



# Annual Report 2008

AEON CREDIT SERVICE CO., LTD.



AEON CREDIT SERVICE CO., LTD.

# Supporting cardholders' lifestyles and maximizing future opportunities through effective use of credit

The unchanging corporate mission of AEON CREDIT SERVICE CO., LTD., is to constantly benefit its cardholders through quality financial services. As a reflection of this, we have included “AEON”—the Latin word for eternity—in our corporate name. In Japan and the rest of Asia, our management philosophy is to “support cardholders’ lifestyles and enable each individual to maximize future opportunities through effective use of credit.” To this end, we provide carefully tailored financial services by paying special attention to cardholders’ needs. We also seek to earn cardholder trust by striving hard to raise standards of corporate behavior in the financial services industry, adhering to a strict code of corporate ethics and engaging in activities that conserve the environment and contribute to society.

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### Forward-Looking Statements

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



# To Our Stakeholders



Yoshiki Mori  
Chairman

Kazuhide Kamitani  
President

## Fiscal 2007 Performance

In fiscal 2007, ended February 20, 2008, AEON CREDIT SERVICE CO., LTD., achieved significant growth in its consolidated cardmember base, marking an increase of 1.17 million, to 18.39 million. This expansion substantiates the success of strategies designed to attract cardmembers, particularly sign-up campaigns timed with new store openings by alliance partners at home and abroad and progress in the development of additional co-branded cards.

In our domestic credit card business, we worked to boost interest in co-branded cards, such as COSMO THE CARD Opus, and promoted credit cards that feature electronic money—or e-money—capabilities as an alternative settlement method. Consistent implementation of measures to cut costs undoubtedly buoyed results from operations in Japan, but income opportunities were eroded by challenges in our home market, namely the impact of a lower upper limit on interest rates and sluggish lending-related trading volume paralleling partial implementation of a tighter Money Lending Business Control and Regulation Law (Money Lending Business Law).

Meanwhile, in the overseas credit card business, which is a noteworthy feature of our operations, we steadily broadened our scope of activity, highlighted by the listing of our subsidiary in Malaysia on the local stock exchange, the establishment of servicer operations in Thailand, and the start of the credit guarantee business in China.

Reflecting these developments, total trading volume rose 11.0% over fiscal 2006, to ¥2,757 billion, on a consolidated basis, while total operating revenues inched up 4.4%, to ¥181,076 million, of which non-consolidated operating revenues accounted for ¥121,530 million, or 2.9% less than in fiscal 2006. Higher operating expenses, fueled by

investment in new businesses, squeezed operating income to ¥32,863 million, down 19.8%. Ordinary income fell by almost the same amount—19.5%—to ¥33,014 million. Net income settled at ¥17,653 million, down 14.3% from a year earlier.

## Fiscal 2008 Plans

The challenges that characterize the nonbank finance sector, to which AEON CREDIT SERVICE belongs, are likely to persist, owing to cooler domestic business climate and promulgation of the Money Lending Business Law. However, as settlement methods diversify, away from cash in favor of credit and e-money, the credit industry, including the sector that deals with small settlement amounts, will probably continue to grow. Therefore, we remain fully committed to the credit card business and will prioritize the development of services fine tuned to local requirements and featuring excellence in terms of distribution, that is, proximity to clients.

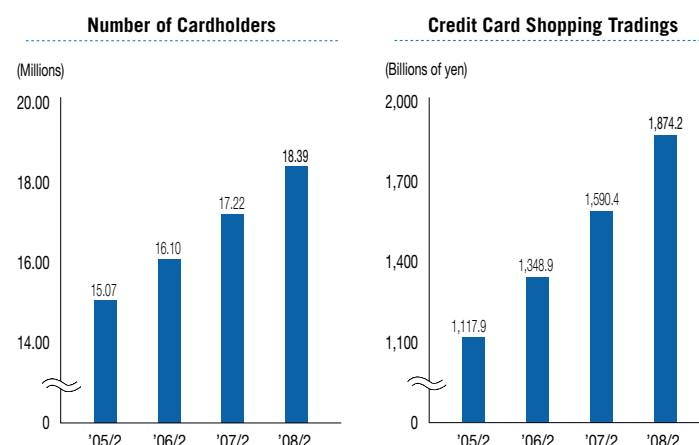
Measures to realign the profit structure are important, so we will continue to cultivate and reinforce not only the insurance agency and servicer businesses but also fee businesses, especially the new fields of e-money, gift card, bank agency and credit guarantee operations.

Overseas, our goal is to attract more cardmembers, while promoting credit-peripheral businesses, such as the insurance agency and servicer businesses, and establishing a presence in new markets where the prospect for economic expansion remains outstanding. These strategies will underpin corporate growth for the AEON CREDIT SERVICE Group.

Our outlook for consolidated performance in fiscal 2008, ending February 20, 2009, has operating revenue reaching ¥185.8 billion, up 2.6% year-on-year. Operating income may only rise 0.4%, to ¥33 billion, but it will still be an improvement over fiscal 2007. We are aiming for a payout ratio of 40%, based on annual dividends of ¥40 per share.

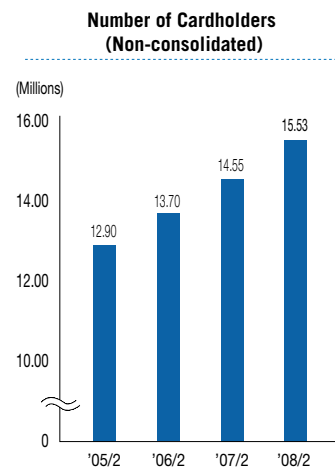
Consumers have taken a more proactive view of corporate social responsibility. In response, we have reinforced corporate governance and are actively engaged in environmental protection and social contribution programs, including measures to prevent global warming through reduced carbon dioxide emissions.

On behalf of the Board of Directors, we hope that you, our stakeholders—a term that encompasses not only shareholders, business partners and employees but also the communities in which we maintain a presence—will continue to support the Company and the Group. Your encouragement is integral to our success.



# Domestic Activities

True customer satisfaction is our goal. To achieve this, we always lend an ear to comments from cardmembers to enhance the financial services we offer in our credit card business and other operations.



### Expanding the Cardmember Base

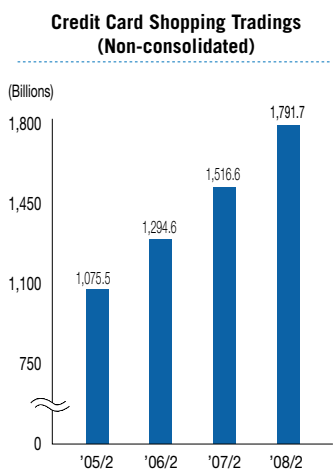
To cultivate new demand segments, targeting men, young adults and residents in the Tokyo metropolitan area, and thereby address the diversified requirements of our customers, we teamed up with Shimamura Music Co., Ltd., Kinki Nippon Tourist Co., Ltd., and MITSUBISHI SHOJI SEKIYU CO., LTD., on co-branded cards, and issued additional cards, including the AEON JMB CARD, in cooperation with Japan Airlines Corporation that accumulates JAL mileage points when the credit card is used.

As a result, AEON CREDIT SERVICE posted a non-consolidated net increase of approximately 980,000 cardmembers, which brought the total of effective cardmembers to 15.53 million.

### Raising Card Use Rate

To improve the card use rate—an indicator of card usage during a given year—we launched cards with enhanced convenience, such as the combination AEON CARD and e-money WAON CARD, encouraged more affiliated merchants to accept utility bills and bills from medical institutions, and issued a no-annual-fee AEON GOLD CARD to cardmembers whose annual card usage exceeds ¥1 million.

Through these efforts, AEON CREDIT SERVICE registered a net increase of approximately 840,000 active cardmembers, for a total of 9.14 million clients who used their cards at least once during the fiscal year in review. The card use rate—average total active cardholders at the beginning and end of the fiscal year as a percentage of total cardholders—improved 2.0 percentage points, to 60.8%. The volume of credit card shopping tradings jumped 18.1%, to ¥1,791.7 billion, on a non-consolidated basis.



### Boosting Profitability

To respond appropriately to gradual enforcement of the new Money Lending Business Law, we lowered the effective annual interest rate on cashing services to 18.0%. Then, seeking to cover the anticipated drop in revenue, we prioritized higher profits from credit card shopping and promoted revolving repayment through the AEON Smart Pay CARD, a card specifically for revolving payments.

The balance of revolving payments on credit card shopping settled at ¥81,405 million, up 28.2% over fiscal 2006.

### New Sources of Revenue

Exploring new sources of revenue, AEON CREDIT SERVICE made a full-scale entry into the e-money business in April 2007 with WAON. The number of merchants accepting WAON has grown to approximately 24,000. Wider acceptance of the card has made it more convenient to use, and now the cumulative number of cards issued stands at 3.8 million.

On March 1, 2008, we began entrusting the e-money business to companies outside the Group to complement acquiring operations within the Group. We also obtained the credit card industry's first bank agency license, and launched operations by opening accounts for AEON Bank, which commenced operations in October 2007.



E-money WAON

### Reinforcing the Financial Position

To hedge against the risk of higher interest rates, AEON CREDIT SERVICE issued five-year unsecured straight bonds worth ¥20 billion in July 2007. This cash inflow sustains the Company's long-term borrowing ratio at 70% and provides against future interest rate increases.

