PROMISE

ANNUAL REPORT 1997

Year ended March 31, 1997

Profile

Promise is a major Japanese consumer finance company which continues to prosper today. With 1,992,000 customers accounting for over ¥775.1 billion in unsecured loans (the company's primary business) as well as other secured loans, Promise ranks as one of the leading companies in the consumer finance industry, providing small-lot unsecured cash loans to consumers.

Japan remains, certainly by Western standards, a cash-based society. Not only are checks virtually unknown to the consumer but a wide range of goods and services are still supplied largely on a cash only basis. Furthermore, Japanese convention requires the giving of presents of often significant amounts of cash on important social occasions, such as weddings and funerals. As the timing and expense of many of these occasions cannot be anticipated, custom reinforces the need for Japanese people to maintain ready access to large amounts of cash at short notice.

Loans from Promise of up to a maximum of ¥500,000 (or as much as ¥1 million after a more extensive credit check) are available within 40 minutes or less after an initial application is made at a manned branch or an automated credit provider. Promise is able to extend credit in such a short period of time because of the know-how it has accumulated in conducting credit investigations. The flexibility and responsiveness of this system is enormously strengthened by the network of our 1,056 ATMs, as well as 12,344 cash dispensers (CDs) which have been set up at the branches of our many associated business partners. All of this has been done in response to the diverse needs of our customers.

Promise has continued to achieve high levels of sustained growth through the 1990s. This is in marked contrast to many Japanese banks and non-bank financial institutions which have struggled inconclusively with the legacy of the bubble economy. In September 1996, Promise after a period of registration on the Over-The-Counter market became one of only three companies in the industry to achieve a listing on the First Section of the Tokyo Stock Exchange.

The thought behind our name

When Promise was established, we departed from the practice of requiring guarantors, authentication of personal seals and inquiry with the applicant's neighbors regarding his credit standing, each of which had been conventionally required as a precondition for borrowing in Japan. Ryoichi Jinnai, the founder of the company who developed a system which is truly committed to the customer, named the company "Promise", as a symbol of the policy under which the customer and the company mutually pledge (promise) to honor their loan obligations enabling business transactions to be conducted on an equal footing and in a pleasant manner.

Contents

Non-Consolidated Financial Highlights

Promise Co., Ltd.

Years ended March 31

	Millions of Yen		Thousands of U.S. Dollars	Percent Change
	1997	1996	**1997**	**1997**/1996
Financial Results				
Total operating income	**¥198,897**	¥179,238	**$1,602,716**	11.0
Operating profit	**76,914**	67,355	**619,772**	14.2
Net income	**34,690**	30,770	**279,536**	12.7
Consumer loans outstanding	**784,201**	682,066	**6,319,109**	15.0
Total assets	**989,670**	894,716	**7,974,774**	10.6
Total shareholders' equity	**231,359**	202,712	**1,864,297**	14.1

Note: U.S. dollar amounts represent translations of yen, for convenience only, at the rate of ¥124.10 to U.S.$1, the approximate exchange rate at March 31, 1997.

The Year's Highlights

The financial year to March 31, 1997 marked another successful period of profit and expansion for Promise. Consistent with the company's ambitious strategy of balanced growth, indices of corporate success once again moved higher. With a vigorous management strategy to foster balanced growth of the Company drawing on our fundamental principles, we have realized a high level of growth resulting from the expansion of our store network mainly through the installation of automated credit providers. This expansion offset pressure on margins stemming from a reduction in the maximum interest rate charged on loans.

Signs of Promise

The balance of the Company's principal business--unsecured consumer loans--rose to ¥775.16 billion, an increase of 15.6 percent, while the number of customer accounts (customers with outstanding unsecured loan balances) increased by 10.9 percent to 1,991,000. While the average balance per account did rise from ¥373,000 to ¥389,000 or over 4.2 percent during fiscal 1997, Promise's achievements once again stemmed from a continued drive to expand the number of customer loan accounts.

Promise provides the lowest maximum interest rate (25.55 percent) in the consumer finance specialists. This we believe will leave us well placed to take further market share as the industry rationalizes in favor of larger competitors such as ourselves. In addition, we stand by our policy of providing financial products which apply preferential interest rates to our best customers.

A Growing Network

As of the end of March 1997, Promise had the largest branch network among Japan's consumer finance industries totaling 748 branches. The company, in addition to having set up 1,056 ATMs (Automated Teller Machines) all over the country, has tied up with other financial institutions and entities in the distribution industry and now boasts a network of 12,344 CD machines.

Promise's Capital Market Activity

In accordance with its policy of seeking to diversify its sources of funding, Promise has engaged in a variety of capital procurement methods. In February 1996, Promise was the first company in the consumer finance industry to issue Yen-denominated convertible bonds. In September of the same year Promise's stock was listed on the First Section of the Tokyo Stock Exchange and in November of 1996, the company issued commercial paper for the first time. Also, in January 1997, we became the first company in the industry to issue unsecured domestic straight bonds.

A Message from the Management

Ryoichi Jinnai, Honorary Chairman (seated) and Hirozo Yamada, President

Promise is a company in the consumer finance industry whose mission is to provide innovative customer-oriented financial services using specially-developed systems and products. As an industry leader, Promise became, on September 2, 1996, one of the first consumer finance companies in Japan to be listed on the First Section of the Tokyo Stock Exchange.

Promise's management policy is based on the following corporate objectives.

1. To become a trusted corporate citizen by facilitating customers' desire for a more comfortable existence.
2. Through effective management, to attain a reasonable level of earnings and follow a course of continuous development.
3. To earn the respect of customers and work for the benefit of our employees and society in general.

As part of efforts to achieve these objectives, Promise reduced its maximum interest rate in October 1995, enabling the company to provide finance at the lowest prevailing interest rates in the industry. Promise has also moved aggressively to develop its business, such as by installing automated credit providers "Irasshai-machine" to meet customer preference for interview-free transactions and by expanding its ATMs and tie-up CDs network with regional banks, sales finance companies and credit card firms. In addition, Promise has adopted a customer agent system enabling customer requests to be reflected in management policy thereby leading to enhanced customer satisfaction. All of these moves are designed to allow Promise to provide services of the highest quality.

Promise celebrated the 35th anniversary of its establishment in the term ended March 31, 1997. In the years ahead, the company will remain committed to its founding pledge: "to seek to provide the best consumer finance services." By fulfilling this pledge, the company will earn the respect of its customers and grow hand in hand with society.

Results in Fiscal 1997

The term ended March 31, 1997 was a major growth year for Promise. The company expanded its points of contact with customers by installing more automated credit providers and by expanding its tie-up CDs. At the same time, Promise began to reorganize its channel network, shifting from manned to unmanned branches and establishing centralized operation centers.

Promise achieved substantial performance gains in this fiscal term, supported by stable growth in the balance of unsecured loans outstanding. Although profit margins were lower due to the October 1995 maximum interest rate reduction and increases in operating expenses associated with the expansion of automated credit providers, these losses were absorbed by reducing borrowing costs and other operating expenses. As a result, the company achieved operating income of ¥198.8 billion, an 11.0% increase over the preceding term and net income of ¥34.6 billion, a 12.7% gain over the preceding term.

Forecast for Fiscal 1998

For the current fiscal year, Promise forecasts a 9.3% increase in operating income to ¥217.4 billion and a 10.4% increase in net income to ¥38.2 billion. The three key elements of the company's strategy for achieving these targets are as follows.

I. The company plans to increase the balance of loans outstanding mainly by expanding the number of customer accounts. This growth will be achieved through measures relating to channels, contact with customers, credit provision, and interest rates, as described below.

1. As part of a channel reorganization program, the company will continue to open unmanned branches, particularly roadside branches.

2. The company will more effectively meet customer preference for interview-free transactions by equipping automated credit providers with virtually the same functions as manned branches, enabling the machines not only to issue new contracts, but also to execute contract renewals and interest rate changes. The machines will thus be able to satisfy a variety of customer needs. Through this strategy, the company expects to build the strong operating structure required to increase the number of customer accounts and to expand the balance of loans outstanding.

3. In the area of credit provision and interest rates, the company will acquire more preferred customers by aggressively promoting its low maximum loan rate.

II. The company will reduce its borrowing costs by diversifying its fund procurement methods.

III. The company will maintain the ratio of credit losses written off at a low level through stringent credit management.

In keeping with a management philosophy that views operational innovation as the source of corporate profitability, Promise will focus attention on technical development and employee training with a view to the future. At the same time, the company will enhance its ability to cope with risk and changes in the operating environment by practicing strict credit management in its operations and by building a firm financial structure to maintain high earnings.

July 1997

Ryoichi Jinnai, Honorary Chairman

Hirozo Yamada, President

Review of Operations

Over the past 12 months, Promise has strengthened customer services through having substantially increased the number of automated credit providers from 273 machines to 695 machines. We have also expanded the number of our business tie-ups. Our principal strategy pursued during this period has been the conversion of manned branches into unmanned ones as part of Promise's new policy to restructure our business in ways that both win new customers and reduce costs. During the period in question our total number of branches rose from 609 to 748. Unmanned branches rose from 30 to 281 while manned branches fell from 579 to 467.

Promise's profits continued to grow, boosted by the steady expansion of our core business: the provision of unsecured loans to ordinary consumers. The increase in our profits for the fiscal year ended March 1997 is the result of our increased efforts to bring down our borrowing costs and improve our management efficiency. These initiatives were sufficient to overcome the pressures on profit margins that resulted from Promise's decision in October 1995 to reduce the maximum interest rate we charge our customers. Our cost-cutting efforts have also allowed us to cover the additional costs incurred due to the introduction of expensive new technologies.

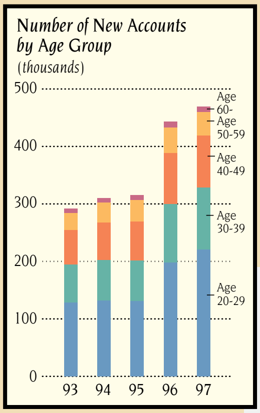
Our goal for the next fiscal year is to achieve solid and steady growth in our main business areas. Promise intends to expand the number of customer accounts we handle by enhancing our customer service channels. At the same time, we intend to enhance the provision of customer-oriented services by building on the strengths we have built up to date such as our credit system and accumulated know-how.

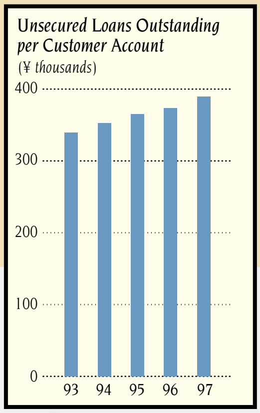
Balanced Management at Promise

Our fundamental policy is to devote ourselves to our core business of consumer finance, practice sound management, emphasize ALM management and produce stable profits. In other words, our management strategy is to conduct business with a balanced management style. Accordingly, our priority is to increase unsecured loans, which are the pillar of our profitability, and at the same time maintain overall balance by ensuring good credit quality through the use of prudent and reliable credit policies.

As our core business is the provision of unsecured loans to ordinary consumers, the cultivation of new customers is, of necessity, our overriding imperative. We want to help Japanese

consumers to improve the material quality of their lives but in ways that do not endanger their financial health. As of March, 1997, the average unsecured loan balance of a Promise's customer stood at ¥389,000. This figure is well below the average range for the top division of consumer finance companies in Japan. We are pursuing a strategy which places greater emphasis on expanding the number of loan accounts rather than on encouraging our customers to borrow more. Such prudence is consistent with our goal of stable, steady growth.

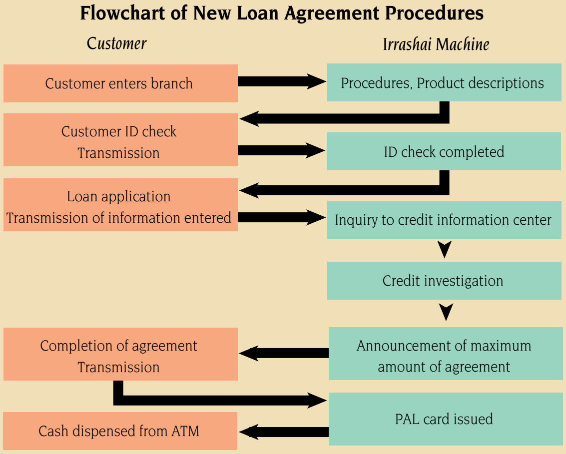




PROMISES KEPT

Offering services relevant to customers' needs

Flowchart of New Loan Agreement Procedures



Unsecured Loan Products

Loan type	Product name	Upper limit	Interest type	Interest (p.a)
Unsecured revolving	Free cashing	¥1 million	Uniform	22.995%
				25.55%
			Stepped	22.675-25.55%
				23.725-25.55%
Unsecured cash loan for consumption	Application-specific loan	¥500,000	Uniform	13.50-19.50%
	Nittsu Travel Loan	¥500,000	Uniform	13.50%

Note: Stepped interest rates vary according to the size of the loan balance. Two schemes are used.

Putting Technology to Work

Promise's ability to supply credit quickly on demand is ensured by a powerful network of Promise's own ATMs and tie-up CDs offered in cooperation with other companies. As of the end of March, 1997, Promise had a network of 13,400 machines including both ATMs and tie-up CDs. This number is the largest of any company in the consumer finance industry. By the end of our financial reporting period in March, 1997, the total of Promise branches had reached 748.

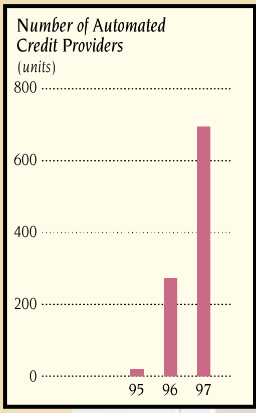
This huge network needs to be flexible, speedy and convenient. With these goals in mind, Promise has implemented three strategies.

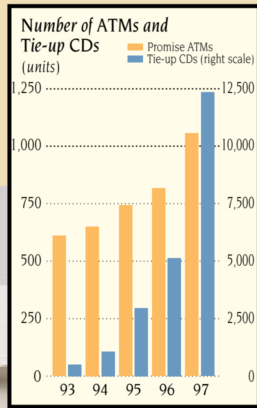
Firstly, we have expanded operating hours. From April 1995, we began conducting business on Saturdays, Sundays and national holidays. Additionally, we extended our weekday closing hours from 6 pm to 8 pm. Secondly, we have improved the convenience of our locations. While maintaining our strong presence in conventional shopping areas (near train stations and large shopping precincts), we have been developing a network of new style, convenient mini-branches which are aimed at smaller-scale markets. In this respect, our most notable innovation has been the suburban roadside branches complete with parking facilities and conveniently located between residential areas and places of employment. Thirdly, we have tackled the psychological barriers to accessible borrowing with our unmanned branches which offer our customers enhanced privacy.

The centerpiece of this effort is the automated credit provider which we have named the "Irasshai machine", which link our customers to manned branches and have proven to be highly popular. "Irasshai" has the meaning of "welcome" in Japanese, traditionally issued in greeting by staff whenever you enter a store or shop.

In 1994, we began a service which utilizes the push-button dialing function of modern telephones. This allows us to give our customers access to their accounts as well as complete and up-to-date details about the state of their finances. As a further innovation, we also now provide a 24-hour free-dial service ("Promise Call") which can receive a customer's comments or requests whenever and from wherever the customer wishes.

To complement this strategy, Promise has decentralized many of its business from the corporate headquarters to 19 regional headquarters. This allows our staff to draw upon detailed local knowledge and permits Promise to offer services with a unique and personal flavor. Furthermore, since July 1996, these 19 regional headquarters were equipped as "integrated call centers" to provide swift customer service in each locality. Supported by our free-dial system, this innovation has permitted account management to be devolved to the regional level.





