

# Financial Section

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## Six-Year Summary (Consolidated Basis)

Promise Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31

	Millions of Yen					
	2001	2000	1999	1998	1997	1996
<b>Results of Operations:</b>						
Interest on consumer loans .....	¥ 327,821	¥ 271,743	¥ 244,570	¥ 224,079	¥ 201,026	¥180,505
Other operating income .....	19,199	15,202	11,513	9,961	9,149	8,108
Total operating income .....	359,641	300,724	271,054	253,086	225,009	201,736
Financial expenses .....	26,714	23,932	23,108	23,752	25,201	25,244
General and administrative expenses .....	138,407	118,073	106,914	95,204	85,570	77,539
Credit losses including provision for uncollectible loans .....	55,990	40,483	40,764	28,751	22,379	18,506
Total operating expenses .....	232,223	194,697	183,700	164,692	146,186	131,814
Operating profit .....	127,418	106,027	87,354	88,394	78,823	69,922
Income before income taxes .....	107,392	103,201	84,561	83,852	75,152	68,439
Net income .....	64,845	58,572	40,632	38,941	35,124	31,413
<b>Financial Position:</b>						
Consumer loans receivable: Principal .....	¥1,418,656	¥1,159,253	¥1,025,452	¥ 913,564	¥ 821,857	¥714,417
Allowance for credit losses .....	61,349	44,411	39,112	30,244	25,016	21,808
Total current assets .....	1,565,165	1,354,961	1,234,842	1,095,008	954,833	849,683
Total investments and advances .....	54,644	48,288	38,897	32,663	34,324	37,425
Property and equipment, net .....	44,354	59,907	61,042	60,131	59,004	52,873
Fixed leasehold deposits .....	15,231	13,166	13,509	13,247	11,712	11,238
Total assets .....	1,679,394	1,477,849	1,350,496	1,201,075	1,059,873	951,413
Short-term borrowings and current portion of long-term debt .....	305,114	287,781	316,953	294,515	252,041	241,953
Total current liabilities .....	354,540	339,370	365,035	341,826	300,834	283,748
Long-term debt .....	789,160	682,817	599,635	568,666	500,550	439,834
Total long-term liabilities .....	807,350	700,388	616,849	586,195	519,403	458,545
Total shareholders' equity .....	517,504	438,091	364,315	268,868	235,300	206,288
<b>Other Financial Data and Indicators:</b>						
Depreciation and amortization .....	9,266	9,547	8,523	7,779	6,183	4,881
Ratio of non-consolidated to consolidated operating income (Times) .....	1.22	1.13	1.13	1.14	1.13	1.12
Ratio of non-consolidated to consolidated net income (Times) .....	1.02	1.02	1.01	1.00	1.01	1.02
Return on equity (ROE) (%) .....	13.57	14.59	12.83	15.44	15.90	16.26
Return on assets (ROA) (%) .....	4.10	4.14	3.18	3.44	3.49	3.49
<b>Amount per Share (Yen):</b>						
Net income, basic .....	¥ 525.02	¥ 486.92	¥ 346.59	¥ 359.31	¥ 324.08	¥ 289.85
Cash dividends .....	90.00	80.00	65.00	63.00	60.00	55.00
Payout ratio (%) .....	17.20	16.91	19.35	16.92	17.04	17.61

1. Prior to fiscal 1998, consolidated adjustment account amortization was accounted for as an adjustment to income before income taxes. However, subsequent to a revision of the regulations governing consolidated financial statements, from fiscal 1998 this amount has been included under other income (expenses). The relevant amounts for fiscal 1997 and 1996 were ¥141 million and ¥142 million, respectively. However, there has been no restatement of figures for these fiscal years.

2. Prior to fiscal 1998, the consolidated adjustment account was included as a separate item under long-term liabilities. However, subsequent to a revision of the regulations governing consolidated financial statements, from fiscal 1998 the relevant amount has been included in the figure for long-term liabilities. The relevant amounts for fiscal 1997 and 1996 were ¥97 million and ¥239 million, respectively. However, there has been no restatement of figures for these fiscal years.

3. Depreciation and amortization on the consolidated statements of cash flows excludes new common stock issue expense and amortization expenses.

4. Net income per share has been restated to conform with International Accounting Standards' Accounting Principles Board Opinion No. 15 (APB-15), "Earnings per Share."

5. Amounts for fiscal 2000 have been reclassified to conform with the presentation for fiscal 2001.

## Six-Year Summary (Non-Consolidated Basis)

Promise Co., Ltd.  
Years ended March 31

	Millions of Yen					
	2001	2000	1999	1998	1997	1996
<b>Results of Operations:</b>						
Interest on consumer loans .....	¥ 282,664	¥ 256,414	¥ 230,583	¥ 212,314	¥191,401	¥171,809
Other operating income .....	10,110	8,585	7,740	8,016	7,496	7,429
Total operating income .....	292,774	264,999	238,323	220,330	198,897	179,238
Financial expenses .....	22,069	21,298	20,882	22,064	23,673	23,869
General and administrative expenses .....	110,700	106,496	96,853	86,529	78,005	70,972
Provision for uncollectible loans .....	43,827	34,866	35,874	25,597	20,305	17,042
Total operating expenses .....	176,596	162,660	153,609	134,190	121,983	111,883
Operating profit .....	116,178	102,339	84,714	86,140	76,914	67,355
Income before income taxes .....	101,853	100,303	82,971	82,423	73,876	66,620
Net income .....	63,521	57,238	40,175	38,668	34,690	30,770
<b>Financial Position:</b>						
Consumer loans receivable: Principal .....	¥1,228,026	¥1,100,546	¥ 976,614	¥ 866,634	¥784,201	¥682,066
Allowance for credit losses .....	46,500	39,110	35,170	27,790	23,750	20,850
Total current assets .....	1,381,819	1,228,030	1,132,240	1,005,394	883,571	791,195
Total investments and advances .....	77,582	54,522	42,269	35,895	37,455	41,213
Property and equipment, net .....	31,886	58,220	59,496	58,323	57,877	51,888
Fixed leasehold deposits .....	12,632	12,344	12,491	12,273	10,767	10,420
Total assets .....	1,503,919	1,354,079	1,248,422	1,111,885	989,670	894,716
Short-term borrowings and current portion of long-term debt .....	245,107	231,414	267,924	258,198	226,975	223,909
Total current liabilities .....	279,881	269,247	305,872	295,195	260,411	255,617
Long-term debt .....	707,247	638,262	566,124	534,275	479,137	417,821
Total long-term liabilities .....	722,706	654,575	583,236	551,674	497,900	436,387
Total shareholders' equity .....	501,332	430,257	359,314	265,016	231,359	202,712
<b>Other Financial Data:</b>						
Credit losses written off .....	36,437	29,815	27,644	21,556	17,405	17,161
Return on equity (ROE) (%) .....	13.63	14.50	12.87	15.58	15.98	16.21
Return on assets (ROA) (%) .....	4.44	4.40	3.40	3.68	3.68	3.65
<b>Amount per Share (Yen):</b>						
Net income, basic .....	¥ 513.24	¥ 475.84	¥ 342.69	¥ 356.78	¥ 320.08	¥ 283.90
Shareholders' equity .....	4,019.80	3,538.37	3,003.91	2,439.95	2,348.15	2,057.40

1. Net income per share has been restated to conform with International Accounting Standards' Accounting Principles Board Opinion No. 15 (APB-15), "Earnings per Share."

