POCKET CARD

ANNUAL REPORT 2004

POCKETCARD CO.,LTD.

CORPORATE HISTORY

1982	**May** **July**	Established as Nichii Credit Services Co., Ltd. Issued the Nichii members card.
1983	**October**	Began non-life insurance agency operations.
1984	**March** **June** **July**	Registered for lending services. Installed cash dispensers in all stores of the MYCAL Group. Began enrollment operations in the life insurance field.
1985	**June**	Joined the Japan Consumer Credit Industry Association as a business member.
1986	**June**	Issued our own credit card for use at stores in the MYCAL Group.
1989	**February**	Registered as a credit card service provider.
1992	**March** **April** **September**	Began leasing operations. Added a revolving credit feature to MYCAL Card. Status in the Japan Consumer Credit Industry Association upgraded to full member.
1993	**October** **November**	Began issuing MYCAL MasterCard as part of a tie-up with MasterCard International Japan Inc. Began travel agency operations.
1994	**January** **March**	Began approaching non-MYCAL member stores to accept our credit cards. Changed company name to MYCAL CARD INC.
1995	**June**	Launched the Mycal-Information-Network-Card System (MINCS) for administrative tasks.
1996	**September**	Registered stock with the Japan Securities Dealers Association for over-the-counter trading.
1998	**July**	Listed on the second sections of the Tokyo Stock Exchange and Osaka Securities Exchange.
1999	**February** **August** **September**	Initiated trial use of a multifunction IC card. Implemented the issue of new stock through a public offering. Began issuing MYCAL IC MasterCard. Implemented the issue of new stock through a public offering.
2000	**February**	Listed on the first sections of the Tokyo Stock Exchange and Osaka Securities Exchange.
2001	**April** **December**	Sanyo Shinpan Finance Co., Ltd. became our parent company through a takeover bid. Changed the company name to POCKET CARD CO., LTD. Established the Tokyo head office. Began issuing POCKET Card as our standard credit card.
2002	**February** **April** **May**	Moved the counseling center to Fukuoka. Introduced a 1% discount on statements to POCKET Card and MYCAL Card cardholders. Moved the main branch to Minato-ku, Tokyo.
2003	**May**	Formed capital and operational alliance with the ITOCHU Group. ITOCHU Finance Corporation, a member of the ITOCHU Group, became our second largest shareholder. Executed a third-party allocation of new shares to ITOCHU Corporation.
2004	**February** **March**	Formed capital and operational alliance with Famima Credit Corporation. Relocated head office to Shiba, Minato-ku, Tokyo.

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Cautionary Statement with Respect to Forward-Looking Statements
Statements in this annual report include forward-looking statements about the future performance of POCKET CARD that are based on assumptions and beliefs in light of information currently available to it, and involve certain risks and uncertainties.

FIVE-YEAR SUMMARY

For the years ended February 29, 2004, February 28, 2003, 2002, 2001, and February 29, 2000

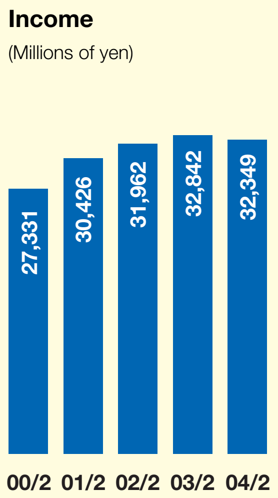
(Millions of yen)

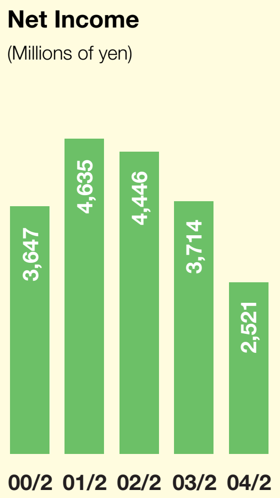
	2000	2001	2002	2003	**2004**
For the Year:					
Volume of new contracts	¥ 316,109	¥ 341,729	¥ 346,783	¥ 322,358	**¥ 310,812**
Income	27,331	30,426	31,962	32,842	**32,349**
Net income	3,647	4,635	4,446	3,714	**2,521**
At Year-end:					
Total assets	127,398	144,893	139,751	147,143	**136,440**
Total shareholders' equity	32,768	36,428	39,664	41,805	**43,682**
Shareholders' equity ratio (%)	25.7	25.1	28.4	28.4	**32.0**
Return on equity (%)	13.8	13.4	11.7	9.1	**5.9**

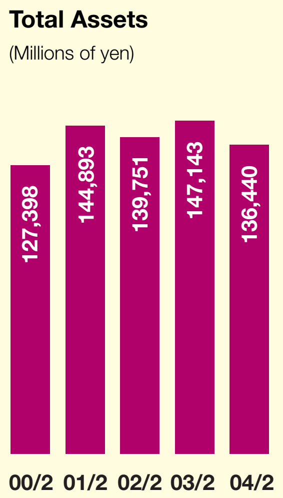
(Yen)

Per Common Share:					
Net income	¥ 138.84	¥ 154.50	¥ 146.34	¥ 122.49	**¥ 84.33**
Total shareholders' equity	1,186.46	1,199.08	1,305.62	1,407.75	**1,461.33**
Cash dividends	30.00	35.00	30.00	25.00	**25.00**

Note: Figures less than one million yen are rounded down.







Becoming an Unrivaled Company

Having entered the period of our "second" founding, POCKET CARD intends to establish a business model that is one step ahead of the times, with the view to becoming an unrivaled company.

Guided by the fundamental principle of "putting the customer center stage," POCKET CARD hopes to provide credit cards that help its customers lead enriched and comfortable lives.

Staying true to this fundamental principle, we are working to improve cardholder benefits and services from the viewpoint of customers. For example, we became the first in the industry to offer a 1% discount on all purchases made on credit and have started the instant issuance of credit cards using mobile terminals.

The credit card industry is currently experiencing fierce competition, partly reflecting successive alliances that have transcended traditional boundaries between the retailing, banking and consumer credit industries. In this climate, POCKET CARD is working to build a new base of operations rooted in local communities through partnerships with regional retailers across the country. Meanwhile, we are also unveiling diverse strategies that set us apart from the competition, leveraging the vast network of the ITOCHU Group, a strategic business partner. Concrete actions will entail the formation of a broad range of alliances, the structuring of new business models, and much more. We will implement these strategies at speed while working to expand businesses and raise corporate value. Our overriding goal is to become an unrivaled credit card company that goes beyond conventional ways of thinking in the credit card industry.

POCKET CARD is committed to delivering high satisfaction to customers, while returning the benefits of accomplishments to shareholders, customers and employees in order to be a company that continually evolves and contributes to society. I look forward to your support and guidance as we endeavor to reach our goals.

May 2004

Makoto Tsuzuki
President

Q: *What are POCKET CARD's most pressing issues since you became president?*

A: Although I became president last November, I had already been taking part in senior management as a special advisor since September 2003. Because I was concurrently serving as president of a group company at the time, I was able to assess POCKET CARD's strengths and its unique attributes from both inside and outside perspectives. This experience proved useful in identifying current issues facing the company and setting an overall direction for the company's future.

There are two major issues currently facing POCKET CARD. Firstly, we must establish a new operating base. Secondly, we need to establish new business strategies that leverage our proprietary expertise. It is imperative that we accomplish these priorities. As such, we have been concentrating efforts on these issues since my appointment as president.

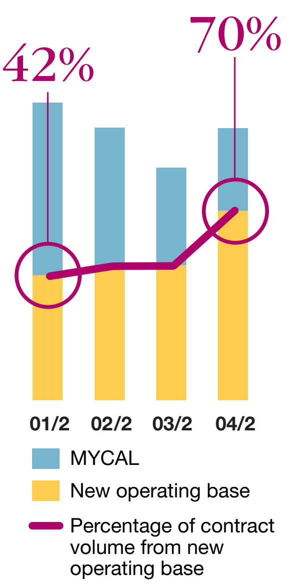
Q: *What actions are you taking to address these issues?*

A: First, we are making very good progress toward building a new base of operations, which has been expanded to include prominent retailers such as Posful Corporation in Hokkaido, Sakurano Department Store Co., Ltd. in Tohoku and Sunlive Co., Ltd. in Kyushu, as well as companies in the automobile safety inspection and cinema industries. Through these efforts, we have built up an operating base that now generates the equivalent of approximately half of MYCAL's sales in just two years after its bankruptcy. And last year's capital and operational alliance with the ITOCHU Group has helped to further stabilize our operating base. Particularly noteworthy is our credit guarantee business involving approximately 6,000 FamilyMart convenience stores nationwide, which is expected to drive significant growth in our businesses. The strategic alliance with the ITOCHU Group will be the driving force that will further expedite our efforts to build a new operating base.

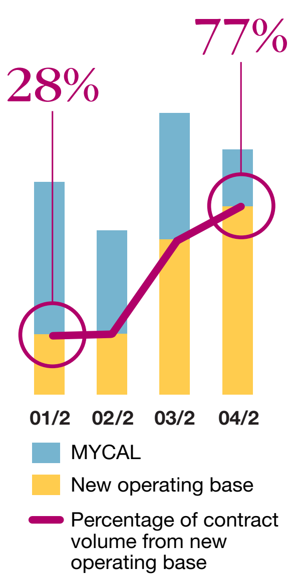
Formulating new business strategies will involve developing a fee-based business model where we provide access to our credit management and collection systems, our core areas of expertise, on an outsourcing basis. This model is analogous to that of OEM suppliers in the manufacturing industry. Our alliance with Famima Credit Corporation was our first step in this direction. Our goal is to cultivate this business into a third pillar of earnings, alongside the installment shopping and installment loan business.

