



# Financial Section

## Contents

---

Non-Consolidated Balance Sheets .....	20
Non-Consolidated Statements of Income .....	22
Non-Consolidated Statements of Shareholders' Equity .....	23
Non-Consolidated Statements of Cash Flows .....	24
Notes to the Non-Consolidated Financial Statements .....	25
Report of the Independent Certified Public Accountants on the Non-Consolidated Financial Statements .....	31
Consolidated Balance Sheets .....	32
Consolidated Statements of Income .....	34
Consolidated Statements of Shareholders' Equity .....	35
Consolidated Statements of Cash Flows .....	36
Notes to the Consolidated Financial Statements .....	37
Report of the Independent Certified Public Accountants on the Consolidated Financial Statements .....	43
Five-Year Summary (Non-Consolidated Basis) .....	44
Industry Data .....	45

# Non-Consolidated Balance Sheets

Promise Co., Ltd.

March 31, 1997 and 1996

Thousands of  
U.S. Dollars  
(Note 3)

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

The accompanying notes are an integral part of these statements.

Thousands of  
U.S. Dollars  
(Note 3)

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

# Non-Consolidated Statements of Income

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	1997
<b>Operating income:</b>			
Interest on consumer loans .....	¥191,401	¥171,809	\$1,542,311
Other financial income .....	531	1,026	4,281
Other operating income .....	6,965	6,403	56,124
<b>Total operating income .....</b>	<b>198,897</b>	<b>179,238</b>	<b>1,602,716</b>
<b>Operating expenses:</b>			
Financial expenses (Note 14) .....	23,673	23,869	190,756
General and administrative expenses (Note 15) .....	78,005	70,972	628,565
Credit losses including provision for uncollectible loans .....	20,305	17,042	163,623
<b>Total operating expenses .....</b>	<b>121,983</b>	<b>111,883</b>	<b>982,944</b>
<b>Operating profit .....</b>	<b>76,914</b>	<b>67,355</b>	<b>619,772</b>
<b>Other income (expenses):</b>			
Interest and dividend income on investments .....	421	443	3,394
Insurance money received and insurance dividend .....	934	837	7,529
Bond issue expenses .....	(60)	(314)	(481)
Equity in earnings of Tokumei Kumiai (Note 2 (10)) .....	567	209	4,565
Net gain on sales of short-term investments and investments in securities .....	72	299	580
Loss on valuation of short-term investments .....	(336)	(13)	(2,709)
Loss on valuation of investments in securities .....	(2,324)	(18)	(18,726)
Net loss on sales or disposal of property and equipment .....	(527)	(807)	(4,243)
Past service cost of directors' and statutory auditors' retirement benefits ..	—	(625)	—
Other, net .....	(1,785)	(746)	(14,384)
<b>Total other expenses, net .....</b>	<b>(3,038)</b>	<b>(735)</b>	<b>(24,475)</b>
<b>Income before income taxes .....</b>	<b>73,876</b>	<b>66,620</b>	<b>595,297</b>
<b>Income taxes (Note 16) .....</b>	<b>39,186</b>	<b>35,850</b>	<b>315,761</b>
<b>Net income .....</b>	<b>¥ 34,690</b>	<b>¥ 30,770</b>	<b>\$ 279,536</b>
	Yen		U.S. Dollars (Note 3)
<b>Amount per share:</b>			
Net income:			
Basic .....	¥352.08	¥312.29	\$2.84
Diluted .....	345.11	311.62	2.78
Cash dividends .....	60	55	0.48
<b>Weighted average number of shares (Thousands):</b>			
Basic .....	98,528	98,528	98,528
Diluted .....	100,519	98,740	100,519

The accompanying notes are an integral part of these statements.

# Non-Consolidated Statements of Shareholders' Equity

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

Millions of Yen

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

Thousands of U.S. Dollars (Note 3)

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

The accompanying notes are an integral part of these statements.

# Non-Consolidated Statements of Cash Flows

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

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

The accompanying notes are an integral part of these statements.

# Notes to the Non-Consolidated Financial Statements

Promise Co., Ltd.