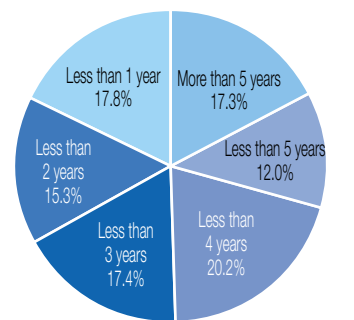
Amid operating challenges, exemplified by lackluster business conditions and repercussions from the Money Lending Business Law, the Company's business expansion prospects and financial stability are still regarded highly, from a perspective of long-term sustainability. This status is substantiated by A+ ratings from Rating & Investment Information, Inc., and Japan Credit Rating Agency, Ltd.



AEON Insurance service counter

### Long-Term Debt Duration

As of February 20, 2008

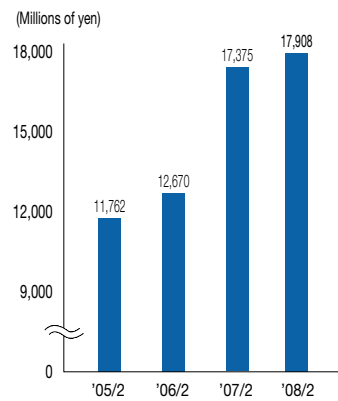


# Overseas Activities

Our business activities are not limited to Japan and extend to customers in China, Thailand, Malaysia, Taiwan and Indonesia. We have earned a solid reputation overseas as a company that takes a global perspective in the presentation of services tailored to cardmember lifestyles.



**Operating Revenues of AEON CREDIT SERVICE (ASIA)**



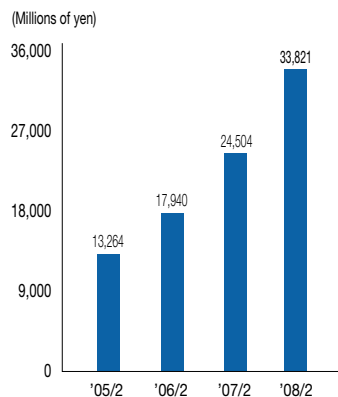
## China

Hong Kong-based AEON CREDIT SERVICE (ASIA) CO., LTD., the Company's first overseas subsidiary, celebrated its 20th anniversary in 2007. The subsidiary, which has been listed on the Hong Kong Stock Exchange since September 1995, maintains a 24-branch network, and actively develops co-branded cards and pursues promotional activities with alliance partners. Efforts in fiscal 2007 were rewarded with continued growth, substantiated by a net increase of approximately 60,000 in the local cardmember base, to 1.01 million, as of February 2008, and a 5.0% improvement in operating revenues, to ¥17,908 million (HK\$1,205 million).

In a first among Japanese credit card companies, AEON CREDIT SERVICE acquired a license from the Beijing Administration for Industry and Commerce in 2006 that enabled the Company to begin credit guarantee services in China. With this license in hand, the Company established AEON CREDIT GUARANTEE (CHINA) CO., LTD., in Beijing, in August 2006, and is utilizing its alliance with the Bank of Communications Co., Ltd., to offer installment-style guarantee services. The Bank of Communications is the fifth largest bank in China in terms of asset scale.

AEON INFORMATION SERVICE (SHENZHEN) CO., LTD., established a new base in Guangzhou, in June 2007, to undertake credit screening, debt collection and call center operations. Efforts are now being directed toward laying a business foundation that will support credit card operations.

**Operating Revenues of AEON THANA SINSAP (THAILAND)**



## Thailand

AEON THANA SINSAP (THAILAND) PLC., the Company's second overseas subsidiary, was established in 1992 and listed on the Stock Exchange of Thailand in December 2001. The subsidiary has steadily expanded its business activities and as of February 2008 maintained an 80-branch network, four more locations than at the end of fiscal 2006.

An ongoing emphasis at AEON THANA SINSAP is to reinforce its cardmember base, primarily by issuing more co-branded cards with airline companies and mobile phone service providers as well as by issuing the AEON GOLD CARD to cardmembers with particularly good credit histories. In fiscal 2007, these efforts underpinned an increase of approximately 110,000 cardmembers, for a base of 1.65 million, as of February 2008, and delivered a 17.0% jump in operating revenues, to ¥33,821 million (THB9,262 million).

In the area of new businesses, AEON CREDIT SERVICE is working to expand credit-peripheral activities. To complement the non-life insurance agency business, which utilizes the office network and cardmember base of the credit card business, the Company is pursuing full-scale development of the life insurance agency business, which is expected to benefit from rapidly expanding demand for insurance in Thailand.

In addition, ACS SERVICING (THAILAND) CO., LTD., was established in March 2007 to engage in the servicer business, and the scope of activities in the leasing business, primarily automobile leasing to corporate clients, continues to evolve.

AEON CREDIT SERVICE is building a four-point administrative center structure to better control the widening scope of its business activities and to serve as backup in the event of disaster.

## Malaysia

AEON CREDIT SERVICE (M) BERHAD, the Company's third overseas subsidiary, was established in 1997 and listed on the Bursa Malaysia in December 2007. The subsidiary has steadily expanded its operations, primarily by boosting its cardmember base through alliances with local businesses and by installing the first non-bank-operated automated teller machine network in the country. Sign-up activities in fiscal 2007 added about 20,000 cardmembers to the local client base, for a total of about 90,000 as of February 2008. Operating revenues climbed 33.0%, to ¥6,411 million (MY\$187 million).

To diversify fund-procurement methods in anticipation of further business growth, AEON CREDIT SERVICE (M) implemented a fund-procurement system in the Islamic lending style—a first among companies with Japanese roots.

AEON CREDIT SERVICE (M) constantly strives to encourage greater use of its credit cards and to grow its cardmember base. Toward this end, the subsidiary identified cardmembers with excellent credit histories and began issuing the AEON GOLD CARD to eligible clients, and also introduced the Touch'n Go Card, a co-branded card issued in association with transportation providers that can be used to pay for highway tolls and train and bus fares.

## Taiwan

In the hire purchase business, AEON CREDIT SERVICE (TAIWAN) broadened its affiliated merchant network, including major electric home appliance distributors. Trading volume continued to improve, underpinned by the implementation of joint proposals with alliance partners.

AEON CREDIT CARD (TAIWAN) was the first Japan-affiliated non-bank to acquire a local credit card issuing license, in 2002, launching the Company's credit card business in Taiwan. Despite concerted efforts to develop co-branded cards with major shopping centers and energetic sign-up campaigns at affiliated merchant stores the cardmember base stayed more or less even, at around 110,000.

## Indonesia

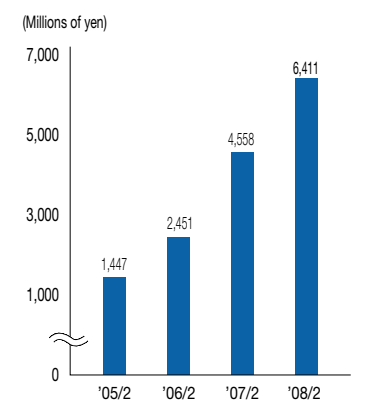
PT. AEON CREDIT SERVICE INDONESIA, established in May 2006, draws on the credit card expertise accumulated by companies under the AEON CREDIT SERVICE Group umbrella in Japan and other parts of Asia to promote its hire purchase business. Local operations focus on hire purchase contracts for consumer electronics and furniture.

Through energetic marketing activities, the subsidiary has built a network of some 1,200 affiliated merchants. Seeking to complement this network with a solid client base to support the start of credit card operations, the subsidiary began issuing membership cards to hire purchase clients.

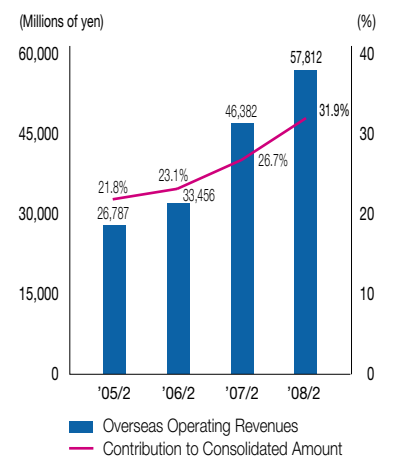
## Vietnam

After the close of fiscal 2007 books, in June 2008, AEON CREDIT SERVICE established ACS TRADING VIETNAM CO., LTD., in Ho Chi Minh City. This subsidiary is the first Japanese-affiliated company to engage in the retail sales business by installment payment in this country.

**Operating Revenues of AEON CREDIT SERVICE (M) BERHAD**



**Overseas Operating Revenues and Contribution to Consolidated Amount**



## Board of Directors and Auditors

(As of May 13, 2008)

### Directors



Chairman  
Yoshiki Mori



President  
Kazuhide Kamitani



Managing Director  
Kazuhiko Kawata



Managing Director  
Tatsuya Saito



Managing Director  
Takashi Kiyonaga



Managing Director  
Masamichi Kamiyama



Director  
Yasuhiko Kondo



Director  
Kiyoaki Takano



Director  
Yoshitaka Yamada



Director  
Mitsugu Tamai



Director  
Kiyoyasu Asanuma



Director  
Takatoshi Ikenishi

### Auditors



Corporate Auditor  
Hisateru Taniuchi



Auditor  
Hiroyasu Sugihara



Auditor  
Nobuo Hitomi



Auditor  
Hideki Wakabayashi

Auditors are all external auditors, in compliance with the requirements of Item 16, Article 2, of the Corporate Law.