■ PROGRESS TOWARD BUILDING A NEW OPERATING BASE

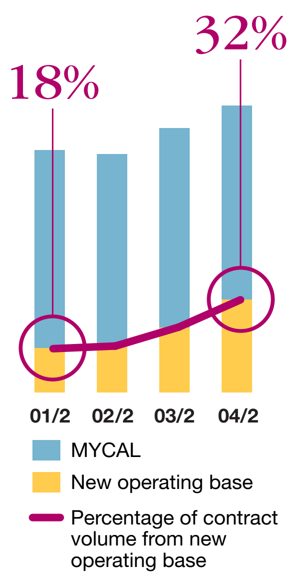
New Contract Volume in Installment Shopping



New Cardholders



Registered Cardholders

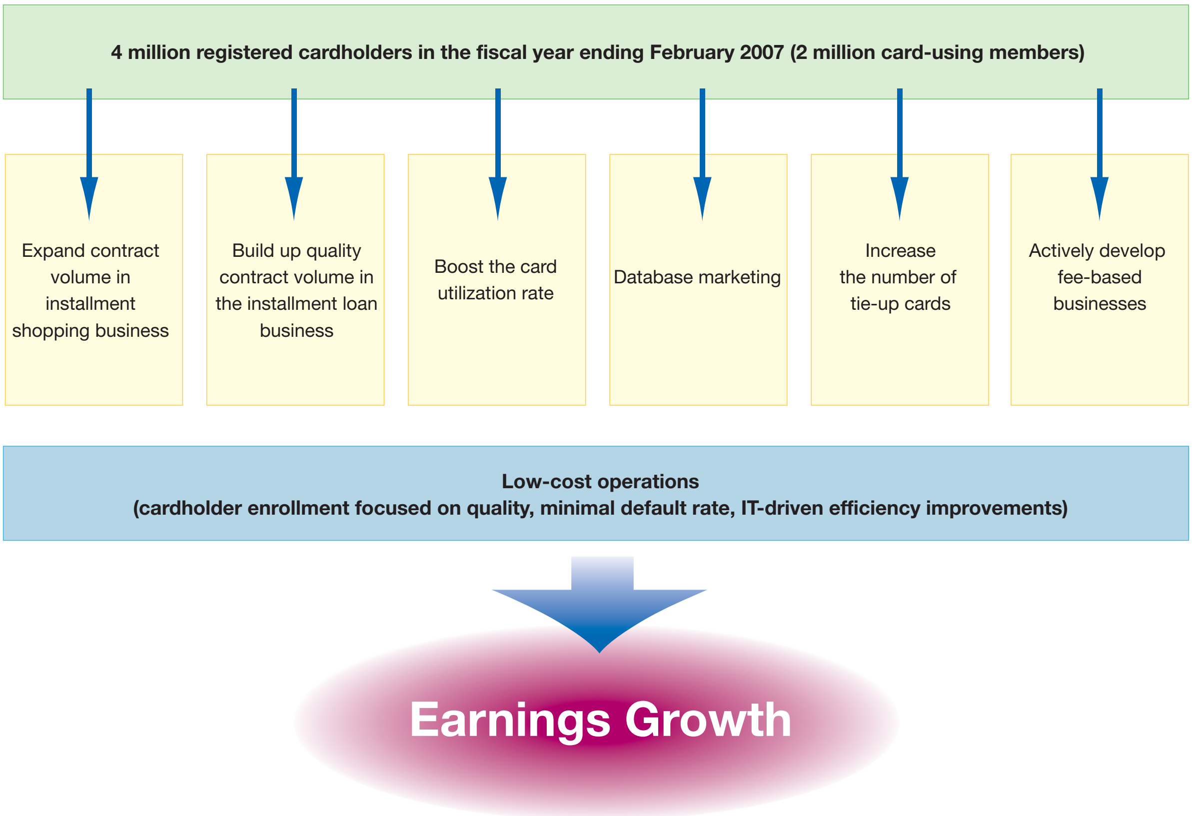


Q: ***What is your medium-term vision for POCKET CARD?***

A: Now that we are steadily building a new operating base, our next vision for POCKET CARD is to make it an unrivaled credit card company that can serve industries of all kinds and does not depend on any single market. Rather than merely focusing on increasing the number of cardholders, we aim to be a company that truly stands apart from the competition by offering value-added services that improve convenience for customers.

To make our vision for POCKET CARD a reality, we have formulated a three-year management plan starting in the fiscal year ending February 28, 2005. Based on our vision statement of “becoming an unrivaled company,” we are implementing two strategies to realize this vision: “build a strong organization with low-cost operations that generate high earnings,” and “rapidly develop the tie-up card and fee-based businesses.” Specific priorities include (1) rebuilding our internal systems and (2) strengthening existing businesses and (3) carving out new business. We will take bold and active steps to make progress in these three areas. In fiscal 2007, the final year of the medium-term management plan, we aim to generate recurring income of ¥8.5 billion and raise the card utilization rate to 50%.

■ Medium-term Management Plan (fiscal 2005 to fiscal 2007)



Q: *What concrete measures will POCKET CARD take?*

A: Our first priority is to rebuild our internal systems. This will involve introducing a new personnel system that includes performance-linked incentives and reinforcing our system infrastructure in customer relations, credit and receivables management.

Through these actions, we aim to build a stronger organization by improving employee motivation and operations related to customer, credit and receivables management.

Our next priority is to strengthen existing businesses. Our focus is on effecting a shift from volume to quality in all aspects of marketing activities, to improve the card utilization rate and efficiently enroll new cardholders. Upgrading risk management by developing a more detailed credit management model is another important theme. Specific actions aimed at improving the card utilization rate include the instant issuance of credit cards using highly versatile PDA mobile terminals, and meticulous customer relations management using database marketing techniques. In parallel, we look to capture new cardholders, focusing on card use, by concentrating on improving counseling-oriented marketing activities. On the risk management front, we will implement a more detailed credit scoring model and credit policies that reflect varying degrees of risk. Through these concrete actions, we hope to improve profitability and achieve low-cost operations in order to structure a powerful earnings base.

Our final priority is to develop new businesses. In this area, we stand to make significant progress by deepening our strategic alliance formed in May 2003 with the ITOCHU Group. Combining our payment services in the B-to-C field with the ITOCHU Group's renewed focus on consumer lifestyle-related businesses and broad business domains, we believe that the two companies can jointly develop businesses fro
perspective. For example, we will
base of operations in tie-up cards
fee-based businesses.

Q: *Do you have any message for POCKET CARD's stakeholders?*

A: Our drive to build a new operating base following the bankruptcy of MYCAL has met with many successes, including the issuance of tie-up cards with Posful Corp. and Sunlive Co., Ltd. and the strategic alliance with the ITOCHU Group. Our next step will be to establish a broad-ranging operating base, while strengthening our competitiveness and setting ourselves apart by building new business models.

The credit card industry has entered a period of heated competition where entrants from other industries are vying for market share, putting the very survival of credit card companies at stake. Viewing this as a promising opportunity to accomplish significant changes, we intend to drive forward sweeping reforms with speed. Leveraging the vitality and flexibility that comes with being a young company, we will work tirelessly to realize the unlimited potential of the new POCKET CARD. My hope is to build a highly profitable, strong organization with low cost operations, and a highly motivated and vibrant workforce.

POCKET CARD is committed to leading the way in running attractive credit card businesses that consistently offer greater value to customers. I look forward to your support and understanding as we endeavor to reach our goals.

