

Directors' Report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 20th February 2006.

PRINCIPAL ACTIVITIES

The Company is engaged in the provision of consumer credit finance services which include the issuance of credit cards, provision of personal loan financing, hire purchase financing and vehicle financing.

TOTAL DEBT-TO-EQUITY RATIO

At 20th February 2006, total debt-to-equity ratio was 2.02.

RESULTS AND APPROPRIATIONS

The results of the Company for the year ended 20th February 2006 are set out in the income statement on page 45 of the annual report.

An interim dividend of 6.5 HK cents (2005: 5.5 HK cents) per share amounting to HK\$ 27,220,000 was paid to the shareholders during the year. The directors now recommend the payment of a final dividend of 11.5 HK cents (2005: 10.5 HK cents) per share to the shareholders on the register of members on 14th June 2006 amounting to HK\$48,158,000, and the retention of the remaining profit of HK\$110,735,000 for the year.

MAJOR CUSTOMERS

During the year, the Company derived less than 30% of its income from its five largest customers.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Company spent approximately HK\$45,722,000 on computer equipment, HK\$2,515,000 on furniture and fixtures and HK\$5,595,000 on leasehold improvements.

Details of these and other movements in the property, plant and equipment of the Company during the year are set out in note 17 to the financial statements.

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DIRECTORS

The directors during the year and up to the date of this report are:

Executive directors:

Masanori Kosaka (*Managing director*)
Lai Yuk Kwong
Koh Yik Kung

Non-executive directors:

Yoshiki Mori (*Chairman*)
Kazuhide Kamitani
Yoichi Kimura (Resigned on 26th April 2006)

Independent non-executive directors:

Shao You Bao (Passed away on 12th March 2006)
Tsang Wing Hong
Wong Hin Wing

In accordance with Article 102 of the Company's Articles of Association, all directors shall retire at the forthcoming annual general meeting and shall be eligible for re-election. Accordingly, all directors shall retire and offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the forthcoming annual general meeting has a service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

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DIRECTORS' INTERESTS IN SHARES

At 20th February 2006, the interests of the directors and chief executive in the shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register of directors' and chief executives' interests and short positions required to be maintained under Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transaction by Directors of Listed Companies, were as follows:

(a) The Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of the Company
Yoshiki Mori	280,000	0.07%
Masanori Kosaka	110,000	0.03%
Kazuhide Kamitani	1,045,000	0.25%
Shao You Bao	330,000	0.08%
Tsang Wing Hong	220,000	0.05%

(b) *AEON Credit Service Co., Ltd.* ("*AEON Credit Japan*") – immediate holding company of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of <i>AEON Credit Japan</i>
Yoshiki Mori	14,042	0.03%
Masanori Kosaka	3,032	0.01%
Kazuhide Kamitani	4,215	0.01%

(c) *AEON Co., Ltd.* ("*AEON Japan*") – ultimate holding company of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of <i>AEON Japan</i>
Yoshiki Mori	6,000	0.01%
Yoichi Kimura	5,400	0.01%

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DIRECTORS' INTERESTS IN SHARES (Cont'd)

(d) AEON Stores (Hong Kong) Co., Limited ("AEON Stores") – a fellow subsidiary of the Company

Director	Number of shares held under personal interests	Percentage of the issued share capital of AEON Stores
Shao You Bao	200,000	0.08%

(e) AEON Thana Sinsap (Thailand) Public Company Limited ("AEON Thana") – a fellow subsidiary of the Company

Directors	Number of shares held under personal interests	Percentage of the issued share capital of AEON Thana
Yoshiki Mori	1,500,000	0.60%
Masanori Kosaka	100,000	0.04%
Kazuhide Kamitani	500,000	0.20%

Other than the holdings disclosed above, none of the directors, chief executive and their associates, had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 20th February 2006.

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CONNECTED TRANSACTIONS

During the year, the Company had the following connected transactions which are subject to the reporting and announcement requirements and exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

- (a) Pursuant to an agreement entered into between the Company and AEON Stores on 15th April 2005, the Company provided credit purchase facilities and hire purchase facilities to customers of AEON Stores for which the Company received commission from this fellow subsidiary in respect of certain purchases made by customers with the use of certain credit cards issued by the Company, including AEON Jusco MasterCard, AEON Jusco American Express Credit Card, AEON Jusco Visa Card and other co-branded credit cards, and certain purchases made by customers which are financed by interest-free hire purchase facilities provided by the Company.

The total amount of commission received and receivable by the Company from AEON Stores for the year ended 20th February 2006 was HK\$11,823,000, of which HK\$9,358,000 is classified as interest income following the adoption of HKAS 39. The commission amount did not exceed the cap of HK\$20,890,000 as disclosed in the Company's announcement dated 20th April 2005.

- (b) The Company had entered into a service agreement with AEON Information Service (Shenzhen) Co., Ltd. ("AEON Shenzhen"), an associate, on 21st May 2003 and a supplemental agreement on 15th April 2005 for the provision of call center services to the Company for which the Company paid service fees to AEON Shenzhen.

