



A Rolling Stone Gathers No Moss.

As a non-bank financial institution, Shinki has grown as a company and earned the trust of its customers by providing them with financial services well attuned to the changing needs of today.

At Shinki, we tend to think of the Company as a *financial venture*, since we view every change as an opportunity and are constantly ready to meet the challenges before us. As the ongoing process of change leads to new stages in the business of finance, we will continue to forge new pathways to success.

Message from the President



Business in an Era of Radical Change

Our goal is to become Japan's most trusted non-bank financial institution through better interaction with customers and management reform.

At the beginning of the term under review, Shinko's management team identified three areas that it planned to focus on to address the challenges of its dynamic operating environment. This focus has enabled the Company to expand its marketing base and has put it on a solid foundation for future growth.

First, we consolidated the management of our consumer and corporate finance businesses. This consolidation provided the Company with the ability to offer consumer and corporate products at all its branches (starting from April 2002) and also led to significant restructuring of the Company's Head Office. By consolidating these two divisions, the Company reduced its operating expenses and began to harness the synergies between the two businesses.

Second, we increased the focus on Shinko's card loan business. In June 2001, we launched a revolving credit product called *NoLoan Business*. This is a fixed-payment credit card tailored for the needs of corporate finance customers. Simultaneously, we stopped accepting new applications for loans on deeds and loans on bills, the former mainstays in our corporate finance business. The shift to card loan products will improve customer convenience and also increase the usage of our ATM network, which was initially developed for our consumer

finance business. In addition to this, we plan to use automatic loan approval facilities and new infrastructure investments to lower our overall operating costs.

The third area we focused on was improvement in the quality of our loan portfolio and enhancement of the Company's debt collection capabilities. In response to an increasing amount of loan write-offs, we introduced measures to tighten our credit screening standards. In December 2001, we combined the Credit Screening and Credit Supervision Divisions into the new Business Management Division. We are now able to move debt collection and other market information to our credit screening departments more quickly, allowing us to make more accurate adjustments to our credit screening process. We also strengthened our unit that handles delinquent loans, speeding up the timeframe in which unpaid past-due loans are transferred and loan collection activities are initiated.

Although consumer finance products grew steadily during the term under review, our total loan assets declined 2.9% to ¥204,828 million (US\$1,540 million). This figure includes off balance-sheet assets under loan securitization programs. Growth in balances of our new product, *NoLoan Business*, was unable to stem the decline in total asset balance due to the withdrawal from our loans on deed and loans on bill products. Although total revenues only declined a modest 1.4% to ¥51,540 million from the year before, substantial write-off expenses resulted in net income of ¥2,017 million (US\$15 million) — 29.9% lower than the previous year.

Upcoming Strategies and Issues to Address

The steady rise in filings for personal bankruptcy and worsening market conditions are causes for great concern for the consumer finance industry. Furthermore, the entrance of foreign companies and non-banking competitors into the consumer finance industry has intensified competition in an already harsh operating environment. Amid such conditions, we will continue to push our main NoLoan branded products by leveraging our existing market share and brand identity. Through this we will aim to achieve both a higher-quality loan portfolio and a larger asset base.

On March 15, 2002, we concluded a business tie-up with Shinsei Bank. As Shinki's primary banking partner, Shinsei Bank provides solid support and experience, allowing the Company to achieve its vision and continue its growth in the consumer finance industry. Through continued focus on fund procurement, credit screening, information technology, and new business development, Shinki is aiming to strengthen and expand its business base to provide enhanced shareholder value in the days ahead.

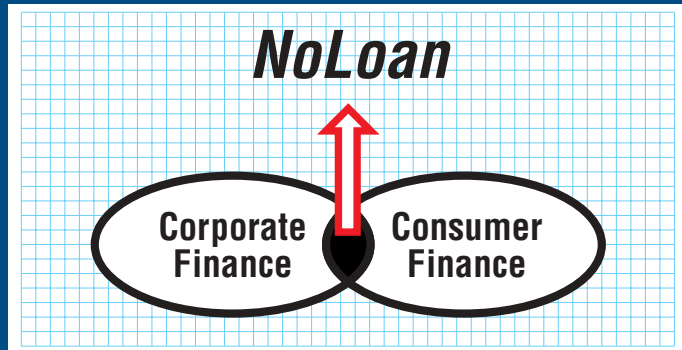
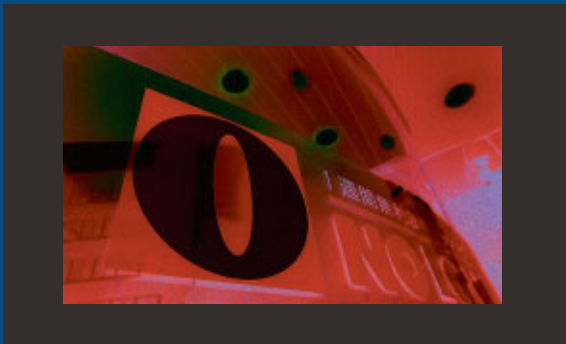


Naofumi Maeda
President

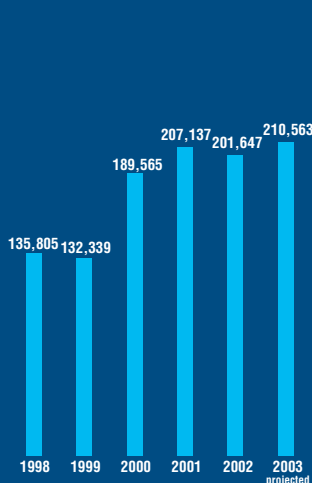
from changes to challenges

The rapidly changing market ... and the ever evolving needs of our clients. To ride out the most turbulent times in any era requires that one always remain a step ahead, peering through the turmoil to discover new opportunities taking shape within it. Turning these opportunities into new businesses, however, demands corporate structures and systems that are more flexible and resilient than ever before.

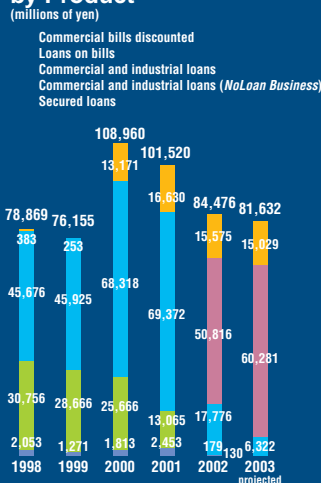
As the 20th century gave way to the 21st in an era marked by pronounced transition, we saw fiscal 2001 as a chance to shed the problems of the past century, while preparing for the challenges of the next; an opportunity that culminated in the coining of a new slogan: "A new century, a new Shinki."



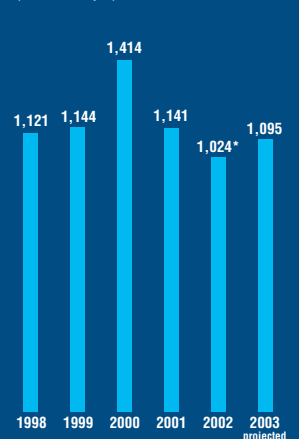
Outstanding Loan Balance
(millions of yen)



Outstanding Loan Balance by Product
(millions of yen)



Average Balance per Account of Commercial and Industrial Loans
(thousands of yen)



* includes NoLoan Business

Branch Network

Shinki first began business in 1954 as a real-estate mortgage financier for small and medium-sized businesses. Soon after, the Company began offering bill discount services as it continued to develop into a corporate finance company. In 1974, the Company moved into the area of consumer finance, which would go on to become one of its main business lines. It was in this way, with a Corporate Finance Division supplying largely short-term loans for corporate clients in search of operating funds, and a Consumer Finance Division supplying unsecured loans for the general public, that Shinki has grown into a comprehensive finance company able to provide effective solutions for the diverse fund needs of its customers.

In the course of conducting business in corporate and consumer finance, separate support branch networks were eventually built for each area. Corporate finance branches dealt exclusively in products for corporate clients, while consumer finance branches carried only products strictly tailored to the needs of consumers. The explanation for this was a reasonable one: sole proprietors found it difficult to apply for loans from consumer finance companies. Determining credit risk for such clients requires consideration of a complex set of factors, among them business area, counterparties of business transactions, and cash flows, making accurate credit risk assessment for these customers extremely difficult in comparison to ordinary consumers. As a result, sole proprietors found themselves either unable to borrow funds from consumer financiers or, when able to borrow, only eligible for very small loans. Since this situation tended to drive sole proprietors away from consumer finance, supplying the financing needs of these customers required both a specialized brand and a branch network dedicated exclusively to this task.

Thus, to avoid confusion among our customers, we chose the company name, Shinki, as the brand of our corporate finance business, while NoLoan, the name of one of our products,

was set as the operative brand for our consumer finance branches.

The Move to Consolidation

Although the consumer finance business flourished, the alleged involvement of certain corporate finance companies in illegal debt collection activities led to mounting criticism of a system that allowed multiple loans to be surreptitiously made on a single guarantor, positioning the guarantor as the chief target of debt collection. This problem, known in Japan as the Shoko Loan scandal (*shoko* is a term meaning industrial and commercial), quickly fueled an exodus of sole proprietors from corporate finance companies, with fund demand from such customers shifting to consumer finance companies. This not only resulted in fewer sole proprietors opting to avoid consumer finance companies altogether, but also brought about a number of positive changes to the industry.

This shift in business trends rapidly eliminated the need to separate corporate and consumer finance into completely independent divisions, clearing away the only obstacle that prevented earlier branch amalgamation.

With the consolidation of branches finally possible, we turned attention to preparing the Company for this important transition. Careful consideration was given to devising ways to minimize the confusion of branch consolidation while maximizing improved productivity and other intended merits. The answer at which we arrived was the sale of a new product, *NoLoan Business*.

NoLoan Business – Our Latest Product

NoLoan Business is a new product for sole proprietors introduced in June 2001, specifically designed to replace loans on deeds as our major business finance product. *NoLoan Business* is a fixed-amount repayment card product that, although based on our top-selling *NoLoan* consumer finance product, differs in that it is

Change with the times



The *NoLoan* Card and
NoLoan Business Card

available only to sole proprietors, with a borrowing limit of ¥2 million and a maximum interest rate of 27.5%.

Since loans on deed customers had to choose as their repayment method either fixed amounts for combined interest and principal or fixed amounts for principal, supplying additional funds to customers required the signing of a new contract. This not only obliged customers to make a special visit to a branch to request the funds, but also created additional paperwork for the Company.

Credit under fixed-amount repayment changes all of that. All essential paperwork and clerical procedures are completed upon first-time application for the loan, after which the customer is free to borrow funds within their allotted limit in whatever amount and whenever necessary. With cards, it is now possible for customers of this product to utilize our extensive consumer finance ATM network, vastly improving customer convenience and substantially lightening the Company's load of paperwork for loan repayment and borrowing.

At Shinki, we are confident that *NoLoan Business*, developed using the infrastructure of our Consumer Finance Division, itself the result of years of practical expertise, a top-notch autoscoring system for determining creditworthiness, and high-quality ATM and automated response systems, will continue to chart respectable growth into the foreseeable future – proving the strength of its merits to both us and our customers.

Branch Consolidation

Branch consolidation at Shinki refers to the ongoing absorption of corporate finance branches by consumer finance branches located in the same cities and other geographical regions. Consumer finance branches have always been located near major transit terminals, shopping districts and other large gathering places, with customers using our consumer finance services far outnumbering those seeking corporate finance services. Accordingly, carrying out branch consolidation in this way has helped to avoid confusion among different layers of customers.

Through amalgamation, we successfully pared down the Company's total number of branches to 97 as of March 31, 2002 – less than half of the over 200 staffed branches (including 115 branches dedicated to corporate finance and 89 to consumer finance) that Shinki once operated.

Moreover, we have scrapped our network of seven nationwide call centers, which had proven to be a non-effective marketing tool, based on data collected regarding the system's overall effectiveness and its volume of sales to sole proprietors. However, we have decided to retain a single “power station” (a large-scale call center) in the city of Omiya (now known as Saitama), a move expected to improve the efficiency of this system by a wide margin.

More Solid Management Structure

On March 15, 2002, we finalized arrangements on a business tie-up with Shinsei Bank. Although stable fund procurement is indispensable to businesses in the finance industry, until recently, Shinki lacked the benefit of a single, dedicated partner bank. This situation left the Company highly susceptible to sudden changes in the financial landscape, with insufficient fund procurement causing expansion opportunities to be missed and inevitably forcing Shinki to borrow money under unfavorable loan conditions.