Numerical Goals for the Fiscal Year Ending February 28, 2007

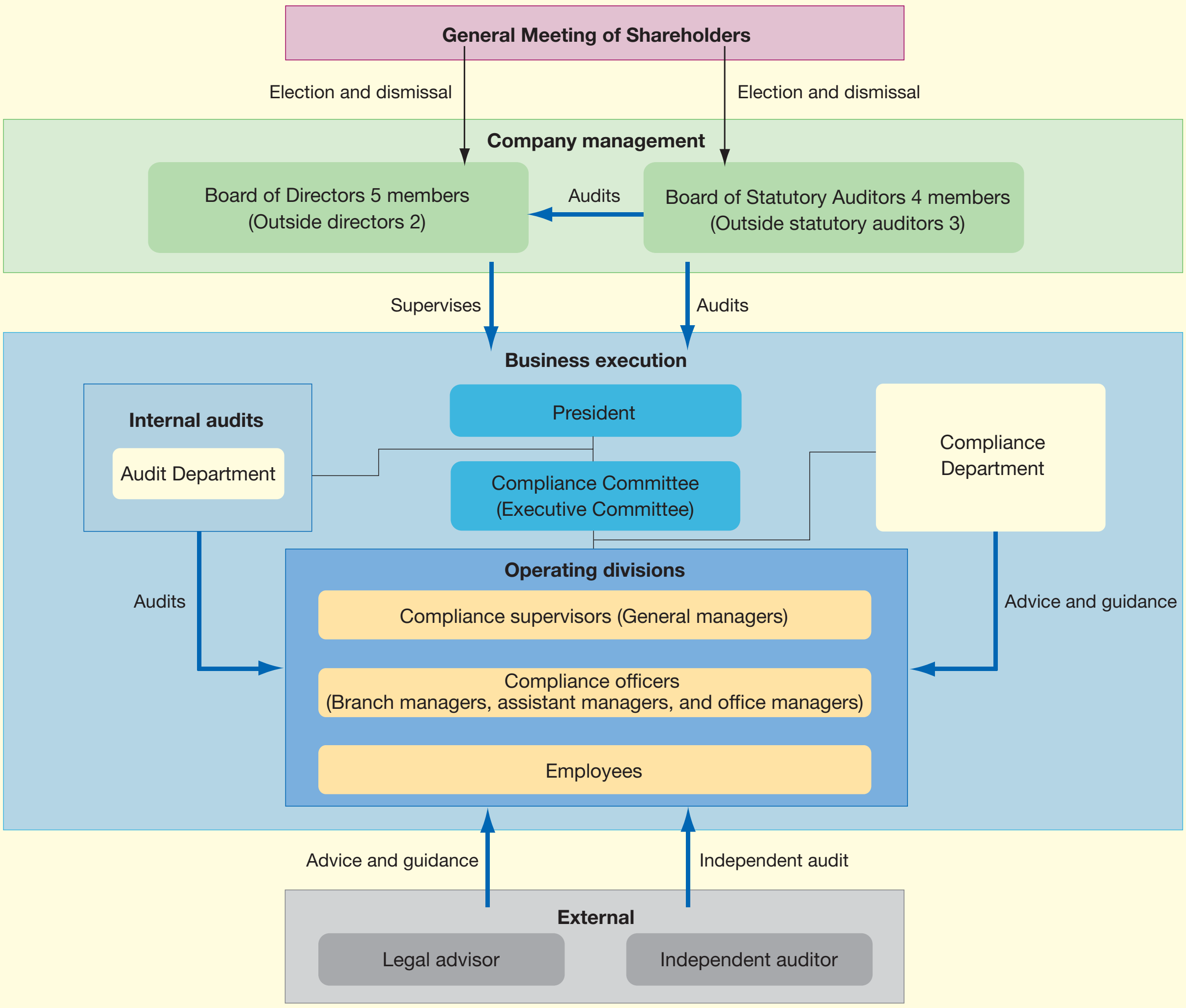
Recurring Income →	¥8.5 billion
Card Utilization Rate →	50%

POCKET CARD's Corporate Governance System

In recognition of the fact that a strong corporate governance system is vital to enhancing competitiveness and fulfilling its social responsibilities, POCKET CARD has positioned corporate governance as a management issue of paramount importance.

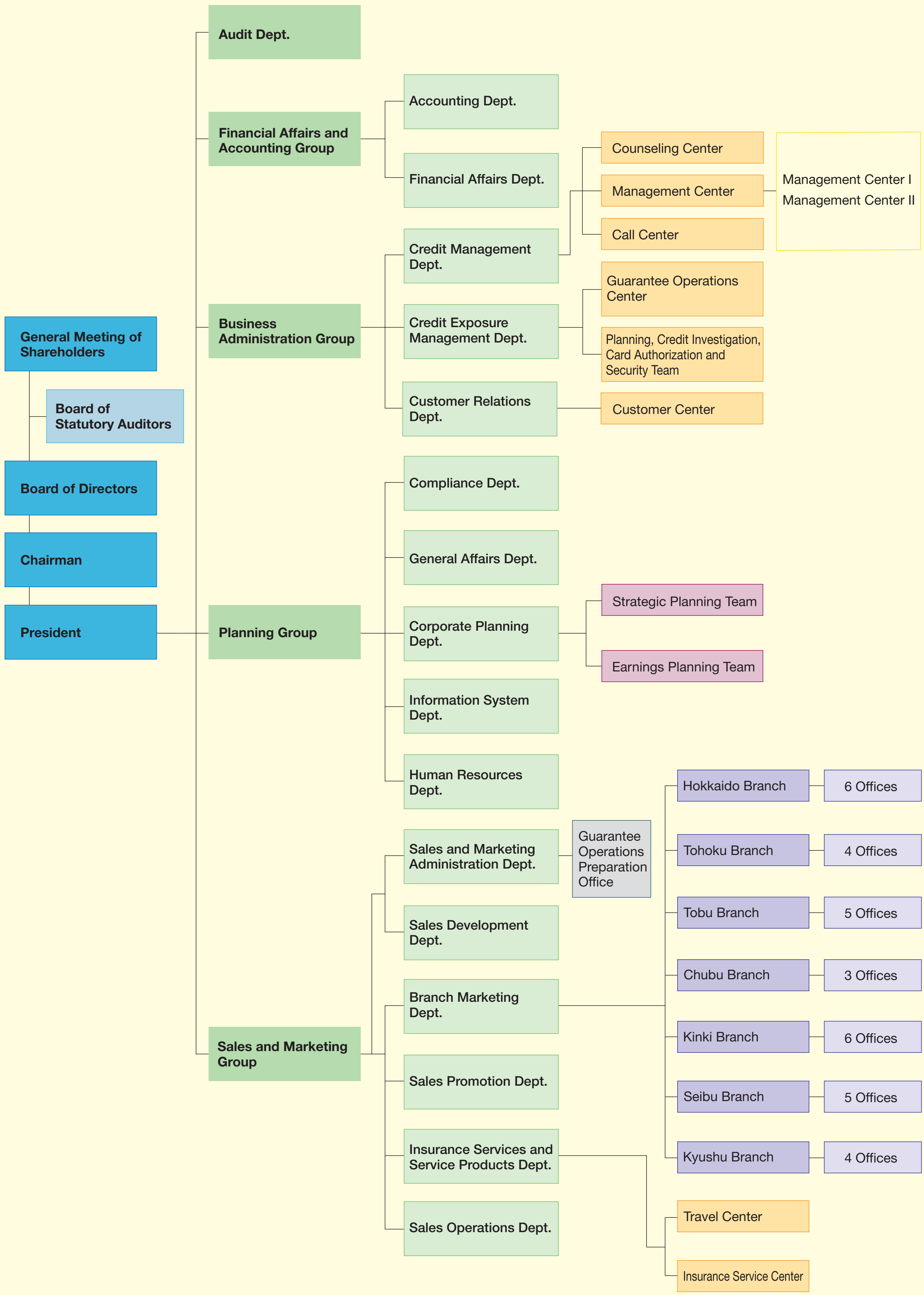
The Company's corporate governance system is based on a statutory auditor system. Under this system, corporate auditors elected at the annual general meeting of shareholders audit decisions made by the Board of Directors and business execution carried out by executive officers. There are four statutory auditors, three of whom are from outside the Company to ensure fairness and transparency. Statutory auditors conduct audits of the Company's business activities and the actions of the Board of Directors to ensure that they are appropriate and effective. To raise the effectiveness of audits, there is one standing statutory auditor. The Board of Directors has five members, two of whom are outside directors. The Board of Directors formulates management strategies and supervises business execution. In May 2001, the Company adopted an executive officer system to separate management decision making and business execution and to clarify the responsibilities of directors and executive officers.

To ensure that the Company's business activities comply with all laws and regulations, the Board of Directors, as the highest decision-making body with regard to compliance, sets and reviews all fundamental policies and compliance standards. The Compliance Committee monitors the effectiveness of the overall compliance system. In May 2004, the General Affairs Department's Compliance Office was upgraded to the newly established Compliance Department, with the goal of improving compliance functions. The Company also works to instill a strong awareness of the importance of compliance throughout the Company by providing educational programs and developing a shared understanding at each workplace, with the view to fostering compliance, preventing accidents and resolving issues.



ORGANIZATIONAL CHART

As of June 11, 2004



POCKET CARD is driving forward a host of measures designed to set the company apart and establish competitive advantages in the credit card industry. The goal is to provide the highest possible level of convenience to both cardholders and member stores, increase their numbers and improve the card utilization rate.

The industry's only firm offering a 1% discount on card purchases

One distinctive aspect of POCKET CARD is that it offers a 1% discount on purchases made on credit at member stores around the world, a service launched in April 2002. POCKET CARD is the only card company in the industry that offers this service—a special privilege for customers that has significantly contributed to an increase in the number of cardholders and the card utilization rate.

Detailed customer management

POCKET CARD also provides detailed services and programs, based on an upgraded CRM system supported by a customer database of more than six million entries. For example, we have increased the card utilization rate and increased customer satisfaction through sales promotion activities that offer financial products based on customer information as well as special events and campaigns that match individual customer needs.