## 1. Basis of Presenting the Non-Consolidated Financial Statements

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

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

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

## 2. Summary of Significant Accounting Policies

### (1) Recognition of Interest Income

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

### (2) Presentation of Financial Income and Expenses

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

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

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

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

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

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

### (4) Valuation of Securities

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

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

### (5) Property and Equipment

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

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

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

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

### (7) Amortization

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

### (8) Foreign Currency Translation

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

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

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

### (9) Leases

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

### (10) Accounting for Japanese Leveraged Leasing Transactions

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

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

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

### (11) Income Taxes

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

### (12) Accrued Severance Indemnities and Pension Plan

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

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

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

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

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

#### (13) Bond Issue Expenses

Bond issue expenses are charged to income as incurred.

#### (14) Appropriation of Retained Earnings

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

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

#### (15) Net Income and Dividend per Share

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

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

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

#### (16) Cash Equivalents

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

### 3. United States Dollar Amounts

The Company prepares its non-consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying non-consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥124.10 to U.S. \$1,

being the effective rate of exchange at March 31, 1997. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at the rate of ¥124.10 to U.S. \$1 or at any other rate.

### 4. Consumer Loans Receivable

Unsecured loans to individual customers, which were included in "Consumer loans receivable", were ¥775,160 million (\$6,246,254 thousand)

and ¥670,585 million as of March 31, 1997 and 1996, respectively.

### 5. Short-term Investments and Investments in Securities

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

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

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

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

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

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

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

## 6. Financial instruments

The Company enters into interest rate swap agreements to convert variable interest rates on the principal amount of certain debts to fixed interest rates. This agreements are used to reduce the exposure to market risk from fluctuation in interest rate. The Company does not hold or issue any finan-

cial instruments for trading purposes. The amounts underlying of the interest rate swap agreements was ¥45,000 million (\$362,611 thousand) at March 31, 1997.

## 7. Property and Equipment

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

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

## 8. Fixed Leasehold Deposits

Fixed leasehold deposits as at March 31, 1997 and 1996 were mainly those paid to the lessors in connection with the leases of facilities for office space. Lessors in Japan require large amounts of leasehold deposits equiva-

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

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

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

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

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

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

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

Notes:

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

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

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

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

Notes:

\* Besides the above assets pledged, the Company entered into the forward contract of assigning consumer loans receivable.

The contract amounts were ¥354,466 million (\$2,856,297 thousand) and ¥ 338,336 million as of March 31, 1997 and 1996, respectively.

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

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

## 10. Pension Plans

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

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

## 11. Lease Commitments

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

for the year ended March 31, 1996, respectively.

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

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

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

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

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

## 12. Contingent Liabilities

As of March 31, 1997, the Company was contingently liable as a guarantor of loans primarily to subsidiaries from banks and financial institutions in

the aggregate amount of ¥13,159 million (\$106,036 thousand).

## 13. Shareholders' Equity

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

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

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

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

## 14. Financial Expenses

Interest expense, which was included in "Financial expenses" in the accompanying non-consolidated statements of income for the years ended

March 31, 1997 and 1996 were as follows:

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

## 15. General and Administrative Expenses

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

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

## 16. Income Taxes

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

However, the income tax expenses shown in the accompanying non-consolidated statements of income differ from the amounts computed by applying the above-mentioned statutory tax rates to "Income before income taxes". The principal reasons for such differences are that no tax effects have been recognized on certain timing differences between financial accounting and tax reporting purposes. The main elements of such timing differences

are allowances for credit losses provided for accounting purposes in excess of the limit established by the tax laws and accrued enterprise tax which is not deductible until paid.

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

## 17. Subsequent Events

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

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

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

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

We have audited the non-consolidated balance sheets of Promise Co., Ltd. as of March 31, 1997 and 1996, and the related non-consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audit.

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

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

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

*Chuo Audit Corporation*

Chuo Audit Corporation

Osaka, Japan  
June 27, 1997

# Consolidated Balance Sheets

Promise Co., Ltd.

March 31, 1997 and 1996

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

The accompanying notes are an integral part of these statements.