Through this new business agreement with Shinsei Bank, whereby the bank acquires 1,690,000 ordinary shares of common stock and ¥15.3 billion in unsecured, convertible Company bonds, we have gained in Shinsei a rock-solid main bank to provide comprehensive support for our fund procurement needs. In addition, by sharing the practical information technology and credit screening expertise each company has gained in its respective business, we aim to engage in joint research and entry into new business areas that will prove mutually beneficial to the future growth of both companies.

Change with the times

from revolution to evolution

A New Era of Business

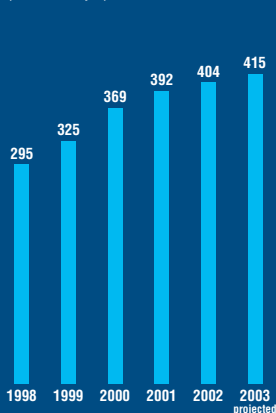
The term under review was a year that witnessed a complete transformation in the style of the corporate finance business that has driven the Company's growth since its founding. By October 1999, the decision had already been made to withdraw from loans on bills, once one of our best corporate finance products, and to shift focus to loans on deeds. During the term, the Company developed *NoLoan Business*, which went on sale for the first time in June 2001.

As products have changed, our business methods and styles have changed as well. The possibility of utilizing our well-developed consumer finance ATM network for corporate financing came into fruition as we made the transition to card-based products. This move slashed costs associated with managing maturity dates, as well as payment and loan-related clerical work at our branches. This increase in branch efficiency and customer convenience has enabled us to enact large-scale consolidation and elimination of our branch network.

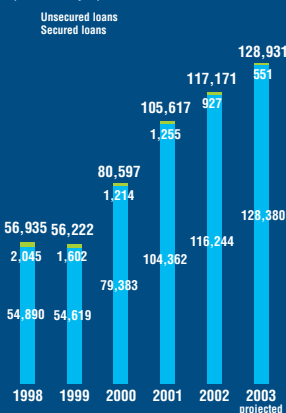
In a new business era, backed by a new organizational structure and new products, we at Shinki stand ready to face the new challenges before us.



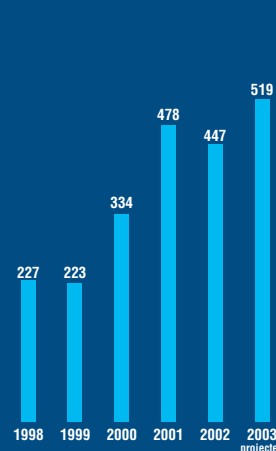
Average Balance per Account of Unsecured Loans
(thousands of yen)



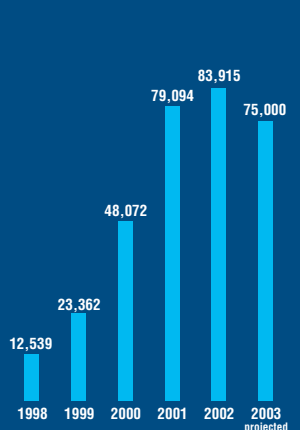
Outstanding Loan Balance by Product
(millions of yen)



Number of Branch Offices



Number of New NoLoan Customers



Performance Review

(Off-balance sheet securitized assets are included in the figures below for loan balance and total number of loans)

Consumer Finance

In consumer finance, we pushed ahead with an advertising campaign, the installation of unmanned branches and other proactive marketing steps begun in the preceding term to increase our balance of loans. On the other hand, the rising number of personal bankruptcy cases has led to a steady increase in market risk, which has prompted us to tighten credit-screening standards in an attempt to achieve a higher-quality asset portfolio.

These efforts resulted in year-on-year growth in loans to consumers of ¥11,554 million, or 10.9%, to stand at ¥117,171 million (US\$881 million) at the term-end.

In comparison to the previous term, unsecured loans, the Company's main financial product, increased by ¥11,882 million (or 11.4%) to ¥116,244 million (US\$874 million). Shinki's total number of loans for the term rose 8.1% to 287,970, with the average loan per customer growing ¥11,400 during the term to ¥403,700 (US\$3,035).

The amount of delinquent (in arrears for one month or longer) unsecured loans rose ¥591 million during the term to end at ¥2,539 million (US\$19 million). The delinquency ratio of unsecured loans rose 0.31 percentage points from last term's 1.87% to end the term under review at 2.18%.

The Company's bad debt write-off of unsecured loans increased 51.7% year-on-year, or ¥2,531 million, to ¥7,423 million (US\$56 million), with the write-off ratio of unsecured loans growing 1.70 percentage points to end the term at 6.39%.

Corporate Finance

With the intent of providing more convenient services to our corporate clients, the decision was made to replace loans on deeds and loans on bills, two former mainstay products, with *NoLoan Business*, a fixed-amount repayment, card-based product specially designed for the needs of corporate customers.

The term-end balance of loans to corporate clients, including *NoLoan Business*, unsecured loans on deeds, unsecured loans on bills and secured loans, declined 14.9% from the previous term to ¥84,346 million (US\$634 million).

The loan balance for *NoLoan Business*, the Company's chief corporate finance product from June 2001, stood at ¥50,816 million. Unsecured loans on deeds, as a result of being replaced by *NoLoan Business*, fell 74.4% year-on-year to ¥17,776 million. A remaining balance of ¥179 million was recorded in unsecured loans on bills, a product we began to phase out in 1999, and the Company's balance of secured loans declined 6.3% from the previous year to ¥15,575 million.

The portion of delinquent (in arrears for one month or longer) corporate loans fell ¥628 million to end at ¥4,758 million (US\$36 million). However, the delinquency ratio, which stood at 5.12% last term, worsened to 5.46%.

Loan write-offs, as a portion of all loans to corporate clients, increased by ¥1,595 million, or 30%, to ¥6,909 million. The write-off ratio grew worse during the term, rising 2.74 percentage points to 7.91%.

Branch Development

In an effort to improve management efficiency, a decision was made to replace Shinki's once separate consumer and corporate finance network from April 2002 with a single network. Now, all staffed branches can handle both consumer and corporate customers. Along the same lines, we carried out the consolidation and relocation of our staffed branches during the term, bringing our total number of staffed branches to 97. We also moved ahead with the establishment of 36 new ATM sites, ending the period with 350 such sites, and bringing the total ATM and branch network to 447 locations.

Financial Section

Shinki Co., Ltd.

Five-Year Summary

Years Ended March 31

Consolidated	Millions of Yen					Thousands of U.S. Dollars
	1998	1999	2000	2001	2002	2002
For the fiscal year:						
Total revenues	—	—	¥ 45,292	¥ 52,296	¥ 51,540	\$ 387,519
Net income	—	—	5,769	2,878	2,017	15,165
At year-end:						
Total assets	—	—	¥248,743	¥271,374	¥252,963	\$1,901,977
Finance receivables, net	—	—	180,844	198,031	177,101	1,331,586
Shareholders' equity	—	—	41,040	43,272	44,620	335,488
Per share data (yen and U.S. dollars):						
Net income	—	—	¥127.17	¥63.44	¥44.47	\$0.33
Financial ratios:						
Equity ratio	—	—	16.5%	15.9%	17.6%	
Return on equity	—	—	14.1%	6.8%	4.6%	
Ratio of net income to total revenues	—	—	12.8%	5.5%	3.9%	

Non-Consolidated	Millions of Yen					Thousands of U.S. Dollars
	1998	1999	2000	2001	2002	2002
For the fiscal year:						
Total revenues	¥ 41,248	¥ 38,309	¥ 44,525	¥ 51,323	¥ 50,094	\$ 376,647
Net income	4,003	5,770	5,817	2,859	2,004	15,068
At year-end:						
Total assets	¥167,959	¥163,226	¥248,746	¥271,304	¥252,820	\$1,900,902
Finance receivables, net	131,594	127,690	180,844	198,031	177,101	1,331,586
Shareholders' equity	29,651	34,875	41,188	43,401	44,736	336,361
Number of shares of common stock outstanding (in millions)	22.7	22.7	45.4	45.4	45.4	
Per share data (yen and U.S. dollars):						
Net income	¥82.23	¥127.20	¥128.23	¥63.04	¥44.18	\$0.33
Cash dividends applicable to the year	23.00	25.00	12.50	12.50	12.50	0.09
Financial ratios:						
Equity ratio	17.7%	21.4%	16.6%	16.0%	17.7%	
Return on equity	14.4%	17.9%	15.3%	6.8%	4.5%	
Ratio of net income to total revenues	9.7%	15.2%	13.1%	5.6%	4.0%	
Number of branch offices	227	223	334	478	447	
Number of employees	1,313	1,164	1,292	1,231	1,078	

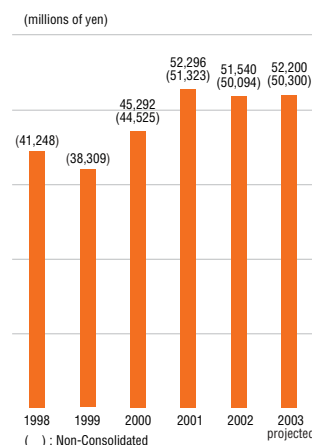
Notes

- U.S. dollar amounts represent translations of yen, for convenience only, at the rate of ¥133 to U.S.\$1, the approximate exchange rate at March 31, 2002.
- Consolidated data for the years to March 31, 1998 through 1999 are not available.

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Total Revenues



Financial Review

(on a consolidated basis)

Business Environment

The Japanese economy, adversely affected by a slowdown in the IT sector, failed to show a clear recovery during the term under review. Increased concern over the slackness of the U.S. economy caused the outlook for the domestic economy to become more uncertain, and both capital investment and consumer spending were generally sluggish.

Companies in the consumer finance industry have been suffering from increasing bad debts due to a growing number of personal bankruptcies and rising unemployment, and the level of credit risk on the financial markets has grown significantly.

Business conditions in the small-lot business loan industry have also been becoming increasingly severe. Banks have entered this business field, either directly or through joint ventures with consumer loan companies, and the further intensification of competition is expected. The corporate bankruptcy rate has also remained high during the term, and the credit risk in this business field has also risen.

Review of operations

Total revenues decreased ¥756 million, or 1.4%, to ¥51,540 million (US\$387,519 thousand), due to a ¥4,350 million (8.8%) decrease in interest income in spite of a steep 134.5% rise in other income caused by securitization (explained below).

Total expenses increased ¥2,212 million, or 5.0%, to ¥46,860 million (US\$352,331 thousand). This was mainly attributable to increases in provision for credit losses (¥987 million), and bad debt (¥1,241 million), which represented

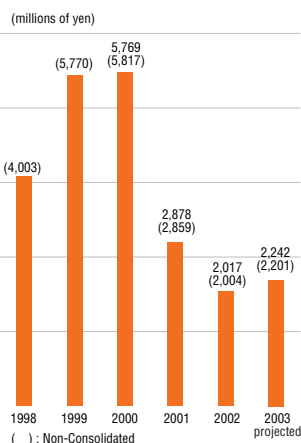
amounts directly written off. The former came to ¥9,266 million (US\$69,669 thousand) and the latter to ¥5,738 million (US\$43,143 thousand) for the term. Other expenses increased ¥1,266 million, or 7.9%, to ¥17,258 million (US\$129,759 thousand). The main causes were amortization of expenses for securitization of finance receivables of ¥510 million (US\$3,835 thousand), of a one-off nature, and an increase in costs from the temporary employee deployment business, which are posted each term. The costs from the temporary employee deployment business rose ¥389 million, or 53.7% over the previous term, to ¥1,114 million (US\$8,376 thousand). Rent rose ¥366 million, or 9.4%, to ¥4,271 million (US\$32,113 thousand).

Income before income taxes decreased ¥2,968 million, or 38.8%, to ¥4,680 million (US\$35,188 thousand). Income taxes under application of tax-effect accounting totaled ¥2,663 million (US\$20,023 thousand), and net income came to ¥2,017 million (US\$15,165 thousand), a year-on-year decline of ¥861 million, or 29.9%. Net income per share amounted to ¥44.47 (US\$0.33) and cash dividends applicable to the year remained at ¥12.5 (US\$0.09).

