

# Consolidated Financial Review

CSK HOLDINGS CORPORATION and Consolidated Subsidiaries

## 1. Analysis of Operating Results

### (1) Overview of operations

During the fiscal year under review, the Japanese economy continued its moderate recovery, underpinned by higher corporate profits and a firming trend in capital expenditure. However, in the second half of the fiscal year, the impact of the global credit crunch that began with the sub-prime loan issue in the U.S. resulted in a slowing down of business performance growth and capital expenditure, due to a sudden appreciation of the yen and high raw materials prices.

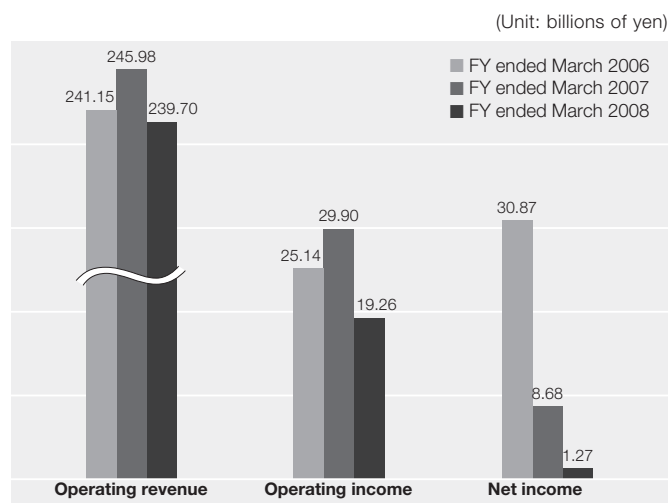
This has in turn led to increasing stagnation in the corporate sector, a key driver of the Japanese economy in recent years. In the U.S., falling house prices, a worsening employment situation and the rising price of crude oil have all affected consumer spending, rapidly diminishing business confidence. In Europe, despite strong exports, problems of financial market volatility, currency appreciation, and price escalation have begun to cause concern. Against a background of such economic trends in the major markets of the U.S., Europe and Japan, the Japanese stock market has declined substantially compared with the previous fiscal year. This has combined with Japan's continuing lack of clear political direction to place the Japanese economy in a harsh environment ranging between standstill and slowdown.

In IT services, IT-related capital spending increased comparatively steadily, although clients are making stronger demands with regard to delivery, quality and price, in pursuit of the highest possible productivity. Meanwhile, the shift to a new generation of IT engineers and the maturation of the industry itself are becoming acknowledged as important management issues.

In the financial services business, the U.S. sub-prime issue has also caused credit contraction in Japan, with particularly harsh investment conditions emerging toward the end of the fiscal year. The U.S. sub-prime issue also affected the securities business, prompting net selling that has led to a substantial drop in the Japanese stock market compared to the previous fiscal year. In the prepaid card business, despite growth in demand from corporations making increased use of prepaid cards as sales promotion tools and hospitality programs for stockholders as the membership network expanded, a newly competitive environment has emerged, influenced, among other factors, by a rapid spread in the use of shared IC cards in public transport, the uptake of which is set to expand further.

In the context of this business environment, we have been implementing measures relating to three management policies: "I. Transforming into being a comprehensive service provider", "II. Ensuring management transparency and shareholder

returns", and "III. Achieving sustainability (the continuous development of society)" during the current business year.



Operating revenue decreased 2.6% to ¥239.70 billion. Operating income decreased 35.6% to ¥19.26 billion; and net income decreased 85.3% to ¥1.27 billion.

Operating revenue decreased 2.6% to ¥239.70 billion, mainly as a result of a carryover into the next year of revenue from the financial services business that had been expected to arise toward the end of the year under review, along with the impact on the securities business of the weak stock market. This was despite the IT services business showing steady expansion in finance and insurance industry systems integration in the technology services domain, and strong performance in product verification services in the business services domain.

Operating income decreased 35.6% to ¥19.26 billion. The IT services business recorded substantial growth in technology services, supported by higher revenue and an emphasis on selecting profitable projects, as well as progress in improving productivity; these combined to offset higher strategic investments geared toward medium- to long-term growth in business services, resulting in a 4.3% increase in the income of this segment. However, a number of factors in other business areas offset this increase. Earnings declined in the financial services business, reflecting the absence of the settlement of a large-scale investment project that boosted performance in the previous year, along with a carryover into the next year of investment returns that had been expected at the end of the year under review. In addition, performance in the securities business declined suddenly, and higher expenses were recorded in association with the Group's information infrastructure, and the outcome was an overall decline in operating income.

Net income decreased 85.3% to ¥1.27 billion, due to the factors affecting ordinary income, as well as Extraordinary losses being recorded of ¥13.34 billion for loss on impairment of fixed assets of a consolidated subsidiary, and certain other factors.

## Results by segment

An outline of the services provided by each business segment is shown below, followed by results for each segment.

Business segment	Services provided
IT services business	Technology services → IT services for systems integration and management, etc. Business services → IT operation services for contact center, BPO*, verification, etc.
Financial services business	Investment business (anonymous associations, real estate, shares, etc.), venture capital business, etc.
Securities business	Comprehensive securities services
Prepaid card business	QUO card issuance and settlement services

### [IT services business]

Operating revenue increased 2.2% to ¥198.64 billion, supported in technology services by steady expansions in systems integration mainly for the finance and insurance industries, and in business services by verification services for the digital appliance and ITS\* customers. A contribution was also made by a new business in mail order fulfillment services\* for the fashion business.

Operating income increased 4.3% to ¥15.41 billion. Operating revenue increased substantially from technology services and improved production efficiency in systems integration, which offset new business establishment costs and call center-related equipment investment in the business services field.

\* BPO (Business Process Outsourcing): Consigning operations to an outside company to improve efficiency and quality and promote differentiation.

\* ITS (Intelligent Transport System): A new transport system comprised of an advanced information and telecommunications network for users, roads and vehicles.

\* Fulfillment service: Back-office business from order to delivery of merchandise.

### [Financial services business]

Operating revenue decreased 18.7% to ¥20.39 billion and operating income decreased 17.4% to ¥13.09 billion. These decreases reflect the absence of returns from investments in real estate and equities via anonymous associations that lifted results in the previous year, along with the carryover into the next year of expected returns on an investment project, due to credit contraction in the Japanese stock market arising from the sub-prime loan problem in the U.S.

### [Securities business]

Sales and operating revenue in this segment decreased 10.2% to ¥22.18 billion. Concomitant with global credit contraction stemming from the U.S. sub-prime loan problem, the stock market weakened, and handling fees for share offerings and other fees received decreased, as did income from trading of equities and bonds.

An operating loss of ¥4.06 billion was recorded for the year, a decrease of ¥5.81 billion. In addition to the decrease in revenue, SG&A expenses increased, and costs were incurred for the establishment of CSK-RB SECURITIES CORPORATION, a provider of securities services to regional financial institutions.

### [Prepaid card business]

Operating revenue decreased 35.2% to ¥2.44 billion. Progress was made in introducing prepaid cards to new business types such as bookstores and service industries, and customer numbers increased for the use of cards in hospitality programs for stockholders and as promotional gifts. However, this was offset by the impact of major convenience store chains issuing similar prepaid cards, along with the absence of the high levels of equipment replacement sales that temporarily boosted sales in the previous year. Operating loss of ¥0.11 billion was recorded for the year, compared to an operating loss of ¥0.25 billion in the previous year, reflecting favorable sales of gift cards with high profitability, along with lower SG&A expenses.

The aforementioned segment-based sales also include inter-segment sales.

**(2) Management initiatives implemented during the fiscal year**

Specific initiatives undertaken during the current fiscal year in relation to the three management policies are as follows.

**I Transforming into being a comprehensive service provider**

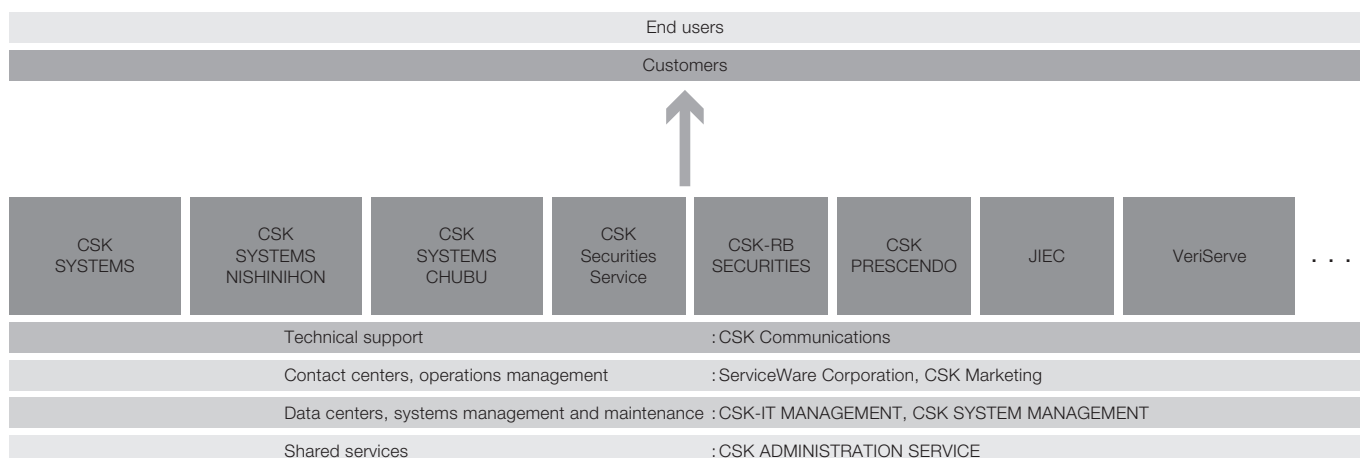
**1) IT services business**

- i) In the IT services business segment, we reorganized the following Group companies in the technology services segment, seeking more timely and appropriate decision-making and greater efficiency, and aiming to develop a Group system that facilitates smoother cooperation. The new system started operations in July 2007. Furthermore, we centralized the corporate staff functions of the companies subject to the reorganization at CSK ADMINISTRATION SERVICE CORPORATION, targeting unification and strengthening of internal control systems and greater efficiency in administration.
- ii) In the IT services segment, we are also centralizing and integrating the technical support business of Group companies in the business services segment, aiming to strengthen productivity and quality competitiveness and achieve further growth and development. The new system started operations in January 2008. Furthermore, the corporate staff functions of the companies subject to the reorganization have been centralized at CSK ADMINISTRATION SERVICE CORPORATION.
- iii) The Group has been engaged in an important development project for a new securities system, "ESTREX", that includes the development of front-office systems, infrastructure and management base and subsequent marketing to customers. Although development of this project is

proceeding to plan, a number of factors have led us to take a conservative approach to projecting revised revenue returns from sales of "ESTREX", and for the year under review, we have recorded an impairment loss. These factors include a rapid fall in the market share from the second half of the year, an industry tendency towards deferred systems investment due to measures related to the impending dematerialization of share certificates, and the outlook for further significant changes in the securities industry business environment.

- iv) In the IT services business, we carried out the following joint initiatives/new service development projects.
  - In July 2007, we concluded a business and capital alliance with Bit-isle Inc., which is strong in the Internet data center business for small and medium-sized enterprises, aiming to expand and enhance our customer base in the IT outsourcing services field.
  - In order to provide a host of e-commerce systems and services, we formed an alliance with Xavel, Inc., which manages some of Japan's largest mobile commerce sites and fashion commerce sites, and, from April 2007, began operations through a joint venture company, CSK PRESCENDO CORPORATION.
  - We ran a booth at FIT2007 (Financial Information Technology 2007), displaying our various services in the financial and securities fields.

Through these business reorganizations in both technology services and business services, in computer services we intend to pursue business using a system classified into the following functions.



## 2) *Financial services, securities and prepaid card business*

- i) In the financial services business, we made active investments based on appropriate management and monitoring systems, aiming to make a stable contribution to profits. Furthermore, in November 2007, Plaza Capital Management Co., Ltd. started to provide commodity investment advisory services, as part of our drive to expand our operations in the financial services business.
- ii) CSK-RB SECURITIES CORPORATION completed its registration as a securities company in June 2007, and started business activities. The company will provide consulting services and support for regional financial institutions regarding the establishment of securities subsidiaries, securities systems and operational support, investment information, and product planning, product provision, sales and training support in a unified and comprehensive manner.
- iii) In the securities business operations of our consolidated subsidiary, Cosmo Securities Co., Ltd., we strived to expand our investment trust, foreign exchange margin transactions, and foreign equity products, and actively carried out various sales initiatives such as holding lectures and seminars, in order to meet retail customers' diverse asset management needs, while also ensuring that information is provided to customers more actively than before. As part of measures to strengthen the management of these operations, we have shifted to a new management structure from late June 2008.
- iv) In the prepaid card business, we have introduced prepaid card systems for a major bookstore chain and to service industry companies, new developments aimed at making use of cards more widespread and improving customers' convenience.

## 3) *Initiatives under holding company structure*

In October 2007, we received approval from Yokohama City to operate business in the Minato Mirai 21 development area, where we plan to establish our new head office building. Through this head office relocation, we aim to achieve more efficient business operations by bringing together the offices of various Group companies that were spread throughout Tokyo, and develop a base for CSR and research and development.

## II Ensuring management transparency and shareholder returns

### 1) *Ensuring management transparency*

As a result of the shift to a holding company structure in October 2005, the Group's overall framework has been finalized, which will serve as the foundation for ensuring management transparency. Nevertheless, with the objective of further improving management transparency, we are working to develop the systems of the Group as a whole, by putting in place expert organizations and other measures, aiming to build or develop the internal control systems required by the Companies Law and the Financial Instruments and Exchange Law.

### 2) *Shareholder returns policy*

In April 2005, CSK HOLDINGS CORPORATION ("the Company") formulated and announced a consolidated financial-position-linked shareholder returns policy based on dividends on equity (DOE\*), and has been allocating dividends based on this policy.

	Trends in annual dividends per share
Fiscal year ended March 2008	¥40
Fiscal year ended March 2007	¥40
Fiscal year ended March 2006	¥40
Fiscal year ended March 2005	¥17
Fiscal year ended March 2004	¥15

\* DOE = Total amount of dividends paid / [average of net assets related to common stock at start and end of fiscal year] X 100

In the fiscal year under review, we repurchased, as outlined below, our own shares as treasury stock, in order to improve capital efficiency and enable a flexible capital policy that can respond to changes in the operating environment.

February 2008	3 million shares	¥7.68 billion
May 2007	1 million shares	¥4.40 billion

## III Achieving sustainability (the continuous development of society)

In June 2007, we opened CSK Tama Center, a base for research and CSR activities, in the Tama region of Tokyo. CSK Tama Center will contribute to CSK Group's sustainability initiatives, function as a new base for Group communications, and serve as a space for creating a new corporate culture and values.

Furthermore, CSK Institute for Sustainability, Ltd. (CSK-IS), the Group's think tank for conducting research and development on the theme of sustainability, held the CSK-IS International Symposium to commemorate the completion of the construction of CSK Tama Center. The symposium featured speeches by and panel discussions involving many of the leading Japanese and overseas experts on the necessary conditions for the sustainable development of the planet and the human race, and active debate, consideration and recommendations on the topic of sustainability.

In order to contribute also to sustainability in the international community, CSK Group has also decided to participate in the UN Global Compact\*.

\* UN Global Compact: 10 principles regarding corporate social responsibility proposed by the United Nations, covering human rights, labour standards, environment and anti-corruption.

