

Shinki

2003 Annual Report



Ever Onward!

Shinki celebrates its 50th anniversary in 2004. From our founding in 1954 through the launching of our unique *NoLoan* consumer finance product, our IPO in 1995, and the consolidation of our two main divisions — the Consumer Finance Division and the Corporate Finance Division — in fiscal 2001, we have constantly worked to offer the services that best meet our customers' needs.

We do not regard the 50th anniversary of Shinki's establishment as simply a point in time to be marked. We are a company that never stands still, and are committed to ensuring that the vigorous management and fertile innovation that has characterized Shinki throughout its first 50 years of life will continue unabated into the future.

For example, it was only in April this year that we completely overhauled our operating systems, and our computer system development staff are even now hard at work planning the next big leap forward.

The next major management initiative for which we are boldly preparing is the replacement of our nationwide network of 86 staffed branches — over three months from October this year — with eleven business centers. This is the first such large-scale centralization of outlets by any Japanese non-bank financial institution.

The creed of Shinki's management and staff can be summed up in the exhortation: "Don't look back! Just keep going forward!"

In other words, we are never satisfied; we never rest on our laurels, but are constantly searching for new business opportunities, new avenues for growth.



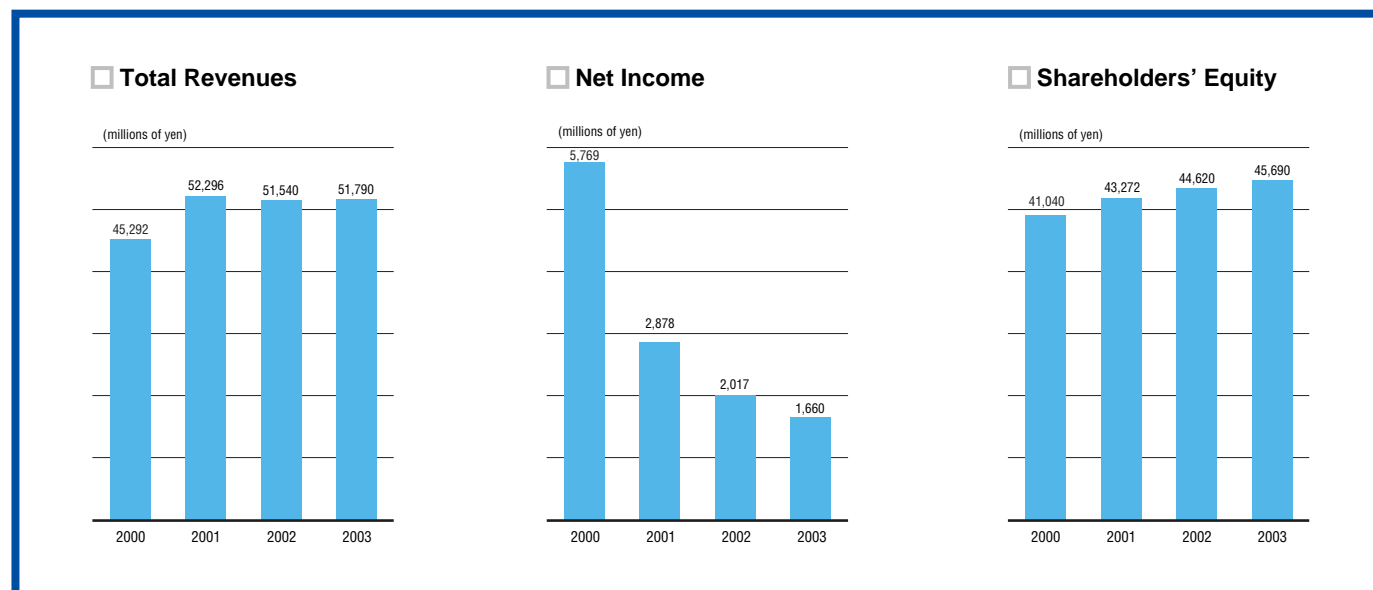
CONSOLIDATED FINANCIAL HIGHLIGHTS

Shinki Co., Ltd.
Years Ended March 31, 2002 and 2003

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------|---------------------------|
| | 2002 | 2003 | 2003 |
| For the fiscal year: | | | |
| Total revenues | ¥ 51,540 | ¥ 51,790 | \$ 431,583 |
| Net income | 2,017 | 1,660 | 13,833 |
| At year-end: | | | |
| Total assets | ¥252,963 | ¥233,940 | \$1,949,500 |
| Finance receivables, net | 177,101 | 162,684 | 1,355,700 |
| Shareholders' equity | 44,620 | 45,690 | 380,750 |
| Per share data (yen and U.S. dollars): | | | |
| Basic net income | ¥44.47 | ¥36.38 | \$0.30 |
| Diluted net income | | 31.26 | 0.26 |

Note:

U.S. dollar amounts represent translations of yen, for convenience only, at the rate of ¥120 to U.S.\$1, the approximate exchange rate at March 31, 2003.



MESSAGE FROM THE PRESIDENT



> Proactively pursuing ever greater efficiency through new business formats and new technologies

> Working to open up new markets and widen our customer base

The Term in Review

The operating environment remained difficult during the term under review, against the background of stagnation in the Japanese economy and an unstable international situation as well as a weak economy in the United States.

In the consumer finance sector, demand for funds was depressed by high unemployment and a continuing rise in the number of personal bankruptcies. Meanwhile, the corporate finance business was hard hit by sluggish demand for funds from smaller companies amid the protracted stagnation of the nation's economy, accompanied by increased bankruptcies and business closures. Companies in the consumer and corporate finance sectors suffered from increased bad debt write-offs, and were forced to make larger provisions to reserves for possible loan losses.

In the face of these adverse circumstances, Shinki has embarked on a bold plan to reorganize its network of branches so as to raise the productivity of the Marketing Division. The groundwork for this major change has already been laid with the consolidation of our consumer finance and corporate finance divisions with effect from October 2001. We also closed many of our

branches. The number of staffed branches at the end of fiscal 2002 was 86, which was down by eleven from the end of fiscal 2001 and roughly half the network's total at its peak in 2000. As for our unstaffed outlets, where customers can apply for loans through dedicated loan-contract machines, we have been pursuing a vigorous scrap-and-build policy to optimize the locations of these outlets. As of the end of the term under review, we operated a network of 376 unstaffed outlets, an increase of 26 from the end of the previous term, bringing the total number of outlets to 462.

We also concluded agreements on the joint use of cash dispensers and ATMs with four more financial institutions during the reporting period, bringing to 12,430 the number of such machines operated by our business partners that our customers can access (up 1,575 from the previous term-end). In addition, we operate 477 dedicated ATMs ourselves. Thus, as of the end of fiscal 2002, our customers were able to access our services via a total of 12,907 machines, an increase of 1,592 over the previous term-end.

Our marketing efforts during the term under review were focused on expanding revenue from our two branded product

series — *NoLoan* consumer finance products and *NoLoan Business* corporate finance products.

In response to the mounting problem of non-performing loans, while expanding the staff and resources of our Credit Administration & Collection Division to improve our ability to recover bad debt, we are also working to minimize the occurrence of new bad debt through more rigorous credit screening. In particular, in April 2002 we completely revised the score card format that forms the heart of the new auto-scoring system of credit screening used for processing applications for our *NoLoan Business* corporate loan products, which had first been launched on the market in June 2001. We believe this move will greatly contribute to reducing the credit risk attached to this product.

As a result of all the measures described above, our total loan assets at the term-end stood at ¥204,278 million (US\$1,702 million), a very slight decrease of 0.3% from the previous term-end. This figure includes off-balance-sheet assets transferred to SPCs or SPTs (special-purpose trusts) which consisted of unsecured consumer loans in the amount of ¥25,573 million and unsecured corporate loans in the amount of ¥10,433 million.

Total revenues for the term came to ¥51,790 million (US\$432 million), a year-on-year increase of 0.5%. Write-off expenses under the accounting titles of bad debt and provision for credit losses rose over the previous term, and losses on valuation of investment securities plus credit losses due to civil conciliation

were registered under other expenses. As a result, net income came to ¥1,660 million (US\$14 million), down 17.7% from previous term.

Tasks Ahead

We expect the business environment to remain severe, but by persisting with our efforts to implement still more rigorous credit screening in order to improve the quality of our loan asset portfolio, we are confident of being able both to expand our asset base and secure stable earnings.

To create a financially sound company that can cope with any changes in the operating environment — such as changes in the legal interest rate limits on loans or increases in the interest rates on the funds we procure — the management of Shinki is committed to a thorough and ongoing pursuit of low-cost operations.

For fiscal 2003, the term ending March 31, 2004, we project total revenues on a consolidated basis of ¥53,100 million, up 2.5% year-on-year, and net income of ¥1,351 million, down 18.5% year-on-year.



Naofumi Maeda
President

INTERVIEW WITH THE PRESIDENT

> Aiming at top-quality service to stay well ahead of the pack

> Dynamic advertising campaign to establish image as friendly and sincere company offering unmatched products

Management Strategy

Building a stronger business base and raising operational efficiency

Q Please tell us something about your management strategy over the longer term.

A For Shinki to firmly establish itself as a leading company in the fields of consumer finance and corporate finance, I believe that we must focus on the following four goals: 1) the rapid development of new financial products to meet newly emerging consumer needs; 2) the development of products that will enable us to provide funds with a wider variety of loan conditions and shorter periods for credit screening; 3) spreading our loan assets out over a large number of customers to avoid excessive exposure to a few large-amount borrowers, and ensuring that the loan balance of each borrower is set at an appropriate level; and 4) playing a valuable role in the Japanese economy through the employment of marketing methods that are strictly in compliance with legal and ethical standards. By achieving these targets, we will also come closer to realizing the longer-term goals of strengthening our loan asset base and raising our overall level of operational efficiency.

Q Are there any new developments in the field of products?

A Shinki is moving rapidly toward an increased focus on card-based products. As a replacement for the conventional loans on deeds and loans on bills as the mainstay for corporate financing needs, in June 2001 we introduced the *NoLoan Business*, a revolving-type fixed-payment credit card product. Not only does the use of card products for the proprietors of small businesses allow a considerable improvement in customer convenience, it also enables us to reduce operating costs. This is because we can make use of existing networks of automated loan-contract machines and ATMs previously used only for our consumer finance operations.

Q What plans do you have for your branch network?

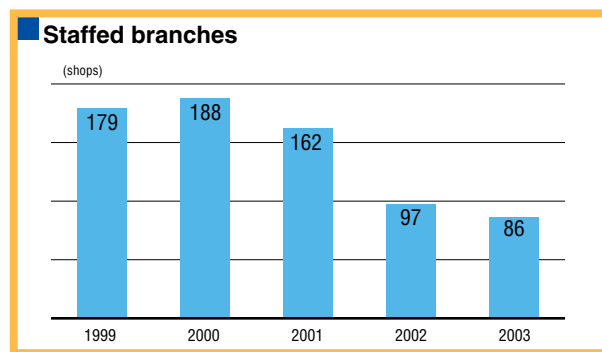
A To improve customer convenience, we are concentrating on opening unstaffed booths for automated loan-contract machines. We are also looking to enhance agreements with financial institutions or credit card companies affiliated with major retailers on the use of their ATMs, and we will be expanding other loan application channels, including online services.

Specific Measures on the Drawing Board

Centralization to raise operational efficiency

Q Could you explain your plan to completely do away with your network of staffed branches?

A By December 2003, we plan to replace our current network of 86 staffed offices with eleven business centers, each staffed by around 60 employees. This large-scale centralization program will be initiated in October this year, and we are confident that it will lead to a major reduction in expenses for our loan asset management.



Q Why eleven business centers?

A After analyzing the geographical distribution of our current loan customers and estimating probable future development trends, we determined that effective operation was possible with only eleven centers. Our total operating area encompasses approximately 70% of

Japan's population. Each center will be located roughly in the middle of its own marketing area, so as to make it as easy as possible for customers to personally visit our offices for business talks in the future.

Q Won't this degree of centralization of operations cause a deterioration in the quality of your customer service?

A We don't believe so. Even now, only 8% of new loan contracts are concluded through personal handling by our staff at one of our offices, and so the disappearance of staffed offices should have a minimal impact. In April 2003 we upgraded our core computer systems, which allowed us to

offer a wider range of services through our automated loan-contract machines. We believe the improvement in service quality offered by the automated loan-contract machines allows us to expand our business scale through an increase in the number of our unstaffed outlets.

Q What effect will the change have on credit monitoring and management?

