

Japan Asia Investment Co., Ltd.
Annual Report 2011

Financial section

(Fiscal year from April 1st, 2010 to March 31st, 2011)

2011

Report of Independent Auditors

The Board of Directors
Japan Asia Investment Company, Limited

We have audited the accompanying consolidated balance sheets of Japan Asia Investment Company, Limited and consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Asia Investment Company, Limited and consolidated subsidiaries at March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 21, at the 30th Annual General Meeting of Shareholders held on June 24, 2011, the Company approved a resolution to reduce share capital and to appropriate other capital surplus.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 6.

Ernst & Young Shinriken LLC

June 27, 2011

Consolidated Five-Year Summary

	For the years ended March 31					2011	Thousands of U.S. dollars
	2007	2008	2009	2010	2011		
Results of Operations:	Millions of yen						
Total operating revenues	¥ 26,922	¥ 21,444	¥ 9,454	¥ 8,474	¥ 11,764		\$ 141,487
Gross profit (loss)	17,297	10,447	(23,979)	(8,166)	3,393		40,809
Operating profit (loss)	12,428	5,172	(31,383)	(11,710)	1,154		13,880
Income (loss) before income taxes and minority interests	11,697	4,314	(36,153)	(12,898)	(2,013)		(24,209)
Net income (loss)	4,943	1,512	(34,900)	(10,889)	(2,039)		(24,527)
Financial Position:							
Total assets	109,909	116,250	74,632	59,208	48,736		586,128
Total liabilities	36,638	45,328	49,428	44,266	35,564		427,719
Total net assets	73,271	70,922	25,204	14,942	13,171		158,409
Equity ratio (%)	51.1 %	47.2 %	18.5 %	8.7 %	9.0 %		
Per Share:	Yen						U.S. dollars
Net income (Loss):							
Basic	¥ 44.97	¥ 13.14	¥ (296.07)	¥ (92.38)	¥ (17.30)		\$ (0.208)
Diluted	43.67	12.45	—	—	—		—
Shareholders' equity	511.53	465.15	116.93	43.94	37.26		0.448
Cash dividends	15.00	16.00	—	—	—		—
Ratios (%):							
Return on equity	9.2 %	2.7 %	— %	— %	— %		
Return on total assets	5.1 %	3.9 %	— %	— %	— %		

Note: U.S. dollar amounts are converted, for convenience only, at the rate of ¥83.15=US\$1, the rate of exchange prevailing at March 31, 2011.

Consolidated Financial Statements

Consolidated Balance Sheets

	At March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars (Note 6)
Assets			
Current assets:			
Cash and deposits (Notes 9 and 18)	¥15,535	¥15,698	\$188,801
Marketable securities (Notes 7, 9 and 18)	105	78	945
Commercial loans (Note 9)	758	711	8,555
Allowance for doubtful accounts (Note 9)	(13)	(19)	(231)
	745	692	8,324
Operational investment securities (Notes 7, 8, 9 and 17)	50,313	35,268	424,152
Allowance for possible investment losses (Notes 8 and 9)	(12,495)	(7,973)	(95,889)
	37,818	27,295	328,263
Other current assets	544	670	8,063
Total current assets	54,747	44,435	534,397
Non-operational investments (Notes 7, 9 and 17)	2,815	3,230	38,851
Allowance for possible investment losses (Note 9)	(4)	—	—
Property and equipment (Notes 16 and 17)	499	86	1,043
Deferred tax assets (Note 15)	4	4	54
Receivables from companies in bankruptcy or rehabilitation (Note 9)	1,800	1,175	14,136
Allowance for doubtful accounts (Note 9)	(960)	(439)	(5,288)
Goodwill	103	80	964
Other assets	202	163	1,970
Total assets	¥59,208	¥48,736	\$586,128
Liabilities and Net Assets			
Current liabilities:			
Current portion of long-term borrowings (Notes 9, 11 and 17)	¥982	¥1,865	\$22,434
Current portion of convertible notes (Notes 9 and 11)	—	1,420	17,077
Lease obligations (Notes 9 and 12)	0	0	9
Accrued income taxes	279	209	2,517
Accrued expenses and other current liabilities	1,022	945	11,367
Allowance for bonuses	2	25	303
Deferred tax liabilities	0	0	1
Provision for losses on business restructuring	246	—	—
Total current liabilities	2,533	4,466	53,711
Convertible notes (Notes 9 and 11))	3,176	—	—
Long-term borrowings (Notes 9, 11 and 17)	37,275	30,052	361,426
Lease obligations (Notes 9 and 12)	1	1	14
Deferred tax liabilities (Note 15)	1	1	12
Accrued retirement benefits (Note 20)	279	280	3,378
Deposits received from silent partnership	719	703	8,464
Other liabilities	279	59	710
Total liabilities	44,266	35,564	427,719
Commitments and contingent liabilities			
Net assets:			
Common stock			
Authorized: 375,362,000 shares			
Issued: 119,993,475 shares	27,166	27,166	326,714
Accumulated deficits	(17,754)	(19,794)	(238,054)
Treasury stock (2,122,586 shares in 2011 and 2,121,039 shares in 2010)	(415)	(415)	(4,994)
Total shareholders' equity	8,996	6,956	83,664
Unrealized net loss on investments	(2,137)	(1,043)	(12,544)
Net deferred loss on hedges (Notes 9 and 10)	(9)	(1)	(14)
Foreign currency translation adjustments	(1,670)	(1,520)	(18,291)
Total accumulated other comprehensive income	(3,817)	(2,565)	(30,850)
Subscription rights to shares (Note 19)	—	20	241
Minority interests	9,763	8,760	105,353
Total net assets	14,942	13,171	158,409
Total liabilities and net assets	¥59,208	¥48,736	\$586,128

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

	For the years ended March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars (Note 6)
Operating revenues:			
Revenues from operational investment securities (Notes 7 and 8)	¥6,974	¥10,581	\$127,259
Investment funds' management fees	905	729	8,767
Consultancy fees	52	75	907
Commercial loan interest	109	72	876
Other	431	305	3,676
Total operating revenues	8,474	11,764	141,487
Operating costs:			
Cost of operational investment securities (Notes 7 and 8)	16,046	8,016	96,409
Financial costs	111	56	676
Other	482	298	3,591
Total operating costs	16,640	8,371	100,677
Gross profit (loss)	(8,166)	3,393	40,809
Selling, general and administrative expenses	3,544	2,239	26,929
Operating profit (loss)	(11,710)	1,154	13,880
Other income (expenses):			
Interest income	23	12	147
Interest expense	(1,003)	(832)	(10,010)
Dividend income	84	55	663
Gain on retirement by purchase of convertible notes	1,289	374	4,501
Commission expenses	(47)	(0)	(4)
Exchange losses, net	(121)	(519)	(6,245)
Equity in earnings (losses) of affiliates	(3)	5	63
Net gains on hedge trading	82	105	1,274
Cancellation Income	—	80	962
Reversal of allowance for doubtful accounts	—	17	206
Reversal of provision for business restructuring	—	28	345
Losses on business restructuring (Note 14)	(578)	(1,203)	(14,475)
Impairment loss on fixed assets (Note 13)	(155)	(61)	(734)
Loss on devaluation of non-operational investment securities	(872)	(100)	(1,213)
Net (losses) gains on sales of non-operational investment securities	80	(1,048)	(12,608)
Expenses incurred as a result of the revision of personnel plans	—	(53)	(645)
Loss on disposition of foreign currency translation adjustments	—	(92)	(1,108)
Other, net	18	50	608
Total other expenses	(1,205)	(3,182)	(38,274)
Loss before income taxes, distribution of net loss on silent partnership and minority interests	(12,916)	(2,028)	(24,394)
Distribution of net loss on silent partnership	(17)	(15)	(184)
Loss before income taxes and minority interests	(12,898)	(2,013)	(24,209)
Income taxes			
Current	189	164	1,983
Deferred	(0)	(0)	(6)
Loss before minority interests	(13,088)	(2,177)	(26,186)
Minority interests in losses of consolidated subsidiaries	(2,198)	(137)	(1,658)
Net loss	¥(10,889)	¥(2,039)	\$(24,527)
			U.S. dollars (Note 6)
Per share:			
Net loss:			
Basic	¥(92.38)	¥(17.30)	\$(0.208)
Diluted	—	—	—
Net assets	¥43.94	¥37.26	\$0.448
Cash dividends	—	—	—