## 2. Analysis of financial position and cash flows

### (1) Assets, liabilities and net assets

**Assets decreased ¥27.24 billion (4.7%) to ¥550.05 billion**

Current assets decreased ¥25.65 billion to ¥436.38 billion. Although "Investments related to financial services" increased, current assets in securities services decreased, and "Cash and time deposits" decreased.

Noncurrent assets decreased ¥1.59 billion to ¥113.67 billion. Principal factors included an increase in buildings and structures and land accompanying the acquisition of the CSK Sanda Center and acquisitions for the CSK Tama Center. At the same time, following a review of revenue projections, a conservative approach has been taken with the software that had been recorded in Other intangible fixed assets under Intangible fixed assets, and an impairment loss was recorded. "Investments in securities" also decreased.

**Liabilities decreased ¥3.96 billion (1.1%) to ¥364.56 billion**

Current liabilities amounted to ¥284.03 billion, due to factors such as a reduction in liabilities of the securities services business and the maturation of bonds causing a decrease in "Current portion of corporate bonds payable". At the same time, "Short-term bank loans payable" increased, and "Liabilities related to financial services" increased.

Long-term liabilities decreased ¥8.16 billion to ¥78.94 billion, mainly due to a reduction in "Convertible bonds payable" and a transfer from "Long-term bank loans payable" to "Short-term bank loans payable".

**Net assets decreased ¥23.28 billion (11.2%) to ¥185.50 billion**

Factors that increased Net assets included Net income for the year, along with an increase in "Common stock" and "Capital surplus" arising from the exercise of stock options. Factors that decreased Net assets included the payment of dividends from retained earnings, a reduction in "Net unrealized gains on securities", "Foreign currency translation adjustments", Minority interests and the acquisition of treasury stock.

### (2) Cash flows

**Cash flows from operating activities minus ¥30.36 billion (decrease of ¥37.43 billion)**

Although cash inflows increased as a result of "Proceeds from refund of income taxes" and lower "Income taxes paid" along with decreased "Receivables related to margin transactions", outflows arising from an increase in "Investments related to financial services" resulted in a decrease of ¥37.43 billion in operating cash flows.

**Cash flows from investing activities minus ¥27.95 billion (decrease of ¥11.41 billion)**

Although cash was received from "Proceeds from sales of investments in securities", outflows arising from the acquisition of the CSK Sanda Center and acquisitions for the CSK Tama Center, an increase in time deposits, along with a reduction in "Purchases of property and equipment", led to a reduction of ¥11.41 billion in cash flows from investing activities.

**Cash flows from financing activities ¥12.20 billion (decrease of ¥27.33 billion)**

During the fiscal year under review, an inflow of cash was received arising from an increase in Short-term bank loans payable. However, an outlay of ¥21.21 billion was recorded for the "Redemption of corporate bonds". A further factor was the absence of the bond issuance that in the previous year resulted in an inflow of ¥35.00 billion. As a result, cash flows from financing activities decreased by ¥27.33 billion.

**Cash and cash equivalents ¥59.20 billion (decrease of ¥46.25 billion or 43.9%)**

Reflecting the cash flows described above, cash and cash equivalents as of March 31, 2008 amounted to ¥59.20 billion, a decrease of ¥46.25 billion compared to March 31, 2007.

# Consolidated Balance Sheets

CSK HOLDINGS CORPORATION and Consolidated Subsidiaries  
As of March 31, 2006, 2007 and 2008

ASSETS	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
<b>Current assets:</b>				
Cash (Notes 2 (3), 3 and 9) . . . . .	¥ 77,444	¥108,405	¥ 64,013	\$ 638,912
Notes and accounts receivable (Note 2 (23)) . . . . .	36,080	33,689	31,026	309,666
Marketable securities (Notes 2 (4), 3, 4 and 9) . . . . .	3,911	7,207	11,702	116,797
Venture capital investments (Notes 2 (4), 2 (5) and 6) . . . . .	3,176	2,138	4,166	41,583
Inventories (Notes 2 (9) and 5) . . . . .	8,112	4,820	4,888	48,791
Income taxes refundable . . . . .	—	6	5,000	49,904
Deferred income taxes (Notes 2 (20) and 16) . . . . .	7,346	12,318	6,508	64,960
Investments related to financial services (Notes 2 (4), 2 (5), 6 and 9) . . . . .	94,124	110,842	198,428	1,980,514
Cash segregated as deposits related to securities business . . . . .	57,696	46,395	32,892	328,293
Trading assets related to securities business (Note 9) . . . . .	10,863	15,679	6,825	68,120
Receivables related to margin transactions . . . . .	112,121	91,105	46,105	460,179
Other current assets (Note 2 (23)) . . . . .	29,454	33,560	25,158	251,105
Allowance for losses on investment securities (Note 2 (8)) . . . . .	—	(3,869)	(235)	(2,344)
Allowance for doubtful accounts (Note 2 (7)) . . . . .	(162)	(266)	(92)	(920)
Total current assets . . . . .	440,165	462,029	436,384	4,355,560
<b>Property and equipment, net of accumulated depreciation</b> (Notes 2 (10) and 7) . . . . .	26,986	26,967	34,346	342,806
<b>Deferred charges and intangible assets</b> (Notes 2 (11) and 25) . . . . .	4,434	14,040	8,877	88,605
<b>Investments and other assets:</b>				
Investments in securities (Notes 2 (4), 4 and 9) . . . . .	58,680	60,041	49,327	492,343
Prepaid pension cost (Notes 2 (15) and 12) . . . . .	3,269	3,325	3,219	32,125
Deferred income taxes (Notes 2 (20) and 16) . . . . .	970	1,968	8,415	83,990
Other assets (Note 9) . . . . .	10,751	10,778	10,557	105,367
Allowance for doubtful accounts (Note 2 (7)) . . . . .	(2,121)	(1,853)	(1,071)	(10,685)
	71,549	74,259	70,447	703,140
<b>Total assets</b> (Note 32) . . . . .	¥543,134	¥577,295	¥550,054	\$5,490,111

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS (Shareholders' equity)	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
<b>Current liabilities:</b>				
Accounts payable (Note 2 (23))	¥ 14,016	¥ 11,293	¥ 11,585	\$ 115,629
Short-term bank loans payable (Notes 8 and 9)	23,854	28,052	69,511	693,792
Current portion of corporate bonds payable (Note 8)	—	20,000	—	—
Accrued income taxes	10,869	8,624	3,113	31,070
Deposits received on prepaid cards (Notes 2 (23) and 9)	38,977	42,860	46,564	464,762
Accrued bonuses to employees (Note 2 (12))	6,289	6,420	7,026	70,130
Accrued bonuses to directors and statutory auditors (Note 2 (13))	—	62	5	50
Allowance for anticipated losses on contracts (Note 2 (14))	3,174	898	369	3,687
Liabilities related to financial services (Notes 6, 8 and 9)	—	15,137	44,371	442,866
Trading liabilities related to securities business	4,756	9,180	2,602	25,973
Payables related to margin transactions (Notes 8 and 9)	77,342	55,842	19,324	192,871
Deposits received and guarantee deposits received from customers related to securities business	65,984	56,002	44,128	440,444
Other current liabilities (Notes 2 (21), 2 (23), 8 and 9)	22,102	25,701	35,435	353,676
Total current liabilities	267,363	280,071	284,033	2,834,950
<b>Long-term liabilities:</b>				
Corporate bonds payable (Note 8)	40,000	20,000	20,000	199,621
Convertible bonds payable (Note 8)	23,000	58,000	56,792	566,843
Long-term bank loans payable (Note 8)	5,000	5,000	84	838
Accrued employees' retirement benefits (Notes 2 (15) and 12)	787	587	341	3,404
Accrued directors' retirement benefits (Note 2 (16))	240	206	159	1,584
Other long-term liabilities	2,235	3,307	1,565	15,622
Total long-term liabilities	71,262	87,100	78,941	787,912
<b>Statutory reserve:</b>				
Reserve for securities trading liabilities (Note 2 (17))	1,079	1,347	1,580	15,767
Reserve for financial futures trading liabilities (Note 2 (18))	0	2	4	44
Total statutory reserve	1,079	1,349	1,584	15,811
<b>Minority interests</b> (Note 2 (27))	23,606	—	—	—
<b>Commitments and contingencies</b> (Notes 2 (24), 9, 10, 15, 28, 29, and 33)				
<b>Shareholders' equity</b> (Note 13):				
Common stock—				
Authorized: 298,000,000 shares				
Issued: 77,791,992 shares in 2006	71,524	—	—	—
Capital surplus	36,138	—	—	—
Retained earnings	80,719	—	—	—
Net unrealized gains on securities (Notes 2 (4), 2 (5) and 4)	11,069	—	—	—
Foreign currency translation adjustments (Note 2 (2))	—	—	—	—
Treasury stock, at cost (Note 14)	(19,626)	—	—	—
Total shareholders' equity	179,824	—	—	—
<b>Total liabilities and shareholders' equity</b>	¥543,134	¥ —	¥ —	\$ —
<b>Net assets</b> (Note 2 (27))				
<b>Shareholders' equity</b> (Note 13):				
Common stock—				
Authorized: 298,000,000 shares				
Issued: 78,437,124 shares in 2007				
78,670,524 shares in 2008	—	72,790	73,225	730,865
Capital surplus	—	37,404	37,792	377,202
Retained earnings	—	84,692	83,007	828,499
Treasury stock, at cost (Note 14)	—	(19,649)	(31,614)	(315,545)
Total shareholders' equity	—	175,237	162,410	1,621,021
<b>Valuation, translation adjustments and other</b>				
Net unrealized gains on securities (Notes 2 (4), 2 (5) and 4)	—	8,949	1,697	16,933
Net unrealized gains (losses) on hedging derivatives (Note 2 (6))	—	0	(7)	(71)
Foreign currency translation adjustments (Note 2 (2))	—	—	(626)	(6,244)
Total valuation, translation adjustments and other	—	184,186	163,474	1,631,639
<b>Minority interests</b>	—	24,589	22,022	219,799
<b>Total net assets</b>	—	208,775	185,496	1,851,438
<b>Total liabilities and net assets</b>	¥ —	¥577,295	¥550,054	\$5,490,111

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Income

CSK HOLDINGS CORPORATION and Consolidated Subsidiaries  
For each of the three years in the period ended March 31, 2008

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
<b>Operating revenue</b> (Notes 2 (21), 2 (23) and 32) . . . . .	¥241,155	¥245,982	¥239,695	\$2,392,406
<b>Costs and expenses:</b>				
Operating costs (Notes 2 (19), 2 (23) and 17) . . . . .	156,582	157,621	153,713	1,534,211
Selling, general and administrative expenses (Notes 2 (19), 17 and 25) . . . . .	59,435	58,456	66,726	665,995
Operating income (Notes 2 (23) and 32) . . . . .	25,138	29,905	19,256	192,200
<b>Other income (expenses):</b>				
Interest and dividends income . . . . .	332	643	918	9,161
Interest expenses . . . . .	(174)	(98)	(66)	(659)
Gain on sales of investments in securities (Note 18) . . . . .	21,457	89	281	2,810
Loss on sales of investments in securities . . . . .	—	(28)	(288)	(2,875)
Foreign exchange loss . . . . .	—	—	(717)	(7,154)
Loss on write-downs of investments in securities . . . . .	(295)	(556)	(1,659)	(16,557)
Gain on change in interest in consolidated subsidiary (Note 19) . . . . .	4	(30)	367	3,662
Equity in earning of unconsolidated subsidiaries and affiliates . . . . .	198	—	—	—
Hoard profit of prepaid card (Note 2 (23)) . . . . .	909	965	1,032	10,296
Provision for accrued employees' retirement benefits (Note 2 (15)) . . . . .	(261)	(261)	(261)	(2,602)
Transfer of agents' commission . . . . .	(187)	(153)	(138)	(1,375)
Loss on cancellation of leases . . . . .	(3)	(266)	(1)	(15)
Insurance loss . . . . .	(98)	—	—	—
Transfer of one's domicile's adjustment costs . . . . .	(106)	(195)	(141)	(1,403)
Gain on sales of fixed assets . . . . .	15,898	208	1	13
Gain on transfer of business . . . . .	—	277	—	—
Gain from reversal of allowance for anticipated losses on contracts (Note 2 (14)) . . . . .	—	484	—	—
Loss on disposal of fixed assets . . . . .	(1,153)	(161)	(740)	(7,389)
Loss on impairment of fixed assets (Notes 2 (26) and 21) . . . . .	(3,380)	(0)	(13,345)	(133,195)
Loss on relocation of datacenter (Note 22) . . . . .	(1,568)	—	—	—
Loss on cancellation of system development (Note 23) . . . . .	(2,945)	—	—	—
Compensation received for relocation (Note 20) . . . . .	—	—	950	9,482
Provision for reserve for securities trading liabilities (Note 2 (17)) . . . . .	(421)	(268)	(232)	(2,322)
Provision for reserve for financial futures trading liabilities (Note 2 (18)) . . . . .	(0)	(2)	(2)	(23)
Loss on cancellation of service (Note 24) . . . . .	(1,240)	—	—	—
Other, net . . . . .	681	160	(533)	(5,319)
	27,648	808	(14,574)	(145,464)
Income before income taxes and minority interests (Notes 2 (23) and 2 (26)) . . . . .	52,786	30,713	4,682	46,736
<b>Income taxes</b> (Notes 2 (20) and 16):				
Current . . . . .	12,557	18,986	5,864	58,531
Deferred . . . . .	6,476	(4,533)	2,276	22,724
Refund (Note 27) . . . . .	—	—	(2,763)	(27,582)
Reversal of prior-year's income taxes and prior-year's income taxes-deferred (Note 26) . . . . .	—	6,210	—	—
	19,033	20,663	5,377	53,673
Income before minority interests . . . . .	33,753	10,050	(695)	(6,937)
<b>Minority interests in subsidiaries</b> . . . . .	(2,878)	(1,371)	1,967	19,634
<b>Net income</b> . . . . .	¥ 30,875	¥ 8,679	¥ 1,272	\$ 12,697
		yen		U.S. dollars (Note1)
<b>Per share information:</b>				
Net income per share (Notes 2 (25) and 31) . . . . .	¥410.52	¥117.35	¥17.34	\$0.17
Diluted net income per share (Notes 2 (25) and 31) . . . . .	387.98	105.60	15.46	0.15
Cash dividends (Note 2 (25)) . . . . .	40.00	40.00	40.00	0.40