2. Amounts for fiscal 2000 have been reclassified to conform with the presentation for fiscal 2001.

## Consolidated Balance Sheets

Promise Co., Ltd. and Consolidated Subsidiaries  
March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2000	2001
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 103,968	¥ 131,329	\$ 839,129
Time deposits (Note 11) .....	9,572	11,863	77,254
Receivables and consumer loans:			
Notes and accounts receivable (Notes 4 and 11) .....	52,293	58,289	422,059
Consumer loans receivable (Notes 5 and 11):			
Principal .....	1,418,656	1,159,253	11,450,009
Accrued interest income .....	13,259	10,769	107,006
Less: allowance for credit losses (Note 6) .....	(61,138)	(44,411)	(493,444)
	1,423,070	1,183,900	11,485,630
Prepaid expenses .....	3,221	2,915	25,995
Deferred tax assets (Notes 2 (11) and 19) .....	16,789	14,284	135,507
Other current assets .....	8,545	10,670	68,969
<b>Total current assets</b> .....	<b>1,565,165</b>	<b>1,354,961</b>	<b>12,632,484</b>
<b>Investments and advances:</b>			
Investments in securities (Notes 7 and 11) .....	18,661	15,141	150,615
Investments in and advances to unconsolidated subsidiaries and affiliates .....	6,059	5,336	48,899
Investments in equity other than capital stock .....	3,419	3,995	27,591
Long-term prepaid expenses .....	1,614	2,030	13,024
Excess investment cost over net assets of consolidated subsidiaries and affiliates .....	6,158	—	49,703
Deferred tax assets (Notes 2 (11) and 19) .....	1,563	3,192	12,614
Other investments and advances .....	17,381	18,594	140,287
Less: allowance for credit losses (Note 6) .....	(211)	—	(1,702)
<b>Total investments and advances</b> .....	<b>54,644</b>	<b>48,288</b>	<b>441,031</b>
<b>Property and equipment, net</b> (Notes 9 and 11) .....	<b>44,354</b>	<b>59,907</b>	<b>357,980</b>
<b>Fixed leasehold deposits</b> (Note 10) .....	<b>15,231</b>	<b>13,166</b>	<b>122,939</b>
<b>Deferred charge</b> .....	<b>—</b>	<b>963</b>	<b>—</b>
<b>Adjustments on foreign currency statement translation</b> .....	<b>—</b>	<b>564</b>	<b>—</b>
<b>Total assets</b> .....	<b>¥1,679,394</b>	<b>¥1,477,849</b>	<b>\$13,554,434</b>

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2000	2001
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings (Note 11).....	¥ 32,609	¥ 29,846	\$ 263,191
Current portion of long-term debt (Note 11) .....	272,505	257,935	2,199,398
Accounts payable:			
Trade.....	1,145	809	9,245
Other .....	9,456	8,848	76,317
	10,601	9,657	85,562
Accrued income taxes (Note 19) .....	20,496	24,327	165,421
Accrued expenses.....	8,423	6,901	67,984
Other current liabilities .....	9,906	10,704	79,945
<b>Total current liabilities</b> .....	<b>354,540</b>	<b>339,370</b>	<b>2,861,501</b>
<b>Long-term liabilities:</b>			
Long-term debt (Note 11).....	789,160	682,817	6,369,332
Non-current accounts payable .....	3,576	5,056	28,864
Accrued severance indemnities (Notes 2 (12) and 12) .....	12,951	9,631	104,526
Excess investment cost over net assets of consolidated subsidiaries acquired .....	—	1,092	—
Other long-term liabilities .....	1,663	1,792	13,423
<b>Total long-term liabilities</b> .....	<b>807,350</b>	<b>700,388</b>	<b>6,516,145</b>
<b>Contingent liabilities</b> (Note 14)			
<b>Shareholders' equity</b> (Note 15):			
Common stock, ¥50 par value:			
Authorized—300,000,000 shares			
Issued—124,715,592 shares at March 31, 2001;.....	49,054	—	395,914
121,597,202 shares at March 31, 2000 .....	—	48,898	—
Additional paid-in capital.....	82,484	58,692	665,730
Retained earnings.....	384,668	330,502	3,104,661
Net unrealized gains on securities .....	4,518	—	36,466
Adjustments on foreign currency statement translation.....	(299)	—	(2,411)
Less: treasury stock .....	(2,921)	(1)	(23,572)
<b>Total shareholders' equity</b> .....	<b>517,504</b>	<b>438,091</b>	<b>4,176,788</b>
<b>Total liabilities and shareholders' equity</b> .....	<b>¥1,679,394</b>	<b>¥1,477,849</b>	<b>\$13,554,434</b>

## Consolidated Statements of Income

Promise Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2000	2001
<b>Operating income:</b>			
Interest on consumer loans .....	¥327,821	¥271,743	\$2,645,850
Sales .....	12,621	13,779	101,861
Other operating income (Note 16) .....	19,199	15,202	154,964
<b>Total operating income</b> .....	<b>359,641</b>	<b>300,724</b>	<b>2,902,675</b>
<b>Operating expenses:</b>			
Financial expenses (Note 17) .....	26,714	23,932	215,607
Cost of sales .....	11,112	12,209	89,687
General and administrative expenses (Note 18) .....	138,407	118,073	1,117,088
Credit losses including provision for uncollectible loans (Note 6) .....	55,990	40,483	451,899
<b>Total operating expenses</b> .....	<b>232,223</b>	<b>194,697</b>	<b>1,874,281</b>
<b>Operating profit</b> .....	<b>127,418</b>	<b>106,027</b>	<b>1,028,394</b>
<b>Other income (expenses):</b>			
Interest and dividend income on investments .....	335	368	2,703
Amortization of deferred charge .....	(963)	(963)	(7,773)
Interest expense .....	(498)	(554)	(4,020)
Equity in earnings of Tokumei Kumiai .....	1,862	993	15,026
Net gain on sales of investments in securities .....	1,956	534	15,788
Net loss on sales or disposal of property and equipment .....	(18,242)	(2,175)	(147,232)
Gain on liquidation of Tokumei Kumiai .....	—	2,094	—
Past service cost of retirement benefits (Notes 2 (12) and 12) .....	(709)	(2,163)	(5,721)
Equity in net losses of affiliated companies .....	(3,154)	—	(25,457)
Gain on liquidation of unconsolidated subsidiaries .....	639	—	5,158
Impairment loss on deposits for golf club membership .....	(1,110)	—	(8,966)
Other, net .....	(142)	(960)	(1,133)
<b>Total other expenses, net</b> .....	<b>(20,026)</b>	<b>(2,826)</b>	<b>(161,627)</b>
<b>Income before income taxes</b> .....	<b>107,392</b>	<b>103,201</b>	<b>866,767</b>
<b>Income taxes</b> (Notes 2 (11) and 19):			
Current .....	42,888	46,965	346,147
Deferred .....	(341)	(2,739)	(2,748)
<b>Minority interest</b> .....	<b>—</b>	<b>403</b>	<b>—</b>
<b>Net income</b> .....	<b>¥ 64,845</b>	<b>¥ 58,572</b>	<b>\$ 523,368</b>

	Yen		U.S. Dollars (Note 3)
<b>Amount per share:</b>			
Net income:			
Basic .....	¥525.02	¥486.92	\$4.21
Cash dividends .....	90.00	80.00	0.73
<b>Weighted average number of shares</b> (Thousands):			
Basic .....	123,510	120,289	

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Shareholders' Equity

Promise Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2001 and 2000

	Millions of Yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on securities	Adjustments on foreign currency statement translation	Treasury stock
<b>Balance at March 31, 1999</b> .....	119,615,061	¥44,446	¥54,240	¥265,630	¥ —	¥ —	¥ (1)
Net income.....	—	—	—	58,572	—	—	—
Cash dividends paid.....	—	—	—	(8,705)	—	—	—
Bonuses to directors and statutory auditors .....	—	—	—	(187)	—	—	—
Increase due to inclusion of a company in consolidation.....	—	—	—	1,023	—	—	—
Conversion of convertible bonds.....	1,982,141	4,452	4,452	—	—	—	—
Increase due to adoption of deferred tax accounting.....	—	—	—	14,169	—	—	—
Increase in treasury stock.....	—	—	—	—	—	—	(0)
<b>Balance at March 31, 2000</b> .....	121,597,202	¥48,898	¥58,692	¥330,502	¥ —	¥ —	¥ (1)
Net income.....	—	—	—	64,845	—	—	—
Cash dividends paid.....	—	—	—	(10,421)	—	—	—
Bonuses to directors and statutory auditors .....	—	—	—	(258)	—	—	—
Issuance of new shares through stock exchange.....	3,118,390	156	13,544	—	—	—	—
Increase due to valuation of securities, net of tax....	—	—	—	—	4,518	—	—
Stock exchange adjustments.....	—	—	10,248	—	—	—	—
Adjustments on foreign currency statement translation.....	—	—	—	—	—	(299)	—
Increase in treasury stock.....	—	—	—	—	—	—	(2,920)
<b>Balance at March 31, 2001</b> .....	124,715,592	¥49,054	¥82,484	¥384,668	¥4,518	¥(299)	¥(2,921)

