ÆON Credit Service Co., Ltd.

ANNUAL REPORT 2003

Fiscal year ended February 20, 2003

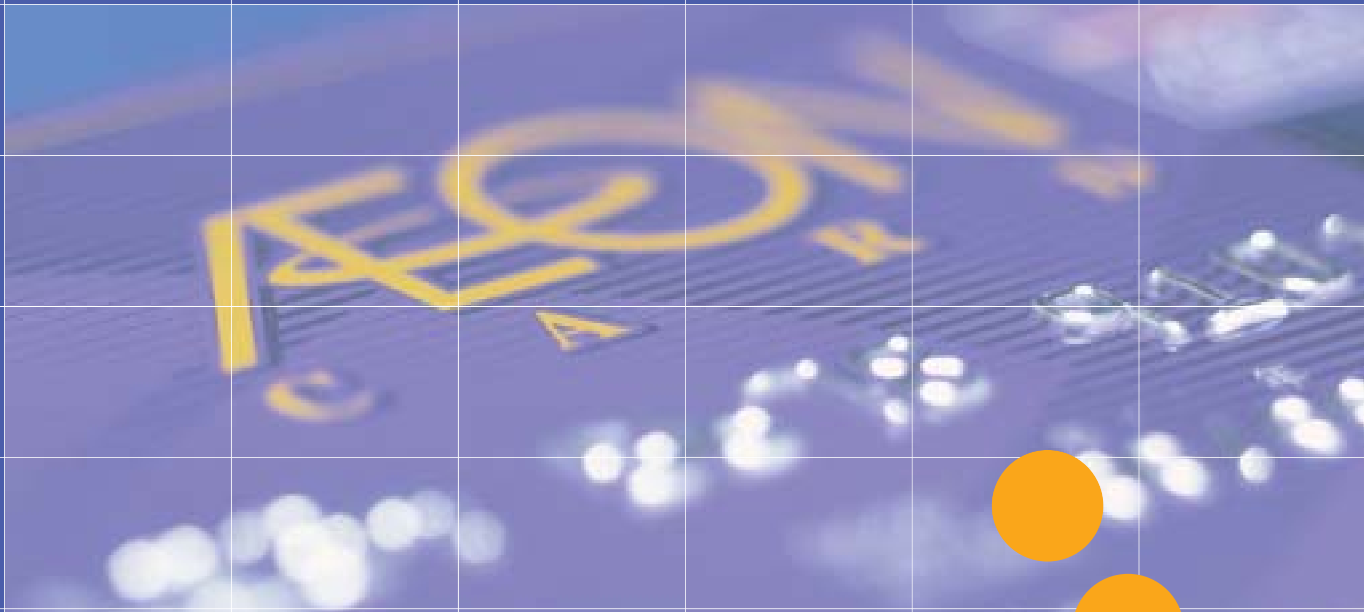
ÆON Credit Service is...

Contents

In Japan and Asia, ÆON Credit Service operates in conformance with our business philosophy as a lifestyle support company that enables customers to realize the full potential of their futures with credit. We listen to our customers and will continue to repay their trust they in us and fulfill their expectations by providing financial services that bear closely on their lives. At the same time, we seek strong customer support by ceaselessly cultivating and refining the standard of corporate behavior in the financial services industry, prizing corporate ethics, and enthusiastically engaging in social action initiatives.

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.

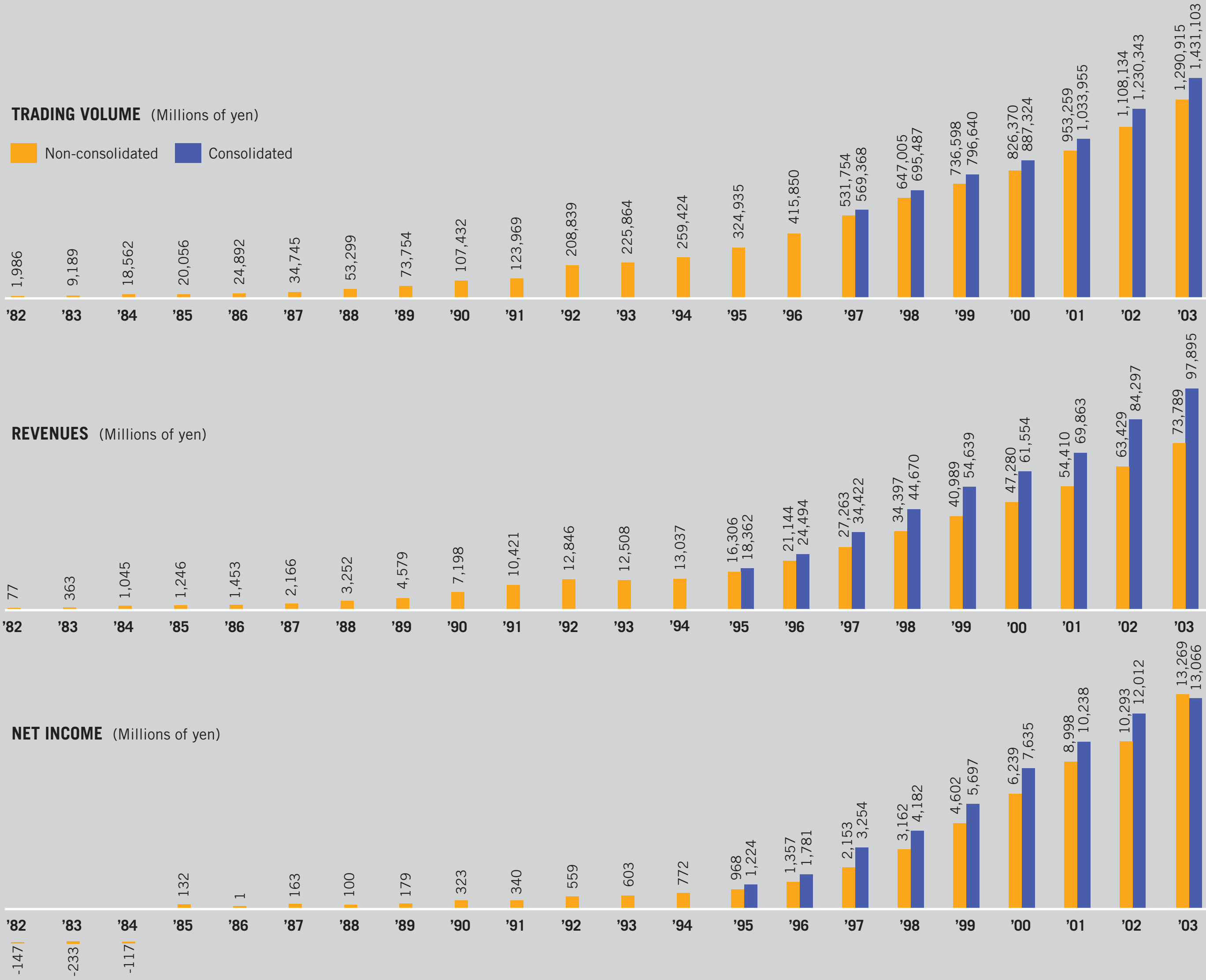


Growing

ÆON Credit Service will continue to work to increase operating revenue and improve the profit margin, primarily focusing on the credit card operation. At the same time, we will develop peripheral businesses and expand our Asian network. In this way, we will continue to achieve revenue and profit increases.

Since its establishment in 1981, the Company has steadily grown by adhering to the principle of "Customer-First." During our first year in business, trading volume was about ¥1,900 million. During our next decade, we aggressively engaged in organizing our credit card membership and solidifying our business foundation. The subsequent decade was a time of further growth and development through expansion of our business overseas and launching businesses in sectors peripheral to the credit business. As a result of doing business based on this strategy, in fiscal 2001, consolidated trading volume exceeded ¥1,000 billion for the first time. Non-consolidated trading volume exceeded ¥1,000 billion the following year. With regard to earnings, we have pursued operational efficiency and cut operating costs. Consequently, we have always ranked near the top of the industry in the ratio of ordinary income to operating revenue and growth in ordinary income. For the past ten years, we have achieved average growth of 33% in ordinary income.

ÆON Credit Service History of Growth and Business Expansion

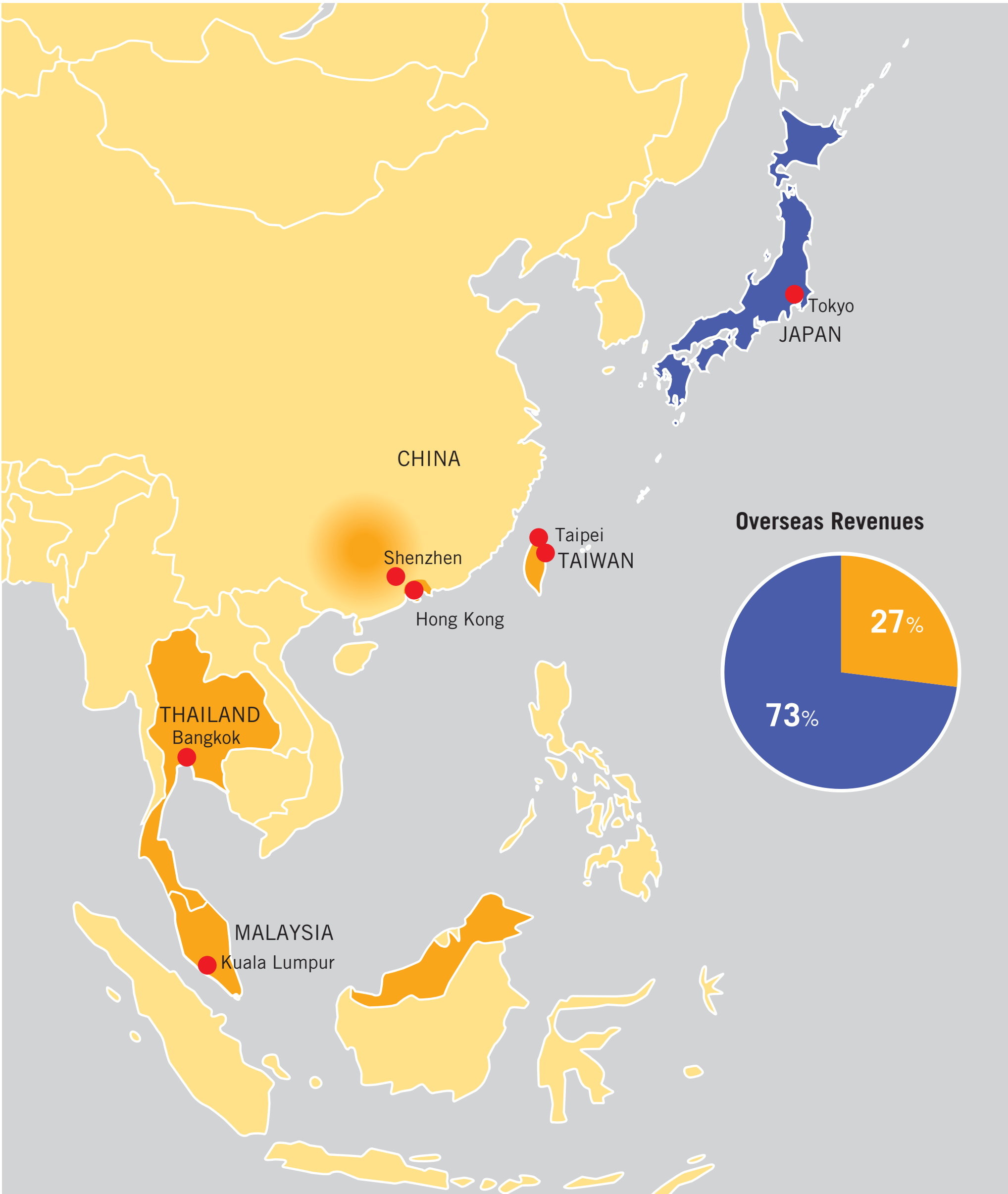


Global

ÆON Credit Service aims be the leading company in Asia's credit markets by continuing to develop and grow the business of our overseas subsidiaries and by entering new markets.

AEON Credit Service was Japan's first retailer-owned credit card company to turn its attention overseas. To explore the potential of the credit business overseas, in 1987 we opened a branch in Hong Kong, and in 1990, established AEON Credit Service (Asia) Co., Ltd. to provide the motive power for new growth. This subsidiary has utilized the business expertise developed in Japan, rapidly expanded its business in the Hong Kong credit market, and provided impetus for the Company's subsequent overseas growth and development.

The Company went on to apply the successful business model developed in Hong Kong to markets throughout Asia, aggressively starting and developing operations in Thailand, Malaysia, Taiwan, and Shenzhen, China. We have established solid business bases in each of these markets, and AEON Credit Service (Asia) Co., Ltd. in Hong Kong and AEON Thana Sinsap (Thailand) Plc. in Thailand have grown to the extent of listing their shares on local stock exchanges.



Overseas Network

- AEON Credit Service (Asia)
- AEON Thana Sinsap (Thailand)
- ACS Capital
- AEON Credit Service (M)
- AEON Credit Service (Taiwan)
- AEON Credit Card (Taiwan)
- AEON Information Service (Shenzhen)

A Message from the President

During the fiscal year ended February 20, 2003 (fiscal 2002), the Company steadily expanded the cardholder base. The growth was fueled by an increase in store openings by ÆON Co., Ltd. and alliance partners and the launch of the SATY VIVRE Card in a tie-up with MYCAL Corporation. We overcame the problems of slumping consumption and an increase in personal bankruptcies due to higher unemployment and satisfactorily grew the business by aggressively pursuing joint programs with participating merchants.

Domestic subsidiaries engaged in the insurance agency, servicer, and small loan businesses achieved steady business development through synergy with the Company's selling activities and expansion into new markets.