PUTTING TECHNOLOGY TO WORK

Focused technology innovation is a vital part of what we do

Number of Branches

	1993	1994	1995	1996	1997
Unsecured loan branches	514	529	572	609	748
Manned	514	529	565	579	467
Unmanned	—	—	7	30	281
For secured loans	6	6	4	4	2
Audio & video software rental	9	9	8	8	8
Outdoor and leisure goods	—	—	—	2	2
Total	529	544	584	623	760
Number of automated credit providers	—	—	20	273	695

The Importance of Capital

The business of consumer finance requires a stable supply of capital at attractive rates of interest. To this end, Promise has cultivated long-standing commercial relationships with our major domestic sources of funds, most notably The Long-Term Credit Bank of Japan, The Sumitomo Trust and Banking, Nippon Life Insurance and Sumitomo Life Insurance. These four major companies play a strategic role in supplying Promise's need for capital on a stable long-term basis. However, Promise has actively sought to diversify its sources of funds and now raises funds from a wide range of financial institutions as well as directly from the capital markets.

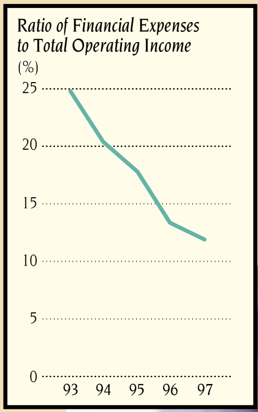
As at the end of the financial year under review, the Company's total borrowings outstanding stood at ¥706.1 billion. Of this total, ¥653.1 billion or 92.5 percent was concentrated in long-term borrowing (of which ¥369.6 billion was in fixed-rate borrowings including convertible and straight bonds and ¥283.5 billion in variable-rate borrowings including ¥45 billion in interest-rate swaps). Short-term borrowing totaled ¥53 billion. Promise has sought to protect the health of its own financial position by hedging the risks involved in such borrowing. The net result of this strategy is that actual fixed-rate borrowing as a percentage of total borrowing has grown substantially during the last fiscal year from 52.1 percent to 58.7 percent.

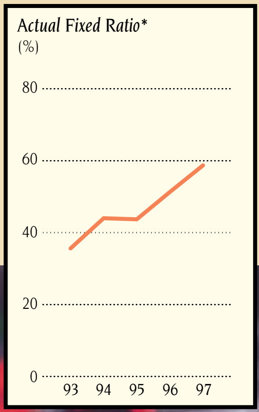
Recognition in Financial Markets

In February 1996, Promise became the first major company in the consumer finance industry to issue Yen-dominated convertible bonds. The same month, The Japan Bond Research Institute gave Promise's convertible bonds a rating of double A minus (AA-). On September 2, 1996, Promise's stock was listed on the prestigious First Section of the Tokyo Stock Exchange. In November, Promise issued its first commercial paper (A1+). Then, in January 1997, we became the first company in the industry to issue unsecured domestic straight bonds (AA-).

Toward More Sophisticated Fund Raising

The recognition that Promise is pursuing the procurement of stable sources of capital and enhanced security in the financing of company borrowing has been enhanced by the company's listing on the Tokyo Stock Exchange which has created many opportunities to procure capital on global markets. TSE listing should open avenues for us to reduce our borrowing costs. Simultaneously, we believe we will be able to engage in a rich variety of capital procurement activities.





*Actual fixed ratio = (Fixed + interest rate swaps + straight and convertible bonds) ÷ total borrowings

THE FINANCIAL CONTEXT

Diversifying sources of capital in order to reduce costs

Balance of Borrowings by Type of Lender (¥ billions)

	1993	1994	1995	1996	1997
Borrowings	567.7	570.9	573.0	631.7	686.1
City banks	31.9	27.1	27.9	31.9	31.3
Regional banks	31.3	26.6	25.9	27.9	37.1
Long-term credit banks	79.5	82.0	83.2	90.7	99.9
Trust banks	140.6	147.9	151.6	166.8	189.2
Non-Japanese banks	19.5	14.5	12.4	12.5	9.0
Credit associations	—	—	—	1.0	2.0
Life insurance companies	181.8	214.3	226.7	258.0	272.7
Non-life insurance companies	38.8	38.8	36.8	41.7	44.1
Leasing, finance and other companies	44.0	19.5	8.4	1.0	0.7
Bonds	—	—	—	10.0	20.0
Straight bonds	—	—	—	—	10.0
Convertible bonds	—	—	—	10.0	10.0

A Responsible Member of Society

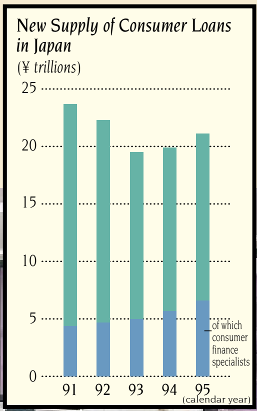
Although there was a period of time when the consumer finance industry was subject to harsh social criticism, normalization has been achieved through a combination of legislation and great efforts by members of the industry. Recently, the consumer finance industry has once again been in the news. However, what is striking this time is the impact of more enlightened thinking on industry attitudes. This reflects the soundness of the regulatory framework created over the past decade or so. The framework has helped to underwrite the industry's current prosperity. It is also a measure of the determination of consumer finance specialists such as Promise to be recognized as responsible members of society. We take this challenge very seriously.

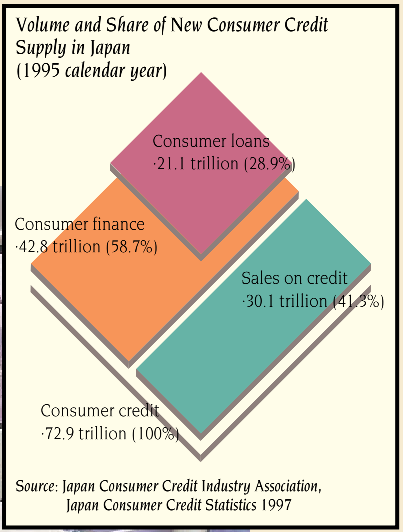
Consumer finance is regulated under the provisions of two major laws: the Money Lending Business Control and Regulation Law together with the Capital Subscription Law. These laws include items which are designed to prevent excessive lending and to discourage advertising which promotes imprudent borrowing. The display and advertising of the terms and conditions under which consumer credit is offered to the public are regulated under these laws. So is the manner in which debt is collected. The maximum interest rate that may be charged on loans is established under the Capital Subscription Law. Today's maximum annual interest rate of 40.004% became effective on November 1, 1991. Promise's interest rate is far below this maximum rate and the company strictly complies with all of the important existing regulations contained in these laws.

Today, each consumer finance specialists maintains databases containing individual credit information on the borrowers. These databases are some of the most advanced and comprehensive in existence. In order to plan for the sound development of consumer credit, these consumer credit information systems, which are superior to those used in other industries, are used to measure the appropriateness of credit extension, prevent the extension of excess credit as well the possibility of any one person being able to obtain an excessive number of loans and for other purposes as well. Moreover, through different industry information bureaus, including the Japan Information Center (JIC) as well as the Credit Information Network (CRIN), we have the ability to jointly utilize information relevant to credit arrears.

Consumer finance specialists, led by Promise, have joined credit bureau associations to promote the self-regulation of the industry. The goal of such associations is to encourage the healthy development of the industry while safeguarding the interests of consumers, including their right to borrow.

Companies specializing in consumer finance have agreed on a common approach to such problems as persistent credit abuse and voluntary bankruptcy.

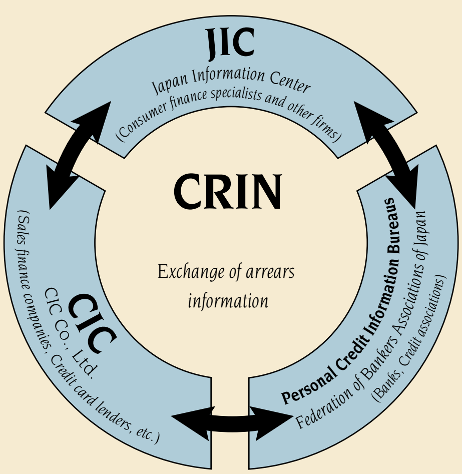




A RESPONSIBLE MEMBER OF SOCIETY

Sound self-regulation is the key to future growth

CRIN: Credit Information Network



In line with such a common approach, an association linking the five largest consumer finance specialists (Promise, Takefuji, Acom, Aiful and Sanyo Shinpan) was launched on January 28, 1997. This liaison group has made five issues of topical interest its main concern:

1. Promote consumer education
2. Provide and enhance consumer counseling services
3. Enforce stricter credit systems
4. Review expressions used in advertinsing
5. Provide adequate disclosure

This reflects a mature philosophy of doing business, and the gains from this approach have already been considerable. Greater transparency and stricter self-regulation in credit business has paid dividends in terms of greater access to media advertising, more freedom to acquire or use prime commercial sites, better relations with our suppliers of capital, and most vital of all, full acceptance by millions of consumers. It should be apparent to all observers that the recent surge in industry turnover and profits owes much to the present regulatory framework and the enlightened way that the sector has made these reforms on its own.

New Horizons

The future of Promise as a business enterprise depends crucially on our management skills and our ability to respond to shifts in market forces in consumer finance, especially as these factors

PROMISE (HONG KONG) CO., LTD.

influence our millions of small unsecured loans to ordinary Japanese consumers. Nevertheless, Promise is gradually developing business interests outside the credit field. It has been almost eight years since Promise entered the leisure sector with the founding of “It’s Time Win” network of audio and video software rental/sales outlets. This network now boasts eight branches, located mainly in the suburbs of Tokyo, and has a combined total of more than 240,000 registered members.

Our “Club Sol” outdoor leisure business was started in 1991 as a new service to our huge customer base. There are two “Club Sol” outlets, one in Sapporo and the other in Yokohama.

Yet the most promising innovation in our efforts to diversify may be our response to the challenge of globalization. This is the central ambition behind our experiment with Japanese-style consumer finance overseas. Continuing to pursue credit business opportunities in Taiwan and Hong kong, Promise established Liang Jing Co., Ltd. in August 1989 and Yuukei Co., Ltd. in February 1991 as automobile installment purchase companies in Taiwan and PROMISE (HONG KONG) CO., LTD. as a consumer finance company in Hong Kong in February 1992.


It’s Time Win


Club Sol

Management Discussion and Analysis

Overview

During the year under review to March 1997, Promise positioned itself for future growth by establishing its leadership in the consumer finance market in terms of interest rates offered, size of loans outstanding, and network.

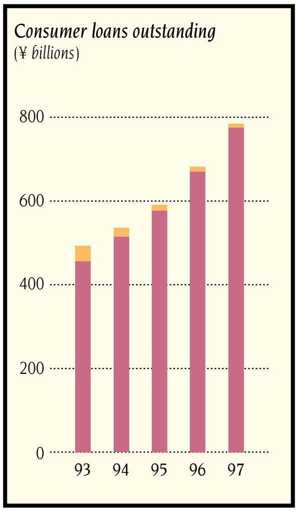
The value of secured loans extended has declined, but our unsecured loan operations achieved stable growth in lending through the judicious provision of credit. As a result, the consumer loans outstanding at the end of the fiscal year stood at ¥784.2 billion. This represents an increase of ¥102.1 billion, or 15.0%, from the year before. Operating income has climbed in line with the steady increase in the consumer loans outstanding. It stands at ¥198.8 billion, an increase of ¥19.6 billion, or 11.0%, from the year before.

Market interest rates have remained at low levels, and our interest burden on fund procurement has declined. In addition, we promoted the "0123 Activity" throughout the year as a corporate-wide endeavor to enhance cost management, increase productivity, and boost employee morale. As a result of our greater operating efficiency, net income this fiscal year reached ¥34.6 billion, a rise of ¥3.9 billion from the year before.

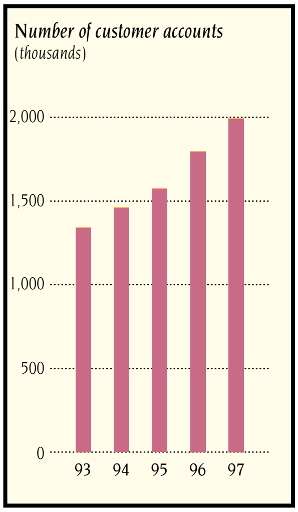
Operating Income and Profit

Operating income for the year under review reached ¥198.8 billion, an 11.0% year-on-year increase. Promise has posted operating income growth for each of the last five years, with growth rates ranging from 7.6% to 11.0%. There was only a slight increase in the average loans outstanding per customer account. Most of the income growth resulted from the greater number of customer accounts. As of the end of fiscal year 1997, the number of unsecured loans customer accounts totaled 1,991,000, a 10.9% increase from the end of the previous year. In contrast, the amount of the average loans outstanding rose only 4.2% during the same period, from ¥373,000 to ¥389,000.

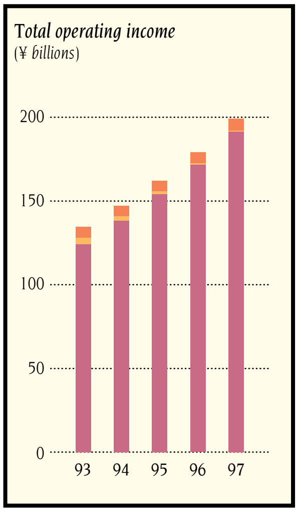
Introduction of unmanned branches and automated credit providers and their subsequent popularity was a major factor in our high rate of growth. Our operating profit margin improved



Secured loans
Unsecured loans



Secured loans
Unsecured loans



Other operating income
Other financial income
Interest on consumer loans

despite the impact felt during the full fiscal year of higher operating expenses as a result of our aggressive investments to strengthen future revenue, and the adverse effect on profit margins caused by the reduction of our maximum interesting rates on loans effective October 1995.

Operating profit soared to ¥76.9 billion, a sharp 14.2% year-on-year increase, and our operating profit ratio rose 1.1 percentage points to 38.7%. This increase resulted from capping financial expenses, reducing advertising expenses, and a slackening in the rate of increase for personnel expenses from the previous year. Financial expenses were nearly flat from the year before, falling ¥100 million to ¥23.6 billion despite a ¥64.4 billion rise in the amount of borrowing outstanding. This was due to the diversification of our sources of funding and the rollover of higher interest rate debt on maturity.

Advertising expenses declined to ¥10.9 billion from the previous year's total of ¥11.6 billion. Employees' salary and bonuses rose ¥700 million from the year before, a 4.3% increase. This increase lagged operating income growth by a sizeable margin.

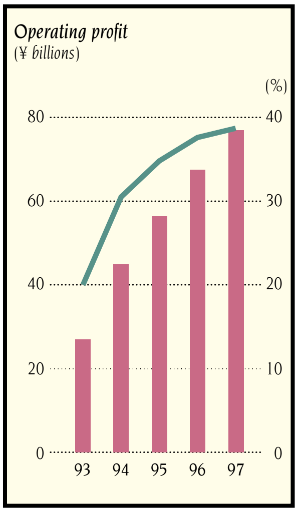
Income by Segment

Our mainstay business is the provision of small-lot unsecured consumer loans accounting for the bulk of our operating income. Of Promise's ¥198.8 billion in operating income this fiscal year, ¥190.5 billion, or 95.8%, was from this business.

