



Financial Section

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Non-Consolidated Balance Sheets

Promise Co., Ltd.
March 31, 1999 and 1998

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|-------------------|-------------------|--|
| | 1999 | 1998 | 1999 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 161,877 | ¥ 130,707 | \$ 1,342,819 |
| Consumer loans receivable (Notes 4 and 10): | | | |
| Principal | 976,614 | 866,634 | 8,101,319 |
| Accrued interest income | 9,498 | 9,335 | 78,789 |
| Less: allowance for credit losses (Note 5) | (35,170) | (26,920) | (291,747) |
| | 950,942 | 849,049 | 7,888,361 |
| Short-term investments (Note 6) | 3,519 | 8,004 | 29,190 |
| Prepaid expenses | 2,510 | 2,899 | 20,822 |
| Other current assets | 13,392 | 14,735 | 111,093 |
| Total current assets | 1,132,240 | 1,005,394 | 9,392,285 |
| Investments and advances: | | | |
| Investments in securities (Notes 6 and 10) | 11,365 | 10,081 | 94,277 |
| Investments in and advances to subsidiaries and affiliates | 11,710 | 13,032 | 97,138 |
| Investments in equity other than capital stock (Note 2(10)) | 5,138 | 5,229 | 42,620 |
| Long-term prepaid expenses | 7,884 | 2,266 | 65,399 |
| Other investments and advances | 7,022 | 6,157 | 58,248 |
| Less: allowance for credit losses (Note 5) | (850) | (870) | (7,051) |
| Total investments and advances | 42,269 | 35,895 | 350,631 |
| Property and equipment, net (Note 8) | 59,496 | 58,323 | 493,540 |
| Fixed leasehold deposits (Note 9) | 12,491 | 12,273 | 103,616 |
| Deferred charge | 1,926 | — | 15,978 |
| Total assets | ¥1,248,422 | ¥1,111,885 | \$10,356,050 |

The accompanying notes are an integral part of these statements.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|---|-------------------|-------------------|--|
| | 1999 | 1998 | 1999 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Short-term borrowings (Note 10) | ¥ 22,800 | ¥ 64,800 | \$ 189,133 |
| Current portion of long-term debt (Note 10) | 245,124 | 193,398 | 2,033,379 |
| Accounts payable | 7,560 | 5,904 | 62,715 |
| Accrued income taxes (Note 18) | 24,725 | 25,948 | 205,100 |
| Accrued expenses | 5,318 | 4,893 | 44,111 |
| Other current liabilities | 345 | 252 | 2,871 |
| Total current liabilities | 305,872 | 295,195 | 2,537,309 |
| Long-term liabilities: | | | |
| Long-term debt (Note 10) | 566,124 | 534,275 | 4,696,178 |
| Non-current accounts payable (Note 2 (10)) | 7,846 | 8,590 | 65,081 |
| Accrued severance indemnities | 7,334 | 6,793 | 60,842 |
| Other long-term debt | 1,932 | 2,016 | 16,022 |
| Total long-term liabilities | 583,236 | 551,674 | 4,838,123 |
| Contingent liabilities (Note 13) | | | |
| Shareholders' equity (Note 14): | | | |
| Common stock, ¥50 par value: | | | |
| Authorized – 300,000,000 shares | | | |
| Issued: | | | |
| – 119,615,061 shares at March 31, 1999 | 44,446 | — | 368,692 |
| – 108,615,061 shares at March 31, 1998 | — | 13,558 | — |
| Additional paid-in capital | 54,240 | 23,363 | 449,937 |
| Legal reserve | 3,778 | 3,256 | 31,341 |
| Voluntary reserve | 216,300 | 185,800 | 1,794,276 |
| Retained earnings | 40,550 | 39,039 | 336,372 |
| Total shareholders' equity | 359,314 | 265,016 | 2,980,618 |
| Total liabilities and shareholders' equity | ¥1,248,422 | ¥1,111,885 | \$10,356,050 |

Non-Consolidated Statements of Income

Promise Co., Ltd.

For the years ended March 31, 1999 and 1998

Thousands of
U.S. Dollars
(Note 3)

| | Millions of Yen | | 1999 |
|--|-----------------|-----------------|-------------------|
| | 1999 | 1998 | |
| Operating income: | | | |
| Interest on consumer loans | ¥230,583 | ¥212,314 | \$1,912,760 |
| Other operating income (Note 15) | 7,740 | 8,016 | 64,206 |
| Total operating income | 238,323 | 220,330 | 1,976,966 |
| Operating expenses: | | | |
| Financial expenses (Note 16) | 20,882 | 22,064 | 173,219 |
| General and administrative expenses (Note 17) | 96,853 | 86,529 | 803,423 |
| Credit losses including provision for uncollectible loans (Note 5) | 35,874 | 25,597 | 297,593 |
| Total operating expenses | 153,609 | 134,190 | 1,274,235 |
| Operating profit | 84,714 | 86,140 | 702,731 |
| Other income (expenses): | | | |
| Interest and dividend income on investments | 417 | 446 | 3,463 |
| Amortization of deferred charge | (963) | — | (7,989) |
| Bond issue expenses | (163) | (120) | (1,350) |
| Insurance money received and insurance dividend | 139 | 173 | 1,149 |
| Equity in earnings of Tokumei Kumiai (Note 2 (10)) | 979 | 579 | 8,118 |
| Net loss on sales of short-term investments and investments in securities | (94) | (982) | (783) |
| Loss on valuation of investments in securities | (44) | (1,736) | (368) |
| Net loss on sales or disposal of property and equipment | (2,203) | (2,762) | (18,274) |
| Gain on liquidation of Tokumei Kumiai | — | 1,151 | — |
| Other, net | 189 | (466) | 1,578 |
| Total other expenses, net | (1,743) | (3,717) | (14,456) |
| Income before income taxes | 82,971 | 82,423 | 688,275 |
| Income taxes (Note 18) | 42,796 | 43,755 | 355,007 |
| Net income | ¥ 40,175 | ¥ 38,668 | \$ 333,268 |

| | Yen | | U.S. Dollars (Note 3) |
|---|----------|----------|--------------------------|
| | 1999 | 1998 | |
| Amount per share: | | | |
| Net income: | | | |
| Basic | ¥ 342.69 | ¥ 356.78 | \$ 2.84 |
| Diluted | 336.98 | 349.72 | 2.80 |
| Cash dividends | 65 | 63 | 0.54 |
| Weighted average number of shares (Thousands): | | | |
| Basic | 117,234 | 108,381 | 117,234 |
| Diluted | 119,222 | 110,571 | 119,222 |

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, 1999 and 1998

Millions of Yen

| | Number of shares of common stock | Common stock | Additional paid-in capital | Legal reserve | Voluntary reserve | Retained earnings |
|--|--|-----------------|----------------------------------|------------------|----------------------|----------------------|
| Balance at March 31, 1997 | 98,528,070 | ¥13,023 | ¥22,828 | ¥3,256 | ¥157,800 | ¥34,452 |
| Net income | — | — | — | — | — | 38,668 |
| Cash dividends paid | — | — | — | — | — | (5,914) |
| Bonuses to directors and statutory auditors | — | — | — | — | — | (167) |
| Transfer to voluntary reserve | — | — | — | — | 28,000 | (28,000) |
| Conversion of convertible bonds | 226,733 | 535 | 535 | — | — | — |
| Stock split (1 into 1.10) | 9,860,258 | — | — | — | — | — |
| Balance at March 31, 1998 | 108,615,061 | ¥13,558 | ¥23,363 | ¥3,256 | ¥185,800 | ¥39,039 |
| Net income | — | — | — | — | — | 40,175 |
| Legal reserve | — | — | — | 522 | — | (522) |
| Cash dividends paid | — | — | — | — | — | (7,472) |
| Bonuses to directors and statutory auditors | — | — | — | — | — | (170) |
| Transfer to voluntary reserve | — | — | — | — | 30,500 | (30,500) |
| Proceeds from issuance of new shares | 11,000,000 | 30,888 | 30,877 | — | — | — |
| Balance at March 31, 1999 | 119,615,061 | ¥44,446 | ¥54,240 | ¥3,778 | ¥216,300 | ¥40,550 |

