bankruptcy trend and the drop in the unemployment rate of our market segment, the Company will utilise its branch and merchant networks and undertake a more aggressive marketing strategy to grow its core business. Notwithstanding this, the Company will continue to exercise a tight control on operating expenses and maintain a tight control on loan assessments and approvals.

Guided by the corporate philosophy of "Customer First", the Company will continue to develop innovative and convenient financial services and provide better services that accommodate the needs of an increasing number of customers. The Company understands its commitments and the importance of providing good returns to its shareholders. With regard to social contribution, we will continue to participate actively in environmental initiatives and educational programs and also will support other community activities and local causes.

Acknowledgement

On behalf of the Board, I wish to take this opportunity to extend my sincere gratitude to our customers, business partners and shareholders for their invaluable patronage, confidence in and support to the Company, and express my heartfelt thanks to the management and staff for their commitment and dedication.

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Yoshiki MORI
Chairman

Hong Kong, 26th April 2006