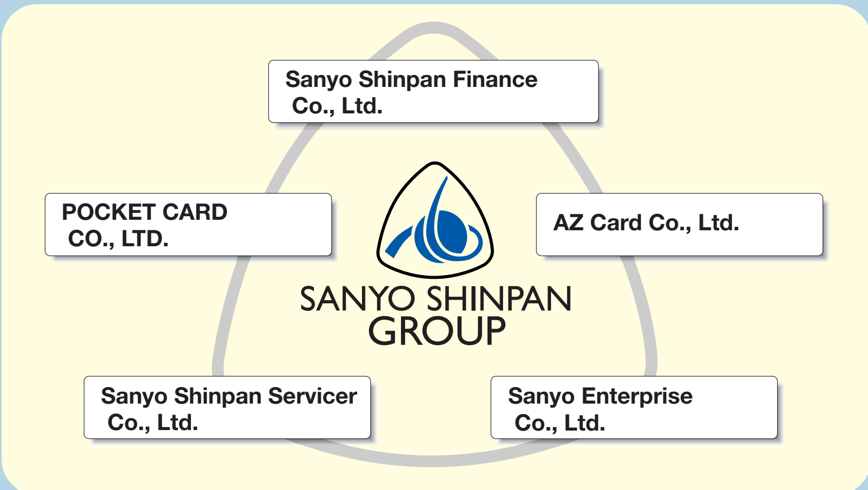
Instant issuance of credit cards to meet customer needs

We have also taken steps to increase customer convenience by speeding up the card issuance process. Since the end of 2003, PDA mobile terminals have been introduced at the sales frontline to facilitate the instant issuance of credit cards. The perfect solution for customers seeking to use their cards immediately after their applications are approved, instant credit card issuance has greatly contributed to our ability to enroll new cardholders, while improving the card utilization rate and raising profitability by lowering costs. Other benefits include fewer lost opportunities to enroll new cardholders and fewer sales personnel needed to attract new cardholders at stores. Also, because the credit screening process is completely automated, the system has enhanced our cost competitiveness by increasing the efficiency of credit operations. We have discovered that the card utilization rates of customers who use their cards immediately after application is

about three times as high as cardholders who did not do so. We therefore expect that providing opportunities for customers to use their new cards right away will drive significant growth in contract volumes. Instant credit card issuance via mobile terminals is also a strong asset in our drive to enroll new cardholders at movie theaters and amusement facilities, giving us an even sharper competitive edge.

These and other measures to increase customer satisfaction have helped to significantly expanded our cardholder base from 3.11 million in 2002 to 3.75 million in 2004. This increase has been underpinned by a range of actions. Cardholder enrollment initiatives tailored to specific regions have been carried out mainly from our nationwide network of branches and offices. We are also concentrating on seeking out new opportunities for enrolling cardholders outside our existing operating base, expanding our network of cardholder enrollment locations to include theme parks and commercial facilities across Japan. As of February 29, 2004, these efforts had lifted the number of cardholders to 3.75 million, of whom three quarters were women. This gives POCKET CARD a cardholder base unlike most other credit card companies, who have a large percentage of male cardholders. Our cardholder base is also very well balanced in terms of geography and age profile, with geographic coverage extending from Hokkaido in the north to Kyushu in the south and cardholders in their twenties to sixties.

Synergies With the Sanyo Shinpan Group: Competitive Advantages in Risk Management Operations



Sanyo Shinpan Finance Co., Ltd., our parent company, is one of Japan's largest consumer finance companies whose core operations include consumer loans. Since Sanyo Shinpan's main business domain is consumer finance, and POCKET CARD's earnings are underpinned by cash advances, the two companies' operations share much in common, particularly in credit exposure and credit management. Since joining the Sanyo Shinpan Group in April 2001, POCKET CARD has worked to capture synergies in these operations. Actions include the transfer of an initial credit table, formulation of rules for post-application credit management, and cross-pollination of expertise in credit exposure and credit management through personnel exchanges. As a result, we have achieved growth in earnings through an improvement in credit management techniques, while lowering the cost of bad debt write-offs through tighter control of credit risk. We will continue to leverage synergies with Sanyo Shinpan, drawing on its experience and expertise in the consumer finance industry, especially its strengths in consumer loans, to sharpen our competitive edge in risk management.

Looking ahead, POCKET CARD will further refine risk management operations, an area of strength and a key driving force behind credit card operations, with the aim of setting ourselves apart from the competition and following a unique growth path.

Strategic Capital and Operational Alliance With the ITOCHU Group

In May 2003, POCKET CARD formed a strategic capital and operational alliance with ITOCHU Corporation and ITOCHU Finance Corporation in the credit card business to jointly develop businesses and conduct sales activities. This alliance combines the ITOCHU Group's diverse network, strong brand image and broad product planning skills, POCKET CARD's cardholder enrollment and CRM expertise gained over 20 years of experience as a retail-oriented credit card company, and its synergies with the Sanyo Shinpan Group in terms of lending and credit management. For POCKET CARD, which is seeking independence from the MYCAL Group, an alliance with the ITOCHU Group will pave the way for developing new marketing channels using the latter group's extensive network. For the ITOCHU Group, which is strengthening its hand in the retail sector in response to a shift to a consumer-centric industrial structure, entering the credit card business, which plays a vital role in retail finance, is a key strategic move.

The first joint undertaking of the alliance was a tie-up with Excite Japan Co., Ltd., which runs Excite, a major search engine-driven Internet portal site that also provides information on movies, music and other forms of entertainment and content distribution services. In October 2003, POCKET CARD issued the Excite MasterCard, the official credit card of Excite. POCKET CARD aims to increase its number of cardholders and card utilization in cooperation with Excite, which boasts 20 million users monthly. This will see us establish a new model for enrolling new cardholders over the Internet. In these and other ways, the alliance with ITOCHU Corporation is already delivering concrete results. The February 2004 capital and operational alliance with Famima Credit Corporation was another key step forward. Building on the success of the first two projects, we will rapidly pursue the third and fourth joint projects of this alliance.

Awarded "Best Card Holders Promotion" at the MasterCard International Annual General Meeting

In June 2003, the MasterCard International Annual General Meeting was held in Perth, Australia, attended by MasterCard-issuing companies throughout the Asia-Pacific region. At this event, POCKET CARD was awarded the "Best Card Holders Promotion" award, one of the highest honors a company can receive for the promotion of customer satisfaction in the region. The award recognized a range of initiatives the company has undertaken in a spirit of challenge, such as its 1% discount on purchases made on credit. POCKET CARD will continue to improve customer satisfaction from the perspective of cardholders. Actions will include offering attractive services and special privileges to cardholders, as well as detailed customer service.

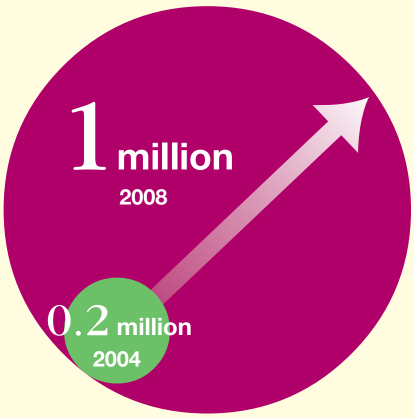
Capital and Operational Alliance With Famima Credit Corporation—Implementation of Our First Fee-based Business Model

The second joint undertaking of the alliance with the ITOCHU Group was the February 2004 capital and operational alliance with Famima Credit Corporation, a strategic subsidiary of major convenience store chain FamilyMart. Famima Credit provides convenient, value-oriented customer services through the issuance of credit cards via FamilyMart's nationwide chain of approximately 6,000 stores. Under this alliance, POCKET CARD will provide credit guarantees for holders of the JUPI Card, a credit card issued by Famima Credit. POCKET CARD conducts the initial credit investigations of card applicants and handles post-application credit management on behalf of Famima Credit, and receives revenues in the form of fees for these services.

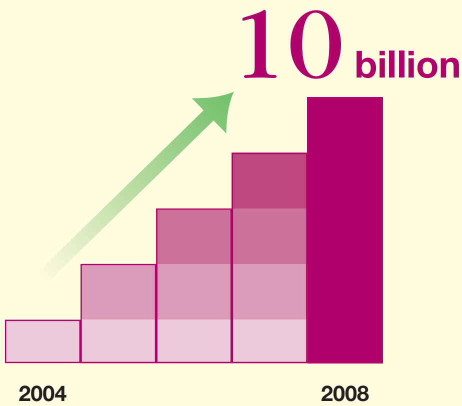
The significance of this alliance for POCKET CARD is that it represents the company's first fee-based business model. For Famima Credit, the alliance is expected to improve equity, lower credit management costs, increase profitability though the application of sophisticated credit expertise, and improve the control of credit risk. Looking ahead, Famima Credit will substantially strengthen marketing activities at FamilyMart stores with the goal of raising its total membership from 200,000 members as of February 29, 2004 to 1 million members by 2008. POCKET CARD's business is expected to grow in line with this expanding membership base.

With this partnership leading the way, POCKET CARD will cultivate and grow fee-based business models into a third pillar of earnings alongside the installment shopping and installment loan businesses.

■ JUPI CARD'S EXPANDING MEMBERSHIP



■ CUMULATIVE REVENUES IN FIVE YEARS



Business Environment

In the fiscal year ended February 29, 2004, Japan's economy saw difficult conditions continue into the first half of the fiscal year, mainly due to low levels of capital expenditures and consumer spending. However, signs of economic recovery gradually started to appear in the second half of the year, underpinned by a rebound in capital expenditures on the back of improved corporate earnings, and a greater willingness to spend on the part of consumers.

In the credit card industry, the business environment remained difficult due to the rising cost of bad debt in line with an increase in the number of personal bankruptcies and other factors. In this climate, the credit card industry experienced drastic consolidation, as seen in a series of alliances and mergers spanning traditional boundaries between the retailing, banking and consumer credit sectors. Cooperation and collaboration between players in different industries and business formats is driving further expansion in new business domains.