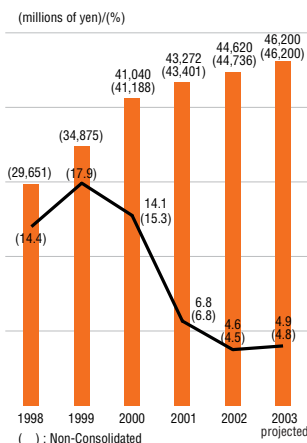
Financial Position

Total assets decreased ¥18,411 million, or 6.8%, to ¥252,963 million (US\$1,901,977 thousand). This fall was mainly attributable to a ¥14,216 million increase in off-balance-sheet assets caused by the introduction of a securitization scheme involving consumer loan assets, and the expansion of the scope of securitization on loans on deeds. Off-balance-sheet assets

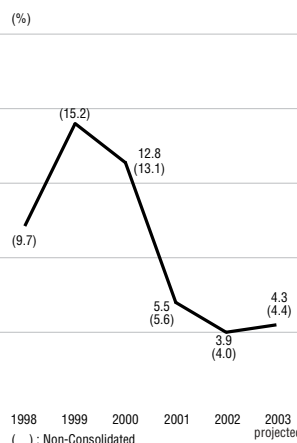
Net Income



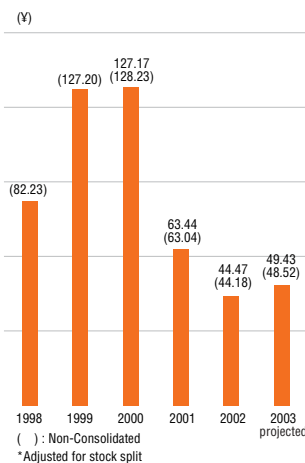
Shareholders' Equity/
Return on Equity



Net Income to
Total Revenues



Net Income per Share*



increased ¥14,216 million during the term to stand at ¥16,538 million at the term-end. The breakdown of financial loans made to customers, including off-balance-sheet assets, is as follows. Unsecured business loans decreased by a substantial ¥13,666 million, or 16.6%, to ¥68,771 million as a result of accelerated withdrawal from loans on deeds and loans on bills, while unsecured loans to consumers increased by ¥11,882 million, or 11.4%, to ¥116,244 million.

Outside of the scope of financial loans made to customers, deferred tax assets decreased 4.3% to ¥6,036 million (US\$45,383 thousand). Allowance for credit losses, however, increased ¥582 million to ¥11,189 million (US\$84,128 thousand). The Company newly registered ¥2,818 million (US\$21,188 thousand) for costs of software development in progress, under "other assets." On the other hand, investment in securities decreased ¥757 million to ¥2,987 million (US\$22,459 thousand).

Total liabilities also decreased ¥19,770 million, or 8.7%, to ¥208,332 million (US\$1,566,406 thousand), mainly due to a decrease in borrowings thanks to the above-mentioned asset securitization. Short-term debt decreased ¥4,399 million, or 4.1%, to ¥102,181 million (US\$768,278 thousand), long-term debt (less current portion) decreased ¥12,727 million, or 11.1%, to ¥101,765 million (US\$765,150 thousand). Income taxes payable decreased substantially by ¥2,690 million to ¥179 million (US\$1,346 thousand).

Shareholders' equity increased ¥1,348 million to ¥44,620 million (US\$335,488 thousand) due to an increase in retained earnings.

Cash Flows

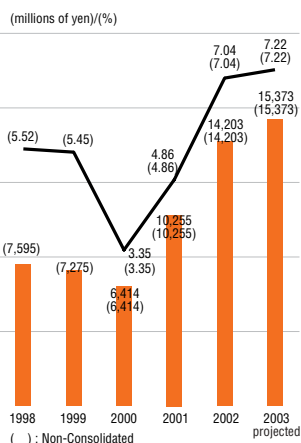
Net cash inflow from operating activities amounted to ¥21,072 million (US\$158,436 thousand) despite a ¥2,968 million decline in income before income taxes, which stood at ¥4,680 million (US\$35,188 thousand) for the term. For the previous term, the Company posted a net cash outflow of ¥19,472 million. This change was mainly attributable to a sharp decline in financial loans made to customers, in the amount of ¥6,144 million (US\$46,195 thousand) compared with a huge ¥29,465 million rise for the previous term.

Net cash outflow from investing activities amounted to ¥2,884 million (US\$21,684 thousand), up ¥1,070 million over the previous term. The amount of time deposits with maturities exceeding three months shrank to ¥950 million (US\$7,143 thousand) for the term compared with a shrinkage of ¥2,261 million for the previous term. Increase in other investment came to ¥2,894 million (US\$21,759 thousand) centered on acquisition of intangible assets (software development), compared with ¥2,130 million for the previous term.

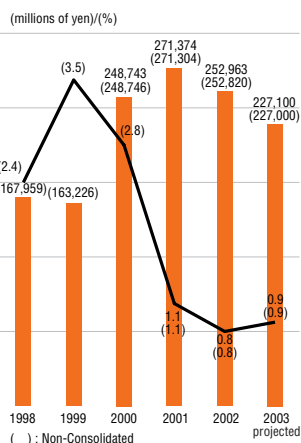
Net cash outflow from financing activities amounted to ¥17,693 million (US\$133,030 thousand) for the term, compared with a net cash inflow of ¥23,171 million for the previous term. This change was attributable to a shrinkage in proceeds from issuance of long-term debt from ¥109,315 million to ¥75,849 million (US\$570,293 thousand), and an increase in repayment of long-term debt from ¥69,307 million to ¥84,140 million (US\$632,632 thousand) for the term.

As a result, cash and cash equivalents increased ¥495 million during the term, to stand at ¥32,186 million (US\$242,000 thousand) at the term-end.

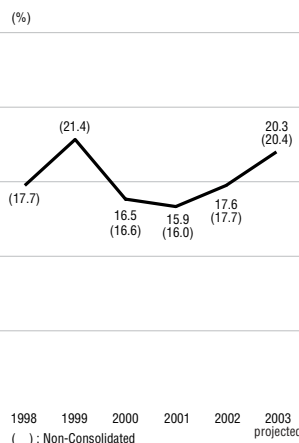
Bad Debt Write-Offs/ Ratio of Bad Debt Write-Offs to Financial Receivables



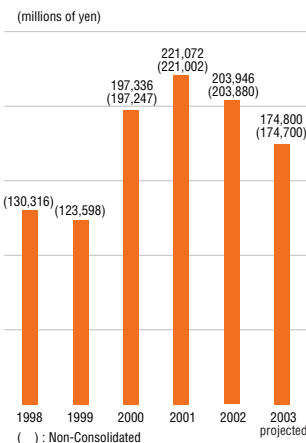
Total Assets/ Return on Assets



Equity Ratio



Interest-Bearing Debt



Consolidated Balance Sheets

March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
ASSETS			
Assets:			
Finance receivables, net (Notes 4 and 8)	¥198,031	¥177,101	\$1,331,586
Cash and cash equivalents	31,691	32,186	242,000
Investments in securities (Notes 5 and 8)	3,744	2,987	22,459
Property and equipment, net (Notes 6 and 8)	9,872	9,669	72,699
Deferred tax assets (Note 12)	6,306	6,036	45,383
Other assets (Note 7)	21,730	24,984	187,850
Total	<u>¥271,374</u>	<u>¥252,963</u>	<u>\$1,901,977</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Short-term debt (Note 8)	¥106,580	¥102,181	\$ 768,278
Long-term debt, less current portion (Note 8)	114,492	101,765	765,150
Income taxes payable (Note 12)	2,869	179	1,346
Accrued expenses and other liabilities (Notes 9 and 10)	4,161	4,207	31,632
Total liabilities	<u>228,102</u>	<u>208,332</u>	<u>1,566,406</u>
Minority interests	<u>1</u>	<u>11</u>	<u>83</u>
Contingent Liabilities (Note 16)			
Shareholders' equity (Notes 11 and 17):			
Common stock, authorized, 90,720,000 shares; issued 45,360,000 shares in 2001 and 2002	5,016	5,016	37,714
Additional paid-in capital	5,483	5,483	41,225
Retained earnings	32,825	34,259	257,586
Unrealized loss on available-for-sale securities	(52)	(138)	(1,037)
Total shareholders' equity	<u>43,272</u>	<u>44,620</u>	<u>335,488</u>
Total	<u>¥271,374</u>	<u>¥252,963</u>	<u>\$1,901,977</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

Years Ended March 31, 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	2001	2002	2002
Revenues:				
Interest income, including discounts	¥40,832	¥49,624	¥45,274	\$340,406
Other income (Note 13)	4,460	2,672	6,266	47,113
Total revenues	<u>45,292</u>	<u>52,296</u>	<u>51,540</u>	<u>387,519</u>
Expenses:				
Interest expense, including rediscounts	6,871	7,691	6,867	51,632
Provision for credit losses (Note 4)	6,050	8,279	9,266	69,669
Bad debts (Note 4)	2,277	4,497	5,738	43,143
Salaries and fringe benefits	6,847	8,189	7,731	58,128
Other expenses (Note 14)	12,279	15,992	17,258	129,759
Total expenses	<u>34,324</u>	<u>44,648</u>	<u>46,860</u>	<u>352,331</u>
Income before income taxes	<u>10,968</u>	<u>7,648</u>	<u>4,680</u>	<u>35,188</u>
Income taxes (Note 12):				
Current	9,253	5,895	2,332	17,534
Deferred	(4,054)	(1,125)	331	2,489
Total income taxes	<u>5,199</u>	<u>4,770</u>	<u>2,663</u>	<u>20,023</u>
Net income	<u>¥ 5,769</u>	<u>¥ 2,878</u>	<u>¥ 2,017</u>	<u>\$ 15,165</u>
		Yen		U.S. Dollars
Per share of common stock (Note 2.r):				
Net income	¥127.17	¥63.44	¥44.47	\$0.33
Cash dividends applicable to the year	12.50	12.50	12.50	0.09

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended March 31, 2000, 2001 and 2002

	Issued Number of Shares of Common Stock (Thousands)	Millions of Yen			Unrealized Loss on Available-for- Sale Securities
		Common Stock	Additional Paid-in Capital	Retained Earnings	
Balance, April 1, 1999	22,680	¥5,016	¥5,483	¥25,365	
Net income				5,769	
Cash dividends, ¥12.50 per share				(567)	
Bonuses to directors				(26)	
Stock split (Note 11)	22,680				
Balance, March 31, 2000	45,360	5,016	5,483	30,541	
Net income				2,878	
Cash dividends, ¥12.50 per share				(567)	
Bonuses to directors				(27)	
Unrealized loss on available-for-sale securities					¥ (52)
Balance, March 31, 2001	45,360	5,016	5,483	32,825	(52)
Net income				2,017	
Cash dividends, ¥12.50 per share				(567)	
Bonuses to directors				(16)	
Net increase in unrealized loss on available-for-sale securities					(86)
Balance, March 31, 2002 (Note 17)	<u>45,360</u>	<u>¥5,016</u>	<u>¥5,483</u>	<u>¥34,259</u>	<u>¥(138)</u>

	Thousands of U.S. Dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Unrealized Loss on Available-for- Sale Securities
Balance, March 31, 2001	\$37,714	\$41,225	\$246,804	\$ (391)
Net income			15,165	
Cash dividends, \$0.09 per share			(4,263)	
Bonuses to directors			(120)	
Net increase in unrealized loss on available-for-sale securities				(646)
Balance, March 31, 2002 (Note 17)	<u>\$37,714</u>	<u>\$41,225</u>	<u>\$257,586</u>	<u>\$(1,037)</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years Ended March 31, 2000, 2001 and 2002

	Millions of Yen			Thousands of U.S. Dollars (Note 1)
	2000	2001	2002	2002
Operating activities:				
Income before income taxes	¥ 10,968	¥ 7,648	¥ 4,680	\$ 35,188
Adjustments to reconcile income before income taxes to net cash provided by (used in) operating activities:				
Income taxes — paid	(4,490)	(9,749)	(5,368)	(40,360)
Depreciation and amortization	499	1,091	1,248	9,383
Credit losses including provision for uncollectible loans	8,701	12,808	14,789	111,195
Decrease (increase) in financial loans made to customers	(62,913)	(29,465)	6,144	46,195
Other — net	(1,469)	(1,805)	(421)	(3,165)
Net cash provided by (used in) operating activities	(48,704)	(19,472)	21,072	158,436
Investing activities:				
Decrease (increase) in time deposits with maturities exceeding three months	(2,592)	2,261	950	7,143
Purchases of securities	(1,606)	(245)	(218)	(1,639)
Proceeds from sales of securities	279			
Purchases of property and equipment	(1,085)	(1,271)	(466)	(3,504)
Increase in other investment	(2,807)	(2,130)	(2,894)	(21,759)
Other — net	(1,513)	(429)	(256)	(1,925)
Net cash used in investing activities	(9,324)	(1,814)	(2,884)	(21,684)
Financing activities:				
Proceeds from issuance of long-term debt	124,554	109,315	75,849	570,293
Repayments of long-term debt	(73,954)	(69,307)	(84,140)	(632,632)
Increase (decrease) in short-term debt	23,087	(16,270)	(8,835)	(66,428)
Cash dividends paid	(567)	(567)	(567)	(4,263)
Net cash provided by (used in) financing activities	73,120	23,171	(17,693)	(133,030)
Net increase in cash and cash equivalents	15,092	1,885	495	3,722
Cash and cash equivalents, beginning of year	14,714	29,806	31,691	238,278
Cash and cash equivalents, end of year	¥ 29,806	¥ 31,691	¥32,186	\$242,000
Additional cash flows information:				
Interest paid	¥ 6,460	¥ 7,151	¥ 6,851	\$ 51,511

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Shinki Co., Ltd. (the "Company") is a finance company that principally provides lending and financing services to consumers and business enterprises in Japan. The Company's subsidiaries operate a temporary employee deployment business and advertising agency business. The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. Certain reclassifications have been made in the 2001 financial statements to conform to the classifications used in 2002. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be and have not been presented herein.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133 to \$1, the approximate rate of exchange at March 31, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) **Consolidation** — The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries (together, the "Group").

