



ÆON Credit Service Co., Ltd.

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ÆON Credit Service Co., Ltd.

Annual Report 2001

Fiscal year ended February 20, 2001

Continuous growth in over 20 years of operations



Planting Seeds of Growth
We are ÆON

Printed in Japan





ON Credit Service Co., Ltd. was established in 1981 with a corporate philosophy of always putting the customer first. This mission is reflected in the dynamic development of its business activities through a continuing contribution to customer convenience and affluence.

ÆON Credit Service has made rapid progress. In December 1994 its shares were registered for trading on the over-the-counter market. The Company was listed on the second section of the Tokyo Stock Exchange in December 1996, and in August 1998 it achieved promotion to the first section.

This corporate progress reflects sustained growth in the card business of ÆON Credit Service. By the year ended February 2001, it was issuing over 40 different tie-up cards to a customer base of 8.8 million cardholders, and its cards could be used in over 280,000 affiliated merchants and more than 110,000 cash dispensers.

Today ÆON Credit Service is evolving into an integrated financial services company. It is diversifying into a variety of new areas of activity, including e-commerce and insurance. The huge success of its Hong Kong subsidiary, established in 1987, has provided a launchpad for rapid growth in other Asian markets, including Thailand, Malaysia, China and Taiwan.

ÆON Credit Service is dedicated to the provision of financial services that add value according to the lifestyle needs of individual customers. Its goal is to help customers to enhance their lifestyles by realizing the full potential of their futures and their credit. ÆON Credit Service will continue to develop its dynamic activities as a trusted partner in Japan and overseas.



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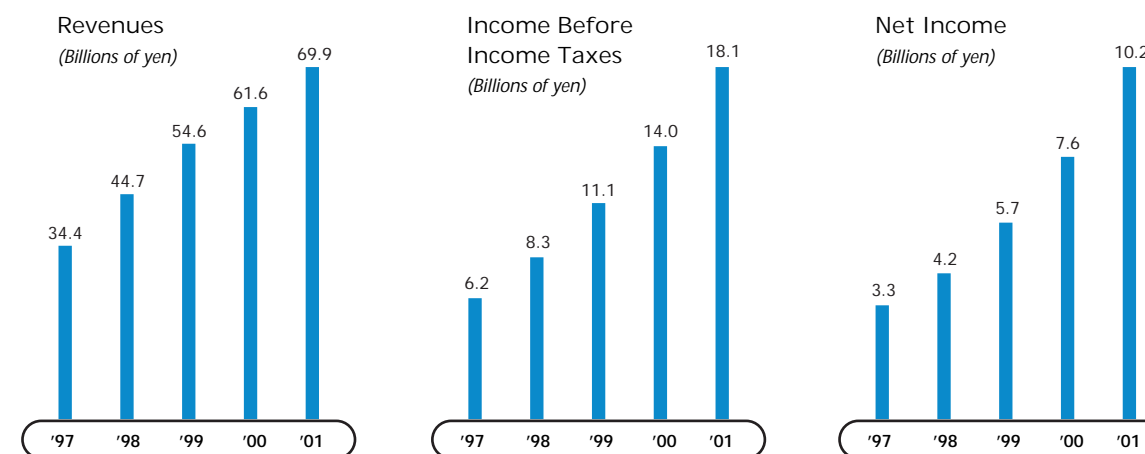
Forward-Looking Statements
 Statements contained in this report with respect to the ÆON Credit Service Group's plans, strategies and beliefs that are not historical facts are forward-looking statements about the future performance of the ÆON Credit Service Group which are based on management's assumptions and beliefs in light of the information currently available to it. These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the ÆON Credit Service Group's actual results, performance or achievements to differ materially from the expectations expressed herein.

Primary Financial Indicators

ÆON Credit Service Co., Ltd. and Consolidated Subsidiaries

	Millions of Yen					U.S. Dollars
	1997	1998	1999	2000	2001	2001
Revenues	¥ 34,422	¥ 44,670	¥ 54,639	¥ 61,554	¥ 69,863	\$ 602,267
Income before income taxes	6,177	8,275	11,123	14,031	18,082	155,879
Net income	3,254	4,182	5,697	7,635	10,238	88,259
Shareholders' equity	29,038	40,417	50,782	59,120	66,443	572,785
Total assets	183,920	230,100	255,986	284,747	328,050	2,828,017
	Yen					U.S. Dollars
Per Share Data						
Shareholders' equity	¥ 990.92	¥ 890.91	¥ 1,067.61	¥ 1,242.92	¥ 1,396.87	\$ 12.04
Cash dividend	11.36	15.91	15.91	35.00	30.00	0.26
Net income	117.95	95.04	121.59	160.51	215.24	1.86
Shareholders' equity ratio	15.8%	17.6%	19.8%	20.8%	20.3%	
Return on assets	2.1%	2.0%	2.3%	2.8%	3.3%	
Return on equity	13.9%	12.0%	12.5%	13.9%	16.3%	

Notes: 1. All indicators are for the term ending in February of that year.
 2. Revenues do not include consumption tax.
 3. On April 8, 1999 and February 10, 2000, the parent company issued additional shares in connection with an eleven-for-ten stock split and a two-for-one stock split, respectively. All per common share amounts in the Financial Indicators have been adjusted to reflect these stock splits.



■ Turnover

Nihon Credit Service Co., Ltd., the predecessor of AEON Credit Service, was established in June 1981, primarily to provide credit card services under contract to its parent company, Jusco Co., Ltd. In its first accounting year, which ended in February 1982, its turnover amounted to ¥1.9 billion. Nihon Credit Service began to offer card-based loan services in 1982, and its turnover began to expand steadily. Ten years later, in the year ended February 1992, its turnover reached ¥200 billion, and in the year ended February 2001 consolidated turnover broke through the ¥1 trillion barrier. Over the past decade AEON Credit Service has maintained one of the highest growth rates in the industry, averaging 124% per annum.

■ Revenues

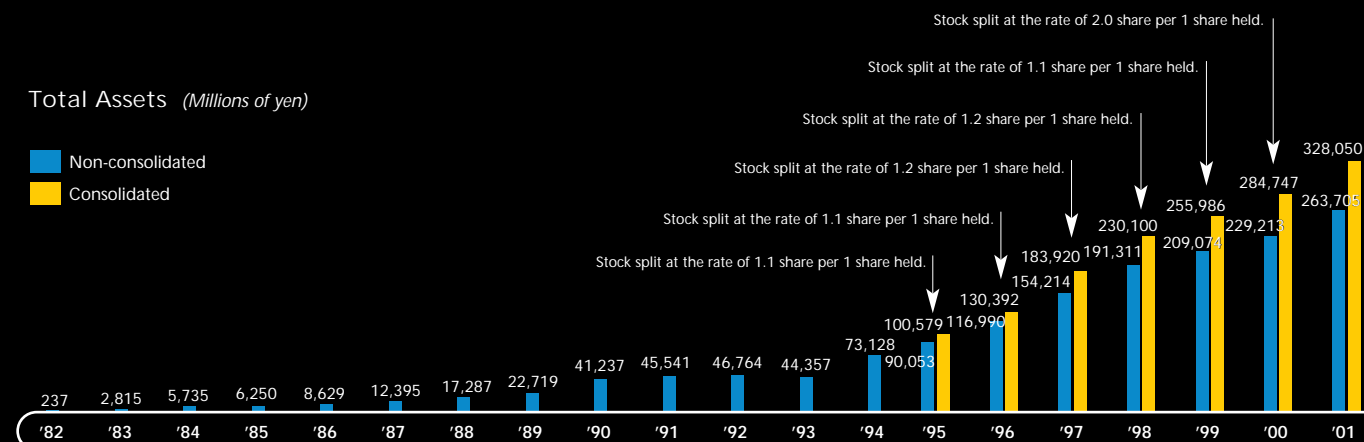
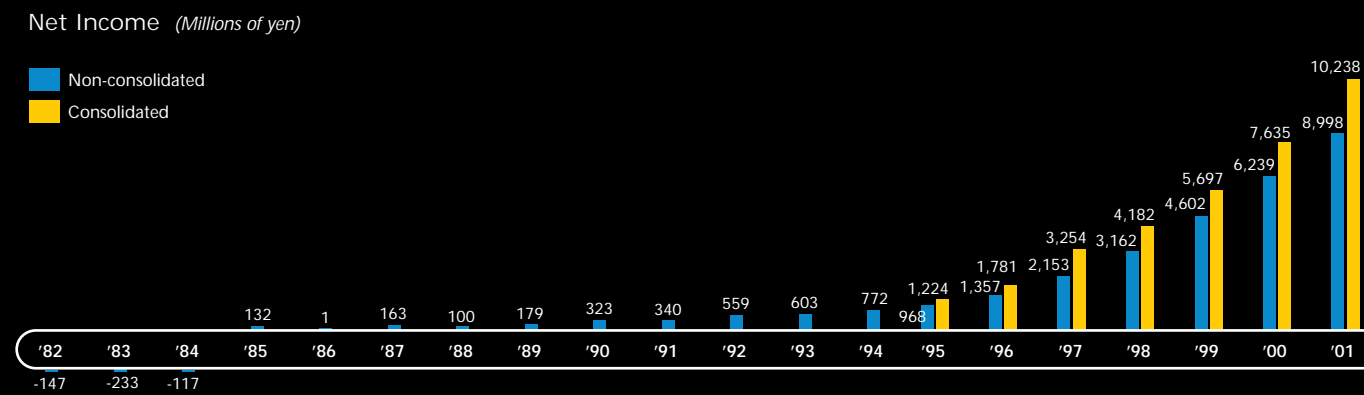
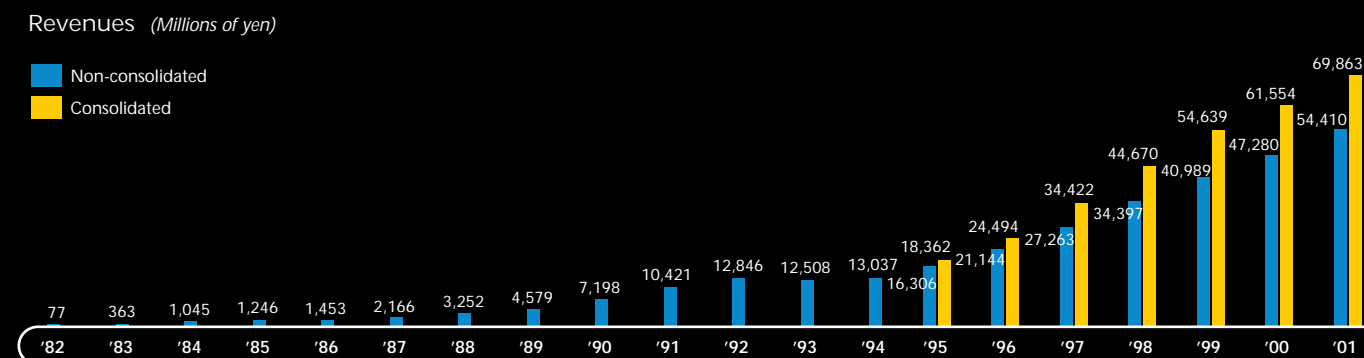
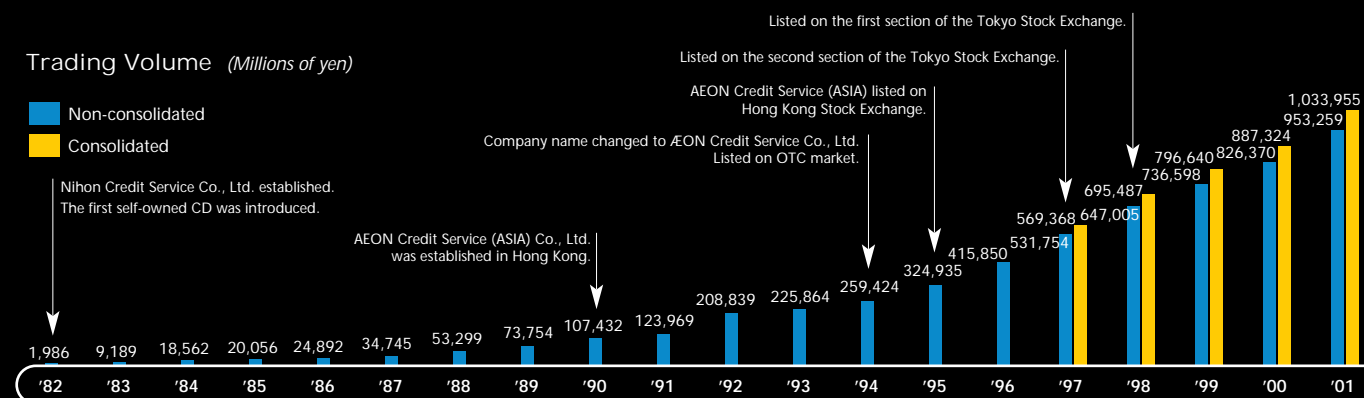
Revenues increased from ¥77 million in the Company's first year to ¥12.8 billion 10 years later in the year ended February 1992. This growth trend has continued ever since. By the year ended February 2001, revenues had reached ¥69.9 billion on a consolidated basis and ¥54.4 billion at the non-consolidated level. Over the past five years revenues has risen by an average of 20% per annum at the consolidated level, and 21% on a non-consolidated basis. In the year to February 2002, non-consolidated revenues is expected to reach ¥61.5 billion.