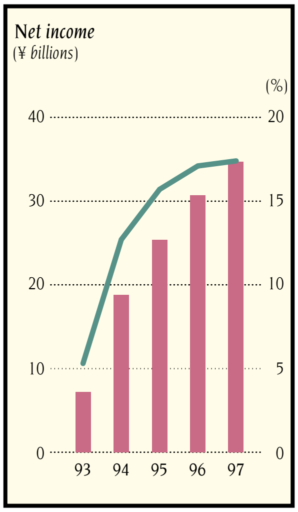
Promise has frozen the issue of new secured loans. As a result, the operating income derived from secured loans was flat from the year before at ¥800 million, just 0.4% of total operating income. Other financial income totaled ¥500 million, stemming from a ¥1.6 billion decline in the average deposit balance and lower income resulting from the decline in market interest rates. Other operating income rose ¥500 million from the year before to ¥6.9 billion as a result of the increase in the collection of credit losses previously written off.

Expenses

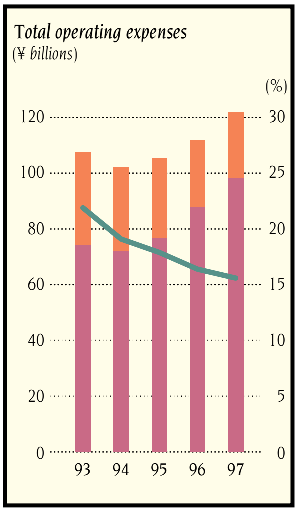
Most of Promise's operating income is derived from interest on consumer loans. Operating expenses, however, are generally divided into



Ratio of operating profit to total operating income



Ratio of net income to total operating income



Financial expenses
Other operating expenses
Ratio of total operating expenses to consumer loans outstanding

three categories: financial expenses, general and administrative expenses, and provisions for uncollectible loans.

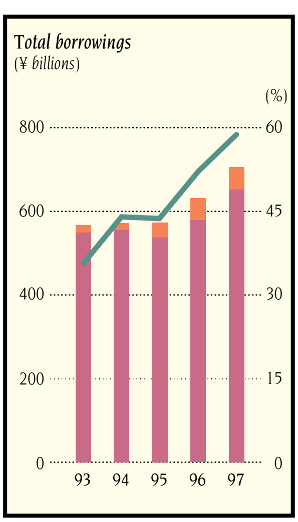
Financial expenses are comprised almost entirely of interest payments. These totaled ¥23.6 billion, representing almost no change from last year. There was a decline in the average interest rate on borrowings, which fell from 3.48% to 3.00%. This was due to a range of factors, including the reduction in market interest rates and the rollover of high interest rate borrowings. The ratio of fixed-interest rate borrowings to total borrowings reached 58.7% as of March 1997, including straight bonds, convertible bonds, and interest rate swaps. It is worthy of note that this sound financial strategy provides a substantial cushion against any future increase in market interest rates.

The ratio of provision for uncollectible loans to the consumer loans outstanding at the end of the fiscal year, was stable year-on-year at 3%. Therefore, an provision of ¥20.3 billion for uncollectible loans was recorded on the statements of income. This total was higher than the ¥17 billion of the year before, and well above the ¥14 billion and ¥14.9 billion of the previous two years. This step was taken to enhance the company's financial security.

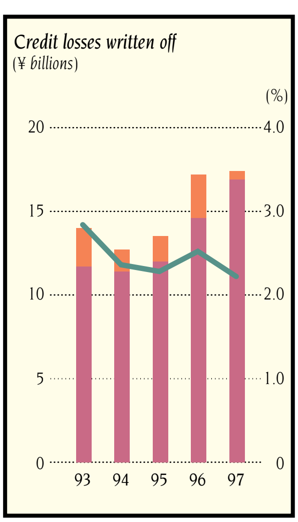
General and administrative expenses rose to ¥78 billion, a 9.9% increase from the previous year's total of ¥70.9 billion. There was a slight increase in employees' salary and bonuses to ¥19 billion, but depreciation expenses, rent expenses, and other expenses rose at a much higher rate. This reflects the company's aggressive investment in unmanned branches, tie-up CDs, and automated credit providers.

Borrowing

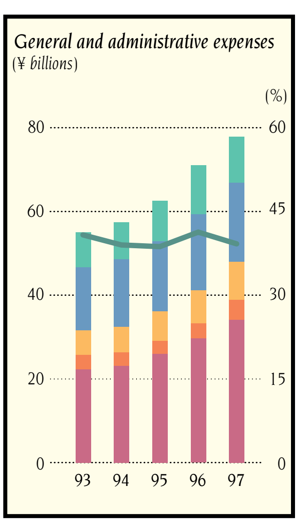
Promise has worked hard to diversify and strengthen its source of funds. While maintaining our long-standing close relationship with four companies--our main bank, The Long-Term Credit Bank of Japan, The Sumitomo Trust & Banking, Nippon Life Insurance, and Sumitomo Life Insurance--we have diversified our fund sources by issuing commercial paper and straight bonds that make use of our high credit rating.



Short-term bank loans
Long-term debt*
Actual fixed ratio
* including bonds payable



Secured loans
Unsecured loans
Ratio of credit losses written off to consumer loans outstanding



Advertisements
Employees' salary and bonuses
Rent expenses
Depreciation
Other
Ratio of general and administrative expenses to total operating income

As of March 31, 1997, our total borrowings outstanding stood at ¥706.1 billion, of which ¥653.1 billion, or 92.5%, was accounted for by long-term borrowings, inclusive of current portion.

Of the company's borrowing, a total of 58.7% is accounted for by fixed-rate borrowings, including convertible bonds, straight bonds, and interest rate swaps. Excluding convertible bonds, straight bonds, and interest rate swaps, fixed-rate borrowings rose from 34.9% of total borrowing during the last fiscal year to 49.5% this fiscal year.

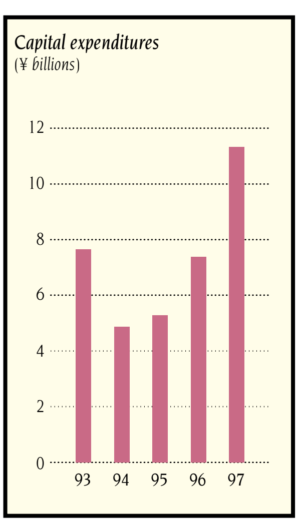
The company continues to benefit from the rollover of borrowing incurred during the higher interest rate environment of five years ago. Therefore, we can keep to a minimum the impact of any market interest rate increase on our cost of fund procurement.

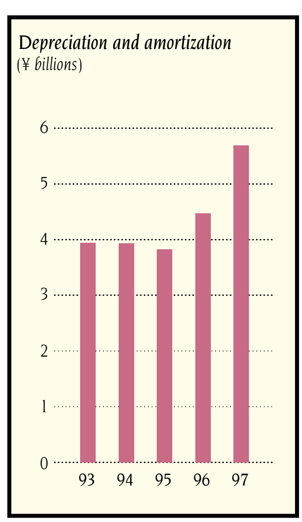
Write off of Credit Losses

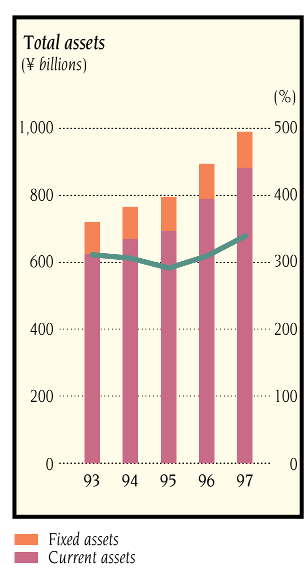
Credit losses written off this year totaled ¥17.4 billion, including both secured and unsecured loans. The ratio of credit losses written off to the consumer loans outstanding as of the end of the year was 2.2%. This compares favorably to the total credit losses written off last year of ¥17.2 billion, which accounted for 2.5% of the consumer loan outstanding. The credit loss ratio for unsecured loans held steady at 2.1%.

General and Administrative Expenses

The primary categories for general and administrative expenses are advertising expenses, employees' salary and bonuses, rent expenses, and depreciation expenses. These expenses accounted for 56.2% of all general and administrative expenses. As a reflection of our aggressive investment in unmanned branches and tie-up CDs, rent expenses and depreciation expenses rose significantly during the year. This was offset by the decline in advertising expenses and the growth rate of employees' salary and bonuses, which lagged our operating income growth by a substantial margin. Therefore, the rate of increase for general and administrative expenses from the year before was 9.9%, below the growth in operating income.







Capital Expenditures

Promise's network of loan branches expanded greatly during the year in question. The number of unsecured loan branches rose from 609 at the end of last year to 748. Meanwhile, the number of manned branches declined from 579 to 467, and the number of unmanned branches soared from 30 to 281. There also was an increase in the number of ATMs and tie-up CDs, which climbed from 5,949 as of March 1996 to 13,400 as of March 1997.

This enhancement of the company's facilities resulted in an increase in capital expenditures from ¥7.3 billion in fiscal year 1996 to ¥11.3 billion this fiscal year.

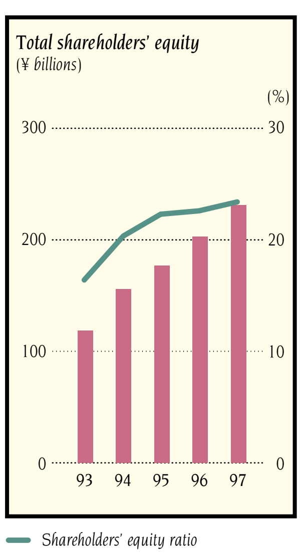
Shareholders' Equity and Dividends

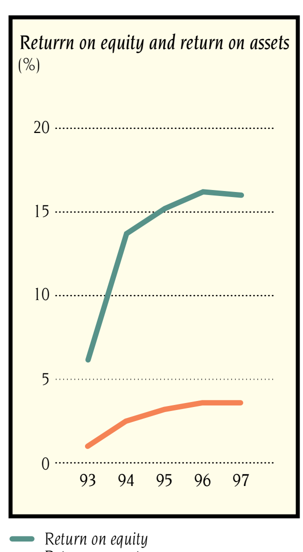
There was a sharp increase in shareholders' equity during the year in question, from ¥202.7 billion to ¥231.4 billion, a 14.1% increase. As a result, the shareholders' equity ratio rose from 22.6% to 23.3%.

We consider technological development and capital expenditures for information processing technology indispensable for meeting the challenge of increasing competition in the consumer finance industry. Therefore, we will strive to accrue internal reserves in conjunction with the increase in shareholders' equity and boost revenue and earnings to enable us to respond with flexibility to future trends.

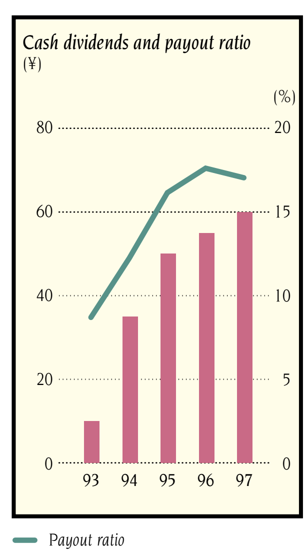
Promise's dividend policy emphasizes the shareholder. We have always believed that the most important element of our operating policy is to return profits to shareholders. Therefore, we have continually increased dividends. Our policy for the future will be to strive to increase the return of profits that are supported by our revenue and earnings. As a result, dividends for this year will be increased from ¥55 per share to ¥60 per share.

In addition, the company has decided to conduct a stock split, offering 1.1 shares of stock for every share of par value stock as of November 20, 1997.





Notes: Return on equity = Net income / Average shareholders' equity
Return on assets = Net income / Average total assets



Directors and Corporate Auditors

(as of June 27, 1997)

Seated: Ryoichi Jinnai
Standing, from left:
Yoshihisa Morioka, Takashi Taniguchi, Hirozo Yamada, Hideki Jinnai

BOARD OF DIRECTORS

Honorary Chairman
Ryoichi Jinnai*

Vice Chairman
Takashi Taniguchi*

President
Hirozo Yamada*

Vice Presidents
Hideki Jinnai*
Yoshihisa Morioka*

Senior Managing Director
Hiroki Jinnai

Managing Directors
Yoshiki Kamiuchi
Masahide Minowa
Akira Nagashima
Susumu Takenaka
Shunji Kosugi
Masao Sato

Directors
Shigeatsu Kojima
Kazuyuki Furukawa
Hideshige Tsukamoto
Kazuya Koshida
Yukio Yoshida
Yasuhisa Ichikawa
Harumi Yanai
Tsutomu Kasori
Teruaki Watanabe
Yasuhiko Hamaguchi
Hidetsugu Iriyama
Norio Takinami

BOARD OF CORPORATE AUDITORS

Standing Corporate Auditors
Hideo Tada
Tsunesuke Yoshioka
Osamu Ogiya
Hideo Ishibashi

*Representative Director

Financial Section

Contents

Non-Consolidated Balance Sheets

Promise Co., Ltd.

March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	**1997**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 84,914**	¥ 98,096	**$ 684,242**
Consumer loans receivable (Notes 4 and 9):			
Principal	**784,201**	682,066	**6,319,109**
Accrued interest income	**7,785**	6,776	**62,730**
Less: allowance for credit losses	**(22,840)**	(20,100)	**(184,045)**
	769,146	668,742	**6,197,794**
Short-term investments (Note 5)	**17,384**	18,262	**140,081**
Prepaid expenses	**3,106**	3,246	**25,027**
Other current assets	**9,021**	2,849	**72,688**
Total current assets	**883,571**	791,195	**7,119,832**
Investments and other assets:			
Investments in securities (Notes 5 and 9)	**11,761**	14,159	**94,768**
Investments in and advances to subsidiaries and an affiliate	**12,763**	12,366	**102,847**
Investments in equity other than capital stock (Note 2(10))	**6,134**	5,916	**49,430**
Long-term prepaid expenses	**1,945**	1,811	**15,676**
Other investments and advances	**5,762**	7,711	**46,422**
Less: allowance for credit losses	**(910)**	(750)	**(7,333)**
Total investments and other assets	**37,455**	41,213	**301,810**
Property and equipment, net (Note 7)	**57,877**	51,888	**466,373**
Fixed leasehold deposits (Note 8)	**10,767**	10,420	**86,759**
Total assets	**¥989,670**	¥894,716	**$7,974,774**

The accompanying notes are an integral part of these statements.