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

CSK HOLDINGS CORPORATION and Consolidated Subsidiaries  
For each of the three years in the period ended March 31, 2008

millions of yen

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gains (losses) on securities	Net unrealized gains (losses) on hedging derivatives	Foreign currency translation adjustments	Minority interests	Total
Balance as of March 31, 2005	¥69,490	¥34,115	¥51,262	¥ (5,615)	¥ 7,296	¥—	¥ (63)	¥ —	¥156,485
Exercise of stock options	2,034	2,034							4,068
Loss on disposition of treasury stock		(11)							(11)
Net income			30,875						30,875
Increase due to exclusion from consolidation of subsidiaries			61						61
Foreign currency translation adjustments (Note 2 (2))							63		63
Unrealized losses on securities (Notes 2 (4), 2 (5) and 4)					3,773				3,773
Cash dividends			(1,282)						(1,282)
Directors' and corporate auditors' bonuses			(197)						(197)
Purchases of treasury stock, net				(14,011)					(14,011)
<b>Balance as of March 31, 2006</b>	<b>¥71,524</b>	<b>¥36,138</b>	<b>¥80,719</b>	<b>¥(19,626)</b>	<b>¥11,069</b>	<b>¥—</b>	<b>¥ —</b>	<b>¥ —</b>	<b>¥179,824</b>
Reclassified Balance as of March 31, 2006 (Note 2 (27))								23,606	23,606
Exercise of stock options	1,266	1,266							2,532
Cash dividends*			(2,945)						(2,945)
Cash dividends			(1,480)						(1,480)
Directors' and statutory auditors' bonuses*			(281)						(281)
Net income			8,679						8,679
Repurchases of treasury stock				(24)					(24)
Disposal of treasury stock				1					1
Net changes in items other than shareholders' equity					(2,120)	0		983	(1,137)
<b>Balance as of March 31, 2007</b>	<b>¥72,790</b>	<b>¥37,404</b>	<b>¥84,692</b>	<b>¥(19,649)</b>	<b>¥ 8,949</b>	<b>¥ 0</b>	<b>¥ —</b>	<b>¥24,589</b>	<b>¥208,775</b>
Exercise of stock options	435	435							870
Cash dividends*			(1,486)						(1,486)
Cash dividends			(1,471)						(1,471)
Net income			1,272						1,272
Repurchases of treasury stock				(12,100)					(12,100)
Disposal of treasury stock		(47)		135					88
Net changes in items other than shareholders' equity					(7,252)	(7)	(626)	(2,567)	(10,452)
<b>Balance as of March 31, 2008</b>	<b>¥73,225</b>	<b>¥37,792</b>	<b>¥83,007</b>	<b>¥(31,614)</b>	<b>¥ 1,697</b>	<b>¥ (7)</b>	<b>¥(626)</b>	<b>¥22,022</b>	<b>¥185,496</b>

\* Relates to a distribution of cash dividends approved in shareholders' meetings in June 2006 and 2007.

thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gains (losses) on securities	Net unrealized gains (losses) on hedging derivatives	Foreign currency translation adjustments	Minority interests	Total
Balance as of March 31, 2007	\$726,523	\$373,332	\$845,310	\$(196,119)	\$ 89,324	\$ 2	\$ —	\$245,424	\$2,083,796
Exercise of stock options	4,342	4,343							8,685
Cash dividends*			(14,830)						(14,830)
Cash dividends			(14,678)						(14,678)
Net income			12,697						12,697
Repurchases of treasury stock				(120,768)					(120,768)
Disposal of treasury stock		(473)		1,342					869
Net changes in items other than shareholders' equity					(72,391)	(73)	(6,244)	(25,625)	(104,333)
<b>Balance as of March 31, 2008</b>	<b>\$730,865</b>	<b>\$377,202</b>	<b>\$828,499</b>	<b>\$(315,545)</b>	<b>\$ 16,933</b>	<b>\$(71)</b>	<b>\$(6,244)</b>	<b>\$219,799</b>	<b>\$1,851,438</b>

\* Relates to a distribution of cash dividends approved in a shareholders' meeting in June 2007.

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

CSK HOLDINGS CORPORATION and Consolidated Subsidiaries  
For each of the three years in the period ended March 31, 2008

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
<b>Cash flows from operating activities:</b>				
Income before income taxes and minority interests	¥ 52,786	¥ 30,713	¥ 4,682	\$ 46,736
Adjustments for—				
Depreciation	5,871	4,109	5,904	58,933
Loss on impairment of fixed assets	3,380	0	13,345	133,195
Amortization of goodwill	374	417	315	3,144
Increase (decrease) in allowances and decrease (increase) in prepaid pension costs	2,191	1,608	(4,430)	(44,213)
Interest and dividends income	(2,460)	(2,940)	(3,245)	(32,388)
Interest expenses	863	1,296	1,589	15,857
Equity in earning of unconsolidated subsidiaries and affiliates	(198)	—	—	—
Loss on disposal of fixed assets and gain (loss) on sales of fixed assets	(13,668)	12	795	7,940
Loss (gain) on sales of investments in securities	(21,442)	(60)	13	128
Loss on write-downs of investments in securities	295	556	1,659	16,557
Decrease (increase) in accounts receivable	(211)	2,459	2,663	26,583
Decrease (increase) in inventories	(1,766)	1,030	(69)	(684)
Increase (decrease) in accounts payable	(41)	(2,724)	292	2,918
Decrease (increase) in venture capital investments	(83)	(114)	(2,476)	(24,714)
Decrease (increase) in investments related to financial services	(38,700)	(16,960)	(95,688)	(955,070)
Increase (decrease) in liabilities related to financial services	—	12,057	29,234	291,783
Decrease (increase) in cash segregated as deposits related to securities business	(15,232)	11,301	13,503	134,774
Decrease (increase) in trading assets related to securities business	798	(4,816)	8,854	88,374
Decrease (increase) in receivables related to margin transactions	(39,586)	21,016	45,000	449,144
Decrease (increase) in loans secured by securities	(430)	(3,174)	6,914	69,005
Increase (decrease) in trading liabilities related to securities business	(134)	4,424	(6,578)	(65,655)
Increase (decrease) in payables related to margin transactions	17,270	(21,500)	(36,518)	(364,485)
Increase (decrease) in deposits received and guarantee deposits received from customers related to securities business	25,269	(9,982)	(11,874)	(118,517)
Other, net	2,900	(2,388)	7,820	78,038
Subtotal	(21,954)	26,340	(18,296)	(182,617)
Interest and dividends income received	2,352	3,047	3,252	32,458
Interest expenses paid	(929)	(1,153)	(1,579)	(15,758)
Income taxes paid	(4,522)	(21,165)	(16,504)	(164,724)
Proceeds from refund of income taxes	—	—	2,763	27,582
<b>Net cash provided by (used in) operating activities</b>	(25,053)	7,069	(30,364)	(303,059)
<b>Cash flows from investing activities:</b>				
Decrease (increase) in time deposits, net	(1,725)	(465)	(2,967)	(29,610)
Net proceeds from sales and purchases of marketable securities	5,373	3,717	1,094	10,923
Purchases of property and equipment	(5,994)	(7,195)	(11,916)	(118,939)
Proceeds from sales of property and equipment	22,443	4,957	192	1,917
Purchases of intangible assets	(1,664)	(8,396)	(10,647)	(106,271)
Proceeds from sales of intangible assets	10,070	76	43	426
Purchases of investments in securities	(27,078)	(9,747)	(7,245)	(72,314)
Proceeds from sales of investments in securities	28,199	1,864	3,616	36,093
Expenditure for acquisition of subsidiaries' stocks	—	(997)	(197)	(1,970)
Other, net	(637)	(360)	73	733
<b>Net cash provided by (used in) investing activities</b>	¥ 28,987	¥ (16,546)	¥ (27,954)	\$ (279,012)

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
<b>Cash flows from financing activities:</b>				
Increase (decrease) in short-term bank loans, net	¥ 9,333	¥ 11,699	¥ 47,438	\$ 473,478
Proceeds from long-term debt	5,000	—	—	—
Repayment of long-term debt	(6,000)	(4,500)	—	—
Proceeds from issuance of corporate bonds	—	35,000	—	—
Redemption of corporate bonds	(3,200)	—	(21,208)	(211,678)
Issuance of common stock	4,067	2,533	870	8,685
Purchases of treasury stock (Note 3 (2))	(14,080)	(37)	(12,239)	(122,157)
Cash dividends paid	(1,283)	(4,414)	(2,949)	(29,436)
Other, net	(458)	(748)	289	2,886
<b>Net cash provided by (used in) financing activities</b>	<b>(6,621)</b>	<b>39,533</b>	<b>12,201</b>	<b>121,778</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>29</b>	<b>51</b>	<b>(130)</b>	<b>(1,302)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(2,658)</b>	<b>30,107</b>	<b>(46,247)</b>	<b>(461,595)</b>
<b>Cash and cash equivalents, at beginning of the year</b>	<b>77,357</b>	<b>74,747</b>	<b>105,447</b>	<b>1,052,475</b>
<b>Cash and cash equivalents of initially consolidated subsidiaries, at beginning (Note 2 (1))</b>	<b>96</b>	<b>593</b>	<b>—</b>	<b>—</b>
<b>Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation (Note 2 (1))</b>	<b>(48)</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Cash and cash equivalents, at end of the year (Notes 2 (3) and 3 (1))</b>	<b>¥ 74,747</b>	<b>¥105,447</b>	<b>¥ 59,200</b>	<b>\$ 590,880</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

CSK HOLDINGS CORPORATION and Consolidated Subsidiaries

## 1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of CSK HOLDINGS CORPORATION (“the Company”) and consolidated subsidiaries (collectively, “the Group”) are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

The accompanying consolidated financial statements incorporate certain reclassifications of figures from those included in the Annual Securities Report in order to present them in a form more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include certain information which is not required under generally accepted accounting principles in Japan but is presented herein as additional information.

The amounts presented in the accompanying consolidated financial statements are rounded to the nearest million yen.

The U.S. dollar amounts in the accompanying consolidated financial statements are included solely for convenience of readers outside Japan. The rate of ¥100.19 = U.S. \$1.00, the rate of exchange prevailing on March 31, 2008, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen has been or could be readily converted, realized or settled into U.S. dollars at that or any other rate.

Certain amounts in the accompanying consolidated financial statements from prior years have been reclassified to conform to the current year’s presentation.

## 2. Summary of significant accounting policies

### (1) Basis of consolidation and investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and the subsidiaries under its control.

Under the current effective control approach, companies controlled by the Company are consolidated regardless of the ownership percentage, and companies influenced by the Company to a material degree in their financial, operating, or business policies through investment, personnel, financing, technology, trading or any other relationship are accounted for as affiliates regardless of the ownership percentage.

The list of consolidated subsidiaries as of and for the year ended March 31, 2008 is as follows:

Name of subsidiary
Subsidiaries:
CSK SYSTEMS CORPORATION
CSK-IT MANAGEMENT CORPORATION (On July 1, 2007, CSK Network Systems Corporation changed its corporate name to CSK-IT MANAGEMENT CORPORATION)
CSK SYSTEMS NISHINIHON CORPORATION (On July 1, 2007, CSK SYSTEMS NISHINIHON PREPARATORY CORPORATION changed its corporate name to CSK SYSTEMS NISHINIHON CORPORATION)
CSK SYSTEMS CHUBU CORPORATION (On July 1, 2007, CSK SYSTEMS CHUBU PREPARATORY CORPORATION changed its corporate name to CSK SYSTEMS CHUBU CORPORATION)
JIEC Co., Ltd.
CSI SOLUTIONS Corporation
CSK SYSTEM MANAGEMENT CORPORATION
SUPER SOFTWARE COMPANY LTD.
CSK WinTechnology Corporation

FUKUOKA CSK CORPORATION
HOKKAIDO CSK CORPORATION
ServiceWare Corporation
CSK Communications Corporation
Fukui CSK Corporation
SHIMANE CSK CORPORATION
IWATE CSK CORPORATION
OITA CSK CORPORATION
Kitakyushu CSK Corporation (On January 1, 2008, ServiceWare Kyushu Corporation changed its corporate name to Kitakyushu CSK Corporation)
CSK Marketing Corporation
CSK Securities Service CO., Ltd.
VeriServe Corporation
CSK PRESCENDO CORPORATION
ISAO CORPORATION
BUSINESS EXTENSION CORPORATION
CSK ADMINISTRATION SERVICE CORPORATION (On July 1, 2007, CSK BUSINESS SERVICE CORPORATION changed its corporate name to CSK ADMINISTRATION SERVICE CORPORATION)
Light Works Corporation
CSK FINANCE CO., LTD.
CVC Business Co., Ltd.
GENASSET CO., LTD. (On December 21, 2007, SEIKOU CORPORATION changed its corporate name to GENASSET CO., LTD.)
CSK VENTURE CAPITAL CO., LTD.
Plaza Asset Management Co., Ltd.
Plaza Capital Management Co., Ltd.
CSK PRINCIPALS CO., LTD.
Cosmo Securities Co., Ltd.
Tsuyama Securities Co., Ltd.
Cosmo Enterprise Co., Ltd.
Japan Cosmo Securities (Hong Kong) Limited
CSK-RB SECURITIES CORPORATION
QUO CARD Co., Ltd.
CSK Institute for Sustainability, Ltd.
Other 53 companies (Includes 48 anonymous associations and 2 investment partnerships)

CSK PRINCIPALS CO., LTD. was newly consolidated in fiscal year 2006 due to having become material to the consolidated financial statements.

CSK SYSTEMS CORPORATION, CSK Marketing HR Corporation, CSK Institute for Sustainability, Ltd. and 1 other company were established in fiscal year 2006 and therefore were newly consolidated from fiscal year 2006.

On October 1, 2005, CSK SYSTEMS CORPORATION became the succeeding company to the business of CSK CORPORATION (On October 1, 2005, CSK CORPORATION changed its corporate name to CSK HOLDINGS CORPORATION.) through a corporate division and it changed its corporate name from CSK SYSTEMS PREPARATORY CORPORATION. Moreover, it merged with Japan Future Information Technology & Systems Co., Ltd. on the same day.

Kibo Group, Inc. was excluded from consolidation during fiscal year 2006, due to being in the process of liquidation.

CSK-RB SECURITIES CORPORATION and 1 other company were established in fiscal year 2007 and therefore were newly consolidated from fiscal year 2007.

CSK PRESCENDO CORPORATION was newly consolidated from fiscal year 2007, due to the acquisition of its stock in March 2007.

In April, 2007, CSK Marketing Corporation merged with CSK Marketing HR Corporation.

CSK SYSTEMS CHUBU CORPORATION was established in fiscal year 2008 and therefore was newly consolidated from such fiscal year.

On July 1, 2007, the Company implemented a company separation. The method to be used is a company separation and absorption, with CSK SYSTEMS CORPORATION as the separating company and CSK SYSTEMS NISHINIHON CORPORATION which changed its corporate name from CSK Systems Nishinihon Preparatory Corporation, CSK SYSTEMS CHUBU CORPORATION which changed its corporate name from CSK Systems Chubu Preparatory Corporation, CSK-IT MANAGEMENT CORPORATION which changed its corporate name from CSK Network Systems Corporation and merged with CSK FIELD SERVICES CO., LTD. on the same day as the succeeding companies.

Plaza Capital Management Co., Ltd. was newly consolidated from fiscal year 2008, due to the acquisition of stock in October 2007.

30 anonymous associations, 2 investment partnerships and 3 other companies were newly consolidated from fiscal year 2008, by having newly invested. 1 consolidated subsidiary was excluded from consolidation because their anonymous association contract had finished.

(Change in accounting policy)

From fiscal year 2007, "PITF No.20 Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations" (PITF NO.20) has been adopted.

As a result of the adoption, 23 anonymous associations became consolidated subsidiaries from fiscal year 2007.

4 consolidated subsidiaries were excluded from subsidiary companies because their respective anonymous association contracts had expired.

As a result, total net assets increased by ¥15,289 million. This change had little impact on net income.

The Company accounts for investments in non-consolidated subsidiaries and affiliates using the cost method as their total assets, sales, net income, and retained earnings were immaterial to the consolidated financial statements of the Group.

Of the consolidated subsidiaries of the Group, 1 anonymous association has a fiscal year end of February 29, 2 anonymous associations have fiscal year ends of January 31, 33 anonymous associations, 2 investment partnerships and 3 other companies have fiscal year ends of December 31.