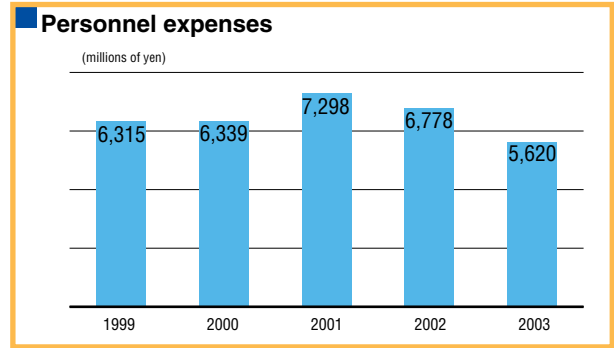
A The centralization will mean that each business center will be responsible for monitoring and managing all claims within its operating area. Within each center, staff members who formerly worked at our staffed offices will form several marketing teams, taking care of a statistically homogenized loan asset portfolio, which will eliminate geographical disparities in the customer bases. The new system will enable them to fairly compete among

themselves on a level playing field.

Since 1999 we have been accumulating data for a small-team staff system for customer management at our call centers, and we have verified to our satisfaction that this small-team system would be more effective in handling customer management work than the current area-based branch system.

Q How will this centralization improve operational efficiency?

A The centralization of work will enable our managers to obtain a more comprehensive and accurate grasp of the state of business, while also making it easier to rigorously apply the correct procedures. With the present system of many small branches, there is considerable variation in the levels of professional know-how possessed by our staff. At the new centers, by contrast, the sharing of expertise will be facilitated, and they will simultaneously function as staff training centers. This will be effective in raising the productivity of our staff, and will lead to a saving in personnel expenses.



Future Tasks
Advertising strategy and other steps to attract new customers

Q What sort of measures have you been taking to improve the quality of your loan asset portfolio?

A In fiscal 2001, we stopped providing new corporate clients with loans on deeds or loans on bills, which had been our mainstay products. This decision was taken because we judged that the use of loans on bills, in particular, was leading to a rise in the proportion of debts going sour, i.e. becoming bad debts, as this business model with high operating costs was outdated amid the

sluggish business environment. We replaced this high-risk product with *NoLoan Business*, a fixed-amount repayment, card-based product. In parallel with this replacement of products, we also upgraded the auto-scoring system for our credit screening process. Our credit management process was also made more accurate by the adoption of a redesigned score card.

Q What changes are you making on the marketing side?

A To raise the public profile of our mainline products in the *NoLoan* brand, we have signed up Oliver Kahn, Germany's goalkeeper, to appear in our advertising campaigns. Kahn is one of the most famous footballers in the world, having been voted the best player of the 2002 World Cup (staged jointly by Japan and South Korea). He is appearing in a series of TV commercials that started in April 2003, and is also featuring in advertising posters. We have chosen Oliver Kahn because of his reputation for letting in no goals. As "Zero-Man," Kahn is

an ideal symbol for *NoLoan* products, which require no interest for the first week of borrowings. "Zero-Man" matches Shinki's own boast that its *NoLoan* financing service concedes "zero" ground to rival companies' products, whether in terms of cost, service quality, or the politeness and friendliness of our staff.

Because of the power of a well-crafted advertising campaign in influencing consumer choice, we are confident that this campaign will be very successful in putting across to the public a bright new image for Shinki.



Advertising design featuring German goalkeeper Oliver Kahn

Q Are you making use of business alliances or M&As?

A In March 2002 we concluded a business tie-up with Shinsei Bank. This tie-up was aimed at facilitating Shinki's steady growth in the field of consumer finance. In May of the same year we established the Corporate Strategy Division, which is dedicated to designing methods for the

expansion of our total scale through mergers with consumer financing companies and acquisitions of loan receivables. The division will also seek strategic tie-ups with companies in different business fields, as well as aggressive moves into promising new business fields.

Q What is the stance of Shinki's management on the issue of compliance?

A We have set up a Legal and Ethical Compliance Office to direct the Company's initiatives to ensure that not only laws and regulations, but also generally accepted standards of ethical conduct, are observed in all its business activities. In April 2002 we established a Compliance

Committee, which meets every three months to discuss the outstanding compliance issues throughout the Company and decide on remedial measures where necessary.

Q Please tell us something about your policy regarding the management of the Shinki Group?

A In addition to firmly establishing Shinki as a leading company in the fields of consumer finance and corporate finance, we are also extending our reach into other service areas through our subsidiary Career Link, which is principally engaged in the temp-staff business, but also operates a staff recruitment service for job seekers and

registered corporate customers and a telemarketing business. This subsidiary is currently growing very fast. In the advertising agency field, our subsidiary Picnic Ad is involved in the planning and production of advertising materials. Picnic Ad played a central role in securing the services of Oliver Kahn for our new advertising campaign.

Q Finally, could you tell us of any plans you have in the field of investor relations?

A We will, of course, be issuing frequent information updates to our shareholders, as well as to market investors in general. We will also hold regular meeting with securities analysts, and will make active use of our Internet website for the public disclosure of significant management information. A high level of management transparency will be maintained.

meetings with small numbers of institutional investors.

We respond promptly to requests from investors for guided tours of our call centers or interviews with management spokesmen, and hold frequent

Our overriding goal is to become the best-trusted non-bank financial company in Japan, and to this end we will work tirelessly to improve the friendliness of our customer service, and to institute reforms in all aspects of management to improve both efficiency and trustworthiness across the board. In these ways, we are confident of earning the unwavering trust of our customers, shareholders, employees, and all other stakeholders.

PERFORMANCE REVIEW

Off-balance-sheet assets due to securitization in the amounts of ¥28,270 million for the reporting term and ¥16,538 million for the previous term are included in the loan balance figures below.

Marketing System

The Company has previously operated two separate sales office networks for its consumer finance and corporate finance businesses. During the term under review, however, these two networks were integrated to raise marketing productivity, and the operating system of the combined network was reviewed and restructured. Additionally, to deal with the growing volume of bad debts written off, we took various steps to reinforce our ability to collect claims on bad debts and minimize the occurrence of further bad debt through more rigorous credit screening.

During the term, we reduced the number of our staffed branches by 11, cutting the term-end total to 86, or approximately half of the peak in 2000. As for our unstaffed outlets (booths for automated loan-contract machines), we have been thoroughly reviewing office location and performance, closing down relatively unprofitable outlets and opening new ones in more promising locations. As a result, the number of unstaffed outlets at term-end reached 376, an increase of 26 over the previous term-end, bringing the total number of staffed and unstaffed offices to 462, up 15 over the end of fiscal 2001.

We also concluded agreements on the joint use of cash dispensers and ATMs with four more financial institutions during the reporting period, bringing to 12,430 the number of such machines operated by our business partners that our customers can access (up 1,575 from the previous term-end). In addition, we operate 477 dedicated ATMs ourselves. Thus, as of the end of fiscal 2002, our customers were able to access our services via a total of 12,907 machines, an increase of 1,592 over the previous term-end.

Consumer Finance

During the reporting period, we put considerable effort into advertising campaigns — television commercials, posters in trains and subway cars, and newspaper ads — with the goal of raising the brand profile of our mainstay *NoLoan* unsecured loans.

Loans to consumers during the term increased by ¥8,585 million, or 7.3%, to ¥125,756 million (US\$1,048 million) at term-end. Of this, *NoLoan* products, which account for the great majority, grew by ¥8,779 million, or 7.6%, to a term-end balance of ¥125,024 million (US\$1,042 million). This considerable slowdown from the more than 11% growth recorded in the previous term is largely due to the tightening of credit screening standards that we implemented from January 2002. The number of outstanding *NoLoan* accounts (approximately equivalent to the number of *NoLoan* customers) stood at 289,023 at the end of the term, up 0.4% over the previous term-end. The average value of loans extended to all customers at the term-end was ¥432,600, an increase of ¥28,900 over the previous term-end.

The value of unsecured loans to consumers whose repayment was delayed by one month or more increased by ¥887 million in the reporting period, reaching ¥3,427 million (US\$29 million) at the term-end. The percentage of the said loans to total unsecured consumer loans also deteriorated, rising by 0.09 of a percentage point from 2.18% to 2.27%.

In line with the growing number of individual consumers declaring bankruptcy, the write-off amount of total unsecured loans at the term-end came to ¥9,858 million (US\$82 million), an increase of ¥2,435 million or 32.8% over the previous term-end, with the percentage of the amount to the total unsecured loan balance rising 1.49 percentage points to 7.88%.

Corporate Finance

Since fiscal 2001, our mainline product in the corporate finance business has been *NoLoan Business*, an unsecured revolving loan with no guarantor requirement and a credit limit of ¥3 million. The increased convenience afforded by this new product has been greatly appreciated by our customers, and the balance of credit outstanding via these products has been climbing steadily. During the term, we totally revised the score card employed for our auto-scoring system for our credit screening process. We believe this upgraded scoring system will help to reduce credit risk.

The balance of loans to corporate customers at term-end was ¥78,522 million (US\$654 million), a decline of ¥5,825 million, or 6.9%, from the previous term-end. The number of accounts of *NoLoan Business* (the principal product in this category) grew strongly during the term by 10,266 (23.7%) to 53,582, or ¥11,762 million (23.2%) for a term-end balance of ¥62,607 million (US\$522 million). In comparison, the Company's previous mainstay corporate lending product — loans on deeds — posted a year-on-year decline of 70.2% to ¥5,291 million (US\$44 million). Loans on bills, meanwhile, were effectively zero.

The total value of loans past due for one month or more declined by ¥2,106 million during the term under review for a term-end balance of ¥2,653 million (US\$22 million). The proportion of the said loans past due by one month or more to the total outstanding loan balance fell from 5.46% in the previous term to 3.34%.

Out of the total of loans to corporate customers, excluding commercial bills discounted, the amounts of bad debt written off rose ¥418 million year-on-year, or 6.1%, to ¥6,490 million (US\$54 million), while the write-off ratio worsened by 0.26 of a percentage point, to 8.17%.

Financial Section

FIVE-YEAR SUMMARY

Shinki Co., Ltd.
Years Ended March 31

| Consolidated | Millions of Yen | | | | | Thousands of U.S. Dollars |
|---|-----------------|----------|----------|----------|----------|---------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 |
| For the fiscal year: | | | | | | |
| Total revenues | — | ¥ 45,292 | ¥ 52,296 | ¥ 51,540 | ¥ 51,790 | \$ 431,583 |
| Net income | — | 5,769 | 2,878 | 2,017 | 1,660 | 13,833 |
| At year-end: | | | | | | |
| Total assets | — | ¥248,743 | ¥271,374 | ¥252,963 | ¥233,940 | \$1,949,500 |
| Finance receivables, net | — | 180,844 | 198,031 | 177,101 | 162,684 | 1,355,700 |
| Shareholders' equity | — | 41,040 | 43,272 | 44,620 | 45,690 | 380,750 |
| Per share data (yen and U.S. dollars): | | | | | | |
| Basic net income | — | ¥127.17 | ¥63.44 | ¥44.47 | ¥36.38 | \$0.30 |
| Diluted net income | | | | | 31.26 | 0.26 |
| Financial ratios: | | | | | | |
| Equity ratio | — | 16.5% | 15.9% | 17.6% | 19.5% | |
| Return on equity | — | 14.1% | 6.8% | 4.6% | 3.7% | |
| Ratio of net income to total revenues | — | 12.8% | 5.5% | 3.9% | 3.2% | |

| Non-Consolidated | Millions of Yen | | | | | Thousands of U.S. Dollars |
|--|-----------------|----------|----------|----------|----------|---------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 |
| For the fiscal year: | | | | | | |
| Total revenues | ¥ 38,309 | ¥ 44,525 | ¥ 51,323 | ¥ 50,094 | ¥ 49,730 | \$ 414,417 |
| Net income | 5,770 | 5,817 | 2,859 | 2,004 | 1,626 | 13,550 |
| At year-end: | | | | | | |
| Total assets | ¥163,226 | ¥248,746 | ¥271,304 | ¥252,820 | ¥233,784 | \$1,948,200 |
| Finance receivables, net | 127,690 | 180,844 | 198,031 | 177,101 | 162,684 | 1,355,700 |
| Shareholders' equity | 34,875 | 41,188 | 43,401 | 44,736 | 45,772 | 381,434 |
| Number of shares of common stock outstanding (in millions) | 22.7 | 45.4 | 45.4 | 45.4 | 45.0 | |
| Per share data (yen and U.S. dollars): | | | | | | |
| Basic net income | ¥127.20 | ¥128.23 | ¥63.04 | ¥44.18 | ¥35.63 | \$0.30 |
| Diluted net income | | | | | 30.73 | 0.26 |
| Cash dividends applicable to the year | 25.00 | 12.50 | 12.50 | 12.50 | 12.50 | 0.10 |
| Financial ratios: | | | | | | |
| Equity ratio | 21.4% | 16.6% | 16.0% | 17.7% | 19.6% | |
| Return on equity | 17.9% | 15.3% | 6.8% | 4.5% | 3.6% | |
| Ratio of net income to total revenues | 15.2% | 13.1% | 5.6% | 4.0% | 3.3% | |
| Number of branch offices | 223 | 334 | 478 | 447 | 462 | |
| Number of employees | 1,164 | 1,292 | 1,231 | 1,078 | 953 | |

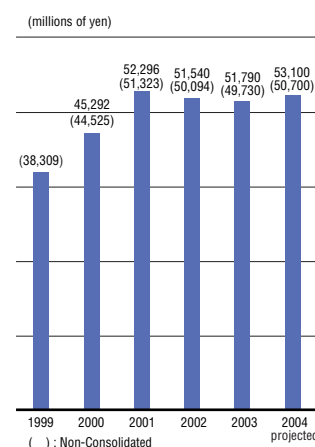
Notes

- U.S. dollar amounts represent translations of yen, for convenience only, at the rate of ¥120 to U.S.\$1, the approximate exchange rate at March 31, 2003.
- Consolidated data for the year to March 31, 1999 are not available.

