

# Managing Director's Operational Review



**Masanori KOSAKA**  
Managing Director

## INTRODUCTION

On behalf of the Board of Directors (“the Board”), I am pleased to present to you the Annual Report of the Company for the year ended 20th February 2006.

Hong Kong’s consumer sentiment continued to improve in the past one year. The steady recovery of the property and stock markets, as well as the growth in inbound tourists and related retail industries, helped to gradually improve the unemployment rate. However, frequent new highs in oil prices and successive interest rate increases by banks have cast a shadow on the interest rate sensitive industries.

2005 was another fruitful year for the Company. On the financial side, the Company had benefited from the continued recovery in the economic situation and achieved a growth in sales volume by 13.2%, a drop in impairment losses and impairment allowances by 20.2% and a surge in net profit by 27.6%. To share this delightful results with our shareholders, the Board decided to increase the full year dividend amount to 18.0 HK cents. On the operating side, in developing new partners for credit card operation, the Company has launched AEON UnionPay credit card in March 2006 to offer customers discount privileges and convenience when travelling in China. The Company is now issuing the five popular brands of credit cards in the market. This provides both the merchants and customers with a wider choice and also facilitates us to issue more card types to capture different customer segments. On information security management, the Company has been awarded the BS7799 (information security management system) Certificate for credit card transaction processing in February 2006. This marks a milestone of the Company in ensuring quality service for our customers.

## PERFORMANCE REVIEW

For the financial year ended 20th February 2006, on an audited basis, profit before tax was HK\$225.6 million, an increase of 27.2% when compared with last year. After deducting income tax expense of HK\$39.5 million, net profit for the year increased by 27.6%, or HK\$40.2 million, from HK\$145.9 million in 2004/05 to HK\$186.1 million in 2005/06. The Board has recommended the payment of a final dividend of 11.5 HK cents per share and, together with the interim dividend of 6.5 HK cents, total dividend for the year was 18.0 HK cents per share.

Operating income before interest expense for the year was HK\$880.0 million, as compared with HK\$840.5 million in 2004/05. Interest income increased by 34.9% to HK\$741.5 million and interest expense increased by 28.6% to HK\$109.9 million.

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The Company incurred more on advertising expenses to capture the growth of demand in consumer finance market. Together with the increase in management and facility expenses, cost-to-income ratio increased from 34.7% in the previous year to 38.1%. On the other hand, due to the improved market conditions, and lower unemployment rate, as well as the sharing of positive credit data, the total impairment losses and impairment allowances reduced by 20.2% from HK\$315.0 million in 2004/05 to HK\$251.3 million.

With the increase in demand for consumer loans and the adoption of new accounting standards, total debtor balance recorded an increase of HK\$1,113.9 million to HK\$3,391.0 million at 20th February 2006 from HK\$2,277.1 million at 20th February 2005. At 20th February 2006, the Company had bank borrowings amounted to HK\$2,056.0 million. Shareholders' funds were strengthened by 9.9% to HK\$1,389.9 million at 20th February 2006 mainly due to the increase in retained earnings.

## OPERATIONAL REVIEW

### Marketing

The Company has issued seven new affinity cards in collaboration with five new partners in the retail, beauty and catering sectors. The G. Sushi credit cards were launched in July 2005 targeting young sushi lovers. The DR Visa Card, Suzuya Visa Card and Vertical Club Visa Card were launched in November 2005 and December 2005 targeting female self-image seekers. The Little Sheep MasterCard was launched in December 2005 targeting hot-pot lovers. The unique features of these cards have been widely accepted by the consumers and a total number of around 50,000 cards have been issued up to 20th February 2006.



*New affinity cards*

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Marketing programs and products

In addition, the Company had also successfully launched different marketing programs with affinity members to boost up card sales. These include private sale, catalogue sale, lucky draws and spending campaigns. Card credit purchase sales had increased by 21.2% when compared with last year. With the continuous extension of ATM network in both Hong Kong and China, and together with promotion programs with convenience stores, card cash advance sales had gradually picked up and increased by 14.3% when compared with last year.