Thousands of  
U.S. Dollars  
(Note 3)

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

# Consolidated Statements of Income

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

	Millions of Yen		Thousands of U.S. Dollars (Note 3)
	1997	1996	1997
<b>Operating income</b> (Note 16):			
Interest on consumer loans .....	¥201,026	¥180,505	\$1,619,874
Other financial income .....	536	1,090	4,319
Sales .....	14,834	12,033	119,534
Other operating income .....	8,613	8,108	69,402
<b>Total operating income</b> .....	<b>225,009</b>	<b>201,736</b>	<b>1,813,129</b>
<b>Operating expenses</b> (Note 16):			
Financial expenses (Note 13) .....	25,021	25,244	201,617
Cost of sales .....	13,216	10,525	106,491
General and administrative expenses (Note 14) .....	85,570	77,539	689,527
Credit losses including provision for uncollectible loans .....	22,379	18,506	180,334
<b>Total operating expenses</b> .....	<b>146,186</b>	<b>131,814</b>	<b>1,177,969</b>
<b>Operating profit</b> (Note 16) .....	<b>78,823</b>	<b>69,922</b>	<b>635,160</b>
<b>Other income (expenses):</b>			
Interest and dividend income on investments .....	287	304	2,314
Insurance money received and insurance dividend .....	934	837	7,529
Interest expense .....	(559)	(580)	(4,502)
Bond issue expenses (Note 2 (14)) .....	(60)	(314)	(481)
Equity in earnings of Tokumei Kumiai (Note 2 (11)) .....	567	209	4,565
Net gain on sales of short-term investments and investments in securities .....	72	303	580
Loss on valuation of short-term investments .....	(348)	(13)	(2,802)
Loss on valuation of investments in securities .....	(2,324)	(18)	(18,726)
Net loss on sales or disposal of property and equipment .....	(565)	(824)	(4,552)
Past service cost of directors' and statutory auditors' retirement benefits ...	—	(700)	—
Other, net .....	(1,675)	(687)	(13,509)
<b>Total other expenses, net</b> .....	<b>(3,671)</b>	<b>(1,483)</b>	<b>(29,584)</b>
<b>Income before income taxes</b> .....	<b>75,152</b>	<b>68,439</b>	<b>605,576</b>
<b>Income taxes</b> (Note 15) .....	<b>40,025</b>	<b>36,887</b>	<b>322,530</b>
<b>Minority interest</b> .....	<b>(144)</b>	<b>(207)</b>	<b>(1,159)</b>
<b>Amortization of excess of cost under net assets acquired, net</b> ...	<b>141</b>	<b>142</b>	<b>1,139</b>
<b>Adjustments on foreign currency statements translation</b> .....	<b>—</b>	<b>(74)</b>	<b>—</b>
<b>Net income</b> .....	<b>¥ 35,124</b>	<b>¥ 31,413</b>	<b>\$ 283,026</b>
	Yen		U.S. Dollars (Note 3)
<b>Amount per share:</b>			
Net income:			
Basic .....	¥356.48	¥318.83	\$2.87
Diluted .....	349.42	318.14	2.82
Cash dividends .....	60	55	0.48
<b>Weighted average number of shares</b> (Thousands):			
Basic .....	98,528	98,526	98,528
Diluted .....	100,519	98,738	100,519

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Shareholders' Equity

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

Millions of Yen

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

Thousands of U.S. Dollars (Note 3)

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

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Promise Co., Ltd.

For the years ended March 31, 1997 and 1996

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

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

Promise Co., Ltd. and Subsidiaries

## 1. Basis of Presenting the Consolidated Financial Statements

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

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

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

## 2. Summary of Significant Accounting Policies

### (1) Scope and Significant Accounting Policies

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

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

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

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

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

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

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

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

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

### (3) Recognition of Revenues

#### (a) Interest income

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

#### (b) Installment sales

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

### (4) Allowance for Credit Losses and Write-Offs

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

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

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

### (5) Valuation of Securities

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

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

### (6) Property and Equipment

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

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

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

Investments in unconsolidated subsidiaries and an affiliate are carried at cost and are not adjusted for equity in earnings (loss) of such subsidiaries

and an affiliate for each fiscal year because the effect of applying the equity method is not material.

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

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

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

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

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

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

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

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

#### **(11) Accounting for Japanese Leveraged Leasing Transactions**

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

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

#### **(12) Income Taxes**

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

#### **(13) Accrued Severance Indemnities and Pension Plan**

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

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

The Company fully accrues severance indemnities that would be required if all eligible employees retired voluntarily at the balance sheet date, reduced by the estimated benefits provided by a non-contributory funded

pension plan. Such liability is not funded.

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

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

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

#### **(14) Bond Issue Expenses**

Bond issue expenses are charged to income as incurred.