	Millions of Yen 1997	Millions of Yen 1996	Thousands of U.S. Dollars (Note 3) 1997
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 9)	**¥ 53,000**	¥ 51,732	**$ 427,075**
Current portion of long-term debt (Note 9)	**173,975**	172,177	**1,401,890**
Accounts payable	**5,161**	4,647	**41,590**
Accrued income taxes (Note 16)	**23,173**	21,502	**186,729**
Accrued expenses	**4,815**	5,106	**38,801**
Other current liabilities	**287**	453	**2,307**
Total current liabilities	**260,411**	255,617	**2,098,392**
Long-term liabilities:			
Long-term debt (Note 9)	**479,137**	417,821	**3,860,893**
Non-current accounts payable (Note 2 (10))	**10,056**	10,461	**81,035**
Accrued severance indemnities (Note 10)	**6,237**	5,608	**50,254**
Other long-term debt	**2,470**	2,497	**19,903**
Total long-term liabilities	**497,900**	436,387	**4,012,085**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 13)**:**			
Common stock, ¥50 par value:			
Authorized – 300,000,000 shares			
Issued: – 98,528,070 shares at March 31, 1997 and 1996	**13,023**	13,023	**104,940**
Additional paid-in capital	**22,828**	22,828	**183,952**
Legal reserve	**3,256**	3,256	**26,235**
Voluntary reserve	**157,800**	132,800	**1,271,555**
Retained earnings	**34,452**	30,805	**277,615**
Total shareholders' equity	**231,359**	202,712	**1,864,297**
Total liabilities and shareholders' equity	**¥989,670**	¥894,716	**$7,974,774**

Non-Consolidated Statements of Income

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	**1997**
Operating income:			
Interest on consumer loans	**¥191,401**	¥171,809	**$1,542,311**
Other financial income	**531**	1,026	**4,281**
Other operating income	**6,965**	6,403	**56,124**
Total operating income	**198,897**	179,238	**1,602,716**
Operating expenses:			
Financial expenses (Note 14)	**23,673**	23,869	**190,756**
General and administrative expenses (Note 15)	**78,005**	70,972	**628,565**
Credit losses including provision for uncollectible loans	**20,305**	17,042	**163,623**
Total operating expenses	**121,983**	111,883	**982,944**
Operating profit	**76,914**	67,355	**619,772**
Other income (expenses):			
Interest and dividend income on investments	**421**	443	**3,394**
Insurance money received and insurance dividend	**934**	837	**7,529**
Bond issue expenses	**(60)**	(314)	**(481)**
Equity in earnings of Tokumei Kumiai (Note 2 (10))	**567**	209	**4,565**
Net gain on sales of short-term investments and investments in securities	**72**	299	**580**
Loss on valuation of short-term investments	**(336)**	(13)	**(2,709)**
Loss on valuation of investments in securities	**(2,324)**	(18)	**(18,726)**
Net loss on sales or disposal of property and equipment	**(527)**	(807)	**(4,243)**
Past service cost of directors' and statutory auditors' retirement benefits	**—**	(625)	**—**
Other, net	**(1,785)**	(746)	**(14,384)**
Total other expenses, net	**(3,038)**	(735)	**(24,475)**
Income before income taxes	**73,876**	66,620	**595,297**
Income taxes (Note 16)	**39,186**	35,850	**315,761**
Net income	**¥ 34,690**	¥ 30,770	**$ 279,536**

	Yen		U.S. Dollars (Note 3)
Amount per share:			
Net income:			
Basic	**¥352.08**	¥312.29	**$2.84**
Diluted	**345.11**	311.62	**2.78**
Cash dividends	**60**	55	**0.48**
Weighted average number of shares (Thousands)**:**			
Basic	**98,528**	98,528	**98,528**
Diluted	**100,519**	98,740	**100,519**

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Shareholders' Equity

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

	Number of shares of common stock	Millions of Yen				
		Common stock	Additional paid–in capital	Legal reserve	Voluntary reserves	Retained earnings
Balance at March 31, 1995	82,106,725	¥13,023	¥22,828	¥3,256	¥114,000	¥23,878
Net income	—	—	—	—	—	30,770
Cash dividends paid	—	—	—	—	—	(4,927)
Bonuses to directors and statutory auditors	—	—	—	—	—	(116)
Transfer to voluntary reserve	—	—	—	—	18,800	(18,800)
Stock split (1 into 1.20)	16,421,345	—	—	—	—	—
Balance at March 31, 1996	98,528,070	¥13,023	¥22,828	¥3,256	¥132,800	¥30,805
Net income	—	—	—	—	—	**34,690**
Cash dividends paid	—	—	—	—	—	**(5,911)**
Bonuses to directors and statutory auditors	—	—	—	—	—	**(132)**
Transfer to voluntary reserve	—	—	—	—	**25,000**	**(25,000)**
Balance at March 31, 1997	**98,528,070**	**¥13,023**	**¥22,828**	**¥3,256**	**¥157,800**	**¥34,452**

	Number of shares of common stock	Thousands of U.S. Dollars (Note 3)				
		Common stock	Additional paid–in capital	Legal reserve	Voluntary reserves	Retained earnings
Balance at March 31, 1996	98,528,070	$104,940	$183,952	$26,235	$1,070,105	$248,231
Net income	—	—	—	—	—	**279,536**
Cash dividends paid	—	—	—	—	—	**(47,638)**
Bonuses to directors and statutory auditors	—	—	—	—	—	**(1,064)**
Transfer to voluntary reserve	—	—	—	—	**201,450**	**(201,450)**
Balance at March 31, 1997	**98,528,070**	**$104,940**	**$183,952**	**$26,235**	**$1,271,555**	**$277,615**

The accompanying notes are an integral part of these statements.

Non-Consolidated Statements of Cash Flows

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	**1997**
Operating activities:			
Net income	**¥ 34,690**	¥ 30,770	**$ 279,536**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**5,690**	4,476	**45,846**
Credit losses including provision for uncollectible loans	**20,305**	17,042	**163,623**
Provision for accrued severance indemnities	**628**	1,234	**5,064**
Equity in earnings of Tokumei Kumiai	**(405)**	(101)	**(3,262)**
Loss on valuation of short-term investments	**336**	13	**2,709**
Loss on valuation of investments in securities	**2,324**	18	**18,726**
Net loss on sales or disposal of property and equipment	**527**	807	**4,243**
Changes in operating assets and liabilities:			
Increase in accrued interest income	**(1,008)**	(1,095)	**(8,125)**
Decrease in prepaid expenses	**140**	975	**1,131**
Decrease (Increase) in other current assets	**(6,172)**	666	**(49,731)**
Increase in accounts payable	**444**	521	**3,579**
Increase in accrued income taxes	**1,671**	4,058	**13,466**
Increase (Decrease) in accrued expenses	**(291)**	1,177	**(2,344)**
Increase (Decrease) in other current liabilities	**(167)**	136	**(1,346)**
Other, net	**(97)**	(292)	**(788)**
Net cash provided by operating activities	**58,615**	60,405	**472,327**
Investing activities:			
Consumer loans made to customers	**(528,212)**	(456,384)	**(4,256,338)**
Principal collected on consumer loans	**408,431**	350,471	**3,291,141**
Payment for purchase of securities	**(1,519)**	(10,021)	**(12,242)**
Proceeds from sales of securities	**2,208**	10,508	**17,787**
Purchases of property and equipment	**(11,262)**	(7,382)	**(90,747)**
Proceeds from sales of property and equipment	**7**	596	**54**
Increase in fixed leasehold deposits	**(347)**	(769)	**(2,796)**
Decrease in other investments	**555**	171	**4,475**
Net cash used in investing activities	**(130,139)**	(112,810)	**(1,048,666)**
Financing activities:			
Proceeds from long-term debt	**236,170**	229,447	**1,903,062**
Repayments of long-term debt	**(173,057)**	(177,983)	**(1,394,492)**
Increase in short-term bank loans	**1,268**	17,185	**10,220**
Cash dividends paid	**(5,907)**	(4,926)	**(47,602)**
Bonuses paid to directors and statutory auditors	**(132)**	(116)	**(1,064)**
Net cash provided by financing activities	**58,342**	63,607	**470,124**
Net increase (decrease) in cash and cash equivalents	**(13,182)**	11,202	**(106,215)**
Cash and cash equivalents at beginning of the year	**98,096**	86,894	**790,457**
Cash and cash equivalents at end of the year	**¥ 84,914**	¥ 98,096	**$ 684,242**
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	**¥23,751**	¥22,556	**$191,383**
Income taxes	**37,565**	31,620	**302,698**

The accompanying notes are an integral part of these statements.

1. Basis of Presenting the Non-Consolidated Financial Statements

The accompanying non-consolidated financial statements have been prepared from accounts and records maintained by Promise Co., Ltd. (the "Company") in accordance with the provisions set forth in the Commercial Code of Japan (the "Commercial Code") and in conformity with accounting principles generally accepted in Japan and the "Standard Financial Statements Form in the Consumer Financing Business" (promulgated by the Federation of Credit Bureaus of Japan on April 25, 1993).

Relevant notes have been added, and certain reclassifications of account balances as disclosed have been made, so as to present them in a form which is more familiar to readers outside Japan.

Although the non-consolidated statements of shareholders' equity and cash flows are not prepared in Japan for domestic reporting purposes, such statements have been prepared for the purpose of inclusion in this document.

2. Summary of Significant Accounting Policies

(1) *Recognition of Interest Income*

Interest income on consumer loans is recognized when collections are made during each financial period. At the end of each financial period, the accrual basis is used to reflect the interest income earned, in accordance with Japanese tax practice, at the lower of interest rates provided by the Interest Rate Restriction Law of Japan or contracted interest rates and any excess of contractual rates over statutory rates is not reflected for accounting purposes.

(2) *Presentation of Financial Income and Expenses*

Interest income on loans and dividend income from subsidiaries and an affiliate and dividends and interest on investments in securities are excluded from "Operating income" in the accompanying non-consolidated statements of income.

Interest expense, which does not directly match operating income, is excluded from "Operating expenses" in the accompanying non-consolidated statements of income.

These income or expense amounts are principally included in "Other income" or "Other expenses" in the accompanying non-consolidated statements of income.

(3) *Allowance for Credit Losses and Write-Offs*

The allowance for credit losses is provided in an amount equivalent to the maximum deduction allowed by tax laws, or in an amount deemed necessary to cover possible non-collectible accounts based on management's judgment, whichever is greater.

Consumer loans are written off against the allowance for credit losses when both interest and principal of the loans have been unpaid for a certain specified period of time, even after follow-up requests for payment, and / or uncollectibility of accounts is clearly demonstrated by conditions such as the customer's bankruptcy or death.

(4) *Valuation of Securities*

Securities listed on stock exchanges are valued at the lower of cost or market, cost being determined by the moving average method. Other securities are valued at cost, which is determined by the moving average method.

Under the "at the lower of cost or market" method, the comparison of cost with lower market value is made with respect to each security individually, and is not made between aggregate cost and aggregate market value of securities.

(5) *Property and Equipment*

Depreciation is computed on the declining-balance method, based on the estimated useful lives of assets as prescribed by tax laws. The range of useful lives is principally from 3 to 65 years for buildings and from 3 to 20 years for furniture, fixtures and equipment.

Normal repairs and maintenance including minor renewals and improvements are charged to income as incurred.

(6) *Investments in and Advances to Subsidiaries and an Affiliate*

Investments in subsidiaries and an affiliate, which is a 25% owned company, are valued at cost. The equity method to account for investments in common shares of subsidiaries and an affiliate has not been followed by the Company in the accompanying non-consolidated financial statements.

(7) *Amortization*

Amortization of computer software, which is included in "Long-term prepaid expenses" in the accompanying balance sheets, is principally computed on the straight-line method over 5 years, as specified by tax laws.

(8) *Foreign Currency Translation*

Foreign currencies and short-term receivables and payables (including current maturities of long-term debt) denominated in foreign currencies are translated into Japanese yen at the relevant exchange rates prevailing at the respective balance sheet dates. The resulting transaction gains or losses are included in the determination of other income (expenses) for the year.

Long-term receivables and payables denominated in foreign currencies including investments in overseas subsidiaries are translated at the historical rates prevailing at the transaction dates.

However, short-term and long-term payables in foreign currencies which are hedged by forward exchange contracts are translated into yen at the contracted rate of exchange.

(9) *Leases*

Where the financing leases do not transfer ownership of the leased property to the lessee during the terms of the leases, the leased property is not capitalized and the related rental expenses are charged to income in the periods in which they are incurred.

(10) *Accounting for Japanese Leveraged Leasing Transactions*

The Company entered into 7 Tokumei Kumiai (which is provided by the Commercial Code § 535) agreements with certain leasing companies with the objective of purchasing aircraft and leasing them to foreign airplane companies as operating leases. The total amount of investments in Tokumei Kumiai as of March 31, 1997 is ¥4,368 million ($35,201 thousand) and the contract terms range from 10 years to 18 years. The structure of Tokumei Kumiai is similar to a limited partnership in the United States or the United Kingdom.

Investments in Tokumei Kumiai contracts are included in "Investments in equity other than capital stock" in the accompanying balance sheets. The Company accounts for the amount which is to be distributed to it or borne by it under the Tokumei Kumiai contracts as "Equity in earnings of Tokumei Kumiai" for its accounting period in which the accounting period of the Tokumei Kumiai ends.

The accumulated losses from Tokumei Kumiai contracts aggregated ¥10,056 million ($81,035 thousand) as of March 31, 1997. These losses are classified as "Non-current accounts payable" in the accompanying balance sheets.

(11) *Income Taxes*

Income taxes are provided based on amounts required by the tax returns for the period. No tax effect is recorded for timing differences between tax and financial reporting.

(12) *Accrued Severance Indemnities and Pension Plan*

Under the terms of the retirement plan of the Company, employees of the Company with more than two years of service are generally entitled to lump-sum payments at the time of retirement.

The amount of the retirement benefit is, in general, based on the length of service, the accumulated points of individual performance evaluation and cause of retirement.

The Company fully accrues severance indemnities that would be required if all eligible employees retired voluntarily at the balance sheet date, reduced by the estimated benefits provided by a non-contributory funded pension plan. Such liability is not funded.

The Company has a non-contributory funded pension plan to cover 90% of the severance indemnities for employees who meet the following conditions. The pension plan of the Company provides for a lump-sum payment or annual payments for life after the age of 60, at the option of those retiring employees with at least 15 years of employment in the Company who have reached the age of 51.

The directors and statutory auditors of the Company are covered by a retirement benefit plan under which the retiring directors or statutory auditors are entitled to receive lump-sum retirement benefits. The amount of such benefits is determined based on the Company's pertinent rules. The accrued severance indemnities for the directors and statutory auditors in the accompanying balance sheets represent the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet dates. Prior to April 1, 1995, such benefits had been accounted for on a cash basis as such payments were required to be approved by the shareholders. Effective April 1, 1995, the Company changed its basis of recording directors' and statutory auditors' retirement benefits from the cash basis to the accrual basis. This change was made to achieve better matching of costs with revenues. The effect of this change was to decrease income before income taxes for the year ended March 31, 1996 by ¥715 million.

(13) *Bond Issue Expenses*

Bond issue expenses are charged to income as incurred.

(14) *Appropriation of Retained Earnings*

Under the Commercial Code and the Articles of Incorporation of the Company, proposals by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying non-consolidated financial statements for each financial year represents the appropriations which were approved by the shareholders' meeting and disposed of during that year but which related to the immediately preceding financial year.

The payment of bonuses to directors and statutory auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of appropriations referred to above.

(15) *Net Income and Dividend per Share*

Basic net income per share is based upon the weighted average number of shares of common stock outstanding during each period, after appropriate retroactive adjustments for the stock splits made by the Company.

Diluted net income per share is based upon the weighted average number of shares of common stock outstanding during each period after consideration of the dilutive effect of the non-interest bearing convertible bond.

Cash dividends per share represent interim dividend paid and annual dividends declared as applicable to the respective years.

(16) *Cash Equivalents*

All deposits at banks with an original maturity date of one year or less and government and corporate bonds purchased under re-sale agreements are considered to be cash equivalents.

3. United States Dollar Amounts

The Company prepares its non-consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥124.10 to U.S. $1, being the effective rate of exchange at March 31, 1997. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at the rate of ¥124.10 to U.S. $1 or at any other rate.

4. Consumer Loans Receivable

Unsecured loans to individual customers, which were included in "Consumer loans receivable", were ¥775,160 million ($6,246,254 thousand) and ¥670,585 million as of March 31, 1997 and 1996, respectively.