■ Net Income

In the year ended February 2001, consolidated net income increased by 34% year-on-year to ¥10.2 billion. At the non-consolidated level there was a 44% increase to ¥8.9 billion. This sustained growth in income was also reflected in improved capital efficiency. The Company's improved capital efficiency is reflected in the shareholders' equity ratio, which rose by 2.4 points to 16.3% at the consolidated level, and by 3.5 points to 16.3% on a non-consolidated basis. The consolidated ratio of net income to operating revenues increased by 2.3 points to 14.6%, while at the non-consolidated level there was a 3.4% increase to 16.5%. These figures are indicative of a further improvement in the Company's earning potential.

■ CD Network

In 1984 AEON Credit Service became the first company in the credit service industry to install cash dispensers (CDs). Since then it has aggressively expanded its network as part of its efforts to enhance customer convenience. By February 2001, it had a total of 1,614 directly owned CDs, including 1,257 in Japan and 357 overseas. Customers can also use 108,700 CDs and ATMs owned by partner financial institutions, making a total network of over 110,000 machines. AEON Credit Service CDs are available 24 hours a day and can be used to make withdrawals from accounts with the Postal Savings system and partner financial institutions. The addition of features such as these has dramatically enhanced the convenience of the network.



In June 2001 AEON Credit Service Co., Ltd. celebrated its 20th anniversary. Our success over the past 20 years reflects the loyal support of our shareholders and customers. We have adapted to the present harsh economic conditions by working to improve customer convenience, enhance the attractiveness of our services, and minimize our operating costs. In the year ended February 2001, this approach was reflected in record profit and the continuation of our unbroken record of continuous growth in revenues and income.

Results for the Year Ended February 2001

The Japanese credit card business has entered a new era of mega-competition. This reflects the entry of companies from other sectors into the market, as well as major inroads by foreign-owned companies. The business environment is also being transformed by rapid advances in information technology, especially the Internet.

AEON Credit Service was established in 1981. Since then we have achieved sustained growth by continually applying our corporate philosophy of putting the customer first to our day-to-day business activities. Even in this period of dramatic change, we have continued to lead the industry by developing our activities dynamically and working to offer high-value services based on the customer's perspective.

In fiscal 2000 we recorded consolidated revenues of ¥69,863 million and consolidated net income of ¥10,238 million. These results represent increases of 13.5% and 34.1% respectively over the previous year's

figures and are the highest in the Company's history.

In the year ended February 2001, AEON Credit Service increased its cardholder base by 1.2 million people. This growth reflects determined marketing and further enhancements to user convenience, including the integration of all AEON Group cards into the AEON Card. The effective membership is now in excess of 8.8 million. We also continued to enhance our network of CDs and ATMs. The total network, including units operated by partner financial institutions, now consists of over 110,000 machines. The services available through the network have also been expanded and enhanced to include withdrawals from accounts in the Postal Savings system and partner financial institutions. Card cashing services have been further improved and are now available on a 24-hour basis. The Company's performance as an integrated financial service company is among the best in the industry.

Dynamic Overseas Expansion

AEON Credit Service is also actively developing its business overseas. Its operations in Hong Kong, Thailand and Malaysia continue to achieve healthy growth, and a Taiwanese subsidiary established in December 1999 is also making steady progress. In June 2000 the Hong Kong subsidiary moved to strengthen its telemarketing business by establishing its own subsidiary, Aeon Information Service (Shenzhen) Co., Ltd., to operate a call center in Shenzhen China. Overseas revenues has grown to 22% of total consolidated operating income. The contribution in fiscal



Yoshiki Mori
President

2000 was ¥15,615 million. AEON Credit Service will continue to use the unique knowledge and expertise that it has developed in various countries as the basis for overseas expansion, especially in Asia.

New Activities

AEON Credit Service provides a variety of services that play an integral role in the lifestyles of its customers. It was one of the first credit service companies to introduce information technology and is actively applying that technology to the development of advanced services. In fiscal 1999 we established "AEON Market" to provide a variety of services via the Internet. Since then we have continued to enhance our services in this area, including "AEON Market," "Card & Loan Market" and "Insurance Market". In fiscal 2000 we developed "AEON Regi," a payment gateway based on an international standard settlement system. We have also introduced interactive voice response (IVR) technology as part of our ongoing efforts to provide a secure and reliable environment for Internet shopping and auctions.

We are also enhancing our information services to cardholders. We have established call centers in Chiba and Osaka, and credit checking operations, which were previously carried out by individual branches, have now been integrated at our new

Judging Center. This approach has allowed us to shorten the entire process from the initial application through to the issuance of cards so that customers can start to use their cards more quickly.

Management targets for fiscal 2001
In June 2001, AEON Credit Service celebrated its 20th anniversary. To express our gratitude for the continuing support of our shareholders, we added a ¥10 commemorative dividend to the final dividend for the year ended February 2001. This brought the final dividend to ¥25 per share, and the total dividend for the year to ¥40.

In fiscal 2001 we will strive to meet the expectations of shareholders by working steadily toward the following priority medium-term goals.

- The further expansion of our business network
- The use of IT to create a low-cost operational structure
- The development of e-commerce infrastructure
- The reinforcement of our business structure
- The expansion of our Asian network
- The fostering of subsidiaries in Japan
- The promotion of social contribution and environmental activities

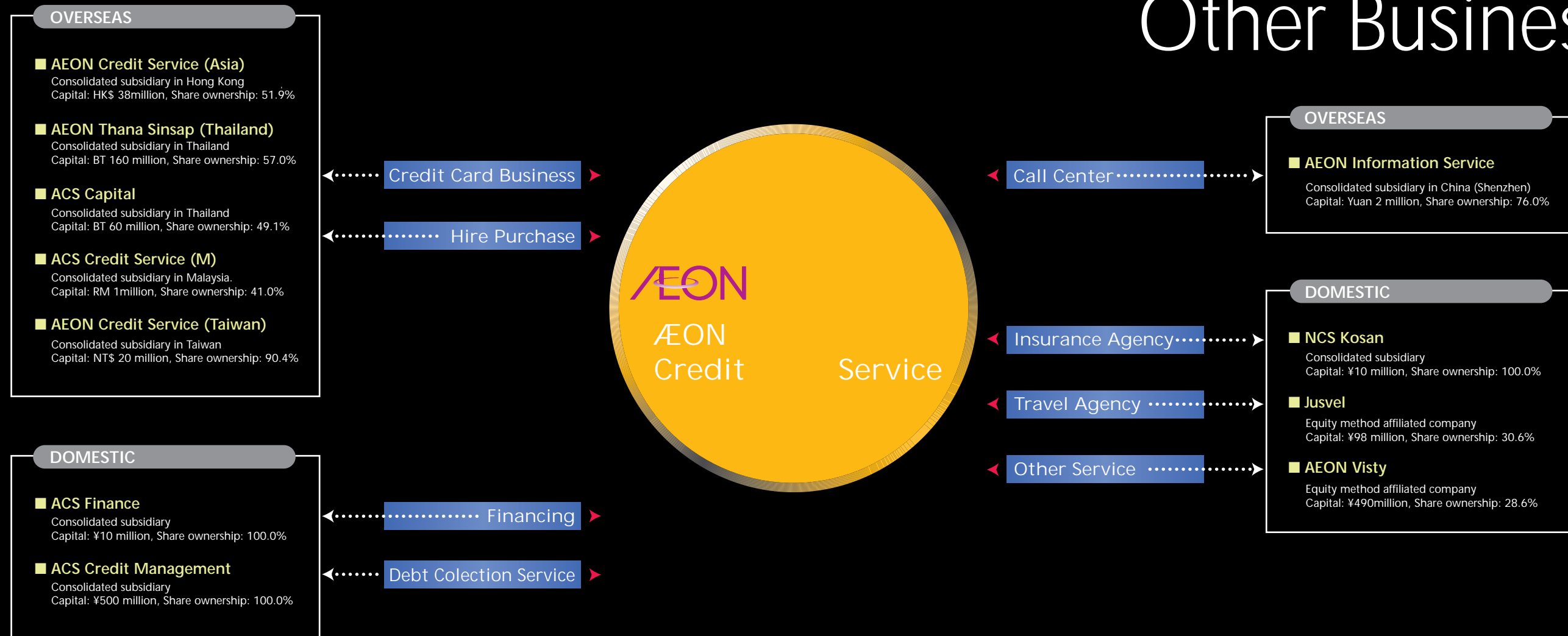
Our aim is to enhance our corporate value for our customers, for local communities, and for the international community. We will continue to develop new businesses boldly while maintaining our commitment to our "customer first" philosophy.

森 美 樹

June 2001

Yoshiki Mori, Representative Director

The *AEON Credit Service Group* consists of *AEON Credit Service Co., Ltd.*, together with nine consolidated subsidiaries, including six overseas subsidiaries and two equity method subsidiaries. In addition to its core credit card and loan business, the Group is also involved in a variety of financial service activities, including loan management and recovery. Other activities include call center operation, which involves telemarketing and the processing of customer requests and inquiries. Through its insurance agency business, the *AEON Credit Service Group* also handles a variety of insurance products, including vehicle insurance, travel insurance, and sports insurance. Elements of the Group's network, including the *AEON World Desk*, are used in the travel agency business, posting services, and card processing services.



Other Businesses

Financial Services

STRATEGIES FOR THE 21ST CENTURY

1. Further Expansion of Business Network

ÆON Credit Service will continue to take advantage of the powerful ÆON Card brand as it develops its business network. Its aims are to build nationwide coverage, and to strengthen its business operations in the Tokyo Metropolitan Area. Another goal is to enhance customer convenience by building the best cash dispenser network in the financial service industry, and by providing enhanced functions, including withdrawals from accounts in partner financial institutions.

2. Using IT to Build a Low-Cost Operational Structure

ÆON Credit Service uses the latest information technology in its Card Processing Center, Call Center, Credit Center and Loan Management Center. Card-related processes have been updated to reduce operating costs. ÆON Credit Service is also preparing for the introduction of a multifunction IC card.

3. Developing e-Commerce Infrastructure

ÆON Credit Service provides a comprehensive Internet settlement service and is developing a settlement business in the virtual world. It is also building a solid customer base for its new Internet-based Net Branch.

4. Fostering Subsidiaries in Japan

ÆON Credit Service will foster subsidiaries to expand its group activities into areas on the periphery of its credit card business, such as the insurance agency services business.

5. Expanding the Asian Network

ÆON Credit Service aims to build the credit service industry's biggest networks of branches and owned cash dispensers in Hong Kong, Thailand and Malaysia. Its Hong Kong subsidiary has already achieved stock exchange listing, and a subsidiary in Thailand is now preparing to be listed. ÆON Credit Service also aims to expand its activities in Taiwan and Shenzhen, and to take up the challenge of expanding into other countries.

6. Reinforcement of Business Structure

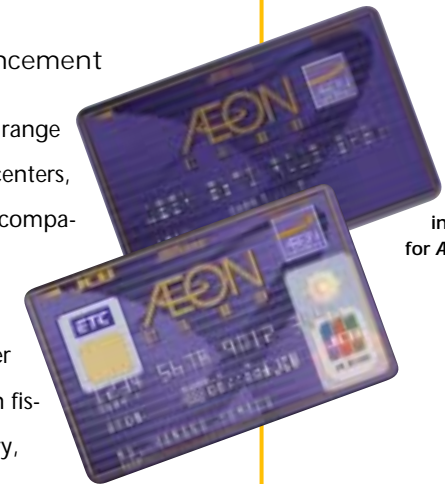
ÆON Credit Service has a results-oriented approach to business. This is reflected in its recruitment system, and in the continuing enhancement of its human resource development methods. New employees are thoroughly trained in customer service and specialized knowledge at a new training center.

Another priority for ÆON Credit Service is access to reliable sources of low-interest funds. This is being achieved through the diversification of its sources, including the use of loan liquidation, bond issues and other direct financing methods.

DOMESTIC OPERATIONS

Card Services—Business Growth and Service Enhancement

ÆON Credit Service issues tie-up cards for a wide range of businesses, including superstores, shopping centers, home centers, drugstores and foreign-owned companies. It currently handles over 40 different cards. Despite the general stagnation of credit card issues in Japan, ÆON Credit Service continued to enjoy strong consumer support and was able to sign up 1.2 million new cardholders in fiscal 2000. This increase, the biggest in the credit service industry, brought the total cardholder base to 8.8 million.



ÆON Credit Service introduced the ÆON Cards for ÆON Group in fiscal 2000.

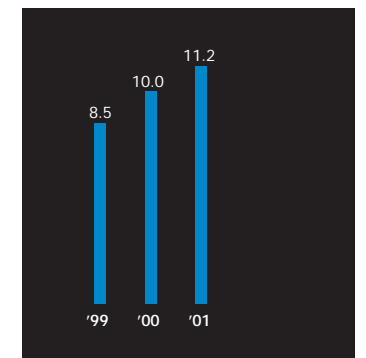
Customer convenience is a vital priority for ÆON Credit Service. Its efforts to improve convenience include the active recruitment of merchants. In fiscal 2000 it attracted approximately 34,000 new merchants, increasing the total network in Japan to around 280,000. The "customer first" philosophy also applies to merchant development activities. The commissions charged by ÆON Credit Service are among the lowest in the credit service industry, and it has gained an excellent reputation for reliability among affiliated merchants.