Furthermore, 5 anonymous associations have fiscal year ends of November 30. Consequently, these subsidiaries have a trial settlement date of February 29, for the purpose of preparing for the consolidated fiscal year ends. 7 anonymous associations have fiscal year ends of September 30. Consequently, these subsidiaries have a trial settlement date of December 31, for the purpose of preparing for the consolidated fiscal year end. The remaining consolidated subsidiaries have fiscal year ends of March 31, which is the same as the consolidated fiscal year end. The required adjustments for consolidated accounting purposes are carried out for important transactions that occur in the period between the consolidated fiscal year end and the respective fiscal year ends of the subsidiaries.

All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation.

The assets and liabilities of a newly consolidated subsidiary are marked to fair value at the time the Company is deemed to have gained control. Material excess of cost over such value of investments in subsidiaries is recognized as goodwill and is amortized over a period of 5 years. Immaterial excess is fully charged to income as amortization of goodwill for the year such transactions occurs. Amortization of goodwill is included in "Selling, general, and administrative expenses" in the accompanying consolidated statements of income.

#### (2) Translation of foreign currency balances and transactions

Foreign currency transactions are translated using foreign exchange rates prevailing at the respective transaction dates. Receivables and payables denominated in foreign currencies are translated at the current exchange rates in effect at balance sheet dates.

All the assets and liabilities of foreign consolidated subsidiaries are translated at current rates in effect at the respective balance sheet dates. All the income and expense accounts are also translated at current rates in effect at the respective balance sheet dates.

Adjustments arising from translating financial statements of overseas consolidated subsidiaries denominated in foreign currencies into Japanese yen, are recorded as a component of shareholders' equity and minority interests in the accompanying consolidated balance sheets.

#### (3) Cash and cash equivalents

For the purpose of consolidated statements of cash flows, cash and cash equivalents consists of cash on hands, demand deposits, and certain investments with an original maturity of three months or less with virtually no risk of loss of values.

#### (4) Marketable securities and Investments in securities

Trading securities, which are held for the purpose of earning capital gains in the near future, are reported at fair value, and the related unrealized gains and losses are included in earnings. Held-to-maturity securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost. Securities other than trading securities and held-to-maturity securities are classified as available-for-sale securities. Available-for-sale securities (including Investments related to financial services and venture capital investments) that are publicly traded are reported at fair market value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Available-for-sale securities that are not publicly traded are stated at cost; cost being determined, mainly using the moving-average method.

#### (5) Accounting for the financial services business

##### a. Investments related to financial services

###### Investments in anonymous associations

With regard to transactions resulting from investments in anonymous associations, allocations received from these anonymous associations are recorded under sales.

###### Shares and real estate

With regard to transactions in shares and real estate, any profit or loss from the sale of shares is recorded under sales or cost of sales, respectively. In addition, shares are included in securities with market values.

###### Investment in partnerships or similar

With regard to transactions resulting from investments in partnerships or similar, any profit or loss from such

partnerships is recorded at a net amount as sales or cost of sales, respectively, on an equity basis, based on the most recent final accounts of the partnerships. In the event that a partnership holds other investment securities and appraisal differences are recorded in its financial statements, the appraisal differences are recorded on an equity basis under “Unrealized gains on securities” —other available-for-sale securities.

**b. Venture capital investments**

With regard to investment partnerships in which the Group is an executive member, the assets, liabilities, income and expenses of these partnerships are recorded on an equity basis, based on the most recent final accounts of the partnerships. “Venture capital investments” are recorded as securities on an equity basis. Securities which investment partnerships of the consolidated subsidiaries hold are recorded as “Venture capital investments”.

**(6) Derivatives and hedging activities**

The Group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts etc. are utilized by the Group to reduce foreign exchange and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are included in earnings. For derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions. With regard to the accounting method for hedge transactions, deferred hedge accounting is applied.

**(7) Allowance for doubtful accounts**

“Allowance for doubtful accounts” is maintained for the amounts deemed uncollectible based on solvency analyses and for estimated delinquency based on collection rates projected from historical credit loss experiences, and for the amounts to cover specific accounts that are anticipated to be uncollectible.

**(8) Allowance for losses on investment securities**

“Allowance for losses on investment securities” reflects the Group’s share of losses of the investee regarding the investments included in “Investments related to financial services”.

**(9) Inventories**

“Inventories” are stated at cost, based on the specific identification method or moving-average method.

**(10) Property and equipment**

Property and equipment, including significant renewals and improvements, are carried at cost less accumulated depreciation. Maintenance and repairs including minor renewals and betterments are charged to income as incurred. For the Company and consolidated subsidiaries, depreciation is computed using the declining-balance method at rates based on the estimated useful lives of the respective assets which are prescribed by the Corporation Tax Law, except for buildings acquired after April 1, 1998 which are depreciated using the straight-line method.

**(Change in accounting policy)**

From the fiscal year 2008 depreciation of tangible fixed assets acquired since April 1, 2007 has been calculated in accordance with the revised Corporation Tax Law.

The effect of this change was to increase operating expenses by ¥243 million and to decrease Operating income and Income before income taxes and minority interests by the same amounts for the year ended March 31, 2008 as compared with the corresponding amounts which would have been recorded under the previous method.

The effect on the segment information is described in “Segment Information” in Note 32.

**(Additional Information)**

From the fiscal year 2008 depreciation of tangible fixed assets acquired before March 31, 2007, and depreciated to their respective allowable limits has been calculated by a method which depreciates residual value equally over a period of five years.

The application of the applicable provision of the revised Corporation Tax Law had an insignificant impact on net income for the fiscal year 2008.

**(11) Deferred charges and intangible assets**

Deferred charges and intangible assets include term land leaseholds, capitalized software costs and goodwill. Term land leaseholds, capitalized software costs and goodwill are carried at cost less accumulated amortization. Term land leaseholds are amortized using the straight-line method based on the contract period. Capitalized costs for software for internal use are amortized using the straight-line method over the estimated useful life of the software. Goodwill is amortized using the straight-line method over a period of 5 years essentially. Costs associated with issuance of common shares and corporate bonds are expensed as incurred.

**(12) Accrued bonuses to employees**

“Accrued bonuses to employees” represents bonuses to employees expected to be paid for their service rendered prior to the balance sheet date.

**(13) Accrued bonuses to directors and statutory auditors**

In order to provide for payments of bonuses to directors and statutory auditors, a forecast payment amount is recorded in consolidated results for the end of the year under review in respect of certain consolidated subsidiaries.

**(Change in accounting policy)**

From the fiscal year ended March 31, 2007, “Accounting Standard for Directors’ Bonus” (Accounting Standards Board of Japan (ASBJ) Statement No. 4 of November 29, 2005) was adopted.

As a result, Operating income and Income before income taxes and minority interests for the year ended March 31, 2007, each decreased by ¥62 million from the corresponding amounts which would have been recorded under the previous method.

**(14) Allowance for anticipated losses on contracts**

“Allowance for anticipated losses on contracts” represents the entire amount of anticipated losses to be incurred related to software development and facilities management when contract revenue and cost indicate a loss.

**(15) Accrued employees' retirement benefits**

"Accrued employees' retirement benefits" are calculated based on the estimated retirement obligations less estimated plan assets at the balance sheets date.

At the Company and some of its consolidated subsidiaries, when Plan assets exceed the amount of Projected benefit obligations minus both Unrecognized net translation and Unrecognized actuarial net loss, the excess amount is accounted for as "Prepaid pension cost", and included in Investments and other assets.

The net transition amount at the adoption of the new accounting standard for retirement benefits is being amortized mainly over a period of 15 years using the straight-line method.

Unrecognized actuarial net loss is amortized using the straight-line method over the average remaining service period and amortization will be started from the next fiscal year.

Unrecognized prior service cost is amortized using the straight-line method over the average remaining service period from fiscal year 2008 when it arises.

**(16) Accrued directors' retirement benefits**

In order to provide for payments of retirement benefits to directors of the Company and some subsidiaries, a forecast payment amount is recorded in accordance with internal regulations. However the Company revised its internal regulations and determined not to increase the payment amounts after a shareholders' meeting on June 26, 2003.

**(17) Reserve for securities trading liabilities**

A reserve has been recorded for liabilities arising from incidents pertaining to securities trading, as provided for under the Securities Exchange Law No. 51 and Ordinance No. 35 of the Cabinet Office Ordinance Concerning Securities Companies.

**(18) Reserve for financial futures trading liabilities**

A reserve has been recorded for liabilities arising from incidents pertaining to financial futures trading, as provided for under Financial Futures Trading Law No. 81.

**(19) Research and development costs**

Research and development costs are charged to income as incurred.

**(20) Income taxes**

The Group applies the asset and liability method for accounting for income taxes. This method recognizes deferred income tax assets and liabilities based on the differences between the financial statement and tax bases of assets and liabilities, using the enacted tax rates in effect for the year in which the differences are expected to be reversed.

**(21) Consumption taxes**

Consumption taxes are imposed at a flat rate of 5% on all domestic consumption of goods and services.

The consumption taxes imposed on the Group's sales to customers are withheld by the Group at the time of sale and are paid to the national government subsequently. The consumption taxes withheld from sales are not included in Operating revenue but are recorded as a liability and included in "Other current liabilities".

The consumption taxes imposed on the Group's purchases of products, merchandise and services from vendors are not included in costs and expenses but are offset against consumption taxes withheld.

**(22) Consolidated tax return system**

A consolidated tax return system has been applied since fiscal year 2004.

**(23) Revenue recognition for primary transactions****a. IT services**

The Group provides customers with services relating to programming, software development for EDP systems, computer operations and various data processing functions. These services are provided either under fixed-amount contracts or hourly-rate contracts. Under the fixed-amount contracts, the Group recognizes revenue when the services are completed and accepted by the customers. Under the hourly-rate contracts, the Group recognizes revenue as it is accrued by multiplying the agreed rates by the number of hours worked.

Revenue for data entry services is determined by multiplying the fixed-rate by the volume of processed data.

With respect to computer and other product sales, overseas sales are recorded at the time of shipment. Domestic sales of computers and related supplementary equipment are recorded at the time of acceptance by the customers. Domestic retail sales of personal computers, auxiliary parts and other items are recorded at the time of shipment.

**b. Prepaid card sales**

Effective the year ended March 31, 2006, the Company's subsidiary changed its accounting policy for prepaid card sales as follows.

The face value of cards when issued is recorded as "Deposits received on prepaid cards", with subsequent deductions from that amount as the cards are used.

Any remaining card value, based on the actual usage of the cards, that is considered unlikely to be used is recorded as "Hoard profit of prepaid card" under Other income (expenses) with subsequent deductions from "Deposits received on prepaid cards" in conformity with the Japanese Tax Law which requires that the year in which the cards were sold be taken into consideration.

**(Change in accounting policy)**

Previously, the accounting treatment for third-party type cards was for the face value of cards to be recorded as sales on the date of issue; when cards were used the value used was recorded as a cost of sale, and at the same time the remaining value of the card was added to cost of sales as an additional 'estimated cost of sales' figure. From the fiscal year beginning April 1, 2005, however, the accounting treatment changed so that the face value of cards when issued is required to be recorded as "Deposits received on prepaid cards", with subsequent deductions from that amount as cards are used.

Also under the new accounting policy, any remaining card value that is considered unlikely to be used will be recorded as other income, rather than being deducted from cost of sales. Any amounts that can be used in excess of the face value of the card will be handled as an expense at the time of card issuance, instead of the previous method of expensing these amounts at the time of use as was requested under the previous method.

These changes arise from the fact that in recent years, sales activities have resulted in an increase in advertising revenues, etc. (in excess of the face value of cards) in accordance with an increase in the issuance of the cards as gifts. The prepaid card business has also established a sound earnings base as a result of this factor and the stabilization of settlement fee earnings

associated with an increase in the number of participating stores and improvements to contracts with participating stores. The Company, therefore, determined to adopt an accounting treatment that enables a better understanding of the sales situation. Under this accounting policy, the impact on results for the fiscal year ended March 31, 2006 was to reduce Operating revenue by ¥58,425 million and Operating costs by ¥57,866 million, to reduce Operating income by ¥925 million, and to reduce Income before income taxes and minority interests by ¥110 million from the corresponding amounts which would have been recorded under the previous method.

Accompanying these changes, items on the balance sheet have changed in the following manner:

The classification of the face value of cards issued changed from "Accounts receivable" to "Other current assets" (¥2,892 million as of March 31, 2006). The classification of unused value of cards that is expected to be used changed from "Unearned revenue" to "Deposits received on prepaid cards" (¥38,977 million as of March 31, 2006).

Classification of the liabilities arising from the card value used changed from "Accounts payable" to "Other current liabilities" (¥4,648 million as of March 31, 2006).

The effect on segment information is described in "Segment Information" in Note 32.

#### (24) Leases

Finance leases, other than those which involve the transfer of ownership of the leased assets to the lessee, are accounted for in a manner similar to that for operating leases.

#### (25) Dividends and net income per share

The amount of dividends distributed is determined based on unrestricted retained net income on non-consolidated balance sheets.

"Net income per share" is computed by dividing income applicable to "Common stock" by the weighted-average number of shares of common stock outstanding during each year. "Diluted net income per share" reflects the potential dilution that could occur if dilutive securities and other contracts to issue common shares were exercised or converted into common shares.

For details of the effect of this change, refer to Note 31.

#### (26) Accounting standard for impairment of fixed assets

Effective April 1, 2005, the Company and its consolidated subsidiaries adopted an accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council on August 9, 2002) and the Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

As a result of the initial adoption of the standards for the fiscal year ended March 31, 2006, Income before income taxes and minority interests decreased by ¥3,380 million.

The total impairment loss was directly deducted from the carrying amount of the applicable assets based on the revised regulations for consolidated financial statements.

The effect on the segment information is described in "Segment Information" in Note 32.

#### (27) Accounting Standards for Presentation of Net Assets in the Balance Sheet, etc. and Partial revision of Accounting Standards for Treasury Stock and Appropriation of Legal Reserve, etc.

From the fiscal year ended March 31, 2007 under review, "Accounting Standards for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No.5 issued on December 9, 2005) and "Guidance on Accounting Standards for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No.8 issued on December 9, 2005), as well as the revised "Accounting Standards for Treasury Stock and Appropriation of Legal Reserve" (ASBJ Statement No.1; final revision on August 11, 2006) and "Guidance on Accounting Standards for Treasury Stock and Appropriation of Legal Reserve" (ASBJ Guidance No.2; final revision on August 11, 2006) were adopted.

The adoption of the accounting standards had no impact on net income at March 31, 2007.

Shareholders' equity under the previous presentation method amounted to ¥184,186 million for the fiscal year ended March 31, 2007.

The financial statements for the period under review have been prepared in accordance with the revised "Regulation for Consolidated Financial Statements".

### 3. Consolidated statements of cash flows

#### (1) Reconciliation of "Cash" to "Cash and cash equivalents"

"Cash" as of March 31, 2006, 2007 and 2008 on the accompanying consolidated balance sheets and "Cash and cash equivalents" at March 31, 2006, 2007 and 2008 on the accompanying consolidated statements of cash flows are reconciled as follows:

	millions of yen			thousands of U.S. dollars
	2006	2007	2008	(Note 1)
Cash	¥77,444	¥108,405	¥ 64,013	\$ 638,912
Marketable securities	3,911	7,207	11,702	116,797
Less: Time deposits with original maturities of more than three months or those submitted as collateral for loans	(2,889)	(3,355)	(5,897)	(58,858)
Less: Equity securities and other marketable securities with original maturities of more than three months	(3,719)	(6,810)	(10,618)	(105,971)
Cash and cash equivalents	¥74,747	¥105,447	¥ 59,200	\$ 590,880

(2) Expenditure for acquisition of treasury stock by consolidated subsidiaries is included in "Purchases of treasury stock".