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

	For the years ended March 31		
	2010	2011	2011
	Millions of yen	Millions of yen	Thousands of U.S. dollars (Note 6)
Loss before minority interests	¥(13,088)	¥(2,177)	\$(26,186)
Other comprehensive income			
Unrealized net loss on investments	2,316	1,092	13,143
Net deferred loss on hedges	(9)	8	97
Foreign currency translation adjustments	(1)	303	3,646
Share of other comprehensive income of affiliates accounted for by the equity method	122	(248)	(2,983)
Total other comprehensive income	2,428	1,156	13,904
Comprehensive income	¥(10,659)	¥(1,021)	\$(12,282)
Comprehensive income attributable to:			
Shareholders	¥(8,603)	¥(787)	\$(9,470)
Minority interests	¥(2,056)	¥(233)	\$(2,811)

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Changes in Net Assets

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Additional paid-in capital	Accumulated deficits	Treasury stock	Total shareholders' equity	Unrealized net gain (loss) on investments	Net deferred gain (loss) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at March 31, 2009	119,993,475	¥27,166	¥23,472	¥(30,337)	¥(415)	¥19,889	¥(4,379)	¥-	¥(1,725)	¥(6,194)	¥11,422	¥55,200
Net loss for the year ended March 31, 2010						(10,889)						(10,889)
Elimination of accumulated deficits through reduction of additional paid-in capital			(23,471)	23,471								
Purchase of treasury stock					(9)	(9)						(9)
Unrealized net gain on investments							2,240			2,240		2,240
Net deferred loss on hedges								(9)		(9)		(9)
Foreign currency translation adjustments									54	54		54
Minority interests in consolidated subsidiaries											(1,658)	(1,658)
Balance at March 31, 2010	119,993,475	¥27,166	¥-	¥(17,754)	¥(415)	¥8,998	¥(2,137)	¥(9)	¥(1,670)	¥(3,817)	¥9,763	¥14,942
Net loss for the year ended March 31, 2011						(2,039)						(2,039)
Purchase of treasury stock					(9)	(9)						(9)
Unrealized net gain on investments							1,094			1,094		1,094
Net deferred gain on hedges								8		8		8
Foreign currency translation adjustment									149	149		149
Subscription rights to shares											20	20
Minority interests in consolidated subsidiaries											(1,003)	(1,003)
Balance at March 31, 2011	119,993,475	¥27,166	¥-	¥(19,794)	¥(415)	¥6,958	¥(1,043)	¥(1)	¥(1,520)	¥(2,565)	¥9,760	¥13,171

Thousands of U.S. dollars (Note 6)

	Thousands of U.S. dollars (Note 6)											
	Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Additional paid-in capital	Accumulated deficits	Treasury stock	Total shareholders' equity	Unrealized net gain (loss) on investments	Net deferred gain (loss) on hedges	Foreign currency translation adjustments	Total accumulated other comprehensive income		
Balance at March 31, 2010	119,993,475	\$326,714	\$-	\$(213,526)	\$(4,993)	\$108,194	\$(25,702)	\$(111)	\$(20,092)	\$(45,907)	\$17,740	\$179,707
Net loss for the year ended March 31, 2011						(24,527)						(24,527)
Purchase of treasury stock					(1)	(1)						(1)
Unrealized net gain on investments							13,158			13,158		13,158
Net deferred gain on hedges								97		97		97
Foreign currency translation adjustments									1,801	1,801		1,801
Subscription rights to shares											241	241
Minority interests in consolidated subsidiaries											(12,066)	(12,066)
Balance at March 31, 2011	119,993,475	\$326,714	\$-	\$(238,054)	\$(4,994)	\$83,664	\$(12,544)	\$(14)	\$(18,291)	\$(30,850)	\$105,353	\$158,409

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

	For the years ended March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars (Note 6)
Cash flows from operating activities:			
Loss before income taxes and minority interests	¥ (12,898)	¥ (2,013)	\$ (24,209)
Depreciation and amortization	30	25	306
Impairment loss on fixed assets	155	61	734
Increase (decrease) in allowance for possible investment losses	1,077	(2,796)	(33,637)
Increase (decrease) in provision for business restructuring	65	(25)	(306)
Gain on hedge trading	(82)	(105)	(1,274)
Decrease in allowance for doubtful accounts	(767)	(479)	(5,762)
Increase (decrease) in allowance for bonuses	(5)	23	279
Increase (decrease) in provision for employees' accrued retirement benefits	(34)	6	78
Decrease in provision for directors' accrued retirement benefits	-	(5)	(60)
Interest and dividend income	(98)	(64)	(771)
Interest expense	975	800	9,625
Equity in (earnings) losses of affiliates	4	(4)	(55)
Loss (gain) on sales of non-operational investment securities	(80)	1,048	12,608
Loss on devaluation of non-operational investment securities	872	100	1,213
Loss on sales of stock of subsidiaries and affiliates	-	2	31
Business restructuring expenses	90	1,203	14,475
Loss on devaluation of operational investment securities	2,328	505	6,077
Decrease in operational investment securities	9,487	8,665	104,215
Decrease in commercial loans	888	99	1,200
Decrease in receivables from companies in bankruptcy or rehabilitation	660	585	7,037
Gain on retirement by purchase of convertible notes	(1,289)	(374)	(4,501)
Loss on disposition of foreign currency translation adjustments	-	92	1,108
Payment for purchase of investment funds	(1,831)	(683)	(8,215)
Dividends from investment funds	2,402	1,977	23,783
Increase in minority interests of investment funds	2,275	147	1,774
Other	415	(654)	(7,865)
Subtotal	4,642	8,139	97,890
Interest and dividend income received	99	63	764
Interest paid	(795)	(833)	(10,022)
Income taxes paid	(59)	(231)	(2,789)
Income taxes refunded	163	-	-
Net cash provided by operating activities	4,051	7,137	85,843
Cash flows from investing activities:			
Proceeds from sales of property and equipment	1	332	3,995
Payment for purchase of property and equipment	(66)	(9)	(109)
Payment for purchase of intangible fixed assets	(0)	(0)	(0)
Payment for purchase of non-operational investments	(144)	(11)	(136)
Proceeds from sale of non-operational investments	449	1,468	17,664
Proceeds from liquidation of investment securities	52	5	61
Decrease (increase) in time deposits, net	(174)	333	4,006
Proceeds from collection of deposits for office rental	266	34	410
Deposits paid for office rental	(156)	(9)	(118)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation (Note 18)	-	68	819
Other	2	3	47
Net cash provided by investing activities	229	2,215	26,642
Cash flows from financing activities:			
Increase in short-term borrowings, net	-	(126)	(1,518)
Proceeds from execution of long-term borrowings	5,987	443	5,329
Repayment of long-term borrowings	(3,959)	(6,782)	(81,567)
Payment for redemption of bonds	(4,603)	-	-
Payment for retirement by purchase of convertible notes	(1,534)	(1,381)	(16,617)
Cash dividends paid	(10)	(1)	(15)
Cash dividends paid to minority stockholders	(4)	(37)	(454)
Payment for acquisition of treasury stock	(0)	(0)	(1)
Repayments of lease obligations	(0)	(0)	(9)
Other	(0)	0	10
Net cash used in financing activities	(4,126)	(7,886)	(94,843)
Effect of exchange rate changes on cash and cash equivalents	17	(34)	(420)
Net increase in cash and cash equivalents	171	1,431	17,221
Cash and cash equivalents at beginning of year	8,158	8,330	100,181
Cash and cash equivalents at end of year (Note 18)	¥ 8,330	¥ 9,762	\$ 117,402

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Japan Asia Investment Company, Limited (the “Company”), and its consolidated subsidiaries (together, hereinafter referred to as the “Companies”), in accordance with the provisions set forth in the Financial Instruments and Exchange Law and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

The notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented as additional information.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

In addition, certain reclassifications have been made to the prior year’s consolidated financial statements to conform to the current year’s presentation.