ÆON Credit Service has traditionally handled cards for ÆON Group companies, especially Jusco. In fiscal 2000 it introduced the ÆON Card, which combines the advantages of all group cards. This new card represents a major step forward in customer convenience and allows ÆON Credit Service to offer a variety of attractive services based on the capabilities of the ÆON Group. ÆON Credit Service will continue to develop tie-up cards with ÆON Group companies. It will also work to enhance the potential of the ÆON brand.

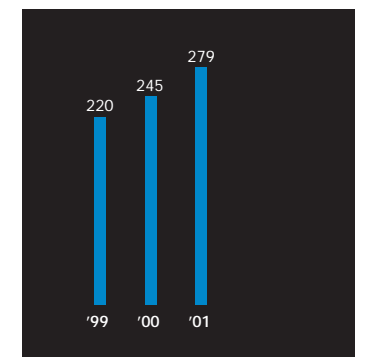
In fiscal 2000 ÆON Credit Service also introduced a withdrawal service for Postal Savings accounts. Other enhancements to card functions include the introduction of a debit card that can be used as a cash card and credit card, in partnership with the Shonai Bank, the Tottori Bank and the Mie Bank.

There were a number of enhancements to customer services. During the "Tokimeki Points" campaign, customers received rebates based on the level of their card spending. Under the "Shopping Safety Insurance" scheme, goods purchased using a card are automatically insured against breakage. ÆON Credit Service also launched a discount service for domestic and international telephone calls. Another important aspect of customer service is the cardholder magazine Mom. With a circulation of 300,000, this publication is an important tool for distributing information and canvassing the views and needs of cardholders.

Number of Domestic Cardholders (Million cards)



Number of Domestic Affiliated Merchants (Thousand merchants)



Expanding the Network and Establishing New Channels

ÆON Credit Service is continually working to improve the convenience and attractiveness of its services by enhancing its network of cash dispensers (CDs). By February 2001, it had built a nationwide network of over 110,000 machines. ÆON Credit Service is also expanding its network of directly owned CDs, including those installed in Ministop convenience stores and its own outlets. As of February 2001, there were 1,257 machines in place. At the same time, ÆON Credit Service is improving the functionality of its CD network, including 24-hour access and the supply of insurance services.

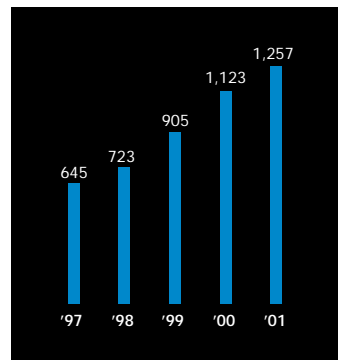


In developing its business network, ÆON Credit Services also aims to foster close links with local communities. It has added 12 new outlets to its branch network, bringing the total to 52 throughout Japan. In addition, ÆON World Desk outlets have been established in 30 cities in 18 countries to provide support for cardholders traveling overseas. In Japan, similar outlets have been established in Sendai and Osaka. Services include currency conversion and the immediate issuance of international cards.

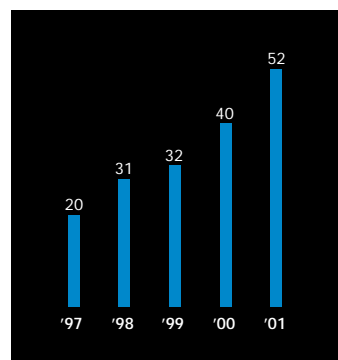
The creation of innovative services has been an important factor in the success of ÆON Credit Service. The Company took its first step into the world of e-commerce with the establishment of the ÆON Market website, which provides an extensive range of Internet-based services to cardholders. The Shopping Market allows users to purchase leading brand products from Japan and around the world, while the Card & Loan Market offers card issues after 30-minute credit checks and same-day loan services. In the Insurance Market, customers can compare and buy vehicle insurance products and apply for various types of insurance cover. The ÆON Card Net Branch allows cardholders to obtain account statements and change their address and telephone number details. Since fiscal 1999 it has also been possible to access the site from mobile telephones via i-mode, Ezweb and J-SKYweb, to obtain account statements and apply for loans.

ÆON Credit Service is also enhancing its expertise and knowledge through its active participation in next-generation card projects. These include the IC card verification project of the Ministry of Posts and Telecommunications, and the electronic toll collection (ETC) system, which is currently being trialled by the Ministry of Land, Infrastructure and Transport.

Number of Self-owned CDs in Japan



Number of Domestic Branches



Our affiliated merchants' network comprises various business categories including fast-food chains, retailers, as well as financial institutions.



ÆON Credit Service improves its ATM and CD services including 24-hour-operations.



ÆON Credit Service has expanded its merchant network to 280,000 in Japan.



A branch network of ÆON Credit Service has been established throughout Japan.

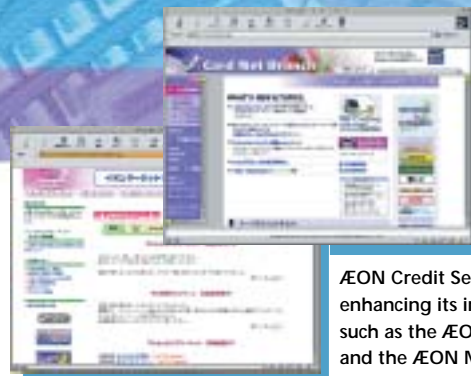


AEON Credit Service handles various insurance products.

The AEON Call Center engaged in responding service from customers directly.



AEON Credit Service has introduced "i-mode service" providing convenience for all customers.



AEON Credit Service is currently enhancing its information services such as the AEON Card Net Branch and the AEON Market.

Diversification and Efficiency Improvements

In addition to its credit card business, AEON Credit Service is also involved in a wide array of other business activities. These include financing, the insurance agency business, the servicer business, the card processing business, and the posting business.

In the area of finance services, AEON Credit Service offers low-interest "Member's Loans" for specific purposes, as well as "Study Loans," "Life Support Loans" and "Dental Loans." ACS Finance Co., Ltd. is developing services based primarily on small loans. The amount of finance handled at the non-consolidated level, excluding agency loans, increased by 17.4% over the previous year's level to ¥240.1 billion in fiscal 2000.

The insurance agency business continues to grow steadily. NCS Kosan Co., Ltd. handles a wide range of insurance products, especially vehicle insurance, as well as extended guarantee services for electrical appliances. Its turnover is in excess of ¥2.3 billion.

The servicer business is handled by ACS Credit Management Co., Ltd. Using loan recovery know-how developed by AEON Credit Service, it acted as a recovery agent for loans totaling approximately ¥15 billion in fiscal 2000.

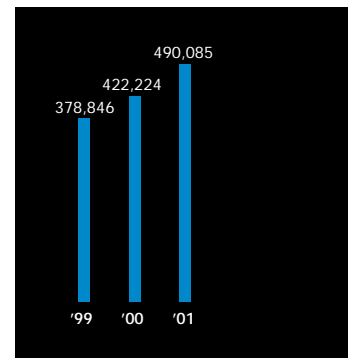
AEON Credit Service is actively working to improve the efficiency of its business operations. For example, by establishing its own card processing center, it has speeded up the card issuing process. It has also brought peripheral card-related activities, such as invoicing and direct mail, in-house. At the same time, it is actively expanding into new areas of business, including contracting for AEON Group companies.

Call centers have been established in Chiba and Osaka to ensure a prompt response to requests and inquiries from cardholders. Cardholder comments are fed back from the call centers for use in operational improvement and the development of new services.

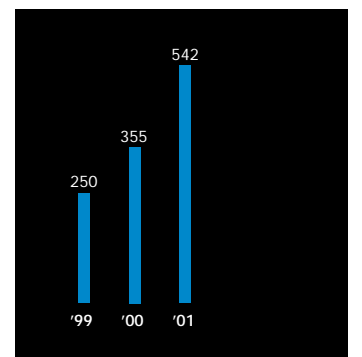
In fiscal 2000, AEON Credit Service opened a new Credit Center. This facility provides rapid credit checks in preparation for card issues. It uses the latest technology, including an auto-scoring system and predictive diallers. Credit checking, which was previously carried out at branch level, has been centralized to provide a speedier and more efficient operation.



Loan Trading Volume (Millions of yen)



Revenue of Insurance Business (Millions of yen)



OVERSEAS OPERATIONS

Sustained Growth in Hong Kong

AEON Credit Service first moved into Hong Kong in 1987. As one of the first credit service companies to expand into an overseas market, it achieved rapid growth. Its success in Hong Kong became the stepping stone for decisive moves into other markets, including Thailand, Malaysia and Taiwan.

Business activities in Hong Kong are handled by Aeon Credit Service (Asia) Co., Ltd., which is involved mainly in the area of card services and lending. Since its establishment, it has set new profit records in successive years, and in September 1995 it was listed on the Hong Kong Stock Exchange. Today it is a major presence in the Hong Kong credit market and has built a strong business base. In fiscal 2000 the company attracted 110,000 new cardholders, both through its links with leading international brands like American Express and Mastercard, and also through its involvement with new cards issued by local companies, such as the HKNet Card and the Hon Po Restaurant Card. Its cardholder base as of February 2001 was in excess of 720,000. Operating income in fiscal 2000 amounted to HK\$8.46 million, and net income reached HK\$2.1 million.

Aeon Credit Service (Asia) is strongly committed to the improvement of customer convenience and is the first non-bank in Hong Kong to have its own CDs. In the year ended February 2001, it installed 291 CDs at locations throughout Hong Kong. It is also playing an important role in the global service network of the Aeon Credit Service Group by configuring its CD network to allow cardholders from Japan to access cashing services in Hong Kong.

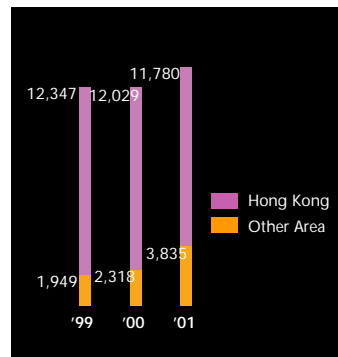
Another important area of involvement for Aeon Credit Service (Asia) is e-commerce. It has developed the "Aeon-Spot" Internet payment gateway. In addition, CDs and multimedia terminals can be used to make card payments, order goods or arrange installment payment plans.

Aeon Credit Service (Asia) actively participates in community activities. It has issued numerous tie-up cards for local public service organizations. Other community contribution activities include the establishment of the Aeon Jusco Education and Environment Fund Limited.

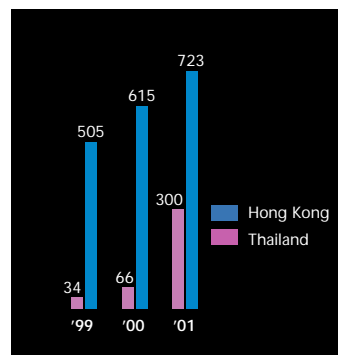
In fiscal 2001 Aeon Credit Service (Asia) aims to increase its cardholder base to 820,000 and its CD network to 340 units. It also plans to expand its business activities, including the establishment of a tie-up with Visa Card International.



Revenues from Overseas Operation
(Millions of yen)



Number of Overseas Cardholders
(Thousand cards)



AEON Credit Service (ASIA) attracted 720,000 cardholders.

As the second overseas subsidiary of Aeon Credit Service, Aeon Thana Sinsap (Thailand) was established in 1992 and shows continual growth.

AEON Credit Service (ASIA) has built the biggest CD network among Hong Kong's non-bank businesses.



AEON Credit Service (ASIA) has established a major presence in the Hong Kong credit market.

Business Development in Asia

In Thailand, Aeon Thana Sinsap (Thailand) Co., Ltd. was established in 1992. In 1998 ACS Capital Corporation Ltd. was created in partnership with a leading local company to build a business based on hire purchase and credit card services. Current priorities include the expansion of its business network to include regional cities, and the enhancement of its CD network. Aeon Thana Sinsap (Thailand) issues new cards in partnership with local companies and Japanese-owned companies, as well as tie-up cards based on international brands, such as Mastercard and JCB. Its cardholder base surged from 60,000 in February 2000 to 300,000 in February 2001. Over the same period, the company installed 52 new CDs, bringing its total network to 66. These efforts have been paralleled by sustained growth in the company's performance. In fiscal 2000 operating income amounted to 1,226 million bahts, an increase of 87.3% over the previous year's figure. Aeon Thana Sinsap (Thailand) and ACS Capital Corporation will continue to expand their operations and strengthen their internal structures in preparation for listing on the Thai Stock Exchange.

In 1997 Aeon Credit Service established ACS Service (M) SDN.BHD to provide hire purchase services in Malaysia. By fiscal 2000 it had increased the number of affiliated merchants to 1,900 and expanded its branch network from Kuala Lumpur to Johoval, Penang and Eastern Malaysia (Borneo). In fiscal 2000 its operating income increased by 55.0% to 21 million ringgits.