All significant intercompany balances and transactions have been eliminated in consolidation.

All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b) **Revenue Recognition** — Interest income from finance receivables is recognized on an accrual basis. Accrued interest income at the balance sheet date is accrued at the lower of the amount determined using a rate permissible under the Interest Rate Restriction Law of Japan or the amount determined using rates on contracts with customers. Accrual of interest income is suspended when a loan is contractually delinquent for approximately one month.

Fees for origination of loans are recognized as income when received.

c) **Credit Losses** — The write-off of finance receivables is made on the basis of evidence that clearly demonstrates the uncollectibility of the unpaid balances. Provision for credit losses is charged to income in amounts sufficient to maintain the allowance for possible credit losses on finance receivables at a level considered adequate based on a past experience ratio basis. In addition, the Company provides for possible losses on specific impaired loans at the estimated amount required based on a loan-by-loan review.

d) **Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of change in value. Cash equivalents include time deposits with original maturities of three months or less.

e) **Investments in Securities** — Prior to April 1, 2000, investments in quoted securities were carried at the lower of moving-average cost or market value, as determined on an individual security basis. Investments in unquoted securities were stated at their moving-average cost. Effective April 1, 2000, the Company adopted a new accounting standard for financial instruments. Under this standard, all securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income.

As a result of adopting the new standard, income before income taxes increased by ¥172 million for the year ended March 31, 2001.

f) **Property and Equipment** — Property and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally 50 years for buildings and from 3 to 15 years for equipment.

g) **Investments in Credit and Finance Associations** — Investments in credit and finance associations ("Tokumei Kumiai") are included in "Other assets". The investments are recorded initially at cost, and then increased or decreased to reflect the financial position of the credit and finance associations. Gains or losses arising from such changes are included in "Other income" or "Other expenses".

h) **Intangible Assets** — Software and goodwill are included in "Other assets" and carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years for both software and goodwill.

i) **Bond Issue Costs** — Bond issue costs are amortized by the straight-line method over the period from issuance to redemption or three years, whichever shorter (see Note 3).

j) **Bond Discount Cost** — Bond discount cost is amortized by the straight-line method over the period from issuance to redemption.

k) **Retirement Benefits** — The Company has a non-contributory funded pension plan covering substantially all of its employees. Prior to April 1, 2000, the amounts contributed to the fund were charged to income when paid. Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional asset of ¥107 million (\$805 thousand) as of April 1, 2000 is being amortized over five years and the annual amortization is presented as other income in the income statement. As a result of adopting this new standard, net periodic benefit costs as compared with the prior method, decreased by ¥24 million and income before income taxes increased by the same amount for the year ended March 31, 2001.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if they retired at the balance sheet date. Payments of retirement benefits to directors and corporate auditors are subject to approval of the shareholders in accordance with the Japanese Commercial Code.

l) **Leases** — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

m) **Income Taxes** — The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

n) **Advertising** — Advertising costs are expensed as incurred.

o) **Appropriations of Retained Earnings** — Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

p) **Foreign Currency Transactions** — Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Group adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

The adoption of the revised accounting standard did not have a material effect on the consolidated financial statements.

q) **Derivatives and Hedging Activities** — The Company uses derivative financial instruments to manage its exposures to fluctuations in interest rates. The Company does not enter into derivatives for trading or speculative purposes.

Effective April 1, 2000, the Company adopted a new accounting standard for derivative financial instruments and a revised accounting standard for foreign currency transactions. These standards require that: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps and interest rate options (caps) are utilized to hedge interest rate exposures of long-term debt. Those swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the related unrealized gains or losses are deferred until maturity as other assets or liabilities.

The interest rate swaps and interest rate options (caps) that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements and the premium under the option agreements are recognized and included in interest expense or income.

The Company's policy is to use derivatives only for the purpose of hedging. Because the counterparties to these derivatives are limited to major international financial institutions, the Company does not anticipate any losses arising from credit risk. Derivative transactions entered into by the Company have been made in accordance with internal policies which regulate the authorization. The derivatives are controlled and managed by the Finance Department.

The adoption of the new accounting standard for derivative financial instruments did not have a material effect on the consolidated financial statements.

r) **Amounts Per Share** — The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The weighted average number of common shares used in the computation was 45,360 thousand shares for 2000, 2001 and 2002.

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

3. ACCOUNTING CHANGE

Effective April 1, 2000, the Company began amortizing bond issue costs over the period from issuance to redemption or three years, whichever shorter using the straight-line method. Previously, such costs had been charged to income as incurred. This change was made to provide a more accurate allocation of bond issue costs. The effect of this change was to increase income before income taxes by ¥164 million for the year ended March 31, 2001.

4. FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

Finance receivables at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Loans to consumers:			
Unsecured loans	¥104,362	¥116,244	\$ 874,015
Secured loans (a)	1,255	927	6,970
Sub-total	105,617	117,171	880,985
Loans to business enterprises:			
Unsecured loans on bill	13,065	179	1,346
Unsecured loans on deed	69,372	17,776	133,654
Unsecured revolving loans		50,816	382,076
Secured loans (a)	16,630	15,575	117,105
Sub-total	99,067	84,346	634,181
Commercial bills discounted	2,453	130	977
Past-due and restructured loans—181 days or more past due:			
Past due loans	3,073	2,525	18,985
Restructured loans	750	656	4,932
Sub-total	3,823	3,181	23,917
Total finance receivables	210,960	204,828	1,540,060
Off balance due to securitizations	(2,322)	(16,538)	(124,346)
Allowance for credit losses	(10,607)	(11,189)	(84,128)
Finance receivables, net	¥198,031	¥177,101	\$1,331,586

(a) Secured with real estate, securities, and other assets pledged as collateral.

Finance receivables at March 31, 2002 include revolving loans to consumers and business enterprises of ¥118,107 million (\$888,023 thousand). The remaining available credit at March 31, 2002 was ¥50,953 million (\$383,105 thousand), including ¥33,661 million (\$253,090 thousand) to customers who had no outstanding loans at that date. As some revolving loan contracts terminate without loan originations, the remaining available credit does not necessarily affect the Group's cash flows. The revolving loan contracts contain stipulations that the Company may reduce credit limits or suspend loans in cases of changes in customers credit standing, changes in the economic conditions and other considerable reasons. Further, the Company reconsiders contract terms regularly and takes measures for security of credit.

The primary effective annual interest rates applicable to the finance receivables at March 31, 2001 and 2002 were as follows:

	Years ended March 31	
	2001	2002
Loans to consumers:		
Unsecured loans	22.50 — 29.20%	22.50 — 29.20%
Loans to business enterprises:		
Unsecured loans on bill	15.00 — 26.00	15.00 — 26.00
Unsecured loans on deed	15.00 — 29.00	15.00 — 29.00
Unsecured revolving loans		18.25 — 27.50
Secured loans	7.00 — 15.00	7.00 — 15.00
Commercial bills discounted	7.50 — 29.00	7.50 — 29.00

Changes in the allowance for credit losses for the years ended March 31, 2001 and 2002 are shown below:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Balance at beginning of year	¥ 8,086	¥10,607	\$79,752
Addition	8,574	9,472	71,218
Deduction:			
Write-offs (a)	5,758	8,684	65,293
Recoveries	295	206	1,549
Balance at end of year	¥10,607	¥11,189	\$84,128

(a) Excluding write-offs of loans originated during the year which were charged to expense (bad debts).

5. INVESTMENTS IN SECURITIES

Investments in securities at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Current:			
Government and corporate bonds	¥ 395	¥ 704	\$ 5,293
Non-current:			
Equity securities	¥1,129	¥ 732	\$ 5,504
Government and corporate bonds	1,889	1,177	8,850
Trust fund investments and other	331	374	2,812
Total	¥3,349	¥2,283	\$17,166

The carrying amounts and aggregate fair values of investments in securities at March 31, 2001 and 2002 were as follows:

	Millions of Yen			
	2001			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 791	¥98	¥ 58	¥ 831
Debt securities	2,238	46		2,284
Trust fund investments and other	507		176	331

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	¥ 740	¥88	¥107	¥ 721
Debt securities	1,864	17		1,881
Trust fund investments and other	609		235	374
	Thousands of U.S. Dollars			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Equity securities	\$ 5,564	\$662	\$ 805	\$ 5,421
Debt securities	14,015	128		14,143
Trust fund investments and other	4,579		1,767	2,812

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2001 and 2002 were as follows:

	Carrying amount		Thousands of U.S. Dollars
	2001	2002	
Equity securities	¥298	¥11	\$83

The carrying values of debt securities by contractual maturities at March 31, 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥ 704	\$ 5,293
Due after one year through five years	1,177	8,850
Total	¥1,881	\$14,143

6. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Land	¥ 5,663	¥ 5,662	\$42,571
Buildings	4,440	4,586	34,481
Structures	375	435	3,271
Vehicles	5	5	38
Furniture and fixtures	1,741	1,719	12,925
Total	12,224	12,407	93,286
Less accumulated depreciation	(2,352)	(2,738)	(20,587)
Property and equipment, net	¥ 9,872	¥ 9,669	\$72,699

7. OTHER ASSETS

Other assets at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Accrued interest income	¥ 1,402	¥ 1,296	\$ 9,744
Prepaid expenses	2,570	2,081	15,647
Guarantee deposits	2,319	2,942	22,120
Investments in credit and finance associations	1,105	978	7,353
Time deposits with maturities exceeding three months	3,651	2,701	20,308
Long-term loans	4,150	4,150	31,203
Goodwill	636	462	3,474
Development costs of software in progress		2,818	21,188
Other	5,897	7,556	56,813
Total	¥21,730	¥24,984	\$187,850

8. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Short-term borrowings from banks and other finance companies, principally from 1.8% to 4.6% in 2001 and from 1.7% to 3.0% in 2002:			
Secured	¥ 14,245	¥ 9,700	\$ 72,932
Unsecured	5,039	4,850	36,466
Total	19,284	14,550	109,398

Commercial paper from finance companies, principally from 1.9% to 2.0% in 2001 and from 1.6% to 1.7% in 2002: Unsecured	12,100	8,000	60,151
Current portion of long-term debt	75,196	79,631	598,729
Total short-term debt	¥106,580	¥102,181	\$768,278

Information on the amount of short-term borrowings outstanding during 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Maximum month-end balance outstanding during the year	¥33,809	¥19,311	\$145,195
Average month-end balance outstanding during the year	27,718	14,919	112,173
Weighted average interest rate for the year	3.357%	2.932%	2.932%

Long-term debt at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of
	2001	2002	U.S. Dollars
Bonds, unsecured:			2002
3.44% debentures due 2002	¥ 4,000		
3.00% debentures due 2001	500		
2.75% debentures due 2001	10,000		
3.00% debentures due 2002	20,000	¥ 20,000	\$ 150,376
2.93% debentures due 2002	5,000	5,000	37,594
3.00% debentures due 2004	10,000	10,000	75,188
2.61% debentures due 2003	5,000	5,000	37,594
1.50% debentures due 2001	1,000		
3.00% debentures due 2005	10,000	10,000	75,188
2.35% debentures due 2005		10,000	75,188
Long-term borrowings from banks, insurance companies and other finance companies, due serially through 2007 — principally from 1.9% to 5.4% in 2001 and from 1.9% to 5.3% in 2002:			
Secured	114,078	107,784	810,406
Unsecured	10,110	13,612	102,345
Total	189,688	181,396	1,363,879
Less current portion	(75,196)	(79,631)	(598,729)
Long-term debt, less current portion	¥114,492	¥101,765	\$ 765,150

Annual maturities of long-term debt at March 31, 2002, were as follows:

Year ending March 31:	Millions of Yen	Thousands of
		U.S. Dollars
2003	¥ 79,631	\$ 598,729
2004	50,713	381,301
2005	33,526	252,075
2006	17,016	127,940
2007	510	3,834
Total	¥181,396	\$1,363,879

With respect to certain borrowings from banks and other finance companies in an aggregate amount of ¥20,115 million (\$151,241 thousand) maturity may be accelerated if one or more of the following events occur:

- 1) Net assets ratio, with securitized assets included, falls below 16.5% (this event may be amended by mutual agreement).
- 2) The percentage of shareholders' equity against total liabilities falls below 15%.
- 3) The amount of net assets minus total intangible fixed assets falls below ¥18,000 million (\$135,338 thousand).