Thousands of U.S. Dollars (Note 3)

| | Number of shares of common stock | Common stock | Additional paid-in capital | Legal reserve | Voluntary reserve | Retained earnings |
|--|--|-----------------|----------------------------------|------------------|----------------------|----------------------|
| Balance at March 31, 1998 | 108,615,061 | \$112,466 | \$193,803 | \$27,007 | \$1,541,269 | \$323,845 |
| Net income | — | — | — | — | — | 333,268 |
| Legal reserve | — | — | — | 4,334 | — | (4,334) |
| Cash dividends paid | — | — | — | — | — | (61,981) |
| Bonuses to directors and statutory auditors | — | — | — | — | — | (1,419) |
| Transfer to voluntary reserve | — | — | — | — | 253,007 | (253,007) |
| Proceeds from issuance of new shares | 11,000,000 | 256,226 | 256,134 | — | — | — |
| Balance at March 31, 1999 | 119,615,061 | \$368,692 | \$449,937 | \$31,341 | \$1,794,276 | \$336,372 |

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, 1999 and 1998

Thousands of
U.S. Dollars
(Note 3)

| | Millions of Yen | | 1999 |
|---|------------------|------------------|--------------------|
| | 1999 | 1998 | |
| Operating activities: | | | |
| Net income | ¥ 40,175 | ¥ 38,668 | \$ 333,268 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 8,527 | 6,982 | 70,739 |
| Credit losses including provision for uncollectible loans | 35,874 | 25,597 | 297,593 |
| Provision for accrued severance indemnities | 541 | 556 | 4,492 |
| Equity in earnings of Tokumei Kumiai | (745) | (372) | (6,178) |
| Gain on liquidation of Tokumei kumiai | — | (1,094) | — |
| Loss on valuation of investments in securities | 44 | 1,736 | 368 |
| Net loss on sales of short-term investments and investments in securities | 94 | 982 | 783 |
| Net loss on sales or disposal of property and equipment | 2,203 | 2,762 | 18,274 |
| Changes in operating assets and liabilities: | | | |
| Increase in accrued interest income | (163) | (1,551) | (1,349) |
| Decrease in prepaid expenses | 389 | 207 | 3,223 |
| Decrease (Increase) in other current assets | 1,343 | (5,715) | 11,142 |
| Increase (Decrease) in accounts payable | (495) | 891 | (4,106) |
| Increase (Decrease) in accrued income taxes | (1,223) | 2,775 | (10,146) |
| Increase in accrued expenses | 424 | 78 | 3,520 |
| Increase (Decrease) in other current liabilities | 94 | (35) | 784 |
| Other, net | 83 | (455) | 656 |
| Net cash provided by operating activities | 87,165 | 72,012 | 723,063 |
| Investing activities: | | | |
| Consumer loans made to customers | (622,392) | (553,263) | (5,162,940) |
| Principal collected on consumer loans | 484,788 | 449,359 | 4,021,469 |
| Payment for purchase of securities | (11,178) | (3,213) | (92,723) |
| Proceeds from sales of securities | 14,239 | 11,556 | 118,117 |
| Purchases of property and equipment | (7,267) | (9,644) | (60,284) |
| Proceeds from sales of property and equipment | 66 | 286 | 547 |
| Increase in fixed leasehold deposits | (218) | (1,506) | (1,812) |
| Increase in other investments | (6,677) | (1,141) | (55,381) |
| Net cash used in investing activities | (148,639) | (107,566) | (1,233,007) |
| Financing activities: | | | |
| Proceeds from issuance of common stock, net of expenses | 58,876 | — | 488,393 |
| Proceeds from long-term debt | 285,746 | 250,516 | 2,370,355 |
| Repayments of long-term debt | (202,334) | (174,885) | (1,678,427) |
| Increase (Decrease) in short-term borrowings | (42,000) | 11,800 | (348,403) |
| Cash dividends paid | (7,473) | (5,917) | (61,987) |
| Bonuses paid to directors and statutory auditors | (171) | (167) | (1,420) |
| Net cash provided by financing activities | 92,644 | 81,347 | 768,511 |
| Net increase in cash and cash equivalents | 31,170 | 45,793 | 258,567 |
| Cash and cash equivalents at beginning of the year | 130,707 | 84,914 | 1,084,252 |
| Cash and cash equivalents at end of the year | ¥161,877 | ¥130,707 | \$1,342,819 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | ¥ 20,071 | ¥ 20,765 | \$ 166,496 |
| Income taxes | 43,975 | 40,980 | 365,152 |

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 and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

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.

The non-consolidated financial statements are not intended to present the non-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. 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 affiliates 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, 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 collectable. 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.

(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. However, if the market value of the securities substantially declines and the decline is deemed to be of a permanent nature, an appropriate writedown is required.

Under the "at the lower of cost or market" method, the comparison of cost with lower market value is made for specific securities, not on an aggregate basis.

(5) Property and Equipment

Property and equipment (other than new buildings acquired on or after April 1, 1998) are depreciated on a declining-balance method over the estimated useful lives of the assets as prescribed by tax laws. The estimated useful lives of the buildings are shortened by about 20% in conformity with 1998 tax changes. 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.

Effective from April 1, 1998, the Company changed its depreciation method for new buildings acquired on or after April 1, 1998 to the straight-line method. This change was made in order to be consistent with the 1998 tax changes.

The effect of the above change and shortening on the results of operations for the year ended March 31, 1999 were not material.

Normal repairs and maintenance including minor renewals and improvements are charged to income as incurred. Gain or loss on the disposal of property and equipment is recognized in the period of disposal.

(6) Investments in and Advances to Subsidiaries and Affiliates

Investments in subsidiaries and affiliates are valued at cost. The equity method to account for investments in common shares of subsidiaries and affiliates 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 portion 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 operating income" ("Financial 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 several Tokumei Kumiai (which is provided by the Commercial Code § 535 and is similar to a limited partnership) agreements with certain leasing companies with the objective of purchasing aircraft and leasing them to foreign aircraft companies as operating leases. The total amount of investments in Tokumei Kumiai as of March 31, 1999 is ¥3,803 million (\$31,544 thousand) and the contract terms range from 10 years to 18 years. Due to the fact that Tokumei Kumiai are designed to incur loss in its early years of operation, the Company has recognized substantial loss on such investments in proportion to its share in Tokumei Kumiai.

Investments in Tokumei Kumiai contracts are included in "Investments in equity other than capital stock" in the accompanying balance sheets. The Company accounts for income or losses under the Tokumei Kumiai contracts as "Equity in earnings of Tokumei Kumiai" in financial statements for the period in which the accounting period of the Tokumei Kumiai ends. The accumulated losses from Tokumei Kumiai contracts aggregated ¥7,846 million (\$65,081 thousand) as of March 31, 1999. 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 temporary 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 lump-sum payments or annual payments after retirement to the retiring employees who have reached the age of 60 (mandatory retirement age) or who have reached the age of 51, with at least 15 years of employment in the Company.

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 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 on the straight-line basis over three years, as permitted by the Japanese Commercial Code.

(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 bonds.

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 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 ¥120.55 to U.S.\$1, being the effective rate of exchange at

March 31, 1999. 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 ¥120.55 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 ¥967,881 million (\$8,028,873 thousand) and ¥858,225 million

as of March 31, 1999 and 1998, respectively.

