

Chairman's Statement



Yoshiki MORI
Chairman

In Japan, the credit card industry stands poised at a major turning point. Ongoing market expansion and increasing acceptance of new means of payment have gained momentum. At the same time, the Japanese Government has passed an amendment to the Money Lending Business Control and Regulation Law to standardise credit card charges in the market. These have posted both opportunity and challenges to the consumer finance industry in Japan.

In Hong Kong, the economy was robust in the past one year. Real GDP grew by 6.8% for the whole year and 7.0% for the fourth quarter, showing that the economy may still grow at a fast speed in the coming year. Under these circumstances, AEON Credit Service (Asia) Company

Limited (the "Company") has spared no efforts in strengthening its main business on one hand, and developing new business on the other. I am pleased to report that the Company and its subsidiaries (the "Group") reported a consolidated net profit of HK\$266.7 million, an increase of 5.8% when compared with last year.

Performance of Core Business

As a result of the issuance of AEON UnionPay Credit Card and EGL JCB Card and together with the regular member recruitment exercises, number of active cards recorded a continuous increase in the past one year. Moreover, the Group has started to issue gold cards to widen its customer base targeting more prime customers. In addition, the Group has conducted a study on its competitiveness in card cashing service and follow up actions have been taken. We aim to be one of the most competitive service providers in the market.

During the year, sales channel has been widened through alliance with popular merchants to promote purpose loans. Together with its efforts in telemarketing and direct marketing, the Group is able to cross-sell different types of personal loans to existing customers to meet their needs.

It is the strategy of the Group to develop a strong merchant network which is the backbone for its business expansion. Intensive communication with merchants is crucial in creating synergy and developing products and services that fulfill customers' requirements. To facilitate such communication, the Group has opened seven new branches during the year, making a branch network of twenty-eight.

New Business Development

Revenue from insurance related business has grown significantly during the year. Number of members who pay their insurance premium through credit cards has surpassed 20,000 and this number is still growing. The Group has recently set up a team specialising in the development of new insurance products and related business.

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Servicer business is also gaining importance. The Group is now providing collection service to companies in the fields of telecommunications, banking, insurance, education and the like. We plan to extend this service to the People's Republic of China ("China") in the near future.

Meanwhile, China is a market that no one can ignore. As a first but important step to enter the consumer finance business in this market, the Group has set up a joint venture with its immediate holding company, *AEON* Credit Service Co., Ltd. ("ACS Japan"), to provide guarantee business in China. Service has been rolled out in April 2007 and necessary support has been given to this joint venture to ensure its successful operation.

Outlook

The year ahead will be a challenging year for the Group. On one side, we have already noted growth in consumer spending and lending and also expected a continuous recovery in economic situation. On the other hand, realignment in the consumer finance industry has led to intensified competition following the emerging information technology and the reinforcement of retail strategies by major banking groups.

As the number of cardholders has reached a critical mass level, the Group will utilise this strong customer database to cross sell its products to different customer segments. The Group will also invest sufficiently to revamp its data warehouse. This is crucial to customer relationship management (CRM) which in turn is the platform for active direct marketing.

As part of its new marketing initiatives, the Group is intensely studying the feasibility of issuing 2-in-1 smartcard cum credit card and gift card. The Group will also reform its bonus point system to make its cards more attractive in the market. Moreover, the Group will continue to strengthen its alliance with its merchant to create a win-win situation. More branches will be opened during the year to give strong support to its merchants and to boost sales.

With all these measures, we aim to expand the Group's business further and increase its shareholders' value.

The Group's Philosophy

The Company is a member of the *AEON* Group and a subsidiary of ACS Japan, which is listed on the main section of the Tokyo Stock Exchange.

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ACS Japan's management philosophy in Japan and the rest of Asia is to support cardholders' lifestyles and enable each individual to maximize future opportunities through effective use of credit. We continue to build trust and meet expectations by paying special attention to cardholders' needs and providing carefully tailored financial services to our customers. At the same time, we seek to earn cardholders' support by constantly working to raise standards of corporate behaviour in the financial service industry, adhering to a strict code of corporate ethics and engaging in activities that benefit society.

The core activities of ACS Japan are credit card and personal loan business. At the same time, through its subsidiaries, ACS Japan is also involved in other financial service activities, including loan management, loan recovery and insurance agency business. ACS 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, ACS Japan has overseas operations and offices in Thailand, Malaysia, Taiwan, Indonesia, China and Vietnam.

We want to meet the expectations of our customers and shareholders, including important issues such as reliability, safety and security. For this reason, we are improving our systems for legal compliance and personal information protection.

We also promote social contribution through a broad range of activities, including forest protection, both in Japan and overseas. We conduct these activities through the *AEON* Environment Foundation, the *AEON* 1% Club and the Tokimeki Point Club, which are designed to promote charitable donations. Moreover, we will continue to implement other environmental protection measures by fostering employee-based volunteer activities and through our environmental management system.

With steady implementation of these major corporate strategies, we aim to offer more to our customers, shareholders and stakeholders.

Acknowledgement

Achieving the growth of our Group over the years and at the same time upholding the public interest have always been the goals of the Board of Directors (the "Board") of the Company as well as the executives and staff. On behalf of the Board, I wish to extend my sincere thanks to our customers, business partners and shareholders for their continued support and for providing both incentive and inspiration to enhance the Group's competitiveness for long-term development.

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Yoshiki MORI
Chairman

Hong Kong, 27th April 2007