The carrying amounts of assets pledged as collateral for short-term and long-term debt at March 31, 2002 were as follows:

	Millions of Yen	Thousands of
		U.S. Dollars
Finance receivables	¥117,646	\$884,556
Investments in securities	2,437	18,323
Buildings	1,311	9,857
Land	5,782	43,474
Others	3	23
Total	¥127,179	\$956,233

The Company has a revolving credit facility. The credit limit and the remaining available credit are ¥10,000 million (\$75,188 thousand) at March 31, 2002.

As is customary in Japan, substantially all short-term and long-term borrowings from banks are made under agreements which provide that the banks may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantors with respect to the borrowings. The Group has not received such a request.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of
	2001	2002	U.S. Dollars
Deferred interest income	¥ 451	¥ 42	\$ 316
Accrued employees' bonuses	414	401	3,015
Miscellaneous payables	832	1,094	8,226
Liability for retirement benefits to directors and corporate auditors (see Note 10)	412	93	699
Guarantee deposits received	151	152	1,143
Accrued expenses	863	831	6,248
Other	1,038	1,594	11,985
Total	¥4,161	¥4,207	\$31,632

10. RETIREMENT BENEFITS

The Company has a non-contributory funded pension plan covering substantially all of its employees. Under this plan, employees terminating their employment are entitled to lump-sum payments or an annuity from the pension fund on the basis of their rates of pay at the time of termination, years of service and certain other factors. If the termination is involuntary or caused by retirement at the mandatory retirement age, the employee is usually entitled to greater payments than in the case of voluntary termination.

The Company also has an unfunded retirement benefit plan covering all of its directors and corporate auditors. The liability for retirement benefits to directors and corporate auditors at March 31, 2001 and 2002 amounted to ¥412 million and ¥93 million (\$699 thousand), respectively, and was included in "Accrued expenses and other liabilities" (see Note 9).

The liability (asset) for employees' retirement benefits at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Projected benefit obligation	¥551	¥599	\$4,504
Fair value of plan assets	(557)	(578)	(4,346)
Unrecognized actuarial loss	(103)	(66)	(496)
Unrecognized transitional asset	85	64	481
Net liability (asset)	¥(24)	¥ 19	\$ 143

The liability (asset) for employees' retirement benefits was included in "Accrued expenses and other liabilities" ("Other assets").

The components of net periodic benefit costs for the years ended March 31, 2001 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Service cost	¥86	¥106	\$797
Interest cost	15	16	120
Expected return on plan assets	(19)	(8)	(60)
Recognized actuarial loss		38	286
Amortization of transitional asset	(21)	(21)	(158)
Net periodic benefit costs	¥61	¥131	\$985

Assumptions used for the years ended March 31, 2001 and 2002 are set forth as follows:

	2001	2002
Discount rate	3.0%	2.0%
Expected rate of return on plan assets	3.5%	1.5%
Recognition period of actuarial loss	5 years	5 years
Amortization period of transitional asset	5 years	5 years

The amounts contributed to the fund which were charged to income for the year ended March 31, 2000 were ¥96 million.

11. SHAREHOLDERS' EQUITY

At March 31, 2001 and 2002, a majority of the Company's outstanding common stock was owned by Mr. Naofumi Maeda (Representative Director and President of the Company), members of his family (the "Maeda family"), Think-Data Co., Ltd. (a company owned by the Maeda family and Himejijujikai Foundation), and Himejijujikai Foundation (a foundation controlled by the Maeda family). The Company's stock had been traded over-the-counter by securities companies throughout Japan since October 11, 1995. Since February 10, 1999, the Company's stock has been listed and traded on the Tokyo Stock Exchange Market.

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

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. The Company's legal reserve amount, which is included in retained earnings, totals ¥492 million and ¥552 million (\$4,151 thousand) as of March 31, 2001 and 2002, respectively. Under the Code, companies may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

On November 19, 1999, the Company made a stock split at the rate of 1.0 share for each outstanding share and 22,680,000 shares were issued to shareholders of record on September 30, 1999. Stated capital was not changed as a result of this stock split.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus the amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits companies to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits companies to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

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

12. INCOME TAXES

The Company and its subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 42.0% for the years ended March 31, 2000, 2001 and 2002.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2001 and 2002 were as follows:

	Millions of Yen		Thousands of
	2001	2002	U.S. Dollars
Deferred tax assets:			
Bad debts	¥4,411	¥3,432	\$25,805
Enterprise taxes	233		
Allowance for credit losses	1,495	2,473	18,594
Tax loss carryforwards	54	13	98
Other	389	465	3,496
Less valuation allowance	(54)	(13)	(98)
Total	6,528	6,370	47,895
Deferred tax liabilities	222	334	2,512
Net deferred tax assets	<u>¥6,306</u>	<u>¥6,036</u>	<u>\$45,383</u>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2000, 2001 and 2002 was as follows:

	2000	2001	2002
Normal effective statutory tax rate	42.0%	42.0%	42.0%
Additional taxes on undistributed profits of a family company	5.3	8.6	3.4
Additional taxes from tax investigation	2.3		
Adjustment of prior year deferred taxes		10.9	11.5
Other	(2.4)	0.9	0.0
Actual effective tax rate	<u>47.2%</u>	<u>62.4%</u>	<u>56.9%</u>

13. OTHER INCOME

Other income for the years ended March 31, 2000, 2001 and 2002 consisted of the following:

	Millions of Yen			Thousands of
	2000	2001	2002	U.S. Dollars
Fees received for origination of loans	¥1,113	¥ 225	¥ 203	\$ 1,526
Recoveries of loans previously written off	494	555	607	4,564
Income from purchased finance receivables	1,579			
Rental income	107	114	114	857
Income from temporary employee deployment business	769	976	1,452	10,918
Dividend income	323	679	3,670	27,594
Other	75	123	220	1,654
Total	<u>¥4,460</u>	<u>¥2,672</u>	<u>¥6,266</u>	<u>\$47,113</u>

14. OTHER EXPENSES

Other expenses for the years ended March 31, 2000, 2001 and 2002 consisted of the following:

	Millions of Yen			Thousands of
	2000	2001	2002	U.S. Dollars
Cost from temporary employee deployment business	¥ 586	¥ 725	¥ 1,114	\$ 8,376
Advertising	2,492	3,055	2,744	20,632
Rent	2,829	3,905	4,271	32,113
Communication	1,122	1,497	1,262	9,489
Sundry taxes and dues	676	891	916	6,887
Depreciation	499	1,091	1,248	9,383
Commission expense	985	1,557	1,304	9,804
Amortization of expenses for securitizations of finance receivables			510	3,835
Other	3,090	3,271	3,889	29,240
Total	<u>¥12,279</u>	<u>¥15,992</u>	<u>¥17,258</u>	<u>\$129,759</u>

15. LEASES

The Group leases mainframe computers, telecommunication equipment, automatic teller machines, software and other items under finance lease arrangements. Total lease payments under the finance leases, which were included in the amount of rent presented in Note 14, for the years ended March 31, 2000, 2001 and 2002 were as follows:

	Millions of Yen			Thousands of
	2000	2001	2002	U.S. Dollars
Total lease payments under finance leases	¥760	¥1,139	¥1,294	\$9,729

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2001 and 2002 was as follows:

	Millions of Yen		
	2001		
	Furniture and Fixtures	Software	Total
Acquisition cost	¥5,611	¥362	¥5,973
Accumulated depreciation	(2,571)	(79)	(2,650)
Net leased property	<u>¥3,040</u>	<u>¥283</u>	<u>¥3,323</u>

	Millions of Yen		
	2002		
	Furniture and Fixtures	Software	Total
Acquisition cost	¥6,440	¥476	¥6,916
Accumulated depreciation	(3,501)	(161)	(3,662)
Net leased property	<u>¥2,939</u>	<u>¥315</u>	<u>¥3,254</u>

	Thousands of U.S. Dollars		
	2002		
	Furniture and Fixtures	Software	Total
Acquisition cost	\$48,421	\$3,579	\$52,000
Accumulated depreciation	(26,323)	(1,211)	(27,534)
Net leased property	<u>\$22,098</u>	<u>\$2,368</u>	<u>\$24,466</u>

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Obligations under finance leases:			
Due within one year	¥1,070	¥1,157	\$ 8,699
Due after one year	2,309	2,178	16,376
Total	<u>¥3,379</u>	<u>¥3,335</u>	<u>\$25,075</u>

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense and interest expense for each of the three years in the period ended March 31, 2002, which are not reflected in the accompanying consolidated statements of income, computed by the straight-line method and the interest method, respectively, were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	2001	2002	2002
Depreciation expense	¥701	¥1,052	¥1,187	\$8,925
Interest expense	79	107	107	805

16. CONTINGENT LIABILITIES

As of March 31, 2002, the Company is contingently liable for the guarantees of loans of its customers amounting to ¥563 million (\$4,233 thousand).

17. SUBSEQUENT EVENTS

a. Issuance of Convertible Bonds

On April 15, 2002, the Company issued ¥15,300 million (\$115,038 thousand) of unsecured 4.5% Japanese yen convertible bonds, due on March 30, 2012. The issue price of the bonds was 100% of the face value and the conversion price is ¥757 per share.

b. Appropriations of Retained Earnings

On June 27, 2002, the shareholders authorized the payments of (1) cash dividends to shareholders of record at March 31, 2002 of ¥12.5 (\$0.09) per share or a total of ¥567 million (\$4,263 thousand), and (2) bonuses to directors of ¥16 million (\$120 thousand).

c. Authorization of Repurchases of Treasury Stock

On June 27, 2002, the shareholders also authorized the Company's Board of Directors to repurchase up to 2,000 thousand shares or up to ¥1,400 million (\$10,526 thousand) of the Company's stock on the open market until the next general shareholders' meeting.

18. RELATED PARTY TRANSACTIONS

Transactions of the Company with Mr. Naoyoshi Maeda (Representative Director and Chairman of the Company until June 28, 2001, a member of the Maeda Family), Yugengaisha Sakusesu and Kabushikigaisha Ekuseru Jinzaihaken Center (companies owned by the Maeda family) for the years ended March 31, 2000, 2001 and 2002 were as follows:

	Millions of Yen			Thousands of U.S. Dollars
	2000	2001	2002	2002
Rental expense for land	¥10	¥10	¥11	\$ 83
Rental expense for buildings		17	44	331
Secondment expense for employees	26	34	10	75
Rental income	7	52	38	286

The balances due to or from the Company with Mr. Naoyoshi Maeda, Yugengaisha Sakusesu and Kabushikigaisha Ekuseru Jinzaihaken Center at March 31, 2001 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Guarantee deposits	¥20	¥20	\$150
Accounts payable	2	1	8

Independent Auditors' Report

**Deloitte
Touche
Tohmatsu**

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To the Board of Directors and Shareholders of
Shinki Co., Ltd.:

We have examined the consolidated balance sheets of Shinki Co., Ltd. and subsidiaries as of March 31, 2001 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31, 2002, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of Shinki Co., Ltd. and subsidiaries as of March 31, 2001 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2002, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change made as of April 1, 2000, with which we concur, in the accounting for bond issue costs, as discussed in Note 3.