2. Consolidation and Investments in Affiliates

The consolidated financial statements include the accounts of the Company and those of its subsidiaries over which it has control. All significant intercompany transactions and accounts and unrealized intercompany profits are eliminated on consolidation. The excess of the cost over the underlying net equity of investments in subsidiaries is recognized as goodwill and is basically amortized on a straight-line basis over a five-year period.

Investments in affiliates in which the Company has significant influence are accounted for by the equity method. Consolidated net income includes the Company’s equity in current earnings of affiliates after elimination of unrealized intercompany profits.

3. Significant Accounting Policies

(1) Valuation standard and method of accounting for securities

a) Other securities (Marketable securities, Operational investment securities and Non-operational investments)

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate component of net assets at a net-of-tax amount. On the other hand, other securities for which market quotations are unavailable are stated at cost. Cost of securities sold is determined by the moving average method.

b) Investment funds

With respect to the investment funds which are managed and operated by the Companies and the investment funds which are managed and operated by the third party and which are consolidated subsidiaries, the Company includes its equity in assets, liabilities, revenues and expenses of the funds in its consolidated financial statements using the financial statements of the funds as of and for the year ended March 31 or the fiscal year end of the Company. In cases where third party manages the investment funds which are not consolidated subsidiaries, the Company includes its equity in net assets and net income of the funds based on the recent available information in its consolidated financial statements.

(2) Derivatives

Derivative transactions are stated at fair value.

(3) Depreciation method for material depreciable assets

a) Property and equipment

Depreciation of property and equipment is mainly calculated by the declining-balance method.

The useful lives adopted for major assets are as follows:

Buildings	8 – 39 years
Vehicles and equipment	4 – 15 years

b) Software (Other assets)

Software used by the Companies is depreciated by the straight-line method based on estimated useful lives (5 years) determined by the Companies.

(4) Accounting standard for allowances

a) Allowance for possible investment losses

Allowance for possible investment losses is provided for the amount of possible losses from operational and non-operational investments estimated to be incurred based on the status of the investees.

b) Allowance for doubtful accounts

The balance of allowance for doubtful accounts consists of a general reserve and a specific reserve. The general reserve is provided based upon past loss experience. The specific reserve is provided to cover possible losses estimated on an individual account basis.

c) Allowance for bonuses

Allowance for bonuses is provided at the expected payment amount for the year ended March 31, 2011 and for bonuses linked to operating results at the estimated amounts of payments.

d) Accrued retirement benefits

Accrued retirement benefits for employees are reserved at 100% of the liabilities the Company would be required to pay if all eligible employees voluntarily terminated their employment at the balance sheet date.

Accrued retirement benefits for directors are provided at an amount equivalent to 100% of the liabilities the Company would be required to pay if all eligible directors retired at the balance sheet date, as determined by the Company's internal rules.

At the ordinary meeting of shareholders held in June 2004, the Company abolished the internal rules on retirement benefits for directors. The amount of accrued retirement benefits for directors as at June 2004 will be kept. No additional allowance has been made since July 2004.

Accrued retirement benefits for directors as of March 31, 2011 (¥ 62 million) are those provided for directors who resigned in June 2009.

e) Provision for losses on business restructuring

Provision for losses on business restructuring is provided for estimated probable losses from business restructuring.

(5) Foreign currency transactions

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The resulting translation gains and losses are included in the determination of the net income for the year.

The balance sheet accounts of consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rates as of the balance sheet date except for shareholders' equity, which is translated at the historical rate. Revenue and expense accounts are translated at the current rate of exchange in effect during the year. Differences are shown as foreign currency transaction adjustments as a separate component of net assets.

(6) Leases

Finance leases which do not transfer ownership of the leased assets to the lessee, except for those entered into on or before March 31, 2008 which are accounted for by a method similar to that applicable to ordinary operating lease transactions, are accounted for by a method similar to that applicable to ordinary sale and purchase transactions.

(7) Derivatives and hedging activities

a) Hedge accounting method

Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets.

Interest rate swap agreements which qualify for hedge accounting and meet specific certain hedging criteria are not remeasured at market value, but the differential to be paid or received under the interest rate swap agreements is added to or deducted from the interest on the hedged items.

If receivable and payables denominated in foreign currencies are hedged by forward foreign exchange contracts, the receivables and payables are translated at the contracted rates instead of carrying the forward foreign exchange contracts at fair value.

b) Hedging instruments and hedged items

Hedging instruments

Hedged items

Forward foreign exchange contracts Receivables and payables denominated in foreign currencies

c) Hedging policy

Forward foreign exchange contracts and interest rate swap agreements are used to manage risks arising from fluctuations in foreign currency exchange rates and interest rates, respectively.

d) Method of assessment of hedge effectiveness

The Company assesses the effectiveness of hedging activities by reference to the cumulative change in cash flow or market value of the hedging instruments and the related hedged items.

(8) Valuation of assets and liabilities of consolidated subsidiaries

Valuation of assets and liabilities of consolidated subsidiaries is based on full fair value accounting method.

(9) Accounting for consumption tax

The tax-exclusion method is adopted for the accounting of consumption tax.

(10) Cash and cash equivalents

Cash and cash equivalents in the consolidated cash flow statements consists of cash on hand, deposits that can be readily withdrawn and short-term investments that are easily converted into cash, and that are subject to minimal risk from fluctuations in value and mature within three months from the date of acquisition.

4. Accounting Change

Effective the year ended March 31, 2011, the Company adopted the Accounting Standard for Asset Retirement Obligations (ASBJ Statement No.18 issued on March 31, 2008) and the Guidance on Accounting Standard for Asset Retirement Obligations (ASBJ Guidance No.21 issued on March 31, 2008).

The effect of this change on operating income and loss before income taxes and minority interests is negligible.

5. Additional Information

At present, the Companies make efforts to restructure business operations based on the JAIC Turnaround Plan, and conduct selection and concentration of business activities. As for our equities in overseas investment partnerships, etc. mainly managed by the third party, we withdraw from active involvement as operational investment assets. For those assets that were not regarded as operational investment assets of the Companies, their book value of ¥3,554 million was transferred from operational investment securities to non-operational investments, and the book value was reduced to the recoverable amount by ¥1,203 million which was reported as other expenses under the title of losses on business restructuring in the consolidated statements of income.

6. U.S. Dollar Amounts

The U.S. dollar amounts included in the consolidated financial statements and notes have been translated from Japanese yen to U.S. dollars at the rate of ¥83.15=US\$1, the rate of exchange prevailing at March 31, 2011.

The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in U.S. dollars at this or at any other rate.

7. Marketable Securities, Operational Investment Securities and Non-Operational Investments

The carrying amount and aggregate fair value of securities classified as other securities at March 31, 2010 and 2011 were as follows:

	At March 31 2010			
	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Equity securities	¥4,167	¥731	¥1,111	¥3,787
Debt securities and others	1,529	7	130	1,406

	At March 31 2011			
	Millions of yen			
	Cost	Unrealized gains	Unrealized losses	Fair value
Equity securities	¥828	¥165	¥101	¥892
Debt securities and others	914	0	103	811

	At March 31 2011			
	Thousands of U.S.dollars			
	Cost	Unrealized gains	Unrealized losses	Fair value
Equity securities	\$9,968	\$1,984	\$1,215	\$10,737
Debt securities and others	11,000	11	1,247	9,763

The following securities are not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value:

	2010		2011		At March 31
					2011
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Thousands of U.S.dollars
	Book value	Book value	Book value	Book value	Book value
Unlisted corporate shares	¥45,448	¥34,126	¥34,126	¥34,126	\$410,417
Unlisted corporate bonds and other	2,056	2,310	2,310	2,310	27,782
Total	¥47,505	¥36,436	¥36,436	¥36,436	\$438,200

Proceeds from sale of other securities were ¥6,831 million with gross realized gains of ¥1,158 million and gross realized losses of ¥969 million for the year ended March 31, 2010 and ¥11,423 million (US\$137,383 thousand) with gross realized gains of ¥3,451 million (US\$41,512 thousand) and gross realized losses of ¥2,031 million (US\$24,432 thousand) for the year ended March 31, 2011.