5. Short-term Investments and Investments in Securities

Short-term investments and investments in securities held by the Company as of March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Short-term investments:			
Equity securities	**¥11,499**	¥11,872	**$ 92,656**
Other securities	**5,885**	6,390	**47,425**
	¥17,384	¥18,262	**$140,081**
Investments in securities:			
Equity securities	**¥ 9,673**	¥12,071	**$ 77,944**
Government and corporate bonds	**2,088**	2,088	**16,824**
	¥11,761	¥14,159	**$ 94,768**

Book value and market value information on short-term investments and investments in securities held by the Company as of March 31, 1997 was summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Book value per balance sheet	Market value	Unrealized gain (loss)	Book value per balance sheet	Market value	Unrealized gain (loss)
Short-term investments:						
Equity securities	¥11,499	¥16,570	¥5,071	$92,656	$133,521	$40,865
Other securities	3,393	2,724	(669)	27,338	21,953	(5,385)
	14,892	19,294	4,402	119,994	155,474	35,480
Investments in securities:						
Equity securities	8,857	14,841	5,984	71,368	119,591	48,223
Government and corporate bonds	88	99	11	708	797	89
	8,945	14,940	5,995	72,076	120,388	48,312
	¥23,837	¥34,234	¥10,397	$192,070	$275,862	$83,792

Book values of securities which were excluded from the above disclosure of book value and market value information on short-term investments and investments in securities held by the Companies as of March 31, 1997 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term investments:		
Other securities	¥2,492	$20,087
Investments in securities:		
Equity securities	816	6,576
Government and corporate bonds	2,000	16,116

The market values of these securities were not available as of March 31, 1997, because it was impossible or difficult to determine the market values.

6. Financial instruments

The Company enters into interest rate swap agreements to convert variable interest rates on the principal amount of certain debts to fixed interest rates. This agreements are used to reduce the exposure to market risk from fluctuation in interest rate. The Company does not hold or issue any financial instruments for trading purposes. The amounts underlying of the interest rate swap agreements was ¥45,000 million ($362,611 thousand) at March 31, 1997.

7. Property and Equipment

Property and equipment at March 31, 1997 and 1996 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Buildings	**¥21,428**	¥18,857	**$172,664**
Structures	**4,157**	3,605	**33,493**
Furniture, fixtures and equipment	**25,884**	20,497	**208,571**
Other	**15**	31	**132**
	51,484	42,990	**414,860**
Less: Accumulated depreciation	**(23,969)**	(20,771)	**(193,141)**
	27,515	22,219	**221,719**
Land	**30,362**	29,650	**244,654**
Construction in progress	**—**	19	**—**
	¥57,877	¥51,888	**$466,373**

8. Fixed Leasehold Deposits

Fixed leasehold deposits as at March 31, 1997 and 1996 were mainly those paid to the lessors in connection with the leases of facilities for office space. Lessors in Japan require large amounts of leasehold deposits equivalent to several months' lease rental payments. Such leasehold deposits do not bear interest and are generally returnable only when the lease is terminated.

9. Short-term Bank Loans and Long-term Debt

Short-term bank loans outstanding at March 31, 1997 and 1996 were represented mainly by overdrafts with banks bearing interest at annual rates ranging from 1.011% to 3.050% and from 1.044% to 2.407%, respectively.

Information on the amount short-term bank loans outstanding at March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Maximum month-end balance outstanding during the year	**¥54,232**	¥51,732	**$437,000**
Average month-end balance outstanding during the year	**51,954**	44,840	**418,649**
Weighted average interest rate for the year	**1.509%**	2.168%	**1.509%**

Long-term debt outstanding at March 31, 1997 and 1996 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Loans, principally from banks and other financial institutions with interest rates indicated below*1:			
Secured	**¥175,100**	¥154,204	**$1,410,959**
Entered into the forward contract of assigning consumer loans receivable	**306,183**	285,862	**2,467,223**
Unsecured	**151,829**	139,932	**1,223,441**
	633,112	579,998	**5,101,623**
Uncollateralized convertible yen bonds, due 2000*2	**10,000**	10,000	**80,580**
2.100% per annum uncollateralized yen bonds, due 2002	**10,000**	—	**80,580**
Less: portion due within one year	**(173,975)**	(172,177)	**(1,401,890)**
	¥479,137	¥417,821	**$3,860,893**
Weighted average interest rate for the year	**3.193%**	3.585%	**3.193%**

Notes:

*1 Annual interest rates on loans from banks and other financial institutions outstanding as of March 31, 1997 and 1996 ranged from 1.925% to 5.995% and from 1.925% to 8.100%, respectively.

*2 The uncollateralized convertible yen bonds in the initial principal amount of ¥10,000 million due March 31, 2000 were issued on February 22, 1996, and are convertible into common stock of the Company. The current conversion price is ¥5,023 per share.

The Company' s assets pledged as collateral for short-term bank loans and long-term loans with banks and other financial institutions at March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Consumer loans receivable*	**¥192,696**	¥168,949	**$1,552,748**
Investments in securities	**325**	—	**2,616**
	¥193,021	¥168,949	**$1,555,364**

Notes:

* Besides the above assets pledged, the Company entered into the forward contract of assigning consumer loans receivable.
The contract amounts were ¥354,466 million ($2,856,297 thousand) and ¥ 338,336 million as of March 31, 1997 and 1996, respectively.

The aggregate annual maturities of long-term debt, excluding the above bonds, outstanding at March 31, 1997 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31,		
1998	¥173,975	$1,401,890
1999	173,772	1,400,258
2000	148,974	1,200,433
2001	91,571	737,881
2002 and thereafter	44,820	361,161
	¥633,112	$5,101,623

10. Pension Plans

The accumulated balances of fund assets of the funded pension plans of the Company aggregated ¥4,182 million ($33,699 thousand), as of March 31, 1997, which is the date of the most recent actuarial valuation.

The past service costs for these pension plans are being amortized at the rate of 30% per annum by the declining-balance method.

11. Lease Commitments

Rental, depreciation and interest expense relating to financing leases, which do not transfer ownership of the leased properties to the lessee during the terms of the leases, were ¥2,407 million ($19,393 thousand), ¥2,177 million ($17,545 thousand) and ¥314 million ($2,529 thousand) for the year ended March 31, 1997 and ¥1,689 million, ¥1,449 million and ¥358 million for the year ended March 31, 1996, respectively.

The depreciation expense is computed on a straight-line basis over the terms of the related leases. The interest expense is computed by the interest method.

The aggregate future lease payments as of March 31, 1997 and 1996 were as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	March 31,						March 31,		
	1997			1996			**1997**		
	Present value	Imputed interest	Total	Present value	Imputed interest	Total	Present value	Imputed interest	Total
Due within one year	**¥2,181**	**¥212**	**¥2,393**	¥1,645	¥271	¥1,916	**$17,572**	**$1,714**	**$19,286**
Due after one year	**3,956**	**157**	**4,113**	3,848	171	4,019	**31,884**	**1,256**	**33,140**
	¥6,137	**¥369**	**¥6,506**	¥5,493	¥442	¥5,935	**$49,456**	**$2,970**	**$52,426**

A summary of the leased properties under the above leases as of March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Furniture, fixtures and equipment	**¥8,882**	¥6,851	**$71,573**
Other	**338**	424	**2,720**
	¥9,220	7,275	**74,293**
Less: Accumulated depreciation	**(3,261)**	(1,971)	**(26,276)**
	¥5,959	¥5,304	**$48,017**

12. Contingent Liabilities

As of March 31, 1997, the Company was contingently liable as a guarantor of loans primarily to subsidiaries from banks and financial institutions in the aggregate amount of ¥13,159 million ($106,036 thousand).

13. Shareholders' Equity

Under the Commercial Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

On May 19, 1995, the Company made stock splits to shareholders of record as of March 31, 1995 of 16,421 thousand shares in the ratio of 1.20 shares for each one share held. These stock splits are allowed under the Commercial Code.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other appropriations of retained earnings paid out with respect to each financial period be set aside in a legal reserve until such reserve equals 25% of the amount of common stock.

This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit with the approval of a shareholders' meeting but is not available for dividend payments.

14. Financial Expenses

Interest expense, which was included in "Financial expenses" in the accompanying non-consolidated statements of income for the years ended March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31,		For the year ended March 31,
	1997	1996	**1997**
Interest expense	**¥22,808**	¥23,779	**$183,784**

15. General and Administrative Expenses

General and administrative expenses in the accompanying non-consolidated statements of income for the years ended March 31, 1997 and 1996 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31,		For the year ended March 31,
	1997	1996	**1997**
Advertisements	**¥10,965**	¥11,614	**$ 88,355**
Employees' salary and bonuses	**19,004**	18,228	**153,133**
Rent expenses	**9,077**	7,790	**73,142**
Other	**38,959**	33,340	**313,935**
	¥78,005	¥70,972	**$628,565**

16. Income Taxes

The Company is subject to a number of different taxes based on income, which in the aggregate indicate a normal effective statutory income tax rate of approximately 51% for the years ended March 31,1997 and 1996.

However, the income tax expenses shown in the accompanying non-consolidated statements of income differ from the amounts computed by applying the above-mentioned statutory tax rates to "Income before income taxes". The principal reasons for such differences are that no tax effects have been recognized on certain timing differences between financial accounting and tax reporting purposes. The main elements of such timing differences are allowances for credit losses provided for accounting purposes in excess of the limit established by the tax laws and accrued enterprise tax which is not deductible until paid.

Although enterprise taxes are normally presented as part of selling, general and administrative expenses in the financial statements prepared in conformity with the accounting practices in Japan, the reclassification has been made to present income taxes in their entirety in the accompanying non-consolidated financial statements.

17. Subsequent Events

At the general shareholders' meeting of the Company held on June 27, 1997, the appropriation of unappropriated retained earnings was duly approved as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at March 31, 1997	¥34,452	$277,615
Appropriation:		
Cash dividends, ¥30 ($0.24) per share	(2,956)	(23,818)
Transfer to voluntary reserve	(28,000)	(225,624)
Directors' and statutory auditors' bonuses	(167)	(1,346)
	¥ 3,329	$ 26,827

Report of the Independent Certified Public Accountants on the Non-Consolidated Financial Statements of the Company

To the Board of Directors of
Promise Co., Ltd.

We have audited the non-consolidated balance sheets of Promise Co., Ltd. as of March 31, 1997 and 1996, and the related non-consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. 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 audit.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the non-consolidated financial position of Promise Co., Ltd. as of March 31, 1997 and 1996, and the non-consolidated results of its operations and its cash flows for the years then ended, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

As discussed in Note 2. (12) to the non-consolidated financial statements, the Company changed its basis of accounting for directors' and statutory auditors' retirement benefits from the cash basis to the accrual basis with effect from April 1, 1995. This change was made to achieve better matching of costs with revenues and, therefore, we concur with the change as acceptable.

Chuo Audit Corporation

Chuo Audit Corporation

Osaka, Japan
June 27, 1997

Consolidated Balance Sheets

Promise Co., Ltd.

March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	**1997**
ASSETS			
Current assets:			
Cash and cash equivalents	**¥ 88,651**	¥101,434	**$ 714,349**
Receivables and consumer loans:			
Notes and accounts receivable (Note 8)	**30,314**	22,037	**244,269**
Consumer loans receivable (Notes 4 and 8):			
Principal	**821,857**	714,417	**6,622,537**
Accrued interest income	**7,931**	6,910	**63,911**
Less: allowance for credit losses	**(25,016)**	(21,808)	**(201,579)**
	835,086	721,556	**6,729,138**
Short-term investments (Note 5)	**17,461**	18,350	**140,702**
Prepaid expenses	**3,498**	3,658	**28,183**
Other current assets	**10,137**	4,685	**81,690**
Total current assets	**954,833**	849,683	**7,694,062**
Investments and other assets:			
Investments in securities (Notes 5 and 8)	**11,914**	14,164	**96,002**
Investments in and advances to unconsolidated subsidiaries and an affiliate	**7,916**	7,519	**63,789**
Investments in equity other than capital stock (Note 2 (11))	**6,134**	5,916	**49,430**
Long-term prepaid expenses	**3,036**	2,514	**24,467**
Other investments and advances	**6,234**	8,062	**50,231**
Less: allowance for credit losses	**(910)**	(750)	**(7,333)**
Total investments and other assets	**34,324**	37,425	**276,586**
Property and equipment, net (Note 6)	**59,004**	52,873	**475,456**
Fixed leasehold deposits (Note 7)	**11,712**	11,238	**94,368**
Adjustments on foreign currency statement translation	**—**	194	**—**
Total assets	**¥1,059,873**	¥951,413	**$8,540,472**

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	**1997**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 8)	**¥ 59,326**	¥ 56,848	**$ 478,048**
Current portion of long-term debt (Note 8)	**192,715**	185,105	**1,552,901**
Accounts payable:			
Trade	**567**	384	**4,566**
Other	**6,468**	6,141	**52,121**
	7,035	6,525	**56,687**
Accrued income taxes (Note 15)	**23,520**	22,319	**189,527**
Accrued expenses	**5,088**	5,352	**41,002**
Deferred unrealized profit on sales	**1,508**	1,116	**12,149**
Other current liabilities	**11,642**	6,483	**93,811**
Total current liabilities	**300,834**	283,748	**2,424,125**
Long-term liabilities:			
Long-term debt (Note 8)	**500,550**	439,834	**4,033,438**
Non-current accounts payable (Note 2 (11))	**10,056**	10,461	**81,035**
Accrued severance indemnities (Note 9)	**6,354**	5,776	**51,197**
Other long-term debt	**2,443**	2,474	**19,685**
Total long-term liabilities	**519,403**	458,545	**4,185,355**
Excess investment cost under net assets of consolidated subsidiaries acquired	**97**	239	**781**
Adjustments on foreign currency statement translation	**68**	—	**544**
Minority interest	**4,171**	2,593	**33,618**
Contingent liabilities (Note 11)			
Shareholders' equity (Note 12)**:**			
Common stock, ¥50 par value:			
Authorized – 300,000,000 shares			
Issued: – 98,528,070 shares at March 31, 1997 and 1996	**13,023**	13,023	**104,940**
Additional paid-in capital	**22,828**	22,828	**183,952**
Legal reserve	**3,390**	3,367	**27,314**
Retained earnings	**196,059**	167,071	**1,579,847**
Less: treasury stock	**(0)**	(1)	**(4)**
Total shareholders' equity	**235,300**	206,288	**1,896,049**
Total liabilities and shareholders' equity	**¥1,059,873**	¥951,413	**$8,540,472**

Consolidated Statements of Income

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	**1997**
Operating income (Note 16)**:**			
Interest on consumer loans	**¥201,026**	¥180,505	**$1,619,874**
Other financial income	**536**	1,090	**4,319**
Sales	**14,834**	12,033	**119,534**
Other operating income	**8,613**	8,108	**69,402**
Total operating income	**225,009**	201,736	**1,813,129**
Operating expenses (Note 16)**:**			
Financial expenses (Note 13)	**25,021**	25,244	**201,617**
Cost of sales	**13,216**	10,525	**106,491**
General and administrative expenses (Note 14)	**85,570**	77,539	**689,527**
Credit losses including provision for uncollectible loans	**22,379**	18,506	**180,334**
Total operating expenses	**146,186**	131,814	**1,177,969**
Operating profit (Note 16)	**78,823**	69,922	**635,160**
Other income (expenses):			
Interest and dividend income on investments	**287**	304	**2,314**
Insurance money received and insurance dividend	**934**	837	**7,529**
Interest expense	**(559)**	(580)	**(4,502)**
Bond issue expenses (Note 2 (14))	**(60)**	(314)	**(481)**
Equity in earnings of Tokumei Kumiai (Note 2 (11))	**567**	209	**4,565**
Net gain on sales of short-term investments and investments in securities	**72**	303	**580**
Loss on valuation of short-term investments	**(348)**	(13)	**(2,802)**
Loss on valuation of investments in securities	**(2,324)**	(18)	**(18,726)**
Net loss on sales or disposal of property and equipment	**(565)**	(824)	**(4,552)**
Past service cost of directors' and statutory auditors' retirement benefits	**—**	(700)	**—**
Other, net	**(1,675)**	(687)	**(13,509)**
Total other expenses, net	**(3,671)**	(1,483)	**(29,584)**
Income before income taxes	**75,152**	68,439	**605,576**
Income taxes (Note 15)	**40,025**	36,887	**322,530**
Minority interest	**(144)**	(207)	**(1,159)**
Amortization of excess of cost under net assets acquired, net	**141**	142	**1,139**
Adjustments on foreign currency statements translation	**—**	(74)	**—**
Net income	**¥ 35,124**	¥ 31,413	**$ 283,026**