In view of the gradual recovery of the economic situation and the availability of positive data from credit bureau, the Company is active in further developing its personal loan business. Together with the use of new marketing channels, personal loan sales continued to record a growth of 22.7% in the reporting year.

## Branch Operation

To extend the service coverage for card and personal loan business, five new branches have been opened in Chai Wan, Tsuen Wan, Sham Shui Po, Hung Hom and Tuen Mun, totalling a branch network of twenty at 20th February 2006. With the increasing number of customers using payment channel through convenience stores and bank's ATM network, the branch network has been utilised more efficiently in performing target marketing, cross selling and discount merchant recruitment.

## Customer Service

With the launch of card instalment plan in March 2005, which enables customers to enjoy flexible repayment terms, it has increased the credit purchase sales in the reporting year. To diversify its services, the Company has offered financial products related to insurance and travel such as home content, domestic helper and golfer insurance and tour packages at a special price to popular destinations. Following the co-operation with China UnionPay, which allows our cardholders to withdraw RMB through the China UnionPay ATM network and also enjoy credit purchases at China UnionPay's merchant



AEON signboards

network in Guangdong Province, big AEON signboards have been put up at strategic high traffic locations in Guangzhou and Shenzhen to stimulate card usage in China.

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## PROSPECTS

The current active stock market and the drop in unemployment rate are indicative signs of continued economic recovery in Hong Kong. The Hong Kong economy is expected to achieve solid growth in 2006, despite at a slower pace than that achieved in 2005. Although the high oil prices and interest rates will pose a potential threat, the continued strong growth in the Mainland China economy will provide Hong Kong with favourable local market conditions. With the expected increase in demand for consumer loans and the benefits from full access to positive credit data, the competition for consumer finance business in Hong Kong is expected to intensify amongst market players. Under this optimistic and competitive business environment, the Company will follow its existing marketing strategy to continue to develop new affinity partners to diversify its customer sector and increase its customer base, and simultaneously strengthen its credit assessment through stringent credit approval procedures.

Credit card business will continue to be the core business of the Company, with the primary aim to issue more affinity cards tailored to cardholders' lifestyles. By listening to customers' feedback, the Company can offer an extensive range of services to suit their needs. With additional new card benefits and convenient services provided to customers, the Company aims to increase the active ratio of new customers and retain the loyalty of existing cardholders. The Company will source for new products and cross-sell personal loan, trendy electronic products, insurance and investment-related products to this enlarged member base to ensure full service coverage. With the well-established infrastructure in Hong Kong and China, the Company will continue to secure more business from companies outsourcing their small debt recovery functions and other credit-related services.

### Launch New Card and Loan Products for Customers' Selection



The launch of AEON UnionPay credit card is an exercise to strengthen the card benefits by offering cardholders a range of unique dining, entertainment and lifestyle benefits. By offering free membership of China UnionPay VIP club, cardholders can now enjoy shopping, dining, golfing and entertainment privileges at over 1,000 merchants outlets in Shenzhen and Zhuhai. The target market will be those frequent travellers to China looking for convenient cash advance and credit purchase networks in China.



Since affinity cards can offer value-added benefits to cardholders and create a unique image for merchants, the Company will line up with strong leading partners to launch new affinity credit card programs. Moreover, the Company plans to launch new card products and product features following further system upgrades to strengthen its competitiveness. At least five new cards will be launched in the coming financial year.

AEON MasterCard® 2006  
FIFA Worldcup Credit Card



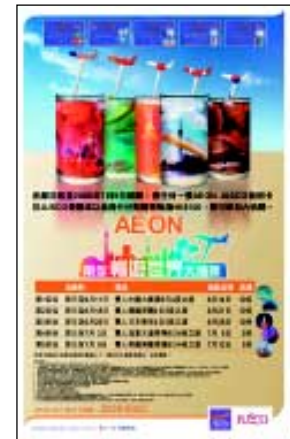
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In order to satisfy different demands in the market for personal loans and to attract quality customers, the Company will develop more purpose loan products and cross-sell opportunities to achieve a stable growth in the personal loan business.