Non-operational investments include investment in the equity securities of unconsolidated subsidiaries and affiliates amounting to ¥432 million and ¥568 million (US\$6,834 thousand) at March 31, 2010 and 2011, respectively.

Impairment losses of ¥993 million (US\$11,951 thousand) on other securities including those whose fair value is extremely difficult to determine for the year ended March 31, 2011 were recorded for operational investment securities at ¥892 million (US\$10,738 thousand) and for non-operational investment securities at ¥100 million (US\$1,213 thousand).

8.Operational Investment Securities

Operational investment securities of the Companies at March 31, 2010 and 2011, consisted of the following:

			At March 31
	2010	2011	2011
	Millions of yen	Millions of yen	Thousands of U.S.dollars
Corporate shares	¥22,303	¥14,009	\$168,484
Convertible bonds	1,033	345	4,153
Bonds with warrants	20	0	0
Other	4,893	2,136	25,696
Equity interests in investment funds	19,304	17,131	206,030
Operational investment funds	2,758	1,645	19,787
Allowance for possible investment losses	(12,495)	(7,973)	(95,889)
	¥37,818	¥27,295	\$328,263

The changes in allowance for possible investment losses for the years ended March 31, 2010 and 2011 are summarized as follows:

			For the years ended March 31
	2010	2011	2011
	Millions of yen	Millions of yen	Thousands of U.S.dollars
Balance at beginning of year	¥9,605	¥12,495	\$150,282
Investment losses written-off against the allowance	(3,515)	(4,206)	(50,591)
Reversal of allowance for possible investment losses	(167)	(288)	(3,464)
Provision for allowance for possible investment losses	6,573	(27)	(336)
Balance at end of year	¥12,495	¥7,973	\$95,889

Income accounts relating to operational investment securities are analyzed below:

			For the years ended March 31
	2010	2011	2011
	Millions of yen	Millions of yen	Thousands of U.S.dollars
Revenues from operational investment securities:			
Proceeds of sales of securities	¥6,511	¥9,929	\$119,417
Equity in operational earnings of affiliates	-	186	2,242
Dividends and interest	462	465	5,599
	¥6,974	¥10,581	\$127,259
Cost of operational investment securities:			
Cost of securities sold	¥6,432	¥7,461	\$ 89,733
Provision for allowance for possible investment losses	6,193	(377)	(4,544)
Investment write-offs	3,390	892	10,738
Equity in operational loss of affiliates	30	40	483
	¥16,046	¥8,016	\$96,409

Operational investment securities include investments in investment funds of unconsolidated subsidiaries and affiliates amounting to ¥1,647 million and ¥1,134 million (US\$13,645 thousand) at March 31, 2010 and 2011, respectively.

9. Financial Instruments

Details of Financial Instruments for the year ended March 31, 2010 were as follows:

(1) Overview

a) Policy for Financial Instruments

The Companies engage in investment business and financial services primarily in relation to unlisted securities, including venture capital investment, buyout investment, investment for business reconstruction, and secondary investment. To carry out these operations, the Companies raise funds through indirect financing, or borrowings from banks, taking into consideration market conditions and adjusting the balance between long-term and short-term borrowings, and through direct financing, or the issuing of convertible note that will be redeemed in September 2011.

Having primarily illiquid financial assets, the Companies focus on raising long-term funds to minimize gaps between investment recovery periods of financial assets and debt financing periods. The Companies manage assets and liabilities to avoid adverse effects associated with fluctuations in the interest rates of long-term borrowings and exchange rate in the course of the recovery of investments in financial assets denominated in foreign currencies. As part of the management, the Companies conduct derivative transactions.

b) Types of Financial Instruments and Their Risks

The financial assets owned by the Companies consist primarily of operational investment securities. The Companies own stocks, bonds and investments in partnerships for trade investment. Most of the securities and investment securities held by the Companies are stocks and investments in investment trusts, which are owned for pure investment purposes and promoting businesses. These securities are exposed to the credit risks of issuers, exchange fluctuation risks, and market price fluctuation risks. The securities, operational investment securities, and investment securities owned by the Companies at March 31, 2010 included illiquid unlisted securities of ¥47,610 million, which have high risks.

In financial services, the Companies have operating loans receivable to customers in Japan and overseas. The operating loans receivable have credit risks associated with defaults by customers.

The Companies requested all correspondent financial institutions to change the terms and conditions, primarily repayment schedules, of borrowings and bonds (private placement bonds) and obtained their consent to the JAIC Turnaround Plan, which includes changes in repayment schedules, on June 24, 2009. The Companies will do its best to implement the business reconstruction plan. However, if the Companies cannot repay the minimum annual amount stipulated in the plan due to the worsening of the economic environment or unforeseeable circumstances, the business activities, operating results, and financial position of the Companies are at risk of being adversely affected by that.

The Companies have variable-rate borrowings and thus interest rate risks. The Companies have been avoiding these risks through interest rate swaps, but this approach no longer meets the requirements of hedge accounting.

Derivative transactions include interest rate swaps and forward foreign exchange contracts that the Companies are conducting as part of risk management. The Companies are applying hedge accounting to exchange rate fluctuation risks associated with receivables denominated in foreign currencies, hedged items, with forward foreign exchange contracts being hedging instruments. The Companies evaluate the effectiveness of hedging activities by comparing the cumulative changes in the cash flows or market changes of the hedged items and the cumulative changes in the cash flows or market changes of the hedging instruments. In case receivables or payables denominated in foreign currencies as hedged items are translated of the rate at forward foreign exchange contracts as hedging instruments, the evaluation of the effectiveness of the hedging activities using the forward foreign exchange contracts is omitted.

c) Supplementary Explanation about Fair Values of Financial Instruments

The fair values of financial instruments are values based on market prices or values that are reasonably estimated if there are no market prices. Since certain assumptions are made in the calculation of fair values, fair values could be different if different assumptions are made. Notional amounts of derivatives in Note 10. Derivatives do not show market risks relating to derivative transactions themselves.

(2) Fair Values of Financial Instruments

The tables below show the book value and fair value of financial instruments and the differences between them as of March 31, 2010. Financial instruments whose fair values are very difficult to estimate are not included. (Please refer to (Note2) below.)

At March 31 2010
Millions of yen

	Book value	Fair value	Difference
(1) Cash and deposits	¥15,535	¥15,535	¥-
(2) Marketable securities	105	105	-
(3) Operational investment securities and non-operational investments Allowance for possible investment losses (*1)	5,193 (572)		
	4,621	4,621	-
(4) Commercial loans Allowance for possible investment losses (*2)	758 (12)		
	745	745	-
(5) Receivable from companies in bankruptcy or rehabilitation Allowance for doubtful accounts (*2)	1,800 (960)		
	840	840	-
Total	¥21,847	¥21,847	¥-
(1) Current portion of long-term borrowings	¥982	¥982	¥-
(2) Convertible notes	3,176	1,725	(1,450)
Total	¥4,158	¥2,707	¥(1,450)
Derivatives transactions (*3); Hedge accounting is not applied	¥(198)	¥(198)	¥-
Hedge accounting is applied	(9)	(9)	-
Total	¥(208)	¥(208)	¥-

(*1) This represents allowance for possible investment losses provided in association with bonds.

(*2) These represent general reserve for commercial loans and specific reserve for receivables from companies in bankruptcy or rehabilitation.

(*3) Net assets and liabilities arising from derivatives transactions are shown. Net liabilities are shown in parentheses.

(Note1) Fair Value Computation Method for Financial Instruments and Other Information on Securitization and Derivative Transactions.

Assets

a) Cash and deposits

Cash and deposits are settled in the short term, and the carrying value approximates the fair value. The carrying value is therefore used as the fair value.

b) Marketable Securities

The fair values are determined by reference to quoted market prices.

c) Operational investment securities and non-operational investments

The fair value of operational investment securities and non-operational investments is determined by prices on stock exchanges. With respect to bonds, allowance for possible investment losses are provided based on the credit risks of the debtors. Accordingly, the carrying value less allowance for doubtful accounts approximates the fair value and used as the fair value.

d) Commercial loans, e) Receivables from companies in bankruptcy or rehabilitation

With respect to commercial loans and receivables from companies in bankruptcy or rehabilitation, allowance for doubtful accounts is provided based on the credit risks of the debtors. Accordingly, the carrying value less allowance for possible investment losses approximates the fair value and used as the fair value.