	Yen		U.S. Dollars (Note 3)
Amount per share:			
Net income:			
Basic	**¥356.48**	¥318.83	**$2.87**
Diluted	**349.42**	318.14	**2.82**
Cash dividends	**60**	55	**0.48**
Weighted average number of shares (Thousands)**:**			
Basic	**98,528**	98,526	**98,528**
Diluted	**100,519**	98,738	**100,519**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

	Number of shares of common stock	Millions of Yen				
		Common stock	Additional paid–in capital	Legal reserve	Retained earnings	Treasury stock
Balance at March 31, 1995	82,106,725	¥13,023	¥22,828	¥3,350	¥140,718	¥(1)
Net income	—	—	—	—	31,413	—
Cash dividends paid	—	—	—	—	(4,926)	—
Bonuses to directors and statutory auditors	—	—	—	—	(116)	—
Transfer to legal reserve	—	—	—	17	(17)	—
Adjustments on foreign currency statement translation	—	—	—	0	(1)	—
Stock split (1 into 1.20)	16,421,345	—	—	—	—	—
Decrease in treasury stock	—	—	—	—	—	0
Balance at March 31, 1996	98,528,070	¥13,023	¥22,828	¥3,367	¥167,071	¥(1)
Net income	—	—	—	—	**35,124**	—
Cash dividends paid	—	—	—	—	**(5,913)**	—
Bonuses to directors and statutory auditors	—	—	—	—	**(140)**	—
Transfer to legal reserve	—	—	—	**23**	**(23)**	—
Decrease due to issuance of common stock of a subsidiary	—	—	—	—	**(60)**	—
Decrease in treasury stock	—	—	—	—	—	**0**
Balance at March 31,1997	**98,528,070**	**¥13,023**	**¥22,828**	**¥3,390**	**¥196,059**	**¥(0)**

	Number of shares of common stock	Thousands of U.S. Dollars (Note 3)				
		Common stock	Additional paid–in capital	Legal reserve	Retained earnings	Treasury stock
Balance at March 31, 1996	98,528,070	$104,940	$183,952	$27,131	$1,346,255	$(4)
Net income	—	—	—	—	**283,026**	—
Cash dividends paid	—	—	—	—	**(47,635)**	—
Bonuses to directors and statutory auditors	—	—	—	—	**(1,129)**	—
Transfer to legal reserve	—	—	—	**183**	**(183)**	—
Decrease due to issuance of common stock of a subsidiary	—	—	—	—	**(487)**	—
Decrease in treasury stock	—	—	—	—	—	**0**
Balance at March 31, 1997	**98,528,070**	**$104,940**	**$183,952**	**$27,314**	**$1,579,847**	**$(4)**

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	**1997**
Operating activities:			
Net income	**¥ 35,124**	¥ 31,413	**$ 283,026**
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	**6,183**	4,881	**49,820**
Credit losses including provision for uncollectible loans	**22,379**	18,506	**180,334**
Provision for accrued severance indemnities	**577**	1,329	**4,653**
Equity in earnings of Tokumei Kumiai	**(405)**	(101)	**(3,262)**
Loss on valuation of short-term investments	**348**	13	**2,802**
Loss on valuation of investments in securities	**2,324**	18	**18,726**
Net loss on sales or disposal of property and equipment	**565**	824	**4,552**
Changes in operating assets and liabilities:			
Increase in notes and accounts receivable	**(8,613)**	(1,515)	**(69,406)**
Increase in accrued interest income	**(1,021)**	(1,110)	**(8,224)**
Decrease in prepaid expenses	**160**	978	**1,292**
Decrease (Increase) in other current assets	**(5,453)**	168	**(43,939)**
Increase in accounts payable	**439**	1,097	**3,539**
Increase in accrued income taxes	**1,202**	4,572	**9,682**
Increase (Decrease) in accrued expenses	**(264)**	1,120	**(2,126)**
Increase (Decrease) in deferred unrealized profit on sales	**391**	(129)	**3,153**
Increase in other current liabilities	**5,159**	489	**41,574**
Increase in minority interest	**149**	147	**1,204**
Other, net	**37**	(791)	**289**
Net cash provided by operating activities	**59,281**	61,909	**477,689**
Investing activities:			
Consumer loans made to customers	**(557,210)**	(479,649)	**(4,490,006)**
Principal collected on consumer loans	**430,835**	369,850	**3,471,671**
Payment for purchase of securities	**(1,668)**	(10,026)	**(13,438)**
Proceeds from sales of securities	**2,209**	11,230	**17,799**
Purchases of property and equipment	**(11,811)**	(7,882)	**(95,170)**
Proceeds from sales of property and equipment	**84**	597	**678**
Increase in fixed leasehold deposits	**(473)**	(725)	**(3,814)**
Decrease (Increase) in other investments	**(216)**	149	**(1,747)**
Net cash used in investing activities	**(138,250)**	(116,456)	**(1,114,027)**
Financing activities:			
Proceeds from long-term debt	**255,564**	247,403	**2,059,346**
Repayments of long-term debt	**(187,239)**	(196,859)	**(1,508,775)**
Increase in short-term bank loans	**2,478**	19,236	**19,968**
Cash dividends paid	**(5,907)**	(4,926)	**(47,602)**
Bonuses paid to directors and statutory auditors	**(140)**	(116)	**(1,129)**
Issuance of common stock of a subsidiary	**1,430**	—	**11,523**
Net cash provided by financing activities	**66,186**	64,738	**533,331**
Net increase (decrease) in cash and cash equivalents	**(12,783)**	10,191	**(103,007)**
Cash and cash equivalents at beginning of the year	**101,434**	91,243	**817,356**
Cash and cash equivalents at end of the year	**¥ 88,651**	¥101,434	**$ 714,349**
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	**¥ 25,590**	¥ 23,842	**$ 206,203**
Income taxes	**38,858**	32,130	**313,122**

The accompanying notes are an integral part of these statements.

1. Basis of Presenting the Consolidated Financial Statements

The accounting records of Promise Co., Ltd. (the "Company") and its domestic consolidated subsidiary are maintained in accordance with the provisions set forth in the Commercial Code of Japan (the "Commercial Code") and in conformity with accounting principles generally accepted in Japan.

The accounts of overseas subsidiaries consolidated with the Company are based on the financial statements prepared in conformity with generally accepted accounting principles (the "GAAP") and practices prevailing in the country where the subsidiaries have been incorporated. Financial statements have not been materially affected by the differences between the GAAP prevailing in such country and Japanese GAAP. Therefore, no adjustments have been reflected in the accompanying consolidated financial statements to present the accounts of the subsidiaries in compliance with Japanese accounting principles and practices.

The presentation of the accompanying consolidated financial statements is made in conformity with the "Consolidated Financial Statements Regulation" (an ordinance promulgated by the Ministry of Finance) and meets the requirements for disclosure of financial information of the Company on a consolidated basis. Furthermore, the presentation of the consolidated financial statements relating to consumer finance business is also made in the "Standard Financial Statements Form in the Consumer Financing Business" (promulgated by the Federation of Credit Bureaus of Japan on April 25, 1993). However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

2. Summary of Significant Accounting Policies

(1) *Scope and Significant Accounting Policies*

The Company had 14 subsidiaries and the affiliate, which is a 25% owned company, as of March 31, 1997 and 12 subsidiaries and the affiliate as of March 31, 1996. The accompanying consolidated financial statements include the accounts of the Company and three of its subsidiaries (together, the "Companies"), which are listed below:

Name	Country of incorporation	Equity ownership percentage at March 31, 1997	Fiscal year-end
GC Co., Ltd.	Japan	63.86%	March 31
Liang Jing Co., Ltd.	Taiwan	100.00%	December 31
Yuukei Co., Ltd.	Taiwan	99.78%	December 31

The remaining 11 unconsolidated subsidiaries at March 31, 1997 were not consolidated because their aggregate sales, total assets, total net income and total retained earnings available for the Company were not material to the consolidated results of operations, total assets, total net income and total retained earnings, respectively.

Any material difference between the cost of investment in a subsidiary and the equity in its net assets at the date of acquisition is amortized over five years.

For the purpose of preparing the accompanying consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated.

(2) *Translation of Foreign Currency Financial Statements*

The accounts of the overseas consolidated subsidiaries are translated into yen by applying the "modified temporal method" for the year ended March 31, 1996. Under this method, short-term monetary assets, liabilities and retained earnings are translated at the current rates and other assets, liabilities and shareholders' equity (excluding the retained earnings) are translated at the historical rates. Revenues and expenses are translated at the average rate for the year, whereas income and retained earnings are translated at the current rate. The resulting translation adjustments are carried in the respective financial statements and not charged to income.

Effective April 1, 1996, the accounts of the overseas consolidated subsidiaries are translated into Japanese yen by the methods prescribed under the statements revised by the Business Accounting Deliberation Council (BADC) of Japan. Under this method, balance sheet accounts are translated at current rates. However, shareholder's equity is translated at the historical rate. Differences arising from the translations are stated under the section entitled "Adjustments on foreign currency statement translation" which is cited in the accompanying consolidated balance sheet. Revenues and expenses are translated at the average rate for the year.

If the methods prescribed under the statements revised by the BADC had been applied to consolidation in the fiscal year ended March 31, 1996, the effect of this would have been to reduce income before income taxes for the year by ¥77 million ($627 thousand).

(3) *Recognition of Revenues*

(*a*) *Interest income*

Interest income on consumer loans is recognized when collections are made during each financial period. At the end of each financial period, the accrual basis is used to reflect the interest income earned, in accordance with Japanese tax practice, at the lower of interest rates provided by the Interest Rate Restriction Law of Japan or contracted interest rates and any excess of contractual rates over statutory rates is not reflected for accounting purposes.

(*b*) *Installment sales*

Gross margins on installment sales are only recognized when the related installment receivables become due.

(4) *Allowance for Credit Losses and Write–Offs*

The allowance for credit losses of the Company and its domestic consolidated subsidiary is provided in an amount equivalent to the maximum deduction allowed by tax laws, or in an amount deemed necessary to cover possible non-collectible accounts based on management's judgment, whichever is greater.

Consumer loans are written off against the allowance for credit losses when both interest and principal of the loans have been unpaid for a certain specified period of time, even after follow-up requests for payment, and/or uncollectibility of accounts is clearly demonstrated by conditions such as the customer's bankruptcy or death.

The allowance for credit losses of the overseas consolidated subsidiaries is determined by estimates of management in amounts sufficient to cover possible losses on collection.

(5) *Valuation of Securities*

Securities listed on stock exchanges are valued at the lower of cost or market, cost being determined by the moving average method. Other securities are valued at cost, which is determined by the moving average method.

Under the "at the lower of cost or market" method, the comparison of cost with lower market value is made with respect to each security individually, and is not made between aggregate cost and aggregate market value of securities.

(6) *Property and Equipment*

Depreciation is principally computed on the declining–balance method, based on the estimated useful lives of assets as prescribed by tax laws. The range of useful lives is principally from 3 to 65 years for buildings and from 3to 20 years for furniture, fixtures and equipment.

Normal repairs and maintenance including minor renewals and improvements are charged to income as incurred.

(7) *Investments in Unconsolidated Subsidiaries and an Affiliate*

Investments in unconsolidated subsidiaries and an affiliate are carried at cost and are not adjusted for equity in earnings (loss) of such subsidiaries and an affiliate for each fiscal year because the effect of applying the equity method is not material.

(8) *Amortization*

Amortization of computer software, which is included in "Long-term prepaid expenses" in the accompanying balance sheets, is principally computed on the straight-line method over 5 years, as specified by tax laws.

(9) *Foreign Currency Translation*

Foreign currencies and short-term receivables and payables (including current maturities of long-term debt) denominated in foreign currencies are translated into Japanese yen at the relevant exchange rates prevailing at the respective balance sheet dates. The resulting transaction gains or losses are included in the determination of other income (expenses) for the year.

Long-term receivables and payables denominated in foreign currencies including investments in overseas subsidiaries are translated at the historical rates prevailing at the transaction dates.

However, short-term and long-term payables in foreign currencies which are hedged by forward exchange contracts are translated into yen at the contracted rate of exchange.

(10) *Leases*

Where the financing leases do not transfer ownership of the leased property to the lessee during the terms of the leases, the leased property is not capitalized and the related rental expenses are charged to income in the periods in which they are incurred.

(11) *Accounting for Japanese Leveraged Leasing Transactions*

The Company entered into 7 Tokumei Kumiai (which is provided by the Commercial Code §535) agreements with certain leasing companies with the objective of purchasing aircraft and leasing them to foreign airplane companies as operating leases. The total amount of investments in Tokumei Kumiai as of March 31, 1997 is ¥4,368 million ($35,201 thousand) and the contract terms range from 10 years to 18 years. The structure of Tokumei Kumiai is similar to a limited partnership in the United States or the United Kingdom.

Investments in Tokumei Kumiai contracts are included in "Investments in equity other than capital stock" in the accompanying balance sheets. The Company accounts for the amount which is to be distributed to it or borne by it under the Tokumei Kumiai contracts as "Equity in earnings of Tokumei Kumiai" for its accounting period in which the accounting period of the Tokumei Kumiai ends. The accumulated losses from Tokumei Kumiai contracts aggregated ¥10,056 million ($81,035 thousand) as of March 31, 1997. These losses are classified as "Non-current accounts payable" in the accompanying balance sheets.

(12) *Income Taxes*

Income taxes are provided based on amounts required by the tax returns for the period. No tax effect is recorded for timing differences between tax and financial reporting.

(13) *Accrued Severance Indemnities and Pension Plan*

Under the terms of the retirement plan of the Company, employees of the Company with more than two years of service are generally entitled to lump-sum payments at the time of retirement.

The amount of the retirement benefit is , in general, based on the length of service, the accumulated points of individual performance evaluation and cause of retirement.

The Company fully accrues severance indemnities that would be required if all eligible employees retired voluntarily at the balance sheet date, reduced by the estimated benefits provided by a non-contributory funded pension plan. Such liability is not funded.

The Company has a non-contributory funded pension plan to cover 90% of severance indemnities for employees who meet the following conditions. The pension plan of the Company provides for a lump-sum payment or annual payments for life after the age of 60, at the option of those retiring employees with at least 15 years of employment in the Company who have reached the age of 51.

Effective March, 1994, all the retirement benefits of the domestic consolidated subsidiary have been shifted to be paid from the funded pension plan. The excess amount of the accrued severance indemnities of the subsidiary resulting therefrom has been reversed into income at the rate of 30% per annum by the declining-balance method.

The directors and statutory auditors of the Company and its domestic consolidated subsidiary (the "Domestic companies") are covered by a retirement benefit plan under which the retiring directors or statutory auditors are entitled to receive lump-sum retirement benefits. The amount of such benefits is determined based on the Domestic companies' pertinent rules. The accrued severance indemnities for the directors and statutory auditors in accompanying balance sheets represent the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet dates. Prior to April 1, 1995, such benefits had been accounted for on a cash basis as such payments were required to be approved by the shareholders. Effective April 1, 1995, the Domestic companies changed their basis of recording directors' and statutory auditors' retirement benefits from the cash basis to the accrual basis. This change was made to achieve better matching of costs with revenues. The effect of this change was to decrease income before income taxes for the year ended March 31, 1996 by ¥809 million.

(14) *Bond Issue Expenses*

Bond issue expenses are charged to income as incurred.

