

Managing Director's Operational Review

INTRODUCTION



Masanori KOSAKA
Managing Director

On behalf of the Board, I am pleased to present to you the Annual Report of the Group for the year ended 20th February 2007.

The abundant liquidity in the stock market, the steady recovery of the property market, as well as the growth in inbound tourists and related retail industries, helped to further move the unemployment rate in Hong Kong to a six-year low of 4.4 per cent. Benefiting from this strong economic growth, the consumer market was on a steady upward trend in the past one year. However, the uncertain US interest rate outlook and growing domestic inflation in Hong Kong have posed additional challenges to the local financial industry.

For the year ended 20th February 2007, the Group reinforced its core business performance and strived for new business opportunities on strengthened foundations. On the financial side, benefiting from the continued recovery in the economic situation, the Group achieved a surge in sales volume by 16.0%, an increase in operating income by 6.7% and a growth in net profit by 5.8%. To mark the Company's 20th anniversary, the Board decided to increase the dividend amount to 26.0 HK cents, with 5.0 HK cents being ear-marked for this special event. On the operating side, to capture new market segment, AEON UnionPay Credit Card and EGL JCB Card were launched during the year targeting frequent China travellers and high spending travellers. On information security management, the Group has obtained the certifications of ISO9001 and ISO10002 for quality management on customer satisfaction and complaint handling.

OPERATIONAL REVIEW

Marketing

During the year under review, the Group had launched a series of marketing initiatives to boost up card and personal loan sales, including the introduction of new products and line up with new partners.

On credit card business, the Group had designed tailor-made card acquisition programs with its affinity partners to increase card base and card usage. To capture new market segment, AEON UnionPay Credit Card and EGL JCB Card were launched during the year targeting frequent China travellers and high spending travellers. The unique features of these cards have been widely accepted by the consumers.



New cards issued during the year

Managing Director's Operational Review



Marketing programs with leading merchants

In addition to private sale, catalogue sale and lucky draws, the Group had also launched new spending campaigns with leading merchants, such as Hutchison 3G, KFC, Delifrance and SUNDAY, to boost up recurrent transactions and activate sleeping customers. Card credit purchase sales had increased by 20.0% when compared with last year. With the continuous extension of ATM network

along transportation areas, inside shopping centres and also in China, and together with promotion programs, card cash advance sales had continued to pick up and recorded a growth of 5.4% in the reporting year.

With the recovery of the economic situation, the Group saw a strong growth in the turnover of personal loans. The Group has stepped up its efforts in telemarketing and direct marketing and has widened its sales channel through alliance with popular merchants to promote different types of purpose loans to suit customers' needs. As a result, personal loan sales recorded another year of increase by 24.1% when compared with the previous year.

Branch and ATM network

To extend the service coverage for card and personal loan business, seven new branches have been opened in Aberdeen, Yau Ma Tei, Cheung Sha Wan, Sheung Wan, Tsim Sha Tsui, Sheung Shui and Sky Plaza in Chek Lap Kok Airport, bringing the branch network to twenty-eight branches at 20th February 2007. Moreover, new branches at Sheung Wan, Tsim Sha Tsui and Sky Plaza have adopted new branch design elements to strengthen brand image. These newly set up branches are additional sales force to perform target marketing, cross selling and discount merchant recruitment.



Sky Plaza branch

In addition, the Group has successfully entered the MTR area and so far installed new ATMs in seven stations. Together with other ATMs in convenience stores and shopping centres, this creates a widely extended network for customers' easy access to cash advance service.

Managing Director's Operational Review

Customer Service



Customer service

With the installation of new interactive voice telephone system (IVRS) in the first half of 2006, the Group has automated the distribution of calls received based on skill level of operators and perform real time monitoring to improve the accuracy and efficiency of response to customers' enquiries. Moreover, the Group has successfully obtained the certifications of ISO 9001 for quality management on customer satisfaction and ISO 10002 for complaint handling management. This marks a step forward for the Group in ensuring quality service for its customers.

To diversify its services, the Group has offered personal accident and health products insurance at a special price to its customers. In addition, the Group has set up automated telephone registration service for lucky draw activities and provides flexibility for customers to enjoy these programs.