## Offer Discount Benefits and Marketing Programs to Stimulate Card Usage

The average card spending per person on lifestyle items is expected to increase in the coming year. To capture this demand, the Company will design tailor-made programs for individual merchants, including issuing member discount passport and organizing festivals. Moreover, a series of marketing initiatives will be launched, directing towards card activation in the whole card portfolio through the offering of attractive year-round merchant offers, seasonal merchant discounts, lucky draws and bonus point system. In preparation for the upcoming soccer world cup event, the Company has launched AEON MasterCard® 2006 FIFA Worldcup Credit Card in March 2006 targeting soccer fans.

With the launch of AEON UnionPay credit card and AEON JCB card, cardholders are now able to select their favourite AEON cards from the five major card brands. To promote AEON cards, promotion program titled "Bring you around the world" was launched in the first quarter.



*"Bring you around the world" promotion program*



*Promotion programs with leading merchants*

The Company will further extend its collaboration with leading merchants to stimulate card spending. The Company has lined up with Hutchison 3G, KFC and Sun Holiday to launch new promotion programs in the coming few months. With AEON credit cards, cardholders can get a free mobile handset, enjoy extra free dining or luxury tour package at discounted values. Besides, the Company will continue to utilize its marketing forces to source new discount merchants in Hong Kong, Macau and China. The Company will also source for attractive products from overseas to be offered to our cardholders as bonus point redemption gifts or as special promotion items.

## Improve the Service Quality and Expand the Service Coverage Areas

A new interactive voice telephone system (IVRS) was launched at the beginning of this year, which is equipped with new functions to satisfy customers' needs. The new IVRS will enable customers to check their bonus points, latest transaction and payment as well as to request for reissue of monthly statement. Moreover, new AEON web site with more functionalities and the offering of convenient services in a secured environment will be launched in the future.

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Fifteen new branches have been scheduled to open in populated areas in the coming year which will serve as new channels for target marketing and closer co-operation with discount and affinity merchants.

In order to increase cash advance sales volume, the Company will continue to extend its ATM network along the KCR and MTR areas and inside shopping centres. The Company's ATM network in Hong Kong is now open to China UnionPay members. With the increasing number of mainland visitors coming to Hong Kong, this will generate a new source of fee-based income.



*New branch image*

## **Promote Recurrent Transactions**

Based on our past experience, the cooperation with different partners, such as mobile phone and insurance companies, in promoting recurrent transactions using our credit cards, has successfully boosted up our credit purchase sales. A series of promotion programs on insurance premium payments, bill payments, and automatic add-value services will be launched in the coming months. This will increase the card active ratio and also retain the loyalty of existing customers. Our target is to increase the number of cardholders who use recurring services to 80,000 by the end of this financial year.

In addition to offering personal accident and health product insurance, the Company plans to promote new insurance products such as life, family, golden age and savings insurance to our card members. Our target is to increase the number of insurance policyholders to 35,000 by the end of this financial year.

## **Expand Credit-Related Business**

Besides insurance products, the Company will cooperate with its partners to introduce investment products to our cardholders. By using our vast customer base, the Company has introduced catalogue sale on discounted products to our customers. This new source of business not only helps to generate additional revenue to the Company, it also helps to retain the loyalty of our customers.

The Company has been providing collection services to nine corporate clients in Hong Kong in the fields of telecommunications, insurance and education. The Company aims to expand its client base to twenty clients by the end of this financial year.