Overseas subsidiaries in Asia capitalized on financial services expertise developed in Japan to expand their business. In Thailand, in particular, we achieved a sharp increase in revenue and earnings supported by a return to steady economic growth. In Hong Kong, on the other hand, a business downturn due to the hollowing out of industry and a rapid increase in the number of personal bankruptcies brought an unprecedentedly harsh operating environment.

On the whole, in fiscal 2002, the Group was able to steadily grow the business: we expanded domestic operations, moved forward with regional development within Asian countries, and launched a credit card operation in Taiwan. As a result of these developments, on a consolidated basis, trading volume for the year was ¥1,431,103 million (a 16.3% increase year on year), operating revenue was ¥97,895 million (an increase of 16.1%), income before income taxes ¥24,496 million (an increase of 6.0%), and net income was ¥13,066 million (an increase of 8.8%).

Fiscal 2003 is likely to bring intensified competition due to companies from other industries entering the market and an increase in personal bankruptcies owing to the chronically high unemployment rate. In these adverse business conditions, the Company will implement the following high-priority action plans:

>> Initiatives to increase the credit card usage rate

>> Development of new co-branded cards and markets

>> Development of next-generation systems

>> Creation of a trustworthy, safe brand

>> Strengthening of the financial position

>> Development of businesses peripheral to the core credit card operation

>> Expansion of the Asian network

>> Involvement in social contribution and environmental protection activities

森 美樹

May, 2003
Yoshiki Mori, President and C.E.O.

Board of Directors

Kazuhide Kamitani
Managing Director

Yoshiki Mori
President and C.E.O.

Hiroyuki Asai
Managing Director

Takashi Kiyonaga
Director

Yasuhiko Kondo
Director

Kazuhiko Kawata
Director

Masamichi Kamiyama
Director

Tatsuya Saito
Director

Kiyoaki Takano
Director

Primary Financial Indicators

ÆON Credit Service Co., Ltd. and Consolidated Subsidiaries

	Millions of Yen					Thousands of U.S. Dollars
	1999	2000	2001	2002	2003	2003
Revenues	¥ 54,639	¥ 61,554	¥ 69,863	¥ 84,297	¥97,895	$829,619
Income before income taxes	11,123	14,031	19,615	23,093	24,496	207,594
Net income	5,697	7,635	10,238	12,012	13,066	110,729
Shareholders' equity	50,782	59,120	66,443	78,215	87,941	745,263
Total assets	255,986	284,747	328,050	393,253	441,933	3,745,195

	Yen					Thousands of U.S. Dollars
Per Share Data						
Shareholders' equity	¥ 1,067.61	¥ 1,242.92	¥ 1,396.87	¥ 1,644.36	¥1,680.85	$14.24
Cash dividend	15.91	35.00	30.00	45.00	50.00	0.42
Net income	121.59	160.51	215.24	258.95	249.72	2.12

Shareholders' equity ratio	19.8%	20.8%	20.3%	19.9%	19.9%
Return on assets	2.3%	2.8%	3.3%	3.3%	3.1%
Return on equity	12.5%	13.9%	16.3%	16.6%	15.7%

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, 2000 and February 10, 2001, 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.
4. On April 10, 2003, the parent company issued additional shares in connection with an eleven-for-ten stock split.

Operating Review

ÆON Credit Service Co., Ltd. provides added-value financial services according to the lifestyle needs of individuals under the corporate principle of "Customer-First." Since its founding in June 1981, the Company has blazed a trail of positive business expansion culminating in its listing on the First Section of the Tokyo Stock Exchange in August 1998.

During fiscal year 2002, the Company extended its cardholder penetration by focusing on recruitment to the ÆON Card in co-branding tie ups with non-group entities in Japan and overseas. It continued to increase productivity and enhance customer service while observing pursuing and global social and environmental responsibility.

As a "Customer-First" company, we will seek to bring broader convenience and services into each customer's credit life.

Domestic Operations

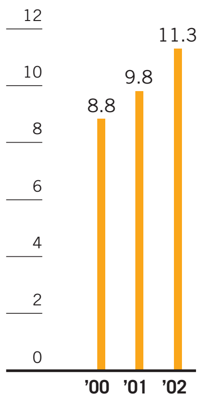
During fiscal 2002, we steadily expanded the cardholder base for the SATY VIVRE Card launched in April in a tie-up with MYCAL Corporation. We issued the Babies "R" Us Card co-branded card with Toys "R" Us-Japan, Ltd. and co-branded cards with companies involved in Internet businesses and with local merchant associations. As a result of these activities, we achieved a net increase of 1.5 million in the number of cardholders, to 11.3 million at the fiscal year-end.

We increased the card usage rate and greatly expanded the credit card shopping volume to ¥726,537 million (an increase of 25.2% year

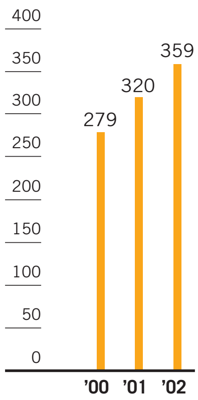
Our domestic cardholder base is expanding, thanks to novel personal services and tie-ups with famous names in Japanese retailing.

ÆON Credit Service is expanding and enhancing services close to the day-to-day lives of customers.

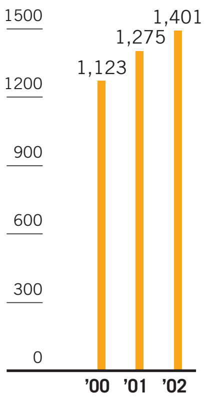
Number of Domestic Cardholders (Million cards)



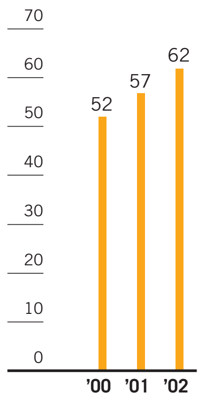
Number of Domestic Affiliated Merchants (Thousand merchants)



Number of Self-owned CDs in Japan



Number of Domestic Branches



on year) by participating in joint promotions with ÆON merchants such as the One-day Passport and ÆON Festival programs and conducting campaigns to activate dormant cardholders.

Following the establishment of centers in Chiba and Osaka, we opened an Integrated Operation Center in Mie Prefecture. This has enabled us to cope with volume increases and further increase operating efficiency.

In an initiative aimed at strengthening the Company's financial position, we issued ¥15,000 million in seven-year unsecured straight corporate bonds and liquidated bonus payment claims. This brought the direct financing ratio to 33% and the ratio of long-term fixed-interest debt to 71%.

Following ISO14001 certification for environmental management systems and ISO9001 certification for quality management systems, the Company obtained Privacy Mark certification for personal information management.

Domestic insurance subsidiary NCS Kosan Co., Ltd. has expanded its business by specializing in non-store selling, while servicer ACS Credit Management Co., Ltd. has capitalized on its small-loan collection expertise to enter new business fields such as a public utility bill payment service. Both subsidiaries achieved higher revenue and earnings in fiscal 2002.

Through tie-ups with other ÆON companies, ÆON Credit Service offers a wide-ranging assortment of value-added services to cardholders.

Our three Integrated Operation Centers contribute to higher-efficiency and speedier operations by innovatively providing answers to customer inquiries, telemarketing, and information services.

ÆON Credit Service has grown its network and built up a strong market position in Asian Countries outside of Japan.

Overseas Operations

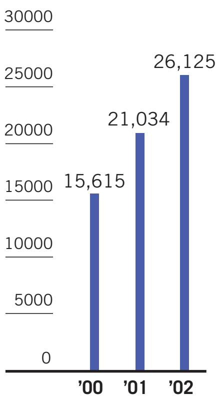
ÆON Credit Service issues numerous co-branded cards in Asia through partnerships with local retailers and other service providers.

Hong Kong subsidiary AEON Credit Service (Asia) Co., Ltd. focused effort on recruiting cardholders at participating merchants and issued a co-branded credit card with Watami, a popular izakaya-style pub chain. In an extraordinarily severe operating environment characterized by a prolonged recession and skyrocketing unemployment rate, the subsidiary strengthened credit management and sought to achieve lower cost operations by restructuring its sales bases and reviewing staff assignments.

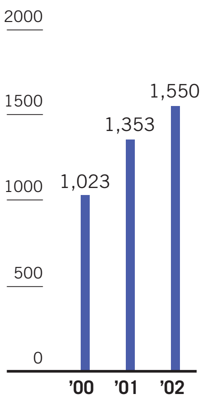
AEON Information Service (Shenzhen), a subsidiary that operates a call center in Shenzhen, China, is steadily constructing a business base. It has begun to provide loan recovery operation outsourcing services to local non-bank financial companies, in addition to its credit control outsourcing services.

Thai subsidiary AEON Thana Sinsap (Thailand) Plc. in Thailand

Revenues from Overseas Operations
(Millions of yen)



Number of Overseas Cardholders
(Thousand cards)



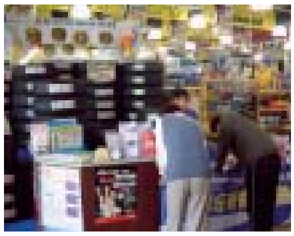
dramatically increased its trading volume and cardholder base by concluding new direct participating merchant agreements with supermarket Carrefour and department stores Isetan and Tokyu and by issuing co-branded cards with Thai companies, such as major conglomerate Saha Pathana Group.

Malaysian subsidiary ACS Credit Service (M) Sdn. Bhd. has expanded its participating merchant network to more than 3,000 stores, including major supermarket Giant. It has also begun a motorbike hire purchase business, diversifying its line of products.

In Taiwan, in May 2002, AEON Credit Card (Taiwan) Co., Ltd. became the first Japanese-affiliated company to obtain approval from the Taiwanese government for a credit card operation, and at the same time, obtained licenses to issue Visa, MasterCard, and JCB cards. In February 2003, the subsidiary began issuing the Taipei Walker Card in an alliance with Taiwan Kadokawa Shoten, including the AEON Card. Future plans call for moving forward with cardholder acquisition and establishing a solid business base through the expansion and strengthening of alliances, including a co-branded card with Taiwan Autobacs and issuing the Caltima Card through a tie-up with a local chain of gasoline stations. Meanwhile, AEON Credit Service (Taiwan) Co., Ltd., a subsidiary that operates a hire purchase business, has steadily increased trading volume by expanding its participating merchant network. The two Taiwanese subsidiaries will work to increase synergy and expand their business operations.


AEON Credit Service (Asia) Co., Ltd., the Company's first overseas subsidiary, has established a rock-solid business base in Hong Kong.


ACS Credit Service (M) Sdn., Bhd. has been expanding its network and business alliances throughout all areas of Malaysia.

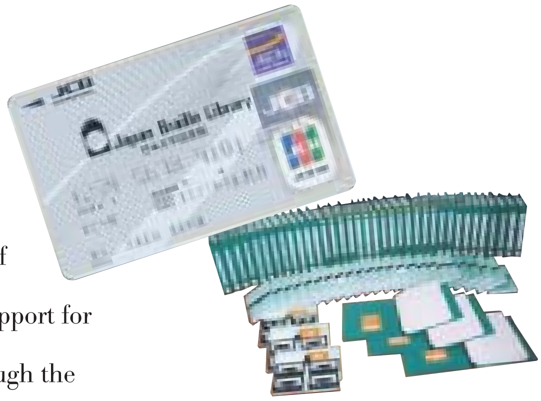

Joining AEON Credit Service (Taiwan) Co., Ltd., AEON Credit Card (Taiwan) Co., Ltd. has begun credit card issuance in Taiwan.


AEON Information Service (Shenzhen) Co., Ltd. operates call centers in China and is expanding its facilities and functions to develop new business.

Social Contribution and Environmental Protection Activities

To fulfill its duties as a good corporate citizen, ÆON Credit Services engages in social contribution activities that range from volunteer activities tied to local communities to global environmental protection initiatives.

The Company has actively engaged in environmental protection activities over the years, including the issuance of various charity cards, support for forest conservation through the Tokimeki Points campaign, the issuance of cards made from PET-G,



ÆON Credit Service made donations to the Japan Braille Library corresponding to sales totals by users of the Japan Braille Library Card.

To fulfill our mission to be a good corporate citizen, ÆON Credit Service is engaged in numerous social-contribution activities.

The ecological musical Kame Ga Mori No Shibaten (Spirits of Kame Forest) is a program by the ÆON Children's Eco Club, of which we are a joint sponsor.

Joining with customers to plant saplings of trees indigenous to the local area in a project to restore a Japanese forest.

ÆON is promoting a multi-year afforestation project at the Great Wall of China, with joint Japanese–Chinese volunteer participation.

a non-PVC substrate that avoids dioxin pollution of the air, and the use of uniforms made of recycled polyester fiber material. To continuously promote this type of environmental protection activities, we have acquired ISO14001 certification for environmental management systems.

The Company engages in various social contribution activities. Notably, we issue the Japan Braille Library Card, by which we make contributions to the library based on the card usage amount, and we publicize on the Worldwide Web the activities of social welfare facilities and promote sales of products made by volunteers.

We also actively participate in activities through the ÆON Environment Foundation and ÆON 1% Club, including the Land Mine Removal Campaign Fund in cooperation with the Japan Red Cross, the Fund to Support School construction in Cambodia in cooperation with the Japan UNICEF Foundation, the ÆON Children's Eco Club program to support the activities of the Ministry of Environment, and the staging performances of Kame Ga Mori No Shibaten, a musical with an ecological theme that is performed across Japan with the participation of local children.

As an AEON Group affiliate, the Company works to build a trustworthy, safe brand.