### 4. Marketable securities and Investments in securities

Details of "Marketable securities" and "Investments in securities", regarding aggregate cost, unrealized gains and losses and fair market value pertaining to held-to-maturity securities and available-for-sale securities as of March 31, 2006 were as follows:

Trading securities (trading securities with market value)

	millions of yen		
	Assets	Liabilities	Unrealized gains (losses)
Equity securities	¥ 1,418	¥ 50	¥ 39
Bonds	9,350	4,670	(41)
	¥10,768	¥4,720	¥ (2)

Except for trading securities

	millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair market value
Securities classified as:				
Available-for-sale-				
Equity securities	¥23,485	¥11,524	¥145	¥34,864
Debt securities	109	—	6	103
Other*	22,692	8,533	209	31,016
	¥46,286	¥20,057	¥360	¥65,983
Held-to-maturity-				
Debt securities	¥20,539	¥ 2	¥234	¥20,307

\* Investment funds and investments in partnerships are included in "Other".

Major components of debt and equity securities whose fair market value was not readily determinable as of March 31, 2006 were as follows:

	millions of yen
Available-for-sale securities:	
Money management funds	¥ 192
Unlisted stock	10,094
Unlisted bonds	181
Investments in partnerships	1,933
Investments in anonymous associations	57,079
Investments in unconsolidated subsidiaries and affiliates	1,081

The redemption schedule of debt and equity securities as of March 31, 2006 was as follows:

	millions of yen
Due within 1 year	¥ 3,729
Due after 1 year through 5 years	16,955
Due after 5 years through 10 years	17,110
Due after 10 years	—
	¥37,794

Details of "Marketable securities" and "Investments in securities", regarding the aggregate cost, unrealized gains and losses and fair market value pertaining to held-to-maturity securities and available-for-sale securities as of March 31, 2007 were as follows:

Trading securities (trading securities with market value)

	millions of yen		
	Assets	Liabilities	Unrealized gains (losses)
Equity securities	¥ 5,562	¥2,645	¥(24)
Bonds	9,953	6,484	33
Beneficiary securities	121	—	6
	¥15,636	¥9,129	¥ 15

Except for trading securities

	millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair market value
Securities classified as:				
Available-for-sale-				
Equity securities	¥17,911	¥14,977	¥(479)	¥32,409
Debt securities	115	—	(0)	115
Other*	21,934	2,047	(341)	23,640
	¥39,960	¥17,024	¥(820)	¥56,164
Held-to-maturity-				
Debt securities	¥23,160	¥ 48	¥(113)	¥23,095

\* Investment funds and investments in partnerships are included in "Other".

Major components of debt and equity securities whose fair market value was not readily determinable as of March 31, 2007 were as follows:

	millions of yen
Available-for-sale securities:	
Money management funds	¥ 397
Unlisted stock	18,419
Unlisted bonds	180
Investments in partnerships	2,154
Investments in anonymous associations	30,164
Investments in unconsolidated subsidiaries and affiliates	918

The redemption schedule of debt and equity securities as of March 31, 2007 was as follows:

	millions of yen
Due within 1 year	¥ 6,810
Due after 1 year through 5 years	15,436
Due after 5 years through 10 years	18,300
Due after 10 years	—
	¥40,546

Details of "Marketable securities" and "Investments in securities", regarding the aggregate cost, unrealized gains and losses and fair market value pertaining to held-to-maturity securities and available-for-sale securities as of March 31, 2008 were as follows:

Trading securities (trading securities with market value)

	millions of yen		
	Assets	Liabilities	Unrealized gains (losses)
Equity securities	¥ 123	¥ 61	¥ (1)
Bonds	6,569	2,453	42
Beneficiary securities	13	—	(0)
	¥6,705	¥2,514	¥41

	thousands of U.S. dollars (Note 1)		
	Assets	Liabilities	Unrealized gains (losses)
Equity securities	\$ 1,224	\$ 612	\$ (11)
Bonds	65,567	24,480	425
Beneficiary securities	134	—	(2)
	\$66,925	\$25,092	\$412

Except for trading securities

	millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair market value
Securities classified as:				
Available-for-sale-				
Equity securities	¥20,049	¥6,098	¥(2,132)	¥24,015
Debt securities	110	3	—	113
Other*	16,775	890	(518)	17,147
	¥36,934	¥6,991	¥(2,650)	¥41,275
Held-to-maturity-				
Debt securities	¥25,251	¥ 142	¥ (12)	¥25,381

	thousands of U.S. dollars (Note 1)			
	Cost	Unrealized gains	Unrealized losses	Fair market value
Securities classified as:				
Available-for-sale-				
Equity securities	\$200,110	\$60,866	\$(21,278)	\$239,698
Debt securities	1,098	29	—	1,127
Other*	167,430	8,888	(5,175)	171,143
	<u>\$368,638</u>	<u>\$69,783</u>	<u>\$(26,453)</u>	<u>\$411,968</u>
Held-to-maturity-				
Debt securities	\$252,036	\$ 1,419	\$ (122)	\$253,333

\* Investment funds and Investments in partnerships are included in "Other".

Major components of debt and equity securities whose fair market value was not readily determinable as of March 31, 2008 were as follows:

	millions of yen	thousands of U.S. dollars (Note 1)
Available-for-sale securities:		
Negotiable deposits	¥ 800	\$ 7,985
Money management funds	285	2,841
Unlisted stock	16,714	166,819
Unlisted bonds	85	848
Investments in partnerships	2,464	24,589
Investments in anonymous associations	34,863	347,970
Investments in unconsolidated subsidiaries and affiliates	1,354	13,517

The redemption schedule of debt and equity securities as of March 31, 2008 was as follows:

	millions of yen	thousands of U.S. dollars (Note 1)
	Available-for-sale and Held-to-maturity	Available-for-sale and Held-to-maturity
Due within 1 year	¥10,617	\$105,971
Due after 1 year through 5 years	13,706	136,796
Due after 5 years through 10 years	14,367	143,399
Due after 10 years	—	—
	<u>¥38,690</u>	<u>\$386,166</u>

## 5. Inventories

At March 31, 2006, 2007 and 2008, the Group's inventories consisted of the following:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Goods for resale	¥1,079	¥1,013	¥1,047	\$10,456
Systems in progress	6,971	3,750	3,803	37,958
Other	62	57	38	377
	<u>¥8,112</u>	<u>¥4,820</u>	<u>¥4,888</u>	<u>\$48,791</u>

## 6. Investments related to financial services and Liabilities related to financial services

"Investments related to financial services" mainly consisted of investments in anonymous associations of ¥57,079 million and shares of ¥23,636 million at March 31, 2006.

"Venture capital investments" at the beginning of fiscal year 2006 of ¥12,898 million was changed to "Investments related to financial services" as a result of adjustments to the business purposes of consolidated subsidiaries in fiscal year 2006.

"Investments related to financial services" mainly consisted of investments in anonymous associations of ¥30,164 million, shares of ¥26,980 million and real estate of ¥30,726 million in fiscal year 2007.

In shares, shares with current prices, ¥11,986 million were included in fiscal year 2007.

"Liabilities related to financial services" consisted mainly of nonrecourse loans of ¥11,132 million in fiscal year 2007.

Real estate included in "Investments related to financial services" and nonrecourse loans included in "Liabilities related to financial services" were all assets and liabilities of anonymous associations that were subsidiary companies.

"Investments related to financial services" mainly consisted of investments in anonymous associations of ¥34,863 million, shares of ¥20,190 million and real estate of ¥94,118 million in fiscal year 2008.

In shares, shares with current prices of ¥9,171 million were included in fiscal year 2008.

"Liabilities related to financial services" consisted mainly of nonrecourse loans of ¥13,707 million and "Short-term bank loans payable" of ¥24,978 million in fiscal year 2008.

Real estate included in "Investments related to financial services" and nonrecourse loans and "Short-term bank loans payable" included in "Liabilities related to financial services" are all assets and liabilities of anonymous associations that were subsidiary companies.

## 7. Property and equipment

"Property and equipment" as of March 31, 2006, 2007 and 2008 consisted of the following:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Buildings and structures*	¥ 22,851	¥ 14,454	¥ 23,665	\$ 236,200
Other*	13,080	13,361	13,715	136,895
	35,931	27,815	37,380	373,095
Less: Accumulated depreciation	(20,852)	(14,476)	(15,721)	(156,913)
	15,079	13,339	21,659	216,182
Land*	11,684	10,831	12,445	124,211
Construction in progress	223	2,797	242	2,413
	<u>¥ 26,986</u>	<u>¥ 26,967</u>	<u>¥ 34,346</u>	<u>\$ 342,806</u>

\* The accumulated total loss on impairment of fixed assets was deducted directly from the balance of each fixed asset.

## 8. Short-term and long-term debts

### (1) Short-term bank loans payable and Commercial paper

The weighted-average interest rates for "Short-term bank loans payable" were 0.2%, 1.1% and 1.1% as of March 31, 2006, 2007 and 2008, respectively.

The normal business custom in Japan is for short-term bank loans payable to be rolled over each year.

### (2) Long-term bank loans payable

The weighted-average interest rates for "Long-term bank loans payable" were 1.3%, 1.9% and 1.9% as of March 31, 2006, 2007 and 2008, respectively.

The repayment schedule of "Long-term bank loans payable" for the five years subsequent to March 31, 2008 is as follows:

Years ending March 31	millions of yen	thousands of U.S. dollars (Note 1)
2009	¥—	\$ —
2010	84	838
2011	—	—
2012	—	—
2013	—	—

### (3) Bonds, Convertible bonds payable and Bonds with detachable warrants

“Bonds”, “Convertible bonds payable” and “Bonds with detachable warrants” as of March 31, 2006, 2007 and 2008 consisted of the following:

	millions of yen			thousands of U.S. dollars (Note 1)	
	2006	2007	2008	2006	2008
Unsecured 0.9% bonds due December 28, 2007	¥ 9,000	¥ 9,000	¥ —	\$ —	—
Unsecured 1.1% bonds due December 28, 2007	6,000	6,000	—	—	—
Unsecured 0.5% bonds due December 28, 2007	5,000	5,000	—	—	—
Unsecured 1.2% bonds due July 9, 2010	8,000	8,000	8,000	79,848	—
Unsecured 0.4% bonds due July 9, 2010	6,000	6,000	6,000	59,886	—
Unsecured 1.1% bonds due July 30, 2010	6,000	6,000	6,000	59,886	—
Unsecured zero-coupon bonds due September 2, 2011 with detachable warrants (exercise period: from October 2, 2003 to August 19, 2011)*	23,000	23,000	21,792	217,507	—
Unsecured 0.3% bonds due September 30, 2013 with detachable warrants (exercise period: from September 1, 2006 to September 27, 2013)**	—	35,000	35,000	349,337	—
	¥63,000	¥98,000	¥76,792	\$766,464	—

\* The number of shares of common stock related to detachable warrants was 3,613,391 as of March 31, 2008. The exercise price of such warrants was ¥6,030.9 (\$60.2).

\*\* The number of shares of common stock related to detachable warrants was 5,940,257 as of March 31, 2008. The exercise price of warrants was ¥5,892 (\$58.8).

### (4) Other interest-bearing debts

Other interest-bearing debts are as follows.

	millions of yen			thousands of U.S. dollars (Note 1)	
	2006	2007	2008	2006	2008
Payables to securities finance companies	¥67,571	¥45,847	¥12,997	\$129,724	—
Recourse loans	—	1,634	24,978	249,306	—
Nonrecourse loans	—	11,132	13,707	136,805	—
Commercial paper	—	3,000	14,000	139,735	—
	¥67,571	¥61,613	¥65,682	\$655,570	—

## 9. Assets pledged as collateral

### (1) At March 31, 2006

(a) “Short-term bank loans payable” of ¥2,214 million, “Payables related to margin transactions” of ¥67,571 million and “Other current liabilities” of ¥1,904 million were collateralized by the following assets.

	millions of yen
Cash	¥1,800
Trading assets related to the securities business	583
Investments in securities	1,942
	¥4,325

In addition, stocks of ¥15,620 million held for customers for margin transactions in relation to sales of securities were pledged as collateral as of March 31, 2006.

(b) Article 13-1 of the Law concerning Prepaid Card Operations requires that about 50% of unused amounts on prepaid cards be put in escrow by the issuers. As of March 31, 2006, the Group put “Marketable securities” of ¥3,616 million and “Investments in securities” of ¥16,904 million in escrow for this purpose. In addition as of March 31, 2006, based on Article 25 of Building Lots and Building Transactions Business Law, the Group also put “Marketable securities” of ¥19 million in escrow to secure dealings.

(c) Margin transactions in relation to sales of securities were pledged for ¥3,267 million as substitution for transactional future deposits and for ¥7 million as substitution for transactional when-issued deposits, in the fiscal year ended March 31, 2006.

(d) In connection with the securities business, marketable securities submitted or received on March 31, 2006 were as follows: Marketable securities excluding those included in (a) submitted to third parties for margin transactions (at fair value)

	millions of yen
Securities loaned on margin transactions	¥10,390
Securities pledged for loans payable for margin transactions	69,791
Substitute securities for guarantee deposits paid	2,173
Other	24,769

Marketable securities received from third parties for margin transactions (at fair value)

	millions of yen
Securities pledged for loans receivable for margin transactions	¥107,331
Securities borrowed on margin transactions	2,795
Securities borrowed by promissory notes	6,933
Substitute securities for guarantee deposits received on futures	122,782
Other	2,808

### (2) At March 31, 2007

(a) “Short-term bank loans payable” of ¥1,752 million, “Payables related to margin transactions” of ¥45,847 million, “Liabilities related to financial services” of ¥12,732 million and “Other current liabilities” of ¥1,836 million were collateralized by the following assets.

	millions of yen
Cash	¥ 2,000
Trading assets related to the securities business	399
Investments related to financial services	19,913
Investments in securities	2,422
	¥24,734

In addition, stocks of ¥7,315 million held for customers for margin transactions in relation to sales of securities were pledged as collateral as of March 31, 2007.

(b) Article 13-1 of the Law concerning Prepaid Card Operations requires that about 50% of unused amounts on prepaid cards be put in escrow by the issuers. As of March 31, 2007, the Group put “Marketable securities” of ¥6,810 million and “Investments in securities” of ¥16,341 million in escrow for this purpose. In addition, based on Article 25 of Building Lots and Building Transactions Business Law, the Group also put “Marketable securities” of ¥9 million in escrow to secure dealings.

(c) Margin transactions in relation to sales of securities were pledged for ¥3,229 million as substitution for transactional future deposits and for ¥4 million as substitution for transactional when-issued deposits, in the fiscal year ended March 31, 2007.

(d) In connection with the securities business, marketable securities submitted or received on March 31, 2007 were as follows: Marketable securities excluding those included in (a) submitted to third parties for margin transactions (at fair value)

	millions of yen
Securities loaned on margin transactions . . . . .	¥14,236
Securities pledged for loans payable for margin transactions . . . . .	45,464
Substitute securities for guarantee deposits paid . . . . .	1,762
Other . . . . .	23,890

Marketable securities received from third parties for margin transactions (at fair value)

	millions of yen
Securities pledged for loans receivable for margin transactions . . . . .	¥ 81,306
Securities borrowed on margin transactions . . . . .	5,754
Securities borrowed by promissory notes . . . . .	10,074
Substitute securities for guarantee deposits received on futures . . . . .	101,839
Other . . . . .	1,456

**(3) At March 31, 2008**

(a) "Short-term bank loans payable" of ¥1,400 million (\$13,973 thousand), "Payables related to margin transactions" of ¥12,997 million (\$129,724 thousand), "Liabilities related to financial services" of ¥32,684 million (\$326,225 thousand) and "Other current liabilities" of ¥1,301 million (\$12,987 thousand) were collateralized by the following assets.

	millions of yen	thousands of U.S. dollars (Note 1)
Cash . . . . .	¥ 1,800	\$ 17,966
Trading assets related to the securities business . . . . .	401	3,999
Investments related to financial services . . . . .	40,621	405,435
Investments in securities . . . . .	1,131	11,293
	<b>¥43,953</b>	<b>\$438,693</b>

In addition, stocks of ¥2,914 million (\$29,081 thousand) held for customers for margin transactions in relation to sales of securities were pledged as collateral as of March 31, 2008.