As discussed in Note 2, effective April 1, 2000, the consolidated financial statements have been prepared in accordance with new accounting standards for employees' retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2002

Non-Consolidated Balance Sheets

March 31, 2001 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2002	2002
ASSETS			
Assets:			
Finance receivables, net (Notes 4 and 8)	¥198,031	¥177,101	\$1,331,586
Cash and cash equivalents	31,652	32,097	241,331
Investments in securities (Notes 5 and 8)	3,901	3,185	23,947
Property and equipment, net (Notes 6 and 8)	9,851	9,651	72,564
Deferred tax assets (Note 12)	6,306	6,036	45,383
Other assets (Note 7)	21,563	24,750	186,091
Total	<u>¥271,304</u>	<u>¥252,820</u>	<u>\$1,900,902</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities:			
Short-term debt (Note 8)	¥106,560	¥102,156	\$ 768,090
Long-term debt, less current portion (Note 8)	114,442	101,725	764,850
Income taxes payable (Note 12)	2,869	174	1,308
Accrued expenses and other liabilities (Notes 9 and 10)	4,032	4,029	30,293
Total liabilities	<u>227,903</u>	<u>208,084</u>	<u>1,564,541</u>
Contingent liabilities (Note 16)			
Shareholders' equity (Notes 11 and 17):			
Common stock, authorized, 90,720,000 shares; issued, 45,360,000 shares in 2001 and 2002	5,016	5,016	37,714
Additional paid-in capital	5,483	5,483	41,225
Legal reserve	492	552	4,151
Retained earnings	32,462	33,823	254,308
Unrealized loss on available-for-sale securities	(52)	(138)	(1,037)
Total shareholders' equity	<u>43,401</u>	<u>44,736</u>	<u>336,361</u>
Total	<u>¥271,304</u>	<u>¥252,820</u>	<u>\$1,900,902</u>

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Years Ended March 31, 1998, 1999, 2000, 2001 and 2002

	Millions of Yen					Thousands of U.S. Dollars (Note 1)
	1998	1999	2000	2001	2002	2002
Revenues:						
Interest income, including discounts	¥39,492	¥36,165	¥40,856	¥49,602	¥45,260	\$340,301
Other income (Note 13)	1,756	2,144	3,669	1,721	4,834	36,346
Total revenues	<u>41,248</u>	<u>38,309</u>	<u>44,525</u>	<u>51,323</u>	50,094	376,647
Expenses:						
Interest expense, including rediscounts	5,253	4,942	6,449	7,690	6,866	51,624
Provision for credit losses (Note 4)	4,115	4,020	6,050	8,279	9,266	69,669
Bad debts (Note 4)	4,369	3,093	2,277	4,497	5,738	43,143
Salaries and fringe benefits	6,804	6,315	6,339	7,298	6,778	50,963
Other expenses (Note 14)	9,875	8,794	12,394	15,930	16,785	126,203
Total expenses	<u>30,416</u>	<u>27,164</u>	<u>33,509</u>	<u>43,694</u>	45,433	341,602
Income before income taxes	10,832	11,145	11,016	7,629	4,661	35,045
Income taxes (Note 12):						
Current	6,829	5,375	9,253	5,895	2,326	17,489
Deferred			(4,054)	(1,125)	331	2,488
Total income taxes	<u>6,829</u>	<u>5,375</u>	<u>5,199</u>	<u>4,770</u>	2,657	19,977
Net income	<u>¥ 4,003</u>	<u>¥ 5,770</u>	<u>¥ 5,817</u>	<u>¥ 2,859</u>	¥ 2,004	\$ 15,068
			Yen			U.S. Dollars
Amounts per share (Note 2.r):						
Net income	¥82.23	¥127.20	¥128.23	¥63.04	¥44.18	\$0.33
Cash dividends applicable to the year	23.00	25.00	12.50	12.50	12.50	0.09

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Shareholders' Equity

Years Ended March 31, 1998, 1999, 2000, 2001 and 2002

	Number of Shares of Common Stock (Thousands)	Millions of Yen					Unrealized Loss on Available-for- Sale Securities
		Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings		
Balance, April 1, 1997	18,900	¥5,016	¥5,483	¥281	¥15,225		
Net income					4,003		
Transfer to legal reserve				36	(36)		
Cash dividends, ¥17.50 per share					(331)		
Bonuses to directors					(26)		
Stock split (Note 11)	3,780						
Balance, March 31, 1998	22,680	5,016	5,483	317	18,835		
Net income					5,770		
Transfer to legal reserve				55	(55)		
Cash dividends, ¥23.00 per share					(522)		
Bonuses to directors					(24)		
Balance, March 31, 1999	22,680	5,016	5,483	372	24,004		
Net income					5,817		
Adjustment of retained earnings for the adoption of deferred tax accounting method					1,089		
Transfer to legal reserve				60	(60)		
Cash dividends, ¥12.50 per share					(567)		
Bonuses to directors					(26)		
Stock split (Note 11)	22,680						
Balance, March 31, 2000	45,360	5,016	5,483	432	30,257		
Net income					2,859		
Transfer to legal reserve				60	(60)		
Cash dividends, ¥12.50 per share					(567)		
Bonuses to directors					(27)		
Unrealized loss on available-for-sale securities							¥ (52)
Balance, March 31, 2001	45,360	5,016	5,483	492	32,462		(52)
Net income					2,004		
Transfer to legal reserve				60	(60)		
Cash dividends, ¥12.50 per share					(567)		
Bonuses to directors					(16)		
Net increase in unrealized loss on available-for-sale securities							(86)
Balance, March 31, 2002 (Note 17)	45,360	¥5,016	¥5,483	¥552	¥33,823		¥(138)

Thousands of U.S. Dollars (Note 1)

	Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings	Unrealized Loss on Available-for- Sale Securities
Balance, March 31, 2001	\$37,714	\$41,225	\$3,700	\$244,075	\$ (391)
Net income				15,068	
Transfer to legal reserve			451	(451)	
Cash dividends, \$0.09 per share				(4,263)	
Bonuses to directors				(121)	
Net increase in unrealized loss on available-for-sale securities					(646)
Balance, March 31, 2002 (Note 17)	\$37,714	\$41,225	\$4,151	\$254,308	\$(1,037)

See notes to non-consolidated financial statements.

Notes to Non-Consolidated Financial Statements

1. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

Shinki Co., Ltd. (the "Company") is a finance company that principally provides lending and financing services to consumers and business enterprises in Japan. The accompanying non-consolidated financial statements have been prepared from the accounts maintained by the Company in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The non-consolidated financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

As consolidated statements of cash flows and certain disclosures are presented in the consolidated financial statements of the Company, non-consolidated statements of cash flows and certain disclosures are not presented herein in accordance with accounting procedures generally accepted in Japan.

In preparing these non-consolidated financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in Japan in order to present them in a form which is more familiar to readers outside Japan. In accordance with accounting procedures generally accepted in Japan, certain comparative disclosures are not required to be and have not been presented herein.

The non-consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥133=\$1, the approximate rate of exchange at March 31, 2002. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) **Non-Consolidation** — The non-consolidated financial statements do not include the accounts of subsidiaries. Investments in subsidiaries are stated at cost.

b) **Revenue Recognition** — Interest income from finance receivables is recognized on an accrual basis. Accrued interest income at the balance sheet date is accrued at the lower of the amount determined using a rate permissible under the Interest Rate Restriction Law of Japan or the amount determined using rates on contracts with customers. Accrual of interest income is suspended when a loan is contractually delinquent for approximately one month.

Fees for origination of loans are recognized as income when received.

c) **Credit Losses** — The write-off of finance receivables is made on the basis of evidence that clearly demonstrates the uncollectibility of the unpaid balance. Provision for credit losses is charged to income in amounts sufficient to maintain the allowance for possible credit losses on finance receivables at a level considered adequate based on a past experience ratio basis. In addition, the Company provides for possible losses on specific impaired loans at the estimated amount required based on a loan-by-loan review.

d) **Cash Equivalents** — Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of change in value. Cash equivalents include time deposits with original maturities of three months or less.

e) **Investments in Securities** — Prior to April 1, 2000, investments in quoted securities were carried at the lower of moving-average cost or market value, as determined on an individual security basis. Investments in unquoted securities were stated at their moving-average cost. Effective April 1, 2000, the Company adopted a new accounting standard for financial instruments. Under this standard, all securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, available-for-sale securities are reduced to net realizable value by a charge to income. Investments in subsidiaries are reported at cost.

As a result of adopting the new standard, income before income taxes increased by ¥172 million for the year ended March 31, 2001.

f) **Property and Equipment** — Property and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998. The range of useful lives is principally 50 years for buildings and from 3 to 15 years for equipment.

g) **Investments in Credit and Finance Associations** — Investments in credit and finance associations ("Tokumei Kumiai") are included in "Other assets". The investments are recorded initially at cost, and then increased or decreased to reflect the financial position of the credit and finance associations. Gains or losses arising from such changes are included in "Other income" or "Other expenses".

h) **Intangible Assets** — Software and goodwill are included in "Other assets" and carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years for both software and goodwill.

i) **Bond Issue Costs** — Bond issue costs are amortized by the straight-line method over the period from issuance to redemption or three years, whichever shorter (see Note 3).

j) **Bond Discount Cost** — Bond discount cost is amortized by the straight-line method over the period from issuance to redemption.

k) **Retirement Benefits** — The Company has a non-contributory funded pension plan covering substantially all of its employees. Prior to April 1, 2000, the amounts contributed to the fund were charged to income when paid. Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional asset of ¥107 million (\$805 thousand) as of April 1, 2000 is being amortized over five years and the annual amortization is presented as other income in the income statement. As a result of adopting this new standard, net periodic benefit costs as compared with the prior method, decreased by ¥26 million and income before income taxes increased by the same amount for the year ended March 31, 2001.

Retirement benefits to directors and corporate auditors are provided at the amount which would be required if they retired at the balance sheet date. Payments of retirement benefits to directors and corporate auditors are subject to approval of the shareholders in accordance with the Japanese Commercial Code.

l) **Leases** — All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

m) **Income Taxes** — The provision for income taxes is computed based on the pretax income included in the non-consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

n) **Advertising** — Advertising costs are expensed as incurred.

o) **Appropriations of Retained Earnings** — Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

p) **Foreign Currency Transactions** — Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement to the extent that they are not hedged by forward exchange contracts.

The adoption of the revised accounting standard did not have a material effect on the non-consolidated financial statements.

q) **Derivatives and Hedging Activities** — The Company uses derivative financial instruments to manage its exposures to fluctuations in interest rates. The Company does not enter into derivatives for trading or speculative purposes.

Effective April 1, 2000, the Company adopted a new accounting standard for derivative financial instruments and a revised accounting standard for foreign currency transactions. These standards require that: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps and interest rate options (caps) are utilized to hedge interest rate exposures of long-term debt. Those swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the related unrealized gains or losses are deferred until maturity as other assets or liabilities.

The interest rate swaps and interest rate options (caps) that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements and the premium under the option agreements are recognized and included in interest expense or income.

The adoption of the new accounting standard for derivative financial instruments did not have a material effect on the non-consolidated financial statements.

r) **Amounts Per Share** — The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The weighted average number of common shares used in the computation was 45,360 thousand shares for 1998, 1999, 2000, 2001 and 2002.

Cash dividends per share presented in the accompanying non-consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

s) **Related Party Transactions** — Related party transactions other than with subsidiaries are not presented herein, as they are disclosed in the consolidated financial statements of the Company and subsidiaries.

3. ACCOUNTING CHANGE

Effective April 1, 2000, the Company began amortizing bond issue costs, over the period from issuance to redemption or three years, whichever shorter using the straight-line method. Previously, such costs had been charged to income as incurred. This change was made to provide a more accurate allocation of bond issue costs. The effect of this change was to increase income before income taxes by ¥164 million for the year ended March 31, 2001.

4. FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

Finance receivables at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Loans to consumers:			
Unsecured loans	¥104,362	¥116,244	\$ 874,015
Secured loans (a)	1,255	927	6,970
Sub-total	105,617	117,171	880,985
Loans to business enterprises:			
Unsecured loans on bill	13,065	179	1,346
Unsecured loans on deed	69,372	17,776	133,654
Unsecured revolving loans		50,816	382,076
Secured loans (a)	16,630	15,575	117,105
Sub-total	99,067	84,346	634,181
Commercial bills discounted	2,453	130	977
Past-due and restructured loans — 181 days or more past due:			
Past due loans	3,073	2,525	18,985
Restructured loans	750	656	4,932
Sub-total	3,823	3,181	23,917
Total finance receivables	210,960	204,828	1,540,060
Off balance due to securitizations	(2,322)	(16,538)	(124,346)
Allowance for credit losses	(10,607)	(11,189)	(84,128)
Finance receivables, net	¥198,031	¥177,101	\$1,331,586

(a) Secured with real estate, securities, and other assets pledged as collateral.