	Thousands of U.S. Dollars (Note 3)						
	Number of shares of common stock	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on securities	Adjustments on foreign currency statement translation	Treasury stock
<b>Balance at March 31, 2000</b> .....	121,597,202	\$394,656	\$473,704	\$2,667,491	\$ —	\$ —	\$ (9)
Net income.....	—	—	—	523,368	—	—	—
Cash dividends paid.....	—	—	—	(84,114)	—	—	—
Bonuses to directors and statutory auditors .....	—	—	—	(2,084)	—	—	—
Issuance of new shares through stock exchange.....	3,118,390	1,258	109,315	—	—	—	—
Increase due to valuation of securities, net of tax....	—	—	—	—	36,466	—	—
Stock exchange adjustments.....	—	—	82,711	—	—	—	—
Adjustments on foreign currency statement translation.....	—	—	—	—	—	(2,411)	—
Increase in treasury stock.....	—	—	—	—	—	—	(23,563)
<b>Balance at March 31, 2001</b> .....	124,715,592	\$395,914	\$665,730	\$3,104,661	\$36,466	\$(2,411)	\$(23,572)

The accompanying notes are an integral part of these statements.

## Consolidated Statements of Cash Flows

Promise Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	2001	2000	2001
<b>Operating activities:</b>			
Income before income taxes .....	¥107,392	¥103,201	\$ 866,767
Adjustments for:			
Depreciation and amortization .....	9,266	9,547	74,787
Provision for credit losses on receivable and consumer loans .....	7,200	4,558	58,113
Provision for accrued severance indemnities .....	2,959	2,213	23,883
Equity in earnings of Tokumei Kumiai .....	(1,862)	(734)	(15,026)
Gain on liquidation of Tokumei Kumiai .....	—	(1,056)	—
Net gain on sales of investments in securities .....	(1,956)	(534)	(15,788)
Net loss on sales or disposal of property and equipment .....	18,242	2,175	147,232
Equity in net losses of affiliated companies .....	3,154	—	25,457
Gain on liquidation of unconsolidated subsidiaries .....	(639)	—	(5,158)
Impairment loss on deposits for golf club membership .....	1,110	—	8,966
Increase in consumer loans receivable: Principal .....	(136,769)	(133,967)	(1,103,868)
Decrease (increase) in notes and accounts receivable .....	4,699	(13,597)	37,929
Increase in accounts payable .....	249	3,191	2,012
Income taxes paid .....	(47,666)	(48,020)	(384,712)
Other, net .....	3,059	6,393	24,667
<b>Net cash used in operating activities .....</b>	<b>(31,562)</b>	<b>(66,630)</b>	<b>(254,739)</b>
<b>Investing activities:</b>			
Purchases of property and equipment .....	(6,902)	(10,462)	(55,710)
Proceeds from sales of property and equipment .....	307	65	2,474
Payment for purchase of investments in securities .....	(6,349)	(6,289)	(51,245)
Proceeds from sales of investments in securities .....	8,382	2,428	67,649
Acquisition of shares of subsidiaries with the change of scope of consolidation .....	(3,798)	—	(30,650)
Proceeds from issuance of new shares through stock exchange, net of cash acquired .....	6,195	—	49,998
Increase in loans .....	(6,314)	(8,969)	(50,961)
Decrease (increase) in other investments .....	(1,256)	2,975	(10,124)
<b>Net cash used in investing activities .....</b>	<b>(9,735)</b>	<b>(20,252)</b>	<b>(78,569)</b>
<b>Financing activities:</b>			
Proceeds from long-term debt .....	323,708	222,924	2,612,652
Repayments of long-term debt .....	(360,086)	(266,275)	(2,906,261)
Proceeds from issuance of common bonds, net of expenses .....	71,547	124,257	577,461
Redemption of uncollateralized convertible yen bonds .....	—	(27)	—
Decrease in short-term borrowings .....	(6,748)	(16,995)	(54,464)
Increase in treasury stock .....	(2,920)	(1)	(23,564)
Cash dividends paid .....	(10,421)	(8,756)	(84,114)
<b>Net cash provided by financing activities .....</b>	<b>15,080</b>	<b>55,127</b>	<b>121,710</b>
<b>Effect of exchange rate changes on cash and cash equivalents .....</b>	<b>54</b>	<b>(74)</b>	<b>438</b>
<b>Net decrease in cash and cash equivalents .....</b>	<b>(26,163)</b>	<b>(31,829)</b>	<b>(211,160)</b>
<b>Cash and cash equivalents at beginning of the year .....</b>	<b>131,329</b>	<b>161,961</b>	<b>1,059,963</b>
<b>Effect of the increase in scope of consolidated subsidiaries .....</b>	<b>—</b>	<b>1,197</b>	<b>—</b>
<b>Effect of the decrease in scope of consolidated subsidiaries .....</b>	<b>(1,198)</b>	<b>—</b>	<b>(9,674)</b>
<b>Cash and cash equivalents at end of the year .....</b>	<b>¥103,968</b>	<b>¥131,329</b>	<b>\$ 839,129</b>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for:			
Interest .....	¥ 24,608	¥ 22,673	\$ 198,612
<b>Major non-cash financing activities:</b>			
Conversion of convertible yen bonds .....	—	8,903	—
Increase in common stock through stock exchange .....	156	—	1,258
Increase in additional paid-in capital through stock exchange .....	23,792	—	192,026

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

Promise Co., Ltd. and Consolidated Subsidiaries

## 1. BASIS OF PRESENTING THE CONSOLIDATED FINANCIAL STATEMENTS

The accounting records of Promise Co., Ltd. (the "Company") and its domestic consolidated subsidiaries are maintained in accordance with the provisions set forth in the Commercial Code of Japan (the "Commercial Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

The accounts of overseas subsidiaries consolidated with the Company are based on the financial statements prepared in conformity with generally accepted accounting principles (the "GAAP") and practices prevailing in the countries where the subsidiaries have been incorporated. Financial statements have not been materially affected by the differences between the GAAP

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (1) Scope and Significant Accounting Policies

The Company had 14 subsidiaries and 3 affiliates as of March 31, 2001 and 13 subsidiaries and 4 affiliates as of March 31, 2000. The accompanying consolidated financial statements include the accounts of the Company and 9 (7 for each of the previous years) of its subsidiaries (together, the "Companies"), which are listed below:

Name	Country of incorporation	Fiscal year-end
GC Co., Ltd.	Japan	March 31
Shinkou Co., Ltd.* <sup>1</sup>	Japan	March 31
Rich Co., Ltd.* <sup>1</sup>	Japan	March 31
Towa Co., Ltd.* <sup>2</sup>	Japan	March 31
Net Future Co., Ltd.	Japan	March 31
PAL Corporation Ltd.* <sup>3</sup>	Japan	March 31
Liang Jing Co., Ltd.	Taiwan	December 31
Yuukei Co., Ltd.	Taiwan	December 31
PROMISE (HONG KONG) CO., LTD.	Hong Kong	December 31

Notes: \*1. Included in consolidation effective from the year ended March 31, 2001

\*2. Accounted for under the equity method effective from this financial period and consolidated on the balance sheet at March 31, 2001 because the Company additionally acquired Towa Co., Ltd.'s shares in January 2001 after its initial acquisition of a 25.69% share in April 2000.

\*3. PAL Research Center Co., Ltd., which was liquidated for the year ended March 31, 2001, had been consolidated until March 31, 2000.

The remaining 5 unconsolidated subsidiaries at March 31, 2001 were not consolidated because their aggregate sales, total assets, total net income and total retained earnings available for the Company were not material to the consolidated results of operations, total assets, total net income and total retained earnings, respectively.

Any material difference between the cost of investment in a subsidiary and the equity in its net assets at the date of acquisition for the years ended March 31, 2001 and 2000 are amortized over 10 years.