Certification for Three Management Systems

Based on the recognition that appropriate control of the personal information provided by our customers is an important responsibility of the Company, we have established the Personal Information Compliance Program, are proactively, continuously and rigorously protecting personal information, and have acquired Privacy Mark certification for personal information management from Japan Information Processing Development Center (JIPDEC). The Company previously acquired ISO14001 certification for environmental management systems and ISO9001 certification for quality management systems, and the acquisition of Privacy Mark certification means that we are the first company in the credit industry to obtain certification for the three management systems.

The Company is engaged in measures to further strengthen legal compliance. In addition to assigning a corporate officer with responsibility for compliance, we have newly established the Legal Affairs Office to consolidate legal matters, responsibility for which had been dispersed among various departments. This Legal Affairs Office takes its place alongside the previously established Inspection Office for performing the internal auditing function, Quality Control Office for promoting observance of work rules on the basis of ISO9001, and the Customer Service Promotion Office for reflecting the views of customers in management.

ÆON Credit Service is the first credit company in Japan with certification from three management system bodies: ISO 14001, ISO 9001 and Privacy Mark.

Financial Review

ÆON Credit Service Co., Ltd. and Consolidated Subsidiaries for the Years Ended February 20, 2003 and 2002

Results of Operations

	Millions of Yen			
	2003	2002	changes	changes (%)
Revenues				
Interest income	¥66,832	¥59,651	¥ 7,181	12.0%
Credit card fees	15,841	13,508	2,333	17.3
Hire purchase fees	6,631	4,765	1,866	39.2
Service fees	3,526	3,515	11	0.3
Other operating revenues	5,065	2,858	2,207	77.2
Total revenues	¥97,895	¥84,297	¥13,598	16.1
Expenses				
Interest expense	¥ 6,894	¥ 6,685	209	3.1%
Provision for credit losses	19,483	12,451	7,032	56.5
Salaries and fringe benefits	12,837	11,544	1,293	11.2
Advertising and promotion	4,220	4,043	177	4.4
Travel and communication	6,482	5,479	1,003	18.3
Other operating expenses	22,920	20,265	2,655	13.1
Other–net	563	737	(174)	(23.6)
Total expenses	¥73,399	¥61,204	¥12,195	19.9%
Net income	¥13,066	¥12,012	¥ 1,054	8.8%

Financial Position

	Millions of Yen			
	2003	2002	changes	changes (%)
Cash and cash equivalents	¥ 14,877	¥ 13,811	¥ 1,066	7.7%
Finance receivables –net of allowance for possible credit losses	393,643	347,572	46,071	13.3
Investments	7,200	6,720	480	7.1
Property and equipment	7,731	7,521	210	2.8
Deferred income taxes	2,526	1,069	1,457	136.3
Other assets	15,956	16,560	(604)	(3.6)
Total Assets	¥441,933	¥393,253	¥48,680	12.4

1. Summary

In the fiscal year ended February 20, 2003 (fiscal 2002), ÆON Credit Service Co., Ltd. achieved an uninterrupted increase in the size of its cardholder base by developing new outlets with ÆON Co., Ltd. and other tie-up companies. In addition to these efforts, the Company began issuing the SATY VIVRE Card in a tie-up with MYCAL Corporation, and it also brought in new cardholders. Furthermore, the Company aggressively promoted various joint campaigns with affiliated merchants in the term, and succeeded in expanding its operating performance despite severe conditions in the credit industry, which has been hit by the sluggish personal consumption and rising personal bankruptcies stemming from elevated unemployment.

During the year, the Company also tried to enhance its operating structure, and achieved successful results in various areas. The Company opened the Mie integrated operation center, which joins the Tokyo and Osaka centers, for the purpose of increasing productivity and enhancing the quality of its customer response. And, in response to the nationwide expansion of operating area by ÆON companies, the Company established five new local sales offices and enhanced the recruitment of cardholders and development of affiliated merchants.

In the year under review, ÆON Credit Service acquired Privacy Mark certification following the acquisition of ISO14401 Environmental Management System and ISO 9001 Quality Management System certification in the previous year, and became the first company in the credit industry to obtain certifications for the three management systems.

As a result of these initiatives, 1.50 million new cardholders were added, bringing the total cardholder base at fiscal year end to over 11.3 million. Net finance receivables increased 13.3% year on year to an all-time high of ¥393,643 million. At the same time, total assets also reached a record high of ¥441,933 million, an increase of 12.4%.

Operating revenue increased 16.1% over the previous year, to ¥97,985 million, supported by continued strong growth in card shopping activities and steady expansion of lending and hire purchases. Operating expenses rose 19.9%, mainly because of an increase in credit loss-related costs and higher communications costs due to the expansion of IT -related business operations.

As a result of these developments, net income increased 8.8% over the previous year to an all-time high of ¥13,066 million, marking a continuation of the Company's record of consistent growth in revenue and income. Net income per share was ¥249.72.

Revenues

	Millions of Yen			
	2003	2002	changes	changes (%)
Total volume				
Loan–credit card and other	¥ 621,139	¥ 581,484	¥ 39,655	6.8%
Credit card	755,242	604,858	150,384	24.9
Hire purchase	50,203	39,114	11,089	28.4
Other	4,519	4,887	(368)	(7.5)
Total trading volume	¥1,431,103	¥1,230,343	¥200,760	16.3
Finance receivables				
Loan–credit card and other	¥ 266,313	¥ 246,756	¥ 19,557	7.9%
Credit card	108,101	81,524	26,577	32.6
Hire purchase	27,044	23,962	3,082	12.9
Total finance receivables	¥ 401,458	¥ 352,242	¥ 49,216	14.0%
Revenues				
Interest income	¥ 66,832	¥ 59,651	¥ 7,181	12.0%
Credit card fees	15,841	13,508	2,333	17.3
Hire purchase fees	6,631	4,765	1,866	39.2
Service fees	3,526	3,515	11	0.3
Other operating revenues	5,065	2,858	2,207	77.2
Total revenues	¥ 97,895	¥ 84,297	¥ 13,598	16.1%

2. Operating Results

REVENUES

Total trading volume increased by 16.3% year on year to ¥1,431,103 million, while finance receivables increased by 14.0% to ¥401,458 million. Consequently, revenues increased 16.1% to ¥97,895 million. Factors contributing to the increase in revenues for each revenue category are discussed below.

(1) Interest Income

Trading volume increased 6.8% year on year to ¥621,139 million, while the balance of loans to consumers increased 7.9% to ¥266,313 million. Contributing factors included the steady growth in the cardholder base and expansion of the cash dispenser network. Consequently, income from lending operations increased 12.0% to ¥66,832 million.

(2) Credit Card Fees

Continuous growth in issuance of the ÆON Card by various ÆON companies and new co-branded cards such as SATY VIVRE Card resulted in a 24.9% year-on-year increase in trading volume to ¥755,242 million. Consequently, despite the liquidation of bonus payment claims worth ¥3,399 million the balance of installment plan receivables increased 32.6% to ¥108,101 million, bringing a sharp increase in the balance of claims. Income rose 17.3% to ¥15,841million.

(3) Hire Purchase Fees

Trading volume increased 28.4% year on year to ¥50,203 million, resulting in a 12.9% increase in installment plan receivables to ¥27,044 million. Factors contributing to this growth included initiatives on the part of overseas consolidated subsidiaries in Thailand, Malaysia, and Taiwan to bolster their operations and aggressive joint promotions conducted with affiliated merchants. Consequently, income rose dramatically from the previous fiscal year, to ¥6,631 million, a 39.2% increase.

Operating Expenses

	Millions of Yen			
	2003	2002	changes	changes (%)
Expenses				
Interest expense	¥ 6,894	¥ 6,685	¥ 209	3.1%
Provision for credit losses	19,483	12,451	7,032	56.5
Salaries and fringe benefits	12,837	11,544	1,293	11.2
Advertising and promotion	4,220	4,043	177	4.4
Travel and communication	6,482	5,479	1,003	18.3
Other operating expenses	22,920	20,265	2,655	13.1
Other–net	563	737	(174)	(23.6)
Total expenses	¥73,399	¥61,204	¥12,195	19.9

OPERATING EXPENSES

Operating expenses increased 19.9% to ¥73,397 million. The main factors behind the increase were as follows.

(1) Interest Expenses

Interest rates in Japan remained low. The Company lowered the cost of funds by directly financing through issuance of commercial paper, a low-interest means of obtaining funds, launching a third domestic unsecured straight bond issue in the amount of ¥1.5 billion, and liquidating credit card claims worth ¥3,399 million. Furthermore, consolidated subsidiaries in Hong Kong, Thailand, Malaysia, and Taiwan worked to improve their financial efficiency, leading to a reduction in interest paid on funds raised. Though interest-bearing liabilities increased 11.4% year on year to 291,736 million, interest expenses for Fiscal 2003 increased only 3.1%, down by 1.4% percent point, to ¥6,894 million.

(2) Provision for Credit Losses

In Fiscal 2002, the Company provided ¥19,483 million for credit losses, consisting of ¥16,011 million in direct write-offs and ¥3,472 in transfers to the credit loss reserve. The balance of the credit loss reserve at the fiscal year end was ¥12,203 million, equivalent to 3.0% of the balance of financial receivable, principally from customers.

3. Cash flows

Net cash flows from operating activities turned to expenditure of ¥9,305 million, mainly due to decrease of payments for credit card and hire purchase receivables resulting from liquidation of credit card claims.

Net cash used in investment activities decreased 53.6% to ¥22,598 million due to increases in gains on credit card and other loans repaid and card member receivables sold to trusts.

Net cash provided by financial activities decreased 18.0% to ¥33,390 million. This decrease reflects a decline in commercial paper obligations and an increase of payment of long-term debt.

As a result of these developments, net cash at the fiscal year end amounted to ¥14,877 million, ¥1,066 million higher than the previous year.

4. Operating Income by Location and Segment

	Millions of Yen			
	2003	2002	changes	changes (%)
Total assets				
Japan	¥352,285	¥301,705	¥50,580	16.8%
Hong Kong	44,966	56,266	(11,300)	(20.1)
Other areas	44,682	35,282	9,400	26.6
Total assets	¥441,933	¥393,253	¥48,680	12.4
Revenues				
Japan	¥ 71,770	¥ 63,263	¥ 8,507	13.4%
Hong Kong	14,681	13,973	708	5.1
Other areas	11,444	7,061	4,383	62.1
Total revenues	¥ 97,895	¥ 84,297	¥13,598	16.1%

In Japan, cardholder recruitment proceeded smoothly, and we were able to secure an increase of 1.5 million cardholders, one of the largest increases in the industry. The increase brought the number of active cardholders to 11.3 million and led to record levels of card cashing and card shopping volume for the year. Each of the three consolidated subsidiaries in Japan, companies involved in the insurance agency business, servicer activities, and consumer lending, posted satisfactory growth in trading volume. As a result, operating revenues increased 13.4% year on year to ¥71,770 million.

In Hong Kong, we actively strove to recruit new cardholders by making new tie-ups such as the one with Watami, a Japanese izakaya-style pub chain. But revenue remained near last year level at ¥14,681 million, a 5.1% increase. This result reflects the severe operating environment in Hong Kong, high unemployment and increased personal bankruptcies. We strengthened the credit management ability and improved the low-cost operating structure of our local subsidiary to respond to these harsh business conditions.

Operations in other areas for the term were as follows:

In Thailand, our business showed dramatic growth following various efforts such as opening new branches, expanding the cash dispenser network, and issuing co-branded credit cards, including tie-ups with Carrefour, one of leading the worldwide supermarket groups, and famous Japanese department stores, Isetan and Tokyu. These brought a surge in the number of cardholders from 550,000 to 800,000 and led to a sharp increase in trading volume.

In Malaysia, we expanded the network to nine branches and four service offices. Moreover, in addition to expanding the network of affiliated merchants to 3,000 outlets including Giant, a local major supermarket chain, we started a motorbike hire purchase business to diversify our line of products. These efforts brought 185,000 new cardholders.

In Taiwan, we established a second local subsidiary, which operates a credit card business, and became the first Japanese affiliated company to obtain approval from the Taiwan government for that business. Another subsidiary, which operates a hire purchase business, has continuously expanded its business and increased trading volume, and expanded the affiliated merchant network to 1,600 outlets.

In Mainland China, we started loan recovery operation and credit control services. In the previous year, we transferred the telemarketing activities of the Hong Kong subsidiary to a subsidiary in Shenzhen that operates a call-center business and expanded its facilities to improved customer services in preparation for outside contracting.

As a result of these developments, operating income in Thailand, Malaysia, Taiwan, China (Shenzhen), and other markets rose dramatically to ¥11,444 million, an 62.1% year-on-year increase.

5. Funding and Liquidity

Within Japan, the Company liquidated ¥4,200 million in bonus payment claims due on credit cards in the current accounting period. We also sought to diversify our sources of funds by implementing a ¥15,000 million ordinary bond issue in the Japanese market, and by continually issuing commercial paper as a low-interest method of raising funds.

The Company also worked to secure reliable access to low-interest funds through direct financing overseas. We liquidated ¥9,200 million in payment claims on credit cards in Hong Kong, and implemented a ¥2,800 million ordinary bond issue in Thailand.

We sought to diversify our indirect sources of funds. We also took advantage of the continuing low-interest environment in Japan by actively borrowing long-term fixed-interest funds to provide stable, low-interest finance.

6. Shareholders' Equity

Shareholders' equity rose 12.4% to ¥87,941 million. This resulted primarily from a year-on-year increase of 24.3% in retaining earnings to ¥53,433 million. The shareholders' equity ratio was 19.9%, almost the same as the previous year's level. Net income per share was ¥249.72, while net assets per share were ¥1,680.85.