5. Allowance for Credit Losses

Transactions affecting the "allowance for credit losses" account for the years ended March 31, 1999 and 1998 were summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|------------------------------|----------|------------------------------|
| | For the year ended March 31, | | For the year ended March 31, |
| | 1999 | 1998 | 1999 |
| Balance at beginning | ¥27,790 | ¥23,750 | \$230,527 |
| Credit losses written-off against the allowance | (27,004) | (21,557) | (224,007) |
| Provision for uncollectible loans | 35,234 | 25,597 | 292,278 |
| Balance at end | ¥36,020 | ¥27,790 | \$298,798 |

6. Short-term Investments and Investments in Securities

Short-term investments and investments in securities held by the Company as of March 31, 1999 and 1998 were summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------------------|-----------------|---------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Short-term investments: | | | |
| Equity securities | ¥ 1,182 | ¥ 4,827 | \$ 9,805 |
| Government and corporate bonds | 1,000 | — | 8,295 |
| Other securities | 1,337 | 3,177 | 11,090 |
| | ¥ 3,519 | ¥ 8,004 | \$29,190 |
| Investments in securities: | | | |
| Equity securities | ¥ 9,365 | ¥ 7,993 | \$77,686 |
| Government and corporate bonds | 2,000 | 2,088 | 16,591 |
| | ¥11,365 | ¥10,081 | \$94,277 |

Book value and market value information on short-term investments and investments in securities held by the Company as of March 31, 1999 were 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 | ¥ 1,182 | ¥ 3,082 | ¥1,900 | \$ 9,805 | \$ 25,563 | \$15,758 |
| Other securities | 404 | 336 | (68) | 3,354 | 2,786 | (568) |
| | 1,586 | 3,418 | 1,832 | 13,159 | 28,349 | 15,190 |
| Investments in securities: | | | | | | |
| Equity securities | 8,586 | 15,914 | 7,328 | 71,225 | 132,009 | 60,784 |
| | ¥10,172 | ¥19,332 | ¥9,160 | \$84,384 | \$160,358 | \$75,974 |

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 Company as of March 31, 1999 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|--------------------------------------|-----------------|---------------------------|
| Short-term investments: | | |
| Government and corporate bonds | ¥1,000 | \$8,295 |
| Other securities | 933 | 7,736 |
| Investments in securities: | | |
| Equity securities | 779 | 6,461 |
| Government and corporate bonds | 2,000 | 16,591 |

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

7. 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. 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 rate. The Company does not hold or issue any financial instruments for trading purposes.

The fair values of the off balance sheet financial instruments as of March 31, 1999 were as follows:

| | Millions of Yen | | | |
|---|-----------------|--------------------|-------------|-----------------|
| | Notional amount | | Fair value | Unrealized loss |
| | Total | Due after one year | | |
| Year ending March 31, 1999 | | | | |
| Interest rate swap: | | | | |
| Changing floating rates into fixed rate | ¥ 2,840 | ¥ 1,720 | ¥(40) | ¥ (40) |
| Interest rate cap: | | | | |
| Purchased | 10,000 | 10,000 | 75 | (63) |
| | <u>¥12,840</u> | <u>¥11,720</u> | <u>¥ 35</u> | <u>¥(103)</u> |

| | Thousands of U.S. Dollars | | | |
|---|---------------------------|--------------------|---------------|-----------------|
| | Notional amount | | Fair value | Unrealized loss |
| | Total | Due after one year | | |
| Year ending March 31, 1999 | | | | |
| Interest rate swap: | | | | |
| Changing floating rates into fixed rate | \$ 23,559 | \$14,268 | \$(336) | \$(336) |
| Interest rate cap: | | | | |
| Purchased | 82,953 | 82,953 | 628 | (526) |
| | <u>\$106,512</u> | <u>\$97,211</u> | <u>\$ 292</u> | <u>\$(862)</u> |

8. Property and Equipment

Property and equipment at March 31, 1999 and 1998 were summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Buildings | ¥24,502 | ¥23,167 | \$203,253 |
| Structures | 4,785 | 4,966 | 39,697 |
| Furniture, fixtures and equipment | 31,859 | 29,989 | 264,281 |
| Other | 2 | 2 | 18 |
| | <u>61,148</u> | <u>58,124</u> | <u>507,249</u> |
| Less: Accumulated depreciation | (29,455) | (28,063) | (244,340) |
| | <u>31,693</u> | <u>30,061</u> | <u>262,909</u> |
| Land | 27,801 | 27,870 | 230,618 |
| Construction in progress | 2 | 392 | 13 |
| | <u>¥59,496</u> | <u>¥58,323</u> | <u>\$493,540</u> |

9. Fixed Leasehold Deposits

Fixed leasehold deposits as at March 31, 1999 and 1998 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.

10. Short-term Borrowings and Long-term Debt

Information on the amount of short-term borrowings outstanding at March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Short-term bank loans* | | | |
| Secured | ¥ 1,800 | ¥12,800 | \$ 14,931 |
| Entered into the forward contract of assigning consumer loans receivable | 19,000 | 26,800 | 157,611 |
| Unsecured | 2,000 | 5,200 | 16,591 |
| | 22,800 | 44,800 | 189,133 |
| Commercial paper | — | 20,000 | — |
| | ¥22,800 | ¥64,800 | \$189,133 |
| Notes*: | | | |
| Maximum month-end balance outstanding during the period | ¥45,800 | ¥57,700 | \$379,925 |
| Average month-end balance outstanding during the period | 32,978 | 51,117 | 273,566 |
| Weighted average interest rate for the period | 1.643% | 1.458% | 1.543% |

Short-term bank loans outstanding at March 31, 1999 and 1998 were represented mainly by overdrafts with banks bearing interest at annual rates ranging from 1.058 % to 2.925 % and from 1.063 % to 2.125 %, respectively.

Long-term debt outstanding at March 31, 1999 and 1998 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-----------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Loans, principally from banks and other financial institutions with interest rates indicated below*1: | | | |
| Secured | ¥192,653 | ¥181,085 | \$1,598,117 |
| Entered into the forward contract of assigning consumer loans receivable | 363,493 | 333,568 | 3,015,292 |
| Unsecured | 186,171 | 174,089 | 1,544,348 |
| | 742,317 | 688,742 | 6,157,757 |
| Uncollateralized zero coupon convertible yen bonds, due 2000*2 | 8,931 | 8,931 | 74,082 |
| 2.100% per annum uncollateralized yen bonds, due 2002 | 10,000 | 10,000 | 82,953 |
| 2.600% per annum uncollateralized yen bonds, due 2002 | 10,000 | 10,000 | 82,953 |
| 2.000% per annum uncollateralized yen bonds, due 2002 | 10,000 | 10,000 | 82,953 |
| 2.100% per annum uncollateralized yen bonds, due 2001 | 10,000 | — | 82,953 |
| 2.100% per annum uncollateralized yen bonds, due 2001 | 10,000 | — | 82,953 |
| 2.050% per annum uncollateralized yen bonds, due 2002 | 10,000 | — | 82,953 |
| Less: portion due within one year | (245,124) | (193,398) | (2,033,379) |
| | ¥566,124 | ¥534,275 | \$4,696,178 |
| Weighted average interest rate for the period | 2.681% | 2.872% | 2.681% |

Notes: *1 Annual interest rates on loans from banks and other financial institutions outstanding as of March 31, 1999 and 1998 ranged from 0.710% to 4.900% and from 1.253% to 8.655%, respectively.

*2 The uncollateralized convertible yen bonds in the initial principal amount of ¥10,000 million due February 22, 2000 were issued on February 22, 1996, and are convertible into common stock of the Company. The current conversion price is ¥4,492.00 (\$37.26) per share. The conversion price was adjusted from ¥4,566.40 to ¥4,492.00, effective on June 19, 1998, due to the issuance of new shares.

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, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------|-----------------|----------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Consumer loans receivable* | ¥199,569 | ¥198,922 | \$1,655,489 |
| Investments in securities | 332 | 321 | 2,753 |
| | ¥199,901 | ¥199,243 | \$1,658,242 |

Note: * In addition to the above assets pledged, the Company entered into the forward contract of assigning consumer loans receivable. The contract amounts were ¥397,534 million (\$3,297,667 thousand) and ¥376,279 million as of March 31, 1999 and 1998, respectively.

The aggregate annual maturities of long-term debt, excluding the above bonds, outstanding at March 31, 1999 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|-----------------------|-----------------|---------------------------|
| Year ending March 31, | | |
| 2000 | ¥236,193 | \$1,959,297 |
| 2001 | 210,372 | 1,745,103 |
| 2002 | 161,512 | 1,339,793 |
| 2003 | 91,301 | 757,370 |
| 2004 and thereafter | 42,939 | 356,194 |
| | ¥742,317 | \$6,157,757 |

11. Pension Plans

The accumulated balances of fund assets of the funded pension plans of the Company aggregated ¥5,685 million (\$47,161 thousand), as of March 31, 1999, 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.