The Taiwan-based subsidiary ACS Credit Service (Taiwan) Co., Ltd. was established in 1999 to develop activities centering on hire purchase services. It commenced full-scale business operations in fiscal 2000 and has already attracted 600 merchants.

Aeon Information Services (Shenzhen) Co., Ltd. was established in June 2000. It handles telemarketing operations under contract to Aeon Credit Service (Asia) Co., Ltd. It is also expanding its operator work force and facilities in preparation for the provision of services to companies outside of the Aeon Group.



Aeon Thana Sinsap (Thailand) has consolidated its position as the No.1 credit company in the country with its 300,000 cardholders.

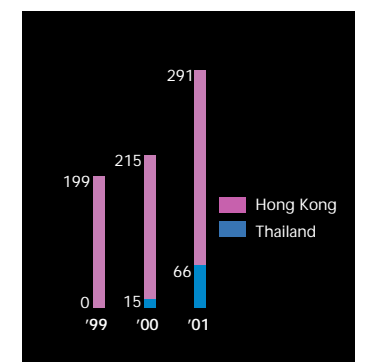


Aeon Thana Sinsap (Thailand) developed its CD network for the first time as a local credit enterprise.



Aeon Information Service (Shenzhen), the newest overseas subsidiary of Aeon Credit Service, handles telemarketing operations for the Aeon Group.

Number of Self-owned CDs



SOCIAL CONTRIBUTIONS AND ENVIRONMENTAL ISSUES

Social Contribution and Environmental Protection Activities

The ÆON approach is to start with the achievable. This philosophy guides the corporate efforts of ÆON Credit Service to fulfill its corporate citizenship mission at all levels, from participation in voluntary activities in local communities, to initiatives to protect the global environment.

ÆON Credit Service carries out unique charity initiatives with the support of cardholders. It issues a variety of charity cards, such as the "ÆON Green Fund Card". Part of the card management fees paid on such cards are donated to charity. It also introduced a charity system based on the "Tokimeki Points" campaign, which provides rebates based on the amount spent. Since fiscal

1996 funds from this source have been used to produce and donate 442 copies of 88 Braille titles and 112 copies of 34 tape titles to the Japan Braille Library. ÆON Credit Service also donates funds to the Green Fund.

Every year ÆON Credit Service employees participate in voluntary activities and charity work at institutions for the physically and mentally handicapped. Employees take part in seasonal events. Donations are raised mainly through employees' collection efforts.

Jobs are provided for handicapped people at a Business Support Center established by ÆON Credit Service. Designed for wheelchair access, the Center offers a pleasant working environment for jobs that include IT-based administrative tasks.

The ÆON concept of starting with the achievable is also reflected in a range of initiatives based on employee participation. Workers use their free time to take part in various community-oriented activities, such as "Hometown Clean-up Campaigns" in the areas around ÆON Credit Service offices.

ÆON Credit Service is also working to ensure that all aspects of business activities are environment-friendly. For example, it is introducing cards made from the non-vinyl material PET-G, and the transparent windows in its invoice envelopes are now made from gran paper, which can be burned without emitting dioxins.



The ÆON Group 1% Club promotes international cultural and human exchange activities through the "Teenage Ambassadors Program."



ÆON Group Environmental Foundation is currently promoting The Great Wall of China Reforest Project together with the government of China and the city of Beijing.



A ecological musical "Kane ga mori no Kappa" was presented throughout Japan with the participation of local sponsors and the ÆON Group's companies.

Global Activities as a Member of the AEON Group

The AEON Group 1% Club is a major initiative involving the entire Group. Group companies donate 1% of their before-tax income to a fund that is used to support environmental conservation, international cultural and human exchange, and the development of regional culture and communities.

In fiscal 2000 the ecological musical "Kane ga Mori no Kappa" was presented throughout Japan with the participation of local supporters and children. AEON Credit Service was a sponsor for this project. It also brought Cambodian children to Japan under the "Little Ambassador" program, the aim of which is to bring children from around the world to Japan for international exchange activities. The Cambodian children met children from throughout Japan and participated in a variety of international exchange activities, including attendance at Japanese educational institutions. The project helped to foster understanding and friendship between Japan and Cambodia.

The AEON Group Environmental Foundation undertakes environmental conservation activities from a global perspective. At present it is working with the City of Beijing in the People's Republic of China to restore forests along the Great Wall of China, which has World Heritage status. The number of participants in the third planting in fiscal 2000 was even higher than in the previous year at around 2,700. A cumulative total of 390,000 trees have been planted. The AEON Group also supports community-based efforts to preserve Japan's remaining natural areas, including the conservation of village forests.



Through overseas subsidiaries of AEON Credit Service, many charity programs have held in many countries.



AEON Credit Service has donated Braille books and tapes to the Japan Braille Library since 1996.

Financial Review

AEON Credit Service Co., Ltd. and Consolidated Subsidiaries for the Years Ended February 20, 2001 and 2000

Results of Operations

	Millions of Yen			
	2001	2000	changes	changes (%)
Revenues				
Interest income	¥ 49,674	¥ 43,713	¥ 5,961	13.6
Credit card fees	11,423	10,001	1,422	14.2
Hire purchase fees	3,178	2,158	1,020	47.3
Service fees	3,069	2,525	544	21.5
Other operating revenues	2,519	3,157	(638)	(20.2)
Total revenues	¥ 69,863	¥ 61,554	¥ 8,309	13.5
Expenses				
Interest expense	¥ 6,399	¥ 5,663	¥ 736	13.0
Provision for credit losses	8,810	8,367	443	5.3
Salaries and fringe benefits	9,995	8,692	1,303	15.0
Advertising and promotion	3,615	3,535	80	2.3
Travel and communication	4,671	4,260	411	9.6
Other operating expenses	16,647	15,589	1,058	6.8
Other – net	1,644	1,417	227	16.0
Total expenses	¥ 51,781	¥ 47,523	¥ 4,258	9.0
Net income	¥ 10,238	¥ 7,635	¥ 2,583	33.8

Financial Position

	Millions of Yen			
	2001	2000	changes	changes (%)
Cash and cash equivalents	¥ 10,174	¥ 9,316	¥ 858	9.2
Finance receivables –net of allowance for possible credit losses	289,448	249,452	39,996	16.0
Investments	6,641	9,756	(3,115)	(31.9)
Property and equipment	5,438	4,387	1,051	24.0
Deferred income taxes	1,735	520	1,215	233.7
Other assets	14,614	11,316	3,298	29.1
Total Assets	¥ 328,050	¥ 284,747	¥ 43,303	15.2

1. Summary

In the consolidated accounting period ended February 20, 2001, AEON Credit Service Co., Ltd. and its consolidated subsidiaries actively worked to establish new branches, install more directly owned cash dispensers (CDs), attract more cardholders, and accelerate the development of the merchant base. Another target was the improvement of operational efficiency through the establishment of integrated operation

centers, including call centers and credit checking centers, for card-related services. The Group also focused on the establishment of new income sources, including an involvement in e-commerce and the development of business operations in Taiwan and China (Shenzhen).

AEON Credit Service Co., Ltd. further enhanced customer convenience by integrating cards issued by Jusco and various other AEON Group companies into the new AEON Card.

These efforts resulted in the addition of 1.6 million cardholders, while net finance receivables increased by 16.0% to an all-time high of ¥289,448 million. Total assets also set a new record with a 15.2% increase to ¥328,050 million. Operating revenue was 13.5% higher, reflecting further strong growth in the cardholder base and the steady expansion of lending and card shopping activities. Operating expenses were

9.0% higher, mainly because of increased financing costs due to the expansion of the lending business, and an upward trend in personnel costs due to the expansion of business operations. Net income climbed 34.1% to an all-time high of ¥10,238 million, continuing the Group's record of consistent growth in sales and income. Net income per share was ¥215.24.

Revenues

	Millions of Yen			
	2001	2000	changes	changes (%)
Total volume				
Loan – credit card and other	¥ 490,085	¥ 422,224	¥ 67,861	16.1
Credit card	515,842	446,020	69,822	15.7
Hire purchase	28,028	19,080	8,948	46.9
Total trading volume	¥ 1,033,955	¥ 887,324	¥ 146,631	16.5

Finance receivables

Loan – credit card and other	¥ 206,207	¥ 178,211	¥ 27,996	15.7
Credit card	72,015	64,949	7,066	10.9
Hire purchase	15,000	9,633	5,367	55.7
Total finance receivables	¥ 293,222	¥ 252,793	¥ 40,429	16.0

Revenues

Interest income	¥ 49,674	¥ 43,713	¥ 5,961	13.6
Credit card fees	11,423	10,001	1,422	14.2
Hire purchase fees	3,178	2,158	1,020	47.3
Service fees	3,069	2,525	544	21.5
Other operating revenues	2,519	3,157	(638)	(20.2)
Total revenues	¥ 69,863	¥ 61,554	¥ 8,309	13.5

2. Operating Results

■ Revenues

Turnover increased by 16.5% to ¥1,033,955 million, and finance receivables by 16.0% to ¥293,222 million. Total revenues was 13.5% higher at ¥69,863 million. As outlined below, a variety factors influenced income performance in each area of activity.

(1) Interest Income

Turnover increased by 16.1% to ¥490,085 million, while the balance of loans to customers was 15.7% higher at ¥206,207 million, and income from lending operations increased by 13.6% to ¥49,674 million. Contributing factors included the sustained growth of the cardholder base and the expansion of the CD network.

(2) Credit Card Fees

ÆON Credit Service enhanced customer convenience by integrating cards issued by ÆON Group companies into the ÆON Card. It also launched the new ÆON American Express Card in partnership with American Express. These innovations were accompanied by continuing efforts to attract new users for existing tie-up cards. Turnover increased by 15.7% to ¥515,842 million. Despite the liquidation of bonus payment claims worth ¥5 billion, the balance of installment plan receivables rose by 10.9% to ¥72,015 million, causing a substantial increase in the balance of claims. Income was 14.2% higher at ¥11,423 million.

(3) Hire Purchase Fees

Turnover increased by 46.9% to ¥28,028 million, lifting installment plan receivables by 55.7% to ¥15,000 million. Income was dramatically higher with a 47.3% increase to ¥3,178 million. Factors contributing to this growth included

the efforts of two consolidated subsidiaries in Thailand and one in Malaysia to strengthen their operations in provincial cities, and aggressive promotion campaigns conducted jointly with affiliated merchants.

Operating Expenses

	Millions of Yen			
	2001	2000	changes	changes (%)
Expenses				
Interest expense	¥ 6,399	¥ 5,663	¥ 736	13.0
Provision for credit losses	8,810	8,367	443	5.3
Salaries and fringe benefits	9,995	8,692	1,303	15.0
Advertising and promotion	3,615	3,535	80	2.3
Travel and communication	4,671	4,260	411	9.6
Other operating expenses	16,647	15,589	1,058	6.8
Other – net	1,644	1,417	227	16.0
Total expenses	¥ 51,781	¥ 47,523	¥ 4,258	9.0

■ Operating Expenses

Operating expenses increased by 9.0% to ¥51,781 million. The main factors behind the increase were as follows.

(1) Interest Expenses

Japanese interest rates remained low. ÆON Credit Service used commercial paper as a low-interest medium for obtaining finance. It also issued its first domestic unsecured straight bond issue, worth ¥10 billion. Another ¥5 billion was raised through the liquidation of credit card claims. These methods all helped to lower the cost of funds. Consolidated subsidiaries in Hong Kong, Thailand, Malaysia and Taiwan also worked to improve their financial efficiency. These efforts were reflected in a reduction in interest paid on funds raised. Though interest-bearing liabilities increased by 18.5% over the previous year's

level, interest expenses in the year ended February 2001 was only 13.0% higher at ¥6,399 million.

(2) Provision for Credit Losses

In the year ended February 20, 2001, ÆON Credit Service provided ¥8,810 million for credit losses. This total consists of ¥7,759 in direct write-offs, and ¥1,051 million in transfers to the credit loss reserve. The balance of the credit loss reserve at the end of the accounting period was ¥7,178 million, which is equivalent to 3.5% of the balance of loans to customers.

The ÆON Credit Service Group manages its credit operations under strict and stringently applied credit checking criteria. This approach has enabled the Group to accumulate a high-quality asset portfolio, and the credit loss ratio has remained extremely low.

3. Cash Flows

Provision for possible credit loss on finance receivables increased by 5.3% to ¥8,810 million in the year ended February 20, 2001. However, net cash flows from operating activities were ¥19.4% lower at ¥8,946 million, due to factors that included increased turnover in the credit and hire purchase areas.

An analysis of investment-related cash flows shows that the amount of funds used in investment activities was ¥38,142 million. This reflects a 16.0% increase in turnover in the area of lending operations, and a 15.7% increase in the balance of outstanding loans to customers.

Net Cash flows from financial activities amounted to ¥30,201 million. Long-term funds procured amounted to ¥57,480 million, while the net amount raised through low-interest commercial paper reached ¥1,000 million. Another ¥10 billion was raised through the first domestic unsecured straight bond issue. The funds were used mainly to retire short-term debt. The use of these financing mechanisms allowed ÆON Credit Service to secure itself against future rises in interest rates by fixing the rates on funds procured.

Net cash at the end of the accounting period amounted to ¥10,174 million. This is ¥858 million higher than in the previous accounting period.