(15) *Appropriation of Retained Earnings*

Under the Commercial Code and the Articles of Incorporation of the Company, proposals by the Board of Directors for the appropriation of retained earnings (principally the payment of annual cash dividends) should be approved by a shareholders' meeting which must be held within three months after the end of each financial year. The appropriation of retained earnings reflected in the accompanying non-consolidated financial statements for each financial year represents the appropriations which were approved by the shareholders' meeting and disposed of during that year but which related to the immediately preceding financial year.

The payment of bonuses to directors and statutory auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of appropriations referred to above.

(16) *Net Income and Dividend per Share*

Basic net income per share is based upon the weighted average number of shares of common stock outstanding during each period, after appropriate retroactive adjustments for the stock splits made by the Company.

Diluted net income per share is based upon the weighted average number of shares of common stock outstanding during each period after consideration of the dilutive effect of the non-interest bearing convertible bond.

Cash dividends per share represent interim dividend paid and annual dividends declared as applicable to the respective years.

(17) *Cash Equivalents*

All deposits at banks with an original maturity date of one year or less and government and corporate bonds purchased under re-sale agreements are considered to be cash equivalents.

3. United States Dollar Amounts

The Company prepares its consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥124.10 to U.S.$1, being the effective rate of exchange at March 31, 1997. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at the rate of ¥124.10 to U.S.$1 or at any other rate.

4. Consumer Loans Receivable

Unsecured loans to individual customers, which were included in "Consumer loans receivable", were ¥810,608 million ($6,531,893 thousand) and ¥702,936 million as of March 31, 1997 and 1996, respectively.

5. Short-term Investments and Investments in Securities

Short-term investments and investments in securities held by the Companies as of March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Short-term investments:			
Equity securities	**¥11,576**	¥11,960	**$ 93,277**
Other securities	**5,885**	6,390	**47,425**
	¥17,461	¥18,350	**$140,702**
Investments in securities:			
Equity securities	**¥9,826**	¥12,076	**$ 79,178**
Government and corporate bonds	**2,088**	2,088	**16,824**
	¥11,914	¥14,164	**$ 96,002**

Book value and market value information on short-term investments and investments in securities held by the Companies as of March 31, 1997 was summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Book value per balance sheet	Market value	Unrealized gain (loss)	Book value per balance sheet	Market value	Unrealized gain (loss)
Short-term investments:						
Equity securities	¥11,576	¥16,647	¥5,071	$93,277	$134,143	$40,866
Other securities	3,393	2,724	(669)	27,338	21,953	(5,385)
	14,969	19,371	4,402	120,615	156,096	35,481
Investments in securities:						
Equity securities	8,957	14,946	5,989	72,178	120,437	48,259
Government and corporate bonds	88	99	11	708	797	89
	9,045	15,045	6,000	72,886	121,234	48,348
	¥24,014	¥34,416	¥10,402	$193,501	$277,330	$83,829

Book values of securities which were excluded from the above disclosure of book value and market value information on short-term investments and investments in securities held by the Companies as of March 31, 1997 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Short-term investments:		
Other securities	¥2,492	$20,087
Investments in securities:		
Equity securities	869	7,000
Government and corporate bonds	2,000	16,116

The market values of these securities were not available as of March 31, 1997, because it was impossible or difficult to determine the market values.

6. Property and Equipment

Property and equipment at March 31, 1997 and 1996 were summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Buildings	**¥22,205**	¥19,519	**$178,924**
Structures	**4,157**	3,605	**33,493**
Furniture, fixtures and equipment	**27,795**	22,291	**223,971**
Other	**39**	50	**326**
	54,196	45,465	**436,714**
Less:Accumulated depreciation	**(25,554)**	(22,261)	**(205,918)**
	28,642	23,204	**230,796**
Land	**30,362**	29,650	**244,660**
Construction in progress	**—**	19	**—**
	¥59,004	¥52,873	**$475,456**

7. Fixed Leasehold Deposits

Fixed leasehold deposits as at March 31, 1997 and 1996 were mainly those paid to the lessors in connection with the leases of facilities for office space. Lessors in Japan require large amounts of leasehold deposits equivalent to several months' lease rental payments. Such leasehold deposits do not bear interest and are generally returnable only when the lease is terminated.

8. Short-term Bank Loans and Long-term Debt

Short-term bank loans outstanding at March 31, 1997 and 1996 were represented mainly by overdrafts with banks bearing interest at annual rates ranging from 1.011% to 6.450%, and from 1.044% to 8.530%, respectively.

Information on the amount of short-term bank loans outstanding at March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Maximum month-end balance outstanding during the year	**¥61,003**	¥56,848	**$491,565**
Average month-end balance outstanding during the year	**58,556**	49,191	**471,844**
Weighted average interest rate for the year	**1.724%**	2.375%	**1.724%**

Long-term debt outstanding at March 31, 1997 and 1996 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Loans, principally from banks and other financial institutions with interest rates indicated below*1:			
Secured	**¥213,140**	¥186,016	**$1,717,481**
Entered into the forward contract of assigning consumer loan receivable	**306,182**	285,862	**2,467,222**
Unsecured	**153,943**	143,061	**1,240,476**
	673,265	614,939	**5,425,179**
Uncollateralized convertible yen bonds, due 2000*2	**10,000**	10,000	**80,580**
2.100% per annum uncollateralized yen bonds, due 2002	**10,000**	—	**80,580**
Less: portion due within one year	**(192,715)**	(185,105)	**(1,552,901)**
	¥500,550	¥439,834	**$4,033,438**
Weighted average interest rate for the year	**3.188%**	3.595%	**3.188%**

Notes:

*1 Annual interest rates on loans from banks and other financial institutions outstanding as of March 31, 1997 and 1996 ranged from 1.925% to 7.350% and from 1.925% to 8.850%, respectively.

*2 The uncollateralized convertible yen bonds in the initial principal amount of ¥10,000 million due March 31, 2000 were issued on February 22, 1996, and are convertible into common stock of the Company. The current conversion price is ¥5,023 per share.

The Companies' assets pledged as collateral for short-term bank loans and long-term loans with banks and other financial institutions at March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31,		March 31,
	1997	1996	**1997**
Notes and accounts receivable	**¥ 16,173**	¥ 16,890	**$ 130,319**
Consumer loans receivable*	**228,065**	196,396	**1,837,748**
Investments in securities	**325**	—	**2,616**
	¥244,563	¥213,286	**$1,970,683**

Notes:

* Besides the above assets pledged, the Company entered into the forward contract of assigning consumer loans receivable.
The contract amounts were ¥354,466 million ($2,856,297 thousand) and ¥338,336 million as of March 31, 1997 and 1996, respectively.

The aggregate annual maturities of long-term debt, excluding the above bonds, outstanding at March 31, 1997 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Year ending March 31,		
1998	¥192,715	$1,552,901
1999	184,765	1,488,840
2000	155,829	1,255,670
2001	94,111	758,348
2002 and thereafter	45,845	369,420
	¥673,265	$5,425,179

9. Pension Plans

The accumulated balances of fund assets of the funded pension plans of the Company aggregated ¥4,182 million ($33,699 thousand), as of March 31, 1997, which is the date of the most recent actuarial valuation.

The accumulated balances of fund assets of the funded pension plans of the domestic consolidated subsidiary aggregated ¥76 million ($612 thousand), as of August 31, 1996, which is the date of the most recent actuarial valuation.

The past service costs for these pension plans are being amortized at the rate of 30% per annum by the declining-balance method.

10. Lease Commitments

For the year ended March 31, 1997 and 1996, rental expenses relating to financing leases, which do not transfer ownership of the leased properties to the lessee during the terms of the leases, were ¥2,407 million ($19,393 thousand) and ¥1,689 million, respectively.

11. Contingent Liabilities

As of March 31, 1997, the Company was contingently liable as a guarantor of loans primarily to unconsolidated subsidiaries from banks and financial institutions in the aggregate amount of ¥3,244 million ($26,141 thousand).

12. Shareholders' Equity

Under the Commercial Code, at least 50% of the issue price of new shares, with a minimum of the par value thereof, is required to be designated as stated capital. The portion which is to be designated as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the amounts designated as stated capital are credited to additional paid-in capital.

On May 19, 1995, the Company made stock splits to shareholders of record as of March 31, 1995 of 16,421 thousand shares in the ratio of 1.20 shares for each one share held. These stock splits are allowed under the Commercial Code.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other appropriations of retained earnings paid out with respect to each financial period be set aside in a legal reserve until such reserve equals 25% of the amount of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit with the approval of a shareholders' meeting but is not available for dividend payments.

13. Financial Expenses

Interest expense, which was included in "Financial expenses" in the accompanying consolidated statements of income for the years ended March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31,		For the year ended March 31,
	1997	1996	**1997**
Interest expense	**¥24,155**	¥25,153	**$194,644**

14. General and Administrative Expenses

General and administrative expenses in the accompanying consolidated statements of income for the years ended March 31, 1997 and 1996 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31,		For the year ended March 31,
	1997	1996	**1997**
Advertisements	**¥12,761**	¥13,289	**$102,831**
Employees' salary and bonuses	**20,747**	19,734	**167,177**
Rent expenses	**9,752**	8,393	**78,583**
Other	**42,310**	36,123	**340,936**
	¥85,570	¥77,539	**$689,527**

15. Income Taxes

The Company and its domestic consolidated subsidiary are subject to a number of different taxes based on income, which in the aggregate indicate a normal effective statutory income tax rate of approximately 51% for the years ended March 31, 1997 and 1996.

However, the income tax expenses shown in the accompanying consolidated statements of income differ from the amounts computed by applying the above-mentioned statutory tax rates to "Income before income taxes". The principal reasons for such differences are that no tax effects have been recognized on certain timing differences between financial accounting and tax reporting purposes. The main elements of such timing differences are allowances for credit losses provided for accounting purposes in excess of the limit established by the tax laws and accrued enterprise tax which is not deductible until paid.

Although enterprise taxes are normally presented as part of selling, general and administrative expenses in the financial statements prepared in conformity with the accounting practices in Japan, the reclassification has been made to present income taxes in their entirety in the accompanying consolidated financial statements.

16. Segment Information by Business Activities

The Companies' operations by business segment were as follows:

	Millions of Yen				
	Consumer finance business	Other business	Total	Adjustments & Eliminations	Consolidated
Year ended March 31, 1997					
Operating income from:					
Outside customers	**¥208,487**	**¥16,522**	**¥ 225,009**	**¥ —**	**¥ 225,009**
Intersegment	**—**	**225**	**225**	**(225)**	**—**
Total	**208,487**	**16,747**	**225,234**	**(225)**	**225,009**
Operating expenses	**(122,577)**	**(16,402)**	**(138,979)**	**(7,207)**	**(146,186)**
Operating profit	**¥ 85,910**	**¥ 345**	**¥ 86,255**	**¥ (7,432)**	**¥ 78,823**
Assets	**¥976,573**	**¥44,852**	**¥1,021,425**	**¥38,448**	**¥1,059,873**
Depreciation expenses	**4,539**	**410**	**4,949**	**160**	**5,109**
Capital expenditure	**11,144**	**882**	**12,026**	**185**	**12,211**
Year ended March 31, 1996					
Operating income from:					
Outside customers	187,918	13,818	201,736	—	201,736
Intersegment	—	200	200	(200)	—
Total	187,918	14,018	201,936	(200)	201,736
Operating expenses	(111,414)	(13,400)	(124,814)	(7,000)	(131,814)
Operating profit	¥ 76,504	¥ 618	¥ 77,122	¥ (7,200)	¥ 69,922
Assets	¥872,483	¥40,968	¥913,451	¥37,962	¥951,413
Depreciation expenses	3,333	425	3,758	178	3,936
Capital expenditure	7,383	553	7,936	296	8,232

	Thousands of U.S. Dollars				
	Consumer finance business	Other business	Total	Adjustments & Eliminations	Consolidated
Year ended March 31, 1997					
Operating income from:					
Outside customers	**$1,679,995**	**$133,134**	**$1,813,129**	**$ —**	**$1,813,129**
Intersegment	**—**	**1,815**	**1,815**	**(1,815)**	**—**
Total	**1,679,995**	**134,949**	**1,814,944**	**(1,815)**	**1,813,129**
Operating expenses	**(987,725)**	**(132,170)**	**(1,119,895)**	**(58,074)**	**(1,177,969)**
Operating profit	**$ 692,270**	**$ 2,779**	**$ 695,049**	**$ (59,889)**	**$ 635,160**
Assets	**$7,869,240**	**$361,425**	**$8,230,665**	**$309,807**	**$8,540,472**
Depreciation expenses	**36,576**	**3,303**	**39,879**	**1,289**	**41,168**
Capital expenditure	**89,800**	**7,109**	**96,909**	**1,485**	**98,394**

Unallocated corporate expenses and assets, which were included in "Adjustments & Eliminations" for the years ended March 31, 1997 and 1996 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31,		For the year ended March 31,
	1997	1996	**1997**
Corporate expenses	**¥ 7,432**	¥ 7,200	**$ 59,890**
Corporate assets	**38,628**	38,115	**311,265**

17. Subsequent Event

At the general shareholders' meeting of the Company held on June 27, 1997, the appropriation of unappropriated retained earnings was duly approved as follows:

	Millions of Yen	Thousands of U.S. Dollars
Balance at March 31, 1997	¥196,059	$1,579,847
Appropriation:		
Cash dividends, ¥30 ($0.24) per share	(2,956)	(23,818)
Transfer to voluntary reserve	(28,000)	(225,624)
Directors' and statutory auditors' bonuses	(167)	(1,346)
	¥164,936	$1,329,059

Report of the Independent Certified Public Accountants on the Consolidated Financial Statements of the Company

To the Board of Directors of
Promise Co., Ltd.

We have audited the consolidated balance sheets of Promise Co., Ltd. and its consolidated subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of income, shareholders' 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 audit.

We conducted our audit in accordance with the auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides 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 Promise Co., Ltd. and its consolidated subsidiaries as of March 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with generally accepted accounting principles in Japan applied on a consistent basis.

As discussed in Note 2. (13) to the consolidated financial statements, the Company and its domestic consolidated subsidiary changed their basis of accounting for directors' and statutory auditors' retirement benefits from the cash basis to the accrual basis with effect from April 1, 1995. This change was made to achieve better matching of costs with revenues and, therefore, we concur with the change as acceptable.

Chuo Audit Corporation

Chuo Audit Corporation

Osaka, Japan
June 27, 1997

Five-Year Summary (Non-Consolidated Basis)

Promise Co., Ltd.