PROSPECTS

It is anticipated that the healthy upward trend of domestic consumption will continue to improve the labour market and maintain a low unemployment rate. With the strengthening economy and capital market, together with the tax relief, demand for consumer finance is forecast to escalate. On the other hand, the challenges ahead for the market players will be the keen competition and increasing operating costs. Under this optimistic and competitive business environment, the Group will continue to expand its market segment for credit card and loan products, improve service quality, expand service coverage areas and maximize the returns of its shareholders.

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

Moreover, this year is the 20th anniversary of the Company. The Group will actively strengthen its brand image in the market as providing better life quality for customers and also as a responsible corporate citizen. To this end, the Group will continue to launch new innovative products and services in the market.

Managing Director's Operational Review

Diversification of Market Segments

Besides offering the facilities to finance the purchase of consumer products and dining, the Group will extend new card and loan products to cover service and events. Since co-branded cards can offer value-added benefits to cardholders and create a unique image for merchants, the Group will continue tie up with leading business partners to issue new co-branded cards to capture new customer segments and widen its distribution network. The launch of EGL JCB Card is an exercise to strengthen the card benefits offered to customers when they travel overseas. This year, the Group will line up with other service providers and issue co-branded cards to facilitate the cardholders to settle their service charges through credit cards at a special price.

In order to satisfy different demands in the market for personal loan and to attract quality customers, the Group will continue to launch more purpose loan programs with its merchants. The Group will also focus on cross-selling and up-selling loan products to selected inactive, sleeping and newly recruited customers.



Purpose loan products

20th Anniversary Promotion Programs



20th anniversary lucky draw promotion

This year marks the 20th anniversary of the Company's operation in Hong Kong. To celebrate this big event, the Group will launch a series of marketing initiatives directing towards card activation through the offering of lucky draws, attractive year-round merchant offers, seasonal merchant discounts and bonus point system. The first phase of 20th anniversary lucky draw promotion has commenced and is well-accepted by the customers.

Besides the above promotion activities, the Group will also hold tailor-made marketing programs with individual merchants to stimulate sales on the co-branded cards. These include private sale, spending campaigns and new member referrals.

The Group will further extend its collaboration with leading merchants to stimulate card spending. The Group has lined up with KFC, Hedgren and Hong Kong Student Travel to launch various sales programs on credit purchase in the coming months. Besides, the Group will continue to utilise its marketing forces to source new discount merchants in Hong Kong, Macau and China. The Group will also source for attractive products from overseas to be offered to our cardholders as bonus point redemption gifts or as special promotion items.



Marketing programs on co-branded cards

Managing Director's Operational Review

Customer Satisfaction and Service Coverage Expansion

A new hotline system will be implemented by the first half of 2007 and come with various enhancements including instant pop-up of customer information, call forwarding, real time customer contact history sharing and monitoring reports. This enables the operators to deliver courteous openings and share updated requests from customers. Moreover, AEON web site will further be enhanced with more functionalities and the offering of services in a secured environment will be added in the future.

For customers' convenience, the Group plans to launch 2-in-1 smartcard cum credit card to enable cardholders to perform credit purchase transactions at retail chains and vending machines in Hong Kong. The Group also plans to launch gift card to enable recipients to use the card to make purchases at any merchant outlets.

In the coming year, the Group plans to open four more branches, which will bring the branch network to thirty-two branches. This will create new channels for target marketing and foster closer co-operation with discount and affiliated merchants. To create a convenient network for cash advance usage, the Group will continue to extend its ATM network along the KCR and MTR areas and inside shopping centres. Moreover, the Group will enhance the functionality of its ATMs to perform instant cash advance instalment plans through credit cards.

Recurrent Transaction Promotions

The collaboration with different merchants in promoting recurrent transactions through credit cards has successfully boosted up credit purchase sales. To improve the active ratio and retain the loyalty of existing customer base, the Group will launch a series of promotion programs on premium payments, bill payments, and automatic add-value services in the coming months.

New Business Development

By using its vast customer base, the Group has introduced catalogue sale on discounted products to its customers. This new source of business not only helps to generate additional revenue to the Group, it also helps to retain the loyalty of its customers. For insurance products, besides the existing personal accident and health products insurance plans, the Group will cooperate with its partners to introduce investment products, as well as new insurance products like child savings plan, family, golden age and ladies protection plans to cardholders.