CONTENTS

| | |
|---|----|
| Five-Year Summary..... | 09 |
| Financial Review | 10 |
| Consolidated Balance Sheets | 12 |
| Consolidated Statements of Income | 13 |
| Consolidated Statements of Shareholders' Equity | 14 |
| Consolidated Statements of Cash Flows..... | 15 |
| Notes to Consolidated Financial Statements..... | 16 |
| Independent Auditors' Report..... | 24 |
| Non-Consolidated Balance Sheets..... | 25 |
| Non-Consolidated Statements of Income..... | 26 |
| Non-Consolidated Statements of Shareholders' Equity | 27 |
| Notes to Non-Consolidated Financial Statements..... | 28 |
| Independent Auditors' Report..... | 35 |

Total Revenues



FINANCIAL REVIEW

(on a consolidated basis)

Business Environment

In response to the weakness of the Japanese economy and the sluggishness of the U.S. economy during the term under review, the Company's operating environment remained extremely difficult. The Company's mainline business field of consumer financing is being hard hit by the rise in the unemployment rate, leading to a higher number of personal bankruptcies. Meanwhile, the corporate financing business is suffering from slack fund demand from small and medium-sized businesses, as well as a growing number of bankruptcies and business closures. As a result, rising credit costs (bad debts written off plus provision to reserves for credit loss) are putting growing pressure on overall profitability.

Review of Operations

Total revenues increased 0.5% to ¥51,790 million (US\$432 million). Interest income, including discount revenue, however, declined 11.7% year-on-year, to ¥39,975 million (US\$333 million), but this is largely attributable to an increase in the transference of loan assets to trust accounts under securitization schemes. The increase in the category of other income is attributable to the registration, from the term under review, of revenue from the aforementioned trust accounts in the form of "earnings on beneficial interests in trust of financial loans" as a separate accounting category, included in "other income."

At the same time, total expenses increased by ¥1,847 million (3.9%) year-on-year, to ¥48,707 million (US\$406 million). This is largely due to an increase of ¥2,669 million in provision

to reserves for credit loss and a ¥1,147 million increase in expenses involved in the write-off of bad debts.

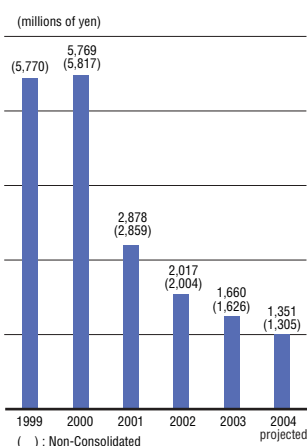
Provision to reserves for possible loan losses for the reporting period amounted to ¥11,935 million (US\$99 million), while expenses for bad debt write-offs came to ¥6,885 million (US\$57 million).

On the other hand, salaries and fringe benefits declined by ¥1,269 million (16.4%) to ¥6,462 million (US\$54 million) thanks to improved productivity through the rationalization of our office network. Other expenses for the term increased by ¥192 million to ¥17,450 million (US\$145 million), caused mainly by credit losses due to civil conciliation in the amount of ¥863 million. As a result, income before income taxes and minority interests declined by ¥1,597 million, or 34.1%, from the previous term, to ¥3,083 million (US\$26 million) and income taxes came to ¥2,125 million (US\$18 million). Net income declined ¥357 million, or 17.7%, from the previous term, to ¥1,660 million (US\$14 million) under tax-effect accounting. Earnings per share came to ¥36.38 (US\$0.30) prior to dilution, while the diluted EPS was ¥31.26 (US\$0.26). Cash dividends applicable to the year remained at ¥12.5 (US\$0.10).

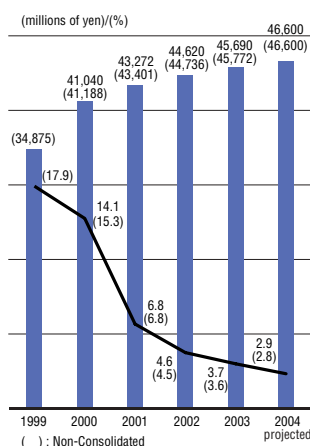
Financial Position

Total finance receivables at the term-end edged up slightly from the previous term-end, to ¥205,373 million (US\$1,711 million). The value of loan assets moved off-balance during the term through securitization schemes utilizing SPCs and special-purpose trusts (SPTs) increased from ¥16,538 million

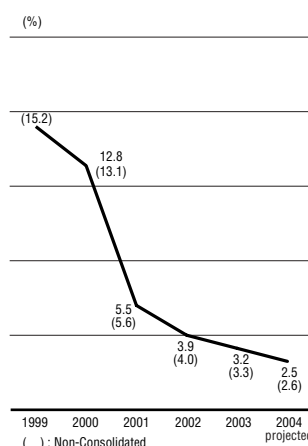
Net Income



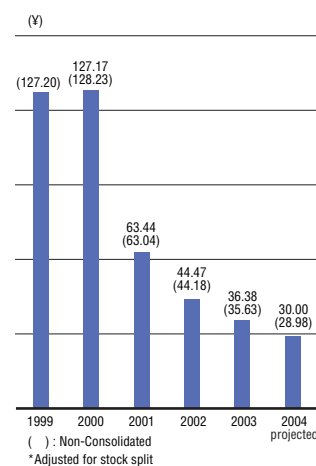
Shareholders' Equity/Return on Equity



Ratio of Net Income to Total Revenues



Basic Net Income per Share*



in the previous term to ¥28,270 million (US\$236 million). For this reason, finance receivables, net, recorded on the balance sheet at the term-end recorded a decline of 8.1% from the previous term-end at ¥162,684 million (US\$1,356 million). Total assets were also down, by 7.5%, at ¥233,940 million (US\$1,950 million).

Investments in securities declined by ¥857 million compared with the previous term-end, as a result of the sale of Japanese government bonds, to end the term at ¥2,130 million (US\$18 million). Other assets were down by ¥3,526 million from the previous term-end, at ¥21,458 million (US\$179 million). This was mainly due to the fact that the ¥2,818 million registered as “development costs of software in progress” for the previous term-end declined to only ¥671 million (US\$6 million) for the term-end, as a result of conclusion of a leaseback contract.

Total liabilities decreased by ¥20,094 million (9.6%) to ¥188,238 million (US\$1,569 million). Long-term debt, less the current portion, stood at ¥91,649 million (US\$764 million), a decline of ¥10,116 million (9.9%). Short-term debt also declined, by ¥12,013 million, or 11.8%, to ¥90,168 million (US\$751 million).

Shareholders’ equity increased by ¥1,070 year-on-year, to a term-end balance of ¥45,690 million (US\$381 million).

Cash Flows

Net cash provided by operating activities declined by ¥2,387 million from the previous term’s ¥21,072 million to ¥18,685

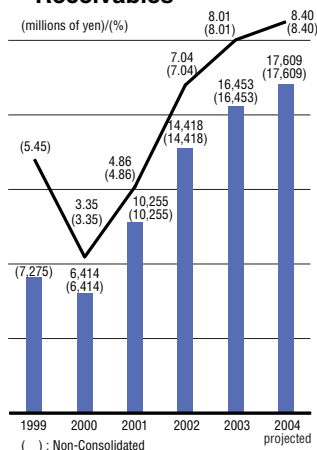
million (US\$156 million), despite a decline in the corporate income tax payment amount by ¥4,024 million. This was due to a decline of 34.1% in income before income taxes and minority interests on a consolidated basis, to ¥3,083 million, and an increase of ¥5,265 million in financial loans made to customers (compared with a ¥6,144 million decrease for the previous year).

Cash flows from investing activities performed a turnaround from the net cash outflow of ¥2,884 million registered in the previous business term to a net cash inflow of ¥3,637 million (US\$30 million) for the term under review. This is the result of proceeds from the sale of intangible assets (i.e. software) in the amount of ¥4,086 million in line with the conclusion of leasing contracts for the said software for the development of the Company’s new core computer systems.

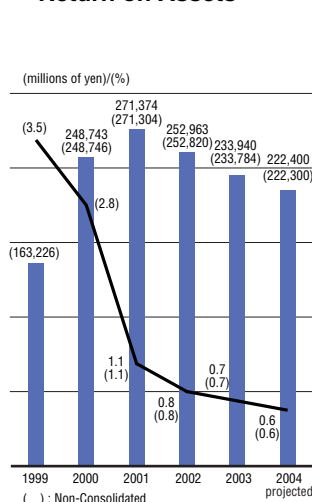
Net cash used in financing activities increased from the previous term’s ¥17,693 million to ¥22,830 million (US\$190 million) in spite of an inflow of ¥15,300 million from the issuance of convertible bonds. This was the result of a net decrease of ¥19,342 million in outstanding long-term debt, and a net outflow of ¥22,600 million due to the redemption of corporate bonds.

As a result of the above, cash and cash equivalents decreased by ¥508 million during the term, to a term-end balance of ¥31,678 million (US\$263 million).

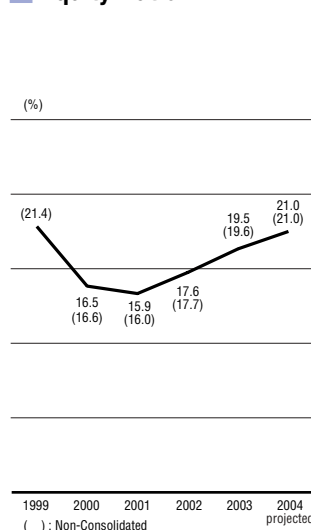
Bad Debt Write-Offs/ Ratio of Bad Debt Write-Offs to Financial Receivables



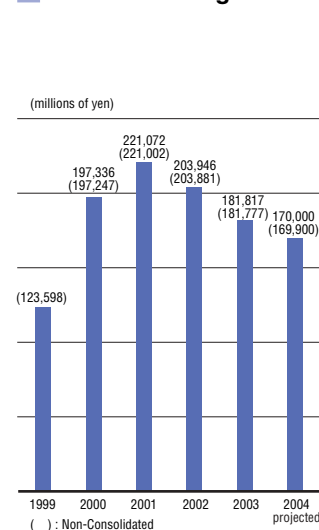
Total Assets/ Return on Assets



Equity Ratio



Interest-Bearing Debt



CONSOLIDATED BALANCE SHEETS

Shinki Co., Ltd. and Subsidiaries
March 31, 2002 and 2003

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|----------|--|
| | 2002 | 2003 | 2003 |
| ASSETS | | | |
| Assets: | | | |
| Finance receivables, net (Notes 4 and 8) | ¥177,101 | ¥162,684 | \$1,355,700 |
| Cash and cash equivalents | 32,186 | 31,678 | 263,983 |
| Investments in securities (Notes 5 and 8) | 2,987 | 2,130 | 17,750 |
| Property and equipment, net (Notes 6 and 8) | 9,669 | 9,343 | 77,858 |
| Deferred tax assets (Note 12) | 6,036 | 6,647 | 55,392 |
| Other assets (Notes 7 and 16) | 24,984 | 21,458 | 178,817 |
| Total | ¥252,963 | ¥233,940 | \$1,949,500 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Liabilities: | | | |
| Short-term debt (Note 8) | ¥102,181 | ¥ 90,168 | \$ 751,400 |
| Long-term debt, less current portion (Note 8) | 101,765 | 91,649 | 763,742 |
| Income taxes payable (Note 12) | 179 | 1,140 | 9,500 |
| Accrued expenses and other liabilities (Notes 9 and 10) | 4,207 | 5,281 | 44,008 |
| Total liabilities | 208,332 | 188,238 | 1,568,650 |
| Minority interests | 11 | 12 | 100 |
| Contingent liabilities (Note 17) | | | |
| Shareholders' equity (Notes 11 and 19): | | | |
| Common stock, authorized, 90,720,000 shares in 2002 and 90,390,000 shares in 2003; issued 45,360,000 shares in 2002 and 45,030,000 shares in 2003 | 5,016 | 5,016 | 41,800 |
| Additional paid-in capital | 5,483 | 5,483 | 45,692 |
| Retained earnings | 34,259 | 35,202 | 293,350 |
| Unrealized loss on available-for-sale securities | (138) | (11) | (92) |
| Total shareholders' equity | 44,620 | 45,690 | 380,750 |
| Total | ¥252,963 | ¥233,940 | \$1,949,500 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