12. 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, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------|------------------------------|--------|------------------------------|
| | For the year ended March 31, | | For the year ended March 31, |
| | 1999 | 1998 | 1999 |
| Rental expense | ¥2,503 | ¥2,387 | \$20,764 |
| Depreciation expense | 2,271 | 2,186 | 18,838 |
| Interest expense | 191 | 216 | 1,584 |

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, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------|-----------------|--------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Due within one year | ¥2,122 | ¥2,198 | \$17,599 |
| Due after one year | 1,710 | 1,942 | 14,186 |
| | ¥3,832 | ¥4,140 | \$31,785 |

A summary of the leased properties under the above leases as of March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of |
|---|-----------------|---------|--------------|
| | March 31, | | U.S. Dollars |
| | 1999 | 1998 | March 31, |
| | | | 1999 |
| Furniture, fixtures and equipment | ¥10,415 | ¥8,613 | \$86,393 |
| Other | 475 | 404 | 3,940 |
| | 10,890 | 9,017 | 90,333 |
| Less: Accumulated depreciation | (7,199) | (5,051) | (59,715) |
| | ¥ 3,691 | ¥3,966 | \$30,618 |

(2) The aggregate future lease payments under ordinary operating leases as of March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of |
|---------------------------|-----------------|------|--------------|
| | March 31, | | U.S. Dollars |
| | 1999 | 1998 | March 31, |
| | | | 1999 |
| Due within one year | ¥122 | ¥113 | \$1,015 |
| Due after one Year | 41 | 150 | 338 |
| | ¥163 | ¥263 | \$1,353 |

13. Contingent Liabilities

As of March 31, 1999, the balance of guaranty of liabilities is ¥15,417 million (\$127,890 thousand). This primarily guarantees subsidiaries' loan payable to banks and other financial institutions. As to ¥1,548 million (\$12,842 thousand) of guaranty of liabilities, which is the subsidiaries' loan payable to the banks, the Company has concluded the forward contract assigning consumer loans receivable with the

banks in connection with consumer loans receivable in the amount of ¥2,369 million (\$19,649 thousand).

In addition, the Company's consumer loans receivable of ¥1,941 million (\$16,107 thousand) pledged as collateral for guaranty of liability, which is the subsidiary's loan payable to the bank in the amount of ¥778 million (\$6,454 thousand).

14. 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 November 20, 1997, the Company made stock splits to shareholders of record as of September 30, 1997 of 9,860 thousand shares in the ratio of 1.10 shares for each one share held.

On June 18, 1998, the Company made a public offering of 11,000 thousand shares at issue price of ¥5,615 (\$46.58) per share of the total proceeds from the

sale of new share amounting to ¥61,765 million (\$512,360 thousand). The proceeds were credited in approximately equal amounts to common stock and additional paid-in capital.

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.

15. Other Operating Income

As described in Note2(3), 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.

These collected amounts for the years ended March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of |
|-------------------------|--------------------|--------|--------------------|
| | For the year ended | | U.S. Dollars |
| | March 31, | | For the year ended |
| | 1999 | 1998 | March 31, |
| | | | 1999 |
| Collected amounts | ¥4,282 | ¥4,381 | \$35,524 |

16. Financial Expenses

Interest expense, which was included in "Financial expenses" in the accompanying non-consolidated statements of income, for the years ended March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of |
|------------------------|--------------------|---------|--------------------|
| | For the year ended | | U.S. Dollars |
| | March 31, | | For the year ended |
| | 1999 | 1998 | March 31, 1999 |
| Interest expense | ¥20,485 | ¥21,262 | \$169,930 |

17. General and Administrative Expenses

General and administrative expenses in the accompanying non-consolidated statements of income, for the years ended March 31, 1999 and 1998 consisted of the following:

| | Millions of Yen | | Thousands of |
|-------------------------------------|--------------------|----------------|--------------------|
| | For the year ended | | U.S. Dollars |
| | March 31, | | For the year ended |
| | 1999 | 1998 | March 31, 1999 |
| Advertisements | ¥13,906 | ¥11,325 | \$115,358 |
| Employees' salary and bonuses | 20,699 | 19,582 | 171,704 |
| Rent expenses | 10,599 | 10,620 | 87,923 |
| Other | 51,649 | 45,002 | 428,438 |
| | <u>¥96,853</u> | <u>¥86,529</u> | <u>\$803,423</u> |

18. 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 48 % and 51 % for the years ended March 31, 1999 and 1998, respectively.

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 temporary differences between financial accounting and tax reporting purposes. The main elements of such temporary 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.

19. Subsequent Events

At the general shareholders' meeting of the Company held on June 29, 1999, the appropriation of unappropriated retained earnings was duly approved as follows:

| | Millions of Yen | Thousands of |
|--|-----------------|------------------|
| | | U.S. Dollars |
| Balance at March 31, 1999 | ¥40,550 | \$336,372 |
| Appropriation: | | |
| Legal reserve | (7,333) | (60,832) |
| Cash dividends, ¥32.5 (\$0.27) per share | (3,888) | (32,248) |
| Transfer to voluntary reserve | (24,500) | (203,235) |
| Directors' and statutory auditors' bonuses | (175) | (1,452) |
| | <u>¥ 4,654</u> | <u>\$ 38,605</u> |

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, 1999 and 1998, and the related non-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 non-consolidated financial statements referred to above present fairly the non-consolidated financial position of Promise Co., Ltd. as of March 31, 1999 and 1998, and the non-consolidated results of its operations and its 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.

The amount 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 non-consolidated financial statements.

Chuo Audit Corporation

Chuo Audit Corporation

Osaka, Japan
June 29, 1999

Consolidated Balance Sheets

Promise Co., Ltd.
March 31, 1999 and 1998

Thousands of
U.S. Dollars
(Note 3)

| | Millions of Yen | | 1999 |
|--|-------------------|-------------------|---------------------|
| | 1999 | 1998 | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | ¥ 171,599 | ¥ 136,283 | \$ 1,423,466 |
| Receivables and consumer loans: | | | |
| Notes and accounts receivable (Note 10) | 46,970 | 38,478 | 389,635 |
| Consumer loans receivable (Notes 4 and 10): | | | |
| Principal | 1,025,452 | 913,564 | 8,506,449 |
| Accrued interest income | 9,692 | 9,627 | 80,395 |
| Less: allowance for credit losses (Note 5) | (39,112) | (30,224) | (324,452) |
| | 1,043,002 | 931,445 | 8,652,027 |
| Short-term investments (Note 6) | 3,566 | 8,002 | 29,583 |
| Prepaid expenses | 3,054 | 3,300 | 25,334 |
| Other current assets | 13,621 | 15,978 | 112,991 |
| Total current assets | 1,234,842 | 1,095,008 | 10,243,401 |
| Investments and advances: | | | |
| Investments in securities (Notes 6 and 10) | 11,418 | 10,254 | 94,714 |
| Investments in and advances to unconsolidated subsidiaries and affiliates | 5,780 | 7,502 | 47,943 |
| Investments in equity other than capital stock (Notes 2 (11) and 10) | 5,188 | 5,229 | 43,035 |
| Long-term prepaid expenses | 9,747 | 3,783 | 80,856 |
| Other investments and advances | 7,623 | 6,765 | 63,237 |
| Less: allowance for credit losses (Note 5) | (859) | (870) | (7,126) |
| Total investments and advances | 38,897 | 32,663 | 322,659 |
| Property and equipment, net (Note 8) | 61,042 | 60,131 | 506,363 |
| Fixed leasehold deposits (Note 9) | 13,509 | 13,247 | 112,066 |
| Deferred charge | 1,926 | — | 15,978 |
| Adjustments on foreign currency statement translation | 280 | 26 | 2,319 |
| Total assets | ¥1,350,496 | ¥1,201,075 | \$11,202,786 |

The accompanying notes are an integral part of these statements.