	2003	2002
Shareholders' equity ratio, Return on assets, Return on equity:		
Shareholders' equity ratio (1)	19.9%	19.9%
Return on assets (2)	3.1%	3.3%
Return on equity (3)	15.7%	16.6%
Net income (millions of yen)	¥ 13,066	¥ 12,012
Shareholders' equity (millions of yen)	¥ 87,941	¥ 78,215
Total assets (millions of yen)	¥ 441,933	¥ 393,253
Per share amount (yen):		
Net income	¥ 249.72	¥ 252.53
Cash dividend	¥ 50.00	¥ 45.00
Net assets	¥1,680.85	¥1,644.36

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

The Company and some of its overseas consolidated subsidiaries use interest rate swaps (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 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, the Company 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 fulfill the contract obligations. The Company trades only with financial institutions that have excellent credit ratings, and also manages risk by dispersing transactions among multiple parties. Accordingly, the risk of non-performance is negligible.

Moreover, the Company 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 engage in those transactions. Details of transactions are reported at regular intervals to executive management, including the directors in charge and the management council.

EXCHANGE RISK MANAGEMENT

The Company 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 their local currencies. However, all such transactions are covered by currency swaps. These are transactions that enable the subsidiaries to purchase foreign currency at prices that are 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 institutions when new loans are raised.

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

Consolidated Balance Sheets

ÆON Credit Service Co., Ltd. and Subsidiaries for the Years Ended February 20, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
ASSETS			
Cash and cash equivalents (Note 6)	¥ 14,877	¥ 13,811	$ 126,076
Finance receivables-net of allowance for possible credit losses (Notes 2, 5 and 6)	393,643	347,572	3,335,958
Investments (Notes 3 and 6)	7,200	6,720	61,017
Property and equipment (Note 4)	7,731	7,521	65,517
Deferred income taxes (Note 8)	2,526	1,069	21,407
Other assets (Note 16)	15,956	16,560	135,220
TOTAL	¥441,933	¥393,253	$3,745,195
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Debt (Notes 5 and 16)	¥291,736	¥261,843	$2,472,339
Accounts payable (Note 16)	37,134	30,441	314,695
Accrued income taxes (Note 8)	6,611	5,045	56,026
Accrued liabilities (Note 16)	8,271	7,332	70,093
Deferred income taxes (Note 8)	732	121	6,203
Total liabilities	344,484	304,782	2,919,356
Minority interests	9,508	10,256	80,576
Commitments (Note 14)			
Shareholders' equity (Notes 11 and 12)			
Common stock, authorized, 80,000,000 shares; issued, 2003 and 2002-47,565,760 shares	15,467	15,467	131,076
Additional paid-in capital	17,637	17,637	149,466
Retained earnings	53,433	42,984	452,822
Accumulated other comprehensive income	1,420	2,127	12,034
Total	87,957	78,215	745,398
Less treasury stock, at cost - 2,600 common shares in 2003	(16)	—	(135)
Shareholders' equity - net	87,941	78,215	745,263
TOTAL	¥441,933	¥393,253	$3,745,195

See notes to consolidated financial statements.

Consolidated Statements of Income and Comprehensive Income

ÆON Credit Service Co., Ltd. and Subsidiaries for the Years Ended February 20, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Revenues (Note 16)				
Interest income	¥66,832	¥59,651	¥49,674	$566,373
Credit card fees	15,841	13,508	11,423	134,246
Hire purchase fees	6,631	4,765	3,178	56,195
Service fees	3,526	3,515	3,069	29,881
Other operating revenues	5,065	2,858	2,519	42,924
Total revenues	97,895	84,297	69,863	829,619
Expenses				
Interest expense	6,894	6,685	6,399	58,424
Provision for credit losses (Note 2)	19,483	12,451	8,810	165,110
Salaries and fringe benefits (Note 9)	12,837	11,544	9,995	108,788
Advertising and promotion	4,220	4,043	3,615	35,763
Travel and communication	6,482	5,479	4,671	54,932
Other operating expenses (Notes 14 and 16)	22,920	20,265	16,647	194,237
Other-net (Note 7)	563	737	111	4,771
Total expenses	73,399	61,204	50,248	622,025
Income before income taxes, minority interest and cumulative effect of change in accounting principle	24,496	23,093	19,615	207,594
Income taxes (Note 8)				
Current	11,415	8,660	9,515	96,737
Deferred	(1,295)	513	(1,671)	(10,974)
Total income taxes	10,120	9,173	7,844	85,763
Income before minority interest and cumulative effect of change in accounting principle	14,376	13,920	11,771	121,831
Minority interest in earnings of consolidated subsidiaries	1,310	1,603	1,533	11,102
Income before cumulative effect of change in accounting principle	13,066	12,317	10,238	110,729
Cumulative effect of change in accounting principle (Notes 1 and 7)	—	(305)	—	—
Net income	13,066	12,012	10,238	110,729
Other comprehensive income (loss), net of tax (Note 12):				
Net change in net unrealized gains (losses) on available-for-sale securities	727	89	(1,745)	6,161
Net change in unrealized gains (losses) on derivative instruments	(229)	13	—	(1,940)
Foreign currency translation adjustments	(1,205)	1,266	257	(10,212)
Other comprehensive income (loss)	(707)	1,368	(1,488)	(5,991)
Comprehensive income	¥12,359	¥13,380	¥ 8,750	$104,737

Amounts per share (Note 15):	Yen			U.S. Dollars
Income before cumulative effect of change in accounting principle				
Basic and diluted	¥249.72	¥258.95	¥215.24	$2.12
Net income				
Basic and diluted	249.72	252.53	215.24	2.12
Cash dividends declared	50.00	45.00	30.00	0.42

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ÆON Credit Service Co., Ltd. and Subsidiaries for the Years Ended February 20, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Common stock:				
Balance, beginning of year				
Shares issued:				
2003, 2002 and 2001 — 47,565,760 shares	¥15,467	¥15,467	¥15,467	$131,076
Balance, end of year				
Shares issued:				
2003, 2002 and 2001 — 47,565,760 shares	¥15,467	¥15,467	¥15,467	$131,076
Additional paid-in capital:				
Balance, beginning of year	¥17,637	¥17,104	¥17,104	$149,466
Gain on sales of previously unissued stock by subsidiary	—	533	—	—
Balance, end of year	¥17,637	¥17,637	¥17,104	$149,466
Retained earnings:				
Balance, beginning of year	¥42,984	¥33,113	¥24,302	$364,271
Net income	13,066	12,012	10,238	110,729
Total	56,050	45,125	34,540	475,000
Deduct:				
Cash dividends	2,617	2,141	1,427	22,178
Balance, end of year	¥53,433	¥42,984	¥33,113	$452,822
Accumulated other comprehensive income:				
Net unrealized gains on available-for-sale securities (net of applicable income taxes):				
Balance, beginning of year	¥ 753	¥ 664	¥ 2,409	$ 6,381
Net change during the year, net of reclassification adjustment	727	89	(1,745)	6,161
Balance, end of year	1,480	753	664	12,542
Net unrealized gains (losses) on derivative instruments (net of applicable income taxes):				
Balance, beginning of year	13	—	—	110
Net change during the year, net of reclassification adjustment	(229)	13	—	(1,940)
Balance, end of year	(216)	13	—	(1,830)
Foreign currency translation adjustments:				
Balance, beginning of year	1,361	95	(162)	11,534
Aggregate translation adjustments during the year	(1,205)	1,266	257	(10,212)
Balance, end of year	156	1,361	95	1,322
Balance, end of year	¥ 1,420	¥ 2,127	¥ 759	$ 12,034
Treasury stock, at cost:				
Balance, beginning of year	—	—	—	—
Purchase of treasury stock	¥(16)	—	—	$(135)
Balance, end of year	¥(16)	—	—	$(135)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ÆON Credit Service Co., Ltd. and Subsidiaries for the Years Ended February 20, 2003, 2002 and 2001

	Millions of Yen			Thousands of U.S. Dollars
	2003	2002	2001	2003
Cash flows from operating activities:				
Net income	¥13,066	¥12,012	¥10,238	$ 110,729
Adjustments to reconcile net income to net cash (used in) provided by operating activities:				
Cumulative effect of change in accounting principle	—	305	—	—
Provision for possible credit losses on finance receivables	19,483	12,451	8,810	165,110
Depreciation and amortization	3,680	3,121	2,321	31,186
Minority interest in earnings	1,310	1,603	1,533	11,102
Deferred income taxes	(1,295)	513	(1,671)	(10,974)
Loss (gain) on investment	(176)	323	36	(1,492)
Changes in operating assets and liabilities:				
Credit card and hire purchase receivables	(54,506)	(16,689)	(13,360)	(461,915)
Accrued interest receivables	(149)	(812)	(584)	(1,263)
Accounts payable	6,885	447	1,710	58,347
Accrued liabilities	554	894	(1,346)	4,695
Accrued income taxes	1,603	(1,202)	2,629	13,585
Other-net	240	(1,757)	(1,370)	2,033
Net cash (used in) provided by operating activities	(9,305)	11,209	8,946	(78,857)
Cash flows from investing activities:				
Credit card and other loan originated	(393,668)	(343,057)	(278,550)	(3,336,169)
Credit card and other loan repaid	356,570	299,242	245,167	3,021,780
Cardmember receivables sold to trust, net	17,836	—	—	151,153
Purchases of available-for-sale securities	(237)	—	—	(2,008)
Proceeds from sales of available-for-sale securities	255	46	—	2,161
Net increase in other investments	403	(8)	(237)	3,415
Capital expenditures	(3,776)	(5,096)	(4,522)	(32,000)
Proceeds from sales of properties	19	200	—	161
Net cash used in investing activities	(22,598)	(48,673)	(38,142)	(191,507)
Cash flows from financing activities:				
Net (decrease) increase in short-term debt	(5,757)	8,516	(9,734)	(48,788)
Net increase in commercial paper	(3,000)	4,000	1,000	(25,424)
Proceeds from issuance of bond	56,683	14,911	9,934	480,364
Proceeds from long-term debt	17,785	41,286	57,480	150,720
Repayment of long-term debt	(29,123)	(26,937)	(26,735)	(246,805)
Proceeds from issuance of common stock by subsidiary	—	1,517	—	—
Dividends paid to the Company's shareholders	(2,617)	(2,141)	(1,427)	(22,178)
Dividends paid to minority shareholders	(565)	(456)	(317)	(4,788)
Purchases of treasury stock	(16)	—	—	(135)
Net cash provided by financing activities	33,390	40,696	30,201	282,966
Effect of exchange rate changes on cash and cash equivalents	(421)	405	(147)	(3,568)
Net increase in cash and cash equivalents	1,066	3,637	858	9,034
Cash and cash equivalents, beginning of year	13,811	10,174	9,316	117,042
Cash and cash equivalents, end of year	¥14,877	¥13,811	¥10,174	$ 126,076
Supplemental disclosure of cash flow information:				
Cash paid during the year for:				
Interest	¥ 6,441	¥6,041	¥5,978	$ 54,585
Income taxes	9,812	9,926	6,885	83,153

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ÆON Credit Service Co., Ltd. and Subsidiaries

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

DESCRIPTION OF BUSINESS

ÆON Credit Service Co., Ltd. (the "Company") and its subsidiaries (together, the "Companies") is engaged in a broad range of business activities that complement the core credit card and loan business, including servicer, call center, insurance agency, and travel agency businesses. The Companies' operations are conducted in Japan, Hong Kong, Thailand, Malaysia, Taiwan and Shenzhen. The operations of the foreign subsidiaries consist primarily of credit card, loans and hire purchase business.

The Companies belong to ÆON, a group which consists of 140 companies, including supermarkets, specialty and convenience stores, in addition to credit card and other consumer financing services. The majority of the Company's shares are owned, directly and indirectly, by ÆON Co., Ltd. (renamed from JUSCO Co., Ltd. on August 21, 2001).

BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and principally operates. Translation of Japanese yen into U.S. dollar amounts as of and for the year ended February 20, 2003, is included solely for the convenience of readers outside Japan and has been made at the rate of ¥118=U.S.$1, the approximate rate of exchange at February 20, 2003. 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 ("U.S. GAAP"). 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 account, 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, (2) recognition of commissions from member stores and (3) recognition of gain arising from sale by a subsidiary of its own stock.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and all of its majority-owned domestic and foreign subsidiaries. Investments in associated companies, those owned 20% to 50%, are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

On February 21, 2002, the Companies adopted Statement of Financial Accounting Standards ("SFAS") No.142, "Goodwill and Other Intangible Assets," issued by the Financial Accounting Standards Board (the "FASB") in the United States of America. The excess of cost of the Company's investments in subsidiaries and associated companies over their equity in the net assets at the dates of acquisition is no longer amortized, but instead tested for impairment at least annually in accordance with SFAS No.142. The adoption of SFAS No.142 did not have a material effect on the Company's consolidated financial position and results of operations.

Foreign Currency Translation

All asset and liability accounts of foreign subsidiaries are translated into Japanese yen at appropriate year-end current rates and all income and expense accounts are translated at average rates of exchange prevailing during the fiscal year. The resulting translation adjustments are accumulated as a component of accumulated other comprehensive income. Foreign currency receivables and payables are translated at appropriate year-end current rates and the resulting exchange gains or losses are recognized in earnings.

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.

Cash Equivalents

Cash equivalents are defined as short-term (original maturities of three months or less), highly liquid investments, including short-term time deposits, which are readily convertible into cash and have no significant risk of change in value.

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 recoveries). At the Company level, the allowance for possible credit losses is provided at 100% of all receivables three months contractually past due, plus an amount calculated using a ratio which is determined based on a statistical analysis of historical credit losses. This reflects the 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 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 possible credit losses and the charge-off of receivables.

Investment in Securities

Investments in marketable 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, net of tax, in a separate component of shareholders' equity; or (3) held-to-maturity securities, which are accounted for at amortized cost. The Companies hold only available-for-sale securities. Non-marketable equity securities are carried at cost.