For the purpose of preparing the accompanying consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated. The amounts of certain subsidiaries have been included on the basis of fiscal periods ended three months prior to March 31.

prevailing in these countries and Japanese GAAP. Therefore, no adjustments have been reflected in the accompanying consolidated financial statements to present the accounts of the subsidiaries in compliance with Japanese accounting principles and practices.

Certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been summarized or reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

### (2) Application of the Equity Method

Investments in which the Company has significant influence or ownership of more than 20% but less than or equal to 50% are accounted for under the equity method. An affiliate accounted for under the equity method is listed below:

Name	Country of incorporation	Equity ownership percentage at March 31, 2001	Fiscal year-end
MOBIT Co., Ltd.*	Japan	40.00%	March 31

\*Accounted for under the equity method effective from the year ended March 31, 2001

Under the equity method, investments are stated at cost plus/minus the Company's equity in undistributed earnings (losses).

Any material difference between the cost of investment in an affiliated company and the equity in its net assets at the date of acquisition is amortized over 10 years.

Investments in 5 unconsolidated subsidiaries and the remaining 2 affiliates as of March 31, 2001 and 6 unconsolidated subsidiaries and 4 affiliates as of March 31, 2000 are carried at cost and are not adjusted for equity in earnings (losses) of such subsidiaries and affiliates for each period because the effect of applying the equity method is not material.

### (3) Translation of Foreign Currency Financial Statements

The accounts of the overseas consolidated subsidiaries are translated into Japanese yen by the methods prescribed under the statements issued by the Business Accounting Deliberation Council of Japan. Under this method, balance sheet accounts are translated at current rates. However, shareholders' equity is translated at the historical rate.

Effective April 1, 2000, the Company and its domestic subsidiaries have adopted the Financial Accounting Standards on "Accounting for Foreign Currency Transactions" issued by the Business Accounting Deliberation Council and changed to record "Adjustments on foreign currency statement translation" in shareholders' equity as of March 31, 2001.

Revenues and expenses are translated at the average rate for the respective periods.

#### **(4) Recognition of Revenues**

##### **(a) Interest income**

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

##### **(b) Installment sales**

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

#### **(5) Allowance for Credit Losses and Write-Offs**

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

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

The written-off balances of these consumer loans are managed by the special collection department. This department makes an effort to collect the previously written-off balances as long as these balances are legally collectible. When the previously written-off balances and the related interest are subsequently recovered and collected, the collected amounts are included in "Other operating income" in the accompanying statements of income in the year of recovery.

#### **(6) Valuation of Securities**

As of March 31, 2001, all equity securities and debt securities are classified as "Other securities" which represents securities other than trading or held-to-maturity securities.

Marketable "Other securities" are stated at market value. Adjustments to market value are recorded as an increase or decrease in shareholders' equity, net of tax. Under the Commercial Code, unrealized holdings gains on securities, net of tax are not available for distribution as dividends and bonuses to directors and statutory auditors. Costs of their sales are determined by the moving average method. "Other securities" which are not marketable are stated at cost, cost being determined by the moving average method.

As of March 31, 2000, securities listed on stock exchanges were valued at the lower of cost or market, cost being determined by the moving average method. Unlisted securities were valued at cost, which were determined by the moving average method.

However, if the market value of the securities substantially declined and the decline was deemed to be of permanent nature, an appropriate write-down was required.

Effective April 1, 2000, the Company and its domestic subsidiaries have adopted the Financial Accounting Standard on "Accounting for Financial Instruments" issued by the Business Accounting Deliberation Council. Following the new standard, the Companies' management determines the appropriate classification of securities and records trading securities in current assets and securities other

than those as investments in securities. Prior-year amounts of securities have been reclassified to conform with the current year's presentation on the accompanying consolidated balance sheets.

The new standard requires that, except for debt securities classified as held-to-maturity securities, which are stated at amortized cost, marketable securities be stated at market value and adjustments to market value of marketable securities classified as trading and "Other securities" be recorded as other income (expenses), net and an increase or decrease in shareholders' equity, respectively.

An impairment loss on deposits for golf club membership is also required to be recognized in accordance with the new standard.

The effect of the new standard adoption for the year ended March 31, 2001 was to decrease income before income taxes by ¥108 million (\$871 thousand).

#### **(7) Property and Equipment**

Property and equipment (other than new buildings acquired on or after April 1, 1998) are depreciated by the declining-balance method over the estimated useful lives of the assets. The range of useful lives is principally from 3 to 50 years for buildings and from 2 to 20 years for furniture, fixtures and equipment.

#### **(8) Amortization**

Amortization of computer software, which is included in "Other investments and advances" in the accompanying balance sheets, is principally computed on the straight-line method over 5 years, that being the estimated useful lives.

#### **(9) Foreign Currency Translation**

As of March 31, 2000, foreign currencies and short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the relevant exchange rates prevailing at the respective balance sheet dates, and long-term receivables and payables denominated in foreign currencies were translated at the historical rate prevailing at the transaction dates.

Effective April 1, 2000, the Company and its domestic subsidiaries have adopted the Financial Accounting Standard on "Accounting for Foreign Currency Transactions" and changed to translate long-term receivables and payables denominated in foreign currencies into Japanese yen at the relevant exchange rates prevailing at the respective balance sheet date as of March 31, 2001. The effect of this change for the year ended March 31, 2001 was immaterial.

The resulting transaction gains or losses are included in "Other operating income" ("Financial expenses") for the year.

#### **(10) Leases**

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

#### **(11) Income Taxes**

Effective April 1, 1999, the Company and its domestic subsidiaries introduced deferred tax accounting. According to this new accounting, deferred tax assets and liabilities are recognized for the future tax effects derived from temporary differences and tax loss carry-forwards with appropriate valuation reserve, if necessary. The cumulative effect of this accounting change was included in "Income taxes—Deferred" in the consolidated statements of income for the year ended March 31, 2000.

**(12) Accrued Severance Indemnities**

Accrued severance indemnities for employees are provided based on the amount of projected benefit obligation, reduced by pension plan assets at fair value, at the end of the year.

Until the year ended March 31, 1999, the Company and GC Co., Ltd. fully accrued severance indemnities that would be required if all eligible employees retired voluntarily at the balance sheet date, reduced by the estimated benefits provided by a non-contributory funded pension plan, and recognized pension contributions as expenses when accrued.

From the year ended March 31, 2000, the Company and GC Co., Ltd.'s accounting treatments of accrued severance indemnities and pension contribution were unified, and the amount of accrued severance indemnities were provided based on the amount of projected benefit obligation, reduced by pension plan assets at fair value, which was substantially the same accounting treatment as the method described under the Financial Accounting Standard on "Accounting for Retirement Benefits," effective for the fiscal year beginning after March 31, 2000.

This accounting change was made to provide a more appropriate allocation of cost of retirement benefits and further strengthen the financial position. Costs attributable to the year ended March 31, 2000 and the preceding fiscal period were recognized as general and administrative expenses and other expenses, which amounted to ¥2,013 million and ¥2,163 million, respectively. The effect of this change was to increase operating profit by ¥392 million and decrease income before income taxes by ¥1,767 million.

The other domestic subsidiaries have adopted the new accounting standard, effective April 1, 2000. The effect of the adoption for the year ended March 31, 2001 was immaterial.

Unrecognized past service cost and net actuarial loss arising in the year ended March 31, 2001 was charged to income for the current year.

The directors and statutory auditors of the Company and GC Co., Ltd. are covered by a retirement benefit plan under which the retiring directors or statutory auditors are entitled to receive lump-sum retirement benefits. The amount of such benefits is determined based on these companies' pertinent rules. The accrued severance indemnities for the directors and statutory auditors in the accompanying balance sheets represent the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet dates.

**(13) Deferred Charge**

Stock issue expenses are deferred and amortized by the straight-line method over three years, as permitted by the Commercial Code.

**(14) Bond Issue Expenses**

Bond issue expenses are charged to income as incurred.

**3. UNITED STATES DOLLAR AMOUNTS**

The Company prepares its consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥123.90 to US\$1, being the effective rate of exchange at

**(15) Appropriation of Retained Earnings**

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

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

**(16) Net Income and Dividends per Share**

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

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

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

**(17) Cash Equivalents**

Cash equivalents include all highly liquid investments, generally with an original maturity date of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present an insignificant risk of change in value due to interest rates.