## Five-Year Summary

AEON Credit Service Co., Ltd. and Subsidiaries  
Years Ended February 20

	Millions of Yen					Thousands of U.S. Dollars <sup>1</sup>
	2008	2007	2006	2005	2004	2008
<b>For the Year:</b>						
Total operating revenues	<b>¥181,076</b>	¥173,482	¥144,751	¥122,811	¥109,389	<b>\$1,676,630</b>
Total operating expenses	<b>148,213</b>	132,526	104,520	87,841	78,886	<b>1,372,341</b>
Income before income taxes and minority interests	<b>34,327</b>	38,265	38,655	34,867	30,292	<b>317,847</b>
Net income	<b>17,653</b>	20,592	21,262	18,684	16,179	<b>163,455</b>
<hr/>						
						U.S. Dollars <sup>1</sup>
<b>Per Share Data<sup>2</sup>:</b>						
Net assets	<b>¥1,040.97</b>	¥991.07	¥883.44	¥748.31	¥647.70	<b>\$9.64</b>
Basic net income	<b>112.52</b>	131.23	135.07	118.70	102.75	<b>\$1.04</b>
<hr/>						
						Thousands of U.S. Dollars <sup>1</sup>
<b>At Year-End:</b>						
Finance receivables—net of allowance for possible credit losses	<b>¥743,160</b>	¥721,551	¥602,873	¥485,897	¥402,074	<b>\$6,881,114</b>
Net property and equipment	<b>9,843</b>	8,037	6,374	5,404	5,455	<b>91,140</b>
Total assets	<b>862,061</b>	834,254	689,357	562,094	465,720	<b>7,982,050</b>
Total liabilities	<b>678,724</b>	661,643	535,472	432,747	353,837	<b>6,284,487</b>
Equity <sup>3</sup>	<b>183,337</b>	172,611	138,691	117,480	101,695	<b>1,697,563</b>
<hr/>						
						Percentage
<b>Ratios:</b>						
Equity ratio	<b>18.9%</b>	18.6%	20.1%	20.9%	21.8%	
Return on assets (ROA)	<b>2.1</b>	2.7	3.4	3.6	3.6	
Return on equity (ROE)	<b>11.1</b>	14.0	16.6	17.0	17.0	

1. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥108 to U.S.\$1, the approximate rate of exchange on February 20, 2008. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. On February 21, 2006, the Company made a stock split by way of a free share distribution at the rate of 3 shares for each outstanding share. Each figure included in Per Share Data was retroactively adjusted for the stock split.

3. According to a new accounting standard for presentation of equity, which is effective for fiscal years ending on or after May 1, 2006, stock acquisition rights, minority interests and any deferred gain or loss on derivatives under hedge accounting are now presented as components of equity. Accordingly the amount of equity as of February 20, 2008 and 2007 is not directly comparable to shareholders' equity of prior years, stated above.

# Financial Review

AEON Credit Service Co., Ltd. and Subsidiaries  
Years Ended February 20, 2008 and 2007

## RESULTS OF OPERATIONS

	Millions of Yen			
	2008	2007	Amount Change	Percentage Change
<b>Operating revenues:</b>				
Credit card contracts	¥ 47,330	¥ 39,776	¥ 7,554	19.0%
Hire purchase contracts	9,753	7,531	2,222	29.5
Loan contracts	114,300	118,207	(3,907)	(3.3)
Service fees	1,210	1,922	(712)	(37.0)
Other operating revenues	8,483	6,046	2,437	40.3
<b>Total operating revenues</b>	<b>¥181,076</b>	<b>¥173,482</b>	<b>¥ 7,594</b>	<b>4.4%</b>
<b>Operating expenses:</b>				
Financial costs	¥ 14,645	¥ 11,409	¥ 3,236	28.4%
Provision for possible credit losses and write-off of bad debts	42,569	40,449	2,120	5.2
Other operating expenses	90,999	80,668	10,331	12.8
<b>Total operating expenses</b>	<b>148,213</b>	<b>132,526</b>	<b>15,687</b>	<b>11.8</b>
<b>Operating income</b>	<b>¥ 32,863</b>	<b>¥ 40,956</b>	<b>¥ (8,093)</b>	<b>(19.8)%</b>

### Fiscal Summary

At home and abroad in the fiscal year ended February 20, 2008, AEON Credit Service worked to expand its cardmember base, paralleling the opening of stores by alliance partners, and promoted the development of additional co-branded cards. These efforts were rewarded with a net increase of 1.17 million cardmembers, to 18.39 million, on a consolidated basis.

In the domestic credit card business, the Company endeavored to encourage wider acceptance of its own Aeon Card and co-branded cards, such as Cosmo the Card Opus, and issued cards combined with electronic money, commonly referred to as e-money, as an alternative way to pay for products and services. Energy was also channeled into cost cutting, primarily through the consolidation of offices and the removal of cash dispensers in some locations. But the operating environment was very challenging, and the impact of a lower upper limit on interest rates

and a drop in loan-related transaction volume, owing to the Money Lending Business Control and Regulation Law, eroded revenue potential.

An ongoing objective for domestic subsidiaries was expansion of credit-peripheral businesses, particularly insurance agency services and servicer operations, which reinforce business outsourcing of public utility charges.

Meanwhile, overseas, the Company's presence continued to grow, highlighted by a stock listing for its subsidiary in Malaysia, the start of the credit guarantee business in China, and the establishment of servicer operations in Thailand.

All told, consolidated total transaction volume rose 11.0% year-on-year, to ¥2,757 billion, and total operating revenues inched up 4.4%, to ¥181,076 million. Operating income fell 19.8%, to ¥32,863 million, and net income retreated 14.3%, to ¥17,653 million.

## Transaction volume

	Millions of Yen			
	2008	2007	Amount Change	Percentage Change
Credit card contracts	¥1,874,220	¥1,590,445	¥283,775	17.8%
Hire purchase contracts	53,598	44,360	9,238	20.8
Loan contracts	694,899	695,016	(117)	(0.0)
Service fees	89,705	141,751	(52,046)	(36.7)
Other transaction volume	44,304	18,455	25,849	140.1
<b>Total transaction volume</b>	<b>¥2,756,726</b>	<b>¥2,490,027</b>	<b>¥266,699</b>	<b>10.7%</b>

Consolidated total transaction volume climbed 10.7%, or ¥266,699 million, reflecting a 17.8%, or ¥283,775, rise in credit card contracts transaction volume. The rise was attributable to a steady growth of cardmembers and an improvement in the card-usage rates.

The Company expects payment agency services, mainly the e-money service, to expand. Therefore, the e-money transaction volume which was not disclosed in the Annual Report 2007 is included in "Other transaction volume" of the above table for both fiscal year 2008 and 2007.

## Finance receivables

	Millions of Yen			
	2008	2007	Amount Change	Percentage Change
Installment sales receivables:				
Credit card contracts	¥248,229	¥229,253	¥18,976	8.3%
Hire purchase contracts	39,106	31,538	7,568	24.0
<b>Subtotal</b>	<b>287,335</b>	<b>260,791</b>	<b>26,544</b>	<b>10.2</b>
Operating loans receivables	503,721	500,950	2,771	0.6
Allowance for possible credit losses	(47,896)	(40,190)	(7,706)	(19.2)
<b>Total finance receivables</b>	<b>¥743,160</b>	<b>¥721,551</b>	<b>¥21,609</b>	<b>3.0%</b>

Consolidated total finance receivables increased ¥21,609 million. A significant factor is a 24.0%, or ¥7,568 million, increase of hire purchase contracts mainly overseas.

## Operating revenues

	Millions of Yen			
	2008	2007	Amount Change	Percentage Change
Credit card contracts	¥ 47,330	¥ 39,776	¥ 7,554	19.0%
Hire purchase contracts	9,753	7,531	2,222	29.5
Loan contracts	114,300	118,207	(3,907)	(3.3)
Service fees	1,210	1,922	(712)	(37.0)
Other operating revenues	8,483	6,046	2,437	40.3
<b>Total operating revenues</b>	<b>¥181,076</b>	<b>¥173,482</b>	<b>¥ 7,594</b>	<b>4.4%</b>

On a consolidated basis, total operating revenues grew ¥7,594 million, over the year ended February 20, 2007, as a 19.0%, or ¥7,554 million, increase in revenues from credit card contracts more than compensated for a 3.3%, or ¥3,907 million, decrease in revenues from loan contracts.

Higher credit card contract revenues reflect a wider cardmember base and a larger pool of active cardmembers. This positive shift parallels efforts to utilize the opening of stores by alliance partners to attract new interest in AEON and other credit cards and to promote additional co-branded cards, as well as a commitment to

incorporate member feedback in services that enhance card convenience. A prime example of how the Company listens to cardmembers' comments is the payment service for utility and medical bills, made possible by having more merchants in the network that accept credit cards for these purposes. Higher transaction volume also underpinned higher credit card contract revenues.

The drop in loan contract revenues is mainly because the upper limit on the effective annual rate applied to cashing services in Japan fell to 18.0%.

## Operating expenses

	Millions of Yen			
	2008	2007	Amount Change	Percentage Change
Financial costs	¥ 14,645	¥ 11,409	¥ 3,236	28.4%
Provision for possible credit losses and write-off of bad debts	42,569	40,449	2,120	5.2
Other operating expenses	90,999	80,668	10,331	12.8
<b>Total operating expenses</b>	<b>¥148,213</b>	<b>¥132,526</b>	<b>¥15,687</b>	<b>11.8%</b>

On a consolidated basis, total operating expenses climbed 11.8%, or ¥15,687 million. This change is largely comprised of increases of ¥2,596 million to provision for possible credit losses, ¥1,720 million to provision for loss on refund of interest received, ¥979 million in sales promotion expenses, including advertising and provision for the point program, ¥1,669 million in salaries and benefits, and ¥3,236 million in financial costs.