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.

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed under the straight-line method at rates based on the estimated useful lives of the assets.

Impairment of Long-Lived Assets

The impairment of long-lived assets for the Companies is accounted for in accordance with SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets" for the year ended February 20, 2003, and in accordance with SFAS No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of" for the years ended February 20, 2002 and 2001. SFAS No.144 supersedes SFAS No.121, but the fundamental provisions of SFAS No.121 which require long-lived assets and certain identifiable intangibles held and used by an entity to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The adoption of SFAS No.144 did not have a material effect on the Company's consolidated financial position or results of operations.

In accordance with SFAS 144, long-lived assets, such as property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

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.

Income Taxes

Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax basis of assets and liabilities using the currently enacted tax rate. Deferred income tax expenses or benefits are based on the change in the assets and liabilities from period to period, subject to an ongoing assessment of realization. Valuation allowances are established when it is more likely than not that some or all of the deferred tax assets will not be realized.

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 Company accounts for gains arising from sale by a subsidiary of its previously unissued stock to minority shareholders as a capital transaction 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 potentially dilutive common shares outstanding during the period. There were no potentially dilutive common shares outstanding for the years ended February 20, 2003, 2002 and 2001.

Reclassification

Certain reclassifications and format changes have been made to prior year amounts to conform to the current year's presentation.

Accounting Changes

The FASB issued SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," in June 1998. 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. In June 1999, the FASB issued SFAS No.137, "Accounting for Derivative Instruments and Hedging Activities—Deferral of the Effective Date of FASB Statement No.133." In June 2000, the FASB issued SFAS No.138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," an amendment of SFAS No.133. Based on the revised effective date, the Companies adopted SFAS No.133, as amended by SFAS No.138, on February 21, 2001. See Note 6. regarding the impact of adoption.

New Accounting Standards

In June 2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No.146 addresses financial accounting and reporting for costs associated with exit or disposal activities. It nullifies Emerging Issues Task Force Issue No. 94-3 ("EITF 94-3"), "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The principal difference between SFAS No.146 and EITF 94-3 relates to the timing of recognition of a liability for a cost associated with an exit or disposal activity. SFAS No.146 requires that a liability be recognized for those costs only when the liability is incurred, that is, when it meets the definition of a liability in the conceptual framework of the FASB. SFAS No.146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. The Companies adopted the provision of SFAS No.146 for exit or disposal activities that are initiated after December 31, 2002. The adoption of SFAS No.146 did not have a material effect on the Company's consolidated financial position or results of operations.

In November 2002, the FASB issued Interpretation ("FIN") No.45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others". The initial recognition and measurement provisions of FIN No.45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002, and require that the Companies record a liability, if any, for the fair value of such guarantees in the balance sheet.

The Companies adopted the recognition provisions of FIN No.45 prospectively to guarantees issued or modified after December 31, 2002. The disclosure provisions of FIN No.45 are effective for fiscal years ending on or after December 15, 2002. The adoption of FIN No.45 did not have a material effect on the Company's consolidated financial position or results of operations.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." This interpretation addresses consolidation by business enterprises of variable interest entities ("VIE") when certain characteristics are present. This interpretation applies immediately to VIEs created after January 31, 2003, and to VIEs in which an enterprise obtains an interest after that date. Interests held in VIEs created before February 1, 2003 are not subject to the provisions of this interpretation until January 1, 2004. The Company has not yet determined the impact, if any, the adoption of FIN No.46 will have on its consolidated financial position and results of operations.

2. Finance Receivables

Finance receivables, principally from consumers, as of February 20, 2003 and 2002, consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Credit card and hire purchase:			
Credit card	¥108,101	¥ 81,524	$ 916,110
Hire purchase	27,044	23,962	229,186
	135,145	105,486	1,145,296
Loan:			
Credit card, interest primarily at 18.0%-36.0%	243,119	226,159	2,060,331
Unsecured, interest primarily at 7.2%-36.0%	22,291	18,593	188,907
Secured, interest primarily at 2.8%-7.7%	257	1,414	2,178
Loan to the ÆON group's employees	646	590	5,474
	266,313	246,756	2,256,890
Finance receivable total	401,458	352,242	3,402,186
Accrued interest	4,388	4,426	37,187
Allowance for possible credit losses	(12,203)	(9,096)	(103,415)
Net finance receivables	¥393,643	¥347,572	$3,335,958

At February 20, 2003, contractual maturities of loan receivable excluding accrued interest were as follows:

Year ending February 20	Millions of Yen	Thousands of U.S.Dollars
2004	¥158,329	$1,341,771
2005	95,198	806,763
2006	12,074	102,322
2007	673	5,703
2008	25	212
Thereafter	14	119
Total	¥266,313	$2,256,890

A substantial portion of the loan portfolio represents loans made under 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, 2003 and 2002, the ratios of loans repaid to average loan receivable balances were 55.7 % and 54.5%, respectively.

The changes in the allowance for possible credit losses for the years ended February 20, 2003, 2002 and 2001 are shown below:

	Millions of Yen			Thousands of U.S.Dollars
	2003	2002	2001	2003
Balance, beginning of year	¥ 9,096	¥7,178	¥6,127	$ 77,085
Provision for possible credit losses	19,483	12,451	8,810	165,110
Charge-offs:				
Charge-offs	(17,063)	(11,740)	(8,571)	(144,602)
Recoveries	1,052	915	756	8,915
	(16,011)	(10,825)	(7,815)	(135,687)
Foreign currency translation adjustments	(365)	292	56	(3,093)
Balance, end of year	¥12,203	¥9,096	¥7,178	$103,415

A subsidiary of the Company securitizes receivables from Hong Kong cardmembers and subsequently transfers the cash flow interests in those assets to third party investors. These securitized receivable balances are comprised of existing balances as of the date of the initial securitization and all future charges on these accounts. The subsidiary accounts for these transactions as sales under SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." The subsidiary continues to service the accounts and receives a fee for doing so; the fair value and carrying amounts of these future servicing fees, net of related costs, are not material. Interests in the securitized financial assets are retained in the form of seller or subordinated tranches, interest-only strips or other residual interests ("retained interests"). The seller and subordinated tranches are recorded as finance receivables and are carried at amortized cost. The difference between the allocated carrying amount and the fair value of the securitized receivables at the date of the transfer is recognized as interest income over the life of investment under the interest method using the effective yield. The interest-only strips and other residual interests are recorded in the balance sheet as finance receivables and are carried at fair value. The determination of fair values of retained interests is generally based on listed market prices or by determining the present value of expected future cash flows using pricing models that incorporate management's best estimates of critical assumptions which may include credit losses, discount rates, yield curves and other factors. Unrealized gains or losses are credited to income.

During the year ended February 20, 2003, the subsidiary sold ¥15,414 million (US$130,627 thousand) of receivables from Hong Kong cardmembers, or ¥9,516 million (US$80,644 thousand) net of subordinated interests. The pretax gain on the securitization was ¥2,029 million (US$17,195 thousand).

The table below summarizes cash flows received during 2003 from securitization transactions:

	Millions of Yen	Thousands of U.S.Dollars
Proceeds from new securitizations	¥9,516	$80,644
Proceeds from collections reinvested in revolving-period securitizations	8,320	70,508
Servicing fees received	130	1,102
Cash flows received on interests retained	1,465	12,415

The value of retained interests is primarily a result of credit risk, average loan life and interest rates on the transferred financial assets. Key economic assumptions used in measuring the retained interests resulting from securitization during the year ended February 20, 2003 and the sensitivity of the fair value to an immediate five percent and ten percent adverse changes in assumed economics were as follows:

	Millions of Yen	Thousands of U.S.Dollars
Principal repayment rate:		
Assumption	8.96%	
Impact on fair value of 5% adverse change	¥45	$381
Impact on fair value of 10% adverse change	88	746

	Millions of Yen	Thousands of U.S.Dollars
Weighted-average life:		
Assumption	20 months	
Impact on fair value of 5% adverse change	¥45	$381
Impact on fair value of 10% adverse change	88	746

	Millions of Yen	Thousands of U.S.Dollars
Expected credit losses:		
Assumption	11.45%	
Impact on fair value of 5% adverse change	¥ 51	$432
Impact on fair value of 10% adverse change	101	856

	Millions of Yen	Thousands of U.S.Dollars
Cash flows from retained interests discounted at:		
Assumption	20.00%	
Impact on fair value of 5% adverse change	¥12	$102
Impact on fair value of 10% adverse change	24	203

These sensitivities are hypothetical and should be viewed with caution. As the figures indicate changes in fair value based on a five percent and a ten percent variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also in this table, the effect of a variation in a particular assumption on the fair value of the retained interest is calculated without changing any other assumptions; in reality, changes in one assumption may result in changes in another which might counteract or compound the sensitivities.

The following table presents quantitative information about delinquencies, net credit losses and the components of securitized receivables from Hong Kong cardmembers at February 20, 2003:

	Millions of Yen		
	Total principal amount of receivables	Principal amount of receivables 90 days or more past due	Credit losses during the period
Receivables managed	¥34,850	¥1,711	$2,979
Less: Securitized receivable	15,392	66	70
Receivables on balance sheet	¥19,458	¥1,645	$2,909

	Thousands of U.S.Dollars		
	Total principal amount of receivables	Principal amount of receivables 90 days or more past due	Credit losses during the period
Receivables managed	$295,339	$14,500	$25,246
Less: Securitized receivable	130,441	559	593
Receivables on balance sheet	$164,898	$13,941	$24,653

During the years ended February 20, 2003 and 2002, the Company also sold credit card receivables of ¥6,489 million (US$54,992 thousand) and ¥9,279 million, respectively, to a special purpose company. Gains and losses on such sales were not significant.

3. Investments

MARKETABLE EQUITY SECURITIES

The Companies' investments in marketable equity securities have been classified as available-for-sale and were reported at their fair value. Such marketable equity securities at February 20, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Marketable Equity Securities			
Cost	¥2,380	¥2,422	$20,169
Gross unrealized gains	3,022	1,857	25,610
Gross unrealized losses	121	167	1,025
Fair value	5,281	4,112	44,754

Proceeds from sales of available-for-sale securities and gross realized gains and losses resulting from these sales for the years ended February 20, 2003, 2002 and 2001 are as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2003	2002	2001	2003
Proceeds from sales	¥255	¥46	—	¥2,161
Gross realized gains	206	1	—	1,746
Gross realized losses	—	7	—	—

OTHER INVESTMENTS

Other investments at February 20, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Non-marketable equity securities	¥ 184	¥ 250	$ 1,559
Investment accounted for under the equity method	17	—	144
Time deposits with original maturities in excess of three months	1,718	2,358	14,560
Total	¥1,919	¥2,608	$16,263

4. Property and Equipment

Property and equipment at February 20, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Leasehold improvement	¥ 1,225	¥ 1,134	$ 10,381
Equipment	16,888	14,747	143,119
Vehicle	367	354	3,110
Total	18,480	16,235	156,610
Accumulated depreciation	(10,749)	(8,714)	(91,093)
Property and Equipment — net	¥ 7,731	¥ 7,521	$ 65,517

Depreciation of property and equipment during the years ended February 20, 2003, 2002 and 2001 totaled ¥2,858 million (US$24,220 thousand), ¥2,290 and ¥1,760 million, respectively.

5. Short-Term Debt and Long-Term Debt

Short-term debt at February 20, 2003 and 2002 consisted of the following:

	Millions of Yen						Thousands of U.S. Dollars
	2003			2002			2003
		Weighted average interest rate			Weighted average interest rate		
		Japan	Overseas		Japan	Overseas	
Bank loans	¥22,514	1.23%	1.39%	¥30,447	0.80%	3.75%	$190,797
Commercial paper	26,000	0.03%		29,000	0.15%		220,339
Total	¥48,514			¥59,447			$411,136

The Companies maintain line-of-credit arrangements with several banks to support overdrafts. Under the arrangements in effect at February 20, 2003 and 2002, the Companies had available lines of credit in the amount of ¥28,270 million (US$239,576 thousand) and ¥30,821 million, respectively. Generally, lines of credit are renewed annually.

Long-term debt at February 20, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Debt under securitized finance receivables — Secured	¥ 5,115	¥ 8,956	$ 43,347
Loans from banks and insurance companies — Unsecured	195,337	168,440	1,655,398
Japanese yen bonds — Unsecured	42,770	25,000	362,458
Less current maturities	(52,102)	(24,362)	(441,542)
Total	¥191,120	¥178,034	$1,619,661

At February 20, 2003 and 2002, interest rates on long-term debt were as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
0.0% - 1.0%	¥ 43,500	¥ 11,000	$ 368,644
1.1% - 2.0%	136,100	120,700	1,153,390
2.1% - 3.0%	21,323	29,653	180,703
3.1% - 4.0%	10,004	12,425	84,780
4.1% - 5.0%	5,674	—	48,085
5.1% - 6.0%	1,500	1,507	12,712
6.1% - 7.0%	5,434	5,683	46,051
7.1% - 8.0%	8,376	10,319	70,983
8.1% - 9.0%	5,566	10,083	47,169
9.1% and over	763	1,026	6,466
Floating rate based on HIBOR plus 0.75%	4,982	—	42,220
Total	¥243,222	¥202,396	$2,061,203

The annual maturities of long-term debt outstanding at February 20, 2003 were as follows:

Year ending February 20	Millions of Yen	Thousands of U.S.Dollars
2004	¥ 52,102	$ 441,542
2005	33,769	286,178
2006	53,373	452,314
2007	35,700	302,542
2008	48,178	408,288
Thereafter	20,100	170,339
Total	¥243,222	$2,061,203

Unused commitments for long-term financing arrangements were ¥195,437 million (US$1,656,246 thousand) at February 20, 2003.