4. Operating Income by Location and Segment

	Millions of Yen			
	2001	2000	changes	changes (%)
Total assets				
Japan	¥ 263,254	¥ 231,620	¥ 31,634	13.7
Hong Kong	47,125	44,138	2,987	6.8
Other areas	17,671	8,989	8,682	96.6
Total Assets	¥ 328,050	¥ 284,747	¥ 43,303	15.2
Revenues				
Japan	¥ 54,248	¥ 47,207	¥ 7,041	14.9
Hong Kong	11,780	12,029	(249)	(2.1)
Other areas	3,835	2,318	1,517	65.4
Total revenues	¥ 69,863	¥ 61,554	¥ 8,309	13.5

There was sustained growth in the number of cardholders in Japan, and total increase of 1.2 million, was among the biggest in the industry. The number of active cardholder accounts reached 8.8 million. This was reflected in record levels of card cashing and card shopping turnover. There was also steady growth in the turnover of the three consolidated subsidiaries in Japan, which are involved in the insurance agency business, servicer activities, and small-amount lending. These factors produced a 14.9% increase in operating income, which amounted to ¥54,248 million.

In Hong Kong, ÆON Credit Service worked dynamically to attract new cardholders. It also launched the ÆON American Express Card in partnership with American Express. These efforts resulted in a 110,000 rise in the cardholder base, one of the biggest increases in the industry, bringing the cumulative total to 720,000.

This growth was mirrored in a steady upward trend in card cashing and card shopping turnover, and operating income was 3.1% higher in Hong Kong dollar terms. However, an increase in the value of the yen caused operating yen-based operating income to decline by 2.1% to ¥11,780 million.

In Thailand ÆON Credit Service expanded its network of branches and CDs. It also issued four tie-up cards, including

cards developed with major Thai department stores. The number of cardholders surged to 300,000, up from 60,000 at the start of the accounting period, and there was a substantial increase in turnover.

In Malaysia increased regional marketing activities and aggressive joint promotion activities with merchants brought an increase in hire purchase turnover. In addition, ÆON Credit Service commenced full-scale business operations and was able to attract 600 merchants during the year ended February 20, 2001. Monthly hire purchase turnover reached the equivalent of ¥100 million.

In June 2000 ÆON Credit Service established a local subsidiary in Shenzhen, China to operate a call center business. This company provided telemarketing services for the Hong Kong subsidiary. It is also expanding its facilities and strengthening its customer service capabilities in preparation for outside contracting.

These efforts were reflected in sharply higher operating income in Thailand, Malaysia, Taiwan, China (Shenzhen) and other markets. The total for the year was ¥3,835 million, an increase of 65.4% over the previous year's result.

5. Funding and Liquidity

In Japan, ÆON Credit Service continued to diversify its sources of funds. In the area of direct financing, it liquidated ¥5 billion in bonus payment claims, including credit card revolving payments. This followed the liquidation of ¥10 billion in future claims, in the previous accounting period. ÆON Credit Service also implemented a domestic issue of ordinary bonds worth ¥10 billion and raised its ceiling for issues of

commercial paper, which is used to access low-interest funds to ¥100 billion. Policies relating to indirect financing focused on the diversification of sources. ÆON Credit Service also took advantage of Japan's low-interest environment to secure long-term fixed-interest funds to provide stable supplies of low-cost finance.

6. Shareholders' Equity

Shareholders' equity rose by 12.4% to ¥66,443 million. This resulted primarily from the fact that other surpluses increased by 36.3% over the previous year's level to ¥33,113 million. The shareholders' equity ratio was 0.5% lower at 20.3%, primarily

because of an increase in the balance of loans to customers due to an upward trend in turnover. Net income per share was ¥215.24, while net assets per share stood at ¥1,396.87.

	2001	2000
Shareholders' equity ratio, Return on assets, Return on equity:		
Shareholders' equity ratio	20.3%	20.8%
Return on assets	3.3%	2.8%
Return on equity	16.3%	13.9%
Net income (millions of yen)	¥ 10,238	¥ 7,635
Shareholders' equity (millions of yen)	¥ 66,443	¥ 59,120
Total assets (millions of yen)	¥ 328,050	¥ 284,747
Per share amount (yen):		
Net income	¥ 215.24	¥ 160.51
Cash dividend	¥ 30.00	¥ 35.00
Net assets	¥ 1,396.87	¥ 1,242.92

Notes: 1. The shareholders' equity ratio equals shareholders' equity at fiscal year-end divided by total assets at fiscal year-end.
2. Return on assets equals net income for the fiscal year divided by the average level of total assets during the fiscal year.
3. Return on equity equals net income for the fiscal year divided by the average level of shareholders' equity during the fiscal year.

7. Risk Management

■ Derivatives

ÆON Credit Service and some of its overseas consolidated subsidiaries use interest swaps, based on payments at fixed interest rates and receipts at variable rates, and interest caps (buyer basis), to protect themselves against future increases in interest costs resulting from rises in market interest rates that affect debt that is subject to variable interest payments.

The main risk factors relating to derivatives are market risk, interest risk and credit risk. In the area of market risk, ÆON Credit Service has some exposure to the risk of interest rate fluctuation. However, it uses derivatives to hedge against increases in variable interest rates on its debt, and the transactions have the effect of reducing financing costs when interest rates are rising. Credit risk is the risk that the other party to a transaction will fail to fulfil the contract obligations. ÆON Credit Service deals only with financial institutions that have excellent credit ratings, and it also manages risk by dispersing its transactions among multiple parties. The risk of non-performance is therefore negligible.

Moreover, ÆON Credit Service has its own internal rules governing derivative contracts, including maximum amounts, transaction periods, timing and other factors. The departments that supervise derivative transactions are independent from the departments that implement them. Details of transactions are reported at regular intervals to the senior management, including the directors in charge and the management council.

■ Exchange Risk Management

ÆON Credit Service uses currency contracts to hedge the risk of currency fluctuations affecting dividend income denominated in foreign currencies. Some overseas subsidiaries obtain loans from financial institutions in currencies other than the local currency. However, all such transactions are covered by currency swaps, which allow them to purchase foreign currency at a price that will be fixed on the repayment date. All currency risk on the foreign currency debt of overseas subsidiaries is therefore hedged against currency risk. Currency swap costs are managed as part of the total cost of finance. The cost of currency swaps is included in the borrowing rate negotiated with financial when new loans are raised.

As with interest swaps, currency swaps are also subject to internal rules that govern maximum amounts, transaction periods, timing and other factors. Supervision is provided by departments that operate independently of the departments that carry out the actual transactions. Transaction information is reported at regular intervals to the senior management, including the relevant directors and the management council.

Consolidated Financial Statements

Consolidated Balance Sheets

ÆON Credit Service Co., Ltd. and Consolidated Subsidiaries for the Years Ended February 20, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
ASSETS			
Cash and cash equivalents	¥ 10,174	¥ 9,316	\$ 87,707
Finance receivables - net of allowance for possible credit losses (Note 2)	289,448	249,452	2,495,241
Investments (Note 3)	6,641	9,756	57,250
Property and equipment (Note 4)	5,438	4,387	46,879
Deferred income taxes (Note 7)	1,735	520	14,957
Other assets	14,614	11,316	125,983
TOTAL	¥ 328,050	¥ 284,747	\$ 2,828,017
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Debt (Note 5)	¥ 212,356	¥ 179,163	\$ 1,830,655
Accounts payable	29,756	28,028	256,517
Accrued income taxes (Note 7)	6,198	3,564	53,431
Accrued liabilities (Note 8)	6,142	7,317	52,948
Deferred income taxes (Note 7)	191	1,692	1,647
Total liabilities	254,643	219,764	2,195,198
Minority interests	6,964	5,863	60,034
Shareholders' equity (Notes 10, 11 and 12)			
Common stock, ¥50 par value - authorized, 80,000,000 shares; issued and outstanding, 2001 and 2000 - 47,565,760 shares	15,467	15,467	133,336
Additional paid-in capital	17,104	17,104	147,448
Retained earnings	33,113	24,302	285,458
Accumulated other comprehensive income	759	2,247	6,543
Total shareholders' equity	66,443	59,120	572,785
TOTAL	¥ 328,050	¥ 284,747	\$ 2,828,017

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

ÆON Credit Service Co., Ltd. and Consolidated Subsidiaries for the Years Ended February 20, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Revenues				
Interest income	¥ 49,674	¥ 43,713	¥ 39,242	\$ 428,224
Credit card fees	11,423	10,001	9,021	98,474
Hire purchase fees	3,178	2,158	1,715	27,397
Service fees	3,069	2,525	2,111	26,457
Other operating revenues (Note 13)	2,519	3,157	2,550	21,715
Total revenues	69,863	61,554	54,639	602,267
Expenses				
Interest expense	6,399	5,663	5,939	55,164
Provision for credit losses (Note 2)	8,810	8,367	7,171	75,948
Salaries and fringe benefits	9,995	8,692	8,245	86,164
Advertising and promotion	3,615	3,535	3,620	31,164
Travel and communication	4,671	4,260	3,977	40,267
Other operating expenses (Note 14)	16,647	15,589	13,084	143,509
Other - net (Note 15)	1,644	1,417	1,480	14,172
Total expenses	51,781	47,523	43,516	446,388
Income before income taxes	18,082	14,031	11,123	155,879
Income taxes (Note 7):				
Current	9,515	6,410	5,789	82,025
Deferred	(1,671)	(14)	(363)	(14,405)
Total income taxes	7,844	6,396	5,426	67,620
Net income	10,238	7,635	5,697	88,259
Other comprehensive income (loss), net of tax (Note 12):				
Net change in net unrealized gains on available-for-sale securities	(1,745)	1,927	109	(15,043)
Foreign currency translation adjustments	257	(424)	(242)	2,215
Other comprehensive income (loss)	(1,488)	1,503	(133)	(12,828)
Comprehensive income	¥ 8,750	¥ 9,138	¥ 5,564	\$ 75,431

Amounts per share (Note 16):

	Yen			U.S. Dollars
	2001	2000	1999	2001
Net income				
Basic	¥ 215.24	¥ 160.51	¥ 121.59	\$ 1.86
Diluted	215.24	160.51	121.59	1.86
Cash dividends declared	30.00	35.00	15.91	0.26

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ÆON Credit Service Co., Ltd. and Consolidated Subsidiaries for the Years Ended February 20, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Common stock:				
Balance, beginning of year	¥ 15,467	¥ 15,467	¥ 12,677	\$ 133,336
Issuance of stocks	—	—	2,790	—
Balance, end of year	¥ 15,467	¥ 15,467	¥ 15,467	\$ 133,336
Additional paid-in capital:				
Balance, beginning of year	¥ 17,104	¥ 17,104	¥ 14,351	\$ 147,448
Issuance of stocks - net of stock issue costs	—	—	2,753	—
Balance, end of year	¥ 17,104	¥ 17,104	¥ 17,104	\$ 147,448
Retained earnings:				
Balance, beginning of year	¥ 24,302	¥ 17,467	¥ 12,512	\$ 209,500
Net income	10,238	7,635	5,697	88,259
Total	34,540	25,102	18,209	297,759
Deduct:				
Cash dividends	1,427	800	742	12,301
Balance, end of year	¥ 33,113	¥ 24,302	¥ 17,467	\$ 285,458
Accumulated other comprehensive income:				
Net unrealized gains on available-for-sale securities (net of applicable income taxes):				
Balance, beginning of year	¥ 2,409	¥ 482	¥ 373	\$ 20,767
Net change during the year, net of reclassification adjustment	(1,745)	1,927	109	(15,043)
Balance, end of year	¥ 664	¥ 2,409	¥ 482	\$ 5,724
Foreign currency translation adjustments:				
Balance, beginning of year	¥ (162)	¥ 262	¥ 504	\$ (1,396)
Aggregate translation adjustments during the year	257	(424)	(242)	2,215
Balance, end of year	¥ 95	¥ (162)	¥ 262	\$ 819
Balance, end of year	¥ 759	¥ 2,247	¥ 744	\$ 6,543

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ÆON Credit Service Co., Ltd. and Consolidated Subsidiaries for the Years Ended February 20, 2001, 2000 and 1999