Liabilities

a) Current portion of long-term borrowings

Current portion of long-term borrowings are settled in the short term, and the carrying value approximates the fair value. The carrying value is therefore used as the fair value.

b) Convertible notes

The fair values of Convertible notes are determined by the average price for retirement by purchase in the past year.

Derivative transactions

Please refer to "Note 10. Derivatives"

(Note2) Financial Instruments Whose Fair Values Are Very Difficult to Estimate

Millions of yen	
	Book Value
Unlisted shares and bounds (*1)	¥45,174
Investments in partnerships (*2)	2,760
Long-term borrowings (*3)	37,275

(*1) Unlisted shares and bonds have no market values, and their fair values are very difficult to estimate. The fair values are not therefore disclosed.

(*2) Since most partnership assets are unlisted shares and other assets whose fair values are very difficult to estimate, the fair values of investments in partnerships are not disclosed.

(*3) The Company requested all correspondent financial institutions to change the terms and conditions, primarily repayment schedules, of long-term borrowings and obtained their consent on June 24, 2009. Since the future cash flows of long-term borrowings are not determined, their fair values are not disclosed.

(Note3) Redemption Schedule for Receivables and Securities with Maturities at March 31, 2010

	Millions of yen	
	2010	2011
Cash and deposits	¥15,535	¥-
Operational investment securities and non-operational investments		
Securities with maturities		
Corporate bond	171	99
Commercial loans	716	-
Total	¥16,423	¥99

(Note4) Repayment Schedule for Convertible Notes and Long-Term Debts at March 31, 2010

	Millions of yen	
	2010	2011
Lease obligation	¥2	¥1
Convertible loans	-	3,176
Total	¥2	¥3,177

Details of Financial Instruments for the year ended March 31, 2010 were as follows:

(1) Overview

a) Policy for Financial Instruments

The Companies engage in investment business and financial services primarily in relation to unlisted securities, including venture capital investment, buyout investment, investment for business reconstruction, and secondary investment. To carry out these operations, the Companies raise funds through indirect financing, or borrowings from banks, taking into consideration market conditions and adjusting the balance between long-term and short-term borrowings, and through direct financing, or the issuing of convertible note that will be redeemed in September 2011.

Having primarily illiquid financial assets, the Companies focus on raising long-term funds to minimize gaps between investment recovery periods of financial assets and debt financing periods. The Companies manage assets and liabilities to avoid adverse effects associated with fluctuations in the interest rates of long-term borrowings and exchange rate in the course of the recovery of investments in financial assets denominated in foreign currencies. As part of the management, the Companies conduct derivative transactions.

b) Types of Financial Instruments and Their Risks

The financial assets owned by the Companies consist primarily of operational investment securities. The Companies own stocks, bonds and investments in partnerships for trade investment. Most of the securities and investment securities held by the Companies are stocks investments in investment trusts and investments in partnerships, which are owned for pure investment purposes and promoting businesses. These securities are exposed to the credit risks of issuers, exchange fluctuation risks, and market price fluctuation risks. The securities, operational investment securities, and investment securities owned by the Companies at March 31, 2011 included illiquid unlisted securities of ¥36,436 million (US\$ 438,200 thousand), which have high risks.

The Companies have operating loans receivable to customers in Japan and overseas. The operating loans receivable have credit risks associated with defaults by customers.

The Companies requested all correspondent financial institutions to change the terms and conditions, primarily repayment schedules, of borrowings and bonds (private placement bonds) and obtained their consent to the JAIC Turnaround Plan, which includes changes in repayment schedules, on June 24, 2009. The Companies will do its best to implement the business reconstruction plan. However, if the Companies cannot repay the minimum annual amount stipulated in the plan due to the worsening of the economic environment or unforeseeable circumstances, the business activities, operating results, and financial position of the Group are at risk of being adversely affected by that.

The Companies have variable-rate borrowings and thus interest rate risks. The Companies have been avoiding these risks through interest rate swaps, but this approach no longer meets the requirements of hedge accounting.

Derivative transactions include interest rate swaps and forward foreign exchange contracts that the Companies are conducting as part of risk management. The Companies are applying hedge accounting to exchange rate fluctuation risks associated with receivables denominated in foreign currencies, hedged items, with forward foreign exchange contracts being hedging instruments. The Companies evaluate the effectiveness of hedging activities by comparing the cumulative changes in the cash flows or market changes of the hedged items and the cumulative changes in the cash flows or market changes of the hedging instruments. In case receivables or payables denominated in foreign currencies as hedged items are translated of the rate at forward foreign exchange contracts as hedging instruments, the evaluation of the effectiveness of the hedging activities using the forward foreign exchange contracts is omitted.

c) Risk Management System for Financial Instruments

i) Management of Credit Risks

① When investment or loan is made:

The department in charge of investment/loan conducts risk analysis for each transaction, including analysis of credit risk of an investee or loanee company, in accordance with the investment business regulations or the loan business regulations. The decision meeting attended by fund managers, etc. makes decisions on approval or disapproval of investments. If investment in, or loan to, a company exceeds a certain amount, the Board of Directors makes a resolution on the investment or loan.

② After investment or loan is made:

The department in charge of investment/loan monitors the conditions of an investee or loanee company in accordance with the investment business regulations or the loan business regulations. In accordance with the regulations of provision of allowance for doubtful accounts, we periodically evaluate an investee company in consideration of their actual conditions, and report loss on devaluation of operational investment securities, allowance for possible investment loss and bad debt loss and allowance for doubtful accounts, if necessary.

ii) Management of Market Risks

① Management of Interest Risks

Borrowings with variable interest rates have interest fluctuation risks. Management Department avoids interest fluctuation risks through interest swaps or by making borrowings with fixed interest rates in accordance with the accounting regulations and the policies approved at the decision meeting.

The Companies have made requests to the financial institutions with which they do business to modify the repayment schedule for loans and corporate bonds (private placement bonds). Approval was received on June, 24, 2009. Therefore, the aggregate annual maturities long-term debt has not been defined at March 31, 2011. Thus, interest swap does not satisfy the conditions of hedge

accounting.

② Management of Exchange Risks

As for operational investment securities denominated in foreign currencies, we periodically monitor the amount influenced by exchange fluctuations.

③ Price Fluctuations Risks

As for listed operational investment securities, we continually monitor market prices and business conditions, etc. of issuers, and collect our investment at reasonable prices and at right occasions. As for securities with market prices and investment securities with market prices, we continually monitor market prices and business conditions.

As for those other than bonds held to maturity, we periodically review whether such bonds should be held or not in consideration of relationships with companies concerned.

④ Derivative Transactions

We have a policy that prohibits us from conducting derivative transactions for purposes other than the purpose of hedging risks. Management Department conducts derivative transactions in accordance with the accounting regulations and after having obtained an approval at the decision meeting.

⑤ Quantitative Information on Market Risks

(A) Operating Investment Securities

As for operating investment securities denominated in foreign currencies, we utilize the impact caused by fluctuations of exchange rates of various currencies to the values of operating investment securities in the balance sheet for quantitative analysis in managing exchange risks.

Assuming that all risk variables other than exchange rates are constant, we estimate that if the yen rises by 5% against other currencies as of March 31, 2011, the value of operating investment securities in the balance sheet will decrease by ¥473 million, and that if the yen falls by 5% against other currencies as of March 31,

2011, the value of operating investment securities in the balance sheet will increase by ¥473 million.

The impacts mentioned above are based on the assumption that all risk variables other than exchange rates are constant. Correlation between exchange rates and other risk variables is not taken into consideration.

(B) Borrowings

As for borrowings with variable interest rates, we utilize the ratio of these borrowings to total borrowings and the impact caused by fluctuations of interest rates to annual income or loss for quantitative analysis in managing interest rate fluctuation risks.

As of March 31, 2011, the ratio of borrowings with variable interest rates whose interest fluctuation risks are not covered by interest swaps to total borrowings is 51.6%.