Shinki Co., Ltd. and Subsidiaries
Years Ended March 31, 2000, 2001, 2002 and 2003

| | Millions of Yen | | | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------------|----------------|----------------|--|
| | 2000 | 2001 | 2002 | 2003 | 2003 |
| Revenues: | | | | | |
| Interest income, including discount revenue | ¥40,832 | ¥49,624 | ¥45,274 | ¥39,975 | \$333,125 |
| Other income (Note 13) | 4,460 | 2,672 | 6,266 | 11,815 | 98,458 |
| Total revenues | <u>45,292</u> | <u>52,296</u> | <u>51,540</u> | <u>51,790</u> | <u>431,583</u> |
| Expenses: | | | | | |
| Interest expense, including rediscount expense | 6,871 | 7,691 | 6,867 | 5,975 | 49,791 |
| Provision for credit losses (Note 4) | 6,050 | 8,279 | 9,266 | 11,935 | 99,458 |
| Bad debts (Note 4) | 2,277 | 4,497 | 5,738 | 6,885 | 57,375 |
| Salaries and fringe benefits | 6,847 | 8,189 | 7,731 | 6,462 | 53,850 |
| Other expenses (Note 14) | 12,279 | 15,992 | 17,258 | 17,450 | 145,417 |
| Total expenses | <u>34,324</u> | <u>44,648</u> | <u>46,860</u> | <u>48,707</u> | <u>405,891</u> |
| Income before income taxes and minority interests | <u>10,968</u> | <u>7,648</u> | <u>4,680</u> | <u>3,083</u> | <u>25,692</u> |
| Income taxes (Note 12): | | | | | |
| Current | 9,253 | 5,895 | 2,332 | 2,125 | 17,708 |
| Deferred | (4,054) | (1,125) | 331 | (703) | (5,858) |
| Total income taxes | <u>5,199</u> | <u>4,770</u> | <u>2,663</u> | <u>1,422</u> | <u>11,850</u> |
| Minority interests in net income | | | | <u>1</u> | <u>9</u> |
| Net income | <u>¥ 5,769</u> | <u>¥ 2,878</u> | <u>¥ 2,017</u> | <u>¥ 1,660</u> | <u>\$ 13,833</u> |
| | | | Yen | | U.S. Dollars |
| Per share of common stock (Notes 2.r and 18): | | | | | |
| Basic net income | ¥127.17 | ¥63.44 | ¥44.47 | ¥36.38 | \$0.30 |
| Diluted net income | | | | 31.26 | 0.26 |
| Cash dividends applicable to the year | 12.50 | 12.50 | 12.50 | 12.50 | 0.10 |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Shinki Co., Ltd. and Subsidiaries
Years Ended March 31, 2000, 2001, 2002 and 2003

| | Thousands | Millions of Yen | | | |
|--|---|-----------------|----------------------------------|----------------------|---|
| | Issued Number of Shares of Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Unrealized Loss on Available-for- Sale Securities |
| 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 | 45,360 | ¥5,016 | ¥5,483 | ¥34,259 | ¥(138) |
| Net income | | | | 1,660 | |
| Cash dividends, ¥12.50 per share | | | | (567) | |
| Bonuses to directors | | | | (16) | |
| Purchase and retirement of treasury stock | (330) | | | (134) | |
| Net decrease in unrealized loss on available-for-sale securities | | | | | 127 |
| Balance, March 31, 2003 (Note 19) | <u>45,030</u> | <u>¥5,016</u> | <u>¥5,483</u> | <u>¥35,202</u> | <u>¥ (11)</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, 2002 | \$41,800 | \$45,692 | \$285,492 | \$(1,150) |
| Net income | | | 13,833 | |
| Cash dividends, \$0.10 per share | | | (4,725) | |
| Bonuses to directors | | | (133) | |
| Purchase and retirement of treasury stock | | | (1,117) | |
| Net decrease in unrealized loss on available-for-sale securities | | | | 1,058 |
| Balance, March 31, 2003 (Note 19) | <u>\$41,800</u> | <u>\$45,692</u> | <u>\$293,350</u> | <u>\$ (92)</u> |

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Shinki Co., Ltd. and Subsidiaries
Years Ended March 31, 2000, 2001, 2002 and 2003

| | Millions of Yen | | | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|-----------------|----------------|----------------|--|
| | 2000 | 2001 | 2002 | 2003 | 2003 |
| Operating activities: | | | | | |
| Income before income taxes and minority interests | ¥10,968 | ¥ 7,648 | ¥ 4,680 | ¥ 3,083 | \$ 25,692 |
| 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) | (1,344) | (11,200) |
| Depreciation and amortization | 499 | 1,091 | 1,248 | 1,133 | 9,442 |
| Credit losses including provision for uncollectible loans | 8,701 | 12,808 | 14,789 | 19,689 | 164,075 |
| Decrease (increase) in financial loans made to customers | (62,913) | (29,465) | 6,144 | (5,265) | (43,875) |
| Other — net | (1,469) | (1,805) | (421) | 1,389 | 11,575 |
| Net cash provided by (used in) operating activities | (48,704) | (19,472) | 21,072 | 18,685 | 155,709 |
| Investing activities: | | | | | |
| Decrease (increase) in time deposits with maturities exceeding three months | (2,592) | 2,261 | 950 | (118) | (983) |
| Purchases of securities | (1,606) | (245) | (218) | (2) | (17) |
| Purchases of property and equipment | (1,085) | (1,271) | (466) | (285) | (2,375) |
| Purchase of intangible assets | (355) | (725) | (2,888) | (1,981) | (16,508) |
| Proceeds from sales of intangible assets | | | | 4,086 | 34,050 |
| Long-term loans made | (1,965) | (2,185) | | | |
| Other — net | (1,721) | 351 | (262) | 1,937 | 16,141 |
| Net cash provided by (used in) investing activities | (9,324) | (1,814) | (2,884) | 3,637 | 30,308 |
| Financing activities: | | | | | |
| Proceeds from issuance of long-term debt | 124,554 | 109,315 | 75,849 | 56,380 | 469,834 |
| Repayments of long-term debt | (73,954) | (69,307) | (84,140) | (83,022) | (691,850) |
| Increase (decrease) in short-term debt | 23,087 | (16,270) | (8,835) | 4,513 | 37,608 |
| Purchase of treasury stock | | | | (134) | (1,117) |
| Cash dividends paid | (567) | (567) | (567) | (567) | (4,725) |
| Net cash provided by (used in) financing activities | 73,120 | 23,171 | (17,693) | (22,830) | (190,250) |
| Net increase (decrease) in cash and cash equivalents | 15,092 | 1,885 | 495 | (508) | (4,233) |
| Cash and cash equivalents, beginning of year | 14,714 | 29,806 | 31,691 | 32,186 | 268,216 |
| Cash and cash equivalents, end of year | ¥29,806 | ¥ 31,691 | ¥32,186 | ¥31,678 | \$263,983 |
| Additional cash flows information: | | | | | |
| Interest paid | ¥ 6,460 | ¥ 7,151 | ¥ 6,851 | ¥ 6,131 | \$ 51,092 |

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Shinki Co., Ltd. and Subsidiaries

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 Financial Reporting 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. In addition, certain reclassifications have been made in the 2000, 2001 and 2002 financial statements to conform to the classifications used in 2003. 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 ¥120 to \$1, the approximate rate of exchange at March 31, 2003. 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 (\$1,433 thousand) 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 (\$892 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 of the Company.

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

r) **Per Share Information** — Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. Basic net income and diluted net income per share for the year ended March 31, 2003 are computed in accordance with the new standard.

The per share information in 2000, 2001 and 2002 was not restated since the adoption of the new standard did not have a material effect on these periods.

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 (\$1,367 thousand) for the year ended March 31, 2001.

4. FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

Finance receivables at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-----------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Loans to consumers: | | | |
| Unsecured loans | ¥116,244 | ¥125,024 | \$1,041,867 |
| Secured loans (a) | 927 | 732 | 6,100 |
| Sub-total | 117,171 | 125,756 | 1,047,967 |
| Loans to business enterprises: | | | |
| Unsecured loans on bill | 179 | 17 | 142 |
| Unsecured loans on deed | 17,776 | 5,291 | 44,092 |
| Unsecured revolving loans | 50,816 | 62,608 | 521,733 |
| Secured loans (a) | 15,575 | 10,606 | 88,383 |
| Sub-total | 84,346 | 78,522 | 654,350 |
| Commercial bills discounted | 130 | | |
| Past-due and restructured loans — 181 days or more past due: | | | |
| Past due loans | 2,525 | 790 | 6,583 |
| Restructured loans | 656 | 305 | 2,542 |
| Sub-total | 3,181 | 1,095 | 9,125 |
| Total finance receivables | 204,828 | 205,373 | 1,711,442 |
| Off balance due to securitizations | (16,538) | (28,270) | (235,584) |
| Allowance for credit losses | (11,189) | (14,419) | (120,158) |
| Finance receivables, net | ¥177,101 | ¥162,684 | \$1,355,700 |

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

Finance receivables at March 31, 2003 include revolving loans with credit limits to consumers and business enterprises of ¥115,887 million (\$965,725 thousand). The remaining available credit at March 31, 2003 was ¥60,647 million (\$505,392 thousand), including ¥40,750 million (\$339,583 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

reasons. Further, the Company reviews credit history of customers and reconsiders contract terms regularly.

The primary effective annual interest rates applicable to the finance receivables at March 31, 2002 and 2003 were as follows:

| | 2002 | 2003 |
|--------------------------------|----------------|-----------------------|
| 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 | 21.00 — 27.50 |
| Secured loans | 7.00 — 15.00 | 7.00 — 15.00 |
| Commercial bills discounted | 7.50 — 29.00 | |

Changes in the allowance for credit losses for the years ended March 31, 2002 and 2003 are shown below:

| | Millions of Yen | | Thousands of U.S. Dollars |
|------------------------------|-----------------|----------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Balance at beginning of year | ¥10,607 | ¥11,189 | \$ 93,241 |
| Addition | 9,472 | 13,005 | 108,375 |
| Deduction: | | | |
| Write-offs (a) | 8,684 | 9,568 | 79,733 |
| Recoveries | 206 | 207 | 1,725 |
| Balance at end of year | ¥11,189 | ¥14,419 | \$120,158 |

(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, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------------|-----------------|---------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Current: | | | |
| Government bonds | ¥ 704 | ¥1,177 | \$9,808 |
| Non-current: | | | |
| Equity securities | ¥ 732 | ¥ 577 | \$4,809 |
| Government bonds | 1,177 | | |
| Trust fund investments and other | 374 | 376 | 3,133 |
| Total | ¥2,283 | ¥ 953 | \$7,942 |

The carrying amounts and aggregate fair values of investments in securities at March 31, 2002 and 2003 were as follows:

| | 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 |
| | Millions of Yen | | | |
| | 2003 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Equity securities | ¥ 589 | ¥53 | ¥76 | ¥ 566 |
| Debt securities | 1,173 | 4 | | 1,177 |
| Trust fund investments and other | 376 | | | 376 |

Thousands of U.S. Dollars

| | 2003 | | | Fair Value |
|----------------------------------|---------|------------------|-------------------|------------|
| | Cost | Unrealized Gains | Unrealized Losses | |
| Equity securities | \$4,908 | \$442 | \$633 | \$4,717 |
| Debt securities | 9,775 | 33 | | 9,808 |
| Trust fund investments and other | 3,133 | | | 3,133 |

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2002 and 2003 were as follows:

| | Carrying Amount | | |
|-------------------|-----------------|------|---------------------------|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | 2002 | 2003 | 2003 |
| Equity securities | ¥11 | ¥11 | \$92 |

All debt securities at March 31, 2003 are due within one year.

6. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------|-----------------|---------|---------------------------|
| | 2002 | 2003 | 2003 |
| Land | ¥ 5,662 | ¥ 5,647 | \$ 47,058 |
| Buildings | 4,586 | 4,588 | 38,233 |
| Structures | 435 | 494 | 4,117 |
| Vehicles | 5 | 5 | 42 |
| Furniture and fixtures | 1,719 | 1,725 | 14,375 |
| Total | 12,407 | 12,459 | 103,825 |
| Less accumulated depreciation | (2,738) | (3,116) | (25,967) |
| Property and equipment, net | ¥ 9,669 | ¥ 9,343 | \$ 77,858 |

7. OTHER ASSETS

Other assets at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
| | 2002 | 2003 | 2003 |
| Accrued interest income | ¥ 1,296 | ¥ 1,175 | \$ 9,792 |
| Prepaid expenses | 2,081 | 2,034 | 16,950 |
| Guarantee deposits | 2,942 | 3,335 | 27,792 |
| Investments in credit and finance associations | 978 | 109 | 908 |
| Time deposits with maturities exceeding three months | 2,701 | 2,819 | 23,492 |
| Current portion of long-term loans | | 4,150 | 34,583 |
| Long-term loans | 4,150 | | |
| Goodwill | 462 | 288 | 2,400 |
| Development costs of software in progress | 2,818 | 671 | 5,592 |
| Other | 7,556 | 6,877 | 57,308 |
| Total | ¥24,984 | ¥21,458 | \$178,817 |

8. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
| | 2002 | 2003 | 2003 |
| Short-term borrowings from banks and other finance companies, principally from 1.7% to 3.0% in 2002 and from 2.1% to 3.1% in 2003: | | | |
| Secured | ¥ 9,700 | ¥ 6,500 | \$ 54,167 |
| Unsecured | 4,850 | 10,783 | 89,858 |
| Total | 14,550 | 17,283 | 144,025 |

| | | | |
|---|----------|---------|-----------|
| Commercial paper from finance companies, principally from 1.6% to 1.7% in 2002 and from 1.3% to 1.6% in 2003: Unsecured | 8,000 | 9,780 | 81,500 |
| Current portion of long-term debt | 79,631 | 63,105 | 525,875 |
| Total short-term debt | ¥102,181 | ¥90,168 | \$751,400 |

Information on the amount of short-term borrowings outstanding during 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|---------|---------------------------|
| | 2002 | 2003 | 2003 |
| Maximum month-end balance outstanding during the year | ¥19,311 | ¥17,283 | \$144,025 |
| Average month-end balance outstanding during the year | 14,919 | 14,294 | 119,117 |
| Weighted average interest rate for the year | 2.932% | 2.272% | |

Long-term debt at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
| | 2002 | 2003 | 2003 |
| Bonds, unsecured: | | | |
| 3.00% debentures due 2002 | ¥ 20,000 | | |
| 2.93% debentures due 2002 | 5,000 | | |
| 3.00% debentures due 2004 | 10,000 | ¥ 10,000 | \$ 83,333 |
| 2.61% debentures due 2003 | 5,000 | 5,000 | 41,667 |
| 3.00% debentures due 2005 | 10,000 | 10,000 | 83,333 |
| 2.35% debentures due 2005 | 10,000 | 10,000 | 83,333 |
| 4.50% convertible bonds due 2012 | | 15,300 | 127,500 |
| 1.57% debentures due 2003 | | 2,000 | 16,667 |
| 2.70% debentures due 2004 | | 400 | 3,333 |
| Long-term borrowings from banks, insurance companies and other finance companies, due serially through 2008 — principally from 1.9% to 5.3% in 2002 and from 1.5% to 4.7% in 2003: | | | |
| Secured | 107,784 | 89,442 | 745,350 |
| Unsecured | 13,612 | 12,612 | 105,101 |
| Total | 181,396 | 154,754 | 1,289,617 |
| Less current portion | (79,631) | (63,105) | (525,875) |
| Long-term debt, less current portion | ¥101,765 | ¥ 91,649 | \$ 763,742 |

Annual maturities of long-term debt at March 31, 2003, were as follows:

| Year ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2004 | ¥ 63,105 | \$ 525,875 |
| 2005 | 45,604 | 380,034 |
| 2006 | 26,894 | 224,117 |
| 2007 | 2,863 | 23,858 |
| 2008 | 988 | 8,233 |
| 2009 and thereafter | 15,300 | 127,500 |
| Total | <u>¥154,754</u> | <u>\$1,289,617</u> |

The conversion price of the 4.50% convertible bonds was ¥606 per share and the convertible bonds were convertible into 25,248 thousand shares of the Company's common stock at March 31, 2003. The conversion price is subject to adjustments in certain circumstances.

With respect to certain borrowings from banks and other finance companies in an aggregate amount of ¥26,112 million (\$217,600 thousand) and convertible bonds of ¥15,300 million (\$127,500 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 (\$150,000 thousand).

The carrying amounts of assets pledged as collateral for short-term and long-term debt at March 31, 2003 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---------------------------|-----------------|---------------------------|
| Finance receivables | ¥ 99,082 | \$825,683 |
| Investments in securities | 1,875 | 15,625 |
| Buildings | 1,285 | 10,708 |
| Land | 5,381 | 44,842 |
| Others | 443 | 3,692 |
| Total | <u>¥108,066</u> | <u>\$900,550</u> |

The Company has a revolving credit facility. The credit limit and the remaining available credit are ¥10,000 million (\$83,333 thousand) and ¥4,000 million (\$33,333 thousand) at March 31, 2003, respectively.

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, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Deferred interest income | ¥ 42 | | |
| Accrued employees' bonuses | 401 | ¥ 372 | \$ 3,100 |
| Miscellaneous payables | 1,094 | 1,141 | 9,509 |
| Liability for retirement benefits to directors and corporate auditors (see Note 10) | 93 | 106 | 883 |
| Guarantee deposits received | 152 | 153 | 1,275 |
| Accrued expenses | 831 | 703 | 5,858 |
| Deposits received | 796 | 1,185 | 9,875 |
| Other | 798 | 1,621 | 13,508 |
| Total | <u>¥4,207</u> | <u>¥5,281</u> | <u>\$44,008</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, 2002 and 2003 amounted to ¥93 million and ¥106 million (\$883 thousand), respectively, and was included in "Accrued expenses and other liabilities" (see Note 9).

The liability for employees' retirement benefits at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------------------|-----------------|--------------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Projected benefit obligation | ¥599 | ¥633 | \$5,275 |
| Fair value of plan assets | (578) | (562) | (4,683) |
| Unrecognized actuarial loss | (66) | (77) | (642) |
| Unrecognized transitional asset | 64 | 43 | 358 |
| Net liability | <u>¥ 19</u> | <u>¥ 37</u> | <u>\$ 308</u> |

The liability for employees' retirement benefits was included in "Accrued expenses and other liabilities."

The components of net periodic benefit costs for the years ended March 31, 2001, 2002 and 2003 are as follows:

| | Millions of Yen | | | Thousands of U.S. Dollars |
|------------------------------------|-----------------|-------------|--------------------|---------------------------|
| | 2001 | 2002 | 2003 | 2003 |
| Service cost | ¥86 | ¥106 | ¥100 | \$833 |
| Interest cost | 15 | 16 | 12 | 100 |
| Expected return on plan assets | (19) | (8) | (4) | (33) |
| Recognized actuarial loss | | 38 | 24 | 200 |
| Amortization of transitional asset | (21) | (21) | (21) | (175) |
| Net periodic benefit costs | <u>¥61</u> | <u>¥131</u> | <u>¥111</u> | <u>\$925</u> |

Assumptions used for the years ended March 31, 2001, 2002 and 2003 are set forth as follows:

| | 2001 | 2002 | 2003 |
|---|---------|---------|----------------|
| Discount rate | 3.0% | 2.0% | 2.0% |
| Expected rate of return on plan assets | 3.5% | 1.5% | 0.75% |
| Recognition period of actuarial loss | 5 years | 5 years | 5 years |
| Amortization period of transitional asset | 5 years | 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, 2002 and 2003, 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 Himejijukai Foundation), and Himejijukai 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.

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

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.

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

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning

April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

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 each of the four years in the period ended March 31, 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2002 and 2003 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------------|-----------------|---------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Deferred tax assets: | | | |
| Bad debts | ¥3,432 | ¥3,471 | \$28,925 |
| Allowance for credit losses | 2,473 | 3,235 | 26,958 |
| Tax loss carryforwards | 13 | 25 | 208 |
| Other | 465 | 520 | 4,334 |
| Less valuation allowance | (13) | (37) | (308) |
| Total | 6,370 | 7,214 | 60,117 |
| Deferred tax liabilities | 334 | 567 | 4,725 |
| Net deferred tax assets | ¥6,036 | ¥6,647 | \$55,392 |

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for each of the four years in the period ended March 31, 2003 was as follows:

| | 2000 | 2001 | 2002 | 2003 |
|---|--------------|--------------|--------------|--------------|
| Normal effective statutory tax rate | 42.0% | 42.0% | 42.0% | 42.0% |
| Additional taxes on undistributed profits of a family company | 5.3 | 8.6 | 3.4 | 4.2 |
| Inhabitant tax per capita | 0.9 | 1.4 | 2.1 | 3.1 |
| Additional taxes from tax investigation | 2.3 | | | |
| Adjustment of prior year deferred taxes | | 10.9 | 11.5 | |
| Adjustment of prior year taxes payable | | | | (5.8) |
| Effect of tax rate reduction | | | | 1.1 |
| Other — net | (3.3) | (0.5) | (2.1) | 1.6 |
| Actual effective tax rate | <u>47.2%</u> | <u>62.4%</u> | <u>56.9%</u> | 46.2% |

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 40.7%, effective for years beginning on or after April 1, 2004. The effect of this change was to decrease net deferred tax assets by ¥34 million (\$283 thousand) and increase income taxes-deferred by ¥34 million (\$283 thousand) in the consolidated financial statements for the year ended March 31, 2003.

13. OTHER INCOME

Other income for each of the four years in the period ended March 31, 2003 consisted of the following:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|--|-----------------|--------|--------|---------|---------------------------|--|
| | 2000 | 2001 | 2002 | 2003 | 2003 | |
| Fees received for origination of loans | ¥1,113 | ¥ 225 | ¥ 203 | ¥ 238 | \$ 1,983 | |
| Recoveries of loans previously written off | 494 | 555 | 607 | 696 | 5,800 | |
| Income from purchased finance receivables | 1,579 | | | | | |
| Rental income | 107 | 114 | 114 | 110 | 917 | |
| Revenue from temporary employee deployment business | 769 | 976 | 1,452 | 1,807 | 15,058 | |
| Earnings on beneficial interests in trust of financial loans | | | 3,335 | 8,313 | 69,275 | |
| Other | 398 | 802 | 555 | 651 | 5,425 | |
| Total | ¥4,460 | ¥2,672 | ¥6,266 | ¥11,815 | \$98,458 | |

14. OTHER EXPENSES

Other expenses for each of the four years in the period ended March 31, 2003 consisted of the following:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|-----------------|---------|---------|---------|---------------------------|--|
| | 2000 | 2001 | 2002 | 2003 | 2003 | |
| Cost from temporary employee deployment business | ¥ 586 | ¥ 725 | ¥ 1,114 | ¥ 1,456 | \$ 12,133 | |
| Advertising | 2,492 | 3,055 | 2,744 | 2,247 | 18,725 | |
| Rent | 2,829 | 3,905 | 4,271 | 3,970 | 33,083 | |
| Communication | 1,122 | 1,497 | 1,262 | 1,018 | 8,483 | |
| Sundry taxes and dues | 676 | 891 | 916 | 841 | 7,008 | |
| Depreciation and amortization | 499 | 1,091 | 1,248 | 1,133 | 9,442 | |
| Commission expense | 985 | 1,557 | 1,304 | 2,250 | 18,750 | |
| Amortization of expenses for securitizations of finance receivables | | | 510 | | | |
| Credit losses due to civil conciliation | | | | 863 | 7,192 | |
| Other | 3,090 | 3,271 | 3,889 | 3,672 | 30,601 | |
| Total | ¥12,279 | ¥15,992 | ¥17,258 | ¥17,450 | \$145,417 | |

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 each of the four years in the period ended March 31, 2003 were as follows:

| | Millions of Yen | | | | Thousands of U.S. Dollars | |
|---|-----------------|--------|--------|--------|---------------------------|--|
| | 2000 | 2001 | 2002 | 2003 | 2003 | |
| Total lease payments under finance leases | ¥760 | ¥1,139 | ¥1,294 | ¥1,303 | \$10,858 | |