The primary reason for the increase in provision for possible credit losses was because a higher credit loan balance necessitated a deeper reserve.

The main reason for the increase in provision for loss on

refund of interest received was to allocate a reserve for the return of interest overpayments in the future.

Higher sales promotion expenses, including advertising and provision for the point program, are chiefly due to an increase in promotional materials in line with an expanding cardmember base.

The rise in salaries and benefits is primarily because the Company's expanding scope of business activities required the hiring of more employees.

The change in financial costs was principally caused by higher fund procurement, prompted by vigorous demand for funds from cardmembers in Japan and overseas.

## CASH FLOWS

Net cash used in operating activities dropped 89.0%, to ¥7,094 million, despite a ¥83,349 million increase in finance receivables, paralleling favorable expansion of transaction volume in the credit card business at home and abroad, because of inflow from income before income taxes and minority interests and higher accounts payable.

Net cash used in investing activities decreased 13.0%, to ¥8,768 million. Cash was applied to new businesses and new profit-generating opportunities as well as continued investment in next-generation systems to match an expanding cardmember base.

Net cash provided by financing activities tumbled 91.9%, to ¥6,434 million, despite fund procurement, totaling ¥114,928 million, through the issuance of unsecured straight bonds and long-term debt to ensure stable funding for operating activities and offset the risk of rising interest rates, because the Company redeemed commercial paper and retired long-term debt.

Consequently, cash and cash equivalents at February 20, 2008, amounted to ¥15,754 million, down 39.1%, or ¥10,116 million, from a year earlier.

## BUSINESS PERFORMANCE BY GEOGRAPHIC AREA

### Total assets and total operating revenues by geographic area

	Millions of Yen			
	2008	2007	Amount Change	Percentage Change
<b>Total assets:</b>				
Domestic	¥656,069	¥640,282	¥15,787	2.5%
Overseas	216,198	203,746	12,452	6.1
Elimination/Corporate	(10,206)	(9,774)		
<b>Total assets</b>	<b>¥862,061</b>	<b>¥834,254</b>	<b>¥27,807</b>	<b>3.3%</b>
<b>Operating revenues:</b>				
Domestic	¥123,263	¥127,100	¥ (3,837)	(3.0)%
Overseas	57,813	46,382	11,431	24.6
<b>Total operating revenues</b>	<b>¥181,076</b>	<b>¥173,482</b>	<b>¥ 7,594</b>	<b>4.4%</b>



## Consolidated Balance Sheets

AEON Credit Service Co., Ltd. and Subsidiaries  
February 20, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	¥ 15,754	¥ 25,870	\$ 145,866
Finance receivables—net of allowance for possible credit losses (Note 4)	743,160	721,551	6,881,114
Deferred tax assets (Note 10)	16,549	14,679	153,235
Prepaid expenses and other current assets	34,359	28,237	318,139
Total current assets	809,822	790,337	7,498,354
Property and equipment:			
Structures	2,760	2,507	25,553
Vehicles	2,759	991	25,547
Equipment	18,951	21,553	175,477
Total	24,470	25,051	226,577
Accumulated depreciation	(14,627)	(17,014)	(135,437)
Net property and equipment	9,843	8,037	91,140
Investments and other assets:			
Investment securities (Note 3)	22,941	20,350	212,419
Investments in associated companies	112	73	1,033
Software	8,089	7,527	74,900
Deferred tax assets (Note 10)	1,210	61	11,202
Guarantee money deposits	3,190	3,289	29,537
Deferred charges	196	116	1,816
Long-term prepaid expenses	6,546	4,135	60,609
Other assets	112	329	1,040
Total investments and other assets	42,396	35,880	392,556
<b>TOTAL</b>	<b>¥862,061</b>	<b>¥834,254</b>	<b>\$7,982,050</b>
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Accounts payable (Note 15)	¥ 89,728	¥ 68,198	\$ 830,816
Short-term borrowings (Note 5)	27,787	34,019	257,288
Commercial paper (Note 5)	659		6,103
Current portion of long-term debt (Note 5)	98,697	98,478	913,863
Accrued expenses	4,169	3,822	38,604
Allowance for the point program	3,287	2,748	30,438
Deferred revenue	353	811	3,267
Accrued income taxes	3,398	11,463	31,458
Other current liabilities	2,964	2,290	27,449
Total current liabilities	231,042	221,829	2,139,286
Long-term liabilities:			
Long-term debt (Note 5)	435,964	428,358	4,036,702
Deferred tax liabilities (Note 10)	433	823	4,012
Allowance for loss on refund of interest received	8,541	6,990	79,083
Other liabilities	2,744	3,643	25,404
Total long-term liabilities	447,682	439,814	4,145,201
Equity (Note 7):			
Common stock—authorized, 540,000,000 shares; issued, 156,967,008 shares in 2008 and 2007	15,467	15,467	143,208
Capital surplus	17,053	17,053	157,900
Retained earnings	126,647	115,270	1,172,656
Unrealized gain on available-for-sale securities	4,356	5,750	40,333
Deferred loss on derivatives under hedge accounting	(339)	(43)	(3,136)
Foreign currency translation adjustments	297	2,105	2,751
Treasury stock—at cost, 130,405 shares in 2008 and 52,769 shares in 2007	(218)	(90)	(2,022)
Total	163,263	155,512	1,511,690
Minority interests (Note 2-m)	20,074	17,099	185,873
Total equity	183,337	172,611	1,697,563
<b>TOTAL</b>	<b>¥862,061</b>	<b>¥834,254</b>	<b>\$7,982,050</b>

See notes to consolidated financial statements.

## Consolidated Statements of Income

AEON Credit Service Co., Ltd. and Subsidiaries  
Years Ended February 20, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
<b>Operating revenues</b> (Notes 4 and 15):			
Credit card contracts	¥ 47,330	¥ 39,776	\$ 438,242
Hire purchase contracts	9,753	7,531	90,302
Loan contracts	114,300	118,207	1,058,337
Service fees	1,210	1,922	11,202
Other operating revenues	8,483	6,046	78,547
Total operating revenues	181,076	173,482	1,676,630
<b>Operating expenses</b> (Note 15):			
Financial costs	(14,645)	(11,409)	(135,606)
Provision for possible credit losses and write-off of bad debts	(42,569)	(40,449)	(394,152)
Other operating expenses (Note 8)	(90,999)	(80,668)	(842,583)
Total operating expenses	(148,213)	(132,526)	(1,372,341)
Operating income	32,863	40,956	304,289
<b>Non-operating revenues (expenses), net</b> (Note 9)			
Income before income taxes and minority interests	1,464	(2,691)	13,558
Income before income taxes and minority interests	34,327	38,265	317,847
<b>Income taxes</b> (Note 10):			
Current	(14,656)	(21,650)	(135,710)
Deferred	2,259	7,117	20,919
Total income taxes	(12,397)	(14,533)	(114,791)
<b>Minority interests in net income</b>			
Net income	¥ 17,653	¥ 20,592	\$ 163,455

	Yen	U.S. Dollars (Note 1)
<b>PER SHARE OF COMMON STOCK</b> (Note 14):		
Basic net income	¥112.52	¥131.23
Cash dividends applicable to the year	40.00	40.00
		\$ 0.37

See notes to consolidated financial statements.

## Consolidated Statements of Changes in Equity

AEON Credit Service Co., Ltd. and Subsidiaries  
Years Ended February 20, 2008 and 2007

	Thousands		Millions of Yen								
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Loss on Derivative under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, February 20, 2006	52,305	¥15,467	¥17,051	¥99,975	¥5,679		¥ 608	¥(89)	¥138,691		¥138,691
Reclassified balance as of February 20, 2006 (Note 2-m)										¥15,194	15,194
Net income				20,592					20,592		20,592
Cash dividends, ¥33 per share				(5,230)					(5,230)		(5,230)
Bonuses to directors and corporate auditors				(67)					(67)		(67)
Purchase of treasury stock	(1)							(4)	(4)		(4)
Disposal of treasury stock	1		2					3	5		5
Net change in the year					71	¥(43)	1,497		1,525	1,905	3,430
Stock split	104,609										
Balance, February 20, 2007	156,914	15,467	17,053	115,270	5,750	(43)	2,105	(90)	155,512	17,099	172,611
Net income				17,653					17,653		17,653
Cash dividends, ¥40 per share				(6,276)					(6,276)		(6,276)
Purchase of treasury stock	(78)							(129)	(129)		(129)
Disposal of treasury stock	1							1	1		1
Net change in the year				(1,394)	(296)	(1,808)		(3,498)	2,975	(523)	(523)
<b>Balance, February 20, 2008</b>	<b>156,837</b>	<b>¥15,467</b>	<b>¥17,053</b>	<b>¥126,647</b>	<b>¥4,356</b>	<b>¥(339)</b>	<b>¥ 297</b>	<b>¥(218)</b>	<b>¥163,263</b>	<b>¥20,074</b>	<b>¥183,337</b>

	Thousands		Thousands of U.S. Dollars (Note 1)								
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Loss on Derivative under Hedge Accounting	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
Balance, February 20, 2007	156,914	\$143,208	\$157,900	\$1,067,317	\$53,245	\$(396)	\$19,490	\$(834)	\$1,439,930	\$158,328	\$1,598,258
Net income				163,455					163,455		163,455
Cash dividends, \$0.37 per share				(58,116)					(58,116)		(58,116)
Purchase of treasury stock	(78)							(1,193)	(1,193)		(1,193)
Disposal of treasury stock	1							5	5		5
Net change in the year				(12,912)	(2,740)	(16,739)		(32,391)	27,545	(4,846)	(4,846)
<b>Balance, February 20, 2008</b>	<b>156,837</b>	<b>\$143,208</b>	<b>\$157,900</b>	<b>\$1,172,656</b>	<b>\$40,333</b>	<b>\$(3,136)</b>	<b>\$ 2,751</b>	<b>\$(2,022)</b>	<b>\$1,511,690</b>	<b>\$185,873</b>	<b>\$1,697,563</b>

See notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

AEON Credit Service Co., Ltd. and Subsidiaries  
Years Ended February 20, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 34,327	¥ 38,265	\$ 317,847
Adjustments for:			
Income taxes—paid	(22,649)	(21,320)	(209,715)
Depreciation	5,318	4,602	49,238
Provision for possible credit losses	40,211	37,615	372,323
Provision for the point program	547	804	5,065
Provision for loss on refund of interest received	1,551	5,335	14,365
Gain on sales of software		(143)	
Loss on disposal of software	63	231	586
Loss due to changes in accounting policy of foreign subsidiary		1,045	
Gain on changes in interests in consolidated subsidiaries	(579)		(5,365)
Gain on sales of investment securities	(2,060)	(767)	(19,078)
Bonuses to directors and corporate auditors—paid	(73)	(66)	(672)
Loss on disposal of cash dispenser	1,254		11,610
Changes in assets and liabilities:			
Increase in finance receivables	(83,349)	(141,901)	(771,754)
Increase in other assets	(8,114)	(2,127)	(75,127)
Decrease in prepaid pension expenses		37	
Increase in accounts payable	20,614	10,720	190,872
Increase in other current liabilities	2,573	1,065	23,821
Increase in liability for retirement benefits	37	41	345
Other	3,235	2,329	29,951
Net cash used in operating activities	(7,094)	(64,235)	(65,688)
<b>INVESTING ACTIVITIES:</b>			
Increase (decrease) in time deposits—net	980	(984)	9,075
Purchases of property and equipment	(5,291)	(4,426)	(48,993)
Proceeds from sale of property and equipment	19	495	177
Purchases of software	(3,082)	(3,702)	(28,543)
Proceeds from sale of software	1	470	11
Purchases of investment securities	(441)	(691)	(4,084)
Proceeds from sale of investment securities	2,865	905	26,526
Other	(3,819)	(2,144)	(35,358)
Net cash used in investing activities	(8,768)	(10,077)	(81,189)
<b>FINANCING ACTIVITIES:</b>			
Payment of short-term bank loans—net	(3,350)	(1,302)	(31,022)
Increase (decrease) in commercial paper—net	682	(7,000)	6,317
Proceeds from long-term debts	114,928	143,123	1,064,147
Repayments of long-term debts	(99,390)	(48,872)	(920,274)
Increase in treasury stock—net	(128)		(1,189)
Dividends paid to the Company's shareholders	(6,277)	(5,230)	(58,116)
Dividends paid to minority shareholders	(1,796)	(1,133)	(16,629)
Proceeds from issuance of subsidiaries' stock to minority shareholders	1,765	78	16,343
Net cash provided by financing activities	6,434	79,664	59,577
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	(688)	437	(6,369)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(10,116)</b>	<b>5,789</b>	<b>(93,669)</b>
<b>CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, BEGINNING OF YEAR</b>		3,582	
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>25,870</b>	16,499	<b>239,535</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 15,754</b>	¥ 25,870	<b>\$ 145,866</b>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Years Ended February 20, 2008 and 2007

## 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law (formerly, the Japanese Securities and Exchange Law) and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards and accounting principles generally accepted in the United States of America (“U.S. GAAP”).

On December 27, 2005, the Accounting Standard board of Japan (“ASBJ”) published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders’ equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been

renamed “the consolidated statement of changes in equity” for the fiscal year ended February 20, 2007.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2007 financial statements to conform to the classifications used in 2008.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Aeon Credit Service Co., Ltd. (the “Company”) is incorporated and operates. The translation of Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥108 to \$1, the approximate rate of exchange at February 20, 2008. Such translation should not be construed as representation that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of February 20, 2008 include the accounts of the Company and its 18 significant (17 in 2007) subsidiaries and 1 (1 in 2007) company in the equity method (together, the “Group”).

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

The differences between the cost of an acquisition and the fair value of the net assets of the acquired subsidiary at the date of acquisition are recorded as goodwill and are amortized within 20 years (estimated effective period) for the Company and consolidated domestic subsidiaries.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

**b. Cash Equivalents on the Consolidated Balance Sheets**—Cash equivalents on the consolidated balance sheets are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of

changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

**c. 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 write-off or valuation allowance.

**d. Allowance for Possible Credit Losses**—The allowance for possible credit losses is stated in amounts considered to be appropriate based on the past credit loss experience and an evaluation of potential losses in receivables.

**e. Investment Securities**—Investment securities are classified and accounted for, depending on management’s intent, as follows: available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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

**g. Software**—Software is carried at cost less accumulated amortization. Amortization of software of the Group is calculated by the straight-line method. Software is amortized mainly over 5 years.

**h. Allowance for Point Program**—The allowance for the point program is stated in amounts considered to be appropriate based on the companies’ past redemption experience.

**i. Allowances for Loss on Refund of Interest Received**—The allowance for loss on refund of interest received (the amount of interest that exceeds the ceiling rate imposed by the Interest Rate Restriction Law) is provided by the Company and is stated in amounts considered to be appropriate based on the Company’s past refund experiences. In October 2006, “Application of auditing for provision of allowance for loss for reclaimed refund of interest in the accounting of consumer finance companies” of the industry audit practice committee report No. 37 by the Japanese Institute of Certified Public Accountants was issued and was adopted at the beginning of the fiscal year ended February 20, 2007.

**j. Retirement and Pension Plans**—The Company has a defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees. Liability for employees’ retirement benefits are accounted for based on the projected benefit obligations and plan assets at the balance sheet date.

**k. Bond Issue Costs**—Bond issue costs are amortized by the straight-line method over the period the bonds are outstanding. Bond issue cost at February 20, 2008, which is included in deferred charges, is ¥196 million (\$1,817 thousand).

**l. Recognition of Operating Revenues**—The operations of the Group mainly comprise the following areas, and the recognition of operating revenues is different according to each business. See Note 4 for amounts of transactions and realized operating revenues for each business.

**(1) Credit card contracts and hire purchase contracts**—Installment sales receivables are recorded after the Group has accepted the relevant contracts that participating member stores refer to the Group.

The Group receives fees for collection of the installment sales and the related administrative services from the

member stores under credit card contracts and hire purchase contracts for shopping. The fees from the member stores are generally recognized at the time when the Group makes payments for the installment sales receivables to the member stores in advance.

The Group receives fees from customers under credit card contracts and hire purchase contracts. The fees from customers are recognized principally by the interest method.

### (2) Loan contracts

The Group provides credit card cash advances and personal loans. Operating loans receivables are recorded when the Group loans cash to customers. The interest income and the customer charge at the start of the contract are recognized principally by the interest method.

**m. Presentation of Equity**—On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, and any deferred gain or loss on derivatives under hedge accounting.

This standard is effective for fiscal years ending on or after May 1, 2006.

**n. Leases**—All leases of the Company and consolidated domestic subsidiaries are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee’s financial statements.

**o. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences. A valuation allowance is provided for any portion of the deferred tax assets that is not considered to be realizable.

**p. Appropriations of Retained Earnings**—Appropriations of retained earnings are reflected in the financial statements for the following year upon the Board of Directors’ resolution or shareholders’ approval.

**q. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at each balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income to the extent that they are not hedged by forward exchange contracts.

**r. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of each balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation were shown as “Foreign currency translation adjustments” in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

**s. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign currency exchange and interest rates. Derivative financial instruments are comprised principally of foreign exchange forward contracts, currency swaps and interest rate swaps utilized by the Group to reduce foreign currency exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes. Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gain or loss on derivative transactions are recognized in the statements of income and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gain or loss on derivatives are deferred until maturity of the hedged transactions.

Long-term debt denominated in foreign currencies for which currency swaps are used to hedge the foreign currency fluctuations are translated at the contracted rate if the forward contracts qualify for hedge accounting.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. In principle, these swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gain or loss, net of applicable taxes are deferred until maturity as “Deferred Gain (Loss) on Derivatives under Hedge Accounting” in a separate component of equity.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are exceptionally not remeasured at market value but the differential paid or received under the swap agreements are recognized and

included in interest expenses or income.

**t. Per Share Information**—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. Diluted net income per share is not disclosed as there are no potentially dilutive securities.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year, retroactively adjusted for stock splits.

**u. New Accounting Pronouncements**

*Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*—

Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or U.S. GAAP tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material:

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

**3. INVESTMENT SECURITIES**

Investment securities as of February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Non-current:			
Marketable equity securities	¥11,069	¥12,947	\$102,489
Other equity securities	11,872	7,403	109,930
<b>Total</b>	<b>¥22,941</b>	<b>¥20,350</b>	<b>\$212,419</b>

The carrying amounts and aggregate fair values of investment securities as of February 20, 2008 and 2007 were as follows:

	Millions of Yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>February 20, 2008</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,707	¥7,923	¥(561)	¥11,069
February 20, 2007				
Securities classified as:				
Available-for-sale:				
Equity securities	¥3,271	¥9,991	¥315	¥12,947

	Thousands of U.S. Dollars			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<b>February 20, 2008</b>				
Securities classified as:				
Available-for-sale:				
Equity securities	\$34,325	\$73,364	\$5,200	\$102,489

Available-for-sale securities whose fair value was not readily determinable as of February 20, 2008 and 2007 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Available-for-sale:			
Equity securities	¥11,872	¥7,403	\$109,930
<b>Total</b>	<b>¥11,872</b>	<b>¥7,403</b>	<b>\$109,930</b>

Proceeds from sales of available-for-sale securities for the year ended February 20, 2008 were ¥1,182 million (\$10,949 thousand).