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|--|-------------------|-------------------|--|
| | 1999 | 1998 | 1999 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| Current liabilities: | | | |
| Short-term borrowings (Note 10) | ¥ 48,425 | ¥ 83,305 | \$ 401,695 |
| Current portion of long-term debt (Note 10) | 268,528 | 211,210 | 2,227,524 |
| Accounts payable: | | | |
| Trade | 430 | 567 | 3,571 |
| Other | 8,798 | 7,770 | 72,978 |
| | 9,228 | 8,337 | 76,549 |
| Accrued income taxes (Note 18) | 25,386 | 26,713 | 210,588 |
| Accrued expenses | 5,639 | 5,213 | 46,780 |
| Deferred unrealized profit on sales | 1,448 | 1,791 | 12,012 |
| Other current liabilities | 6,381 | 5,257 | 52,933 |
| Total current liabilities | 365,035 | 341,826 | 3,028,081 |
| Long-term liabilities: | | | |
| Long-term debt (Note 10) | 599,635 | 568,666 | 4,974,158 |
| Non-current accounts payable (Note 2 (11)) | 7,846 | 8,590 | 65,081 |
| Accrued severance indemnities (Note 11) | 7,418 | 6,910 | 61,533 |
| Excess investment cost under net assets of consolidated subsidiaries acquired | — | 48 | — |
| Other long-term debt | 1,950 | 1,981 | 16,184 |
| Total long-term liabilities | 616,849 | 586,195 | 5,116,956 |
| Minority interest | 4,297 | 4,186 | 35,648 |
| Contingent liabilities (Note 13) | | | |
| Shareholders' equity (Note 14): | | | |
| Common stock, ¥50 par value: | | | |
| Authorized – 300,000,000 shares | | | |
| Issued: | | | |
| – 119,615,061 shares at March 31, 1999 | 44,446 | — | 368,692 |
| – 108,615,061 shares at March 31, 1998 | — | 13,558 | — |
| Additional paid-in capital | 54,240 | 23,363 | 449,937 |
| Retained earnings | 265,630 | 231,949 | 2,203,478 |
| Less: treasury stock | (1) | (2) | (6) |
| Total shareholders' equity | 364,315 | 268,868 | 3,022,101 |
| Total liabilities and shareholders' equity | ¥1,350,496 | ¥1,201,075 | \$11,202,786 |

Consolidated Statements of Income

Promise Co., Ltd.

For the years ended March 31, 1999 and 1998

Thousands of
U.S. Dollars
(Note 3)

| | Millions of Yen | | 1999 |
|--|-----------------|-----------------|-------------------|
| | 1999 | 1998 | |
| Operating income (Note 19): | | | |
| Interest on consumer loans | ¥244,570 | ¥224,079 | \$2,028,784 |
| Sales | 14,971 | 19,046 | 124,188 |
| Other operating income (Note 15) | 11,513 | 9,961 | 95,504 |
| Total operating income | 271,054 | 253,086 | 2,248,476 |
| Operating expenses (Note 19): | | | |
| Financial expenses (Note 16) | 23,108 | 23,752 | 191,686 |
| Cost of sales | 12,914 | 16,985 | 107,128 |
| General and administrative expenses (Note 17) | 106,914 | 95,204 | 886,887 |
| Credit losses including provision for uncollectible loans (Note 5) | 40,764 | 28,751 | 338,145 |
| Total operating expenses | 183,700 | 164,692 | 1,523,846 |
| Operating profit (Note 19) | 87,354 | 88,394 | 724,630 |
| Other income (expenses): | | | |
| Interest and dividend income on investments | 321 | 376 | 2,661 |
| Amortization of deferred charge | (963) | — | (7,989) |
| Bond issue expenses | (163) | (120) | (1,350) |
| Insurance money received and insurance dividend | 140 | 173 | 1,164 |
| Interest expense | (933) | (832) | (7,735) |
| Equity in earnings of Tokumei Kumiai (Note 2 (11)) | 979 | 579 | 8,118 |
| Net loss on sales of short-term investments and investments in securities | (160) | (962) | (1,326) |
| Loss on valuation of investments in securities | (44) | (1,784) | (368) |
| Net loss on sales or disposal of property and equipment | (2,366) | (2,871) | (19,628) |
| Gain on liquidation of Tokumei Kumiai | — | 1,151 | — |
| Amortization of excess of cost under net assets acquired, net | 49 | 48 | 404 |
| Other, net | 347 | (300) | 2,876 |
| Total other expenses, net | (2,793) | (4,542) | (23,173) |
| Income before income taxes | 84,561 | 83,852 | 701,457 |
| Income taxes (Note 18) | 43,764 | 44,858 | 363,032 |
| Minority interest | 165 | 53 | 1,367 |
| Net income | ¥ 40,632 | ¥ 38,941 | \$ 337,058 |

| | Yen | | U.S. Dollars (Note 3) |
|---|----------|----------|--------------------------|
| | 1999 | 1998 | |
| Amount per share: | | | |
| Net income: | | | |
| Basic | ¥ 346.59 | ¥ 359.31 | \$ 2.88 |
| Diluted | 340.81 | 352.19 | 2.83 |
| Cash dividends | 65 | 63 | 0.54 |
| Weighted average number of shares (Thousands): | | | |
| Basic | 117,234 | 108,378 | 117,234 |
| Diluted | 119,222 | 110,568 | 119,222 |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Promise Co., Ltd.

For the years ended March 31, 1999 and 1998

Millions of Yen

| | Number of shares of common stock | Common stock | Additional paid-in capital | Retained earnings | Treasury stock |
|--|--|-----------------|----------------------------------|----------------------|-------------------|
| Balance at March 31, 1997 | 98,528,070 | ¥13,023 | ¥22,828 | ¥199,449 | ¥(0) |
| Net income | — | — | — | 38,941 | — |
| Cash dividends paid | — | — | — | (5,914) | — |
| Bonuses to directors and statutory auditors | — | — | — | (177) | — |
| Conversion of convertible bonds | 226,733 | 535 | 535 | — | — |
| Stock split (1 into 1.10) | 9,860,258 | — | — | — | — |
| Decrease due to inclusion of a company in the consolidation | — | — | — | (350) | — |
| Increase in treasury stock | — | — | — | — | (2) |
| Balance at March 31, 1998 | 108,615,061 | ¥13,558 | ¥23,363 | ¥231,949 | ¥(2) |
| Net income | — | — | — | 40,632 | — |
| Cash dividends paid | — | — | — | (7,472) | — |
| Bonuses to directors and statutory auditors | — | — | — | (172) | — |
| Proceeds from issuance of new shares | 11,000,000 | 30,888 | 30,877 | — | — |
| Increase due to inclusion of a company in the consolidation | — | — | — | 979 | — |
| Decrease due to inclusion of a company in the consolidation | — | — | — | (286) | — |
| Decrease in treasury stock | — | — | — | — | 1 |
| Balance at March 31, 1999 | 119,615,061 | ¥44,446 | ¥54,240 | ¥265,630 | ¥(1) |

Thousands of U.S. Dollars (Note 3)

| | Number of shares of common stock | Common stock | Additional paid-in capital | Retained earnings | Treasury stock |
|--|--|-----------------|----------------------------------|----------------------|-------------------|
| Balance at March 31, 1998 | 108,615,061 | \$112,466 | \$193,803 | \$1,924,090 | \$(15) |
| Net income | — | — | — | 337,058 | — |
| Cash dividends paid | — | — | — | (61,981) | — |
| Bonuses to directors and statutory auditors | — | — | — | (1,441) | — |
| Proceeds from issuance of new shares | 11,000,000 | 256,226 | 256,134 | — | — |
| Increase due to inclusion of a company in the consolidation | — | — | — | 8,122 | — |
| Decrease due to inclusion of a company in the consolidation | — | — | — | (2,370) | — |
| Decrease in treasury stock | — | — | — | — | 9 |
| Balance at March 31, 1999 | 119,615,061 | \$368,692 | \$449,937 | \$2,203,478 | \$(6) |

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Promise Co., Ltd.

For the years ended March 31, 1999 and 1998

Thousands of
U.S. Dollars
(Note 3)