(b) Article 13-1 of the Law concerning Prepaid Card Operations requires that about 50% of unused amounts on prepaid cards be put in escrow by the issuers. As of March 31, 2008, the Group put "Marketable securities" of ¥10,617 million (\$105,971 thousand) and "Investments in securities" of ¥14,625 million (\$145,975 thousand) in escrow for this purpose. In addition, based on Article 25 of Building Lots and Building Transactions Business Law, the Group also put "Marketable securities" of ¥9 million (\$90 thousand) in escrow to secure dealings and "Other assets" of ¥10 million (\$100 thousand) in Investments and other assets in escrow to secure dealings.

(c) Margin transactions in relation to sales of securities were pledged for ¥2,663 million (\$26,584 thousand) as substitution for transactional future deposits, in the fiscal year ended March 31, 2008.

(d) In connection with the securities business, marketable securities submitted or received on March 31, 2008 were as follows: Marketable securities excluding those included in (a) submitted to third parties for margin transactions (at fair value)

	millions of yen	thousands of U.S. dollars (Note 1)
Securities loaned on margin transactions . . . . .	¥ 6,410	\$ 63,981
Securities pledged for loans payable for margin transactions . . . . .	12,776	127,519
Substitute securities for guarantee deposits paid . . . . .	3,994	39,865
Other . . . . .	6,994	69,807

Marketable securities received from third parties for margin transactions (at fair value)

	millions of yen	thousands of U.S. dollars (Note 1)
Securities pledged for loans receivable for margin transactions . . . . .	¥34,976	\$349,100
Securities borrowed on margin transactions . . . . .	2,814	28,083
Securities borrowed by promissory notes . . . . .	710	7,088
Substitute securities for guarantee deposits received on futures . . . . .	64,557	644,342
Other . . . . .	913	9,114

**10. Guarantee for liabilities**

For the year ended March 31, 2008, the Group guaranteed debts of a special purpose company (SPC) related to borrowings from a financial institution in which a subsidiary of the Company invested.

Daikoku Distribution Center SPC: ¥2,500 million

**11. Fair value of off-balance sheet financial instruments**

The Group enters into currency related transactions and interest rate related transactions to manage market risks relating to fluctuations in interest and foreign exchange rates. The Group does not hold or issue financial instruments for trading purposes. The estimated unrealized gains and losses on these contracts at March 31, 2006, 2007 and 2008 are summarized in the following tables.

Derivative transactions to which hedge accounting has been applied are excluded from the schedule below.

**(1) Trading securities (Trading securities with market values)**  
*Outline of trading activities*

The company mainly conducts derivative transactions as a means of providing products and transactions to customers to meet their various needs. In addition, the Company conducts arbitrage transactions and hedge transactions of trading securities and so on. The Company's lines of trading business are mainly classified as follows.

- a. Dealing in spot transactions of trading securities such as shares and bonds
- b. Financial derivatives traded on exchanges such as stock index futures and options, bonds futures and options
- c. Financial derivatives traded over the counter such as bonds with options

*Risks arising from trading activities*

The main risks relating to trading activities that may have a material impact on the consolidated subsidiaries' financial conditions are market risk and credit risk. Market risk arises from fluctuations in market price of securities, interest rates and foreign exchange rates. Credit risk arises when counterparties fail to fulfill their obligations.

The Company recognizes that risk management of trading positions arising from these activities is becoming increasingly significant.

	millions of yen			
	2006			
	Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Options contracts . . . . .	¥ —	¥—	¥ —	¥—
Forward exchange contracts . . .	130	4	200	2
Futures/ forward contacts . . . . .	8,110	91	4,015	34

	millions of yen			
	2007			
	Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Options contracts . . . . .	¥4,616	¥10	¥5,801	¥30
Forward exchange contracts . . .	168	1	512	12
Futures/ forward contacts . . . . .	8,523	32	2,881	9

	millions of yen			
	2008			
	Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Options contracts . . . . .	¥ —	¥ —	¥ —	¥—
Forward exchange contracts . . .	200	4	254	2
Futures/ forward contacts . . . . .	4,808	115	5,816	87

	thousands of U.S. dollars (Note 1)			
	2008			
	Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Options contracts . . . . .	\$ —	\$ —	\$ —	\$ —
Forward exchange contracts . . .	2,000	44	2,538	16
Futures/ forward contacts . . . . .	47,993	1,150	58,049	866

(2) Except for trading securities  
Currency-related transactions

	millions of yen			
	2006			
	Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Forward exchange contracts . . .	¥549	¥1	¥1,005	¥1

	millions of yen			
	2007			
	Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Forward exchange contracts . . .	¥65	¥1	¥80	¥0

	millions of yen			
	2008			
	Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Forward exchange contracts . . .	¥—	¥—	¥53	¥1

	thousands of U.S. dollars (Note 1)			
	2008			
	Assets		Liabilities	
	Notional amounts, etc.	Fair value	Notional amounts, etc.	Fair value
Forward exchange contracts . . .	\$—	\$—	\$527	\$12

12. Retirement benefits

The Company and its consolidated subsidiaries have corporate pension funds, tax-qualified pension plans and lump-sum retirement payment plans as defined benefit pension plans.

The Company and some of its consolidated subsidiaries transferred a portion of the existing defined benefit pension plan to a defined contribution pension plan on April 1, 2004 in line with the implementation of the defined contribution pension law. On the same date, they received permission from the Minister of Health, Labour and Welfare to return the substitutional portion of the employee retirement benefits fund, and they converted the employees' pension fund into the corporate pension fund (CSK Corporate Pension Funds) on April 1, 2004.

"Accrued employees' retirement benefits" as of March 31, 2006, 2007 and 2008 consisted of the following:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
a. Projected benefit obligations . . .	¥ 26,022	¥ 27,523	¥ 28,757	\$ 287,022
b. Plan assets . . . . .	(28,573)	(30,044)	(28,688)	(286,333)
c. Unfunded retirement benefit obligations (a + b) . . . . .	(2,551)	(2,521)	69	689
d. Unrecognized net transition amount . . . . .	(2,323)	(2,079)	(1,819)	(18,159)
e. Unrecognized actuarial net loss . . . . .	3,565	2,674	(720)	(7,183)
f. Unrecognized prior service cost . . . . .	(1,173)	(812)	(408)	(4,068)
g. Net amount recognized on the consolidated balance sheet (c + d + e + f) . . . . .	(2,482)	(2,738)	(2,878)	(28,721)
h. Prepaid pension cost . . . . .	(3,269)	(3,325)	(3,219)	(32,125)
i. Accrued employees' retirement benefits (g - h) . . .	¥ 787	¥ 587	¥ 341	\$ 3,404

Certain consolidated subsidiaries applied the simplified method for computing retirement benefit obligations.

The components of pension and severance costs for the years ended March 31, 2006, 2007 and 2008 were as follows:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Service cost . . . . .	¥1,515	¥1,518	¥1,630	\$16,272
Interest cost . . . . .	593	594	548	5,474
Expected return on plan assets . .	(234)	(754)	(672)	(6,708)
Amortization of net transition amount . . . . .	258	261	260	2,594
Recognized actuarial loss . . . . .	441	(148)	(125)	(1,250)
Amortization of prior service cost . . . . .	393	396	395	3,938
Pension and severance costs . . .	2,966	1,867	2,036	20,320
Other . . . . .	613	546	621	6,202
Total . . . . .	¥3,579	¥2,413	¥2,657	\$26,522

Pension and severance costs for consolidated subsidiaries using the simplified method are included in service cost.

Pension and severance costs for seconded employees borne by non-consolidated subsidiaries are excluded from this disclosure.

A breakdown of "Other" in the above table is as follows:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Expense of defined contribution pension plan . . . . .	¥253	¥402	¥390	\$3,890
Gain on revision of retirement benefits plan . . . . .	—	(60)	—	—
Retirement allowance, etc. . . . .	360	204	231	2,312

Assumptions used in accounting for retirement benefit obligations for the years ended March 31, 2006, 2007 and 2008 were as follows:

	2006	2007	2008
Discount rates . . . . .	2.0 – 2.5%	2.5%	2.5%
Expected rates of return on plan assets . . . . .	1.0%	3.0%	3.0%
Period of amortization of net transition amount . . . . .	1 – 15 years	1 – 15 years	1 – 15 years
Period of allocation of the actuarial net loss . . . . .	1 – 12 years	1 – 12 years	5 – 12 years
Period of amortization of prior service cost . . . . .	1 – 12 years	1 – 12 years	1 – 12 years

### 13. Shareholders' equity

"Capital surplus" is comprised of additional paid-in capital and other capital surplus. Additional paid-in capital, recorded pursuant to the Companies Law, primarily consists of proceeds from the issuance of shares of common stock of the Group that were not recorded as "Common stock", (Under the Companies Law, the Group is allowed to account for an amount not exceeding one-half of the issue price of new shares as additional paid-in capital.) Additional paid-in capital may be transferred to other capital surplus to the extent that the sum of additional paid-in capital and the earned reserve (collectively, "legal reserves") does not fall below 25% of stated capital.

The Companies Law also requires all companies to appropriate an amount equivalent to at least 10% of the distribution of retained earnings paid in cash as an earned reserve until the legal reserves equal 25% of stated capital. The earned reserve may be transferred to unappropriated retained earnings to the extent that the legal reserves do not fall below 25% of stated capital. Capital surplus may be transferred to retained earnings when retained earnings are recorded deficits.

Legal reserves may be transferred to stated capital following suitable actions by directors or offset against a deficit following suitable actions by shareholders.

Other capital surplus includes losses on the disposal of treasury stock.

Year-end cash dividends are approved by the shareholders at a meeting held subsequent to the fiscal year for which the dividends are paid. Interim cash dividends may be paid upon resolution of the Board of Directors, subject to limitations imposed by the Companies Law. Such dividends are payable to shareholders of record at the end of the fiscal year or the six-month period of the fiscal year. In the fiscal year ended March 31, 2006, no interim dividends were paid, but the full year's dividends per share paid increased by ¥23 to ¥40. In the fiscal year ended March 31, 2007, the full year's dividends per share paid amounted to ¥40, comprising year-end dividends per share of ¥20 and interim dividends per share of ¥20. In the fiscal year ended March 31, 2008, the full year's dividends per share planned to be paid amounted to ¥40, comprising final dividends per share of ¥20 and interim dividends per share of ¥20.

Cash dividends are recorded in the consolidated statements of changes in net assets when paid.

### 14. Treasury stock

The number of shares of common stock held in the Company's treasury was 4,143,833 at March 31, 2006.

Increase of 4,730 shares of common stock held in the Company's treasury was due to purchases of fractional shares of common stock of less than one trading unit.

Decrease of 207 shares of common stock held in the Company's treasury was due to the disposal of fractional shares of common stock of less than one trading unit.

The number of shares of common stock held in the Company's treasury was 4,148,356 at March 31, 2007.

Increase of 2,181 shares of common stock held in the Company's treasury was due to purchases of fractional shares of common stock of less than one trading unit.

Increase of 4,000,000 shares of common stock held in the Company's treasury was due to purchases of common stock.

Decrease of 9,378 shares of common stock held in the Company's treasury was due to a share-for-share exchange to make ISAO CORPORATION the Company's wholly-owned subsidiary.

Decrease of 19,204 shares of common stock held in the Company's treasury was due to a share-for-share exchange to make SUPERSOFTWARE COMPANY LTD. the Company's wholly-owned subsidiary.

Decrease of 63 shares of common stock held in the Company's treasury was due to the disposal of shares of common stock held in treasury.

As a result, the number shares of common stock held in the Company's treasury was 8,121,892 at March 31, 2008.

### 15. Stock-based compensation plans

The Company has introduced stock-based compensation plans as an incentive for directors and selected employees. These plans were approved at the respective shareholders' meetings. The balance and an outline of each plan are summarized below. In common with all plans, the conditions are subject to adjustment when there are stock splits, share consolidations, additional shares issued at a price less than the market price per share, amalgamations, or corporate splits.

#### (1) Approved on June 25, 2004

Persons qualified	Number of shares of common stock*	Exercise price	Exercise period
Directors, executive officers, employees, directors of subsidiaries, executive officers of subsidiaries and employees of subsidiaries	969,500	¥4,820	From July 1, 2005 to June 30, 2008

#### (2) Approved on June 28, 2005

Persons qualified	Number of shares of common stock*	Exercise price	Exercise period
Directors, executive officers, employees, directors of subsidiaries, executive officers of subsidiaries and employees of subsidiaries	1,122,400	¥4,990	From July 1, 2006 to June 30, 2009

\* The number of shares of common stock relates to the outstanding balance as of March 31, 2008.

## 16. Income taxes

The Group is subject to a number of different income taxes. For the years ended March 31, 2006, 2007 and 2008 the statutory tax rate was approximately 40.7%.

A reconciliation of the differences between the effective tax rates and the statutory tax rate for the years ended March 31, 2006, 2007 and 2008 is as follows:

	2006	2007	2008
Statutory tax rate	40.7%	40.7%	<b>40.7%</b>
Increase (decrease) in tax rate:			
Non-deductible expenses for tax purposes	0.7	1.1	<b>7.6</b>
Base portion of inhabitants' taxes	0.6	0.8	<b>5.6</b>
Amortization of goodwill	0.3	0.5	<b>2.9</b>
Gain on change in interest in consolidated subsidiary	—	—	<b>(3.2)</b>
Increase and decrease in valuation allowance for deferred tax assets	(8.7)	2.2	<b>124.6</b>
Loss on write-downs of investments in securities	—	(0.2)	—
Reversal of prior-year's income taxes and prior-year's income taxes-deferred	—	20.2	—
Refund	—	—	<b>(59.0)</b>
Other	2.5	2.0	<b>(4.4)</b>
Effective tax rates	<b>36.1%</b>	<b>67.3%</b>	<b>114.8%</b>

The significant components of deferred income tax assets and liabilities at March 31, 2006, 2007 and 2008 were as follows:

	millions of yen			thousands of U.S. dollars
	2006	2007	2008	(Note 1)
Deferred income tax assets:				<b>2008</b>
Tax losses carried forward*	¥13,106	¥ 6,113	<b>¥ 9,033</b>	<b>\$ 90,156</b>
Provision for allowance for doubtful accounts	959	866	<b>473</b>	<b>4,722</b>
Accrued bonuses to employees	2,540	2,643	<b>2,859</b>	<b>28,536</b>
Accrued employees' retirement benefits	889	772	<b>932</b>	<b>9,300</b>
Accrued enterprise tax	1,355	1,353	<b>617</b>	<b>6,161</b>
Depreciation expense	375	448	<b>298</b>	<b>2,970</b>
Allowance for anticipated losses on contracts	1,291	1,181	<b>146</b>	<b>1,460</b>
Loss on impairment of fixed assets	1,387	—	<b>6,160</b>	<b>61,478</b>
Hoard profit of prepaid card	2,572	3,286	<b>4,073</b>	<b>40,650</b>
Investment returns from anonymous associations	1,099	3,490	<b>610</b>	<b>6,092</b>
Inventories	—	1,449	—	—
Allowance for losses on investment securities	—	1,658	<b>96</b>	<b>960</b>
Current value assessment of consolidated tax return system	1,655	802	—	—
Software development	146	1,442	<b>2,369</b>	<b>23,641</b>
Reserve for securities trading liabilities	438	545	<b>641</b>	<b>6,401</b>
Loss on write-downs of investments in securities	704	777	<b>1,416</b>	<b>14,137</b>
Other	3,739	2,359	<b>3,034</b>	<b>30,286</b>
Gross deferred income tax assets	32,255	29,184	<b>32,757</b>	<b>326,950</b>
Less: Valuation allowance	14,971	9,669	<b>14,839</b>	<b>148,103</b>
Total deferred income tax assets	17,284	19,515	<b>17,918</b>	<b>178,847</b>
Deferred tax liabilities:				
Unrealized gains on securities	8,758	7,564	<b>2,259</b>	<b>22,547</b>
Prepaid pension cost	1,332	1,332	<b>1,426</b>	<b>14,237</b>
Other	391	58	<b>505</b>	<b>5,040</b>
Gross deferred income tax liabilities	10,481	8,954	<b>4,190</b>	<b>41,824</b>
Net deferred income tax assets	¥ 6,803	¥10,561	<b>¥13,728</b>	<b>\$137,023</b>

\* Deferred tax assets relating to operating losses are recorded as required by the Japanese accounting standard.