6. Pledged Assets

At February 20, 2003, assets pledged as collateral for short-term debt, long-term debt and contingent liabilities of the companies were as follows:

	Millions of Yen	Thousands of U.S.Dollars
Time deposits	¥ 1,533	$12,992
Finance receivables	9,485	80,381
Total	¥11,018	$93,373

The above pledged assets classified by type of liabilities to which they relate are as follows:

	Millions of Yen	Thousands of U.S.Dollars
Short-term debt	¥ 763	$ 6,466
Long-term debt	5,115	43,347
Contingent liabilities - guarantees of contracts	181	1,534
Total	¥6,059	$51,347

7. Derivative Financial Instruments and Risk Management

As part of their 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 exposure of underlying obligations. The Companies do not enter into derivative financial instruments for trading or speculative purposes.

INTEREST RATE RISK MANAGEMENT

The Companies enter into swap contracts to exchange the floating interest rate exposures for a fixed interest rate. The interest rate swap contracts mature at various dates through 2007.

The Companies also enter into interest rate cap contracts to limit the impact of increased interest rates on floating rate debt. The interest rate cap contracts mature at various dates through 2005.

Notional amounts for derivatives at February 20, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Interest rate swap contracts	¥ 7,929	¥ 9,545	$ 67,195
Interest cap contracts	30,734	12,575	260,458

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 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 and foreign currency forward contracts in managing their foreign exchange risk at February 20, 2003 and 2002, as indicated in the following table:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Currency swap and forward contracts	¥5,589	¥5,672	$47,364

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

ACCOUNTING FOR DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective February 21, 2001, the Companies adopted SFAS No.133, as amended by SFAS No. 137 and SFAS No. 138. The adoption of SFAS No. 133 resulted in the Company recording a transition adjustment loss of ¥305 million, net of related income tax of ¥185 million, in net income. The adoption of the statement resulted in the Company recognizing ¥490 million of derivative instrument liabilities. Derivative liabilities are included in "Accrued liabilities" on the consolidated balance sheets.

The effective portion of changes in the fair value of derivatives designated as cash flow hedges are initially recorded in other comprehensive income (loss) and reclassified into earnings when the hedged transaction affects earnings. The Companies had interest rate swaps designated as cash flow hedges of underlying forecasted interest payments. Net losses on the interest rate swaps that were reclassified from other comprehensive income (loss) into earnings as "Expenses other—net" were ¥32 million (US$272 thousand) for the year ended February 20, 2003. The amount to be reclassified from other comprehensive income (loss) within the next twelve months is expected to be a net loss of ¥30 million (US$254 thousand). Net gains of ¥5 million (US$42 thousand) and net losses of ¥217 million, which represented the total ineffectiveness of cash flow hedges, were recorded in "Expenses Other—net" for the years ended February 20, 2003 and 2002, respectively.

At February 20, 2003, currency swap and foreign currency forward contracts were designated as cash flow hedges of underlying cash flow requirements for the Companies' debt obligations denominated in foreign currencies. These cash flow hedges are highly effective. As a result, there was no material impact on income due to hedge ineffectiveness. The amounts to be reclassified from other comprehensive income (loss) for the year ended February 20, 2003 and within the next twelve months are not material.

The Company also uses other derivative instruments that are not designated as hedging instruments, the impact of which was not material to the consolidated financial statements.

8. Income Taxes

Income taxes in Japan applicable to the Company and domestic subsidiaries, imposed by the national, prefectural and municipal governments, in the aggregate, resulted in a normal effective statutory rate of approximately 41.8% for the years ended February 20, 2003, 2002 and 2001. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

On March 31, 2003, taxation of corporations by size of their business was enacted in Japan which changed the normal effective statutory tax rate from 41.8% to 40.4%, effective for years beginning on or after April 1, 2004. This change will not have a material effect on the Company's consolidated financial position and results of operations.

A reconciliation of the combined statutory tax rates for the years ended February 20, 2003, 2002 and 2001 to the effective rate of income taxes reflected in the accompanying consolidated statements of income was as follows:

	2003	2002	2001
Combined statutory income tax rate	41.8%	41.8%	41.8%
Expenses not deductible for income tax purpose	0.5	0.3	0.7
Lower income tax rates applicable to income in certain foreign countries	(3.3)	(4.1)	(4.9)
Effect of taxation on dividend	2.6	0.9	0.6
Other – net	(0.3)	0.8	1.8
Effective income tax rate	41.3%	39.7%	40.0%

Total income taxes recognized for the years ended February 20, 2003, 2002 and 2001 were as follows:

	Millions of Yen			Thousands of U.S.Dollars
	2003	2002	2001	2003
Provision for income taxes	¥10,120	¥9,173	¥7,844	¥85,763
Shareholders' equity — charged (credited):				
Net unrealized gains on available-for-sale securities	505	112	(942)	4,280
Net unrealized gains (losses) on derivative instruments	(133)	11	—	(1,127)
Total income taxes	¥10,492	¥9,296	¥6,902	¥88,916

Significant components of deferred tax assets and liabilities at February 20, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Assets:			
Allowance for possible credit losses	¥1,346	¥ 737	$11,407
Enterprise tax	561	438	4,754
Accrued pension and severance liabilities	69	65	585
Other accrual	326	248	2,763
Long-term prepaid expense	309	258	2,619
Software	211	—	1,788
Other	389	243	3,296
Gross deferred tax assets	3,211	1,989	27,212
Liabilities:			
Investment securities	1,143	717	9,686
Property	79	227	669
Other	195	97	1,653
Gross deferred tax liabilities	1,417	1,041	12,008
Net deferred tax assets	¥1,794	¥ 948	¥15,204

Income taxes are not provided on the accumulated undistributed earnings of foreign subsidiaries which are considered to be permenently reinvested in the operations of such subsidiaries. At February 20, 2003, the amount of undistributed earnings of foreign subsidiaries was approximately ¥7,401 million (US$62,720 thousand).

Determination of the amount of tax on these undistributed earnings is not practicable because of the complexity associated with its hypothetical calculation including foreign withholding taxes and foreign tax credits. The domestic undistributed earnings would not, under present Japanese tax laws, be subject to additional taxation.

9. Employee's Benefit Plans

The Company participates with its parent and the affiliates in a multi-employer defined benefit pension plan (The "plan") covering employees of ÆON Co., Ltd. and certain domestic subsidiaries (the ÆON group companies"), which provides lifetime annuity payments commencing at age 60, based on eligible compensation and/or points at the time of severance, years of service and other factors. The plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the ÆON group companies on behalf of the government and a corporate portion established at the discretion of ÆON Co., Ltd. Annual contributions are made by ÆON group companies, 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. However, assets contributed by an employer are not segregated in a separate account or restricted to provide benefits only to employees of that employer, including the Company.

Total annual contributions by the Company to the multi-employer plan for the years ended February 20, 2003, 2002, and 2001 were ¥177 million (US$1,500 thousand), ¥172 million and ¥85 million, respectively. Such contributions are charged to income when paid.

In March 2001, the ÆON group companies amended the group retirement benefit scheme, which comprised the multi-employer plan covering employees with ten years and more service and an unfunded termination-benefit plan covering employees terminating their employment with less than ten years. The change consisted principally of amendments to certain retirement benefit calculation factors, settlement of a portion of the defined benefit pension plan, and replacement of the unfunded termination benefit plan with a new additional benefit portion in the multi-employer plan.

According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the ÆON group companies applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government by another subsequent application. The ÆON group companies obtained an approval of exemption from future obligation by the Ministry of Health, Labour and Welfare on September 1, 2002.

10. Fair Value of Financial Instruments

The carrying amounts and the estimated fair values of financial instruments at February 20, 2003 and 2002 were as follows:

	Millions of Yen				Thousands of U.S.Dollars	
	2003		2002		2003	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets:						
Cash and cash equivalents	¥ 14,877	¥ 14,877	¥ 13,811	¥ 13,811	$ 126,076	$ 126,076
Investments (excluding investments accounted for under the equity method)	7,200	7,200	6,720	6,720	61,017	61,017
Liabilities:						
Short-term debt	48,514	48,514	59,447	59,447	411,136	411,136
Long-term debt	243,222	246,871	202,396	205,509	2,061,203	2,092,127
Derivative financial instruments:						
Interest rate swap contracts	(505)	(505)	(245)	(245)	(4,280)	(4,280)
Foreign currency swap and forward contracts	(143)	(143)	17	17	(1,212)	(1,212)

The following methods and assumptions were used to estimate the fair value of each class 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 class of security is set forth in Note 3. Other investment also includes time deposits with original maturities in excess of three months, and its fair value approximates its carrying amounts due to the relatively short maturity.

Short-term debt is carried at amounts which approximate fair value. 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 value of derivatives is 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 value of the finance receivables-net due to large groups of smaller-balance receivables and the difficulty in estimating the future cash flows under revolving lines of credit.

11. Shareholders' Equity

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors. The Company's legal reserve amount, which is included in retained earnings, at February 20, 2003 and 2002 was ¥3,687 million (US$31,246 thousand) and ¥3,687 million, respectively.

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

The amount of retained earnings available for dividends under the Code was ¥41,384 million (US$350,712 thousand) at February 20, 2003, based on the amount recorded in the Company's general books of account maintained in accordance with generally accepted Japanese accounting practices. The adjustments included in the accompanying consolidated financial statements to conform with U.S. GAAP but not recorded in the books have no effect on the determination of retained earnings available for dividends under the Code. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

12. Other Comprehensive Income (Loss)

The changes in the components of other comprehensive income (loss) for the years ended February 20, 2003, 2002 and 2001 were reported (net of income taxes) as follows:

	Millions of Yen		
2003:	Pre-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during period	¥1,257	¥(522)	¥ 735
Reclassification adjustment for gains included in net income	(25)	17	(8)
Net unrealized gains on available-for-sale securities	1,232	(505)	727
Net unrealized losses on derivative instruments:			
Unrealized holding losses arising during period	(405)	144	(261)
Reclassification adjustment for losses on derivative instruments	43	(11)	32
Net unrealized losses on derivative instruments	(362)	133	(229)
Foreign currency translation adjustments	(1,205)	—	(1,205)
Other comprehensive loss	¥ (335)	¥(372)	¥ (707)

	Millions of Yen		
2002:	Pre-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during period	¥ 120	¥ (78)	¥ 42
Reclassification adjustment for losses included in net income	81	(34)	47
Net unrealized gains on available-for-sale securities	201	(112)	89
Net unrealized gains on derivative instruments:			
Unrealized holding gains arising during period	24	(11)	13
Foreign currency translation adjustments	1,266	—	1,266
Other comprehensive income	¥ 1,491	¥ (123)	¥ 1,368

	Millions of Yen		
2001:	Pre-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized losses on available-for-sale securities:			
Unrealized holding losses arising during period	¥ (2,649)	¥ 926	¥ (1,723)
Reclassification adjustment for gains 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 loss	¥ (2,430)	¥ 942	¥ (1,488)

	Thousands of U.S. Dollars		
2003:	Pre-Tax Amount	Tax (Expense) Benefit	Net-of-Tax Amount
Net unrealized gains on available-for-sale securities:			
Unrealized holding gains arising during period	$10,653	$(4,424)	$ 6,229
Reclassification adjustment for gains included in net income	(212)	144	(68)
Net unrealized gains on available-for-sale securities	10,441	(4,280)	6,161
Net unrealized losses on derivative instruments:			
Unrealized holding losses arising during period	(3,432)	1,220	(2,212)
Reclassification adjustment for losses on derivative instruments	365	(93)	272
Net unrealized losses on derivative instruments	(3,067)	1,127	(1,940)
Foreign currency translation adjustments	(10,212)	—	(10,212)
Other comprehensive loss	$ (2,838)	$(3,153)	$ (5,991)

13. 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, 2003, 2002 and 2001 were ¥3,020 million (US$25,593 thousand), ¥2,657 million and ¥2,322 million, respectively.

At February 20, 2003, the future minimum lease payments under non-cancelable leases were as follows:

Year ending February 20	Millions of Yen	Thousands of U.S.Dollars
2004	¥2,092	$17,729
2005	389	3,297
2006	89	754
Total	¥2,570	$21,780

14. Commitments

Commitments outstanding at February 20, 2003, for purchases of property and equipment approximated ¥533 million (US$4,517 thousand).

The Companies have agreements under which they are committed to execute loans as long as the agreed-upon terms are met. At February 20, 2003, the total unused credit available amount is ¥2,764,935 million (US$23,431,653 thousand).

15. 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
	2003	2002	2001	2003
Income before cumulative effect of change in accounting principle	¥13,066	¥12,317	¥10,238	$110,729
Cumulative effect of change in accounting principle	—	(305)	—	—
Net income	13,066	12,012	10,238	110,729
Effect of dilutive securities	—	—	—	—
Adjusted net income	¥13,066	¥12,012	¥10,238	$110,729

See Note 18.