| | Millions of Yen | | Thousands of U.S. Dollars (Note 3) |
|--|------------------|------------------|--|
| | 1999 | 1998 | |
| Operating activities: | | | |
| Net income | ¥ 40,632 | ¥ 38,941 | \$ 337,058 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 9,486 | 7,779 | 78,688 |
| Credit losses including provision for uncollectible loans | 40,764 | 28,751 | 338,147 |
| Provision for accrued severance indemnities | 508 | 557 | 4,210 |
| Equity in earnings of Tokumei Kumiai | (745) | (372) | (6,178) |
| Gain on liquidation of Tokumei Kumiai | — | (1,094) | — |
| Loss on valuation of investments in securities | 44 | 1,784 | 368 |
| Net loss on sales of short-term investments and investments in securities | 160 | 962 | 1,326 |
| Net loss on sales or disposal of property and equipment | 2,366 | 2,871 | 19,628 |
| Changes in operating assets and liabilities: | | | |
| Increase in notes and accounts receivable | (9,200) | (8,605) | (76,313) |
| Increase in accrued interest income | (234) | (1,696) | (1,938) |
| Decrease in prepaid expenses | 254 | 198 | 2,107 |
| Decrease (Increase) in other current assets | 3,545 | (5,841) | 29,409 |
| Increase (Decrease) in accounts payable | (1,432) | 1,417 | (11,879) |
| Increase (Decrease) in accrued income taxes | (1,375) | 3,193 | (11,403) |
| Increase in accrued expenses | 420 | 124 | 3,484 |
| Increase (Decrease) in deferred unrealized profit on sales | (343) | 283 | (2,844) |
| Increase (Decrease) in other current liabilities | 1,266 | (6,385) | 10,506 |
| Increase in minority interest | 162 | 14 | 1,345 |
| Other, net | 546 | (1,088) | 4,515 |
| Net cash provided by operating activities | 86,824 | 61,793 | 720,236 |
| Investing activities: | | | |
| Consumer loans made to customers | (666,044) | (593,669) | (5,525,047) |
| Principal collected on consumer loans | 522,265 | 481,108 | 4,332,356 |
| Payment for purchase of securities | (11,178) | (3,281) | (92,723) |
| Proceeds from sales of securities | 14,375 | 11,631 | 119,246 |
| Purchases of property and equipment | (7,877) | (10,822) | (65,342) |
| Proceeds from sales of property and equipment | 273 | 294 | 2,265 |
| Increase in fixed leasehold deposits | (208) | (1,536) | (1,726) |
| Increase in other investments | (7,448) | (1,063) | (61,784) |
| Net cash used in investing activities | (155,842) | (117,338) | (1,292,755) |
| Financing activities: | | | |
| Proceeds from issuance of common stock, net of expenses | 58,876 | — | 488,393 |
| Proceeds from long-term debt | 311,729 | 286,327 | 2,585,891 |
| Repayments of long-term debt | (224,378) | (198,574) | (1,861,287) |
| Increase (Decrease) in short-term borrowings | (36,383) | 21,518 | (301,811) |
| Cash dividends paid | (7,523) | (5,917) | (62,409) |
| Bonuses paid to directors and statutory auditors | (174) | (177) | (1,441) |
| Net cash provided by financing activities | 102,147 | 103,177 | 847,336 |
| Net increase in cash and cash equivalents | 33,129 | 47,632 | 274,817 |
| Cash and cash equivalents at beginning of the year | 138,470 | 88,651 | 1,148,649 |
| Cash and cash equivalents at end of the year | ¥171,599 | ¥136,283 | \$1,423,466 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | ¥ 22,272 | ¥ 22,400 | \$ 184,755 |
| Income taxes | 45,095 | 41,655 | 374,074 |

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 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 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. Summary of Significant Accounting Policies

(1) Scope and Significant Accounting Policies

The Company had 13 subsidiaries and 4 affiliates (which term includes 20 % to 50 % owned companies) as of March 31, 1999 and 15 subsidiaries and 4 affiliates as of March 31, 1998. The accompanying consolidated financial statements include the accounts of the Company and 6 (4 for each of the previous years) of its subsidiaries (together, the "Companies"), which are listed below:

| Name | Country of incorporation | Equity ownership percentage at March 31, 1999 | Fiscal year-end |
|--------------------------------|--------------------------|---|-----------------|
| GC Co., Ltd. | Japan | 63.86% | March 31 |
| Liang Jing Co., Ltd. | Taiwan | 100.00% | December 31 |
| Yuukei Co., Ltd. | Taiwan | 99.92% | December 31 |
| PROMISE (HONG KONG) CO., LTD. | Hong Kong | 100.00% | December 31 |
| Net Future Co., Ltd.* | Japan | 100.00% | March 31 |
| PAL Research Center Co., Ltd.* | Japan | 100.00% | March 31 |

*Included in the consolidation effective from the year ended March 31, 1999.

The remaining 7 unconsolidated subsidiaries at March 31, 1999 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. The amounts of certain subsidiaries have been included on the basis of fiscal periods ended three months prior to March 31

(2) 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 revised 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. 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.

(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 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, 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, 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 collectable. 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.

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. However, if the market value of the securities substantially declines and the decline is deemed to be of a permanent nature, an appropriate writedown is required.

Under the "at the lower of cost or market" method, the comparison of cost with lower market value is made for specific securities, not on an aggregate basis.

(6) Property and Equipment

Property and equipment (other than new buildings acquired on or after April 1, 1998) are depreciated on a declining-balance method over the estimated useful lives of the assets as prescribed by tax laws. The estimated useful lives of the buildings are shortened by about 20% in conformity with 1998 tax changes. 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.

Effective from April 1, 1998, the Company changed its depreciation method for new buildings acquired on or after April 1, 1998 to the straight-line method. This change was made in order to be consistent with the 1998 tax changes.

The effect of the above change and shortening on the results of operations for the year ended March 31, 1999 were not material.

Normal repairs and maintenance including minor renewals and improvements are charged to income as incurred. Gain or loss on the disposal of property and equipment is recognized in the period of disposal.

(7) Investments in Unconsolidated Subsidiaries and Affiliates

Investments in unconsolidated subsidiaries and affiliates are carried at cost and are not adjusted for equity in earnings (loss) of such subsidiaries and affiliates 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 portion 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 operating income" ("Financial 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 several Tokumei Kumiai (which is provided by the Commercial Code § 535 and is similar to a limited partnership) agreements with certain leasing companies with the objective of purchasing aircraft and leasing them to foreign aircraft companies as operating leases. The total amount of investments in Tokumei Kumiai as of March 31, 1999 is ¥3,803 million (\$31,544 thousand) and the contract terms range from 10 years to 18 years. Due to the fact that Tokumei Kumiai are designed to incur loss in its early years of operation, the Company has recognized substantial loss on such investments in proportion to its share in Tokumei Kumiai.

Investments in Tokumei Kumiai contracts are included in "Investments in equity other than capital stock" in the accompanying balance sheets. The Company accounts for income or losses under the Tokumei Kumiai contracts as "Equity in earnings of Tokumei Kumiai" in the accompanying financial statements for the period in which the accounting period of the Tokumei Kumiai ends. The accumulated losses from Tokumei Kumiai contracts aggregated ¥7,846 million (\$65,081 thousand) as of March 31, 1999. 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 temporary 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 lump-sum payments or annual payments after retirement to the retiring employees who have reached the age of 60 (mandatory retirement age) or who have reached the age of 51, with at least 15 years of employment in the Company.

Effective March, 1994, all the retirement benefits of GC Co., Ltd. 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 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 accompanying balance sheets represent the estimated amount to be paid if all directors and statutory auditors retired at the balance sheet dates.

(14) Deferred Charge

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

(15) Bond Issue Expenses

Bond issue expenses are charged to income as incurred.

(16) 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 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.

(17) 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 bonds.

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

(18) 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.

(19) Reclassifications

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

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 ¥120.55 to U.S.\$1, being the effective rate of exchange at

March 31, 1999. 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 ¥120.55 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 ¥1,016,719 million (\$8,434,004 thousand) and ¥902,361 million as of March 31, 1999 and 1998, respectively.

5. Allowance for Credit Losses

Transactions affecting the "allowance for credit losses" account for the years ended March 31, 1999 and 1998 were summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|--------------------|----------|---------------------------|
| | For the year ended | | For the year ended |
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Balance at beginning | ¥31,094 | ¥25,926 | \$257,928 |
| Credit losses written-off against the allowance | (30,147) | (23,583) | (250,066) |
| Provision for uncollectible loans | 39,024 | 28,751 | 323,716 |
| Balance at end | ¥39,971 | ¥31,094 | \$331,578 |

6. Short-term Investments and Investments in Securities

Short-term investments and investments in securities held by the Companies as of March 31, 1999 and 1998 were summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------------------|-----------------|---------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Short-term investments: | | | |
| Equity securities | ¥ 1,181 | ¥ 4,826 | \$ 9,799 |
| Government and corporate bonds | 1,002 | — | 8,313 |
| Other securities | 1,383 | 3,176 | 11,471 |
| | ¥ 3,566 | ¥ 8,002 | \$29,583 |
| Investments in securities: | | | |
| Equity securities | ¥ 9,418 | ¥ 8,116 | \$78,124 |
| Government and corporate bonds | 2,000 | 2,138 | 16,590 |
| | ¥11,418 | ¥10,254 | \$94,714 |

Book value and market value information on short-term investments and investments in securities held by the Companies as of March 31, 1999 were 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 | ¥ 1,181 | ¥ 3,081 | ¥1,900 | \$ 9,799 | \$ 25,557 | \$15,758 |
| Other securities | 445 | 364 | (81) | 3,686 | 3,016 | (670) |
| | 1,626 | 3,445 | 1,819 | 13,485 | 28,573 | 15,088 |
| Investments in securities: | | | | | | |
| Equity securities | 8,586 | 15,913 | 7,327 | 71,225 | 132,008 | 60,783 |
| | ¥10,212 | ¥19,358 | ¥9,146 | \$84,710 | \$160,581 | \$75,871 |

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, 1999 were as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|--------------------------------------|-----------------|---------------------------|
| Short-term investments: | | |
| Government and corporate bonds | ¥1,002 | \$ 8,313 |
| Other securities | 938 | 7,785 |
| Investments in securities: | | |
| Equity securities | 832 | 6,899 |
| Government and corporate bonds | 2,000 | 16,590 |

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

7. 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. In addition, the Company and GC Co., Ltd. enters into interest rate cap agreements. These

agreements are used to reduce the exposure to market risk from fluctuation in interest rate. The Companies does not hold or issue any financial instruments for trading purposes.