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, 2002 and 2003 was as follows:

| | 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 | ¥2,939 | ¥315 | ¥3,254 |

| | Millions of Yen | | |
|--------------------------|------------------------|----------|---------|
| | 2003 | | |
| | Furniture and Fixtures | Software | Total |
| Acquisition cost | ¥6,280 | ¥4,170 | ¥10,450 |
| Accumulated depreciation | (3,289) | (277) | (3,566) |
| Net leased property | ¥2,991 | ¥3,893 | ¥ 6,884 |

| | Thousands of U.S. Dollars | | |
|--------------------------|---------------------------|----------|----------|
| | 2003 | | |
| | Furniture and Fixtures | Software | Total |
| Acquisition cost | \$52,333 | \$34,750 | \$87,083 |
| Accumulated depreciation | (27,408) | (2,308) | (29,716) |
| Net leased property | \$24,925 | \$32,442 | \$57,367 |

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|--------|---------------------------|
| | 2002 | 2003 | 2003 |
| Obligations under finance leases: | | | |
| Due within one year | ¥1,157 | ¥2,059 | \$17,158 |
| Due after one year | 2,178 | 5,216 | 43,467 |
| Total | ¥3,335 | ¥7,275 | \$60,625 |

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 four years in the period ended March 31, 2003, 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 | 2003 | 2003 |
| Depreciation expense | ¥701 | ¥1,052 | ¥1,187 | ¥1,297 | \$10,808 |
| Interest expense | 79 | 107 | 107 | 92 | 767 |

16. DERIVATIVES

The Company had the following derivatives contract outstanding at March 31, 2003:

| | Millions of Yen | | | |
|-----------------------------|-----------------|--------------------|------------|-----------------|
| | Nominal Amount | | | |
| | Total | Due after One Year | Fair Value | Unrealized Loss |
| Interest rate cap purchased | ¥15,000 | ¥14,000 | ¥0 | ¥182 |
| Option fees | [182] | [62] | | |

| | Thousands of U.S. Dollars | | | |
|-----------------------------|---------------------------|--------------------|------------|-----------------|
| | Nominal Amount | | | |
| | Total | Due after One Year | Fair Value | Unrealized Loss |
| Interest rate cap purchased | \$125,000 | \$116,667 | \$0 | \$1,517 |
| Option fees | [1,517] | [517] | | |

The notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Company's exposure to credit or market risk.

Option fees paid are included in other assets.

17. CONTINGENT LIABILITIES

As of March 31, 2003, contingent liabilities for notes discounted with banks with recourse and guarantees of loans of the Company's customers are ¥35 million (\$292 thousand) and ¥500 million (\$4,167 thousand), respectively.

18. NET INCOME PER SHARE

A reconciliation of the difference between basic and diluted net income per share ("EPS") for the year ended March 31, 2003 is as follows:

| | Yen in Millions | Thousands of Shares | Yen | Dollars |
|---|-----------------|-------------------------|--------|---------|
| | Net Income | Weighted Average Shares | EPS | EPS |
| For the year ended March 31, 2003: | | | | |
| Basic EPS: | | | | |
| Net income available to common shareholders | ¥1,647 | 45,270 | ¥36.38 | \$0.30 |
| Effect of dilutive securities: | | | | |
| Convertible bonds | 383 | 19,671 | | |
| Diluted EPS: | | | | |
| Net income for computation | ¥2,030 | 64,941 | ¥31.26 | \$0.26 |

The weighted average share used for the computation of basic EPS for the years ended March 31, 2000, 2001 and 2002 was 45,360 thousand shares.

19. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

On June 27, 2003, the shareholders authorized the payments of (1) cash dividends to shareholders of record at March 31, 2003 of ¥12.5 (\$0.10) per share or a total of ¥563 million (\$4,692 thousand), and (2) bonuses to directors of ¥13 million (\$108 thousand).

b. Authorization of Repurchases of Treasury Stock

On June 27, 2003, the shareholders also authorized the Company's Board of Directors to repurchase up to 1,000 thousand shares or up to ¥500 million (\$4,167 thousand) of the Company's stock on the open market until the next general shareholders' meeting.

20. RELATED PARTY TRANSACTIONS

Transactions of the Company with Mr. Naoyoshi Maeda (Representative Director and Chairman of the Company until June 28, 2002, a member of the Maeda Family), Yugengaisha Sakusesu and Kabushikigaisha Ekuseru Jinzaihaken Center (companies owned by the Maeda family) for each of the four years in the period ended March 31, 2003 were as follows:

| | Millions of Yen | | | | Thousands of U.S. Dollars |
|----------------------------------|-----------------|------|------|------|---------------------------|
| | 2000 | 2001 | 2002 | 2003 | 2003 |
| Rental expense | ¥10 | ¥27 | ¥55 | ¥51 | \$425 |
| Secondment expense for employees | 26 | 34 | 10 | 2 | 17 |
| Rental income | 7 | 52 | 38 | 38 | 317 |

The balances due to or from the Company with Mr. Naoyoshi Maeda, Yugengaisha Sakusesu and Kabushikigaisha Ekuseru Jinzaihaken Center at March 31, 2002 and 2003 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------|-----------------|------|---------------------------|
| | 2002 | 2003 | 2003 |
| Guarantee deposits receivable | ¥20 | ¥40 | \$333 |
| Accounts payable | 1 | | |
| Guarantee deposits payable | | 73 | 608 |

INDEPENDENT AUDITORS' REPORT

**Deloitte
Touche
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To the Board of Directors of
Shinki Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Shinki Co., Ltd. and subsidiaries as of March 31, 2002 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the four years in the period ended March 31, 2003, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Shinki Co., Ltd. and subsidiaries as of March 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for each of the four years in the period ended March 31, 2003, in conformity with accounting principles and practices generally accepted in Japan.

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.

As discussed in Note 3 to the consolidated financial statements, the Company changed its method of accounting for bond issue costs as of April 1, 2000.

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

Deloitte Touche Tohmatsu

June 27, 2003

NON-CONSOLIDATED BALANCE SHEETS

Shinki Co., Ltd.
March 31, 2002 and 2003

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|-----------------|--|
| | 2002 | 2003 | 2003 |
| ASSETS | | | |
| Assets: | | | |
| Finance receivables, net (Notes 4 and 9) | ¥177,101 | ¥162,684 | \$1,355,700 |
| Cash and cash equivalents | 32,097 | 31,598 | 263,317 |
| Investments in securities (Notes 5 and 9) | 2,987 | 2,130 | 17,750 |
| Investments in and advances to subsidiaries (Note 6) | 377 | 267 | 2,225 |
| Property and equipment, net (Notes 7 and 9) | 9,651 | 9,326 | 77,716 |
| Deferred tax assets (Note 13) | 6,036 | 6,647 | 55,392 |
| Other assets (Note 8) | 24,571 | 21,132 | 176,100 |
| Total | <u>¥252,820</u> | <u>¥233,784</u> | <u>\$1,948,200</u> |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Liabilities: | | | |
| Short-term debt (Note 9) | ¥102,156 | ¥ 90,144 | \$ 751,200 |
| Long-term debt, less current portion (Note 9) | 101,725 | 91,633 | 763,608 |
| Income taxes payable (Note 13) | 174 | 1,135 | 9,458 |
| Accrued expenses and other liabilities (Notes 10 and 11) | 4,029 | 5,100 | 42,500 |
| Total liabilities | <u>208,084</u> | <u>188,012</u> | <u>1,566,766</u> |
| Contingent liabilities (Note 17) | | | |
| Shareholders' equity (Notes 12 and 19): | | | |
| Common stock, authorized, 90,720,000 shares in 2002 and 90,390,000 shares in 2003; issued, 45,360,000 shares in 2002 and 45,030,000 shares in 2003 | 5,016 | 5,016 | 41,800 |
| Additional paid-in capital | 5,483 | 5,483 | 45,692 |
| Retained earnings: | | | |
| Legal reserve | 552 | 552 | 4,600 |
| Unappropriated | 33,823 | 34,732 | 289,434 |
| Unrealized loss on available-for-sale securities | (138) | (11) | (92) |
| Total shareholders' equity | <u>44,736</u> | <u>45,772</u> | <u>381,434</u> |
| Total | <u>¥252,820</u> | <u>¥233,784</u> | <u>\$1,948,200</u> |

See notes to non-consolidated financial statements.

Non-Consolidated Statements of Income

Shinki Co., Ltd.
Years Ended March 31, 1999, 2000, 2001, 2002 and 2003

| | Millions of Yen | | | | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------------|----------------|----------------|----------------|--|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 |
| Revenues: | | | | | | |
| Interest income, including discount revenue | ¥36,165 | ¥40,856 | ¥49,602 | ¥45,260 | ¥39,963 | \$333,025 |
| Other income (Note 14) | 2,144 | 3,669 | 1,721 | 4,834 | 9,767 | 81,392 |
| Total revenues | <u>38,309</u> | <u>44,525</u> | <u>51,323</u> | <u>50,094</u> | <u>49,730</u> | <u>414,417</u> |
| Expenses: | | | | | | |
| Interest expense, including rediscount expense | 4,942 | 6,449 | 7,690 | 6,866 | 5,973 | 49,775 |
| Provision for credit losses (Note 4) | 4,020 | 6,050 | 8,279 | 9,266 | 11,935 | 99,458 |
| Bad debts (Note 4) | 3,093 | 2,277 | 4,497 | 5,738 | 6,885 | 57,375 |
| Salaries and fringe benefits | 6,315 | 6,339 | 7,298 | 6,778 | 5,620 | 46,833 |
| Other expenses (Note 15) | 8,794 | 12,394 | 15,930 | 16,785 | 16,274 | 135,618 |
| Total expenses | <u>27,164</u> | <u>33,509</u> | <u>43,694</u> | <u>45,433</u> | <u>46,687</u> | <u>389,059</u> |
| Income before income taxes | 11,145 | 11,016 | 7,629 | 4,661 | 3,043 | 25,358 |
| Income taxes (Note 13): | | | | | | |
| Current | 5,375 | 9,253 | 5,895 | 2,326 | 2,120 | 17,666 |
| Deferred | | (4,054) | (1,125) | 331 | (703) | (5,858) |
| Total income taxes | <u>5,375</u> | <u>5,199</u> | <u>4,770</u> | <u>2,657</u> | <u>1,417</u> | <u>11,808</u> |
| Net income | <u>¥ 5,770</u> | <u>¥ 5,817</u> | <u>¥ 2,859</u> | <u>¥ 2,004</u> | <u>¥ 1,626</u> | <u>\$ 13,550</u> |
| | Yen | | | | | U.S. Dollars |
| Amounts per share (Notes 2.r and 18): | | | | | | |
| Basic net income | ¥127.20 | ¥128.23 | ¥63.04 | ¥44.18 | ¥35.63 | \$0.30 |
| Diluted net income | | | | | 30.73 | 0.26 |
| Cash dividends applicable to the year | 25.00 | 12.50 | 12.50 | 12.50 | 12.50 | 0.10 |

See notes to non-consolidated financial statements.

NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Shinki Co., Ltd.
Years Ended March 31, 1999, 2000, 2001, 2002 and 2003

| | Thousands | | Millions of Yen | | | |
|---|--|-----------------|----------------------------------|-------------------|----------------|--|
| | Issued Number of Shares of Common Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | | Unrealized Loss on Available-for- Sale Securities |
| | | | | Legal Reserve | Unappropriated | |
| Balance, April 1, 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 12) | 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 | 45,360 | 5,016 | 5,483 | 552 | 33,823 | (138) |
| Net income | | | | | 1,626 | |
| Cash dividends, ¥12.50 per share | | | | | (567) | |
| Bonuses to directors | | | | | (16) | |
| Purchase and retirement of treasury stock | (330) | | | | (134) | |
| Net decrease in unrealized loss on available-for-sale securities | | | | | | ¥127 |
| Balance, March 31, 2003 (Note 19) | <u>45,030</u> | <u>¥5,016</u> | <u>¥5,483</u> | <u>¥552</u> | <u>¥34,732</u> | <u>¥(11)</u> |

Thousands of U.S. Dollars (Note 1)

| | Common Stock | Additional Paid-in Capital | Retained Earnings | | Unrealized Loss on Available-for- Sale Securities |
|--|-----------------|----------------------------------|-------------------|------------------|--|
| | | | Legal Reserve | Unappropriated | |
| Balance, March 31, 2002 | \$41,800 | \$45,692 | \$4,600 | \$281,859 | \$(1,150) |
| Net income | | | | 13,550 | |
| Cash dividends, \$0.10 per share | | | | (4,725) | |
| Bonuses to directors | | | | (133) | |
| Purchase and retirement of treasury stock | | | | (1,117) | |
| Net decrease in unrealized loss on available-for-sale securities | | | | | 1,058 |
| Balance, March 31, 2003 (Note 19) | <u>\$41,800</u> | <u>\$45,692</u> | <u>\$4,600</u> | <u>\$289,434</u> | <u>\$ (92)</u> |

See notes to non-consolidated financial statements.

NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS

Shinki Co., Ltd.