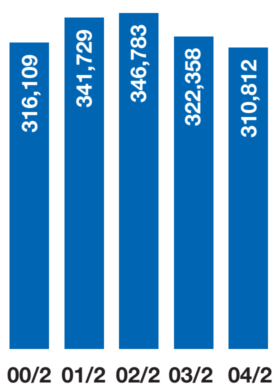
In this environment, POCKET CARD moved aggressively to implement three basic strategies: rebuild its credit card business, assemble a strong financial base, and establish steady sources of earnings. Concrete actions included forming new alliances, reinforcing ties with existing alliance partners and diversifying fund-procurement sources and promoting low-cost operations.

Despite difficult business conditions, POCKET CARD posted a 1.5% year-on-year decrease in income to ¥32,349 million, mostly on a par with the previous fiscal year. However, the provision for possible credit losses rose 53.8% to ¥8,484 million, due partly to a higher incidence of default due to the increase in personal bankruptcies, and higher provisions to doubtful accounts aimed at improving financial strength. Consequently, operating expenses on the whole rose 6.7% year on year to ¥28,080 million.

As a result of the foregoing, income before income taxes declined 34.5% to ¥4,268 million, and net income fell 32.1% to ¥2,521 million.

Volume of New Contracts

(¥ million)



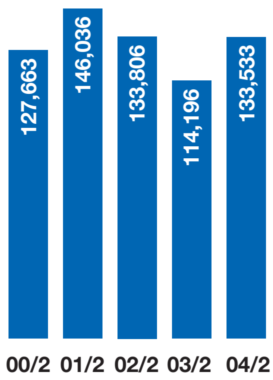
Segment Review

Installment Shopping

Overall, the installment shopping business posted a sharp 16.9% increase in the volume of new contracts to ¥133,533 million. This mainly reflected growth in new contract volume in line with rising membership at alliance partners such as Posful Corporation, Sakurano Department Store Co., Ltd., and Sunlive Co., Ltd. Another factor was an increase in new contract volume at ordinary member stores, supported by greater penetration of the 1% discount on purchases made on credit and other positive factors.

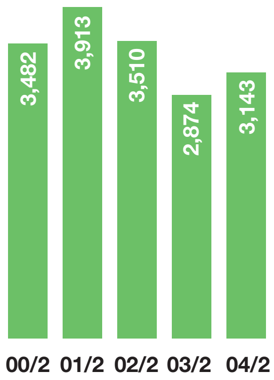
Installment Shopping: New Contract Volume

(¥ million)



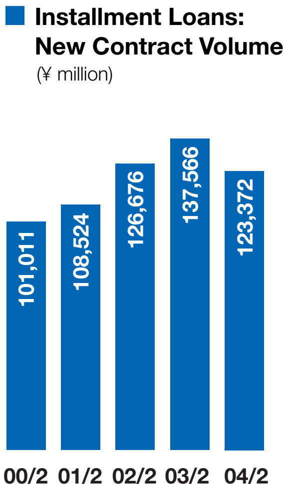
Installment Shopping: Income

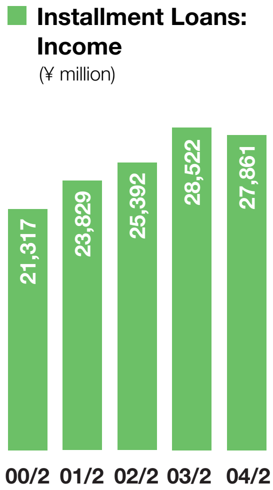
(¥ million)



Installment Loans

The installment loan business generated new contract volume of ¥123,372 million, down 10.3% year on year. The decrease mainly reflected persistently difficult market conditions, typified by sluggish consumer spending and a nationwide increase in personal bankruptcies, as well as the application of stricter credit criteria at POCKET CARD due to the higher incidence of default.





Sales Network Expansion, Member Enrollment and Other Factors

In May 2003, POCKET CARD formed a strategic capital and operational alliance with ITOCHU Corporation. Under the terms of this alliance, POCKET CARD has worked to create new opportunities that leverage the ITOCHU Group's vast resources and broad-ranging network. Progress has been made on a number of fronts. In October 2003, POCKET CARD issued a tie-up card with Excite, which operates a major Internet portal site. February 2004 saw the formation of a strategic capital and operational alliance with Famima Credit Corporation, whose operating base encompasses approximately 6,000 convenience stores nationwide run by FamilyMart, one of Japan's largest convenience store operators. Combining POCKET CARD's payment services in the B-to-C field with the ITOCHU Group's renewed focus on consumer lifestyle-related businesses and broad business domains, the two companies plan to jointly develop businesses from an entirely new perspective.

In its existing operating base, the *Kurashiraku Card*, a tie-up card with Sunlive for which member enrollment started in March 2003, performed well. Member enrollment at alliance partners Posful Corporation and Sakurano Department Store Co., Ltd. also made good progress. These efforts helped us add 644,000 new cardholders in fiscal 2004, lifting the total number of cardholders by 300,000 to 3.75 million.

POCKET CARD took various actions aimed at improving the convenience of credit cards. One measure was to upgrade our instant card issuance system by introducing PDA mobile terminals at the sales frontline, thereby satisfying customers seeking to use their credit cards immediately after they are issued. Another was the introduction of the *Ato Revokun* service, which lets customers reschedule payments from a single-installment to revolving payment plan.

POCKET CARD also saw its drive to assemble a new sales network, a key management issue, achieve a measure of success. The company took this opportunity to appoint a new representative director and president, Makoto Tsuzuki to lead the way to the next stage of growth. Under the leadership of its new management team, POCKET CARD will work to make speed a defining characteristic of management.

Cash Flows

As of February 29, 2004, cash and cash equivalents were ¥21,807 million, ¥9,672 million, or 30.7%, less than a year earlier.

Operating Cash Flows

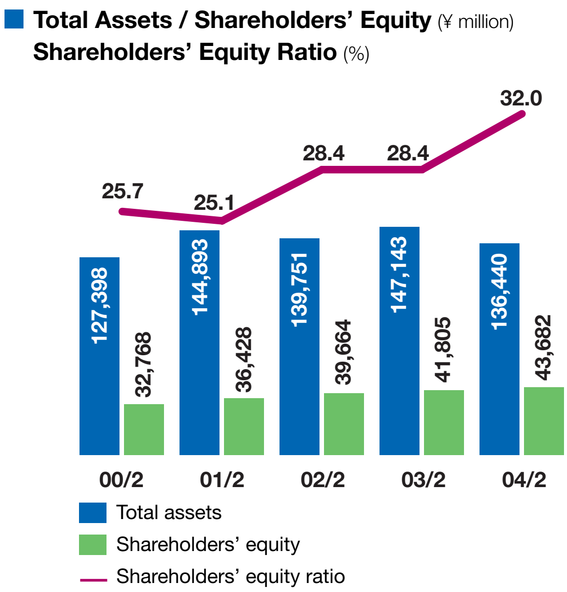
Net cash provided by operating activities in fiscal 2004 was ¥13,481 million, mainly reflecting net income of ¥2,521 million.

Investing Cash Flows

Net cash used in investing activities in fiscal 2004 was ¥8,739 million, mainly reflecting the fact that credit card loans originated exceeded credit card loans collected by ¥10,049 million.

Financing Cash Flows

Net cash used in financing activities in fiscal 2004 was ¥14,414 million. This mainly reflected decreases of ¥13,700 million in commercial paper and ¥4,000 million in short-term borrowings, which was partly offset by an increase of ¥34,650 million in proceeds from the issuance of long-term debt.



Non-Consolidated Balance Sheets

POCKET CARD CO., LTD. February 29, 2004 and February 28, 2003

	Millions of yen	
	2004	2003
ASSETS		
Cash and cash equivalents	¥ 21,807	¥ 31,479
Finance receivables—Net of allowance for possible credit losses of ¥6,037 million in 2004 and ¥3,653 million in 2003 (Notes 4 and 8)	96,477	97,678
Property and equipment—Net (Note 5)	2,186	2,426
Investments (Note 6)	1,885	1,295
Deferred tax assets (Note 13)	1,724	913
Other assets (Note 7)	12,361	13,352
TOTAL	¥136,440	¥147,143
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Debt (Notes 8 and 17)	¥ 76,388	¥ 90,118
Accounts payable (Note 9)	14,404	13,350
Accrued income taxes (Note 13)	1,199	1,037
Accrued liabilities (Notes 10 and 11)	767	833
Total liabilities	92,758	105,338
Commitments and Contingent Liabilities (Notes 4, 8 and 16)		
Shareholders' Equity (Notes 12 and 19)**:**		
Common stock—authorized, 80,000,000 shares in 2004 and in 2003; issued, 30,380,222 shares in 2004 and in 2003	11,268	11,020
Additional paid-in capital	12,578	12,330
Legal reserve	510	510
Retained earnings	19,817	18,585
Unrealized loss on available-for-sale securities	(37)	(77)
Treasury stock—at cost, 488,563 shares in 2004 and 684,141 shares in 2003	(454)	(563)
Total shareholders' equity	43,682	41,805
TOTAL	¥136,440	¥147,143