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Cash flows from operating activities:				
Net income	¥ 10,238	¥ 7,635	¥ 5,697	\$ 88,259
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for possible credit losses on finance receivables	8,810	8,367	7,171	75,948
Depreciation and amortization	2,321	1,884	1,524	20,009
Minority interest in earnings	1,533	1,333	1,175	13,215
Deferred income taxes	(1,671)	(14)	(363)	(14,405)
Loss (gain) on investment	36	(65)	247	310
Changes in operating assets and liabilities:				
Credit card and hire purchase receivables	(13,360)	(5,831)	(10,347)	(115,172)
Accrued interest receivables	(584)	(466)	(398)	(5,034)
Accounts payable	1,710	386	6,233	14,741
Accrued liabilities	(1,346)	70	3,030	(11,603)
Accrued income taxes	2,629	14	780	22,663
Other - net	(1,370)	(2,208)	(2,233)	(11,810)
Net cash provided by operating activities	8,946	11,105	12,516	77,121
Cash flows from investing activities:				
Credit card and other loan originated	(278,550)	(237,594)	(211,352)	(2,401,293)
Credit card and other loan repaid	245,167	211,775	181,213	2,113,509
Purchases of investment securities available-for-sale	—	—	(477)	—
Proceeds from sale of available-for-sale securities	—	11	99	—
Net decrease (increase) in other investments	(237)	(1,605)	89	(2,043)
Capital expenditures	(4,522)	(2,501)	(2,168)	(38,983)
Net cash used in investing activities	(38,142)	(29,914)	(32,596)	(328,810)
Cash flows from financing activities:				
Net decrease in short-term debt	(9,734)	(14,164)	(4,381)	(83,914)
Net increase in commercial paper	1,000	4,000	—	8,620
Net proceeds from issuance of bond	9,934	—	—	85,638
Proceeds from long-term debt	57,480	45,559	25,428	495,517
Repayment of long-term debt	(26,735)	(14,754)	(14,608)	(230,474)
Proceeds from issuance of common stock - net of stock issue costs	—	—	5,543	—
Dividends paid to the parent company's shareholders	(1,427)	(800)	(742)	(12,301)
Dividends paid to minority shareholders	(317)	(297)	(349)	(2,733)
Net cash provided by financing activities	30,201	19,544	10,891	260,353
Effect of exchange rate changes on cash and cash equivalents	(147)	(292)	(86)	(1,267)
Net increase (decrease) in cash and cash equivalents	858	443	(9,275)	7,397
Cash and cash equivalents, beginning of year	9,316	8,873	18,148	80,310
Cash and cash equivalents, end of year	¥ 10,174	¥ 9,316	¥ 8,873	\$ 87,707
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest	¥ 5,978	¥ 5,466	¥ 5,264	\$ 51,534
Income taxes	6,885	6,552	5,257	59,353

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ÆON Credit Service Co., Ltd. and Consolidated Subsidiaries

1. Basis of Financial Statements and Summary of Significant Accounting Policies

Description of Business

ÆON Credit Service Co., Ltd. (the "parent company") and its consolidated subsidiaries (together, the "Companies") provide credit card and other consumer financing services in Japan and three other countries. Revenues of the parent company and a Hong Kong subsidiary are derived primarily from consumer financing activities. The major operations of subsidiaries in other countries consist primarily of hire purchases. There are 9 million active cardholders, over 279,000 merchants and a network of more than 110,000 cash dispensers in Japan. Also, there are 1 million active cardholders in other countries, mainly in Hong Kong and Thailand. The Companies belong to the ÆON Group, which consists of 147 companies, including supermarkets, specialty and convenience stores, as well as credit card and other consumer financing services. The majority of the parent company's shares are owned, directly and indirectly, by JUSCO CO., LTD.

Basis of Financial Statements

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the parent company is incorporated and principally operates. Translation of Japanese yen into U.S. dollar amounts as of and for the year ended February 20, 2001, is included solely for the convenience of readers outside Japan and has been made at the rate of ¥116=U.S.\$1, the approximate rate of exchange at February 20, 2001. The translation should not be construed as a representation that the yen amounts could be converted into U.S. dollars at the above or any other rate.

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. In certain respects, effect has been given in the consolidated financial statements to adjustments that have not been entered in the Companies' general books of accounts, which are maintained principally in accordance with accounting practices prevailing in the countries of incorporation. Major adjustments include those relating to (1) valuation of equity securities and (2) recognition of commissions from member stores.

Summary of Significant Accounting Policies

Basis of Consolidation

The consolidated financial statements include the accounts of the parent company and all of its majority-owned domestic and foreign subsidiaries. Investments in an associated company are accounted for by the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. The excess of cost of the Companies' investments in subsidiaries and an associated company over their equity in the net assets at the dates of acquisition is generally amortized over a period of five years.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Due to the inherent uncertainty involved in making estimates, actual results could differ from those estimates.

Revenue Recognition

Interest income from finance receivables (loans) is recognized principally using the interest (actuarial) method.

Fee income from customers, member stores and contracted credit card companies is recorded on an accrual basis as services are rendered.

Finance Receivables

Finance receivables that the Companies have the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-off or specific valuation allowance.

Allowance for Possible Credit Losses

The allowance for possible credit losses is increased by charges to income and decreased by charge-offs (net of receivables). At the parent company level, the allowance for possible credit losses is provided at 100% of the receivable three months contractually past due, plus the amount calculated using a certain ratio which is determined based on the statistical analysis of historical credit losses. This reflects the parent company's periodic evaluation of the adequacy of the allowance based on their past loss experience, known and inherent risks in the portfolio, the estimated value of any underlying collateral and current economic conditions. Finance receivables of the parent company are charged off when the respective cash has not been collected during the past six months. All consolidated subsidiaries adopt similar policies for provisions for the allowance for possible credit losses and charge-offs of receivables.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, short-term investments with original maturities of three months or less.

Investment in Securities

Investments in debt and equity securities are classified as: (1) trading securities, which are accounted for at fair value with unrealized gains and losses included in earnings; (2) available-for-sale securities, which are accounted for at fair value with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity; or (3) held-to-maturity securities, which are accounted for at amortized costs. The Companies hold only available-for-sale securities.

For all securities, unrealized losses resulting from declines in market value that are other than temporary are recognized in earnings.

The costs of securities sold is determined based on the moving average-cost method.

Depreciation and Amortization of Property, Equipment and Other Assets

Depreciation of property and equipment is computed under the straight-line method at rates based on the estimated useful lives of the assets. Other fixed assets are amortized on a straight-line basis principally over a period of five years.

Income Taxes

Deferred tax assets or liabilities are computed based on the difference between the financial statements and income tax basis of assets and liabilities using the enacted tax rate. Deferred income tax expenses or credits are based on the change in the assets and liabilities from period to period, subject to an ongoing assessment of realization. No income taxes have been provided on undistributed earnings of consolidated subsidiaries and associated companies which the parent company considers to be permanently invested in foreign investees or not subject to tax should they be distributed from domestic investees to the parent company.

Financial Instruments

The Companies enter into interest rate swap/cap agreements as a means of managing their interest exposure. Interest differentials on the agreements are accrued as interest rates change over the contract period.

The Companies also enter into currency swap contracts in managing their foreign exchange risk.

Gain Arising from Sale by a Subsidiary of its Own Stock

The parent company accounts for gains arising from sale by a subsidiary of its previously unissued stock to minority shareholders as capital transactions in the consolidated financial statements.

Earnings per Share

Basic net income per share has been computed by dividing net income available to holders of common stock by the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share reflects the dilutive effect of all dilutive potential common shares outstanding during the period. There were no dilutive potential common shares outstanding for the years ended February 20, 2000, 1999 and 1998.

On April 8, 1999 and February 10, 2000, the parent company issued additional shares in connection with eleven-for-ten stock split and two-for-one stock split, respectively. All per common share amounts in the financial indicators have been adjusted to reflect these stock splits.

Reclassifications

Certain reclassifications have been made in prior years' financial statements to conform to classifications used in the current year.

Effective in fiscal 2001, point-based sales incentive offers were reclassified from advertising and promotion expense to a reduction of revenue. This reclassification was in accordance with Emerging Issues Task Force ("EITF") Issue No. 00-22, "Accounting for 'Points' and Certain Other Time-Based or Volume-Based Sales Incentive Offers, and Offers for Free Products or Services to Be Delivered in the Future." Amounts reported for prior years have been reclassified to

conform to the 2001 presentation. Point-based sales incentive offers reclassified for the fiscal 2001, 2000 and 1999 were ¥585 million (US\$5,043 thousand), ¥415 million and ¥530 million, respectively.

New Accounting Standard

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 138. SFAS No. 133 requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value. Gains or losses resulting from changes in the values of those derivatives would be accounted for depending on the use of the derivative and whether it qualifies for hedge accounting. The Companies adopted SFAS No. 133 on February 21, 2001 and recorded a one-time after-tax charge to expense for the initial adoption of ¥298 million (US\$ 2,569 thousand).

2. Finance Receivables

Finance receivables, principally from consumers, as of February 20, 2001 and 2000, respectively, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Credit card	¥ 72,015	¥ 64,949	\$ 620,819
Hire purchase	15,000	9,633	129,310
Credit card and hire purchase total	87,015	74,582	750,129
Loan-credit card, interest primarily at 24.0%—36.0%	190,244	163,853	1,640,034
Loan-other			
Unsecured, interest primarily at 11.0%—36.0%	13,412	11,837	115,621
Secured, interest primarily at 0.9%—6.1%	1,833	1,807	15,802
Loan to the AON group's employees	718	714	6,190
Credit card and other loan total	206,207	178,211	1,777,647
Finance receivable total	293,222	252,793	2,527,776
Accrued interest	3,404	2,786	29,345
Total	296,626	255,579	2,557,121
Allowance for possible credit losses	(7,178)	(6,127)	(61,880)
Net finance receivables	¥ 289,448	¥ 249,452	\$ 2,495,241

On February 20, 2001, contractual maturities of loans receivable excluding accrued interest were as follows:

Years ending February 20	Millions of Yen		Thousands of U.S. Dollars	
	Loan-Credit Card	Loan-Other	Loan-Credit Card	Loan-Other
2002	¥ 120,094	¥ 8,360	\$ 1,035,293	\$ 72,069
2003	66,276	3,846	571,344	33,155
2004	3,874	2,323	33,397	20,026
2005	0	1,110	0	9,569
2006	0	239	0	2,061
Thereafter	0	85	0	733

A substantial portion of the loan portfolio represents loans made under a revolving line of credit arrangements. Under such arrangements, borrowers may repay loans or make additional borrowings at anytime within the line of credit amounts, as long as minimum periodic debt payments are regularly made up until the specified repayment date. The above tabulation, therefore, is not to be regarded as a forecast of future cash collection. During the years ended February 20, 2001 and 2000, the ratios of loans repaid to average loan receivable balances were 53.7% and 53.1%, respectively.

During the year ended February 20, 2001, the parent

company sold credit card receivables of ¥5,150 million (US\$ 44,397 thousand) to a special purpose company. Loss on such sales was not significant.

During the year ended February 20, 2000, the parent company sold beneficial interests of ¥9,801 million to a special purpose company, for which the parent company exchanged credit card receivables. Gain on such sales were not significant.

The changes in the allowance for possible credit losses for the years ended February 20, 2001, 2000 and 1999 are shown below:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Balance, beginning of year	¥ 6,127	¥ 5,273	¥ 4,446	\$ 52,819
Provision for possible credit losses	8,810	8,367	7,171	75,948
Charge-offs:				
Charge-offs	(8,571)	(7,810)	(6,762)	(73,888)
Recoveries	756	405	482	6,517
Net charge-offs	(7,815)	(7,405)	(6,280)	(67,371)
Foreign currency translation adjustments	56	(108)	(64)	484
Balance, end of year	¥ 7,178	¥ 6,127	¥ 5,273	\$ 61,880

3. Investments

Marketable Equity Securities

Substantially all of the Companies' investments have been classified as available-for-sale equity securities and are reported at their fair value. Such marketable equity securities at February 20, 2001 and 2000 are as follows:

Marketable Equity Securities	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Cost	¥ 2,618	¥ 2,457	\$ 22,569
Gross unrealized gains	1,758	4,972	15,155
Gross unrealized losses	193	85	1,664
Fair value	4,183	7,344	36,060

Proceeds from sales of available-for-sale securities and gross realized gains and losses resulting from these sales for the years ended February 20, 2001, 2000 and 1999 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Proceeds from sales	—	¥11	¥99	—
Gross realized gains	—	4	—	—
Gross realized losses	—	—	146	—

Other

Other securities at February 20, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Non-marketable equity securities	¥ 343	¥ 445	\$ 2,957
Investment accounted for under the equity method	67	68	578
Time deposits with original maturities in excess of three months	2,048	1,899	17,655
Total	¥ 2,458	¥ 2,412	\$ 21,190

4. Property and Equipment

Property and equipment at February 20, 2001 and 2000

consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Leasehold improvement	¥ 760	¥ 536	\$ 6,552
Equipment	11,463	8,993	98,819
Vehicle	328	305	2,827
Total	12,551	9,834	108,198
Accumulated depreciation	(7,113)	(5,447)	(61,319)
Property and equipment - net	¥ 5,438	¥4,387	\$ 46,879

Depreciation of property and equipment during the years ended February 20, 2001, 2000 and 1999 totaled ¥1,760

million (US\$15,172 thousand), ¥1,618 million and ¥1,383 million, respectively.

5. Short-Term Debt and Long-Term Debt

A. Short-term debt at February 20, 2001 and 2000 consisted of the following:

	Millions of Yen						Thousands of U.S. Dollars
	2001		2000		2001		
	Weighted average interest rate		Weighted average interest rate		2001		
	Japan	Overseas	Japan	Overseas	Japan	Overseas	
Bank loans	¥ 19,293	1.24%	5.22%	¥ 29,185	0.73%	6.21%	\$ 166,319
Commercial paper	25,000	0.32%		24,000	0.08%		215,517
Total	¥ 44,293			¥ 53,185			\$ 381,836

The Companies maintain line-of-credit arrangements with several banks to support overdrafts. Under the arrangements in effect at February 20, 2001, the Companies had available lines

of credit of ¥32,774 million (US\$282,534 thousand) in the aggregate. Lines of credit, mainly, are reviewed annually.