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 Financial Reporting Standards. The non-consolidated financial statements are not intended to present the financial position and results of operations in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

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 addition, certain reclassifications have been made in the 2002 financial statements to conform to the classifications used in 2003. 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 ¥120=\$1, the approximate rate of exchange at March 31, 2003. 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 stated at cost.

As a result of adopting the new standard, income before income taxes increased by ¥172 million (\$1,433 thousand) 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 (\$892 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 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 of the Company.

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** — Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants. Basic net income and diluted net income per share for the years ended March 31, 2003 are computed in accordance with the new standard.

The per share information in 1999, 2000, 2001 and 2002 was not restated since the adoption of the new standard did not have a material effect on these periods.

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 (\$1,367 thousand) for the year ended March 31, 2001.

4. FINANCE RECEIVABLES AND ALLOWANCE FOR CREDIT LOSSES

Finance receivables at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-----------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Loans to consumers: | | | |
| Unsecured loans | ¥116,244 | ¥125,024 | \$1,041,867 |
| Secured loans (a) | 927 | 732 | 6,100 |
| Sub-total | 117,171 | 125,756 | 1,047,967 |
| Loans to business enterprises: | | | |
| Unsecured loans on bill | 179 | 17 | 142 |
| Unsecured loans on deed | 17,776 | 5,291 | 44,092 |
| Unsecured revolving loans | 50,816 | 62,608 | 521,733 |
| Secured loans (a) | 15,575 | 10,606 | 88,383 |
| Sub-total | 84,346 | 78,522 | 654,350 |
| Commercial bills discounted | 130 | | |
| Past-due and restructured loans — 181 days or more past due: | | | |
| Past due loans | 2,525 | 790 | 6,583 |
| Restructured loans | 656 | 305 | 2,542 |
| Sub-total | 3,181 | 1,095 | 9,125 |
| Total finance receivables | 204,828 | 205,373 | 1,711,442 |
| Off balance due | | | |
| to securitizations | (16,538) | (28,270) | (235,584) |
| Allowance for credit losses | (11,189) | (14,419) | (120,158) |
| Finance receivables, net | ¥177,101 | ¥162,684 | \$1,355,700 |

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

Finance receivables at March 31, 2003 include revolving loans with credit limits to consumers and business enterprises of ¥115,887 million (\$965,725 thousand). The remaining available credit at March 31, 2003 was ¥60,647 million (\$505,392 thousand), including ¥40,750 million (\$339,583 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 reasons. Further, the Company reviews credit history of customers and reconsiders contract terms regularly.

The primary effective annual interest rates applicable to the finance receivables at March 31, 2002 and 2003 were as follows:

| | 2002 | 2003 |
|--------------------------------|----------------|-----------------------|
| 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 | 21.00 — 27.50 |
| Secured loans | 7.00 — 15.00 | 7.00 — 15.00 |
| Commercial bills discounted | 7.50 — 29.00 | |

Changes in the allowance for credit losses for the years ended March 31, 2002 and 2003 are shown below:

| | Millions of Yen | | Thousands of U.S. Dollars |
|------------------------------|-----------------|----------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Balance at beginning of year | ¥10,607 | ¥11,189 | \$ 93,241 |
| Addition | 9,472 | 13,005 | 108,375 |
| Deduction: | | | |
| Write-offs (a) | 8,684 | 9,568 | 79,733 |
| Recoveries | 206 | 207 | 1,725 |
| Balance at end of year | ¥11,189 | ¥14,419 | \$120,158 |

(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, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------------|-----------------|---------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Current: | | | |
| Government bonds | ¥ 704 | ¥1,177 | \$9,808 |
| Non-current: | | | |
| Equity securities | ¥ 732 | ¥ 577 | \$4,809 |
| Government bonds | 1,177 | | |
| Trust fund investments and other | 374 | 376 | 3,133 |
| Total | ¥2,283 | ¥ 953 | \$7,942 |

6. INVESTMENTS IN AND ADVANCES TO SUBSIDIARIES

Investments in and advances to subsidiaries at March 31, 2002 and 2003 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------|-----------------|-------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Investments | ¥197 | ¥197 | \$1,642 |
| Advances | 180 | 70 | 583 |
| Total | ¥377 | ¥267 | \$2,225 |

7. PROPERTY AND EQUIPMENT

Property and equipment at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------|-----------------|---------|---------------------------|
| | 2002 | 2003 | 2003 |
| Land | ¥ 5,662 | ¥ 5,647 | \$ 47,058 |
| Buildings | 4,581 | 4,584 | 38,200 |
| Structures | 430 | 489 | 4,075 |
| Vehicles | 5 | 5 | 42 |
| Furniture and fixtures | 1,699 | 1,700 | 14,166 |
| Total | 12,377 | 12,425 | 103,541 |
| Less accumulated depreciation | (2,726) | (3,099) | (25,825) |
| Property and equipment, net | ¥ 9,651 | ¥ 9,326 | \$ 77,716 |

8. OTHER ASSETS

Other assets at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
| | 2002 | 2003 | 2003 |
| Accrued interest income | ¥ 1,297 | ¥ 1,176 | \$ 9,800 |
| Prepaid expenses | 2,077 | 2,022 | 16,850 |
| Guarantee deposits | 2,900 | 3,294 | 27,450 |
| Investments in credit and finance associations | 978 | 109 | 908 |
| Time deposits with maturities exceeding three months | 2,701 | 2,819 | 23,492 |
| Current portion of long-term loans | | 4,150 | 34,583 |
| Long-term loans | 4,150 | | |
| Goodwill | 462 | 288 | 2,400 |
| Development costs of software in progress | 2,818 | 671 | 5,592 |
| Other | 7,188 | 6,603 | 55,025 |
| Total | ¥24,571 | ¥21,132 | \$176,100 |

9. SHORT-TERM AND LONG-TERM DEBT

Short-term debt at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
| | 2002 | 2003 | 2003 |
| Short-term borrowings from banks and other finance companies, principally from 1.7% to 3.0% in 2002 and from 2.1% to 3.1% in 2003: | | | |
| Secured | ¥ 9,700 | ¥ 6,500 | \$ 54,167 |
| Unsecured | 4,850 | 10,783 | 89,858 |
| Total | 14,550 | 17,283 | 144,025 |
| Commercial paper from finance companies, principally from 1.6% to 1.7% in 2002 and from 1.3% to 1.6% in 2003: | | | |
| Unsecured | 8,000 | 9,780 | 81,500 |
| Current portion of long-term debt | 79,606 | 63,081 | 525,675 |
| Total short-term debt | ¥102,156 | ¥90,144 | \$751,200 |

Information on the amount of short-term borrowings outstanding during 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|---------|---------------------------|
| | 2002 | 2003 | 2003 |
| Maximum month-end balance outstanding during the year | ¥19,311 | ¥17,283 | \$144,025 |
| Average month-end balance outstanding during the year | 14,919 | 14,294 | 119,117 |
| Weighted average interest rate for the year | 2.932% | 2.272% | |

Long-term debt at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|----------|---------------------------|
| | 2002 | 2003 | 2003 |
| Bonds, unsecured: | | | |
| 3.00% debentures due 2002 | ¥ 20,000 | | |
| 2.93% debentures due 2002 | 5,000 | | |
| 3.00% debentures due 2004 | 10,000 | ¥ 10,000 | \$ 83,333 |
| 2.61% debentures due 2003 | 5,000 | 5,000 | 41,667 |
| 3.00% debentures due 2005 | 10,000 | 10,000 | 83,333 |
| 2.35% debentures due 2005 | 10,000 | 10,000 | 83,333 |
| 4.50% convertible bonds due 2012 | | 15,300 | 127,500 |
| 1.57% debentures due 2003 | | 2,000 | 16,667 |
| 2.70% debentures due 2004 | | 400 | 3,333 |
| Long-term borrowings from banks, insurance companies and other finance companies, due serially through 2008 — principally from 2.3% to 5.3% in 2002 and from 1.8% to 4.7% in 2003: | | | |
| Secured | 107,784 | 89,442 | 754,350 |
| Unsecured | 13,547 | 12,572 | 104,767 |
| Total | 181,331 | 154,714 | 1,289,283 |
| Less current portion | (79,606) | (63,081) | (525,675) |
| Long-term debt, less current portion | ¥101,725 | ¥ 91,633 | \$ 763,608 |

Annual maturities of long-term debt at March 31, 2003 were as follows:

| Year ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|----------------------|-----------------|---------------------------|
| 2004 | ¥ 63,081 | \$ 525,675 |
| 2005 | 45,592 | 379,933 |
| 2006 | 26,891 | 224,092 |
| 2007 | 2,862 | 23,850 |
| 2008 | 988 | 8,233 |
| 2009 and thereafter | 15,300 | 127,500 |
| Total | ¥154,714 | \$1,289,283 |

The conversion price of the 4.50% convertible bonds was ¥606 per share and the convertible bonds were convertible into 25,248 thousand shares of the Company's common stock at March 31, 2003. The conversion price is subject to adjustments in certain circumstances.

With respect to certain borrowings from banks and other finance companies in an aggregate amount of ¥26,112 million (\$217,600 thousand) and convertible bonds of ¥15,300 million (\$127,500 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 (\$150,000 thousand).

The carrying amounts of assets pledged as collateral for short-term and long-term debt at March 31, 2003 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|---------------------------|-----------------|---------------------------|
| Finance receivables | ¥ 99,082 | \$825,683 |
| Investments in securities | 1,875 | 15,625 |
| Buildings | 1,285 | 10,708 |
| Land | 5,381 | 44,842 |
| Others | 443 | 3,692 |
| Total | <u>¥108,066</u> | <u>\$900,550</u> |

The Company has a revolving credit facility. The credit limit and the remaining available credit are ¥10,000 million (\$83,333 thousand) and ¥4,000 million (\$33,333 thousand) at March 31, 2003, respectively.

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.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

Accrued expenses and other liabilities at March 31, 2002 and 2003 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------------------|---------------------------|
| | 2002 | 2003 | 2003 |
| Deferred interest income | ¥ 42 | | |
| Accrued employees' bonuses | 390 | ¥ 353 | \$ 2,942 |
| Miscellaneous payables | 1,164 | 1,196 | 9,967 |
| Liability for retirement benefits to directors and corporate auditors (see Note 11) | 93 | 106 | 883 |
| Guarantee deposits received | 152 | 153 | 1,275 |
| Accrued expenses | 673 | 543 | 4,525 |
| Deposits received | 564 | 1,178 | 9,817 |
| Other | 951 | 1,571 | 13,091 |
| Total | <u>¥4,029</u> | <u>¥5,100</u> | <u>\$42,500</u> |

11. 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, 2002 and 2003 amounted to ¥93 million and ¥106

million (\$883 thousand), respectively, and was included in "Accrued expenses and other liabilities" (see Note 10).

12. SHAREHOLDERS' EQUITY

At March 31, 2002 and 2003, 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.

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

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

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.

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

The revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese 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 beginning April 1, 2002. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

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.

13. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rates of approximately 47% for 1999 and 42% for 2000, 2001, 2002 and 2003.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2002 and 2003 were as follows:

| | Millions of Yen | | Thousands of |
|-----------------------------|-----------------|----------------------|------------------------|
| | 2002 | 2003 | U.S. Dollars |
| | | | 2003 |
| Deferred tax assets: | | | |
| Bad debts | ¥3,432 | ¥3,471 | \$28,925 |
| Allowance for credit losses | 2,473 | 3,235 | 26,958 |
| Other | 465 | 508 | 4,234 |
| Total | 6,370 | 7,214 | 60,117 |
| Deferred tax liabilities | 334 | 567 | 4,725 |
| Net deferred tax assets | <u>¥6,036</u> | <u>¥6,647</u> | <u>\$55,392</u> |

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying non-consolidated statements of income for each of the four years in the period ended March 31, 2003 was as follows:

| | 2000 | 2001 | 2002 | 2003 |
|---|--------------|--------------|--------------|---------------------|
| Normal effective statutory tax rate | 42.0% | 42.0% | 42.0% | 42.0% |
| Additional taxes on undistributed profits of a family company | 5.3 | 8.6 | 3.4 | 4.2 |
| Inhabitant tax per capita | 0.9 | 1.4 | 2.1 | 3.2 |
| Additional taxes from tax investigation | 2.3 | | | |
| Adjustment of prior year deferred taxes | | 10.9 | 11.5 | |
| Adjustment of prior year taxes payable | | | | (5.9) |
| Effect of tax rate reduction | | | | 1.1 |
| Other — net | <u>(3.3)</u> | <u>(0.5)</u> | <u>(2.1)</u> | <u>2.0</u> |
| Actual effective tax rate | <u>47.2%</u> | <u>62.4%</u> | <u>56.9%</u> | <u>46.6%</u> |

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from 42% to 40.7%, effective for years beginning on or after April 1, 2004. The effect of this change was to decrease net deferred tax assets by ¥34 million (\$283 thousand) and increase income taxes-deferred by ¥34 million (\$283 thousand) in the non-consolidated financial statements for the year ended March 31, 2003.