**(18) Derivatives**

Following the Financial Accounting Standard on "Accounting for Financial Instruments," derivative financial instruments are recognized in the financial statements and measured at fair value, effective April 1, 2000. Gains and losses on designated hedged instruments are deferred on the balance sheet to the period when gains and losses on the positions hedged have been recognized to match gains and losses on the hedging instrument. Certain derivative instruments satisfying the condition prescribed under the new standard are not evaluated at fair value.

**(19) Reclassifications**

Certain prior-year amounts have been reclassified to conform to the current year's presentation.

March 31, 2001. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at the rate of ¥123.90 to US\$1 or at any other rate.

#### 4. NOTES AND ACCOUNTS RECEIVABLE

The financing from consumer loans receivable liquidated on or before March 31, 2000 was recognized as long-term liabilities secured. Those liquidated on and after April 1, 2000 have been accounted for as sales transactions in accordance with the Financial Accounting Standard on "Accounting for Financial Instruments,"

effective April 1, 2000. The effect of this change was to decrease "Notes and accounts receivable" as of March 31, 2001 and net income for the year then ended by ¥10,125 million (\$81,719 thousand) and nil, respectively.

#### 5. CONSUMER LOANS RECEIVABLE

(1) Unsecured loans to individual customers, which were included in "Consumer loans receivable," were ¥1,406,327 million (\$11,350,507 thousand) and ¥1,147,311 million as of March 31, 2001 and 2000, respectively.

(2) The amounts of loans which were disclosed in accordance with the enactment of the Nonbank Bond Issuing Law in May 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Credits of bankrupt borrowers .....	¥ 109	¥ 129	\$ 880
Delinquent loans .....	171	118	1,382
Delinquent loans past three months or more .....	7,924	5,517	63,954
Restructured loans .....	30,788	19,623	248,487
	¥38,992	¥25,387	\$314,703

Credits of bankrupt borrowers are loans under declaration of bankruptcy, reconstruction and similar proceedings and whose accruing interest is not recorded as income because the principal or interest on such loans is unlikely to be recovered in view of the considerable period of postponement of the principal or interest, or other circumstances.

Delinquent loans are credits whose accruing interest is not recorded as income for the same reason as above, and do not include credits of bankrupt borrowers and the loans to which postponement of interest payment was made with the object of reconstructing and supporting the borrowers.

Delinquent loans past three months or more are loans which are delinquent for three months or more from the due date of interest

or principal under the terms of the related loan agreements and do not include credits of bankrupt borrowers and delinquent loans, as described above.

Restructured loans are loans to which a certain concession to borrowers, such as postponement of interest payment and other methods, was made with the object of encouraging repayment, and do not include credits of bankrupt borrowers, delinquent loans and delinquent loans past three months or more, as described above.

Restructured loans which are thirty days or less overdue were ¥27,406 million (\$221,194 thousand) as of March 31, 2001.

#### 6. ALLOWANCE FOR CREDIT LOSSES

Transactions affecting the "allowance for credit losses" account for the years ended March 31, 2001 and 2000 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Balance at beginning .....	¥44,411	¥39,971	\$358,439
Adjustments for newly consolidated subsidiaries .....	9,623	—	77,671
Credit losses written off against the allowance .....	(48,553)	(35,590)	(391,875)
Provision for uncollectible loans .....	55,868	40,030	450,911
Balance at end .....	¥61,349	¥44,411	\$495,146

#### 7. INVESTMENTS IN SECURITIES

Investments in securities held by the Companies as of March 31, 2001 and 2000 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Investments in securities:			
Equity securities .....	¥18,042	¥12,832	\$145,619
Bonds and debentures .....	421	2,000	3,398
Other .....	198	309	1,598
	¥18,661	¥15,141	\$150,615

Book value and acquisition cost information on marketable "Other securities" as of March 31, 2001 are summarized as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Acquisition cost	Book value per balance sheet	Difference	Acquisition cost	Book value per balance sheet	Difference
Securities whose book values on the accompanying consolidated balance sheet exceed their acquisition costs:						
Equity securities .....	¥6,402	¥14,898	¥8,496	\$51,671	\$120,240	\$68,569
Bonds and debentures .....	400	421	21	3,232	3,398	166
	¥6,802	¥15,319	¥8,517	\$54,903	\$123,638	\$68,735
Securities whose book values on the accompanying consolidated balance sheet do not exceed their acquisition costs:						
Equity securities .....	¥2,522	¥ 1,564	¥ (958)	\$20,354	\$ 12,627	\$(7,727)
Other .....	260	198	(62)	2,095	1,598	(497)
	2,782	1,762	(1,020)	22,449	14,225	(8,224)
	¥9,584	¥17,081	¥7,497	\$77,352	\$137,863	\$60,511

"Other securities" sold during the year ended March 31, 2001 were as follows:

	Millions of Yen			Thousands of U.S. Dollars		
	Proceeds from sales	Gain on sales	Loss on sales	Proceeds from sales	Gain on sales	Loss on sales
	¥1,620	¥51	¥788	\$13,074	\$413	\$6,364

Book values of "Other securities" which were not marketable as of March 31, 2001 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Investments in securities:		
Equity securities .....	¥1,580	\$12,752

The market value information of these securities is not required under Japanese GAAP.

The aggregate annual maturities of debt securities included in "Other securities" outstanding as of March 31, 2001 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2002 .....	¥ —	\$ —
2003–2006 .....	199	1,602
2007–2011 .....	222	1,796
2011 and thereafter .....	—	—
	¥421	\$3,398

Book value and market value information on investments in securities held by the Companies as of March 31, 2000 are summarized as follows:

	Millions of Yen		
	Book value per balance sheet	Market value	Unrealized gain
Investments in securities:			
Equity securities .....	¥10,760	¥23,107	¥12,347
Other .....	309	328	19
	¥11,069	¥23,435	¥12,366

Book values of securities, which were excluded from the above disclosure of book value and market value information on investments in securities held by the Companies as of March 31, 2000, were as follows:

	Millions of Yen
Investments in securities:	
Equity securities .....	¥2,072
Government and corporate bonds .....	2,000

The market value information on these securities is not required under Japanese GAAP.

## 8. DERIVATIVES AND HEDGE ACTIVITIES

The Company and PROMISE (HONG KONG) CO., LTD. enter into interest rate swap agreements to convert variable interest rates on the principal amount of certain debts to fixed interest rates. In addition, the Company enters into interest rate cap agreements. These agreements are used to reduce the exposure to market risk from fluctuation in interest rates. The Companies do not hold or issue any financial instruments for trading purposes.

The hedging instruments are measured for effectiveness by correlation with respect to the difference between interest rate

indicators upon the instruments and positions hedged. The market risk associated with these instruments is managed under the Company's internal manual approved by the Board of Directors. The derivatives and hedging activities of the subsidiaries are subject to the Company's approval.

The fair values of the off-balance-sheet financial instruments, excluding those deferred on the balance sheet in accordance with the new accounting standard, as of March 31, 2001 were as follows:

	Millions of Yen			
	Notional amount		Fair value	Unrealized loss
	Total	Due after one year		
<b>Year ended March 31, 2001:</b>				
Interest rate swap:				
Changing floating rates into fixed rate .....	¥22,807	¥20,000	¥(407)	¥(407)
Interest rate cap:				
Purchased .....	10,000	8,000	5	(64)
	¥32,807	¥28,000	¥(402)	¥(471)
<b>Year ended March 31, 2000:</b>				
Interest rate swap:				
Changing floating rates into fixed rate .....	¥ 2,907	¥ 600	¥ (21)	¥ (21)
Interest rate cap:				
Purchased .....	140,000	140,000	904	(687)
	¥142,907	¥140,600	¥883	¥(708)

	Thousands of U.S. Dollars			
	Notional amount		Fair value	Unrealized loss
	Total	Due after one year		
<b>Year ended March 31, 2001:</b>				
Interest rate swap:				
Changing floating rates into fixed rate .....	\$184,072	\$161,421	\$(3,284)	\$(3,284)
Interest rate cap:				
Purchased .....	80,710	64,568	44	(515)
	\$264,782	\$225,989	\$(3,240)	\$(3,799)

## 9. PROPERTY AND EQUIPMENT

Property and equipment as of March 31, 2001 and 2000 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Buildings .....	¥25,081	¥25,749	\$202,432
Structures .....	5,113	4,309	41,268
Furniture, fixtures and equipment .....	39,036	34,873	315,057
Other .....	190	463	1,530
	69,420	65,394	560,287
Less: accumulated depreciation .....	(37,795)	(33,630)	(305,042)
	31,625	31,764	255,245
Land .....	12,729	28,143	102,735
	¥44,354	¥59,907	\$357,980

## 10. FIXED LEASEHOLD DEPOSITS

Fixed leasehold deposits as of March 31, 2001 and 2000 were mainly those paid to the lessors in connection with the leases of facilities for office space. Lessors in Japan require large amounts

of leasehold deposits equivalent to several months' lease rental payments. Such leasehold deposits do not bear interest and are generally returnable only when the lease is terminated.