#### 4. FINANCE RECEIVABLES

Finance receivables as of February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Installment sales receivables:			
Credit card contracts	¥248,229	¥229,253	\$2,298,421
Hire purchase contracts	39,106	31,538	362,096
Subtotal	¥287,335	¥260,791	\$2,660,517
Operating loans receivables	503,721	500,950	4,664,083
Allowance for the possible credit losses	(47,896)	(40,190)	(443,486)
<b>Total</b>	<b>¥743,160</b>	<b>¥721,551</b>	<b>\$6,881,114</b>

For the years ended February 20, 2008 and 2007, the Group securitized finance receivables and subsequently transferred the cash flow interests in those assets mainly to unconsolidated special purpose entities.

The total of securitized receivables as of February 20, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
The Company	¥76,087	¥40,217	\$704,509
The consolidated subsidiaries	3,155		29,210
<b>Total</b>	<b>¥79,242</b>	<b>¥40,217</b>	<b>\$733,719</b>

Some of the interests in the securitized financial assets are retained in the form of seller or subordinated tranches ("remaining interests"), which are included in finance receivables and investment securities.

The remaining interests included in finance receivables and investment securities as of February 20, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Finance receivables:			
Installment sales receivables	¥ 614	¥ 343	\$ 5,688
Operating loans receivables	1,543	621	14,291
Investment securities	10,634	6,166	98,459
<b>Total</b>	<b>¥12,791</b>	<b>¥7,130</b>	<b>\$118,438</b>

Transaction volume and realized operating revenue by type of contract for the years ended February 20, 2008 and 2007 consisted of the following:

	Millions of Yen				Thousands of U.S. Dollars	
	2008		2007		2008	
	Transaction Volume	Operating Revenue	Transaction Volume	Operating Revenue	Transaction Volume	Operating Revenue
Credit card contracts	¥1,874,220	¥ 47,330	¥1,590,445	¥ 39,776	\$17,353,887	\$ 438,242
Hire purchase contracts	53,598	9,753	44,360	7,531	496,280	90,302
Loan contracts	694,899	114,300	695,016	118,207	6,434,247	1,058,337
Service fees	89,705	1,210	141,751	1,922	830,604	11,202
Other	44,304	8,483	18,455	6,046	410,219	78,547
<b>Total</b>	<b>¥2,756,726</b>	<b>¥181,076</b>	<b>¥2,490,027</b>	<b>¥173,482</b>	<b>\$25,525,237</b>	<b>\$1,676,630</b>

#### 5. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings as of February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Bank loans, 1.20% to 9.25% (2008) and 0.92% to 8.40% (2007)	¥27,787	¥34,019	\$257,288
Commercial paper at 3.70% (2008)	659		6,103
<b>Total</b>	<b>¥28,446</b>	<b>¥34,019</b>	<b>\$263,391</b>

Long-term debt as of February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Issued by the Company:			
Unsecured 1.97% Japanese yen notes due 2007		¥ 10,000	
Unsecured 1.22% Japanese yen notes due 2008	¥ 15,000	15,000	\$ 138,889
Unsecured 1.47% Japanese yen notes due 2009	15,000	15,000	138,889
Unsecured 0.81% Japanese yen notes due 2010	10,000	10,000	92,593
Unsecured 1.60% Japanese yen notes due 2011	10,000	10,000	92,593
Unsecured 1.08% Japanese yen notes due 2012	20,000	20,000	185,185
Unsecured 1.55% Japanese yen notes due 2013	10,000	10,000	92,593
Unsecured 1.79% Japanese yen notes due 2014	20,000	20,000	185,185
Unsecured 1.78% Japanese yen notes due 2012	20,000		185,185
Issued by AEON Thana Sinsap (Thailand) Plc.:			
Unsecured 4.45% Thai baht notes due 2008	1,715	1,805	15,880
Unsecured 4.77% Thai baht notes due 2008	1,784	1,877	16,515
Unsecured 4.94% Thai baht notes due 2010	1,029	1,083	9,528
Issued by AEON Credit Service (M) Berhad:			
Medium Term Note Malaysia Ringgit due 2010 (*1)	654	663	6,051
Medium Term Note Malaysia Ringgit due 2010 (*1)	654	663	6,051
Medium Term Note Malaysia Ringgit due 2012 (*2)	1,266	1,273	11,730
Medium Term Note Malaysia Ringgit due 2010 (*3)	1,339		12,398
Medium Term Note Malaysia Ringgit due 2012 (*4)	1,339		12,396
Medium Term Note Malaysia Ringgit due 2010 (*5)	1,673		15,494
Loans from banks and other financial institutions, due through 2016 with interest rates ranging from 0.72% to 6.91% (2008) and from 0.81% to 5.88% (2007):			
Collateralized	11,764	13,030	108,926
Unsecured	387,044	389,542	3,583,743
Loans from the subsidiaries of the Company's parent company due through 2010 with interest rates ranging from 1.1% to 1.34% (2008) and from 0.43% to 1.13% (2007):			
Unsecured	4,400	6,900	40,741
<b>Total</b>	<b>534,661</b>	<b>526,836</b>	<b>4,950,565</b>
Less current portion	(98,697)	(98,478)	(913,863)
<b>Long-term debt, less current portion</b>	<b>¥435,964</b>	<b>¥428,358</b>	<b>\$4,036,702</b>

(\*1) Profit return rate: 4.30% (\*2) Profit return rate: 4.50% (\*3) Profit return rate: 4.18% (\*4) Profit return rate: 4.41% (\*5) Profit return rate: 4.48%

The annual maturities of long-term debt as of February 20, 2008 were as follows:

Years ending February 20	Millions of Yen	Thousands of U.S. Dollars
2009	¥ 98,697	\$ 913,863
2010	91,612	848,257
2011	109,982	1,018,350
2012	95,710	886,205
2013	97,245	900,416
2014 and thereafter	41,415	383,474
<b>Total</b>	<b>¥534,661</b>	<b>\$4,950,565</b>

The carrying amounts of assets pledged as collateral for long-term debt at February 20, 2008 was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Installment sales receivables	¥ 7,804	\$ 72,256
Operating loans receivables	12,067	111,735
<b>Total</b>	<b>¥19,871</b>	<b>\$183,991</b>

## 6. RETIREMENT AND PENSION PLANS

The Company has severance payment plans for employees, directors and corporate auditors, except that the Company ceased the severance payments for the directors and corporate auditors effective May 12, 2004. The Company has a defined benefit pension plan, advance payment plan and defined contribution pension plan covering substantially all employees.

The net liability (asset) for employees' retirement benefits as of February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Projected benefit obligation	<b>¥ 968</b>	¥ 912	<b>\$ 8,964</b>
Fair value of plan assets	<b>(595)</b>	(582)	<b>(5,506)</b>
Unrecognized actuarial loss	<b>(295)</b>	(289)	<b>(2,736)</b>
<b>Net liability</b>	<b>¥ 78</b>	¥ 41	<b>\$ 722</b>

The components of net periodic benefit costs for the years ended February 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Service cost	<b>¥ 57</b>	¥ 57	<b>\$ 523</b>
Interest cost	<b>22</b>	22	<b>203</b>
Expected return on plan assets	<b>(11)</b>	(13)	<b>(104)</b>
Recognized actuarial loss	<b>47</b>	50	<b>437</b>
Other	<b>92</b>	88	<b>856</b>
<b>Total</b>	<b>¥207</b>	¥204	<b>\$1,915</b>

Assumptions used for the years ended February 20, 2008 and 2007 are set forth as follows:

	2008	2007
Discount rate	<b>2.4%</b>	2.4%
Expected rate of return on plan assets	<b>1.92%</b>	2.31%
Recognition period of actuarial gain/loss	<b>10 years</b>	10 years

## 7. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The board of Directors of companies with board committees (an appointment committee, compensation committee and audit committee) can also do so because such companies with board committees already, by nature, meet the above criteria under the Corporate Law, even though such companies have an audit committee instead of the Board of Corporate Auditors.

The Board of Directors of the Company can declare dividends without resolution at the shareholders' meeting since the Company is organized as a company with board committees and meet the above criteria.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Corporate Law provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold.