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Income

POCKET CARD CO., LTD. Years ended February 29, 2004 and February 28, 2003

	Millions of yen	
	2004	2003
Income:		
Interest income on installment loans	¥27,861	¥28,522
Financing fees on installment shopping	3,143	2,874
Other income	1,345	1,446
Total income	32,349	32,842
Expense:		
Interest expenses	1,166	1,101
Other expenses	441	768
Total expense	1,607	1,869
Income before provision for possible credit losses	30,742	30,973
Provision for Possible Credit Losses (Note 4)	8,484	5,517
Income after provision for possible credit losses	22,258	25,456
Other Operating Expenses (Note 14)	17,586	18,053
Other (Loss) Income—Net (Note 15)	(404)	(889)
Income before Income Taxes	4,268	6,514
Income Taxes (Note 13)**:**		
Current	2,587	2,968
Deferred	(840)	(168)
Total income taxes	1,747	2,800
Net Income	¥ 2,521	¥ 3,714

	Yen	
Net Income per Common Share	¥84.33	¥122.49
Cash Dividends per Common Share, Applicable to Respective Year	25.00	25.00

See Notes to Non-Consolidated Financial Statements

Non-Consolidated Statements of Shareholders' Equity

POCKET CARD CO., LTD. Years ended February 29, 2004 and February 28, 2003

		Millions of yen						
	Outstanding Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings	Unrealized Gain (Loss) on Available-for-Sale Securities	Treasury Stock	Total Shareholders' Equity
Balance, March 1, 2002	30,379,281	¥11,020	¥12,330	¥510	¥15,817	¥(12)	¥ (1)	¥39,664
Net income					3,714			3,714
Cash dividends, ¥30 per share . .					(911)			(911)
Bonuses to directors and corporate auditors					(35)			(35)
Purchase of treasury stock	(683,200)						(562)	(562)
Net increase in unrealized loss on available-for-sale securities						(65)		(65)
Balance, February 28, 2003	29,696,081	¥11,020	¥12,330	¥510	¥18,585	¥(77)	¥(563)	¥41,805
Net income					2,521			2,521
Cash dividends, 22.5 per share . .					(671)			(671)
Issuance of common stock	680,000	248	248					496
Purchase of treasury stock	(484,422)						(509)	(509)
Retirement of treasury stock (680,000 shares)					(618)		618	
Net decrease in unrealized loss on available-for-sale securities						40		40
Balance, February 29, 2004	29,891,659	¥11,268	¥12,578	¥510	¥19,817	¥(37)	¥(454)	¥43,682

See Notes to Non-Consolidated Financial Statements.

Non-Consolidated Statements of Cash Flows

POCKET CARD CO., LTD. Years ended February 29, 2004 and February 28, 2003

	Millions of yen	
	2004	2003
Operating Activities:		
Net income	¥ 2,521	¥ 3,714
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for possible credit losses	8,484	5,517
Depreciation and amortization	1,384	1,077
Loss on sales and disposal of property and equipment	441	587
Loss on revaluation of golf memberships		108
Other—net	84	(43)
Changes in operating assets and liabilities:		
Accrued interest receivable	(238)	7
Deferred tax assets	(811)	(215)
Other assets	466	(3,157)
Accrued income taxes	162	(1,163)
Accounts payable	1,054	(1,678)
Accrued and other liabilities	(66)	(172)
Total adjustments	10,960	868
Net cash provided by operating activities	13,481	4,582
Investing Activities:		
Credit card loans originated	(260,210)	(300,800)
Credit card loans collected	250,161	284,544
Proceeds from securitizations of finance receivables	4,000	25,000
Maturities of securitized finance receivables	(1,010)	
Purchases of property and equipment	(131)	(257)
Purchases of software	(605)	(1,169)
Purchases of investments in securities	(522)	(52)
Increase in other non-current assets	(583)	(2,288)
Decrease in other non-current assets	161	1,657
Net cash (used in) provided by investing activities	(8,739)	6,635
Financing Activities:		
Net decrease in short-term borrowings	(4,000)	(6,650)
Net (decrease) increase in commercial paper	(13,700)	8,500
Proceeds from issuance of long-term debt	34,650	27,368
Repayment of long-term debt	(30,680)	(20,954)
Proceeds from issuance of common stock	496	
Purchase of treasury stock	(509)	(562)
Dividends paid	(671)	(911)
Net cash (used in) provided by financing activities	(14,414)	6,791
Net (decrease) increase in cash and cash equivalents	(9,672)	18,008
Cash and cash equivalents, beginning of year	31,479	13,471
Cash and cash equivalents, end of year	¥ 21,807	¥ 31,479
Additional cash flow information:		
Interest paid	¥ (1,351)	¥ (1,216)
Income taxes paid	(2,425)	(4,132)

See Notes to Non-Consolidated Financial Statements.

Notes to Non-Consolidated Financial Statements

POCKET CARD CO., LTD. Years ended February 29, 2004 and February 28, 2003

1. CHANGES IN PARENT COMPANY AND MINORITY INTEREST

On April 17, 2001, 51% of the shares of POCKET CARD CO., LTD. (the "Company") were acquired by Sanyo Shinpan Finance Co., Ltd., through a take over bid, and the parent company was changed from MYCAL Corporation to the Sanyo Shinpan Finance Co., Ltd. The Company changed its company name from MYCAL CARD INC. to the present one in December 2001.

On April 18, 2003, 6,227,800 shares of common stock, which amounted to 20.5% of the issued and outstanding shares, were transferred form MYCAL Corporation (the former parent company) to ITOCHU Finance Corporation, which accordingly caused the ITOCHU Finance Corporation to become the second largest shareholder of the Company.

On May 3, 2003, the Company issued 680,000 new shares of common stock at ¥730 per share to ITOCHU Corporation for ¥496 million in the aggregate.

2. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in the Japanese Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. The non-consolidated financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The accompanying non-consolidated statements of cash flows have been additionally reclassified in a form which is more familiar to readers outside Japan, which are furthermore different in certain respects as to application and disclosure requirements of accounting principles and practices generally accepted in Japan. In addition, certain reclassifications have been made in the 2003 financial statements to conform to the classifications used in 2004.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

Cash equivalents 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.

Credit Cards

The Company provides credit card services to credit card holders. Receivables from credit card holders are recorded after the Company has accepted the relevant contracts that are referred to the Company by the member retailers and outlets. Fees from customers, except those who pay the full amount of such contract one time, are generally recognized on the interest method. The Company also receives fees for collection and administrative services from the member retailers and outlets. Such fees are recognized at the time the Company accepts the relevant contracts.

Consumer Shopping Credit

Contract receivables from general customers are recorded after the Company has accepted the relevant installment contracts that are referred to the Company by the member retailers and outlets. The member retailers and outlets receive cash payment for their sales from the Company acting on behalf of individual customers after the contracts are accepted. Payment by the Company is generally made at a discount representing the commissions charged to the member retailers and outlets for administration fees of retail contracts. Individual customers who utilize consumer credit facilities offered by the Company, except those who have previous history of repaying the full amount of retailed contracts, are charged commissions. The amount of the commission is computed by applying a predetermined fixed rate to the initial retail contract price. Commission rates are determined principally on the basis of the number of monthly installment payments and prevailing rates. Commissions from the member retailers and outlets are recognized at the time the Company accepts the relevant contracts. Commissions from individual customers are generally recognized on the interest method.

Loans

The Company provided personal loans and commercial loans, including loans to credit card holders. Contract receivables are recorded when loan contracts become effective.

Monthly billings to borrowers include principal and interest, and the amount of each billing generally remains constant for the contract period. Interest income is recognized by the interest method.

The Company also provides loans to customers of other finance companies and such loans are collected from those other finance companies. The Company recognizes commission income from other finance companies for the services rendered when loans are made.

Lease Operations
Lease operations of the Company are accounted for by the operating lease method, and lease fees arising from the lease contract are recognized as income over the lease terms as they become due.

Allowance for Possible Credit Losses
The allowance for doubtful accounts is stated at amounts considered to be appropriate based on the Company's past credit loss experience and an evaluation of potential losses in the receivables outstanding. The Company's consumer loan receivables are written off when they are one year or more past due. Cash collections on loans, which were previously written off, are credited to the allowance for possible credit losses.

Investment Securities
Marketable and investment securities are classified and accounted for, depending on management's intent, as follows:

Marketable securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains or losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method.

Investments in non-marketable, available-for-sale securities are stated at cost determined by the moving average cost method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

Property and Equipment
Property and equipment are stated at cost. Depreciation is computed by the declining-balance method, while the straight-line method is applied to buildings, at rates based on the estimated useful lives of the assets. The range of useful lives is principally from 3 to 47 years for buildings and structures, from 3 to 20 years for office equipment.

Leases
All leases 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.

Software Costs
Capitalized software for internal use is amortized by the straight-line method based on the Company's estimated useful life (five years).

Securitizations of Finance Receivables
The Company transfers pools of finance receivables to one or more third-party trusts or qualified special purpose entities (the "trusts") for use in securitization transactions. Transfers of receivables are accounted for as off-balance sheet securitizations. Certain undivided interests in the pool of finance receivables are sold to investors as asset-backed securities in private placement transactions. The remaining undivided interests retained by the Company are recorded in finance receivables. The proceeds from off-balance sheet securitizations are distributed by the trusts to the Company as consideration for the finance receivables transferred.

Bonds with Warrants
The proceeds of bonds with warrants are allocated between a bond portion resulting in a bond discount and a warrant portion. Bond discounts are amortized over the term of the related bonds. The amounts ascribed to warrants are stated in accrued liabilities.