## 11. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Information on the amount of short-term borrowings outstanding as of March 31, 2001 and 2000 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Short-term bank loans*:			
Secured.....	¥ 2,124	¥ 6,264	\$ 17,140
Entered into the forward contract of assigning consumer loans receivable.....	4,042	6,628	32,623
Unsecured.....	17,924	9,324	144,671
	24,090	22,216	194,434
Commercial paper and other:			
Secured.....	4,748	6,630	38,318
Unsecured.....	3,771	1,000	30,439
	8,519	7,630	68,757
	¥32,609	¥29,846	\$263,191
Notes*:			
Maximum month-end balance outstanding during the period .....	¥29,417	¥42,091	\$237,426
Average month-end balance outstanding during the period .....	26,486	33,678	213,768
Weighted average interest rate for the period .....	4.130%	3.301%	4.130%

Short-term bank loans outstanding as of March 31, 2001 and 2000 were represented mainly by overdrafts with banks bearing interest at annual rates ranging from 0.630% to 7.942% and from 1.370% to 8.556%, respectively.

The principal ranges of annual interest rates applicable to commercial paper and other at March 31, 2001 and 2000 were from 2.160% to 5.520% and from 0.900% to 5.100%, respectively.

Long-term debt outstanding as of March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Loans, principally from banks and other financial institutions with interest rates indicated below*:			
Secured .....	¥261,602	¥261,228	\$2,111,399
Entered into the forward contract of assigning consumer loans receivable .....	351,351	324,672	2,835,763
Unsecured .....	191,712	169,852	1,547,315
	804,665	755,752	6,494,477
Bonds issued by Promise Co., Ltd.			
2.100% per annum uncollateralized yen bonds, due 2002 .....	10,000	10,000	80,710
2.600% per annum uncollateralized yen bonds, due 2002 .....	10,000	10,000	80,710
2.000% per annum uncollateralized yen bonds, due 2002 .....	10,000	10,000	80,710
2.100% per annum uncollateralized yen bonds, due 2001 .....	10,000	10,000	80,710
2.100% per annum uncollateralized yen bonds, due 2001 .....	10,000	10,000	80,710
2.050% per annum uncollateralized yen bonds, due 2002 .....	10,000	10,000	80,710
2.030% per annum uncollateralized yen bonds, due 2004 .....	20,000	20,000	161,421
1.790% per annum uncollateralized yen bonds, due 2004 .....	10,000	10,000	80,710
1.400% per annum uncollateralized yen bonds, due 2003 .....	10,000	10,000	80,710
2.270% per annum uncollateralized yen bonds, due 2005 .....	10,000	10,000	80,710
2.510% per annum uncollateralized yen bonds, due 2006 .....	20,000	20,000	161,421
1.900% per annum uncollateralized yen bonds, due 2003 .....	20,000	20,000	161,421
2.950% per annum uncollateralized yen bonds, due 2009 .....	10,000	10,000	80,710
2.560% per annum uncollateralized yen bonds, due 2010 .....	15,000	15,000	121,066
Floating rate (six-month Japanese yen—LIBOR+0.5%) uncollateralized yen bonds, due 2005 .....	10,000	10,000	80,710
2.270% per annum uncollateralized yen bonds, due 2008 .....	10,000	—	80,710
2.900% per annum uncollateralized yen bonds, due 2012 .....	10,000	—	80,710
2.040% per annum uncollateralized yen bonds, due 2007 .....	20,000	—	161,421
2.080% per annum uncollateralized yen bonds, due 2005 .....	10,000	—	80,710
Floating rate (six-month Japanese yen—LIBOR+0.75%) uncollateralized yen bonds, due 2005 .....	10,000	—	80,710
1.750% per annum uncollateralized yen bonds, due 2005 .....	10,000	—	80,710
Bonds issued by GC Co., Ltd.			
1.600% per annum uncollateralized yen bonds, due 2003 .....	2,000	—	16,143
Less: portion due within one year .....	(272,505)	(257,935)	(2,199,398)
	¥789,160	¥682,817	\$6,369,332
Weighted average interest rate for the period .....	2.305%	2.534%	2.305%

Note\*: Annual interest rates on loans from banks and other financial institutions outstanding as of March 31, 2001 and 2000 ranged from 1.150% to 8.500% and from 1.070% to 9.500%, respectively.

The Companies' assets pledged as collateral for short-term bank loans, commercial paper and other and long-term loans with banks and other financial institutions as of March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Time deposits .....	¥ 712	¥ —	\$ 5,749
Notes and accounts receivable* .....	23,742	33,930	191,625
Consumer loans receivable* .....	277,841	254,479	2,242,463
Investments in securities .....	431	—	3,481
Property and equipment .....	9,065	—	73,165
Other .....	205	50	1,646
	<b>¥311,996</b>	<b>¥288,459</b>	<b>\$2,518,129</b>

Note\*: In addition to the above assets pledged, the Companies entered into the forward contract of assigning notes and accounts receivable and consumer loans receivable. The contract amounts were ¥370,542 million (\$2,990,655 thousand) and ¥345,645 million as of March 31, 2001 and 2000, respectively.

The aggregate annual maturities of long-term debt outstanding, excluding the above bonds, as of March 31, 2001 were as follows:

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2002 .....	¥242,505	\$1,957,267
2003 .....	198,582	1,602,762
2004 .....	217,873	1,758,458
2005 .....	101,137	816,280
2006 and thereafter .....	44,568	359,710
	<b>¥804,665</b>	<b>\$6,494,477</b>

## 12. SEVERANCE AND PENSION PLANS

Under the terms of the severance plans of the Company and its consolidated subsidiaries, employees of the Companies with more than two years of service are generally entitled to lump-sum payments at the time of retirement.

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

The Company and its domestic subsidiaries have non-contributory pension plans, which are defined benefit plans, covering a portion of their severance plans.

In addition, the Company has contributory funded benefit pension plans which are pursuant to the Japanese Welfare Pension Insurance Law and defined benefit plans. This plan covers a portion of the governmental welfare pension program, under which both employers and employees contribute.

The overseas subsidiaries sponsor defined contribution plans.

The following is a reconciliation of benefit obligation to net liability recognized in the accompanying consolidated balance sheet as of March 31, 2001.

	Millions of Yen	Thousands of U.S. Dollars
Benefit obligation .....	¥(27,288)	\$(220,240)
Fair value of plan assets .....	15,325	123,685
Funded status .....	(11,963)	(96,555)
Net liability recognized in balance sheet .....	(11,963)	(96,555)
Prepaid pension expense .....	7	57
Accrued severance indemnities for employees .....	¥(11,970)	\$(96,612)

Components of net periodic benefit cost for the year ended March 31, 2001 are summarized as follows:

	Millions of Yen	Thousands of U.S. Dollars
Service cost .....	¥2,067	\$16,681
Interest cost .....	717	5,790
Expected return on plan assets .....	(331)	(2,672)
Amortization of past service cost .....	709	5,721
Amortization of net actuarial loss .....	1,586	12,800
Net periodic benefit cost .....	¥4,748	\$38,321

Service cost does not include employers' contributions to the contributory funded benefit pension plan.