The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus are retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

### 8. OTHER OPERATING EXPENSES

Other operating expenses for the years ended February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Human resources	¥20,282	¥18,111	\$187,794
Sales promotion expenses	14,537	13,558	134,606
Provision for loss on refund of interest received	6,522	4,802	60,391
Other	49,658	44,197	459,792
<b>Total</b>	<b>¥90,999</b>	<b>¥80,668</b>	<b>\$842,583</b>

### 9. NON-OPERATING REVENUES (EXPENSES), NET

Non-operating revenues (expenses) for the years ended February 20, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Provision for loss on refund of interest received		¥(2,403)	
Amortization of negative goodwill	¥ 265	167	\$ 2,454
Gain on changes in interests in consolidated subsidiaries	579		5,365
Loss on disposal of cash dispenser	(1,254)		(11,610)
Loss due to changes in accounting policy of foreign subsidiary		(1,045)	
Gain on sales of investment securities	2,060	767	19,078
Other	(186)	(177)	(1,729)
<b>Total</b>	<b>¥ 1,464</b>	<b>¥(2,691)</b>	<b>\$ 13,558</b>

### 10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.4% for the year ended February 20, 2008 and 2007.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities as of February 20, 2008 and 2007, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
<b>Deferred tax assets:</b>			
Enterprise tax	¥ 192	¥ 783	\$ 1,778
Allowance for the possible credit losses	12,642	8,807	117,055
Finance receivables	1,130	2,954	10,468
Allowance for the point program	1,287	1,079	11,913
Allowance for loss on refund interest received	3,450	2,824	31,949
Accrued income	1,054	785	9,758
Payables and accrued expenses	106	253	982
Property and equipment	296	394	2,739
Property and equipment charged to income	10	25	89
Software	77	116	710
Investment securities		1	
Long-term prepaid expenses	79	124	732
Other	387	190	3,586
Less valuation allowance	(144)	(47)	(1,329)
Offset with deferred tax liabilities	(2,807)	(3,548)	(25,993)
<b>Total deferred tax assets</b>	<b>¥17,759</b>	<b>¥14,740</b>	<b>\$164,437</b>
<b>Deferred tax liabilities:</b>			
Reserve for special depreciation		¥ 5	
Depreciation in consolidated foreign subsidiaries	¥ 274	323	\$ 2,534
Undistributed earnings of consolidated foreign subsidiaries	159	221	1,478
Unrealized gain on available-for-sale securities	2,807	3,822	25,993
Offset with deferred tax assets	(2,807)	(3,548)	(25,993)
<b>Total deferred tax liabilities</b>	<b>¥ 433</b>	<b>¥ 823</b>	<b>\$ 4,012</b>
<b>Net deferred tax assets</b>	<b>¥17,326</b>	<b>¥13,917</b>	<b>\$160,425</b>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended February 20, 2008 and 2007 is as follows:

	2008	2007
Normal effective statutory tax rate	40.4%	40.4%
Expenses not deductible for income tax purposes	(0.7)	0.3
Deduction for foreign taxes	(0.6)	(0.3)
Per capita portion of inhabitants tax	0.3	0.2
Lower income tax rates applicable to income in certain foreign countries	(6.6)	(3.8)
Influence of elimination in consolidation	3.1	1.7
Reduction of taxes for IT investments		(0.4)
Other—net	0.2	(0.1)
<b>Actual effective tax rate</b>	<b>36.1%</b>	<b>38.0%</b>

## 11. LEASES

The Group leases certain equipment, office space and other assets.

Total rental expenses for the years ended February 20, 2008 and 2007 were ¥4,989 million (\$46,195 thousand) and ¥4,483 million, respectively, including ¥656 million (\$6,070 thousand) and ¥749 million of lease payments under finance leases.

Proforma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance lease, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended February 20, 2008 and 2007 is as follows:

	Millions of Yen			
	2008			
	Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥104	¥ 1,947	¥ 168	¥ 2,219
Accumulated depreciation	(60)	(1,265)	(131)	(1,456)
Net leased property	¥ 44	¥ 682	¥ 37	¥ 763

	Millions of Yen			
	2007			
	Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥173	¥ 2,655	¥ 268	¥ 3,096
Accumulated depreciation	(96)	(1,634)	(193)	(1,923)
Net leased property	¥ 77	¥ 1,021	¥ 75	¥ 1,173

	Thousands of U.S. Dollars			
	2008			
	Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	\$ 960	\$18,029	\$ 1,560	\$ 20,549
Accumulated depreciation	(557)	(11,714)	(1,212)	(13,483)
Net leased property	\$ 403	\$ 6,315	\$ 348	\$ 7,066

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Due within one year	¥414	¥ 623	\$3,831
Due after one year	362	565	3,354
Total	¥776	¥1,188	\$7,185

Depreciation expense and interest expense under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Depreciation expense	¥631	¥729	\$5,841
Interest expense	14	22	129
Total	¥645	¥751	\$5,970

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of income, are computed by the straight-line method and the interest method, respectively.

The minimum rental commitments under noncancelable operating leases as of February 20, 2008 were as follows:

	Millions of Yen
Due within one year	¥1,514
Due after one year	879
Total	¥2,393

## 12. DERIVATIVES

The Group enters into foreign exchange forward contracts and currency swap contracts to hedge foreign exchange risk associated with certain liabilities denominated in foreign currencies.

The Group also has purchased interest rate swaps to limit the unfavorable impact from increases in interest rates on floating-rate long-term debt. The interest rate swaps effectively limit the Group's interest expense on specified amounts of floating-rate long-term borrowings to a maximum rate. The Group does not hold or issue derivatives for trading or speculative purposes.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential fluctuations in market conditions, including interest or foreign exchange rates. Since the Group's derivatives are related to qualified hedges of the unfavorable impact from increases in interest rates on floating-rate long-term debt and fluctuations of foreign exchange associated with certain liabilities, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. Credit risk is the possibility that a loss may result from the counterparty's failure to perform according to the terms and conditions of the contract. Because the counterparties to those derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk.

The basic policies for the use of derivatives are approved by the Board of Directors and the execution and control of derivatives are controlled by the Finance Department. Each derivative transaction is periodically reported to the management, where evaluation and analysis of derivatives are made.

Foreign currency forward contracts which qualify for hedge accounting are excluded from the disclosure of market value information.

## 13. LOAN COMMITMENTS

The Group provides cashing and card loan services that supplement its credit card operations. The nonexercised portion of loan commitments in these businesses was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Total loan limits	¥5,273,599	¥5,022,052	\$48,829,618
Loan executions	438,617	433,297	4,061,267
The nonexercised portion of loan commitments	¥4,834,982	¥4,588,755	\$44,768,351

Most of the contracts for the above loan commitments were for cashing services supplementary to credit card services furnished to the Company's cardmembers, such that not all unexecuted loans will be exercised.



#### 14. NET INCOME PER SHARE

Basic and diluted net income per share ("EPS") for the years ended February 20, 2008 and 2007 were as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
	Net Income	Weighted-Average Shares	EPS	
<b>For the year ended February 20, 2008:</b>				
Basic EPS				
Net income	<b>¥17,653</b>			
Net income available to common shareholders	<b>¥17,653</b>	<b>156,886</b>	<b>¥112.52</b>	<b>\$1.04</b>
For the year ended February 20, 2007:				
Basic EPS				
Net income	¥20,592			
Net income available to common shareholders	¥20,592	156,914	¥131.23	

Diluted EPS is not disclosed as there is no potential dilution existing.

#### 15. RELATED PARTY TRANSACTIONS

Transactions with the parent company and its subsidiaries for the years ended February 20, 2008 and 2007 were as follows:

ÆON Co., Ltd. (the parent company)

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Credit card contracts	<b>¥7,959</b>	¥7,313	<b>\$73,693</b>
Hire purchase contracts	<b>1</b>	1	<b>6</b>
Other operating revenues	<b>420</b>	148	<b>3,890</b>
Other operating expenses	<b>957</b>	880	<b>8,859</b>
Fixed leasehold deposits to lessors	<b>8</b>	21	<b>75</b>

The balances due to or from the parent company and its subsidiary as of February 20, 2008 and 2007 were as follows:

ÆON Co., Ltd. (the parent company)

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Accounts payable	<b>¥9,732</b>	¥7,051	<b>\$90,111</b>

The above transactions were on an arm's-length basis and in the normal course of business.

#### 16. SEGMENT INFORMATION

The Company separates its operations into two segments comprised of the following industries:

The financial services industry consists of credit card contracts, hire purchase contracts and loan contracts; the other operating services industry consists of an insurance agency and other operating services.

Operations in financial services for the year ended February 20, 2008 amounted to more than 90% of consolidated operating revenues, operating income and assets, and accordingly, the segment information in different industries is not disclosed for fiscal 2008.

Information on geographic segments and operating revenues to foreign customers of the Company and its subsidiaries for the years ended February 20, 2008 and 2007 is as follows:

##### (1) Geographic segments

The geographic segments of the Company and its subsidiaries for the years ended February 20, 2008 and 2007 are summarized as follows:

	Millions of Yen				
	Domestic	Overseas	Total	Eliminations/Corporate	Consolidated
Operating revenues to customers	<b>¥123,263</b>	<b>¥ 57,813</b>	<b>¥181,076</b>		<b>¥181,076</b>
Interarea transfer					
Total operating revenues	<b>123,263</b>	<b>57,813</b>	<b>181,076</b>		<b>181,076</b>
Operating expenses	<b>102,651</b>	<b>45,562</b>	<b>148,213</b>		<b>148,213</b>
Operating income	<b>¥ 20,612</b>	<b>¥ 12,251</b>	<b>¥ 32,863</b>		<b>¥ 32,863</b>
Total assets	<b>¥656,069</b>	<b>¥216,198</b>	<b>¥872,267</b>	<b>¥(10,206)</b>	<b>¥862,061</b>

	Thousands of U.S. Dollars				
	Domestic	Overseas	Total	Eliminations/Corporate	Consolidated
Operating revenues to customers	<b>\$1,141,325</b>	<b>\$ 535,305</b>	<b>\$1,676,630</b>		<b>\$1,676,630</b>
Interarea transfer					
Total operating revenues	<b>1,141,325</b>	<b>535,305</b>	<b>1,676,630</b>		<b>1,676,630</b>
Operating expenses	<b>950,470</b>	<b>421,871</b>	<b>1,372,341</b>		<b>1,372,341</b>
Operating income	<b>\$ 190,855</b>	<b>\$ 113,434</b>	<b>\$ 304,289</b>		<b>\$ 304,289</b>
Total assets	<b>\$6,074,716</b>	<b>\$2,001,838</b>	<b>\$8,076,554</b>	<b>\$(94,504)</b>	<b>\$7,982,050</b>

	Millions of Yen				
	Domestic	Overseas	Total	Eliminations/Corporate	Consolidated
Operating revenues to customers	¥127,100	¥ 46,382	¥173,482		¥173,482
Interarea transfer					
Total operating revenues	127,100	46,382	173,482		173,482
Operating expenses	95,445	37,081	132,526		132,526
Operating income	¥ 31,655	¥ 9,301	¥ 40,956		¥ 40,956
Total assets	¥640,282	¥203,746	¥844,028	¥(9,774)	¥834,254

## (2) Operating revenues to foreign customers

Operating revenues to foreign customers for the years ended February 20, 2008 and 2007 amounted to ¥57,812 million (\$535,296 thousand) and ¥46,382 million, respectively.