## **China Business – Establish Operation Model**

The call center in Shenzhen now provides back-office operation support on collection, customer service, risk management and telemarketing. In the coming year, more operational process,

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including judgment and card retention, will be transferred to Shenzhen in preparation for the future consumer finance operation in China. The Company will make use of its expertise, know-how and experience by setting up credit-related companies in Guangdong Province to capture the potential business opportunities upon opening up of the consumer finance market in China.

## **Future**

We are confident that the vast customer base and merchant networks that we have built over these years, coupled with the continuous improvement in customer service quality and product development, as well as the investment that we have made on the infrastructure and business model for future growth and expansion into the PRC market, will provide us with a strong driving force to grow in this competitive operating environment.

## **SYSTEMS DEVELOPMENT**

The Company will continue to enhance its systems to cater for receivable growth, customers' needs and expectations and to improve on data and network security, risk detection and efficiencies within the Company. Moreover, the Company will revamp its enterprise-wide contingency plan to cater for any unforeseen circumstances and to ensure a continuous operating environment. The measures in the business continuity plan will be tested on a recurrent basis to ensure their efficiencies in time of need.

During the year under review, the Company had relocated its information systems division to a data center with improved physical security level. Critical operating machines have been shifted to the data center for better security control. Besides the installation of IP based telephone system, the Company has launched new interactive voice telephone system (IVRS) that is equipped with additional functions and is linked up with the hotline system to improve the efficiency of response to customers. For new card system, China UnionPay card brand and seven new affinity card types were successfully launched.

In the coming year, the Company will put efforts to integrate the database of credit card and hire purchase system to facilitate future enhancement. Moreover, operating systems for new product features and new functionalities for the web site will be completed in the coming year. To ensure high security for data protection, the Company will introduce IC card with fingerprint recognition device for PC login for staff in the head office and also cyber warning alert system to monitor the network operation to prevent unauthorized user access.

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## HUMAN RESOURCES



*2005 excellent staff's visit to parent company in Japan*

The total number of staff as at 20th February 2006 and 20th February 2005 was 320 and 272 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-housing training programs and external training sponsorships to strengthen its human resources.

To foster a sense of belonging and team spirit among staff members, the Company issues staff newsletters and establishes staff social club to organize and promote various activities for the staff.

## CORPORATE SOCIAL RESPONSIBILITY

Over the years, we emphasize on three key words, “peace”, “people” and “community” in our Company’s philosophy. Besides striving hard to provide a reasonable return to our shareholders, the Company also aspires to be a responsible corporate citizen placing special attention on local community and environment needs.

This year, the Company and staff volunteers had supported Cardiac Patients Mutual Support Association by attending “Walk For Your Heart – support cardiac patients by walking a million steps”. The Company was honoured to receive the prize of “the highest number of participants” in this activity. Besides, the Company made donations through its charity cards to support vital charity causes in the community and also participated in the activities of environmental conservation, education and cultural exchange through the AEON Fund.



*Walk for your heart – support cardiac patients by walking a million steps*



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*Hong Kong Tree Planting Day 2006*

The AEON Fund promotes environmental protection through organizing projects including the Green Pioneer Program, the Website on Green Horizon, and the Love of Earth 2005. Besides, the AEON Fund has sponsored a television episode “Challenge of Life II” and completed the second year support to the Hong Kong Tree Planting Day.

In the PRC, the AEON Fund has continued to involve in the green campus, the scholarship and research programs in Tsinghua University, and the village doctors training in Yunnan.

In the coming year, the Company will continue to provide support in community service to demonstrate the commitment and support for the local community and to help the less privileged and work towards a green living environment.

## **ACKNOWLEDGEMENT**

On behalf of the Board, I would like to wholeheartedly thank our customers, business partners, and shareholders for their long-standing trust in and support for the Company. I also wish to express my gratitude to the members of the Board for their diligent guidance and support, and to thank the management team and staff for their unstinting efforts and dedication.



**Masanori KOSAKA**  
*Managing Director*

Hong Kong, 26th April 2006