Finance receivables at March 31, 2002 include revolving loans to consumers and business enterprises of ¥118,107 million (\$888,023 thousand). The remaining available credit at March 31, 2002 was ¥50,953 million (\$383,105 thousand), including ¥33,661 million (\$253,090 thousand) to customers who had no outstanding loans at that date. As some revolving loan contracts terminate without loan originations, the remaining available credit does not necessarily affect the Company's cash flows. The revolving loan contracts contain stipulations that the Company may reduce credit limits or suspend loans in cases of changes in customers credit standing, changes in the economic conditions and other considerable reasons. Further, the Company reconsiders contract terms regularly and takes measures for security of credit.

The primary effective annual interest rates applicable to the finance receivables at March 31, 2001 and 2002 were as follows:

	2001	2002
Loans to consumers:		
Unsecured loans	22.50 — 29.20%	22.50 — 29.20%
Loans to business enterprises:		
Unsecured loans on bill	15.00 — 26.00	15.00 — 26.00
Unsecured loans on deed	15.00 — 29.00	15.00 — 29.00
Unsecured revolving loans		18.25 — 27.50
Secured loans	7.00 — 15.00	7.00 — 15.00
Commercial bills discounted	7.50 — 29.00	7.50 — 29.00

Changes in the allowance for credit losses for the years ended March 31, 2001 and 2002 are shown below:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Balance at beginning of year	¥ 8,086	¥10,607	\$79,752
Addition	8,574	9,472	71,218
Deduction:			
Write-offs (a)	5,758	8,684	65,293
Recoveries	295	206	1,549
Balance at end of year	¥10,607	¥11,189	\$84,128

(a) Excluding write-offs of loans originated during the year which were charged to expense (bad debts).

5. INVESTMENTS IN SECURITIES

Investments in securities at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Current:			
Government and corporate bonds	¥ 395	¥ 704	\$ 5,293
Non-current:			
Equity securities	¥1,129	¥ 732	\$ 5,504
Government and corporate bonds	1,889	1,177	8,850
Trust fund investments and other	488	572	4,300
Total	¥3,506	¥2,481	\$18,654

6. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Land	¥ 5,663	¥ 5,662	\$42,571
Buildings	4,426	4,581	34,444
Structures	375	430	3,233
Vehicles	5	5	38
Furniture and fixtures	1,719	1,699	12,774
Total	12,188	12,377	93,060
Less accumulated depreciation	(2,337)	(2,726)	(20,496)
Property and equipment, net	¥ 9,851	¥ 9,651	\$72,564

7. OTHER ASSETS

Other assets at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Accrued interest income	¥ 1,402	¥ 1,297	\$ 9,752
Prepaid expenses	2,570	2,077	15,617
Guarantee deposits	2,280	2,900	21,805
Investments in credit and finance associations	1,105	978	7,353
Time deposits with maturities exceeding three months	3,651	2,701	20,308
Long-term loans	4,150	4,150	31,203
Goodwill	636	462	3,474
Development costs of software in progress		2,818	21,188
Other	5,769	7,367	55,391
Total	¥21,563	¥24,750	\$186,091

8. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Short-term borrowings from banks and other finance companies, principally from 1.8% to 4.6% in 2001 and from 1.7% to 3.0% in 2002:			
Secured	¥ 14,245	¥ 9,700	\$ 72,932
Unsecured	5,039	4,850	36,466
Total	19,284	14,550	109,398
Commercial paper from finance companies, principally from 1.9% to 2.0% in 2001 and from 1.6% to 1.7% in 2002:			
Unsecured	12,100	8,000	60,151
Current portion of long-term debt	75,176	79,606	598,541
Total short-term debt	¥106,560	¥102,156	\$768,090

Information on the amount of short-term borrowings outstanding during 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Maximum month-end balance outstanding during the year	¥33,809	¥19,311	\$145,195
Average month-end balance outstanding during the year	27,718	14,919	112,173
Weighted average interest rate for the year	3.357%	2.932%	2.932%

Long-term debt at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Bonds, unsecured:			
3.44% debentures due 2002	¥ 4,000		
3.00% debentures due 2001	500		
2.75% debentures due 2001	10,000		
3.00% debentures due 2002	20,000	¥ 20,000	\$ 150,376
2.93% debentures due 2002	5,000	5,000	37,594
3.00% debentures due 2004	10,000	10,000	75,188
2.61% debentures due 2003	5,000	5,000	37,594
1.50% debentures due 2001	1,000		
3.00% debentures due 2005	10,000	10,000	75,188
2.35% debentures due 2005		10,000	75,188
Long-term borrowings from banks, insurance companies and other finance companies, due serially through 2007 — principally from 1.9% to 5.4% in 2001 and from 2.3% to 5.3% in 2002			
Secured	114,078	107,784	810,406
Unsecured	10,040	13,547	101,857
Total	189,618	181,331	1,363,391
Less current portion	(75,176)	(79,606)	(598,541)
Long-term debt, less current portion	¥114,442	¥101,725	\$ 764,850

Annual maturities of long-term debt at March 31, 2002 were as follows:

Year ending March 31:	Millions of Yen	Thousands of U.S. Dollars
2003	¥ 79,606	\$ 598,541
2004	50,689	381,120
2005	33,515	251,993
2006	17,012	127,910
2007	509	3,827
Total	¥181,331	\$1,363,391

With respect to certain borrowings from banks and other finance companies in an aggregate amount of ¥20,115 million (\$151,241 thousand) maturity may be accelerated if one or more of the following events occur:

- 1) Net assets ratio, with securitized assets included, falls below 16.5% (this event may be amended by mutual agreement).
- 2) The percentage of shareholders' equity against total liabilities falls below 15%.
- 3) The amount of net assets minus total intangible fixed assets falls below ¥18,000 million (\$135,338 thousand).

The carrying amounts of assets pledged as collateral for short-term and long-term debt at March 31, 2002 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Finance receivables	¥117,646	\$884,556
Investments in securities	2,437	18,323
Buildings	1,311	9,857
Land	5,782	43,474
Others	3	23
Total	¥127,179	\$956,233

The Company has a revolving credit facility. The credit limit and the remaining available credit are ¥10,000 million (\$75,188 thousand) at March 31, 2002.

As is customary in Japan, substantially all short-term and long-term borrowings from banks are made under agreements which provide that the banks may, under certain conditions, require the borrower to provide collateral (or additional collateral) or guarantors with respect to the borrowings. The Company has not received such a request.

9. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities at March 31, 2001 and 2002 consisted of the following:

	Millions of Yen		Thousands of
	2001	2002	U.S. Dollars
Deferred interest income	¥ 451	¥ 42	\$ 316
Accrued employees' bonuses	404	390	2,932
Miscellaneous payables	907	1,164	8,752
Liability for retirement benefits to directors and corporate auditors (see Note 10)	412	93	699
Guarantee deposits received	151	152	1,143
Accrued expenses	720	673	5,060
Other	987	1,515	11,391
Total	<u>¥4,032</u>	<u>¥4,029</u>	<u>\$30,293</u>

10. RETIREMENT BENEFITS

The Company has a non-contributory funded pension plan covering substantially all of its employees. Under this plan, employees terminating their employment are entitled to lump-sum payments or an annuity from the pension fund on the basis of their rates of pay at the time of termination, years of service and certain other factors. If the termination is involuntary or caused by retirement at the mandatory retirement age, the employee is usually entitled to greater payments than in the case of voluntary termination.

The Company also has an unfunded retirement benefit plan covering all of its directors and corporate auditors. The liability for retirement benefits to directors and corporate auditors at March 31, 2001 and 2002 amounted to ¥412 million and ¥93 million (\$699 thousand), respectively, and was included in "Accrued expenses and other liabilities" (see Note 9).

11. SHAREHOLDERS' EQUITY

At March 31, 2001 and 2002, a majority of the Company's outstanding common stock was owned by Mr. Naofumi Maeda (Representative Director and President of the Company), members of his family (the "Maeda family"), Think-Data Co., Ltd. (a company owned by the Maeda family and Himeijijikai Foundation), and Himeijijikai Foundation (a foundation controlled by the Maeda family). The Company's stock had been traded over-the-counter by securities companies throughout Japan since October 11, 1995. Since February 10, 1999, the Company's stock has been listed and traded on the Tokyo Stock Exchange Market.

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

Prior to October 1, 2001, the Code required at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital were credited to additional paid-in capital. Effective October 1, 2001, the Code was revised and common stock par values were eliminated resulting in all shares being recorded with no par value.

Prior to October 1, 2001, the Code also provided that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other cash payments which are made as an appropriation of retained earnings applicable to each fiscal period shall be appropriated and set aside as a legal reserve until such reserve equals 25% of stated capital. Effective October 1, 2001, the revised Code allows for such appropriations to be set aside as a legal reserve until the total additional paid-in capital and legal reserve equals 25% of stated capital. The amount of total additional paid-in capital and legal reserve which exceeds 25% of stated capital can be transferred to retained earnings by resolution of the shareholders, which may be available for dividends. Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to a resolution of the Board of Directors. Prior to October 1, 2001, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split could not be less than ¥50. The revised Code eliminated this restriction.

On May 20, 1997, the Company made a stock split at the rate of 0.2 share for each outstanding share and 3,780,000 shares were issued to shareholders of record on March 31, 1997 and also on November 19, 1999, the Company made a stock split at the rate of 1.0 share for each outstanding share and 22,680,000 shares were issued to shareholders of record on September 30, 1999. Stated capital was not changed as a result of these stock splits.

Prior to October 1, 2001, the Code imposed certain restrictions on the repurchase and use of treasury stock. Effective October 1, 2001, the Code eliminated these restrictions allowing the Company to repurchase treasury stock by a resolution of the shareholders at the general shareholders' meeting and dispose of such treasury stock by resolution of the Board of Directors after March 31, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus the amount of stated capital, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders' meeting.

The Code permits the Company to transfer a portion of additional paid-in capital and legal reserve to stated capital by resolution of the Board of Directors. The Code also permits the Company to transfer a portion of unappropriated retained earnings, available for dividends, to stated capital by resolution of the shareholders.

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

On June 27, 1997, the shareholders authorized amendment of the Company's Articles of Incorporation, increasing the number of shares of common stock authorized from 70,800,000 shares to 90,720,000 shares.

12. INCOME TAXES

The Company is subject to Japanese national and local income taxes which in the aggregate, resulted in a normal effective statutory tax rates of approximately 51% for 1998, 47% for 1999, 42% for 2000, 2001 and 2002.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2001 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Deferred tax assets:			
Bad debts	¥4,411	¥3,432	\$25,805
Enterprise taxes	233		
Allowance for credit losses	1,495	2,473	18,594
Other	389	465	3,496
Total	6,528	6,370	47,895
Deferred tax liabilities	222	334	2,512
Net deferred tax assets	<u>¥6,306</u>	<u>¥6,036</u>	<u>\$45,383</u>

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2000, 2001 and 2002 and the actual effective tax rates reflected in the accompanying non-consolidated statements of income is as follows:

	2000	2001	2002
Normal effective statutory tax rate	42.0%	42.0%	42.0%
Additional taxes on undistributed profits of a family company	5.3	8.6	3.4
Additional taxes from tax investigation	2.3		
Adjustment of prior year deferred taxes		10.9	11.5
Other	(2.4)	0.9	0.0
Actual effective tax rate	<u>47.2%</u>	<u>62.4%</u>	<u>56.9%</u>

13. OTHER INCOME

Other income for each of the five years in the period ended March 31, 2002 consisted of the following:

	Millions of Yen					Thousands of U.S. Dollars
	1998	1999	2000	2001	2002	2002
Fees received for origination of loans	¥1,239	¥1,358	¥1,113	¥ 225	¥ 203	\$ 1,526
Recoveries of loans previously written off	310	415	494	555	607	4,564
Income from purchased finance receivables			1,579			
Gain on sales of investments in securities	82	190				
Rental income	27	93	107	114	114	857
Dividend income	57	42	323	679	3,670	27,594
Other	41	46	53	148	240	1,805
Total	<u>¥1,756</u>	<u>¥2,144</u>	<u>¥3,669</u>	<u>¥1,721</u>	<u>¥4,834</u>	<u>\$36,346</u>