#### **(15) Appropriation of Retained Earnings**

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

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

#### **(16) Net Income and Dividend per Share**

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

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

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

#### **(17) Cash Equivalents**

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

---

### **3. United States Dollar Amounts**

The Company prepares its consolidated financial statements in Japanese yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetical results of translating yen into dollars at the rate of ¥124.10 to U.S.\$1, being the effective

rate of exchange at March 31, 1997. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be readily converted, realized or settled in dollars at the rate of ¥124.10 to U.S.\$1 or at any other rate.

---

### **4. Consumer Loans Receivable**

Unsecured loans to individual customers, which were included in "Consumer loans receivable", were ¥810,608 million (\$6,531,893 thousand)

and ¥702,936 million as of March 31, 1997 and 1996, respectively.

## 5. Short-term Investments and Investments in Securities

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

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

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

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

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

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

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

## 6. Property and Equipment

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

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

## 7. Fixed Leasehold Deposits

Fixed leasehold deposits as at March 31, 1997 and 1996 were mainly those paid to the lessors in connection with the leases of facilities for office space. Lessors in Japan require large amounts of leasehold deposits equiva-

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

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

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

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

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

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

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

Notes:

- \*1 Annual interest rates on loans from banks and other financial institutions outstanding as of March 31, 1997 and 1996 ranged from 1.925% to 7.350% and from 1.925% to 8.850%, respectively.
- \*2 The uncollateralized convertible yen bonds in the initial principal amount of ¥10,000 million due March 31, 2000 were issued on February 22, 1996, and are convertible into common stock of the Company. The current conversion price is ¥5,023 per share.

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

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

Notes:

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

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

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

## 9. Pension Plans

The accumulated balances of fund assets of the funded pension plans of the Company aggregated ¥4,182 million (\$3,699 thousand), as of March 31, 1997, which is the date of the most recent actuarial valuation.

The accumulated balances of fund assets of the funded pension plans of the domestic consolidated subsidiary aggregated ¥76 million (\$612 thou-

sand), as of August 31, 1996, which is the date of the most recent actuarial valuation.

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

## 10. Lease Commitments

For the year ended March 31, 1997 and 1996, rental expenses relating to financing leases, which do not transfer ownership of the leased properties to

the lessee during the terms of the leases, were ¥2,407 million (\$19,393 thousand) and ¥1,689 million, respectively.

## 11. Contingent Liabilities

As of March 31, 1997, the Company was contingently liable as a guarantor of loans primarily to unconsolidated subsidiaries from banks and finan-

cial institutions in the aggregate amount of ¥3,244 million (\$26,141 thousand).

## 12. Shareholders' Equity

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

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

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

## 13. Financial Expenses

Interest expense, which was included in "Financial expenses" in the accompanying consolidated statements of income for the years ended March

31, 1997 and 1996 were as follows:

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

## 14. General and Administrative Expenses

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

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

## 15. Income Taxes

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

However, the income tax expenses shown in the accompanying consolidated statements of income differ from the amounts computed by applying the above-mentioned statutory tax rates to "Income before income taxes". The principal reasons for such differences are that no tax effects have been recognized on certain timing differences between financial accounting and

tax reporting purposes. The main elements of such timing differences are allowances for credit losses provided for accounting purposes in excess of the limit established by the tax laws and accrued enterprise tax which is not deductible until paid.

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

## 16. Segment Information by Business Activities

The Companies' operations by business segment were as follows:

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

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

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

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

## 17. Subsequent Event

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

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

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

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

We have audited the consolidated balance sheets of Promise Co., Ltd. and its consolidated subsidiaries as of March 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

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

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

*Chuo Audit Corporation*

Chuo Audit Corporation

Osaka, Japan  
June 27, 1997

# Five-Year Summary (Non-Consolidated Basis)

Promise Co., Ltd.

Years ended March 31

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

# Industry Data

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

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

\*Dec. 31, 1996

Source: Individual companies' securities reports

## Maximum Interest Rates on Unsecured Loans in Competing Sectors

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

Notes: 1. The maximum interest rates given above are the maximum rates for unsecured loans for consumer finance companies, the per-cash transaction rates for sales finance companies and the maximum rates for credit card companies.

2. Figures for consumer finance companies are those announced by the various companies as of May 19, 1997. Other sources used include "Kinyu Business", published by "Toyo Keizai Inc.," (May 1997 issues).