The fair values of the off balance sheet financial instruments as of March 31, 1999 were as follows:

| | Millions of Yen | | | |
|---|-----------------|--------------------|-------------|-----------------|
| | Notional amount | | Fair value | Unrealized loss |
| | Total | Due after one year | | |
| Year ending March 31, 1999 | | | | |
| Interest rate swap: | | | | |
| Changing floating rates into fixed rate | ¥ 2,840 | ¥ 1,720 | ¥(40) | ¥ (40) |
| Interest rate cap: | | | | |
| Purchased | 13,000 | 10,000 | 75 | (82) |
| | <u>¥15,840</u> | <u>¥11,720</u> | <u>¥ 35</u> | <u>¥(122)</u> |

| | Thousands of U.S. Dollars | | | |
|---|---------------------------|--------------------|---------------|------------------|
| | Notional amount | | Fair value | Unrealized loss |
| | Total | Due after one year | | |
| Year ending March 31, 1999 | | | | |
| Interest rate swap: | | | | |
| Changing floating rates into fixed rate | \$ 23,559 | \$14,268 | \$(336) | \$ (336) |
| Interest rate cap: | | | | |
| Purchased | 107,839 | 82,953 | 628 | (684) |
| | <u>\$131,398</u> | <u>\$97,211</u> | <u>\$ 292</u> | <u>\$(1,020)</u> |

8. Property and Equipment

Property and equipment at March 31, 1999 and 1998 were summarized as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Buildings | ¥25,245 | ¥24,155 | \$209,414 |
| Structures | 4,979 | 4,966 | 41,300 |
| Furniture, fixtures and equipment | 34,405 | 32,372 | 285,404 |
| Other | 33 | 37 | 279 |
| | <u>64,662</u> | <u>61,530</u> | <u>536,397</u> |
| Less: Accumulated depreciation | (31,424) | (29,662) | (260,671) |
| | <u>33,238</u> | <u>31,868</u> | <u>275,726</u> |
| Land | 27,802 | 27,871 | 230,624 |
| Construction in progress | 2 | 392 | 13 |
| | <u>¥61,042</u> | <u>¥60,131</u> | <u>\$506,363</u> |

9. Fixed Leasehold Deposits

Fixed leasehold deposits as at March 31, 1999 and 1998 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.

10. Short-term Borrowings and Long-term Debt

Information on the amount of short-term borrowings outstanding at March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Short-term bank loans* | | | |
| Secured | ¥ 8,747 | ¥16,703 | \$ 72,556 |
| Entered into the forward contract of assigning consumer loans receivable | 20,000 | 27,800 | 165,906 |
| Unsecured | 10,059 | 12,063 | 83,444 |
| | 38,806 | 56,566 | 321,906 |
| Commercial paper and other | | | |
| Secured | 8,619 | 6,739 | 71,494 |
| Unsecured | 1,000 | 20,000 | 8,295 |
| | 9,619 | 26,739 | 79,789 |
| | ¥48,425 | ¥83,305 | \$401,695 |
| Notes*: | | | |
| Maximum month-end balance outstanding during the period | ¥61,327 | ¥68,624 | \$508,726 |
| Average month-end balance outstanding during the period | 46,788 | 63,812 | 388,121 |
| Weighted average interest rate for the period | 2.981% | 2.111% | 2.981% |

Short-term bank loans outstanding at March 31, 1999 and 1998 were represented mainly by overdrafts with banks bearing interest at annual rates ranging from 1.058% to 10.250%, and from 1.063% to 12.125%, respectively.

The principal ranges of annual interest rates applicable to commercial paper and other at March 31, 1999 and 1998 were from 2.137% to 6.650% and from 1.500% to 8.450%, respectively.

Long-term debt outstanding at March 31, 1999 and 1998 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-----------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Loans, principally from banks and other financial institutions with interest rates indicated below*1: | | | |
| Secured | ¥235,883 | ¥225,331 | \$1,956,723 |
| Entered into the forward contract of assigning consumer loans receivable | 372,757 | 339,436 | 3,092,139 |
| Unsecured | 190,592 | 176,178 | 1,581,020 |
| | 799,232 | 740,945 | 6,629,882 |
| Uncollateralized zero coupon convertible yen bonds, due 2000*2 | 8,931 | 8,931 | 74,082 |
| 2.100% per annum uncollateralized yen bonds, due 2002 | 10,000 | 10,000 | 82,953 |
| 2.600% per annum uncollateralized yen bonds, due 2002 | 10,000 | 10,000 | 82,953 |
| 2.000% per annum uncollateralized yen bonds, due 2002 | 10,000 | 10,000 | 82,953 |
| 2.100% per annum uncollateralized yen bonds, due 2001 | 10,000 | — | 82,953 |
| 2.100% per annum uncollateralized yen bonds, due 2001 | 10,000 | — | 82,953 |
| 2.050% per annum uncollateralized yen bonds, due 2002 | 10,000 | — | 82,953 |
| Less: portion due within one year | (268,528) | (211,210) | (2,227,524) |
| | ¥599,635 | ¥568,666 | \$4,974,158 |
| Weighted average interest rate for the period | 2.684% | 2.871% | 2.684% |

Notes: *1 Annual interest rates on loans from banks and other financial institutions outstanding as of March 31, 1999 and 1998 ranged from 0.710% to 4.900% and from 1.253% to 8.920%, 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 ¥4,492.00 (\$37.26) per share. The conversion price was adjusted from ¥4,566.40 to ¥4,492.00, effective on June 19, 1998, due to the issuance of new shares.

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 at March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-----------------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Notes and accounts receivable | ¥ 23,893 | ¥ 26,387 | \$ 198,198 |
| Consumer loans receivable* | 237,836 | 232,017 | 1,972,926 |
| Investments in securities | 332 | 312 | 2,753 |
| Investments in equity other than capital stock | 50 | — | 416 |
| | <u>¥262,111</u> | <u>¥258,716</u> | <u>\$2,174,293</u> |

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 ¥415,270 million (\$3,444,795 thousand) and ¥382,311 million as of March 31, 1999 and 1998, respectively.

The aggregate annual maturities of long-term debt, excluding the above bonds, outstanding at March 31, 1999 were as follows:

| Year ending March 31, | Millions of Yen | Thousands of U.S. Dollars |
|---------------------------|-----------------|---------------------------|
| 2000 | ¥259,597 | \$2,153,442 |
| 2001 | 229,467 | 1,903,503 |
| 2002 | 170,686 | 1,415,891 |
| 2003 | 94,594 | 784,691 |
| 2004 and thereafter | 44,888 | 372,355 |
| | <u>¥799,232</u> | <u>\$6,629,882</u> |

11. Pension Plans

The accumulated balances of fund assets of the funded pension plans of the Company aggregated ¥5,685 million (\$47,161 thousand), as of March 31, 1999, which is the date of the most recent actuarial valuation.

The accumulated balances of fund assets of the funded pension plans of GC Co., Ltd. aggregated ¥111 million (\$918 thousand), as of August 31, 1998, 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.