	Number of shares (Thousands)		
	2003	2002	2001
Average common shares outstanding	52,322	52,322	52,322
Dilutive effect	—	—	—
Diluted common shares outstanding	52,322	52,322	52,322

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

16. Related Party Transactions

Significant related party transactions and balances as of and for the years ended February 20, 2003, 2002 and 2001 were summarized as follows:

Revenues and Expenses:	Millions of Yen			Thousands of U.S.Dollars
	2003	2002	2001	2003
Revenues				
ÆON Co., Ltd.	¥5,492	¥5,047	¥4,657	$46,542
Kyushu JUSCO Co., Ltd.	247	204	180	2,093
Jaya JUSCO Stores Bhd.	—	—	148	—
Maxvalu Nishinihon Co., Ltd.	171	141	100	1,449
JUSCO Stores (Hong Kong) Co., Ltd.	289	323	212	2,449
Rental Expense (included in other operating expenses)				
ÆON Co., Ltd.	322	339	352	2,729
JUSCO Stores (Hong Kong) Co., Ltd.	100	107	—	847

Assets and Liabilities:	Millions of Yen		Thousands of U.S.Dollars
	2003	2002	2003
Lease Deposit (included in other assets)			
ÆON Co., Ltd.	¥ 408	¥378	$ 3,458
Debt (Short-Term)			
Ministop Co., Ltd.	—	2,000	—
ÆON Techno Service Co., Ltd.	800	—	6,780
Debt (Long-Term)			
Ministop Co., Ltd.	5,000	5,000	42,373
ÆON Techno Service Co., Ltd.	500	—	4,237
Accounts Payable			
ÆON Co., Ltd.	21,880	17,800	185,424
Kyushu JUSCO Co., Ltd.	1,099	1,012	9,314
Ryukyu JUSCO Co., Ltd.	286	370	2,424
ÆON Mall Co., Ltd.	407	—	3,449
JUSCO Stores (Hong Kong) Co., Ltd.	483	715	4,093
Maxvalu Nishinihon Co., Ltd.	705	593	5,975
Mega Petro Co., Ltd.	173	112	1,466
Jusvel Co., Ltd.	130	—	1,102
Maxvalu Hokkaido Co., Ltd.	150	—	1,271
Maxvalu Chubu Co., Ltd.	176	144	1,492
Maxvalu Tohoku Co., Ltd.	198	127	1,678
Maxvalu Tokai Co., Ltd.	119	—	1,008
Mega Sports Co., Ltd.	161	122	1,364
Other Payable (included in accrued liabilities)			
ÆON Co., Ltd.	102	119	864

17. 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.

Revenues by each financial activity are disclosed in the consolidated statements of income. Revenues and long-lived assets and total assets by geographic areas as of and for the years ended February 20, 2003, 2002 and 2001 were summarized as follows:

	Millions of Yen			
2003:	Japan	Hong Kong	Other Areas	Total
Revenues	¥ 71,770	¥14,681	¥11,444	¥ 97,895
Long-lived assets	8,218	1,503	2,488	12,209
Total assets	352,285	44,966	44,682	441,933

	Millions of Yen			
2002:	Japan	Hong Kong	Other Areas	Total
Revenues	¥ 63,263	¥ 13,973	¥ 7,061	¥ 84,297
Long-lived assets	8,897	1,626	1,869	12,392
Total assets	301,705	56,266	35,282	393,253

	Millions of Yen			
2001:	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

	Thousands of U.S. Dollars			
2003:	Japan	Hong Kong	Other Areas	Total
Revenues	$ 608,221	$124,415	$ 96,983	$ 829,619
Long-lived assets	69,644	12,737	21,085	103,466
Total assets	2,985,466	381,068	378,661	3,745,195

18. SUBSEQUENT EVENTS

On April 10, 2003, the Company made a stock split at the rate of 0.1 shares for each outstanding shares and 4,756,576 shares were issued to shareholders of record on February 20, 2003. The average number of common shares outstanding for the years ended February 20, 2003, 2002 and 2001, used for the computation of net income per share were retroactively adjusted as a result of this stock split.

On May 13, 2003, the shareholders authorized payment of a cash dividend of ¥30 (25¢) per share (totaling ¥1,427 million-US$12,093 thousand) to holders of record at February 20, 2003.

Tohmatsu & Co.
MS Shibaura Building
13-23, Shibaura 4-chome
Minato-ku, Tokyo 108-8530, Japan

Tel:+81-3-3457-7321
Fax:+81-3-3457-1694
www.tohmatsu.co.jp

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, 2003 and 2002, 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, 2003 (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, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended February 20, 2003, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 7 to the consolidated financial statements, effective February 21, 2001, ÆON Credit Service Co., Ltd. changed its method of accounting for derivative financial instruments to conform to Statement of Financial Accounting Standards No. 133.

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 13, 2003

Board of Directors, Corporate Data

Board of Directors
(as of May 13, 2003)

President and C.E.O.
Yoshiki Mori*

Managing Directors
Kazuhide Kamitani
Hiroyuki Asai

Directors
Masamichi Kamiyama
Kazuhiko Kawata
Kouichi Takayama
Yasuhiko Kondo
Tatsuya Saito
Takashi Kiyonaga
Kiyoaki Takano

Corporate Auditor
Ken Kasai

Auditors
Yoichi Kimura
Minoru Saito
Hiroyasu Sugihara

*Representative Directors

Corporate Data

Company Name
ÆON Credit Service Co., Ltd.

Corporate Headquarters
1-1 Kanda Nishiki-cho, Chiyoda-ku, Tokyo

Corporate Main Office
Kanda Mitoshiro-cho 1, Chiyoda-ku, Tokyo
Telephone: (03) 5281-2030
URL: http://www.aeoncredit.co.jp

Established
June 20, 1981

Capital
¥15,467 million (as of February 20, 2003)

Shares Outstanding
52,322 thousand shares (as of May 20, 2003)

Closing Date
February 20, every year

Number of Employees
706 (as of February 20, 2003)

Turnover
¥1,431 billion (for the fiscal year 2002, ended February 20, 2003)

Business Activities
1. Credit card operations
2. Finance operations
3. Card processing service

Domestic Subsidiaries
NCS Kosan Co., Ltd.
ACS Credit Management Co., Ltd.
ACS Finance Co., Ltd.

Overseas Subsidiaries
AEON Credit Service (Asia) Co., Ltd.
AEON Thana Sinsap (Thailand) Plc.
AEON Credit Service (M) Sdn. Bhd.
AEON Credit Service (Taiwan) Co., Ltd.
AEON Information Service (Shenzhen) Co., Ltd.
ACS Capital Corporation Ltd.
AEON Credit Card (Taiwan) Co., Ltd.

Domestic Network

Sapporo Branch
Kita Sanjo Mitsui Bldg. 1F,
3-1 Kita Sanjo Nishi, Chuo-ku, Sapporo,
Hokkaido 060-0003, Japan
Tel. 011-222-8811

Asahikawa Office
Takahata Shoji Bldg. 1F, 8-1293-2 Sanjo-dori,
Asahikawa, Hokkaido 070-8788, Japan
Tel. 0166-29-6800

Kushiro Office
Kearny Place, 13-2-5 Kita-odori, Kushiro,
Hokkaido 085-0015, Japan
Tel. 0154-32-2211

Sendai Branch
Sendai Aoba-dori Bldg. 1F, 3-3-5 Ichiban-cho,
Aoba-ku, Sendai, Miyagi 980-0811, Japan
Tel. 022-712-1560

Niigata Branch
Tachibana Bldg. 1F, 2-2-18 Higashi-odori,
Niigata, Niigata 950-0088, Japan
Tel. 025-243-1194

Akita Branch
Kearny Place Akita 1F, 3-4-1 O-machi, Akita,
Akita 010-0921, Japan
Tel. 018-867-7722

Aomori Office
Aomori Kyoeikasai Bldg. 4F, 1-25-3 Chuo,
Aomori, Aomori 030-0822, Japan
Tel. 017-774-2914

Yamagata Office
Kearny Place Yamagata 5F, 2-2-31 Kasumi-cho,
Yamagata, Yamagata 990-0039, Japan
Tel. 023-626-8455

Morioka Office
GE Edison Bldg. Saien 6F, 1-12-18 Saien,
Morioka, Iwate 020-0024, Japan
Tel.019-621-2288

Fukushima Office
Koriyama Domae Godo Bldg. 5F, 6-4 Domae-cho,
Koriyama, Fukuahima 963-8877, Japan
Tel. 024-995-3181

Utsunomiya Office
Kearny Place Utsunomiya Higashi-guchi 6F, 2-4-3
Higashi-Shukugo, Utsunomiya, Tochigi 321-0945,
Japan
Tel. 028-638-6201

Chiba Branch
Kearny Place Chiba 1F, 3-10-4 Chuo,
Chuo-ku, Chiba, Chiba 260-0013, Japan
Tel. 043-202-6760

Yokohama Branch
Toushin 24 Bldg. 5F, 2-20-5 Minami-saiwai,
Nishi-ku, Yokohama, Kanagawa 220-0005, Japan
Tel. 045-328-3380

Mito Branch
Mitominami-machi Daiichiseimei Bldg. 7F,
1-3-35 Minami-machi, Mito,
Ibaraki 310-0021, Japan
Tel. 029-226-7981

Kashiwa Office
Dai 12 Sekiguchi Bldg. 6F, 5-19 Suehiro-cho,
Kashiwa, Chiba 277-0842, Japan
Tel. 0471-41-5566

Ebina Office
Niko Bldg. 3F, 2-4-8 Chuo, Ebina,
Kanagawa 243-0432, Japan
Tel. 046-236-3360

Omiya Office
Mituiseimei Omiya Miya-machi Bldg. 2F,
2-96-1 Miya-machi, Omiyaku, Saitama,
Saitama 330-8020, Japan
Tel. 048-650-8282

Kawaguchi Office
Sumitomoseimei Kawaguchi Bldg. 4F,
4-3-2 Hon-cho, Kawaguchi,
Saitama 332-0012, Japan
Tel. 048-227-3422

Shibuya Office
Shibuya 3-chome Bldg. 5F, 3-18-4 Shibuya,
Shibuya-ku, Tokyo 150-0002, Japan
Tel. 03-5766-4080

Shinjuku Office
Reika Bldg. 7F, 1-29-4 Takadanobaba,
Shinjuku-ku, Tokyo 169-0075, Japan
Tel. 03-5292-2161

Tachikawa Office
Kikuya Kawaguchi Bldg. 6F, 2-9-1 Akebono-cho,
Tachikawa, Tokyo 190-0012, Japan
Tel.042-548-2080

Shinagawa Office
Shinagawa Seaside Forest Oval Garden Shop &
Restaurant 2F, 4-12-6 higashi-shinagawa,
Shinagawa-ku, Tokyo 140-0002, Japan
Tel. 03-5796-4780

Ikebukuro Office
Asahiseimei Ikebukuro Bldg. 4F,
1-25-2 Higashi Ikebukuro, Toshima-ku,
Tokyo 170-0013, Japan
Tel. 03-5960-4521

Funabashi Office
Taiyoseimei Funabashi Bldg. 7F,
2-27-25 Hon-machi, Funabashi,
Chiba 273-0005, Japan
Tel. 047-420-9290

Nagoya Branch
Sakura-dori Otsu Daiichiseimei Bldg. 1F,
3-4-6 Nishiki, Naka-ku, Nagoya,
Aichi 460-0003, Japan
Tel. 052-962-3111

Yokkaichi Branch
Jeck S Bldg. 5F, 1-2-27 Yasushima,
Yokkaichi, Mie 510-0075, Japan
Tel. 0593-55-3202

Matsuzaka Office
S.I Bldg. 2F, 7 Kyomachi Ikku, Matsuzaka,
Mie 515-0017, Japan
Tel. 0598-50-2500

Matsumoto Office
Chishindo Bldg. 3F, 2-3-17 Chuo, Matsumoto,
Nagano 390-0811, Japan
Tel. 0263-31-9388

Takasaki Office
Takasaki Daiichiseimei Bldg. 3F,
116-1 Ara-machi, Takasaki,
Gunma 370-0831, Japan
Tel. 027-320-6588

Okazaki Office
Mitsuisumitomokaijo Okazaki Bldg. 6F,
11-7 Karasawa-cho, Okazaki,
Aichi 444-0043, Japan
Tel. 0564-27-0055

Gifu Office
GE Edison Bldg. Gifu 4F, 1-1-5
Kanda-cho, Gifu,
Gifu 500-8833, Japan
Tel. 058-263-8131

Hamamatsu Office
Hamamatsu Tokyokaijo Bldg. 4F, 326-19 Tamachi,
Hamamatsu, Shizuoka 430-0944, Japan
Tel. 053-453-3117

Mishima Office
Arthur First Bldg. 9F, 18-22 Ichiban-cho,
Mishima, Shizuoka 411-0036, Japan
Tel. 055-991-1212

Otsu Office
Asahiseimei Otsu Bldg. 4F,
1-1-3 Hamaotsu, Otsu,
Shiga 520-0047, Japan
Tel. 077-511-6080

Osaka Branch
Shin-Yamamoto Bldg. 2F, 1-1-25 Dojima,
Kita-ku, Osaka, Osaka 530-0003, Japan
Tel. 06-4796-7400

Kyoto Branch
Taiyoseimei Kyoto-nishi Bldg. 3F,
41-73 Katsura Nozato-cho, Nishikyo-ku,
Kyoto, Kyoto 615-8073, Japan
Tel. 075-382-2650

Nara Office
Kintetsu Takama Bldg. 4F, 38-3 Takama-cho,
Nara, Nara 630-8241, Japan
Tel. 0742-25-3720

Sakai Office
Nankai Sakai Station Bldg. 3F,
3-22-1 Ebisujima-cho, Sakai,
Osaka 590-0985, Japan
Tel.072-223-1663

Kanazawa Office
2-42 Irie, Kanazawa, Ishikawa 921-8011, Japan
Tel. 076-292-0990

Toyama Office
Asahiseimei Toyama Bldg. 3F, 4-28 Shinsakura-
cho, Toyama, Toyama 930-0005, Japan
Tel. 076-439-7840

Himeji Branch
Minatoginko Daiichiseimei Kyodo Bldg. 4F,
24 Shirogane-cho, Himeji, Hyogo 670-0902, Japan
Tel. 0792-88-0921

Kobe Office
Sanada Bldg. 1F, 6-1-4 Miyuki-dori, Chuo-ku,
Kobe, Hyogo 651-0087, Japan
Tel. 078-261-8880

Hiroshima Branch
Komatsu Bldg. 2F, 2-7-7 Ote-machi, Naka-ku,
Hiroshima, Hiroshima 730-0051, Japan
Tel. 082-247-8330