Bond Issuance Costs
Bond issuance costs are charged to income when incurred.

Stock Issuance Costs
Stock issuance costs are charged to income when incurred.

Income Taxes
The provision for income taxes represents amounts currently payable. Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

Retirement and Pension Plans
Amounts contributed to the Company's funded defined benefit pension plan, covering substantially all of its employees, are charged to income when paid. The Company accounted for the liabilities for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. Actuarial gains and losses were recognized in expenses using the straight-line method over the average of the estimated remaining service lives of eight years.

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. The weighted-average number of common shares used in the computation was 29,898,494 shares for 2004 and 30,321,339 shares for 2003.

The calculation of dilution for net income per common share is not applicable, because the average market value of the share remained lower than the exercise price of each warrant and the probability of dilution during the periods presented was limited.

Cash dividends per common share presented in the accompanying non-consolidated statements of income represent the cash dividends applicable to the year including dividends to be paid after the end of the year.

Derivatives and Hedging Activities

The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company 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 gains or losses on derivative transactions are recognized in the income statement 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, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts employed to hedge foreign exchange exposures for debt and accounts payable are measured at the fair value and the unrealized gains/losses are recognized in the statements of income.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expenses or income.

Appropriations of Retained Earnings

Appropriations of retained earnings at each year end are reflected in the books of account subsequent to year end upon approval at the shareholders meeting. As required by the Code, payments of bonuses to directors and corporate auditors are made as an appropriation of retained earnings.

4. FINANCE RECEIVABLES

Finance receivables as of February 29, 2004 and February 28, 2003, were as follows:

	Millions of yen	
	2004	2003
Credit card installment shopping	¥ 28,792	¥ 24,846
Credit card cashing—interest primarily from 25% to 29%	71,299	74,304
Accrued interest	2,396	2,158
Other	27	23
Total	102,514	101,331
Allowance for possible credit losses	(6,037)	(3,653)
Finance receivables—net	¥ 96,477	¥ 97,678

The Company transferred pools of finance receivables to investors without recourse for use in securitization transactions through trust and banking companies. The total principal amounts of finance receivables off-balance sheet were ¥47,990 million and ¥45,000 million, for the years ended February 29, 2004 and February 28, 2003, respectively.

Changes in the allowance for possible credit losses for the years ended February 29, 2004, and February 28, 2003, were shown below:

	Millions of yen	
	2004	2003
Balance at beginning of year	¥ 3,653	¥ 3,600
Provision	8,484	5,517
Charge-offs	(6,588)	(5,711)
Recoveries	488	247
Net charge-offs	(6,100)	(5,464)
Balance at end of year	¥ 6,037	¥ 3,653

According to Articles 9 and 20 and supplementary regulations of financial accounting and reporting for a special finance company (Prime Minister's Office and Ministry of Finance Ordinance No. 32), the Company's bad debt, including the off-balance sheet pools of finance receivables, was as follows:

The total amount of bad debt at February 29, 2004 and February 28, 2003, was ¥6,456 million and ¥5,172 million, respectively, and consisted of the following:

The balance of defaulted loans at February 29, 2004 and February 28, 2003, was ¥534 million and ¥574 million, respectively. Defaulted loans are loans, except for a portion of the loans written down, accruing interest which are not recorded as income since principal or interest on such loans is unlikely to be recovered considering significant postponements of principal or interest or other circumstances.

The balance of delinquent loans described below at February 29, 2004 and February 28, 2003, was ¥2,693 million and ¥2,157, respectively. Delinquent loans are credits with accruing interest that are not recorded as income due to the same reason as above, and do not include defaulted loans.

The balance of delinquent loans past three months or more from the due date of interest or principal under terms of the related loan agreements at February 29, 2004 and February 28, 2003, was ¥694 million and ¥766 million, respectively, which does not include the amount of defaulted loans and delinquent loans described above.

The balance of restructured loans at February 29, 2004 and February 28, 2003, was ¥2,535 million and ¥1,675 million, respectively. Restructured loans have certain concessions favorable to borrowers, such as postponement of interest payments and other methods made with the objective of recovering the loans, and do not include the amount of defaulted loans, delinquent loans, and delinquent loans past three months or more described above.

At February 29, 2004 and February 28, 2003, the Company had commitments to extend credit in the amount of ¥1,187,689 million (¥1,069,845 million unused) and ¥1,112,481 million (¥996,388 million unused), respectively, including the off-balance sheet pools of finance receivables referred to above. The commitments to extend credit arise from agreements to extend to customers unused revolving lines of credit issued by the Company provided that there are no violations of the conditions in the related agreements. These commitments, all of which the Company can terminate at any time and which do not necessarily represent future cash requirements, are periodically reviewed based on account usage and customer creditworthiness. In the opinion of management, these commitments will not have a material adverse effect on the cash flow of the Company.

5. PROPERTY AND EQUIPMENT

Property and equipment at February 29, 2004 and February 28, 2003, consisted of the following:

	Millions of yen	
	2004	2003
Land	¥ 1,304	¥ 1,304
Buildings and structures	696	703
Office equipment	1,968	2,224
Total	3,968	4,231
Less accumulated depreciation	(1,782)	(1,805)
Property and equipment—net	¥ 2,186	¥ 2,426

Depreciation of property and equipment included in other operating expenses during the years ended February 29, 2004 and February 28, 2003, was ¥229 million and ¥409 million, respectively.

6. MARKETABLE AND INVESTMENTS SECURITIES

Marketable and investment securities at February 29, 2004 and February 28, 2003 were as follows:

	Millions of yen	
	2004	2003
Non-current:		
Marketable equity securities	¥ 818	¥ 747
Non-marketable equity securities	1,067	548
Total	¥1,885	¥1,295

The carrying amounts and aggregate fair values of marketable equity securities at February 29, 2004 and February 28, 2003 were as follows:

	Millions of yen			
February 29, 2004	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale Equity securities	¥880	¥43	¥105	¥818
February 28, 2003				
Securities classified as:				
Available-for-sale Equity securities	¥880	¥ 1	¥134	¥747

Available-for-sale securities whose fair value is not readily determinable as of February 29, 2004 and February 28, 2003 were as follows:

	Carrying amount	
	Millions of yen	
	2004	2003
Available-for-sale Equity securities	¥1,067	¥548

Proceeds from sales of available-for-sale securities for the year ended February 29, 2004 were ¥2 million. Gross realized loss on these sales, computed on the moving average cost basis, were ¥1 million.

7. OTHER ASSETS

Other assets at February 29, 2004 and February 28, 2003, consisted of the following:

	Millions of yen	
	2004	2003
Software	¥ 1,603	¥ 2,043
Advances to credit alliances	2,130	1,649
Accounts receivable from trusts	5,278	5,952
Rental deposit	1,883	1,667
Prepaid expenses	689	1,090
Accounts receivable other	296	479
Other	482	472
Total	¥12,361	¥13,352

8. DEBT

Debt at February 29, 2004 and February 28, 2003, consisted of the following:

	Millions of yen	
	2004	2003
Short-term borrowings, principally bank overdrafts and commercial paper of ¥2,300 million in 2004 and ¥16,000 million in 2003	¥ 9,500	¥27,200
Current maturities of long-term debt to banks and insurance companies	27,066	24,297
Unsecured 1.70% Japanese yen bonds with warrants, due 2004 (only bond portion)	197	
Unsecured 2.02% Japanese yen bonds, due 2004	1,100	
Unsecured 1.50% Japanese yen bonds, due 2003		5,000
Total	37,863	56,497
Long-term debt to banks and insurance companies, maturing serially through 2009—principally 1.34%–2.38%	33,025	29,324
Unsecured 1.43% Japanese yen bonds, due 2005	3,000	3,000
Unsecured 0.24% Japanese yen bonds, due 2005	1,000	
Unsecured 1.63% Japanese yen bonds, due 2005	500	
Unsecured 0.27% Japanese yen bonds, due 2005	1,000	
Unsecured 2.02% Japanese yen bonds, due 2004		1,100
Unsecured 1.70% Japanese yen bonds with warrants, due 2004 (only bond portion)		197
Total	¥76,388	¥90,118

At February 29, 2004, the aggregate annual maturities of long-term debt were as follows:

Year ending February 28 or 29	Millions of yen
2005	¥28,363
2006	27,060
2007	9,527
2008	1,488
2009 and thereafter	450
Total	¥66,888

The carrying amounts of assets pledged as collateral for short-term bank loans and the above collateralized long-term debt at February 29, 2004, were as follows:

	Millions of yen
	2004
Finance receivables:	
Credit card cashing	¥13,280
Total	¥13,280

The warrants issued with the unsecured 1.70% Japanese yen bonds are detachable and entitle the holders to subscribe for shares of the Company's common stock through August 24, 2004, at the exercise price of ¥3,900 per share at February 29, 2004. If all these outstanding warrants had been exercised at February 29, 2004, 50,400 shares of common stock would have been issued.