## 17. SUBSEQUENT EVENTS

### a. Appropriations of Retained Earnings

The following appropriations of retained earnings as of February 20, 2008 were approved at the Company's Board of Directors' meeting held on April 21, 2008:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥25.00 (\$0.23) per share	¥3,921	\$36,305

### b. Stock Option Plan

Stock Options First Plan

The following stock option plan of the Company was approved at the General Shareholders' Meeting held on May 15, 2007, and resolved at the Board of Directors meeting, held on April 4, 2008.

Directors and executive officers of the Company were granted new stock options totaling 200 units. These stock options were issued on April 21, 2008, and can be exercised from May 21, 2008 to May 20, 2023. The number of shares to be issued by the exercise of each stock option unit shall be 100 shares.

# Deloitte.

Deloitte Touche Tohmatsu  
M5 Shibaura Building  
4-13-23, Shibaura  
Minato-ku, Tokyo 108-8530  
Japan

Tel: +81(3) 3457 7321

Fax: +81(3) 3457 1694

www.deloitte.com/jp

## INDEPENDENT AUDITORS' REPORT

To the 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, 2008 and 2007, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ÆON Credit Service Co., Ltd. and subsidiaries as of February 20, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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, 2008

# Major Group Companies

## ■ General Merchandise Stores (GMS)

ÆON CO., LTD.  
 \*ÆON Hokkaido Corporation  
 \*AEON Stores (Hong Kong) Co., Ltd.  
 \*AEON Co. (M) Bhd.  
 \*ÆON KYUSHU CO., LTD.  
 \*ÆON Marché Co., Ltd.  
 \*MYCAL CORPORATION  
 \*RYUKYU JUSCO CO., LTD.  
 \*AEON (China) Co., Ltd.  
 \*Beijing AEON Co., Ltd.  
 \*Guangdong JUSCO Teem Stores Co., Ltd.  
 \*Qingdao AEON Dongtai Co., Ltd.  
 \*Shenzhen AEON Friendship Co., Ltd.  
 \*Taiwan AEON Stores Co., Ltd.

## ■ Supermarkets

The Maruetsu, Inc.  
 Inageya Co., Ltd.  
 KASUMI CO., LTD.  
 \*Maxvalu Chubu Co., Ltd.  
 \*Maxvalu Nishinohon Co., Ltd.  
 \*Maxvalu Tohoku Co., Ltd.  
 \*Maxvalu Tokai Co., Ltd.  
 Belc CO., LTD.  
 \*Maxvalu Hokkaido Co., Ltd.  
 \*KOHYO CO., LTD.  
 \*Maxvalu Kyushu Co., Ltd.  
 \*JOY CO., LTD.  
 \*AEON (Thailand) CO., LTD.

## ■ Drugstores

CFS Corporation  
 WELCIA KANTO CO., LTD.  
 Terashima Co., Ltd.  
 Medical Ikkou Co., Ltd.  
 Welpark Co., Ltd.  
 Kraft Holdings Inc.  
 \*TAKIYA Co., Ltd.

## ■ Convenience Stores

\*MINISTOP CO., LTD.

## ■ Other Retail Stores

\*SUNDAY CO., LTD.  
 \*ÆON SUPERCENTER CO., LTD.  
 \*JOY Co., Ltd.  
 \*Bon Belta Co., Ltd.

## ■ Specialty Stores

\*The Talbots, Inc.  
 Taka:Q Co., Ltd.  
 YAMAYA CORP.  
 TSURUYA SHOE STORE Co., Ltd.  
 \*COX CO., LTD.  
 \*BLUE GRASS Co., Ltd.  
 \*Abilities Jusco Co., Ltd.  
 \*ÆON FOREST CO., LTD.  
 \*ÆON Bakery System Co., Ltd.  
 \*ORIGIN TOSHU CO., LTD.  
 Claire's Nippon Co., Ltd.  
 \*Talbots Japan Co., Ltd.

\*NUSTEP CO., LTD.  
 \*PETCITY CO., LTD.  
 \*MYCAL CANTEVOLE Co., Ltd.  
 \*MIRAIYA SHOTEN CO., LTD.  
 \*Mega Sports Co., Ltd.  
 \*MEGA PETRO Co., Ltd.  
 \*LAURA ASHLEY JAPAN CO., LTD.

## ■ SC Development Operations

\*ÆON Mall 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) BERHAD  
 ÆON BANK, LTD.  
 \*A·C·S CREDIT MANAGEMENT CO., LTD.  
 \*N·C·S KOSAN CO., LTD.  
 \*AEON CREDIT CARD (TAIWAN) CO., LTD.  
 \*AEON CREDIT GUARANTEE (CHINA) CO., LTD.  
 \*AEON CREDIT SERVICE (TAIWAN) CO., LTD.  
 \*AEON INFORMATION SERVICE (SHENZHEN) CO., LTD.  
 \*PT. AEON CREDIT SERVICE INDONESIA

## ■ Services

\*ÆON DELIGHT CO., LTD.  
 \*ÆON Fantasy Co., Ltd.  
 \*ZWEI CO., LTD.  
 \*CERTO Corporation  
 \*ÆON CINEMAS CO., LTD.  
 ÆON Demonstration Service, Inc.  
 \*ÆON BODY Co., Ltd.  
 \*JUSVEL CO., LTD.  
 \*Research Institute For Quality Living Co., Ltd.  
 \*Reform Studio Co., Ltd.  
 Warner Mycal Corporation

## ■ Food Services

\*ÆON Eaheart Co., LTD.

## ■ Merchandise Procurement and Food-Processing Operations

\*AIC Inc.  
 \*AEON GLOBAL SCM CO., LTD.  
 \*AEON GLOBAL MERCHANDISING CO., LTD.  
 \*AEON TOPVALU CO., LTD.  
 \*Cordon Vert CO., LTD.  
 \*DELICA SYOKUHIN CO., LTD.  
 \*Food Supply Jusco Co., Ltd.  
 \*Tasmania Feedlot Pty. Ltd.

## ■ E-commerce Business

\*AEON VISTY CO., LTD.

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

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

# Corporate Data (As of February 20, 2008)

## Company Name

ÆON CREDIT SERVICE CO., LTD.

## Head Office

Kanda Mitoshiro-cho 1, Chiyoda-ku, Tokyo 101-8445, Japan  
 Tel: +81-3-5281-2030  
 Fax: +81-3-5281-2020  
 URL: <http://www.aeoncredit.co.jp>

## Established

June 20, 1981

## Capital Stock

¥15,466.5 million

## Number of Employees

4,543 (Consolidated); 903 (Non-Consolidated)

## Domestic Subsidiaries

AEON INSURANCE SERVICE CO., LTD.  
 ACS CREDIT MANAGEMENT CO., LTD.

## Overseas Subsidiaries

AEON CREDIT SERVICE (ASIA) CO., LTD.  
 AEON CREDIT GUARANTEE (CHINA) CO., LTD.  
 AEON INFORMATION SERVICE (SHENZHEN) CO., LTD.  
 AEON THANA SINSAP (THAILAND) PLC.  
 ACS INSURANCE BROKER (THAILAND) CO., LTD.  
 ACS LIFE INSURANCE BROKER (THAILAND) CO., LTD.  
 ACS CAPITAL CORPORATION LTD.  
 ACS SERVICING (THAILAND) CO., LTD.  
 AEON CREDIT SERVICE (M) BERHAD  
 AEON CREDIT SERVICE (TAIWAN) CO., LTD.  
 AEON CREDIT CARD (TAIWAN) CO., LTD.  
 PT. AEON CREDIT SERVICE INDONESIA  
 ACS TRADING VIETNAM CO., LTD.

# Shareholder Information (As of February 20, 2008)

## Closing Date

February 20

## Shares Issued

156,967,008 shares

## Stock Exchange Listing

Tokyo Stock Exchange, First Section (Securities Code: 8570)

## Shareholders' Meeting

Held in May of each year

## Transfer Agent

Mizuho Trust & Banking Co., Ltd.

## Independent Auditors

Deloitte Touche Tohmatsu

# Board of Directors and Auditors (As of May 13, 2008)

## Directors

Chairman  
 President and CEO  
 Managing Directors

Yoshiaki Mori  
 Kazuhide Kamitani  
 Kazuhiko Kawata  
 Tatsuya Saito  
 Takashi Kiyonaga  
 Masamichi Kamiyama  
 Yasuhiko kondo  
 Kiyooki Takano  
 Yoshitaka Yamada  
 Mitsugu Tamai  
 Kiyoyasu Asanuma  
 Takatoshi Ikenishi

## Auditors

Corporate Auditor  
 Auditors

Hisateru Taniuchi \*  
 Hiroyasu Sugihara \*  
 Nobuo Hitomi \*  
 Hideki Wakabayashi \*

*\*External*

## Directors



**ÆON CREDIT SERVICE CO., LTD.**