The Group has been providing collection service to corporate clients in Hong Kong in the fields of telecommunications, insurance, education and finance. The Group aims to expand its service territory to China in the near future.

Managing Director's Operational Review

China Business

The operation centre in Shenzhen now provides back-office operation on collection, customer service, risk management, telemarketing and judgment. As part of the Group's business continuity plan, an additional operation centre has been set up in Guangzhou as a back-up for the Shenzhen and Hong Kong call centres and also to provide 24 hour hot-line service.

Moreover, AEON Credit Guarantee (China) Co., Ltd., an associate, has commenced its operation on hire purchase guarantee business in April 2007. The Group will continue to make use of its expertise, know-how and experience in Hong Kong to assist those operations in Guangdong Province so as to capture the potential business opportunities upon opening up of the consumer finance market in China.



Hire purchase guarantee business in China

Future

The continuous improvement in customer service quality and product development, as well as the vast customer base and merchant networks that have been built over these years, will provide the Group with a strong driving force to grow in the Hong Kong market. Moreover, the infrastructure and business model will provide a foundation for the Group to expand into the China market.

SYSTEMS DEVELOPMENT



Operation centres in Shenzhen and Guangzhou

The Group will continue to revamp its enterprise-wide contingency plan to cater for any unforeseen circumstances and to ensure a continuous operating environment by replicating core operating systems to a backup data centre in Kwai Chung, enhancing the Guangzhou call centre and setting up backup operation infrastructure in Hong Kong. The measures in the business continuity plan will be tested on a recurrent basis to ensure their efficiencies in time of need. Moreover, the Group will 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 Group.

During the year under review, the Group has initiated a project to develop and implement a comprehensive business continuity plan strategy and arrangement, with the first phase covering major accounting operations being completed. Besides, the Group has enhanced the sharing of customer information between different operating systems and also the customer statements. To create a paperless operating environment and to strengthen data security, the Group has implemented application status management system (ASMS) and reduces the physical delivery of application forms from promotion counters to judgement centres. Other operating systems launched this year include card instalment plan for cash advance transactions and the set up of IC card with fingerprint recognition device for PC login.

Managing Director's Operational Review

In the coming year, the Group will put continuous efforts to enhance the security of its operating systems. This includes the introduction of cyber warning alert system (CWAT) to monitor the network operation to prevent unauthorized user access and the set up of operating sub-systems to avoid unnecessary access to the core system. Moreover, operating systems for new product features in ATMs and new functionalities for the web site will be completed this year. Further upgrade is planned in judgement and data-warehouse so as to improve the operating efficiencies.

HUMAN RESOURCES



Corporate Games Competition

The total number of staff as at 20th February 2007 and 20th February 2006 was 376 and 320 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.

To foster a sense of belonging and team spirit among staff members, the Company issues staff newsletters and establishes Staff Social Club to organise and promote various activities for the staff.

CORPORATE SOCIAL RESPONSIBILITY

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

This year, the Company and staff volunteers had supported ORBIS by attending “ORBIS Pin Day Campaign 2006”. The Company was honored to receive the prize of “the third runner-up for the top five fund raising organisations” and our staff has received “the top individual fund raiser” under organisation category in this activity.



ORBIS Pin Day Campaign 2006

To carry on the mission of planting seeds of growth, our staff joined the Hong Kong Tree Planting Day – the biggest tree planting event of Hong Kong attended by dignitaries and citizens from local and China. 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 AEON Education and Environment Fund (the “AEON Fund”).

Managing Director's Operational Review



Hong Kong Tree Planting Day

Besides participating in the Hong Kong Tree Planting Day, the AEON Fund continued to support the Village Doctors Training Program in Yunnan Province and the partnership projects on campus greening, scholarship and research programs with Tsinghua University. A cheque presentation ceremony in January 2007 highlighted our commitment of sponsorship to World Vision Hong Kong for the construction of a high school in the rural area of Shanxi Province of China.

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 Group. I also wish to acknowledge the exemplary hard work carried out with commitment and passion at every level within the Group, especially the members of the Board for their diligent guidance and support. This work attitude and spirit bode well for the Group's long term prospects.



Masanori KOSAKA
Managing Director

Hong Kong, 27th April 2007