The benefit obligation was determined using a discount rate of 3.0% for the year ended March 31, 2001. The expected long-term

rate of return on the non-contributory pension plan assets and contributory funded benefit pension plan assets for the year ended March 31, 2001 ranged from 2.4% to 4.0% and 2.1%, respectively.

Net periodic service cost is attributed based on years of service.

Certain subsidiaries' benefit obligations were calculated using the simplified method, which is permitted to be applied by small companies, in conformity with the Financial Accounting Standard on "Accounting for Retirement Benefits."

The fair value of non-contributory pension plan assets of the Company aggregated ¥7,002 million as of March 31, 2000, which was the date of the most recent actuarial valuation.

The fair value of non-contributory pension plan assets of GC Co., Ltd. aggregated ¥149 million as of March 31, 2000, which was the date of the most recent actuarial valuation.

### 13. LEASE COMMITMENTS

(1) Rental, depreciation and interest expense relating to financing leases, which do not transfer ownership of the leased properties to the lessee during the terms of the leases, as of March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Rental expense .....	¥2,254	¥2,570	\$18,190
Depreciation expense .....	1,925	2,302	15,533
Interest expense .....	264	252	2,133

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

The aggregate future lease payments as of March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Due within one year .....	¥1,617	¥1,029	\$13,050
Due after one year .....	1,894	1,943	15,290
	¥3,511	¥2,972	\$28,340

A summary of the leased properties under the above leases as of March 31, 2001 and 2000 is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Furniture, fixtures and equipment .....	¥6,279	¥6,626	\$50,676
Other .....	1,587	605	12,808
	7,866	7,231	63,484
Less: accumulated depreciation .....	(4,520)	(4,382)	(36,483)
	¥3,346	¥2,849	\$27,001

(2) The aggregate future lease payments under ordinary operating leases as of March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Due within one year .....	¥110	¥44	\$ 892
Due after one year .....	136	—	1,097
	¥246	¥44	\$1,989

### 14. CONTINGENT LIABILITIES

As of March 31, 2001, the balance of guaranty of liabilities was nil.

### 15. SHAREHOLDERS' EQUITY

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

For the year ended March 31, 2000, shares issued and outstanding increased by 1,982 thousand shares, and stated capital and additional paid-in capital increased by ¥4,452 million respectively,

through the conversion of convertible yen bonds into common stock of the Company.

For the year ended March 31, 2001, the Company issued 3,118 thousand shares through stock exchange, and stated capital and additional paid-in capital increased by ¥156 million (\$1,258 thousand) and ¥23,792 million (\$192,026 thousand), respectively.

The Commercial Code provides that an amount equal to at least 10% of cash dividends and other appropriations of retained earnings paid out with respect to each financial period be set aside in

a legal reserve until such reserve equals 25% of the amount of common stock. This reserve may be transferred to common stock by a resolution of the Board of Directors or used to reduce a deficit

with the approval of shareholders but is not available for dividend payments.

## 16. OTHER OPERATING INCOME

As described in Note 2 (5), the collected amounts are included in "Other operating income" in the accompanying statements of income in the year of recovery when the previously written-off

balances of consumer loans and the related interest are subsequently recovered and collected.

Collected amounts for the years ended March 31, 2001 and 2000 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Collected amounts .....	<b>¥8,518</b>	¥6,958	<b>\$68,747</b>

## 17. FINANCIAL EXPENSES

Interest expense, which was included in "Financial expenses" in the accompanying consolidated statements of income, for the years ended March 31, 2001 and 2000 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Interest expense .....	<b>¥25,569</b>	¥23,165	<b>\$206,364</b>

## 18. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses in the accompanying consolidated statements of income for the years ended March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Advertising expenses .....	<b>¥ 25,998</b>	¥ 17,914	<b>\$ 209,834</b>
Employees' salaries and bonuses .....	<b>30,045</b>	26,183	<b>242,495</b>
Rent expenses .....	<b>13,264</b>	12,358	<b>107,056</b>
Other .....	<b>69,100</b>	61,618	<b>557,703</b>
	<b>¥138,407</b>	¥118,073	<b>\$1,117,088</b>

## 19. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of different taxes based on income, which in the aggregate indicate a normal effective statutory income tax rate of approximately 42% for each of the years ended March 31, 2001

and 2000. Foreign consolidated subsidiaries are subject to income taxes of the countries in which they operate.

Reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2001 was as follows:

Statutory tax rate .....	42.0%
Loss on valuation of investments in subsidiaries deducted for income tax purposes .....	(3.9)
Revenue not deductible for income tax purposes—dividends and others .....	(0.3)
Impairment loss on deposits for golf club membership .....	0.4
Others .....	1.4
Effective tax rate .....	39.6%

The major components of deferred tax assets and liabilities as of March 31, 2001 and 2000 are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Deferred tax assets due to:			
Credit losses for receivables and consumer loans .....	<b>¥ 7,818</b>	¥ 6,271	<b>\$ 63,100</b>
Allowance for credit losses .....	<b>4,964</b>	4,238	<b>40,065</b>
Accrued enterprise taxes .....	<b>1,827</b>	2,062	<b>14,750</b>
Accrued severance indemnities for employees .....	<b>3,904</b>	2,616	<b>31,510</b>
Other .....	<b>3,543</b>	2,289	<b>28,591</b>
Total .....	<b>22,056</b>	17,476	<b>178,016</b>
Deferred tax liabilities due to:			
Net unrealized gains on securities .....	<b>(3,704)</b>	—	<b>(29,895)</b>
Net deferred tax assets .....	<b>¥18,352</b>	¥17,476	<b>\$148,121</b>

Net deferred tax assets as of March 31, 2001 and 2000 are included in the consolidated balance sheets as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Current assets:			
Deferred tax assets.....	¥16,789	¥14,284	\$135,507
Investments and advances:			
Deferred tax assets.....	1,563	3,192	12,614
	¥18,352	¥17,476	\$148,121

## 20. SEGMENT INFORMATION BY BUSINESS ACTIVITY

The Companies' operations by business segment for the year ended March 31, 2001 are not disclosed because the ratios of business other than consumer financial business to total in respect

of operating income, operating profit and assets are not material, being less than 10%, in conformity with the Japanese Disclosure Rule of Consolidated Financial Statements.

## 21. SUBSEQUENT EVENT

At the general shareholders' meeting of the Company held on June 27, 2001, the payment of cash dividends, ¥45.0 (\$0.36) per share, was approved, which amounted to ¥5,596 million (\$45,168 thousand).

## Report of the Independent Certified Accountants

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

We have audited the accompanying consolidated balance sheets of Promise Co., Ltd. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Promise Co., Ltd. and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 1) applied on a consistent basis, except for the change, with which we concur, made as of March 31, 2000 in the method of accounting for accrued severance indemnities and pension plan as described in Note 2 (12).

As described in Note 2, effective from the year ended March 31, 2001, Promise Co., Ltd. and its domestic consolidated subsidiaries have adopted new Japanese accounting standards for financial instruments and retirement benefits.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

*ChuoAoyama Audit Corporation*

ChuoAoyama Audit Corporation Japan

June 27, 2001

## Non-Consolidated Balance Sheets

Promise Co., Ltd.  
March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 91,544	¥ 119,539	\$ 738,850
Time deposits .....	7,926	10,915	63,971
Consumer loans receivable:			
Principal .....	1,228,026	1,100,546	9,911,431
Accrued interest income .....	11,898	10,289	96,026
Less: allowance for credit losses .....	(46,500)	(39,110)	(375,303)
	1,193,424	1,071,725	9,632,154
Prepaid expenses .....	2,071	2,434	16,711
Deferred tax assets .....	13,237	13,520	106,833
Other current assets .....	73,617	9,897	594,178
<b>Total current assets .....</b>	<b>1,381,819</b>	<b>1,228,030</b>	<b>11,152,697</b>
<b>Investments and advances:</b>			
Investments in securities .....	17,612	14,524	142,151
Investments in and advances to subsidiaries and affiliates .....	42,736	15,496	344,921
Investments in equity other than capital stock .....	2,662	3,915	21,482
Long-term prepaid expenses .....	731	1,928	5,898
Deferred tax assets .....	1,164	2,986	9,397
Other investments and advances .....	12,677	15,673	102,320
<b>Total investments and advances .....</b>	<b>77,582</b>	<b>54,522</b>	<b>626,169</b>
<b>Property and equipment, net .....</b>	<b>31,886</b>	<b>58,220</b>	<b>257,350</b>
<b>Fixed leasehold deposits .....</b>	<b>12,632</b>	<b>12,344</b>	<b>101,950</b>
<b>Deferred charge .....</b>	<b>—</b>	<b>963</b>	<b>—</b>
<b>Total assets .....</b>	<b>¥1,503,919</b>	<b>¥1,354,079</b>	<b>\$12,138,166</b>

Note: Translation into U.S. dollars has been made on the basis of ¥123.90 to \$1, the effective exchange rate at March 31, 2001.