14. OTHER EXPENSES

Other expenses for each of the five years in the period ended March 31, 2002 consisted of the following:

	Millions of Yen					Thousands of U.S. Dollars
	1998	1999	2000	2001	2002	2002
Advertising	¥2,117	¥1,303	¥ 2,418	¥ 2,979	¥ 2,751	\$ 20,684
Rent	2,265	2,456	2,802	3,861	4,217	31,707
Communication	1,183	1,097	1,113	1,484	1,248	9,383
Sundry taxes and dues	542	588	675	888	910	6,842
Depreciation	396	416	497	1,070	1,241	9,331
Commission expense	582	731	1,408	2,407	2,123	15,962
Amortization of expenses for securitizations of finance receivables					510	3,835
Other	2,790	2,203	3,481	3,241	3,785	28,459
Total	<u>¥9,875</u>	<u>¥8,794</u>	<u>¥12,394</u>	<u>¥15,930</u>	<u>¥16,785</u>	<u>\$126,203</u>

15. LEASES

The Company leases mainframe computers, telecommunication equipment, automatic teller machines, software and other items under finance lease arrangements. Total lease payments under the finance leases, which were included in the amount of rent presented in Note 14, for each of the five years in the period ended March 31, 2002 were as follows:

	Millions of Yen					Thousands of U.S. Dollars
	1998	1999	2000	2001	2002	2002
Total lease payments under finance leases	¥518	¥684	¥757	¥1,136	¥1,290	\$9,699

Pro forma information of leased property under finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2001 and 2002 was as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	2001			2002			2002		
	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total	Furniture and Fixtures	Software	Total
Acquisition cost	¥5,604	¥354	¥5,958	¥6,434	¥467	¥6,901	\$48,376	\$3,511	\$51,887
Accumulated depreciation	(2,568)	(76)	(2,644)	(3,499)	(158)	(3,657)	(26,308)	(1,188)	(27,496)
Net leased property	<u>¥3,036</u>	<u>¥278</u>	<u>¥3,314</u>	<u>¥2,935</u>	<u>¥309</u>	<u>¥3,244</u>	<u>\$22,068</u>	<u>\$2,323</u>	<u>\$24,391</u>

	Millions of Yen		Thousands of U.S. Dollars
	2001	2002	2002
Obligations under finance leases:			
Due within one year			¥1,067
Due after one year			2,302
Total			<u>¥3,369</u>
			¥1,154
			2,171
			<u>\$ 8,677</u>
			<u>16,323</u>
			<u>\$25,000</u>

The imputed interest expense portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expense and interest expense for each of the five years in the period ended March 31, 2002, which are not reflected in the accompanying non-consolidated statements of income, computed by the straight-line method and the interest method, respectively, were as follows:

	Millions of Yen					Thousands of U.S. Dollars
	1998	1999	2000	2001	2002	2002
Depreciation expense	¥478	¥630	¥699	¥1,049	¥1,184	\$8,902
Interest expense	55	69	79	106	106	797

16. CONTINGENT LIABILITIES

As of March 31, 2002, the Company is contingently liable for the guarantee of loans of its subsidiary and its customers amounting to ¥629 million (\$4,729 thousand).

17. SUBSEQUENT EVENTS

a. Issuance of Convertible Bonds

On April 15, 2002, the Company issued ¥15,300 million (\$115,038 thousand) of unsecured 4.5% Japanese Yen convertible bonds, due on March 30, 2012. The issue price of the bonds was 100% of face value and the conversion price is ¥757 per share.

b. Appropriations of Retained Earnings

On June 27, 2002, the shareholders authorized the payments of (1) cash dividends to shareholders of record at March 31, 2002 of ¥12.5 (\$0.09) per share or a total of ¥567 million (\$4,263 thousand), and (2) bonuses to directors of ¥16 million (\$120 thousand).

c. Authorization of Repurchases of Treasury Stock

On June 27, 2002 the shareholders also authorized the Company's Board of Directors to repurchase up to 2,000 thousand shares or up to ¥1,400 million (\$10,526 thousand) of the Company's stock on the open market until the next general shareholders' meeting

Independent Auditors' Report

**Deloitte
Touche
Tohmatsu**

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To the Board of Directors and Shareholders of
Shinki Co., Ltd.:

We have examined the non-consolidated balance sheets of Shinki Co., Ltd. as of March 31, 2001 and 2002, and the related non-consolidated statements of income, and shareholders' equity for each of the five years in the period ended March 31, 2002, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above presents fairly the financial position of Shinki Co., Ltd. as of March 31, 2001 and 2002, and the results of its operations for each of the five years in the period ended March 31, 2002, in conformity with accounting principles and practices generally accepted in Japan consistently applied during the period except for the change made as of April 1, 2000, with which we concur, in the accounting for bond issue costs, as discussed in Note 3.

As described in Note 2, effective April 1, 1999, the non-consolidated financial statements have been prepared in accordance with new accounting standards for interperiod allocation of income taxes, and effective April 1, 2000, in accordance with new accounting standards for employees' retirement benefits and financial instruments and a revised accounting standard for foreign currency transactions.

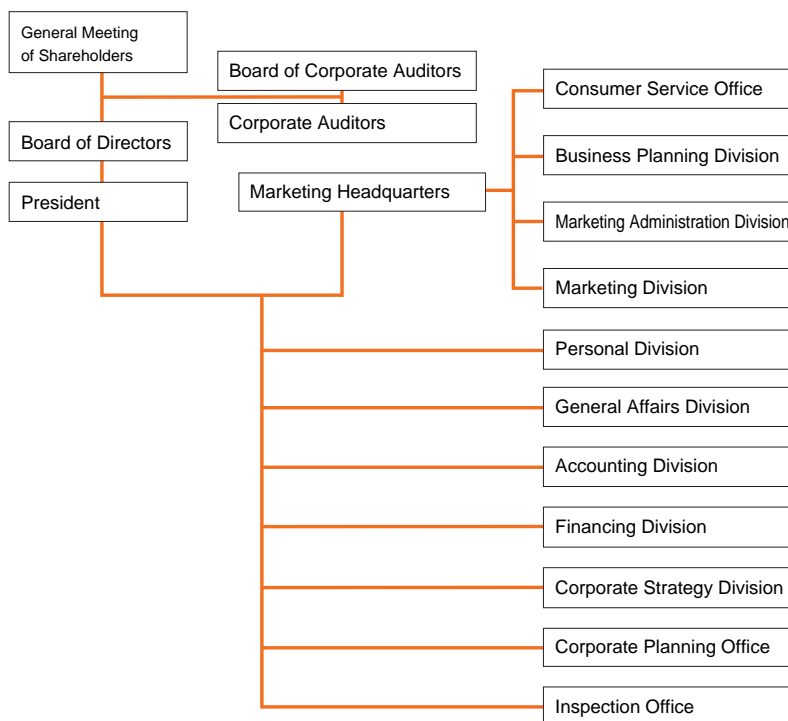
Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2002

Organization Chart

(As of May 27, 2002)



A Brief History of Shinki

1950

DECEMBER 1954
Company Founded

Company founded as Shinki Shoji in Kanzaki-gun in Hyogo Prefecture, commencing business-oriented loan-making operations, which include commercial and industrial loans, real estate-secured financing, and bill-discounting.

1970

OCTOBER 1973
Head Office Moved

Head office moved to Junishomae-cho, Himeji city.

AUGUST 1974
Consumer Finance Operations Started

Research prompted by oil crisis of the previous year indicates that consumer finance is more advantageous than corporate finance in this period of low economic growth. To prepare for change in business environment, Shinki deems it necessary to seek additional sources of revenue. With a view to diversification and greater stability, Shinki enters consumer finance sector.

1980

MAY 1984
Company Becomes Registered Money Lender

Following enactment of law regulating the money-lending business, Company becomes registered money lender.

AUGUST 1984
Company Name Changed to Shinki Co., Ltd.

Corporate identity established with new company symbol, logo, and colors.

1990

OCTOBER 1995
Company's Shares Registered for OTC Trading

Company's shares registered for OTC trading with the Japan Securities Dealers Association.

APRIL 1996
Automated Loan Application Machines Introduced

Automated loan application machines introduced, with machines installed at Sapporo Branch and seven other branches.

OCTOBER 1996
NoLoan Launched

NoLoan, completely new type of card loan, launched with no interest during the first 7 days.

NOVEMBER 1996
First Call Center Established

First call center for consumer finance division established in Ikebukuro.

JULY 1997
Head Office Moved

Head office moved to Shinjuku, Tokyo.

OCTOBER 1997
Auto-Scoring Introduced

Introduce industry's first auto-scoring system for the corporate finance division.

NOVEMBER 1998
First Corporate Finance Division Call Center Established

First call center for the corporate finance division established in Hachioji, soon followed by a second in Omiya (now Saitama).

FEBRUARY 1999

Company's stock listed on the Second Section of the Tokyo Stock Exchange

JULY 1999
First Ever Corporate Bond Issuance

Taking advantage of the newly enacted nonbank corporate bond issuance law, ¥30 billion raised through corporate bonds.

SEPTEMBER 1999

First fund procurement through securitization of loans on deeds for small and medium-sized companies.

2000

SEPTEMBER 2000

The Company's shares listed on the First Section of the Tokyo Stock Exchange.

JUNE 2001

Began sale of *NoLoan Business*, the industry's first revolving credit card product for sole proprietors

MARCH 2002

Business tie-up reached with Shinsei Bank, Ltd. The Company's branch network numbered 447 locations, with 97 staffed branches and 350 unstaffed sites as of March 31, 2002.

Corporate Directory

(As of March 31, 2002)

Corporate Data

Name: Shinki Co., Ltd.

Founded: December 1954

Head Office:

28F Shinjuku L-Tower Bldg., 1-6-1 Nishishinjuku,

Shinjuku-ku, Tokyo 163-1528, Japan

Tel. (03) 3345-9331

Number of Employees: 1,078

Board of Directors and Corporate Auditors

(As of June 27, 2002)

President

Naofumi Maeda

Managing Director

Sakao Ono

Directors

Yasuo Takahara

Yoshio Yoshino

Takashi Mieno

Kazuhito Fukuda

Masahiro Takeda

Ernfred M. Olsen

Standing Corporate Auditor

Osamu Ogino

Corporate Auditors

Fumiaki Yamamoto

Masao Miura

Investor Information

Paid-in Capital: ¥5,016 million

Number of Shareholders: 10,458

Shares Outstanding: 45,360,000

Major Shareholders (in units of 10,000 shares):

Naofumi Maeda President	1,108	(24.4%)
Think Data Co., Ltd. Property Insurance Company owned by Maeda Family	684	(15.1%)
Himejijikai Foundation Charitable Fund (Chairman: Naoyoshi Maeda)	570	(12.6%)
Setsu Maeda	216	(4.8%)
J.P.Morgan Trust Bank Ltd.	204	(4.5%)
Naoyoshi Maeda	172	(3.8%)
Michiko Maeda	144	(3.2%)
Ryuko Sakamoto	144	(3.2%)
Boston Safe Deposit BSDT (Agent: The Bank of Tokyo-Mitsubishi, Ltd.)	61	(1.4%)
Shinsei Bank, Ltd.	54	(1.2%)
Sumitomo Mitsui Banking Corporation	54	(1.2%)

Stock Traded:

First Section of the Tokyo Stock Exchange

Transfer Agent:

Mizuho Trust & Banking Co., Ltd.

1-6-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005, Japan

Share Price (during the term):

High: ¥1,560

Low: ¥ 670

Change in Issued Share Capital:

Date	Type of Issue
October 12, 1995	New stock allotment by public offering (850,000 shares, ¥2,680)
October 12, 1995	New stock allotment to third party (550,000 shares, ¥3,180)
May 20, 1996	3-for-2 stock split
August 25, 1996	New stock allotment by public offering (1,200,000 shares, ¥3,339)
May 20, 1997	6-for-5 stock split
November 19, 1999	2-for-1 stock split

Forward-Looking Statements

Numerical targets contained in this annual report with regard to plans and strategies and other forward-looking statements about the future business performance of Shinki are based on management's assumptions and projections in light of the information available at the time of writing, which means they are subject to the usual uncertainties and risks associated with such statements. Actual results may therefore differ from those in the forward-looking statements. Potential risks and uncertainties include, but are not limited to, economic conditions in Shinki's market and changes in the size of the overall consumer loan market, the rate of customer default, the rates of interest paid on Shinki's debt and legal restrictions on interest rates charged by Shinki.



SHINKI CO., LTD.

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Tel.03-3345-9331