Assuming that all risk variables other than interest rates are constant, we estimate that if a benchmark interest rate increases by 0.1% as of March 31, 2011, net income before taxes and other adjustments will decrease by ¥16 million, and that if a benchmark interest rate decreases by 0.1% as of March 31, 2011, net income before taxes and other adjustments will increase by ¥16 million.

The impacts mentioned above are based on the assumption that all risk variables other than interest rates are constant. Correlation between interest rates and other risk variables is not taken into consideration.

iii) Management of Liquidity Risks Related to Financing

The Companies have made requests to the financial institutions with which it does business to modify the repayment schedule for loans and corporate bonds (private placement bonds). Approval was received on June, 24, 2009. Therefore, the aggregate annual maturities long-term debt has not been defined at March 31, 2011.

However, there remain risks that if the Companies fail to repay the annual minimum payment specified in the JAIC Turnaround Plan due to further deterioration in economic environment, the occurrence of unexpected event, etc., such situation may adversely affect business activities, business performances and financial standing of the Companies.

To cope with these risks, Management Department prepares and renews, on a timely basis, a financing plan based on reports from various departments.

d) Supplementary Explanation about Fair Values of Financial Instruments

The fair values of financial instruments are values based on market prices or values that are reasonably estimated if there are no market prices. Since certain assumptions are made in the calculation of fair values, fair values could be different if different assumptions are made. Notional amounts of derivatives in Note 10. Derivatives do not show market risks relating to derivative transactions themselves.

(2) Fair Values of Financial Instruments

The tables below show the book value and fair value of financial instruments and the differences between them as of March 31, 2011. Financial instruments whose fair values are very difficult to estimate are not included. (Please refer to (Note2) below.)

	Millions of yen			At March 31 2011 Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
(1) Cash and deposits	¥15,698	¥15,698	¥-	\$188,801	\$188,801	\$-
(2) Marketable securities	78	78	-	945	945	-
(3) Operational investment securities and non-operational investments	1,626			19,556		
Allowance for possible investment losses (*1)	(284)			(3,421)		
	1,341	1,341	-	16,134	16,134	-
(4) Commercial loans	711			8,555		
Allowance for possible investment losses (*2)	(13)			(159)		
	698	698	-	8,395	8,395	-
(5) Receivable from companies in bankruptcy or rehabilitation	1,175			14,136		
Allowance for doubtful accounts (*2)	(439)			(5,288)		
	735	735	-	8,847	8,847	-
Total	¥18,552	¥18,552	¥-	\$223,123	\$223,123	\$-
(1) Current portion of long-term borrowings	¥1,865	¥1,865	¥-	\$22,434	\$22,434	\$-
(2) Current portion of convertible notes	1,420	1,420	-	17,077	17,077	-
Total	¥3,285	¥3,285	-	\$39,511	\$39,511	-
Derivatives transactions (*3);						
Hedge accounting is not applied	¥(92)	¥(92)	¥-	\$(1,118)	\$(1,118)	\$-
Hedge accounting is applied	(1)	(1)	-	(14)	(14)	-
Total	¥(94)	¥(94)	¥-	\$(1,132)	\$(1,132)	\$-

(*1) This represents allowance for possible investment losses provided in association with bonds.

(*2) These represent general reserve for commercial loans and specific reserve for receivables from companies in bankruptcy or rehabilitation.

(*3) Net assets and liabilities arising from derivatives transactions are shown. Net liabilities are shown in parentheses.

(Note1) Fair Value Computation Method for Financial Instruments and Other Information on Securities and Derivative Transactions.

Assets

a) Cash and deposits

Cash and deposits are settled in the short term, and the carrying value approximates the fair value. The carrying value is therefore used as the fair value.

b) Marketable Securities

The fair values are determined by reference to quoted market prices.

c) Operational investment securities and non-operational investments

The fair value of operational investment securities and non-operational investments is determined by prices on stock exchanges. With respect to bonds, allowance for possible investment losses are provided based on the credit risks of the debtors. Accordingly, the carrying value less allowance for doubtful accounts approximates the fair value and used as the fair value.

d) Commercial loans, e) Receivables from companies in bankruptcy or rehabilitation

With respect to commercial loans and receivables from companies in bankruptcy or rehabilitation, allowance for doubtful accounts is provided based on the credit risks of the debtors. Accordingly, the carrying value less allowance for possible investment losses approximates the fair value and used as the fair value.

Liabilities

a) Current portion of long-term borrowings, b) Current portion of convertible notes

Current portion of long-term borrowings are settled in the short term, and the carrying value approximates the fair value. The carrying value is therefore used as the fair value.

Derivative transactions

Please refer to "Note 10. Derivatives"

(Note2) Financial Instruments Whose Fair Values Are Very Difficult to Estimate

	Millions of yen	Thousands of U.S. dollars
	Book Value	Book Value
Unlisted shares and bounds (*1)	¥35,390	\$425,623
Investments in partnerships (*2)	1,482	17,824
Long-term borrowings (*3)	30,052	361,426

(*1) Unlisted shares and bonds have no market values, and their fair values are very difficult to estimate. The fair values are not therefore disclosed.

(*2) Since most partnership assets are unlisted shares and other assets whose fair values are very difficult to estimate, the fair values of investments in partnerships are not disclosed.

(*3) The Company requested all correspondent financial institutions to change the terms and conditions, primarily repayment schedules, of long-term borrowings and obtained their consent on June 24, 2009. Since the future cash flows of long-term borrowings are not determined, their fair values are not disclosed.

(Note3) Redemption Schedule for Receivables and Securities with Maturities at March 31, 2011

	Millions of yen			Thousands of U.S. dollars		
	2011	2012	2021	2011	2012	2021
Cash and deposits	¥15,698	¥-	¥-	\$188,801	\$-	\$-
Operational investment securities and non-operational investments						
Securities with maturities						
Corporate bond	10	122	50	126	1,468	601
Commercial loans	92	50	554	1,108	606	6,673
Total	¥15,801	¥172	¥604	\$190,036	\$2,075	\$7,275

(Note4) Repayment Schedule for Convertible Notes and Long-Term Debts at March 31, 2011

	Millions of yen			Thousands of U.S. dollars		
	2011	2012	2013	2011	2012	2013
Lease obligation	¥0	¥0	¥0	\$9	\$9	\$4
Convertible loans	1,420	-	-	17,077	-	-
Total	¥1,420	¥0	¥0	\$17,087	\$9	\$4

10. Derivatives

The Companies enter into interest rate swap contracts and forward foreign exchange contracts to manage exposure to fluctuation in interest rates on certain liabilities and foreign exchange rates associated with certain assets and liabilities denominated in foreign currencies, respectively.

Accordingly, the market risk of these derivatives is basically offset by corresponding movements in the value of the hedged assets or liabilities.

The Companies do not hold or issue derivatives for speculative purposes. Additionally, since the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

Derivative transactions entered by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Fair Value of Derivative Financial Instruments

The fair value of the Company's derivative financial instruments at March 31, 2010 and 2011 is as follows:

(1) Derivative transactions to which hedge accounting is not applied

				March 31	
				2010	
Notional Amount				Millions of yen	
Maturing Over One Year				Unrealized	
Total	Year	Fair Value		Loss	

Transactions other than those at market

Interest rate swaps:

Receiving at floating interest rate and
paying at fixed interest rate

¥	14,281	¥	13,756	¥	(198)	¥	(198)
¥	14,281	¥	13,756	¥	(198)	¥	(198)

Notes: Fair value and unrealized loss are those provided by the banks with which the Company entered into interest rate swap agreements.

				March 31					
				2011					
Notional Amount				Millions of yen		Notional Amount		Thousands of U.S. Dollars	
Maturing Over One Year				Unrealized		Maturing Over One Year		Unrealized	
Total	Year	Fair Value		Loss	Total	Year	Fair Value	Unrealized	Loss

Transactions other than those at market

Interest rate swaps:

Receiving at floating interest rate and
paying at fixed interest rate

¥	7,617	¥	4,124	¥	(86)	¥	(86)	\$	91,614	\$	49,597	\$	(1,037)	\$	(1,037)
¥	7,617	¥	4,124	¥	(86)	¥	(86)	\$	91,614	\$	49,597	\$	(1,037)	\$	(1,037)

Notes: Fair value and unrealized loss are those provided by the banks with which the Company entered into interest rate swap agreements.