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Short-term borrowings .....	¥ 4,900	¥ 6,400	\$ 39,548
Current portion of long-term debt .....	240,207	225,014	1,938,719
Accounts payable .....	7,753	7,407	62,571
Accrued income taxes .....	18,165	23,545	146,614
Accrued expenses .....	7,205	6,505	58,149
Other current liabilities .....	1,651	376	13,320
<b>Total current liabilities .....</b>	<b>279,881</b>	<b>269,247</b>	<b>2,258,921</b>
<b>Long-term liabilities:</b>			
Long-term debt .....	707,247	638,262	5,708,206
Non-current accounts payable .....	2,884	5,056	23,274
Accrued severance indemnities .....	12,441	9,477	100,414
Other long-term debt .....	134	1,780	1,086
<b>Total long-term liabilities .....</b>	<b>722,706</b>	<b>654,575</b>	<b>5,832,980</b>
<b>Contingent liabilities</b>			
<b>Shareholders' equity:</b>			
Common stock, ¥50 par value:			
Authorized—300,000,000 shares			
Issued—124,715,592 shares at March 31, 2001; .....	49,054	—	395,914
121,597,202 shares at March 31, 2000 .....	—	48,898	—
Additional paid-in capital .....	72,236	58,692	583,018
Legal reserve .....	12,252	11,569	98,892
Voluntary reserve .....	299,300	240,800	2,415,658
Retained earnings .....	63,978	70,298	516,369
Net unrealized gain on securities .....	4,512	—	36,414
<b>Total shareholders' equity .....</b>	<b>501,332</b>	<b>430,257</b>	<b>4,046,265</b>
<b>Total liabilities and shareholders' equity .....</b>	<b>¥1,503,919</b>	<b>¥1,354,079</b>	<b>\$12,138,166</b>

## Non-Consolidated Statements of Income

Promise Co., Ltd.  
For the years ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
<b>Operating income:</b>			
Interest on consumer loans .....	¥282,664	¥256,414	\$2,281,386
Other operating income .....	10,110	8,585	81,600
<b>Total operating income .....</b>	<b>292,774</b>	<b>264,999</b>	<b>2,362,986</b>
<b>Operating expenses:</b>			
Financial expenses .....	22,069	21,298	178,118
General and administrative expenses .....	110,700	106,496	893,461
Provision for uncollectible loans .....	43,827	34,866	353,732
<b>Total operating expenses .....</b>	<b>176,596</b>	<b>162,660</b>	<b>1,425,311</b>
<b>Operating profit .....</b>	<b>116,178</b>	<b>102,339</b>	<b>937,675</b>
<b>Other income (expenses):</b>			
Interest and dividend income on investments .....	416	511	3,357
Amortization of deferred charge .....	(963)	(963)	(7,773)
Bond issue expenses .....	(9)	(235)	(70)
Insurance money received and insurance divided .....	321	217	2,591
Equity in earnings of Tokumei Kumiai .....	1,803	993	14,551
Net gain on sales of short-term investments and investments in securities .....	1,972	527	15,914
Loss on valuation of investments in securities .....	—	(13)	—
Net loss on sales or disposal of property and equipment .....	(17,579)	(2,104)	(141,882)
Gain on liquidation of Tokumei Kumiai .....	—	2,094	—
Past service cost of retirement benefits .....	(709)	(2,089)	(5,721)
Gain on liquidation of subsidiaries .....	1,780	—	14,370
Impairment loss on deposits for golf club membership .....	(962)	—	(7,762)
Other, net .....	(395)	(974)	(3,196)
<b>Total other expenses, net .....</b>	<b>(14,325)</b>	<b>(2,036)</b>	<b>(115,621)</b>
<b>Income before income taxes .....</b>	<b>101,853</b>	<b>100,303</b>	<b>822,054</b>
<b>Income taxes:</b>			
Current .....	39,500	45,890	318,805
Deferred .....	(1,168)	(2,825)	(9,432)
	<b>38,332</b>	<b>43,065</b>	<b>309,373</b>
<b>Net income .....</b>	<b>¥ 63,521</b>	<b>¥ 57,238</b>	<b>\$ 512,681</b>
		Yen	U.S. Dollars
<b>Amount per share:</b>			
Net income:			
Basic .....	¥513.24	¥475.84	\$4.11
Cash dividends .....	90.00	80.00	0.73
<b>Weighted average number of shares (Thousands):</b>			
Basic .....	123,765	120,289	

Note: Translation into U.S. dollars has been made on the basis of ¥123.90 to \$1, the effective exchange rate at March 31, 2001.

## Non-Consolidated Statements of Shareholders' Equity

Promise Co., Ltd.  
For the years ended March 31, 2001 and 2000

	Millions of Yen						
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Voluntary reserve	Retained earnings	Net unrealized gain on securities
<b>Balance at March 31, 1999</b> .....	119,615,061	¥44,446	¥54,240	¥ 3,778	¥216,300	¥40,550	¥ —
Net income .....	—	—	—	—	—	57,238	—
Legal reserve .....	—	—	—	7,791	—	(7,791)	—
Cash dividends paid .....	—	—	—	—	—	(8,705)	—
Bonuses to directors and statutory auditors .....	—	—	—	—	—	(175)	—
Transfer to voluntary reserve .....	—	—	—	—	24,500	(24,500)	—
Conversion of convertible bonds .....	1,982,141	4,452	4,452	—	—	—	—
Increase due to adoption of deferred tax accounting .....	—	—	—	—	—	13,681	—
<b>Balance at March 31, 2000</b> .....	121,597,202	48,898	58,692	11,569	240,800	70,298	—
Net income .....	—	—	—	—	—	63,521	—
Legal reserve .....	—	—	—	683	—	(683)	—
Cash dividends paid .....	—	—	—	—	—	(10,422)	—
Bonuses to directors and statutory auditors .....	—	—	—	—	—	(236)	—
Transfer to voluntary reserve .....	—	—	—	—	58,500	(58,500)	—
Issuance of new shares through stock exchange...	3,118,390	156	13,544	—	—	—	—
Increase due to valuation of securities, net of tax .....	—	—	—	—	—	—	4,512
<b>Balance at March 31, 2001</b> .....	124,715,592	¥49,054	¥72,236	¥12,252	¥299,300	¥63,978	¥4,512

	Thousands of U.S. Dollars						
	Number of shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Voluntary reserve	Retained earnings	Net unrealized gain on securities
<b>Balance at March 31, 2000</b> .....	121,597,202	\$394,656	\$473,703	\$93,376	\$1,943,503	\$567,375	\$ —
Net income .....	—	—	—	—	—	512,681	—
Legal reserve .....	—	—	—	5,516	—	(5,516)	—
Cash dividends paid .....	—	—	—	—	—	(84,114)	—
Bonuses to directors and statutory auditors .....	—	—	—	—	—	(1,903)	—
Transfer to voluntary reserve .....	—	—	—	—	472,155	(472,155)	—
Issuance of new shares through stock exchange...	3,118,390	1,258	109,315	—	—	—	—
Increase due to valuation of securities, net of tax .....	—	—	—	—	—	—	36,414
<b>Balance at March 31, 2001</b> .....	124,715,592	\$395,914	\$583,018	\$98,892	\$2,415,658	\$516,369	\$36,414

Note: Translation into U.S. dollars has been made on the basis of ¥123.90 to \$1, the effective exchange rate at March 31, 2001.