Years ended March 31

	Millions of Yen				
	1993	1994	1995	1996	**1997**
Financial Position					
Total amount of loans outstanding	¥493,113	¥536,395	¥591,362	¥682,066	**¥784,201**
Total current assets	625,061	669,427	693,103	791,195	**883,571**
Total investments and other assets	38,401	39,072	40,966	41,213	**37,455**
Property and equipment, net	48,278	48,096	49,700	51,888	**57,877**
Fixed leasehold deposits	8,317	8,859	9,651	10,420	**10,767**
Total assets	720,057	765,454	793,420	894,716	**989,670**
Short-term bank loans and current portion of long-term debt	182,910	196,837	212,089	223,909	**226,975**
Total current liabilities	200,821	218,627	237,905	255,617	**260,411**
Long-term debt	384,839	374,133	360,991	417,821	**479,137**
Total long-term liabilities	400,862	391,225	378,530	436,387	**497,900**
Total shareholders' equity	118,374	155,602	176,985	202,712	**231,359**
Income and Expenses					
Interest on consumer loans	¥124,057	¥138,099	¥154,051	¥171,809	**¥191,401**
Other financial income	4,098	2,802	1,653	1,026	**531**
Other operating income	6,535	6,302	6,237	6,403	**6,965**
Total operating income	134,690	147,203	161,941	179,238	**198,897**
Financial expenses	33,471	29,996	28,837	23,869	**23,673**
General and administrative expenses	54,982	57,354	62,623	70,972	**78,005**
Credit losses including provision for uncollectible loans	19,318	14,948	14,084	17,042	**20,305**
Total operating expenses	107,771	102,298	105,544	111,883	**121,983**
Operating profit	26,919	44,905	56,397	67,355	**76,914**
Income before income taxes	25,804	43,399	55,434	66,620	**73,876**
Net income	7,244	18,812	25,418	30,770	**34,690**
Depreciation and amortization	3,942	3,930	3,825	4,476	**5,690**
Credit losses including provision for uncollectible loans	19,318	14,948	14,084	17,042	**20,305**
Purchases of property and equipment	7,646	4,875	5,278	7,382	**11,262**
Amount per Share (Yen)					
Net income, basic	¥ 76.67	¥ 194.41	¥ 257.96	¥ 312.29	**¥ 352.08**
Cash dividends	10.00	35.00	50.00	55.00	**60.00**
Payout ratio (%)	8.69	12.22	16.15	17.61	**17.04**
Operations					
Number of customer accounts (thousands)	1,343	1,463	1,578	1,797	**1,992**
Number of branches	529	544	584	623	**760**
Number of ATMs and tie-up CDs	1,107	1,723	3,705	5,949	**13,400**
Weighted average number of shares, basic (thousands)	62,985	64,509	82,107	98,528	**98,528**
Number of employees	3,018	3,026	3,099	3,417	**3,478**

Consumer Loans Outstanding in the Consumer Finance Company Sector (March 31, 1997)

Company Name	¥ Billions	Company Name	¥ Billions
Promise	¥ 784.2	Lake	¥520.1
Takefuji	1,053.7	Aic	264.2*
Acom	973.6	Sanyo Shinpan	200.5
Aiful	591.6		

*Dec. 31, 1996
Source: Individual companies' securities reports

Maximum Interest Rates on Unsecured Loans in Competing Sectors

Type of Company / Company Name	Annual Interest Rate (%)	Type of Company / Company Name	Annual Interest Rate (%)
Consumer finance companies		Distributor-affiliated credit card companies	
Promise	25.550	Aeon Credit Service	25.600
Takefuji	27.375	Daiei OMC	28.800
Acom	27.375	Credit Saison	29.600
Sanyo Shinpan	29.000	Bank-affiliated credit card companies	
Aiful	29.200	JCB	27.800
Lake	29.200	DC Card	27.800
Shinpan (Sales finance companies)		UC Card	27.800
Jaccs	18.000		
Central Finance	27.000		
Nippon Shinpan	27.600		
Orient Corporation	28.800		
Aplus	29.160		
Life	36.000		

Notes: 1.The maximum interest rates given above are the maximum rates for unsecured loans for consumer finance companies, the per-cash transaction rates for sales finance companies and the maximum rates for credit card companies.
2.Figures for consumer finance companies are those announced by the various companies as of May 19, 1997. Other sources used include "Kinyu Business", published by "Toyo Keizai Inc.," (May 1997 issues).

Glossary

Application-specific Loan These are loan products used solely for specific applications. A special feature of these loans is the fact that their interest rates are lower than for free cashing where there are no restrictions on use.

Automated Credit Providers When applying for and concluding loan agreements, customers can use these machines to obtain interview-free loans through an electronic connection with consumer finance company staff. When a customer sits down in front of an automated credit provider, the machine gives instructions on screen and by voice. By following these instructions, the customer can complete the procedures for preparing the necessary documents and the like. These machines reduce resistance to borrowing money since customers do not have to deal directly with the staff of the consumer finance company. They are therefore highly effective in securing new customers.

Automated Teller Machine (ATM) When used in the consumer finance industry, this becomes a machine for making cash withdrawals or repayments. By inserting the PAL card issued by Promise and using the buttons on the machine, customers can deposit or withdraw cash without the assistance of personnel on site.

Consumer Finance Specialists The consumer credit market can be broadly divided into sales finance and consumer finance. Sales finance refers to credit extended in order to postpone payment for goods or services provided. Consumer finance refers to the provision of cash loans to customers. As of March 1995, a total of 6,798 consumer finance companies were in operation in Japan. Of these firms, 6,758, or 99.4 percent, had a balance of loans outstanding of less than ¥10 billion. The 40 companies whose balance of loans outstanding exceeded ¥10 billion accounted for 83.7% of the total amount of loans provided. The top eight companies, including Promise, whose balance of loans outstanding exceeded ¥100 billion, accounted for 64.6% of the total amount of loans provided.

Customers Promise's customers are 71.4% male and 28.6% female. Customers with incomes between two and seven million yen annually account for 82.8% of new customers. More than half of our customers are married and have children. Of all new customers, 70.0% are under forty years of age. At present, most of our new customers are male white collar employees between the ages of 20 and 29.

PAL Card The PAL (Promise Amenity Life) Card is the heart of our system of revolving loans. Once a credit line has been established, a customer can obtain cash immediately at any of our nationwide network of Promise's ATMs and Tie-up cash dispensers.

Individual Credit Information Bureaus At Individual credit information bureaus established in various locations, consumer finance specialists have compiled past loan data on about 12.85 million customers who obtained loans at 10,494 branches of 4,509 companies nationwide. Customers can use these branches to make inquiries. By entering their names and dates of birth, customers can quickly obtain a profile of their past record of borrowing and repayment.

Roadside Branches Promise has always placed the highest priority on improving the convenience of its branches. Up to now, the majority of branches have been established near train stations and in business districts. In response to the growing use of automobiles, Promise is expanding the number of roadside branches. Roadside branches are located in the suburbs and are provided with parking lots.

Tie-up CD To increase the convenience of use for Promise customer accounts, we have entered agreements with other companies that enable customers to withdraw cash from accounts with our business partners using a tie-up CD or ATM. These other companies include banks, department stores, and supermarkets.

Unsecured Loans Promise and other consumer loan companies provide small-lot loans to consumers without surety or guaranty. These loans can usually be obtained by borrowers within 40 minutes of entering a branch. In fiscal 1995, consumer finance companies provided ¥6.6 trillion in unsecured loans; in comparison, individual consumption in the same year totaled ¥290 trillion.

Unsecured Revolving Loans Once Promise sets the maximum amount of the loan, the customer can make multiple borrowings of cash within that limit. Customers can use the card issued by Promise to withdraw cash from the ATM or CD network so long as previous loans are repaid and the balance of borrowings outstanding is within the maximum amount.

0123 Activity In pursuing 0123 activities all employees strive to meet the challengers which these numbers stand for. "0" stands for obeying regulations (zero illegal activities), "1" stands for reducing expenditure by 10%, "2" stands for increasing productivity by 20%, and "3" stands for 30% more sincerity.

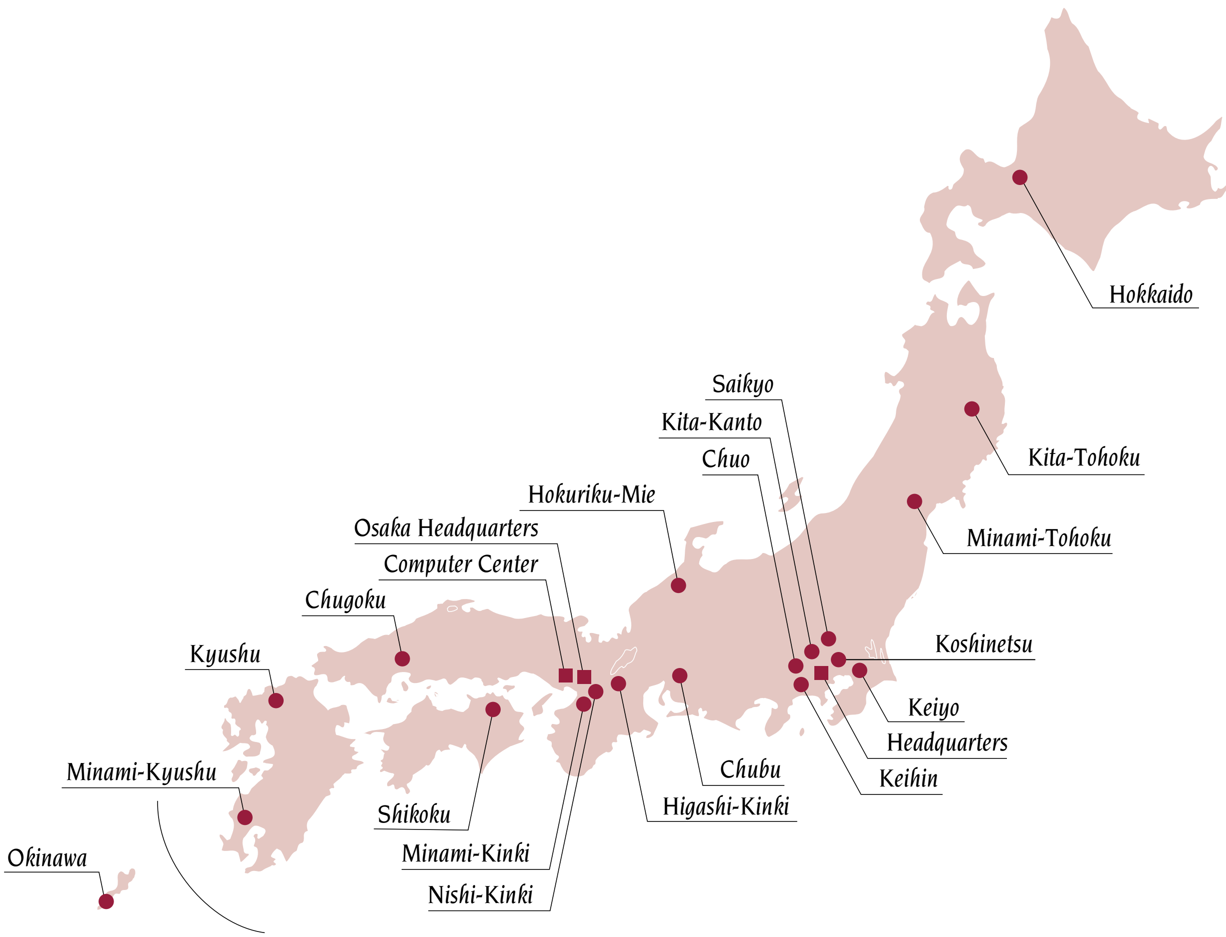
Subsidiaries and Affiliate

Country	Company Name and Address	Ownership (%)	Principal Business
Japan	GC Co., Ltd.* 2-4-1, Nishi-Shinjuku Shinjuku-ku,Tokyo 163-08	63.86	Credit card issuer
	PAL Service Co., Ltd. 1-3-1, Iwamotocho, Chiyoda-ku Tokyo 101	100.00	Sale and agency services for golf club membership rights
	PAL Housing Co., Ltd. 1-2-2, Umeda, Kita-ku, Osaka 530	100.00	Real estate sale and brokerage
	PAL Research Center Co., Ltd. 4-2-16, Shinjuku, Shinjuku-ku, Tokyo 160	100.00	Credit surveys
	System Trinity Co., Ltd. 2-4-1, Nishi-Shinjuku, Shinjuku-ku Tokyo 163-08	49.00	Computer system design, operation and management
	Holiday Joy Travel Service Co., Ltd. 4-2-2, Ginza, Chuo-ku, Tokyo 104	100.00	Travel services
	Net Future Co., Ltd. 2-27-20, Minami-Aoyama, Minato-ku Tokyo 107	100.00	Operation and management of ATMs and computer peripherals
Taiwan	Liang Jing Co., Ltd.* 2, Sec.3, Minsheng E. Rd., Taipei	100.00	Installment sales of new and used automobiles, construction materials etc.
	Yuukei Co., Ltd.* 2, Sec.3, Minsheng E. Rd., Taipei	99.78	Installment sales of used automobiles, construction materials etc.
China	PROMISE (HONG KONG) CO., LTD. 7th Floor, Number 80 Building, 80 Gloucester Road, Wanchai, Hong Kong	100.00	Consumer finance services
	PAL INVESTMENT COMPANY LIMITED Room 1001-2, Far East Consortium Building, 121 Des Voeux Road, Central, Hong Kong	100.00	Investment in China
U.S.A.	Promise U.S.A. Co., Ltd. 15 North Street, Dover County of Kent, Delaware 19901	100.00	Investment in hotel enterprises
	Promise Investment U.S.A. Co., Ltd.** 15 North Street, Dover County of Kent, Delaware 19901	—	Finance in hotel enterprises
France	PROMISE (EUROPE) S.A. 1, Chemin des Vanneaux 95290 L'isle-Adam	100.00	Golf course operation and management

* Consolidated subsidiary
** Wholly owned subsidiary of Promise U.S.A. Co., Ltd.

Directory

(as of July 31, 1997)



■ Headquarters

1-2-4, Ohtemachi, Chiyoda-ku
Tokyo 100, Japan
Tel: (03) 3287-1515

■ Osaka Headquarters

1-2-2, Umeda, Kita-ku
Osaka 530, Japan

■ Computer Center

3-14-24, Fukushima, Fukushima-ku
Osaka 553, Japan

● Regional Headquarters (19)

Hokkaido, Kita-Tohoku
Minami-Tohoku, Koshinetsu
Kita-Kanto, Saikyo, Keiyo
Chuo, Keihin, Chubu
Hokuriku-Mie, Higashi-Kinki
Minami-Kinki, Nishi-Kinki, Chugoku
Shikoku, Kyushu, Minami-Kyushu
Okinawa

Branches (914)

For unsecured loans: 901

For secured loans: 2

For audio & video software rental: 8

For outdoor & leisure goods: 3

Investor Information

(as of March 31, 1997)

Date of Establishment

March 20, 1962

Fiscal Year

April 1 to March 31

Auditor

Chuo Audit Corporation

Number of Employees

3,478

Paid-in Capital

¥13,023 million

Common Stock

Authorized: 300,000,000 shares

Issued: 98,528,070 shares

Number of Shareholders

6,017

Listing

First Section of the Tokyo Stock Exchange

Transfer Agent

The Sumitomo Trust and Banking Company, Limited

4-5-33, Kitahama, Chuo-ku

Osaka 541, Japan

Principal Shareholders

Name	Number of Shares Held (thousands)	Percentage of Total Shares in Issue (%)
Hideki Jinnai	17,625	17.89
Ryoichi Jinnai	16,970	17.22
Tsuyako Jinnai	5,439	5.52
Nippon Life Insurance Company, Limited	5,073	5.15
The Sumitomo Trust and Banking Company, Limited	4,835	4.91
The Long-Term Credit Bank of Japan, Limited	4,787	4.86
Sumitomo Life Insurance Company	4,392	4.46
State Street Bank and Trust Company	2,172	2.20
Sanyo Shinpan Finance Co., Ltd.	1,460	1.48
The Chase Manhattan Bank, N.A. London	1,051	1.07

Change in Issued Share Capital

Date	Type of Issue
July 1988:	Paid-in capital allotment to third party (1,500,000 shares, ¥1,600)
March 1990:	Free share distribution (1→0.15)
	Paid-in capital allotment to third party (4,000,000 shares, ¥2,000)
May 1992:	Stock split (1:1.15)
Sep. 1993:	Paid-in capital allotment by public offering (2,700,00 shares, ¥6,900)
May 1994:	Stock split (1:1.25)
May 1995:	Stock split (1:1.20)

PROMISE CO., LTD.
1-2-4, Ohtemachi, Chiyoda-ku, Tokyo 100, Japan
Tel: (03) 3287-1515

Printed in Japan