				March 31					
				2011					
Notional Amount				Millions of yen		Notional Amount		Thousands of U.S. Dollars	
Maturing Over One Year				Unrealized		Maturing Over One Year		Unrealized	
Total	Year	Fair Value		Loss	Total	Year	Fair Value	Unrealized	Loss

Transactions other than those at market

Forward foreign exchange contracts accounted for as part of accounts receivable:

Sell:

USD	¥	438	¥	-	¥	(6)	¥	(6)	\$	5,271	\$	-	\$	(80)	\$	(80)
	¥	438	¥	-	¥	(6)	¥	(6)	\$	5,271	\$	-	\$	(80)	\$	(80)

Note: Fair value and unrealized loss are those provided by the banks with which the Company entered into forward foreign exchange contracts.

(2) Derivative transactions to which hedge accounting is applied.

				March 31	
				2010	
Notional Amount		Millions of yen			
Maturing					
Over One					
Total	Year	Fair Value	Unrealized		
		Loss			

Forward foreign exchange contracts accounted for as part of accounts receivable:

Sell:

KRW	¥	212	¥	-	¥	(9)	¥	(9)
	¥	212	¥	-	¥	(9)	¥	(9)

Note: Fair value and unrealized loss are those provided by the banks with which the Company entered into forward foreign exchange contracts.

				March 31			
				2011			
Notional Amount		Millions of yen		Notional Amount		Thousands of U.S. Dollars	
Maturing				Maturing			
Over One				Over One			
Total	Year	Fair Value	Unrealized	Total	Year	Fair Value	Unrealized
		Loss				Loss	

Forward foreign exchange contracts accounted for as part of accounts receivable:

Sell:

USD	¥	73	¥	-	¥	(1)	¥	(1)	\$	885	\$	-	\$	(14)	\$	(14)
	¥	73	¥	-	¥	(1)	¥	(1)	\$	885	\$	-	\$	(14)	\$	(14)

Note: Fair value and unrealized loss are those provided by the banks with which the Company entered into forward foreign exchange contracts.

11. Short-term Borrowings and Long-term Debt

Long-term debt of the Companies at March 31, 2010 and 2011, consisted of the following:

	March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. Dollars
Japanese Yen Convertible Notes due 2011	¥ 3,176	¥ 1,420	\$ 17,077
Long-term borrowings	38,257	31,918	383,861
(Current portion of long-term borrowings)	(982)	(1,865)	(22,434)
	¥ 37,275	¥ 30,052	\$ 361,426

The Companies have made requests to the financial institutions with which they do business to modify the repayment schedule for loans and corporate bonds (private placement bonds). Approval was received on June 24, 2009. Therefore, the aggregate annual maturities of long-term debt have not been defined at March 31, 2011.

12. Accounting for Leases

Finance leases are accounted for by a method similar to that applicable to ordinary sale and purchase transactions except for those that do not transfer ownership of the leased assets and whose contracts commenced on or before March 31, 2008 being accounted for a method similar to that applicable to ordinary operating lease transactions. Pro forma information of leased assets under Financial leases where ownership is not transferred and whose start date is prior to April 1, 2008 are as follows:

Lessee

(1) Acquisition Cost, Accumulated Depreciation and Net Book Value of Leased Assets

	For the years ended March 31						
	2010			2011			
	Millions of yen			Millions of yen			Thousands of U.S. dollars
Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Net book value	
Property and equipment	¥85	¥73	¥11	¥10	¥10	¥0	\$2
Software	40	33	6	12	11	0	5
	¥126	¥107	¥18	¥22	¥21	¥0	\$7

(2) Minimum Lease Payments

	For the years ended March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars
Minimum lease payments:			
Due within one year	¥ 18	¥0	\$7
Due over one year	0	-	-
Total minimum lease payments	¥19	¥0	\$7

(3) Lease Expenses and Depreciation

	For the years ended March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars
Lease expenses	¥30	¥18	\$227
Depreciation	28	17	215
Interest expenses	0	0	2

(4) Method of Computing Depreciation

Depreciation is computed using the straight-line method over the lease periods with no residual value.

(5) Method of Computing Interest

Interest expense related to the leased assets has been calculated by allocating the difference between the pro forma acquisition costs of the leased assets and the total minimum lease payments over the respective lease terms by the interest method.

Lessor

(1) Acquisition Cost, Accumulated Depreciation and Net Book Value of Leased Assets

	For the years ended March 31						
	2010			2011			
	Millions of yen			Millions of yen			Thousands of U.S. dollars
Acquisition cost	Accumulated depreciation	Net book value	Acquisition cost	Accumulated depreciation	Net book value	Net book value	
Property and equipment	¥42	¥37	¥4	—	—	—	—
	¥42	¥37	¥4	—	—	—	—

(2) Future Minimum Lease Income

	For the years ended March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars
Future minimum lease income:			
Due within one year	¥5	—	—
Due over one year	—	—	—
Total minimum lease receivables	¥5	—	—

(3) Lease Income, Depreciation and Interest Income

	For the years ended March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars
Lease Income	¥9	¥5	\$61
Depreciation	8	4	54
Interest Income	0	0	0

(4) Method of Computing Depreciation

Depreciation is computed using the straight-line method over the lease periods with no residual value.

(5) Method of Computing Interest

Interest income related to the leased assets has been calculated by allocating the difference between the acquisition costs of the leased assets and the total minimum lease income over the respective lease terms by the interest method.

13. Impairment Loss on Fixed Assets

For the years ended March 31, 2010 and 2011, the Company recognized a loss on impairment for the following group of assets:

	<u>2010</u>
	<u>Millions of yen</u>
Idle Properties	
Land (Hokkaido-Niseko)	¥7
Asset for sale	
Land (Hokkaido-Teine)	¥90
Asset for sale	
Equipment (Tokyo-Honsha)	¥52
Asset to be disposed of	
Structure (Hokkaido-Teine)	<u>¥3</u>

These assets are classified into groups by property, and impairment losses are applied to each property. The recoverable amount of idle property and asset for sale are estimated at the net selling price, and valued at an amount calculated reasonably from a third-party appraisal.

The recoverable amount of the asset to be disposed of is estimated at the net selling price, and valued at zero. As a result, the entire amount of the book value of the structure at March 31, 2010 was recognized as impairment loss.

	<u>For the year ended March 31</u>	
	<u>2011</u>	<u>2011</u>
	<u>Millions of yen</u>	<u>Thousands of U.S. dollars</u>
Asset for sale		
Land (Hokkaido-Teine)	<u>¥61</u>	<u>\$734</u>

As for assets to be sold, each asset was treated as an individual unit and recognized impairment loss. It became necessary to report impairment loss for fixed assets to be sold, because sell-off of such assets was finalized and agreed selling prices were expected to fall far below book values. Agreed selling prices were considered as net selling prices. Then, related assets were written down to the net selling prices and relevant loss was recorded in the current consolidated accounting period.

Above-mentioned assets were sold off on July 21, 2010.

14. Loss on Business Restructuring

The Company has recorded expenses incurred in relation to business restructuring based on business restructuring plans. In addition, for anticipated future losses, the Company records a reasonably estimated amount as an allowance for loss. A breakdown of business restructuring expenses for the year ended March 31, 2010 is as follows:

	For the years ended <u>March 31</u>
	<u>2010</u>
	<u>Millions of yen</u>
Advisory fee for business restructuring	¥25
Bond redemption costs	82
Additional retirement payments	231
Head office and branch relocation expenses:	
Restoring expense to the original condition	31
Loss on retirement of fixed assets	17
Cost related to subsidiaries restructuring	221
<u>Reversal of provision for losses on business restructuring</u>	<u>(30)</u>
Loss on business restructuring	¥578

For the year ended March 31, 2011, as for our equities in overseas investment partnerships, etc. mainly managed by the third party, we withdraw from active involvement as operational investment assets and reduced the book value to the recoverable amount. As a result, a loss from such reduction was reported as other expenses under the title of losses on business restructuring in the consolidated statement of income.