14. OTHER INCOME

Other income for each of the five years in the period ended March 31, 2003 consisted of the following:

| | Millions of Yen | | | | | Thousands of |
|--|-----------------|---------------|---------------|---------------|----------------------|------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | U.S. Dollars |
| | | | | | | 2003 |
| Fees received for origination of loans | ¥1,358 | ¥1,113 | ¥ 225 | ¥ 203 | ¥ 238 | \$ 1,983 |
| Recoveries of loans previously written off | 415 | 494 | 555 | 607 | 696 | 5,800 |
| Income from purchased finance receivables | | 1,579 | | | | |
| Gain on sales of investments in securities | 190 | | | | | |
| Rental income | 93 | 107 | 114 | 114 | 110 | 917 |
| Earnings on beneficial interests in trust of financial loans | | | | 3,335 | 8,313 | 69,275 |
| Other | 88 | 376 | 827 | 575 | 410 | 3,417 |
| Total | <u>¥2,144</u> | <u>¥3,669</u> | <u>¥1,721</u> | <u>¥4,834</u> | <u>¥9,767</u> | <u>\$81,392</u> |

15. OTHER EXPENSES

Other expenses for each of the five years in the period ended March 31, 2003 consisted of the following:

| | Millions of Yen | | | | | Thousands of |
|---|-----------------|----------------|----------------|----------------|-----------------------|-------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | U.S. Dollars |
| | | | | | | 2003 |
| Advertising | ¥1,303 | ¥ 2,418 | ¥ 2,979 | ¥ 2,751 | ¥ 2,278 | \$ 18,983 |
| Rent | 2,456 | 2,802 | 3,861 | 4,217 | 3,920 | 32,667 |
| Communication | 1,097 | 1,113 | 1,484 | 1,248 | 1,002 | 8,350 |
| Sundry taxes and dues | 588 | 675 | 888 | 910 | 835 | 6,958 |
| Depreciation and amortization | 416 | 497 | 1,070 | 1,241 | 1,127 | 9,392 |
| Commission expense | 731 | 1,408 | 2,407 | 2,123 | 2,309 | 19,242 |
| Amortization of expenses for securitizations of finance receivables | | | | 510 | | |
| Credit losses due to civil conciliation | | | | | 863 | 7,192 |
| Other | <u>2,203</u> | <u>3,481</u> | <u>3,241</u> | <u>3,785</u> | <u>3,940</u> | <u>32,834</u> |
| Total | <u>¥8,794</u> | <u>¥12,394</u> | <u>¥15,930</u> | <u>¥16,785</u> | <u>¥16,274</u> | <u>\$135,618</u> |

16. 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 15, for each of the five years in the period ended March 31, 2003 were as follows:

| | Millions of Yen | | | | | Thousands of U.S. Dollars |
|---|-----------------|------|--------|--------|---------------|---------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 |
| Total lease payments under finance leases | ¥684 | ¥757 | ¥1,136 | ¥1,290 | ¥1,299 | \$10,825 |

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, 2002 and 2003 was as follows:

| | Millions of Yen | | | | | | Thousands of U.S. Dollars | | |
|--------------------------|------------------------|-------------|---------------|------------------------|----------------------|-----------------------|---------------------------|------------------------|------------------------|
| | 2002 | | | 2003 | | | 2003 | | |
| | Furniture and Fixtures | Software | Total | Furniture and Fixtures | Software | Total | Furniture and Fixtures | Software | Total |
| Acquisition cost | ¥6,434 | ¥467 | ¥6,901 | ¥6,273 | ¥4,162 | ¥10,435 | \$52,275 | \$34,683 | \$86,958 |
| Accumulated depreciation | (3,499) | (158) | (3,657) | (3,284) | (271) | (3,555) | (27,367) | (2,258) | (29,625) |
| Net leased property | <u>¥2,935</u> | <u>¥309</u> | <u>¥3,244</u> | <u>¥2,989</u> | <u>¥3,891</u> | <u>¥ 6,880</u> | <u>\$24,908</u> | <u>\$32,425</u> | <u>\$57,333</u> |

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|------|---------------------------|
| | 2002 | 2003 | 2003 |
| Obligations under finance leases: | | | |
| Due within one year | | | ¥1,154 |
| Due after one year | | | 2,171 |
| Total | | | <u>¥3,325</u> |
| | | | <u>¥2,055</u> |
| | | | <u>\$17,125</u> |
| | | | <u>5,216</u> |
| | | | <u>43,467</u> |
| | | | <u>¥7,271</u> |
| | | | <u>\$60,592</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, 2003, 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 |
|----------------------|-----------------|------|--------|--------|---------------|---------------------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 |
| Depreciation expense | ¥630 | ¥699 | ¥1,049 | ¥1,184 | ¥1,294 | \$10,783 |
| Interest expense | 69 | 79 | 106 | 106 | 92 | 767 |

17. CONTINGENT LIABILITIES

As of March 31, 2003, the Company is contingently liable for the guarantee of loans of its subsidiary and its customers amounting to ¥540 million (\$4,500 thousand).

18. NET INCOME PER SHARE

A reconciliation of the differences between basic and diluted net income per share ("EPS") for the year ended March 31, 2003 is as follows:

| | Yen in Millions | Thousands of Shares | Yen | Dollars |
|---|-----------------|-------------------------|---------------|---------------|
| | Net Income | Weighted Average Shares | EPS | EPS |
| For the year ended March 31, 2003 | | | | |
| Basic EPS | | | | |
| Net income available to common shareholders | <u>¥1,613</u> | <u>45,270</u> | <u>¥35.63</u> | <u>\$0.30</u> |
| Effect of dilutive securities | | | | |
| Convertible bonds | <u>383</u> | <u>19,671</u> | | |
| Diluted EPS | | | | |
| Net income for computation | <u>¥1,996</u> | <u>64,941</u> | <u>¥30.73</u> | <u>\$0.26</u> |

The weighted average share used for the computation of basic EPS for each of the four years ended March 31, 2002 was 45,360 thousand shares.

19. SUBSEQUENT EVENTS

a. Appropriations of Retained Earnings

On June 27, 2003, the shareholders authorized the payments of (1) cash dividends to shareholders of record at March 31, 2003 of ¥12.5 (\$0.10) per share or a total of ¥563 million (\$4,692 thousand), and (2) bonuses to directors of ¥13 million (\$108 thousand).

b. Authorization of Repurchases of Treasury Stock

On June 27, 2003, the shareholders also authorized the Company's Board of Directors to repurchase up to 1,000 thousand shares or up to ¥500 million (\$4,167 thousand) of the Company's stock on the open market until the next general shareholders' meeting.

INDEPENDENT AUDITORS' REPORT

**Deloitte
Touche
Tohmatsu**

Tohmatsu & Co.

Osaka Kokusai Building
3-13, Azuchimachi 2-chome,
Chuo-ku, Osaka 541-0052, Japan

Telephone: (06)6261-1381

Facsimile: (06)6261-1238

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

We have audited the accompanying non-consolidated balance sheets of Shinki Co., Ltd. as of March 31, 2002 and 2003, and the related non-consolidated statements of income and shareholders' equity for each of the five years in the period ended March 31, 2003, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

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

In our opinion, the non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shinki Co., Ltd. as of March 31, 2002 and 2003, and the results of its operations for each of the five years in the period ended March 31, 2003, in conformity with accounting principles and practices generally accepted in Japan.

As discussed 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.

As discussed in Note 3 to the financial statements, the Company changed its method of accounting for bond issue costs as of April 1, 2000.

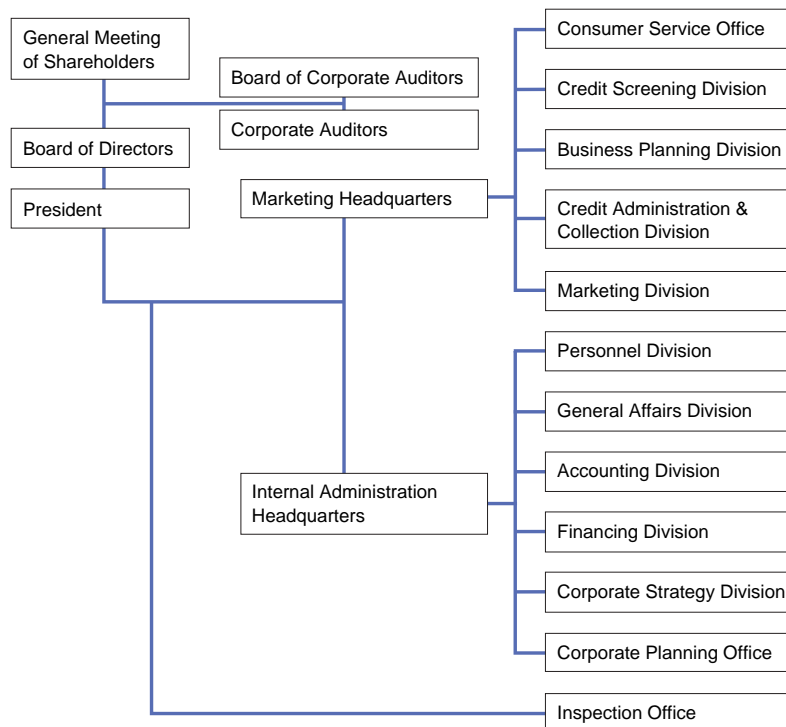
Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 27, 2003

ORGANIZATION CHART

(As of June 27, 2003)



A BRIEF HISTORY OF SHINKI

1950

DECEMBER 1954
Company Founded

Company founded as Shinki Shoji in Hyogo Prefecture, the Western Japan, 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 Himeji city, Hyogo Prefecture.

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.

Auto-Scoring System Introduced

Auto-scoring system introduced for the consumer finance division.

APRIL 1996
Automated Loan-Contract Machines Introduced

Automated loan-contract machines installed at eight 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, Tokyo.

JULY 1997
Head Office Moved

Head office moved to Shinjuku, Tokyo.

OCTOBER 1997
Auto-Scoring System Widened

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 Saitama city.

FEBRUARY 1999
Company's Shares 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

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

2000

SEPTEMBER 2000
Company's Shares Listed on the First Section of the Tokyo Stock Exchange

JUNE 2001
NoLoan Business Launched

Began sale of *NoLoan Business*, industry's first revolving card products for small businesses.

MARCH 2002
Business Tie-Up Reached with Shinsei Bank, Ltd.

CORPORATE DIRECTORY

(As of March 31, 2003)

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: 953

Board of Directors and Corporate Auditors

(As of June 27, 2003)

President

Naofumi Maeda

Managing Directors

Sakao Ono

Yoshio Yoshino

Directors

Yasuo Takahara

Yasuhiro Aoki

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: 10,059

Shares Outstanding: 45,030,000

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

| | | |
|--|-------|---------|
| Naofumi Maeda President | 1,108 | (24.6%) |
| Think Data Co., Ltd. Property Insurance Company owned by Maeda Family | 730 | (16.2%) |
| Himejijikai Foundation Charitable Fund (Chairman: Naoyoshi Maeda) | 570 | (12.7%) |
| Shinsei Bank, Ltd. | 223 | (4.9%) |
| Setsu Maeda | 216 | (4.8%) |
| JP Morgan Trust Bank Ltd. | 106 | (2.4%) |
| Success Corporation | 100 | (2.2%) |
| The Master Trust Bank of Japan, Ltd. | 100 | (2.2%) |
| Naoyoshi Maeda | 72 | (1.6%) |
| Ryuko Sakamoto | 60 | (1.3%) |

Stock Traded:

First Section of the Tokyo Stock Exchange, Inc.

Transfer Agent:

Mizuho Trust & Banking Co., Ltd.

1-17-7 Saga, Koto-ku, Tokyo 135-8722, Japan

Tel. (03) 3642-4004

Share Price (during the term):

High: ¥781

Low: ¥304

Changes in Issued Share Capital:

| Date | Type of Issue |
|-----------|--|
| Oct. 1995 | Share issuance through public offering (850,000 shares; issue price: ¥2,680) Share issuance through private placement (550,000 shares; issue price: ¥3,180) |
| May 1996 | 3-for-2 stock split |
| Aug. 1996 | Share issuance through public offering (1,200,000 shares; issue price: ¥3,339) |
| May 1997 | 6-for-5 stock split |
| Nov. 1999 | 2-for-1 stock split |
| Mar. 2003 | Retirement of shares in treasury (330,000 shares; total cost: ¥133,650,000) |

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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