Matsue Office
Sompo Japan Matsue Bldg. 6F,
549-1 Otesenba-cho, Matsue,
Shimane 690-0007, Japan
Tel. 0852-27-2868

Tottori Office
Hisamoto Bldg. 1F, 2-159 Tomiyasu, Tottori,
Tottori 680-0845, Japan
Tel. 0857-39-7230

Okayama Office
KE Bldg. 5F, 2-1-10 Shimoishii, Okayama,
Okayama 700-0907, Japan
Tel. 086-212-0351

Yamaguchi Office
2-28, Ginza, Syunan,
Yamaguchi 745-0032, Japan
Tel.0834-33-6130

Matsuyama Office
Mitsune Bldg. 5F, 7-13-13 Sanban-cho,
Matsuyama, Ehime 790-0003, Japan
Tel. 089-998-6825

Kochi Office
Ekimae-kanko Bldg. 1F, 5-1 Ekimae-cho, Kochi,
Kochi 780-0053, Japan
Tel. 088-878-8750

Tokushima Office
Tokushima Aobaseimei Bldg. 4F,
3-15 Yaoya-machi, Tokushima,
Tokushima 770-0841, Japan
Tel. 088-602-0133

Takamatsu Office
Takamatsu Center Bldg. 4F, 2-4-20 Kotobuki-cho,
Takamatsu, Kagawa 760-0023, Japan
Tel. 087-851-6780

Fukuoka Branch
Hakata Fukokuseimei Bldg.1F, 8-30 Tenya-cho,
Hakata-ku, Fukuoka, Fukuoka 812-0025, Japan
Tel. 092-282-8080

Nagasaki Office
Sasebo Meijiseimeikan 3F, 2-8 Miura-cho,
Sasebo, Nagasaki 857-0863, Japan
Tel. 0956-26-4101

Kumamoto Office
Sompo Japan Kumamoto Suido Bldg. 3F,
9-31 Suido-cho, Kumamoto 860-0844, Japan
Tel. 096-211-3020

Oita Office
Mitsuiseimei Oita Bldg. 4F, 2-9-24 Chuo-cho,
Oita, Oita 870-0035, Japan
Tel. 097-540-5651

Miyazaki Office
Miyazaki Fukokuseimei Bldg. 9F,
1-18-12 Hiroshima, Miyazaki,
Miyazaki 880-0806, Japan
Tel. 0985-62-0247

Okinawa Office
Tokyoseimei Naha Bldg. 1F,
1-19-27 Matsuo, Naha,
Okinawa 900-0014, Japan
Tel. 098-860-2032

Overseas Network

Hong Kong Branch
37th floor, The World Trade Center,
280 Gloucester Road, Causeway Bay,
Hong Kong, China
Tel. 852-2239-9888

Taipei Representative Office
Room F, 7F, No.87, Sung Chiang Road. Taipei,
Taiwan, R. O. C.
Tel. 02-2507-8800

Shanghai Representative Office
Room 1201, Hanzhong Plaza 158, Hanzhong
Road Shanghai, China
Tel. 021-6345-8303

Overseas Subsidiaries

AEON Credit Service (Asia) Co., Ltd.
37th Floor, The World Trade Center, 280
Gloucester Road, Causeway Bay,
Hong Kong, China
Tel. 852-2239-9888

AEON Thana Sinsap (Thailand) PLC.
1-2Floor, Serm-mit Tower,159 Asoke Road
(Sukhumvit21), Klongtoey, Nua Wattana,
Bangkok 10110 Thailand
Tel. 662-665-0123

AEON Credit Service (M) Sdn.Bhd.
20th Floor,Menara TH, Perdana 1001,
Jalan Sultan Ismail, 50250 Kuala Lumpur,
Malaysia
Tel. 603-2781-9966

AEON Credit Service (Taiwan) Co., Ltd.
Room F, 7F, No.87, Sung Chiang Road. Taipei,
Taiwan, R. O. C.
Tel. 02-2507-8800

AEON Credit Card (Taiwan) Co., Ltd.
Room F, 7F, No.87, Sung Chiang Road. Taipei,
Taiwan, R. O. C.
Tel. 02-2507-4001

AEON Information Service (Shenzhen) Co., Ltd.
Unit 211-218, Bldg. No.10, International
Commerce & Exhibition Center,
1001 Honghua Road, Futian Free Trade Zone,
China
Tel. 755-359-3631

ACS CAPITAL CORPORATION Ltd.
19th Floor, Serm-mit Tower,
159 Asoke Road(Sukhumvit 21), Klongtoey,
Bangkok 10110, Thailand
Tel. 662-665-0123

ÆON World Desk

1. Tokyo
Nishi-Shinbashi Bldg. 5F, 3-13-3 Nishi-
Shinbashi, Minato-ku, Tokyo, Japan
Tel. 03-3431-2393

2. Sapporo
Kita Sanjo Mitsui Bldg. 1F, 3 chome-1,
Kita Sanjo Nishi, Chuo-ku, Sapporo,
Hokkaido 060-0003, Japan
Tel. 011-222-8811

3. Sendai
Sendai Aoba-dori Bldg. 1F, 3-3-5 Ichiban-cho,
Aoba-ku, Sendai, Miyagi 980-0811, Japan
Tel. 022-712-1560

4. Niigata
Tachibana Bldg. 1F, 2-2-18 Higashi-odori,
Niigata, Niigata 950-0088, Japan
Tel. 025-243-1194

5. Osaka
Shin-Yamamoto Bldg. 2F, 1-1-25 Dojima,
Kita-ku, Osaka, Osaka 530-0003, Japan
Tel. 06-4796-7400

6. Fukuoka
Hakata Fukokuseimei Bldg. 1F, 8-30 Tenya-cho,
Hakata-ku, Fukuoka, Fukuoka 812-0025, Japan
Tel. 092-282-8080

7. New York
1325 Avenue of the Americas,
Suite 2001, New York, NY 10019 U.S.A.
Tel. 212-278-0114

8. Chicago
One Pierce Place, Suite 135c
Itasca, IL 60143 U.S.A.
Tel. 630-250-0972

9. Los Angeles
1000 Wilshire Boulevard, Suite 560,
Los Angeles, CA 90017 U.S.A.
Tel. 213-891-0025

10. San Francisco
1739 Buchanan Street Suite–B,
San Francisco, CA 94115 U.S.A.
Tel. 415-440-1834

11. Honolulu
The Waikiki Business Plaza, Suite 1400,
2270 Kalakaua Avenue
Honolulu, Hawaii 96815-2562 U.S.A.
Tel. 808-923-4345

12. Guam
Suite 201, New Photo Town Plaza 353
Chalan San-Antonio,
RD Tamuning Guam 96911
Tel. 671-646-4623

13. Saipan
Garapan Saipan M.P.96950 CNMI c/o
Hafadai Beach Hotel PDI Tour Desk
Tel. 670-322-8700

14. Vancouver
1030 West Georgia Street, Suite 1910
Vancouver, B.C. V6E 2Y3 Canada
Tel. 604-682-1469

15. Toronto
1550 Enterprise Road, Suite 210,
Mississauga, Ontario L4W 4P4 Canada
Tel. 905-670-7301

16. Amsterdam
Rivierstaete Bldg. 6th Floor, Amsteldijk 166,
1079 L H, Amsterdam Holland
Tel. 020-661-0763

17. Paris
10 Rue du Mont-Thabor, 75001 Paris, France
Tel. 01-4261-0157

18. London
2nd Floor, 12-14 Denman Street,
London WIV 7RE, United Kingdom
Tel. 020-7287-2799

19. Frankfurt
Carl-Theodor-Rheiffenstein-Plats 6,
60313 Frankfurt Main, Germany
Tel. 069-1381-0563

20. Madrid
Plaza de Espana, 18 Torre de Madrid,
Planta-13 Oficina-10, 28008 Madrid, Spain
Tel. 91-542-7719

21. Rome
Via Romagna 26, 00187 Rome, Italy
Tel. 06-482-2076

22. Wien
Opernring 1, Stiege E, 1 Stock,
1010, Wien Austria
Tel. 01-581-8148

23. Sydney
Level 30, Chifley Tower, 2 Chifley Square,
Sydney, N.S.W. 2000 Australia
Tel. 02-9221-7024

24. Gold Coast
Level 1 The Galleria 3221,
Gold Coast Highway Surfers,
Paradise, QLD 4217 Australia
Tel. 07-5531-6456

25. Cairns
Ground Floor, 35-41
Wharf Street Cairns, QLD 4870 Australia
Tel. 07-4031-1511

26. Melbourne
Level 6, 230 Collins Street,
Melbourne, Victoria 3000 Australia
Tel. 03-9654-8276

27. Auckland
Level 5, Phillips Fox Tower,
National Bank Center,
205-225 Queen Street,
Auckland 1, New Zealand
Tel. 09-357-3548

28. Singapore
391A Orchard Road. #09-01 Ngee Ann City
Tower A, Singapore 238873
Tel. 734-5123

29. Beijing
Room 711, Chang Fu Gong Center, Jian Guo
Men Wai 26 Dajie, Beijing, China
Tel. 010-6513-7062

30. Seoul
Sehan Bldg. 1F, 27-1, Supyo-Dong,
Chongro-Ku, Seoul, Korea
Tel. 02-733-5201

31. Taipei
Yi-chin Bldg. 7th Floor No.93 Sec. 1,
Shin-Shen S. Road Taipei, Taiwan
Tel. 02-8773-9376

32. Bangkok
4th Floor, C.P. Tower 313 Silom Road,
Bankruk, Bangkok 10500, Thailand
Tel. 02-238-2130~2134

33. Hong Kong
No.3 G/F, BCC Bldg., 25-31 Carnarvon Road,
Tsimsha Tsui, Kowloon, Hong Kong, China
Tel. 852-2732-2066

34. Kuala Lumpur
D.3, Block.D, MEZZ-Floor K.L. Plaza,
Jalan Bukit bintang, 55100
Kuala Lumpur, Malaysia
Tel. 03-2162-7708

Major Group Companies

GENERAL MERCHANDISE STORES (GMS)

ÆON Co., Ltd.
***Kyushu JUSCO Co., Ltd.**
***Jaya JUSCO Stores Bhd.**
***JUSCO Stores (Hong Kong) Co., Ltd.**
*Ryukyu JUSCO Co., Ltd.
*Siam JUSCO Co., Ltd.
*Guangdong JUSCO Teem Stores Co., Ltd.
*Qingdao Dongtai JUSCO Co., Ltd.
*Shenzhen JUSCO Friendship Stores Co., Ltd.

SUPERMARKETS

***Maxvalu Hokkaido Co., Ltd.**
***Maxvalu Tohoku Co., Ltd.**
Maxvalu Chubu Co., Ltd.
***Maxvalu Nishinihon Co., Ltd.**
*Maxvalu Tokai Co., Ltd.
*Maxvalu Kyushu Co., Ltd.
*Hallo Co., Ltd.
*Nishikyushu Well Mart Co., Ltd.

HOME CENTERS

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.**
*Talbots Japan Co., Ltd.
*Laura Ashley Japan Co., Ltd.
*ÆON Forest Co., Ltd.
*Mega Sports Co., Ltd.
Claire's Nippon Co., Ltd.
*Nustep Co., Ltd.
*Abilities JUSCO Co., Ltd.
*Book Bahn Co., Ltd.
*Petcity Co., Ltd.
Kojima Co., Ltd.
*Mega Petro Co., Ltd.

DRUGSTORES

Kraft Inc.
Medical Ikkou Co., Ltd.
Drug Eleven Co., Ltd.
*Takiya Co., Ltd.
Welpark Co., Ltd.
Hac Kimisawa Co., Ltd.
Green Cross･Coa Co., Ltd.
Iino Co., Ltd.

SC DEVELOPMENT OPERATIONS

Diamond City Co., Ltd.
***ÆON Mall Co., Ltd.**
Diamond Family Co., Ltd.
LOC Development Co., Ltd.

FINANCIAL SERVICES

***ÆON Credit Service Co., Ltd.**
***AEON Credit Service (Asia) Co., Ltd.**
***AEON Thana Sinsap (Thailand) Plc.**
*AEON Credit Service (M) Sdn. Bhd.
*AEON Credit Service (Taiwan) Co., Ltd.
*AEON Credit Card (Taiwan) Co., Ltd.

SERVICES

***ÆON Fantasy Co., Ltd.**
*Jusvel Co., Ltd.
*Reform Studio Co., Ltd.
*Zwei Co., Ltd.
*ÆON Techno Service Co., Ltd.
*ÆON Cinemas Co., Ltd.
*Quality Control Center Co., Ltd.

FOOD SERVICES

*Gourmet D'Or 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.

E-COMMERCE BUSINESS

*AEON Visty Co., Ltd.

**Consolidated subsidiaries.*
Listed companies are shown in bold.

•ÆON 1% Club
•ÆON Environment Foundation
•The Cultural Foundation of Okada

Shareholder Information (as of February 20, 2003)

Head Office
Kanda Mitoshiro-cho 1, Chiyoda-ku, Tokyo 101-8445, Japan
Tel: 81-3-5281-2030
Fax: 81-3-5281-2020
Homepage: http://www.aeoncredit.co.jp

Capital Stock
¥15,466,500,000 (52,322,336 shares)

Shareholders' Meeting
May 13, 2003

Stock Exchange Listing
Tokyo Stock Exchange (Securities code: 8570)

Transfer Agent
Mizuho Trust & Banking Co., Ltd.
5-1, 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

Planting Seeds of Growth
We are ÆON

ÆON CREDIT SERVICE CO., LTD.
Kanda Mitoshiro-cho 1, Chiyoda-ku, Tokyo
Telephone: +81-3-5281-2030

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