The benefit of "Tax losses carried forward" is estimated and recorded as assets, with a deduction in the valuation allowance if it is expected that some portion or all of the deferred tax assets will not be realized.

## 17. Research and development costs

Research and development costs included in "Operating costs" and "Selling, general and administrative expenses" for the years ended March 31, 2006, 2007 and 2008 totaled ¥3,722 million, ¥237 million and ¥765 million, respectively.

## 18. Gain on sales of investments in securities

For the year ended March 31, 2006, "Gain on sales of investments in securities" was recorded mainly due to the sale of shares of Nextcom.

In addition, profit on Sales of investments related to financial services (securities) of ¥11,827 million for fiscal year 2006 included movable exchange profit of ¥5,454 million for policy investment objectives.

For the year ended March 31, 2008, "Gain on sales of investments in securities" was recorded mainly due to the sale of shares of VeriServe Corporation.

## 19. Gain on change in interest in consolidated subsidiary

The Company recorded a gain from the public offering of shares of VeriServe Corporation in fiscal year 2008.

## 20. Compensation received for relocation

Compensation received for relocation relates to the compensation recorded for the relocation of the main office and branch office of Cosmo Securities Co., Ltd in fiscal year 2008.

## 21. Loss on impairment of fixed assets

For the year ended March 31, 2006, A breakdown of impairment losses is presented as follows:

(a) The Company declared the following impairment losses:

Location	Use	Classification
CSK Information Education Center (Tama city, Tokyo)	Administrative facilities Educational facilities	Land and buildings
Shinjuku Center (Shinjuku-ku, Tokyo) Osaka Umeda Center (Kita-ku, Osaka)	Call center	Buildings and annexed facilities Equipment and fixtures Software

(b) Asset grouping method

Idle assets and assets scheduled for sale are grouped on an individual asset basis, and business assets are grouped based on the managerial accounting classification.

(c) Background to recognition of impairment losses and calculation method

As the book value was far less than the price after the deduction of fees relating to the sale from the scheduled sales price mainly in the case of assets scheduled for sale, and where considerations of recoverable future cash flows were included in non-profitable businesses in the case of business assets, book value reduced to recoverable value was recognized as impairment losses.

The said reductions reported as impairment losses amounted to ¥3,380 million.

A breakdown of such loss is presented as follows:  
Buildings and structures: ¥1,198 million  
Land: ¥642 million  
Others (mainly software): ¥1,540 million

For the year ended March 31, 2008, a breakdown of impairment losses is presented as follows:

**(a) The Company declared the following impairment losses:**

Location	Use	Classification
Chuo-ku, Tokyo	Business property	Software Software in progress Leased asset Equipment and fixtures Buildings and annex facilities

**(b) Asset grouping method.**

Idle assets and assets scheduled for sale are grouped on an individual asset basis, and business assets are grouped based on the managerial accounting classification.

**(c) Background to recognition of impairment losses and calculation method.**

As the book value was far less than the price after the deduction of profit performance mainly in the case of the business property, and where considerations of recoverable future cash flows were included in non-profitable businesses in the case of business assets, book value reduced to recoverable value was recognized as impairment losses.

The said reductions reported as impairment losses amounted to ¥13,345 million.

A breakdown of such loss is presented as follows:  
Software and software in progress: ¥12,572 million  
Leased asset: ¥387 million

**22. Loss on relocation of datacenter**

“Loss on relocation of datacenter” relates to the relocation cost of the datacenter from Ikebukuro to Chiba in fiscal year 2006.

**23. Loss on cancellation of system development**

“Loss on cancellation of system development” relates to the cost of canceled contracts due to a difference of opinion with customers in entrusted development in fiscal year 2006.

**24. Loss on cancellation of service**

“Loss on cancellation of service” relates to a cancellation cost incurred in connection with the dividend automatic receipt service due to critical issues before its commencement in fiscal year 2006.

**25. Amortization of goodwill**

The assets and liabilities of a newly consolidated subsidiary are marked to fair value at the time the Company is deemed to have gained control. Excess of cost over such value of investments in subsidiaries is recognized as goodwill and is amortized over a period of 5 years.

Amortization of goodwill is included in “Selling, general and administrative expenses” in the accompanying consolidated statements of income.

**26. Reversal of prior-year's income taxes and prior-year's income taxes-deferred**

For the year ended March 31, 2007

Reversal of prior-year's income taxes and prior-year's income taxes-deferred was recorded for the following reasons.

On August 1, 2005, the Tokyo Regional Taxation Bureau notified the Company and its consolidated subsidiary CSK FINANCE CO., LTD (“the Consolidated Subsidiary”) of a corporate tax adjustment relating to the appraisal value of subsidiary companies involved in the Group's reorganization during the fiscal year ended March 31, 2004.

The Company and its Consolidated Subsidiary do not accept the basis for this adjustment and on August 9, 2005 lodged an objection with the Tokyo Regional Taxation Bureau.

However, a considerable period of time has passed since the filing of this application, and in light of the amendment to “Accounting Practices, Disclosure and Audit Treatment for Various Taxes” published by the Japanese Institute of Certified Public Accountants (JICPA) in March 2007, the Company and its consolidated subsidiary concluded that a more conservative accounting treatment was advisable with respect to this matter, and determined to incorporate it in the consolidated statement of income at the end of fiscal year 2007, from the perspective of further improving the soundness of the financial position and ensuring management transparency.

On June 6, 2007, the Tokyo Regional Taxation Bureau accepted a part of the Company's and its consolidated subsidiary's objection. And at the Board of Directors' meeting held on June 12, 2007, a determination was made to submit an application for review to the tax appeals court for the part of the objection that was not accepted regarding the main part of the corporate tax adjustment relating to the appraisal value of subsidiary companies.

The impact of the application for review corresponds to income taxes of approximately of ¥1 billion for the Company, and income taxes of approximately ¥1 billion for the Consolidated Subsidiary.

**27. Tax refund**

A refund of taxation (corporate tax of ¥2,129 and regional tax of ¥634 million) has been recorded for the following reasons.

**(1) Notice of tax adjustment and filing of objection**

On August 1, 2005, the Tokyo Regional Taxation Bureau notified the Company and its consolidated subsidiary CSK FINANCE CO., LTD. of a corporate tax adjustment related to the appraisal value of subsidiary companies involved in Group reorganization for the fiscal year ended March 31, 2004.

The Company and its consolidated subsidiary did not accept the basis for this adjustment, and on August 9, 2005 lodged an objection with the Tokyo Regional Taxation Bureau.

**(2) Recording of reversal of prior-year's income taxes and prior-year's income taxes-deferred**

As of March 31, 2007, a considerable period of time had passed since the filing of the application, and in light of the amendment to “Accounting Practices, Disclosure and Audit Treatment for Various Taxes” published by the Japanese Institute of Certified Public Accountants (JICPA) in March 2007, the Company and its consolidated subsidiary concluded that a more conservative accounting treatment was advisable with respect to this matter, and

determined to incorporate it in the consolidated statement of income at the end of that financial year, from the perspective of further improving the soundness of the financial position and ensuring management transparency. A reversal of prior-year's income taxes and corporate income tax amounting to ¥6,210 million was therefore recorded in the consolidated balance sheets as of March 31, 2007.

### (3) Announcement of determination by taxation authority and recording of tax refund

On June 6, 2007, during the period under review, the Tokyo Regional Taxation Bureau announced its determination on the objection the Company and its consolidated subsidiary had lodged, and upheld part of our objection. A reversal of the corporate tax relating to this part has therefore been recorded.

Following the announcement of the determination by the Tokyo Regional Taxation Bureau, on July 2, 2007 the Company and its consolidated subsidiary lodged an appeal with the National Tax Tribunal regarding the main part of our objection that was not accepted.

### (4) Initiation of lawsuit seeking cancellation of original disposition and withdrawal of request for administrative review

As three months passed following the request for administrative review without a determination by the Tokyo Regional Taxation Bureau, we submitted a complaint on December 14, 2007 requesting a cancellation of the original disposition from the Tokyo District Court.

On December 27, 2007, we withdrew our request for administrative review made to the Tokyo Regional Taxation Bureau.

## 28. Leases

The Group leases certain furniture and office equipment under non-cancelable operating and finance leases. Finance leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, except that leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

A summary of future minimum payments under operating leases and finance leases without transfer of ownership as of March 31, 2006, 2007 and 2008 is as follows:

	thousands of U.S. dollars (Note 1)			
	millions of yen		2008	2008
	2006	2007		
<b>Operating leases:</b>				
Due within one year . . . . .	¥ 227	¥ 1,997	¥ 2,756	\$ 27,508
Thereafter . . . . .	428	13,721	18,438	184,028
	¥ 655	¥15,718	¥21,194	\$211,536
<b>Finance leases:</b>				
Due within one year . . . . .	¥2,314	¥ 1,653	¥ 1,746	\$ 17,425
Thereafter . . . . .	3,590	2,877	2,888	28,825
	¥5,904	¥ 4,530	¥ 4,634	\$ 46,250

Lease expenses for finance lease contracts without transfer of ownership for the years ended March 31, 2006, 2007 and 2008 were ¥2,419 million, ¥2,884 million and ¥2,212 million, respectively.

Pro forma data as of March 31, 2006, 2007 and 2008 as to acquisition cost, accumulated depreciation, accumulated impairment loss, net book value, depreciation expense and interest

expense of the assets leased under finance leases without transfer of ownership is summarized as follows:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Pro forma acquisition cost . . . . .	¥ 9,870	¥ 8,944	¥ 8,640	\$ 86,232
Pro forma accumulated depreciation . . . . .	(4,140)	(4,450)	(4,206)	(41,981)
Pro forma accumulated impairment loss . . . . .	(35)	(35)	(398)	(3,972)
Pro forma net book value . . . . .	¥ 5,695	¥ 4,459	¥ 4,036	\$ 40,279
Pro forma depreciation expense . . . . .	¥ 2,162	¥ 2,591	¥ 1,936	\$ 19,326
Pro forma interest expense . . . . .	¥ 307	¥ 337	¥ 283	\$ 2,820
Loss on impairment of fixed assets . . . . .	¥ 35	¥ 20	¥ 391	\$ 3,904
Reversal of loss on impairment of fixed assets . . . . .	¥ —	¥ 16	¥ 15	\$ 154

Depreciation is calculated by the straight-line method over the respective lease terms of the leased assets assuming a nil residual value.

The Group also leases certain computer equipment to customers in conjunction with system consulting and development activities. These leases also do not involve the transfer of ownership and, therefore, are accounted for by a method similar to that applied to operating leases.

## 29. Loan commitment agreements

### (1) Lender

The Group adopts the CSK Group Cash Management System (CMS) to ensure agile and efficient cash arrangements for group companies.

The Company concluded master agreements for CMS that have set out the availability granted among 29 group companies (all consolidated subsidiaries) in fiscal year 2006.

The Company concluded master agreements for CMS that have set out the availability granted among 30 group companies in fiscal year 2007.

The Company concluded master agreements for CMS that have set out the availability granted among 32 group companies in fiscal year 2008.

The remaining portion of the credit line which was not utilized by the group companies under these agreements as of March 31, 2006, 2007 and 2008 was as follows:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Total availability granted by CMS . . . . .	¥40	¥240	¥280	\$2,795
Used portion of credit line . . . . .	—	90	230	2,296
Remaining portion of credit line . . . . .	¥40	¥150	¥ 50	\$ 499

In addition, total availability granted by CMS is not necessarily utilized, because the intended use of the funds is limited in the master agreements of CMS.

### (2) Borrower

The Company has concluded loan commitment agreements with three banks to provide circulating funds efficiently.

The remaining portion of the credit line which was not utilized by the Company under these agreements as of March 31, 2006, 2007 and 2008 was as follows:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Total availability granted . . . . .	¥—	¥30,000	¥30,000	\$299,430
Used portion of credit line . . . . .	—	—	21,000	209,601
Remaining portion of credit line . . . . .	¥—	¥30,000	¥ 9,000	\$ 89,829

### 30. Related party transactions (non-consolidated basis)

The Group had no significant transactions with its related parties for the years ended March 31, 2006, 2007 and 2008.