B. Long-term debt at February 20, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Debt under securitized finance receivables - Secured	¥ 7,706	¥ 7,282	\$ 66,431
Loans from banks and insurance companies - Unsecured	150,357	118,696	1,296,181
Japanese yen bond - Unsecured	10,000	—	86,207
Less current portion	20,625	25,794	177,802
Total	¥ 147,438	¥ 100,184	\$ 1,271,017

C. At February 20, 2001 and 2000, interest rates on long-term debt were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
0.1% ~ 1.0%	¥ 700	¥ 700	\$ 6,034
1.1% ~ 2.0%	100,600	59,900	867,241
2.1% ~ 3.0%	24,230	24,100	208,879
3.1% ~ 4.0%	11,500	14,737	99,138
4.1% ~ 5.0%	1,000	2,100	8,621
5.1% ~ 6.0%	744	—	6,414
6.1% ~ 7.0%	1,752	—	15,104
7.1% ~ 8.0%	3,612	997	31,138
8.1% ~ 9.0%	11,532	8,117	99,414
9.1% ~	4,687	8,045	40,405
Floating rate based on Hong Kong Interbank Offered Rate plus 0.75%	7,706	7,282	66,431
Total	¥ 168,063	¥ 125,978	\$ 1,448,819

D. The annual maturities of long-term debt outstanding at February 20, 2001 were as follows:

Year ending February 20	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 20,625	\$ 177,802
2003	35,283	304,164
2004	46,444	400,379
2005	13,593	117,181
2006	38,418	331,190
Thereafter	13,700	118,103
Total	¥ 168,063	\$ 1,448,819

At February 20, 2001, assets pledged as collateral for short-term debt of ¥1,934 million (US\$16,672 thousand) and long-term debt of ¥7,706 million (US\$66,431 thousand) of the Companies were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits	¥ 1,495	\$ 12,888
Finance receivables	13,613	117,353
Total	¥ 15,108	\$ 130,241

The Companies also pledged time deposits of ¥552 million (US\$4,759 thousand) to banks to secure the general banking facilities and the sharing of ATM network, at February 20, 2001.

6. Derivative Financial Instruments and Risk Management

As part of its ongoing asset and liability management activities, the Companies enter into derivative financial instruments to reduce financial market risks. These instruments are used to hedge the interest rate and foreign exchange rate exposures of underlying obligations. The Companies do not enter into derivative financial instruments for trading purposes.

Interest Rate Risk Management

The Companies enter into swap contracts to exchange the floating interest rate exposures for a fixed interest rate. The floating rates on swaps are principally based on Japanese yen and LIBOR and are reset on a semiannual basis. At February 20, 2001 and 2000, the weighted average pay rates on swaps are 7.08% and 3.76%, respectively, and receive rates are 5.76% and 1.73%, respectively. The related weighted average

Notional amounts for derivatives at February 20, 2001 and 2000 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Interest rate swap contracts	¥ 4,017	¥ 2,712	\$ 34,629
Interest cap contracts	55,946	53,967	482,293

While the contracts or notional amounts provide one measure of the volume of these transactions, they do not represent the amounts of the Companies' exposure to credit risk. The amounts potentially subject to credit risk (arising from the possible inability of counterparties to meet the terms of their contracts) are generally limited to the amounts, if any, by which the counterparties' obligations exceed the obligations of

maturity and range of maturities are 1.4 years and 0 - 3 years at February 20, 2001 and 1.0 year and 0 - 2 years at February 20, 2000, respectively. The maturity dates of swaps generally match those of the underlying debt they hedge. Interest rate swap contracts generally remain in effect until expiration. Income or expense on these swaps is accrued as an adjustment to the yield of the related debt they hedge.

The Companies also enter into interest rate cap contracts to limit the impact of increased interest rates on floating rate debt. At February 20, 2001 and 2000, the weighted average ceiling rates on caps are 3.3% and 3.6%, respectively.

In addition, a certain foreign subsidiary enters into foreign currency swap contracts to manage foreign currency exposure of certain debts.

the Companies. The Companies control credit risk through credit approvals, limits and monitoring procedures.

Foreign Currency Risk Management

The Companies enter into currency swap contracts in managing their foreign exchange risk as of February 20, 2001 and 2000, as indicated in the following table:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Currency swap contracts	¥ 1,380	¥ 1,424	\$ 11,897

The Companies use such contracts to hedge the risk of change in foreign currency exchange rates associated with certain borrowing denominated in foreign currencies.

7. Income Taxes

Income taxes in Japan applicable to the parent company, imposed by the national, prefectural and municipal governments, in the aggregate, result in a normal effective statutory rate of approximately 41.8% for the year ended February 20, 2001, and 47.5% for the year ended February 20, 2000 and 51.0% for the year ended February 20, 1999.

Foreign subsidiaries are subject to income taxes of the countries in which they operate.

A reconciliation of the combined statutory tax rate for the years ended February 20, 2001, 2000 and 1999 to the effective rates of income taxes reflected in the accompanying statements of consolidated income is as follows:

	2001	2000	1999
Combined statutory income tax rate	41.8%	47.5%	51.0%
Expenses not deductible for income tax purposes	0.8	0.3	0.2
Lower income tax rates applicable to income in certain foreign countries	(5.3)	(7.3)	(8.8)
Minority interest	3.5	4.5	5.4
Effect of taxation on dividend	0.7	1.0	1.6
Effect of reduction in tax rate	—	(0.9)	(0.1)
Other - net	1.9	0.5	(0.5)
Effective income tax rate	43.4%	45.6%	48.8%

Total income taxes recognized for the years ended February 20, 2001, 2000 and 1999 are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Provision for income taxes	¥ 7,844	¥ 6,396	¥ 5,426	\$ 67,620
Shareholders' equity – charged (credited):				
Net unrealized gains on available-for-sale securities	(1,066)	1,246	108	(9,189)
Total income taxes	¥ 6,778	¥ 7,642	¥ 5,534	\$ 58,431

Significant components of deferred tax assets and liabilities at February 20, 2001 and 2000 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Assets:			
Allowance for possible credit losses	¥ 1,196	¥ 447	\$ 10,311
Enterprise tax	529	301	4,560
Accrued pension and severance liabilities	73	76	629
Other accruals	218	139	1,879
Accrual and other	680	66	5,862
Gross deferred tax assets	2,696	1,029	23,241
Liabilities:			
Investment securities	711	1,675	6,129
Deferred gain on sales	—	391	—
Property	208	135	1,793
Other	233	—	2,009
Gross deferred tax liabilities	1,152	2,201	9,931
Net deferred tax assets (liabilities)	¥ 1,544	¥ (1,172)	\$ 13,310

Income taxes are not provided on undistributed earnings of foreign subsidiaries where the Companies consider that such earnings are reinvested or would not, under the present Japanese tax laws, be subject to additional taxation should they be distributed to the parent company. At February 20, 2001, undistributed earnings of foreign subsidiaries amounted to approximately ¥5,119 million (US\$44,129 thousand). Determination of the amount of tax on undistributed earnings is not practical because of the complexity associated with its

hypothetical calculation including foreign withholding taxes and foreign tax credits.

Taxes on undistributed earnings of domestic subsidiaries and affiliated companies have not been provided, as any dividends to be received are not expected to be subject to tax. Equity in such undistributed earnings amounted to approximately ¥427 million (US\$3,681 thousand) at February 20, 2001.

8. Employee's Benefit Plans

The parent company participates in the AEO Group's contributory defined pension plan (the "Contributory plan"), which covers employees with ten years and more service and provides lifetime annuity payments commencing at age 60, based on eligible compensation at the time of severance, years of service and other factors.

The Contributory plan consists of a basic part, which has been specified by the Japanese government's welfare pension regulations, and an additional part established by JUSCO CO., LTD. and certain domestic subsidiaries including the parent company. Annual contributions are made by JUSCO CO., LTD. and certain domestic subsidiaries, and

employees in accordance with the contribution formula stipulated by the government for the basic part and an amount determined on the basis of an accepted actuarial method for the additional part.

The projected benefit obligation and fair value of plan assets of the Contributory plan at December 31, 2000, 1999 and 1998 are ¥208,295 million (US\$1,795,647 thousand) and ¥110,677 million (US\$954,112 thousand), ¥226,078 million and ¥116,322 million and ¥163,072 million and ¥87,706 million, respectively. The number of the parent company's employees that participate in the plan consists of approximately 2.1% of total employees in the plan. Total

annual contribution by the parent company to this plan for the years ended February 20, 2001, 2000 and 1999 is approximately ¥85 million (US\$733 thousand), ¥72 million and ¥61 million, respectively. Such contributions are charged to income when paid.

The parent company also has an unfunded termination benefit plan which covers full-time employees terminating their employment with less than ten years service who are entitled to certain severance payments based on years of

service and certain other factors. For certain specified involuntary terminations, the employees are entitled to greater payments than in the case of voluntary termination. Liability for employees' severance payments are recorded at the amount which would be required if all eligible employees terminated their employment with the parent company at the balance sheet date on a voluntary basis.

A reserve for directors' retirement payment is accrued in accordance with the parent company's internal rules.

9. Fair Value of Financial Instruments

SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires the Companies to report the fair value of certain financial instruments. A summary of the carrying

amounts and estimated fair values of financial instruments at February 20, 2001 and 2000 is as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2001		2000		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:						
Cash and cash equivalents	¥ 10,174	¥ 10,174	¥ 9,316	¥ 9,316	\$ 87,707	\$ 87,707
Investments (excluding investments accounted for under equity method)	6,574	6,574	9,688	9,688	56,672	56,672
Liabilities:						
Short-term debt	44,293	44,293	53,185	53,185	381,836	381,836
Long-term debt	168,063	172,332	125,978	127,172	1,448,819	1,485,621
Derivative-unrealized gains (losses):						
Interest rate swap contracts		(110)		(3)		(948)
Interest cap contracts		(449)		(444)		(3,871)
Foreign currency swap contracts		13		40		112

The following methods and assumptions were used to estimate the fair values of financial instruments:

Cash and cash equivalents are carried at amounts which approximate fair value.

The fair values of marketable investment securities are based on quoted market prices. The fair value information for each security is set forth in Note 3. Other investment includes non-marketable equity securities of which fair values are not practicably estimated. Other investment also includes time deposits with original maturities in excess of three months, and its fair values approximates its carrying amounts due to the relatively short maturity of this instrument.

Short-term debt is carried at amounts which approximate fair values. For long-term fixed-rate debt, the estimated fair

values were calculated by discounting future cash flows using the borrowing interest rates currently available to the Companies and its subsidiaries for debt with similar terms and remaining average maturities.

The fair values of interest rate swap and cap contracts and foreign currency swap contracts are the estimated amount that the Companies would receive or pay to terminate the contracts at the reporting date.

It is not practicable to estimate the fair values of the finance receivables-net due to large groups of smaller-balance receivables and the difficulty in estimating the future cash flows under revolving line of credit.

10. Common Stock and Additional Paid-in Capital

The changes in the number of issued shares of common stock during the years ended February 20, 2001 and 2000 were as follows:

	Number of Shares		
	2001	2000	1999
Balance at beginning of year	47,565,760	21,620,800	20,620,800
Eleven-for-ten common stock split	—	2,162,080	—
Two-for-one common stock split	—	23,782,880	—
Issuance of common stock	—	—	1,000,000
Balance at end of year	47,565,760	47,565,760	21,620,800

The Commercial Code of Japan (the "Code") permits Japanese companies, upon approval by the Board of Directors, to issue shares, in the form of a "stock split" as defined, to shareholders to the extent that the aggregate par value of shares to be

distributed does not exceed the excess of common stock account over the par value of shares issued and outstanding. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

11. Retained Earnings and Dividends

Retained earnings consist of legal reserve and unappropriated retained earnings.

Under the Code, the parent company must appropriate as a legal reserve a portion of retained earnings in the amount equal to at least 10% of any amount paid by the parent company as an appropriation of retained earnings, including dividends, bonuses to directors and corporate auditors paid in each financial period until such reserve equals 25% of the stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders, or may be capitalized, by resolution of the

Board of Directors. At February 20, 2001, legal reserve recorded on the parent company's books of account was ¥3,287 million (US\$28,336 thousand).

Under the Code, the amount legally available for dividends is based upon retained earnings as recorded in the books of account of the parent company. Consolidation and certain adjustments, as described in Note 1, are reflected in the accompanying financial statements. At February 20, 2001, the amount available for dividends was ¥22,709 million (US\$195,767 thousand).

12. Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) for the years ended February 20, 2001, 2000 and 1999 are reported of net of income taxes, as follows:

2001:	Millions of Yen		
	Pre-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized holding losses arising during period	¥ (2,649)	¥ 926	¥ (1,723)
Reclassification adjustment for losses included in net income	(38)	16	(22)
Net unrealized losses on available-for-sale securities	(2,687)	942	(1,745)
Foreign currency translation adjustments	257	—	257
Other comprehensive income	¥ (2,430)	¥ 942	¥ (1,488)

2001:	Thousands of U.S. Dollars		
	Pre-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized holding losses arising during period	\$ (22,836)	\$ 7,983	\$ (14,853)
Reclassification adjustment for losses included in net income	(328)	138	(190)
Net unrealized losses on available-for-sale securities	(23,164)	8,121	(15,043)
Foreign currency translation adjustments	2,215	—	2,215
Other comprehensive income	\$ (20,949)	\$ 8,121	\$ (12,828)

2000:	Millions of Yen		
	Pre-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during period	¥ 3,165	¥ (1,242)	¥ 1,923
Reclassification adjustment for losses included in net income	8	(4)	4
Net unrealized gains on available-for-sale securities	3,173	(1,246)	1,927
Foreign currency translation adjustments	(424)	—	(424)
Other comprehensive income	¥ 2,749	¥ (1,246)	¥ 1,503

1999:	Millions of Yen		
	Pre-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during period	¥ 5	¥ (3)	¥ 2
Reclassification adjustment for losses included in net income	212	(105)	107
Net unrealized gains on available-for-sale securities	217	(108)	109
Foreign currency translation adjustments	(242)	—	(242)
Other comprehensive income	¥ (25)	¥ (108)	¥ (133)

13. Other Operating Revenue

Other operating revenue includes commission income from insurance and fee income from subscription and other operations.

14. Lease

The Companies' lease office space and certain other assets under operating leases. Total rental expenses under such leases for the years ended February 20, 2001, 2000 and 1999 were ¥2,322 million (US\$20,017 thousand), ¥1,959 million and ¥2,433 million, respectively.

At February 20, 2001, the future minimum lease payments under non-cancelable leases are as follows:

Year Ending February 20	Millions of Yen	Thousands of U.S. Dollars
2002	¥ 1,104	\$ 9,517
2003	106	914
2004	2	17
Total	¥ 1,212	\$ 10,448

15. Other Expense - Net

Other expense - net consisted of the following:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Minority interests in income of consolidated subsidiaries	¥ 1,533	¥ 1,333	¥ 1,175	\$ 13,215
Other	111	84	305	957
Total	¥ 1,644	¥ 1,417	¥ 1,480	\$ 14,172

16. Per Share Amounts

A reconciliation of the numerators and denominators of the basic and diluted net income per share computations was as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
Net income	¥ 10,238	¥ 7,635	¥ 5,697	\$ 88,259
Effect of dilutive securities	—	—	—	—
Adjusted net income	¥ 10,238	¥ 7,635	¥ 5,697	\$ 88,259

	Number of shares (Thousands)		
	2001	2000	1999
Average common shares outstanding	47,566	47,566	46,856
Dilutive effect	—	—	—
Diluted common shares outstanding	47,566	47,566	46,856

Cash dividends per common share presented in the consolidated statements of income are the amounts of dividends declared and paid during the year.

17. Related Party Transactions

Significant related party transactions and balances as of and for the years ended February 20, 2001, 2000 and 1999 are summarized as follows:

REVENUES AND EXPENSES:

	Millions of Yen			Thousands of U.S. Dollars
	2001	2000	1999	2001
REVENUES				
JUSCO CO., LTD	¥ 4,657	¥ 4,463	¥ 4,533	\$ 40,147
Kyushu JUSCO CO., LTD.	180	166	129	1,552
Jaya Jusco Stores Bhd.	148	—	—	1,276
Maxvalu Nishinohon Co., Ltd.	100	—	—	862
JUSCO Stores (Hong Kong) Co., Ltd.	212	226	171	1,828
RENTAL EXPENSE				
JUSCO CO., LTD.	352	337	210	3,034
OTHER EXPENSES				
JUSCO CO., LTD.	40	48	60	345

ASSETS AND LIABILITIES:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
LEASE DEPOSIT			
JUSCO CO., LTD.	¥ 372	¥ 494	\$ 3,207
DEBT (SHORT-TERM)			
Jusvel CO., LTD.	100	—	862
Blue Grass Co., Ltd.	—	300	—
Kyushu JUSCO CO., LTD.	137	156	1,181
DEBT (LONG-TERM)			
Ministop Co., Ltd.	5,000	5,000	43,103
ACCOUNTS PAYABLE			
JUSCO CO., LTD.	18,234	17,460	157,190
Kyushu JUSCO CO., LTD.	944	868	8,138
Ryukyu JUSCO CO., LTD.	360	329	3,103
ÆON Kosan CO., LTD.	262	173	2,259
JUSCO Stores (Hong Kong) Co., Ltd.	635	653	5,474
Maxvalu Nishinohon Co., Ltd.	462	344	3,983
Mega Petro Co., Ltd.	106	—	914
Jusvel Co., Ltd.	136	—	1,172
Maxvalu Hokkaido Co., Ltd.	143	—	1,233
OTHER PAYABLE			
JUSCO CO., LTD.	152	266	1,310

Prior years' figures are reclassified to conform to the new legal structure as a result of reorganization within the ÆON group.

18. Segment Information

The Companies operate predominantly in a single industry commonly classified as financial companies. The Companies' financial activities consist principally of consumer credit finance services which include the issuance of credit cards, vehicle financing, hire purchase financing and personal loan financing in Japan, Hong Kong and Southeast Asia.

There have been no revenues from a single major external customer for the years ended February 20, 2001, 2000 and 1999.

Revenues by each financial activity are disclosed in the consolidated statements of income. Revenues, long-lived assets and total assets by geographic areas as of and for the years ended February 20, 2001, 2000 and 1999 are summarized as follows:

2001:	Millions of Yen			
	Japan	Hong Kong	Other Areas	Total
Revenues	¥ 54,248	¥ 11,780	¥ 3,835	¥ 69,863
Long-lived assets	8,125	1,235	759	10,119
Total assets	263,254	47,125	17,671	328,050

2001:	Thousands of U.S. Dollars			
	Japan	Hong Kong	Other Areas	Total
Revenues	\$ 467,655	\$ 101,552	\$ 33,060	\$ 602,267
Long-lived assets	70,043	10,647	6,543	87,233
Total assets	2,269,543	406,250	152,336	2,828,129

2000:	Millions of Yen			
	Japan	Hong Kong	Other Areas	Total
Revenues	¥ 47,207	¥ 12,029	¥ 2,318	¥ 61,554
Long-lived assets	6,048	1,214	335	7,597
Total assets	231,620	44,138	8,989	284,747

1999:	Millions of Yen			
	Japan	Hong Kong	Other Areas	Total
Revenues	¥ 40,343	¥ 12,347	¥ 1,949	¥ 54,639
Long-lived assets	4,582	882	303	5,767
Total assets	208,557	41,194	6,235	255,986

19. Subsequent Events

On May 15, 2001, the shareholders authorized payment of a cash dividend of ¥25 (22¢) per share (totaling ¥1,189 million - US\$10,250 thousand) to holders of record at February 20, 2001.

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**Deloitte
Touche
Tohmatsu**

INDEPENDENT AUDITORS' REPORT

To Shareholders and Board of Directors of
ÆON Credit Service Co., Ltd.:

We have audited the accompanying consolidated balance sheets of ÆON Credit Service Co., Ltd. and subsidiaries as of February 20, 2001 and 2000, and the related consolidated statements of income and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended February 20, 2001 (all expressed in Japanese yen). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of ÆON Credit Service Co., Ltd. and subsidiaries at February 20, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended February 20, 2001, in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

May 15, 2001

Board of Directors, Corporate Data

Board of Directors
(as of May 15, 2001)

Chairman
Kazuro Asano*

President
Yoshiki Mori*

Managing Directors
Hiroyuki Asai
Minoru Saito

Directors
Masamichi Kamiyama
Kazuhiko Kawata
Masanori Kosaka
Kouichi Takayama
Yasuhiko Kondo
Kazuhide Kamitani

Corporate Auditor
Ken Kasai

Auditors
Masaru Yokoi
Yoichi Kimura
Eiji Akiyama

*Representative Directors

Corporate Data

<i>Company Name</i>	ÆON Credit Service Co., Ltd.
<i>Corporate Headquarters</i>	1-1 Kanda Nishiki-cho, Chiyoda-ku, Tokyo
<i>Corporate Main Office</i>	Kanda Mitoshiro-cho 1, Chiyoda-ku, Tokyo Telephone: (03) 5281-2030 URL: http://www.aeonmarket.com
<i>Established</i>	June 20, 1981
<i>Capital</i>	¥15,467 million (as of February 20, 2001)
<i>Shares Outstanding</i>	47,566 thousand shares (as of May 15, 2001)
<i>Closing Date</i>	February 20, every year
<i>Number of Employees</i>	555 (as of February 20, 2001)
<i>Turnover</i>	¥953 billion (for the fiscal year 2000, ended February 20, 2001)
<i>Business Activities</i>	1. Credit card operations 2. Finance operations 3. Card processing service
<i>Domestic Subsidiaries</i>	ACS Finance Co., Ltd. ACS Credit Management Co., Ltd. NCS Kosan Co., Ltd.
<i>Overseas Subsidiaries</i>	AEON Credit Service (Asia) Co., Ltd. AEON Thana Sinsap (Thailand) Co., Ltd. ACS Capital Corporation Ltd. ACS Credit Service (M) Sdn. Bhd. AEON Credit Service (Taiwan) Co., Ltd. AEON Information Service (Shenzhen) Co., Ltd.

Major Group Companies

General Merchandise Stores (GMS)

- * AEON Co., Ltd.
(renamed from JUSCO Co., Ltd. on August 21, 2001)
- * Jaya JUSCO Stores Bhd.
- * JUSCO Stores (Hong Kong) Co., Ltd.
- * Kyushu JUSCO Co., Ltd.
Ryukyu JUSCO Co., Ltd.
Siam JUSCO Co., Ltd.
Guangdong JUSCO Teem Stores Co., Ltd.
Qingdao Dongtai JUSCO Co., Ltd.

Supermarkets

- * Maxvalu Hokkaido Co., Ltd.
- * Maxvalu Tohoku Co., Ltd.
- * Maxvalu Chubu Co., Ltd.
- * Maxvalu Nishinohon Co., Ltd.
Yaohan Co., Ltd.
Nishikyushu Well Mart Co., Ltd.

Drugstores

- * Tsuruha Co., Ltd.
- * Kraft Inc.
- * Sugi Pharmacy Co., Ltd.
- * Hac-kimisawa Co., Ltd.
Medical Ikko Co., Ltd.
Greencross-core Co., Ltd.
Drug Eleven Co., Ltd.
Takiya Corporation Ltd.

Home Centers

- * Homac Corp.
- * Home Wide Corp.

Convenience Stores

- * Ministop Co., Ltd.

Department Stores

- Bon Belta Isejin Co., Ltd.
- Bon Belta Co., Ltd.
- Tachibana Department Store Co., Ltd.

Specialty Stores

- * The Talbots, Inc.
- * Blue Grass Co., Ltd.
- * Cox Co., Ltd.
- * Yamaya Corp.
Talbots Japan Co., Ltd.
Laura Ashley Japan Co., Ltd.
AEON Forest Co., Ltd.
Mega Sports Co., Ltd.
Claire's Nippon Co., Ltd.
Liz Japan Co., Ltd.
NuStep Co., Ltd.
Sun-sun Land Co., Ltd.
Abilities JUSCO Co., Ltd.
Book Bahn Co., Ltd.
Pet City Co., Ltd.
Kojima Co., Ltd.

SC Development Operations

- * Diamond City Co., Ltd.
AEON Mall Co., Ltd.
(renamed from AEON KOSAN Co., Ltd. on June 21, 2001)
- Diamond Family Co., Ltd.
- LOC Development Co., Ltd.

Financial Services

- * AEON Credit Service Co., Ltd.
- * AEON Credit Service (Asia) Co., Ltd.
AEON Thana Sinsap (Thailand) Co., Ltd.
ACS Credit Service (M) Sdn. Bhd.
AEON Credit Service (Taiwan) Co., Ltd.

Services

- * JUS-Photo Co., Ltd.
Jusvel Co., Ltd.
Reform Studio Co., Ltd.
Zwei Co., Ltd.
AEON Techno Service Co., Ltd.
AEON Fantasy Co., Ltd.
AEON Cinemas Co., Ltd.
Mega Petro Co., Ltd.
Quality Control Center Co., Ltd.

Food Services Operations

- Gourmet D'Or Co., Ltd.
- Red Lobster Japan Co., Ltd.
- Jack Co., Ltd.

Food Processing, Distribution, and Other Operations

- Certo Co., Ltd.
- Food Supply JUSCO Co., Ltd.
- Aic, Inc.
- Yurin Co., Ltd.
- Osaka Delica Co., Ltd.
- Tasmania Feedlot Pty. Ltd.
- Daesang Fishery Co., Ltd.

e-commerce Business

- AEON Visty Co., Ltd.
- AEON 1% Club
- AEON Environment Foundation

*Listed companies

Shareholder Information

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Fax: 81-3-5281-2020
Homepage: <http://www.aeonmarket.com>
<http://www.aeon.co.jp>

Capital Stock

¥15,466,500,000 (47,565,760 shares)

Shareholders' Meeting

May 15, 2000

Stock Exchange Listing

Tokyo Stock Exchange (Securities code: 8570)

Transfer Agent

Mizuho Trust & Banking Co., Ltd.
6-2, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-0005, Japan

Independent Auditors

Deloitte Touche Tohmatsu
MS Shibaura Bldg., 13-23, Shibaura 4-chome, Minato-ku,
Tokyo 108-8530, Japan