9. ACCOUNTS PAYABLE

Accounts payable at February 29, 2004 and February 28, 2003, consisted of the following:

	Millions of yen	
	2004	2003
Accounts payable trade	¥12,317	¥11,287
Accounts payable others	1,905	1,935
Others	182	128
Total	¥14,404	¥13,350

10. ACCRUED LIABILITIES

Accrued liabilities at February 29, 2004 and February 28, 2003 consisted of the following:

	Millions of yen	
	2004	2003
Liabilities for employees' retirement benefits (see Note 11)	¥315	¥376
Accrued bonus	142	161
Accrued interest	143	139
Accrued expenses	144	134
Other	23	23
Total	¥767	¥833

11. RETIREMENT AND PENSION PLANS

The Company has severance payment plans for employees. Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The liabilities (assets) for employees' retirement benefits at February 29, 2004 and February 28, 2003, consisted of the following:

	Millions of yen	
	2004	2003
Projected benefit obligation	¥ 643	¥ 693
Fair value of plan assets	(306)	(246)
Unrecognized prior service cost	337	447
Unrecognized actuarial gain	(22)	(71)
Net liabilities	¥ 315	¥ 376

The components of net periodic benefit costs for the years ended February 29, 2004 and February 28, 2003, were as follows:

	Millions of yen	
	2004	2003
Service cost	¥56	¥56
Interest cost	10	21
Expected return on plan assets	(2)	(7)
Recognized actuarial loss	9	
Amortization of transitional obligation		(1)
Other	8	7
Net periodic pension costs	¥81	¥76

Assumptions used for the years ended February 29, 2004 and February 28, 2003, were set forth as follows:

	2004	2003
Discount rate	1.5%	1.5%
Expected rate of return on plan assets	1.0%	1.0%
Recognition period of actuarial gain or loss	8 years	8 years

12. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Code to which various amendments have become effective since October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital. The Code permits companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts. In connection with the issuance of common stock as described in note 1, ¥248 million was credited to common stock and ¥248 million was credited to additional paid-in capital, respectively.

The revised Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

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

The amount of retained earnings available for dividends under the Code was ¥19,325 million as of February 29, 2004, based on the amount recorded in the Company's general books of account. In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

13. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42% for the years ended February 29, 2004 and February 28, 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at February 29, 2004 and February 28, 2003, were as follows:

	Millions of yen	
	2004	2003
Deferred tax assets:		
Allowance for possible credit losses	¥1,114	¥ 353
Write-offs on bad loans	374	113
Enterprise tax	114	94
Disposal losses of property and equipment		220
Employees' retirement benefits	120	129
Other	141	183
Total	¥1,863	¥1,092
Deferred tax liabilities:		
Reserve for special depreciation	¥ (139)	¥ (179)
Total	(139)	(179)
Net deferred tax assets	¥1,724	¥ 913

As the actual effective tax rates did not significantly differ from the normal effective statutory tax rates, the reconciliation between these tax rates for the years ended February 29, 2004 and February 28, 2003 was omitted.

14. OTHER OPERATING EXPENSES

Other operating expenses for the years ended February 29, 2004 and February 28, 2003, included the following:

	Millions of yen	
	2004	2003
Salaries and benefits	¥ 3,980	¥ 4,321
Advertising	771	803
Leases expenses and depreciation	1,564	1,823
Commissions	3,712	3,107
Sales utilities	1,183	1,444
Communication and transportation	1,700	1,795
Taxes	606	641
Insurance	756	694
Repair and maintenance	843	871
Office supplies	228	272
Other—net	2,243	2,282
Total	¥17,586	¥18,053

15. OTHER (LOSS) INCOME—NET

Other (loss) income—net for the years ended February 29, 2004 and February 28, 2003, included the following:

	Millions of yen	
	2004	2003
Interest and dividend income	¥ 23	¥ 23
Loss on sales and disposal of property and equipment	(441)	(587)
Loss on devaluation of investments		(22)
Cost for relocation of headquarters		(122)
Amortization of transition obligation with retirement benefits		1
Other—net	14	(182)
Total	¥(404)	¥(889)

16. LEASES

(1) As lessee

The Company leases certain machinery and office equipment under cancelable and non-cancelable leases. All such leases are accounted for as operating leases. For the years ended February 29, 2004 and February 28, 2003, total rent expense was ¥66 million and ¥145 million, respectively. Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation 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 29, 2004 and February 28, 2003, was as follows:

	Millions of yen							
	2004				2003			
	Machinery and Equipment	Furniture and Fixtures	Software	Total	Machinery and Equipment	Furniture and Fixtures	Software	Total
Acquisition cost	¥ 149	¥ 50	¥ 14	¥ 213	¥ 615	¥ 43	¥14	¥ 672
Less accumulated depreciation	(134)	(25)	(11)	(170)	(562)	(11)	(4)	(577)
Net leased property	¥ 15	¥ 25	¥ 3	¥ 43	¥ 53	¥ 32	¥10	¥ 95

Obligations under finance leases:

	Millions of yen	
	2004	2003
Due within one year	¥29	¥64
Due after one year	14	34
Total	¥43	¥98

Depreciation expense and interest expense under finance leases:

	Millions of yen	
	2004	2003
Depreciation expense	¥65	¥101
Interest expense	1	3
Total	¥66	¥104

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

(2) As lessor

Rental revenues attributable to finance income are stated by the difference between the amounts receivable under finance lease contracts and the acquisition costs, computed under the interest method. Pro forma information as the lessor as of and for years ended February 29, 2004 and February 28, 2003, was as follows:

	Millions of yen	
	2004	2003
Acquisition cost	¥ 5	¥12
Less accumulated depreciation	(4)	(8)
Net leased property	¥ 1	¥ 4
Present value of future minimum lease payment due from the customers:		
Due within one year	¥ 1	¥ 1
Due after one year		
Total	¥ 1	¥ 1
Rental revenue	¥ 2	¥ 3
Depreciation expenses	1	2

17. DERIVATIVES AND HEDGING ACTIVITIES

The Company enters into foreign currency forward contracts to hedge foreign exchange risk associated with debt and accounts payable denominated in foreign currencies. The Company also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

It is not required that the interest rate swaps which qualify for hedge accounting and meet specific matching criteria be remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expenses or income.

The Company compares the total change of hedging cash flow or currency forward rates with the total of hedged cash flow or currency forward rates, where evaluation and analysis of derivatives are made semi-annually.

18. RELATED PARTY TRANSACTIONS

Significant related party transactions of the Company as of February 29, 2004 and February 28, 2003, were summarized as follows:

	Millions of yen	
	2004	2003
(1) Sanyo Shinpan Finance Co., Ltd.		
Volume of new contracts:		
Agency services	¥329	¥ 256
Agency services on credit alliance	361	397
Operating revenue		
Financing and administrative fees	¥ 2	¥ 3
Installment accounts receivable	¥ 25	¥ 22
Accounts payable	31	27
(2) MYCAL Corporation		
Volume of new contracts		
Credit cards		¥44,871
Operating revenue		
Credit cards		¥ 813
Accounts receivable		¥ 49
Accounts payable		7,111

19. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following appropriations of retained earnings at February 29, 2004 were approved at the shareholders meeting held on May 21, 2004:

	Millions of yen
Year-end cash dividends, ¥12.50 per share	¥374

Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
POCKET CARD CO., LTD.:

We have audited the accompanying non-consolidated balance sheets of POCKET CARD CO., LTD. as of February 29, 2004 and February 28, 2003, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied 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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of POCKET CARD CO., LTD. as of February 29, 2004 and February 28, 2003, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

Deloitte Touche Tohmatsu

May 21, 2004

Member of
Deloitte Touche Tohmatsu

MANAGEMENT AND COMPANY PROFILE

Management (As of May 21, 2004)

Chairman	Masakazu Shiiki
President	Makoto Tsuzuki
Directors	Ken Dantani* Masaharu Shiiki Masanori Usami
Standing Statutory Auditor	Motohiko Kusano
Statutory Auditors	Tomoyuki Kurashige Noriaki Imura Kazuo Nagatani
Senior Executive Officer	Keiichi Watanabe
Executive Officers	Takuo Matsuo Shunichi Miura Kenji Imazato Tomohiro Ichinose

*Concurrently serves as senior executive officer.

Notes:
1. Masaharu Shiiki and Masanori Usami are outside directors as stipulated by Article 188-2, Item 7-2, of the Japanese Commercial Code.
2. Tomoyuki Kurashige, Noriaki Imura and Kazuo Nagatani are corporate auditors as stipulated by Article 18-1 of the Law of Special Exceptions to the Commercial Code Regarding Corporate Auditing.

Company Profile

Name	POCKET CARD CO., LTD.
Representative Director	Makoto Tsuzuki, President
Headquarters	Sumitomo Fudosan Shiba Building No. 2, 5-9, Shiba 1-chome, Minato-ku, Tokyo 105-0014, Japan Tel : +81-3-5441-3450 Fax: +81-3-5441-1917
Business Profile	• Credit card service and factoring business • Consumer loan services • Life insurance policy sales and non-life insurance agency services • General-purpose leasing • Travel agency services • Others
Established	May 25, 1982
Capital	¥11,268 million
Major Shareholders	Sanyo Shinpan Finance Co., Ltd. ITOCHU Finance Corporation The Master Trust Bank of Japan, Ltd. (Trust Account) ITOCHU Corporation
Settlement Date	End of February (mid-term settlement in August)
Income	¥32,349 million
Net Income	¥2,521 million
Number of Cardholders	3.75 million
Number of Outlets (Total of Regional Offices and Staffed Outlets)	47
Number of Employees	423
Principal Banks	Aozora Bank, Ltd. The Sumitomo Trust & Banking Co., Ltd. Mizuho Corporate Bank, Ltd.

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