12. 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, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------|------------------------------|--------|------------------------------|
| | For the year ended March 31, | | For the year ended March 31, |
| | 1999 | 1998 | 1999 |
| Rental expense | ¥2,535 | ¥2,387 | \$21,031 |
| Depreciation expense | 2,299 | 2,186* | 19,070 |
| Interest expense | 198 | 216* | 1,639 |

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, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------------|-----------------|---------------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Due within one year | ¥2,165 | ¥2,198 | \$17,960 |
| Due after one year | 1,862 | 1,942 | 15,446 |
| | <u>¥4,027</u> | <u>¥4,140</u> | <u>\$33,406</u> |

A summary of the leased properties under the above leases as of March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Furniture, fixtures and equipment | ¥10,645 | ¥8,613* | \$88,302 |
| Other | 475 | 404* | 3,940 |
| | 11,120 | 9,017* | 92,242 |
| Less: Accumulated depreciation | (7,237) | (5,051)* | (60,030) |
| | ¥ 3,883 | ¥3,966* | \$32,212 |

Note: * These amounts were not examined by the auditors of the Company, because the information relating to these amounts had not been required to be disclosed under Japanese GAAP.

(2) The aggregate future lease payments under ordinary operating leases as of March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------------|-----------------|------|---------------------------|
| | March 31, | | March 31, |
| | 1999 | 1998 | 1999 |
| Due within one year | ¥136 | ¥113 | \$1,129 |
| Due after one year | 43 | 150 | 357 |
| | ¥179 | ¥263 | \$1,486 |

13. Contingent Liabilities

As of March 31, 1999, the balance of guaranty of liabilities is ¥5 million (\$40 thousand).

14. 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 November 20, 1997, the Company made stock splits to shareholders of record as of September 30, 1997 of 9,860 thousand shares in the ratio of 1.10 shares for each one share held.

On June 18, 1998, the Company made a public offering of 11,000 thousand shares at issue price of ¥5,615 (\$46.58) per share of the total proceeds from the

sale of new share amounting to ¥61,765 million (\$512,360 thousand). The proceeds were credited in approximately equal amounts to common stock and additional paid-in capital.

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.

15. Other Operating Income

As described in Note2(4), 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.

These collected amounts for the years ended March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------|------------------------------|--------|------------------------------|
| | For the year ended March 31, | | For the year ended March 31, |
| | 1999 | 1998 | 1999 |
| Collected amounts | ¥4,520 | ¥4,660 | \$37,498 |

16. Financial Expenses

Interest expense, which was included in "Financial expenses" in the accompanying consolidated statements of income, for the years ended March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|------------------------|---------------------------------|---------|---------------------------------|
| | For the year ended March 31, | | For the year ended March 31, |
| | 1999 | 1998 | 1999 |
| Interest expense | ¥22,695 | ¥22,949 | \$188,267 |

17. General and Administrative Expenses

General and administrative expenses in the accompanying consolidated statements of income, for the years ended March 31, 1999 and 1998 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------------|---------------------------------|----------------|---------------------------------|
| | For the year ended March 31, | | For the year ended March 31, |
| | 1999 | 1998 | 1999 |
| Advertisements | ¥ 15,735 | ¥13,273 | \$130,528 |
| Employees' salary and bonuses | 23,183 | 21,595 | 192,306 |
| Rent expenses | 11,794 | 11,475 | 97,832 |
| Other | 56,202 | 48,861 | 466,221 |
| | <u>¥106,914</u> | <u>¥95,204</u> | <u>\$886,887</u> |

18. 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 48% and 51% for the years ended March 31, 1999 and 1998, respectively.

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 temporary differences between financial accounting and tax reporting purposes. The main elements of such temporary 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.

19. Segment Information by Business Activities

The Companies' operations by business segment were as follows:

| | Millions of Yen | | | Adjustments and eliminations | Consolidated |
|-----------------------------|---------------------------------|-------------------|-----------------|------------------------------------|-----------------|
| | Consumer finance business | Other business | Total | | |
| Year ended March 31, 1999 | | | | | |
| Operating income from: | | | | | |
| Outside customers | ¥ 253,789 | ¥17,265 | ¥ 271,054 | ¥ — | ¥ 271,054 |
| Intersegment | — | 1,217 | 1,217 | (1,217) | — |
| Total | 253,789 | 18,482 | 272,271 | (1,217) | 271,054 |
| Operating expenses | 155,462 | 17,904 | 173,366 | 10,334 | 183,700 |
| Operating profit | <u>¥ 98,327</u> | <u>¥ 578</u> | <u>¥ 98,905</u> | <u>¥ (11,551)</u> | <u>¥ 87,354</u> |
| Assets | ¥1,258,034 | ¥45,881 | ¥1,303,915 | ¥ 46,581 | ¥1,350,496 |
| Depreciation expenses | 6,352 | 387 | 6,739 | 142 | 6,881 |
| Capital expenditure | 9,344 | 331 | 9,675 | 65 | 9,740 |

| | Millions of Yen | | | | Consolidated |
|-----------------------------|---------------------------------|-------------------|------------|------------------------------------|--------------|
| | Consumer finance business | Other business | Total | Adjustments and eliminations | |
| Year ended March 31, 1998 | | | | | |
| Operating income from: | | | | | |
| Outside customers | ¥ 232,418 | ¥20,668 | ¥ 253,086 | ¥ — | ¥ 253,086 |
| Intersegment | — | 219 | 219 | (219) | — |
| Total | 232,418 | 20,887 | 253,305 | (219) | 253,086 |
| Operating expenses | 134,617 | 20,554 | 155,171 | 9,521 | 164,692 |
| Operating profit | ¥ 97,801 | ¥ 333 | ¥ 98,134 | ¥ (9,740) | ¥ 88,394 |
| Assets | ¥1,117,972 | ¥44,405 | ¥1,162,377 | ¥38,698 | ¥1,201,075 |
| Depreciation expenses | 6,212 | 387 | 6,599 | 180 | 6,779 |
| Capital expenditure | 10,080 | 562 | 10,642 | 260 | 10,902 |

| | Thousands of U.S. Dollars | | | | Consolidated |
|-----------------------------|---------------------------------|-------------------|--------------|------------------------------------|--------------|
| | Consumer finance business | Other business | Total | Adjustments and eliminations | |
| Year ended March 31, 1999 | | | | | |
| Operating income from: | | | | | |
| Outside customers | \$ 2,105,255 | \$143,221 | \$ 2,248,476 | \$ — | \$ 2,248,476 |
| Intersegment | — | 10,093 | 10,093 | (10,093) | — |
| Total | 2,105,255 | 153,314 | 2,258,569 | (10,093) | 2,248,476 |
| Operating expenses | 1,289,609 | 148,516 | 1,438,125 | 85,721 | 1,523,846 |
| Operating profit | \$ 815,646 | \$ 4,789 | \$ 820,444 | \$ (95,814) | \$ 724,630 |
| Assets | \$10,435,789 | \$380,594 | \$10,816,383 | \$386,403 | \$11,202,786 |
| Depreciation expenses | 52,694 | 3,209 | 55,903 | 1,178 | 57,081 |
| Capital expenditure | 77,515 | 2,740 | 80,255 | 536 | 80,791 |

Unallocated corporate expenses and assets, which were included in "Adjustments and eliminations" for the years ended March 31, 1999 and 1998 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------|---------------------------------|---------|---------------------------------|
| | For the year ended March 31, | | For the year ended March 31, |
| | 1999 | 1998 | 1999 |
| Corporate expenses | ¥10,569 | ¥ 9,740 | \$ 87,673 |
| Corporate assets | 46,798 | 38,884 | 388,203 |

20. Subsequent Events

At the general shareholders' meeting of the Company held on June 29, 1999, the appropriation of unappropriated retained earnings was duly approved as follows:

| | Millions of Yen | Thousands of U.S. Dollars |
|--|-----------------|------------------------------|
| | | |
| Balance at March 31, 1999 | ¥265,630 | \$2,203,478 |
| Appropriation: | | |
| Legal reserve | (7,333) | (60,832) |
| Cash dividends, ¥32.5 (\$0.27) per share | (3,888) | (32,248) |
| Transfer to voluntary reserve | (24,500) | (203,235) |
| Directors' and statutory auditors' bonuses | (175) | (1,452) |
| | ¥229,734 | \$1,905,711 |

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 accompanying consolidated balance sheets of Promise Co., Ltd. and its consolidated subsidiaries as of March 31, 1999 and 1998, 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, 1999 and 1998, 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.

The amount 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.

Chuo Audit Corporation

Chuo Audit Corporation

Osaka, Japan
June 29, 1999