### 31. Information about per share

	yen			U.S. dollars (Note 1)
	2006	2007	2008	2008
Shareholders' equity per share . . . . .	¥2,437.08	—	—	—
Net assets per share <sup>(1)</sup> . . . . .	—	¥2,479.33	¥2,317.18	\$23.13
Net income per share <sup>(1)</sup> . . . . .	¥ 410.52	¥ 117.35	¥ 17.34	\$ 0.17
Diluted net income per share <sup>(1)</sup> . . . . .	¥ 387.98	¥ 105.60	¥ 15.46	\$ 0.15

<sup>(1)</sup> The basic facts underlying the calculations of "Net assets per share", "Net income per share" and "Diluted net income per share" are as follows:

	millions of yen			thousands of U.S. dollars (Note 1)
	2006	2007	2008	2008
Net assets per share				
Net assets . . . . .	¥ —	¥208,775	¥185,496	\$1,851,438
Net assets related to common stock . . . . .	¥ —	¥184,186	¥163,474	\$1,631,639
Principal factors underlying the difference				
Minority interests . . . . .	¥ —	¥ 24,589	¥ 22,022	\$ 219,799
Number of shares outstanding at the end of the fiscal year (thousands of shares) . . . . .	—	78,437	78,671	78,671
Number of shares of common stock held in treasury at the end of the fiscal year (thousands of shares) . . . . .	—	4,148	8,122	8,122
Common stock figure used for calculating net assets per share (thousands of shares) . . . . .	—	74,289	70,549	70,549
Net income per share				
Net income . . . . .	¥30,875	¥ 8,679	¥ 1,272	\$ 12,697
Net income related to common stock . . . . .	¥30,537	¥ 8,679	¥ 1,272	\$ 12,697
Amount not attributable to common shareholders . . . . .	¥ 338	¥ —	¥ —	\$ —
(Of which, amount paid out as bonuses to directors pursuant to Statement of appropriation of Net income) . . . . .	¥ 338	¥ —	¥ —	\$ —
Average number of shares outstanding during the fiscal year (thousands of shares) . . . . .	74,386	73,958	73,368	73,368
Diluted net income per share <sup>(2)</sup>				
Net income adjustment . . . . .	¥ (40)	¥ (4)	¥ 12	\$ 115
(Of which, effect of dilution of affiliated companies stock) . . . . .	¥ (40)	¥ (42)	¥ (45)	\$ (453)
(Of which, Interest expenses (after deducting tax)) . . . . .	¥ —	¥ 38	¥ 57	\$ 568
Increase in common stock (thousands of shares) . . . . .	4,217	8,198	9,668	9,668
(Of which, warrant rights) . . . . .	163	87	11	11
(Of which, share warrants) . . . . .	240	261	17	17
(Of which, convertible bonds payable) . . . . .	3,814	7,850	9,640	9,640

<sup>(2)</sup> Outline of stock not included in diluted net income per share due to lack of dilutive effect as of March 31, 2006:

Company name	Diluted net income per share	Number of shares of common stock
CSK HOLDINGS CORPORATION		
Bonds with detachable warrants (Note 15 (1))		1,001,700
Bonds with detachable warrants (Note 15 (2))		1,123,000
Bonds with detachable warrants <sup>(3)</sup>		44,640
Bonds with detachable warrants <sup>(3)</sup>		27,216
VeriServe Corporation		561
Cosmo Securities Co., Ltd.		1,642,000

<sup>(3)</sup> Outline of stock not included in diluted net income per share due to lack of dilutive effect as of March 31, 2007:

Company name	Diluted net income per share	Number of shares of common stock
CSK HOLDINGS CORPORATION		
Bonds with detachable warrants <sup>(4)</sup>		—
VeriServe Corporation		561
Cosmo Securities Co., Ltd.		1,642,000

<sup>(4)</sup> Outline of stock not included in diluted net income per share due to lack of dilutive effect as of March 31, 2008:

Company name	Diluted net income per share	Number of shares of common stock
CSK HOLDINGS CORPORATION		
Bonds with detachable warrants (Note 15 (1))		969,500
Bonds with detachable warrants (Note 15 (2))		1,122,400
Bonds with detachable warrants <sup>(5)</sup>		—
VeriServe Corporation		559
Cosmo Securities Co., Ltd.		1,642,000

<sup>(5)</sup> The share right exercise period is ended in this fiscal year.

### 32. Segment information

The Group operates principally in four business segments: IT services business, Financial services business, Securities business, and Prepaid card business.

Segment	Major products and services
IT services business	Software development, systems integration, facilities management, business process outsourcing and other related services
Financial services business	Computer and other product sales, engineering of intelligent buildings, leasing of intelligent buildings
Securities business	Investments in venture companies, investments in anonymous associations, real estate, equity securities and other, management of investment trusts
Prepaid card business	Securities business and other related services
	Issuance and settlement of prepaid cards, development and sales of card systems

The segment information of the Group for each of the three years in the period ended March 31, 2008 classified by business segment is presented below:

	millions of yen						
	For the year ended March 31, 2006						
	IT services business	Financial services business	Securities business	Prepaid card business	Total	Elimination and corporate	Consolidated total
Operating revenue:							
Outside customers	¥197,468	¥ 14,208	¥ 26,636	¥ 2,843	¥241,155	¥ —	¥241,155
Inter-segment sales/transfers	648	990	14	5	1,657	(1,657)	—
Total	198,116	15,198	26,650	2,848	242,812	(1,657)	241,155
Costs and expenses	188,439	4,503	20,933	3,059	216,934	(917)	216,017
Operating income (loss)	¥ 9,677	¥ 10,695	¥ 5,717	¥ (211)	¥ 25,878	¥ (740)	¥ 25,138
Assets	¥ 88,974	¥114,020	¥218,011	¥29,646	¥450,651	¥92,483	¥543,134
Depreciation	¥ 4,457	¥ 40	¥ 674	¥ 182	¥ 5,353	¥ 518	¥ 5,871
Loss on impairment of fixed assets	¥ 2,327	¥ —	¥ 84	¥ 23	¥ 2,434	¥ 946	¥ 3,380
Capital expenditure	¥ 3,099	¥ 79	¥ 848	¥ 123	¥ 4,149	¥ 3,804	¥ 7,953

	millions of yen						
	For the year ended March 31, 2007						
	IT services business	Financial services business	Securities business	Prepaid card business	Total	Elimination and corporate	Consolidated total
Operating revenue:							
Outside customers	¥192,561	¥ 24,954	¥ 24,703	¥ 3,764	¥245,982	¥ —	¥245,982
Inter-segment sales/transfers	1,720	135	3	4	1,862	(1,862)	—
Total	194,281	25,089	24,706	3,768	247,844	(1,862)	245,982
Costs and expenses	179,504	9,248	22,948	4,020	215,720	357	216,077
Operating income (loss)	¥ 14,777	¥ 15,841	¥ 1,758	¥ (252)	¥ 32,124	¥ (2,219)	¥ 29,905
Assets	¥ 88,920	¥129,335	¥204,554	¥34,105	¥456,914	¥120,381	¥577,295
Depreciation	¥ 2,668	¥ 32	¥ 683	¥ 157	¥ 3,540	¥ 569	¥ 4,109
Capital expenditure	¥ 9,488	¥ 13	¥ 1,563	¥ 52	¥ 11,116	¥ 4,823	¥ 15,939

	millions of yen						
	For the year ended March 31, 2008						
	IT services business	Financial services business	Securities business	Prepaid card business	Total	Elimination and corporate	Consolidated total
Operating revenue:							
Outside customers	¥194,693	¥ 20,389	¥ 22,179	¥ 2,434	¥239,695	¥ —	¥239,695
Inter-segment sales/transfers	3,943	3	4	7	3,957	(3,957)	—
Total	198,636	20,392	22,183	2,441	243,652	(3,957)	239,695
Costs and expenses	183,223	7,304	26,238	2,549	219,314	1,125	220,439
Operating income (loss)	¥ 15,413	¥ 13,088	¥ (4,055)	¥ (108)	¥ 24,338	¥ (5,082)	¥ 19,256
Assets	¥ 82,979	¥223,695	¥139,032	¥36,280	¥481,986	¥68,068	¥550,054
Depreciation	¥ 3,624	¥ 34	¥ 923	¥ 139	¥ 4,720	¥ 1,184	¥ 5,904
Loss on impairment of fixed assets	¥ 13,340	¥ —	¥ 5	¥ —	¥ 13,345	¥ —	¥ 13,345
Capital expenditure	¥ 12,914	¥ 153	¥ 3,531	¥ 36	¥ 16,634	¥ 5,882	¥ 22,516

	thousands of U.S. dollars (Note 1)						
	For the year ended March 31, 2008						
	IT services business	Financial services business	Securities business	Prepaid card business	Total	Elimination and corporate	Consolidated total
Operating revenue:							
Outside customers	\$1,943,239	\$ 203,506	\$ 221,372	\$ 24,289	\$2,392,406	\$ —	\$2,392,406
Inter-segment sales/transfers	39,356	34	35	73	39,498	(39,498)	—
Total	1,982,595	203,540	221,407	24,362	2,431,904	(39,498)	2,392,406
Costs and expenses	1,828,762	72,902	261,881	25,439	2,188,984	11,222	2,200,206
Operating income (loss)	\$ 153,833	\$ 130,638	\$ (40,474)	\$ (1,077)	\$ 242,920	\$ (50,720)	\$ 192,200
Assets	\$ 828,219	\$2,232,707	\$1,387,683	\$362,109	\$4,810,718	\$679,393	\$5,490,111
Depreciation	\$ 36,175	\$ 336	\$ 9,213	\$ 1,385	\$ 47,109	\$ 11,824	\$ 58,933
Loss on impairment of fixed assets	\$ 133,151	\$ —	\$ 44	\$ —	\$ 133,195	\$ —	\$ 133,195
Capital expenditure	\$ 128,893	\$ 1,523	\$ 35,245	\$ 360	\$ 166,021	\$ 58,708	\$ 224,729

- (1) Assets of ¥92,483 million, ¥120,381 million and ¥68,068 million (\$679,393 thousand) at March 31, 2006, 2007 and 2008, respectively, included in the “Elimination and corporate” column mainly consisted of the Company’s working funds (cash and marketable securities), long-term investment funds (investments in securities) and other assets.
- (2) Among costs and expenses, unallocated operating expenses in the “Elimination and corporate” column for the year ended March 31, 2006 amounted to ¥3,503 million. Those costs represented expenses of ¥69 million which were incurred pertaining to the Company’s administration departments and other before the corporate separation on October 1, 2005, and management expenses for group companies of ¥3,434 million which were incurred by the Company after the corporate separation. Among costs and expenses, unallocated operating expenses in the “Elimination and corporate” column for the years ended March 31, 2007 and 2008 consisted of management expenses for group companies of ¥7,003 million and ¥10,223 million (\$102,033 thousand), respectively, incurred at the Company. In the year ended March 31, 2006, the main expenses corresponding to the first half of the year ended March 31, 2007 were included in the IT services business.
- (3) “Depreciation” and “Capital expenditure” include long-term prepayments, deferred charges and their amortization.

(Change in accounting policies)

Effective April 1, 2005, the accounting policy for the prepaid card sales segment changed. As a result, “Operating revenue” of the prepaid card sales segment decreased by ¥58,425 million, “Costs and expenses” decreased by ¥57,500 million, and “Operating income” decreased by ¥925 million from the corresponding amounts which would have been recorded under the previous method (See Note 2 (23) b).

In line with the revision of Japan’s Corporation Tax Law, from the fiscal year under review CSK HOLDINGS CORPORATION has changed its method of depreciation, based on the revised Corporation Tax Law, for tangible fixed assets acquired on or after April 1, 2007. As a result, depreciation expense increased by ¥91 million (\$909 thousand) in the IT services business, by ¥1 million (\$13 thousand) in the Financial services business, by ¥8 million (\$80 thousand) in the Securities business, by ¥1 million (\$7 thousand) in the Prepaid card business, and by ¥142 million (\$1,417 thousand) in “Elimination and corporate”, and Operating income (loss) for each segment decreased (increased) by the same amount as that of the corresponding decrease in depreciation expense, as compared with the corresponding amounts which would have been recorded under the previous method (See Note 2 (10)).

Segment information for geographic locations has been omitted for the years ended March 31, 2006, 2007 and 2008 since total sales for the “Japan” segment exceeded 90% of total sales for each of such period. Information regarding overseas sales has been omitted for the years ended March 31, 2006, 2007 and 2008 since total overseas sales were less than 10% of consolidated total sales for each of these periods.

### 33. Subsequent events

**The acquisition of all of the noncontrolling interests in a subsidiary**  
The Company and Cosmo Securities Co., Ltd. (“Cosmo Securities”) announced that at meetings of their respective Boards of Directors on May 23, 2008, it was resolved resolutions for the Company to make Cosmo Securities a wholly-owned subsidiary through an exchange of shares were approved as outlined below, and that the two companies concluded a share exchange agreement on August 1, 2008.

#### 1. Objective

The Group has been steadily developing its resources for pursuing the securities-related business the Group has begun initiatives for establishing its Securities-related Business as a full-fledged core Group business. Consequently, it has determined to make Cosmo Securities, the Group’s core company in the securities-related business, a wholly-owned subsidiary, and that the Group as a whole will work together to pursue the Securities-related Business.

By combining the capabilities, resources and business expertise of Cosmo Securities and the experience and resources in the IT services business and securities business that the Group has gained to date, the Group and Cosmo Securities will work to provide a comprehensive securities platform, as part of delivering new services to meet the emerging needs of society, so that securities companies and other companies entering the securities business can feel confident in mandating the Group to take care of all their related business needs. The Group will also provide services for individual investors.

#### 2. Schedule of share exchange

Shareholders’ record date (Cosmo Securities)	March 31, 2008
Approval of resolution for share exchange at Board of Directors’ meeting (both companies)	May 23, 2008
Conclusion of share exchange agreement (both companies)	May 23, 2008
Approval of share exchange at shareholders’ meeting (Cosmo Securities)	June 25, 2008
Last date of trading on stock exchanges (Cosmo Securities)	July 25, 2008 (planned)
Delisting date (Cosmo Securities: Osaka Securities Exchange)	July 26, 2008 (planned)
Delisting date (Cosmo Securities: Tokyo Stock Exchange and Nagoya Stock Exchange)	July 28, 2008 (planned)
Scheduled date of share exchange (effective date)	August 1, 2008 (planned)
Delivery date of share certificates	Mid-September 2008 (planned)

\* The Company plans to carry out the share exchange without seeking approval at a shareholders’ meeting, in line with the provisions of Article 796-3 of the Companies Law (summary share exchange).

### 3. Details of share allotment ratio, etc.

Company name	CSK Holdings ("the Company") (wholly owning parent company)	Cosmo Securities (wholly-owned subsidiary)
Share allotment ratio	1	0.046
No. of new shares to be delivered through the share exchange	Not determined	

#### (1) Share allotment ratio

0.046 shares of common stock of the Company will be delivered for each share of common stock of Cosmo Securities.

The Company holds 210,900,000 shares of common stock of Cosmo Securities at present. The Company will not allocate shares through the share exchange with respect to shares of common stock of Cosmo Securities held by the Company on the date of the share exchange. In the period from May 26, 2008 to July 25, 2008, based on compliance with related laws and regulations, the Company plans to acquire a maximum of 4,236,000 shares in Cosmo Securities (approximately 1% of the total outstanding shares of Cosmo Securities). The acquisition by the Company of shares on the open market before the effective date of the share exchange will result in increased liquidity in the market for shares of Cosmo Securities.

#### (2) Number of shares to be delivered through the share exchange, etc.

In this share exchange, the Company will allocate and deliver shares of common stock of the Company to each shareholder of Cosmo Securities (including beneficial shareholders but excluding the Company; same hereafter). The number of shares delivered will be the total number of shares of common stock held by shareholders of Cosmo Securities, as recorded and registered in the final register of shareholders of Cosmo Securities (including the register of beneficial shareholders) on the day before the effective date of the share exchange (August 1, 2008), multiplied by 0.046.

As of March 31, 2008, the Company held 8,121,892 shares of its own of common stock in treasury. Of the shares of the Company to be delivered in the share exchange, a number of shares, equivalent to the number of shares of common stock held in treasury by the Company on the effective date of the share exchange, will be allocated and delivered from treasury stock of the Company. If the total number of shares to be delivered in the share exchange exceeds the number of shares of common stock held in treasury, the remaining shares to be delivered will be allocated and delivered via the issuance of new shares. The number of new shares to be delivered will be announced when it is determined.

#### (3) Calculation of Share allotment ratio

The Company and Cosmo Securities requested their respective third party to calculate the Share allotment ratio and the third party calculated such rates by applying the average market price method. As a result of negotiations and consultations between the Company and Cosmo Securities based on the calculation result of the third party, the Share allotment ratio was agreed and determined.



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## Report of Independent Auditors

The Board of Directors  
CSK HOLDINGS CORPORATION

We have audited the accompanying consolidated balance sheet of CSK HOLDINGS CORPORATION and its consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The consolidated financial statements of CSK HOLDINGS CORPORATION and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 were audited by other auditors whose report dated June 27, 2007, expressed an unqualified opinion on those consolidated financial statements.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of CSK HOLDINGS CORPORATION and its consolidated subsidiaries at March 31, 2008, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

June 26, 2008