The total amount of service fees paid and payable by the Company to AEON Shenzhen for the year ended 20th February 2006 amounted to HK\$11,066,000, which did not exceed the cap of HK\$16,400,000 as disclosed in the Company's announcement dated 20th April 2005.

- (c) The Company had entered into a number of licence agreements with AEON Stores for the operation of branches and ATMs inside the stores of AEON Stores under which the Company paid to AEON Stores a fixed monthly licence fee.

The total amount of licence fees paid and payable by the Company to AEON Stores for the year ended 20th February 2006 was HK\$5,728,000.

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CONNECTED TRANSACTIONS (Cont'd)

- (d) The Company subscribed for 550 new shares in ACS Credit Management Co., Ltd. ("ACMC"), a fellow subsidiary, for a total cash consideration of HK\$3,862,000 on 25th August 2005. Upon completion of the subscription, the Company owns 4.6% of the issued share capital of ACMC. The purpose of the transaction is to provide an opportunity for the acquisition of ACMC's know-how and expertise in the credit management industry, as well as providing for future co-operation between the Company and ACMC in expanding the Company's credit management business. Details of the transaction were disclosed in the Company's announcement dated 29th August 2005.
- (e) The Company subscribed for 300,000 new shares in AEON Credit Service (M) Sdn. Bhd. ("ACSM"), a fellow subsidiary, for a total cash consideration of HK\$1,865,000 on 12th September 2005. Upon completion of the subscription, the Company owns 2.5% of the issued share capital of ACSM. The purpose of the transaction is to bring good returns to the Company in the long run and thus enhancing the shareholders' value of the Company. Details of the transaction were disclosed in the Company's announcement dated 14th September 2005.
- (f) The Company owns 12.2% of the issued share capital of AEON Credit Card (Taiwan) Co., Ltd. ("AEON Taiwan"), a fellow subsidiary. On 13th February 2006, the Company subscribed for 3,450,000 new shares in AEON Taiwan, which is in proportion to its shareholding in AEON Taiwan, for a total cash consideration of HK\$8,365,000. The purpose of the transaction is to bring good returns to the Company in the long run and thus enhancing the shareholders' value of the Company. Details of the transaction were disclosed in the Company's announcement dated 13th February 2006.

The two independent non-executive directors, namely Mr. Tsang Wing Hong and Mr. Wong Hin Wing, have reviewed the transactions in (a) and (b) above which constituted continuing connected transactions and confirmed that the transactions were entered into (i) in the ordinary and usual course of business of the Company, (ii) on normal commercial terms, and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The related party transactions as disclosed in note 45 to the financial statements also fell under the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements, where applicable, in accordance with Chapter 14A of the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.21 OF LISTING RULES

A syndicated revolving credit facility up to the sum of HK\$360,000,000 made available to the Company for a term of 2 years on 15th October 2004 includes a condition that **AEON** Japan and **AEON** Credit Japan have to maintain not less than 51% of the issued share capital of the Company.

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DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

No contract of significance to which the Company or any of its holding companies or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

At 20th February 2006, the register of substantial shareholders' interests in shares and short positions required to be maintained under Section 336 of the SFO shows that the following shareholders had notified the Company to have an interest of 5% or more in the issued share capital of the Company:

Name	Number of shares	%
AEON Co., Ltd. (Note 1)	277,288,000	66.22
AEON Credit Service Co., Ltd. (Note 2)	217,514,000	51.94
Aberdeen Asset Management Plc and its Associates	25,486,000	6.09
Commonwealth Bank of Australia	25,163,000	6.01
FMR Corp.	22,975,600	5.49

Notes:

- (1) AEON Japan was the direct beneficial owner of 55,990,000 shares in the capital of the Company and, by virtue of its ownership of approximately 45.28% and 71.64% of the issued share capital of AEON Credit Japan and AEON Stores respectively, was deemed to be interested in the 217,514,000 shares and 3,784,000 shares owned by AEON Credit Japan and AEON Stores respectively.
- (2) Out of 217,514,000 shares, 213,114,000 shares were held by AEON Credit Japan and 4,400,000 shares were held by Nomura Securities (HK) Limited, as a nominee on behalf of AEON Credit Japan.

Other than as disclosed above, the Company has not been notified of any other interests representing 5% or more in the Company's issued share capital at 20th February 2006.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its holding companies or fellow subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the year, there was no purchase, sale or redemption by the Company of its listed securities.

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DONATIONS

During the year, the Company made charitable and other donations amounting to HK\$30,000.

EMOLUMENTS OF DIRECTORS AND SENIOR MANAGEMENT

The emoluments of the directors and senior management of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

RETIREMENT BENEFITS SCHEME

Details of the Company's retirement benefits scheme are set out in note 43 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its directors, the directors confirm that the Company has maintained a sufficient public float throughout the year ended 20th February 2006.

EVENT AFTER THE BALANCE SHEET DATE

Details of an event after the balance sheet date are set out in note 47 to the financial statements.

AUDITORS

A resolution to reappoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board



Masanori KOSAKA
Managing Director

Hong Kong, 26th April 2006