15. Income Taxes

The significant components of deferred tax assets and liabilities for the years ended March 31, 2010 and 2011 are as follows:

	For the years ended March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars
Deferred tax assets:			
Allowance for possible investment losses	¥ 4,325	¥ 2,693	32,397
Investment write-offs	5,321	1,597	19,215
Allowance for doubtful accounts	488	183	2,205
Accrued retirement benefits	113	113	1,366
Tax loss carryforward	10,708	16,513	198,596
Accrued enterprise taxes	20	1	13
Provision for losses on business restructuring	10	-	-
Impairment loss on fixed assets	129	3	43
Depreciation	0	0	0
Other	777	887	10,676
Total	¥21,895	¥21,994	¥264,515
Valuation allowance for deferred tax assets	(21,890)	(21,989)	(264,460)
Deferred tax assets	¥4	4	54
Deferred tax liabilities:			
Others	21	18	222
Total	¥ 21	¥ 18	¥ 222
Valuation allowance for deferred tax liabilities	(20)	(17)	(207)
Deferred tax liabilities	¥ 1	¥ 1	¥ 14
Net deferred tax assets	¥3	¥ 3	¥ 40

16. Segment Information

(1) Industrial Segment Information

The Company and its subsidiaries operate principally in two industrial segments:

- Investment. . . . Investment and control of investment funds, management consulting and mediation business
- Financing. . . . Commercial loans and other financing businesses

For the year ended March 31, 2010 the Companies are not required to disclose industrial segment information because the aggregate amount of operating revenues, operating profit and assets in the investment segment was more than 90.0% of consolidated operating revenues, operating profit and assets.

(2) Geographic Area Information

	For the year ended March 31, 2010				
	Millions of yen				
	Geographic Area			Elimination of common assets	Consolidated total
Japan	Other areas	Total			
Operating revenues	¥8,571	¥1,130	¥9,702	¥(1,227)	¥8,474
Operating costs	19,966	1,614	21,581	(1,396)	20,184
Operating loss	¥(11,395)	¥(484)	¥(11,879)	¥168	¥(11,710)
Assets	¥60,268	¥4,394	¥64,663	¥(5,454)	¥59,208

- Notes: 1. Divisions of country or region are decided based on geographical proximity.
2. Other areas: Far Eastern Asia, Southeast Asia, China, U.S.A, and others

(3) Foreign Revenue Information

Foreign revenue of the Companies (derived from foreign countries by the Company and its consolidated domestic subsidiaries) for the years ended March 31, 2010 was as follows:

	For the year ended March 31, 2010		
	Millions of yen		
	Southeast Asia	Other areas	Total
Overseas sales	¥1,383	¥1,646	¥3,030
Total operating revenues	-	-	8,474
Percentage of overseas sales to total operating revenues	16.3%	19.4%	35.8%

- Notes: 1. Divisions of country or region are decided based on geographical proximity.
2. Southeast Asia: Singapore, Malaysia, Thailand and Philippines, Indonesia and Vietnam
Other areas: Far Eastern Asia, Europe, U.S.A. and so forth

[Segment Information]

For the year ended March 31, 2011, the Companies were operating a single segment of the investment business. Therefore the segment information is omitted.

(Additional Information)

Accounting Standard for Disclosures about Segments and Related Information (ASBJ Statement No. 17 issued on March 27, 2009) and the Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information (ASBJ Guidance No. 20 issued on March 21, 2008) have been applied effective the year ended March 31, 2011.

[Related Information]

(1)Information by product and service

	For the year ended March 31, 2011			
	Millions of yen			
	Fundmanagement operation	Investment operation	Other	Total
Operating revenues from third parties	¥729	¥10,788	¥246	¥11,764

	For the year ended March 31, 2011			
	Thousands of U.S. dollars			
	Fundmanagement operation	Investment operation	Other	Total
Operating revenues from third parties	\$8,767	\$129,750	\$2,969	\$141,487

(2)Information by region

	For the year ended March 31, 2011			
	Millions of yen			
	Japan	Southeast Asia	Other areas	Total
Operating revenues	¥7,996	¥1,785	¥1,982	¥11,764

	For the year ended March 31, 2011			
	Thousands of U.S. dollars			
	Japan	Southeast Asia	Other areas	Total
Operating revenues	\$96,168	\$21,473	\$23,845	\$141,487

Notes: 1. Operating revenues are classified based on countries or region of customers.
 2. Southeast Asia: Singapore, Malaysia, Thailand, Indonesia, Vietnam
 Other areas: China, Far Eastern Asia, India, U.S.A and Europe.

	For the year ended March 31, 2011				
	Millions of yen				
	Japan	China	Southeast Asia	Other areas	Total
Property and equipment	¥75	¥5	¥3	¥1	¥86

	For the year ended March 31, 2011				
	Thousands of U.S. dollars				
	Japan	China	Southeast Asia	Other areas	Total
Property and equipment	\$913	\$63	\$45	\$21	\$1,043

(3)Information by principle customer

Names of customers	For the year ended March 31, 2011	
	Millions of yen	
	Operating revenue	
ITOCHU ENEX CO., LTD.	¥1,357	
SHINKIN CAPITAL NO. II INVESTMENT, L.P.	¥1,331	
DAISEKI CO., LTD.	¥1,279	

Names of customers	For the year ended March 31, 2011	
	Thousands of U.S. dollars	
	Operating revenue	
ITOCHU ENEX CO., LTD.	\$16,331	
SHINKIN CAPITAL NO. II INVESTMENT, L.P.	\$16,009	
DAISEKI CO., LTD.	\$15,383	

17. Assets pledged as Collateral and the Related Debts

Assets pledged as collateral are as follows:

	2010	2011	At March 31
			2011
	Millions of yen		Thousands of U.S. dollars
Operational investment securities	¥1,200	¥2,341	\$28,160
Non-Operational Investments	¥1,850	¥327	\$3,940
Land	¥393	¥24	\$288
Total	¥3,444	¥2,693	\$32,389

Secured liabilities as follows:

	2010	2011	At March 31
			2011
	Millions of yen		Thousands of U.S. dollars
Current portion of long-term borrowings	¥125	-	-
Long-term borrowings	¥412	¥1,010	\$12,152
Total	¥538	¥1,010	\$12,152

Note: At March 31 2011, operational investment securities of ¥2,100 million is pledged as collateral for long-term borrowings of ¥1,010 million.

18. Supplementary Cash Flow Information

(1) Cash and Cash Equivalents at End of Year

Reconciliations of cash and deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows are as follows:

	2010		2011		At March 31
					2011
	Millions of yen				Thousands of U.S. dollars
Cash and deposits	¥	15,535	¥	15,698	\$ 188,801
Marketable securities		105		78	945
Total	¥	15,640	¥	15,777	\$ 189,746
Time deposits (over three months)		(658)		(252)	(3,042)
Partnership interests		(6,652)		(5,762)	(69,301)
Cash and cash equivalents	¥	8,330	¥	9,762	\$ 117,402

(2) Summary of the Assets and Liabilities of the Subsidiaries Excluded from Consolidation

The breakdown of assets and liabilities as of the end of consolidation and the relationship between the sale price and net proceeds from sale of subsidiaries' shares are provided below:

	2011		At March 31	
			2011	
	Millions of yen		Thousands of U.S. dollars	
JAIC Securities Co., Ltd.	¥	229	\$	2,756
Current assets		3		38
Non-current assets		(3)		(47)
Current liabilities		(0)		(0)
Non-current liabilities		7		95
Gain on sale of stocks of subsidiary		236		2,843
Sales price		(10)		(120)
Advance received in the previous fiscal year		(162)		(1,951)
Cash and cash equivalents	¥	64	\$	771
Proceeds from sale				
JAIC America, Inc.	¥	95	\$	1,145
Current assets		5		69
Non-current assets		(5)		(69)
Current liabilities		(7)		(93)
Unrealized net loss on investments		189		2,282
Foreign currency translation adjustments		(273)		(3,284)
Decrease in provision for business restructuring		4		49
Sales price		(0)		(0)
Cash and cash equivalents	¥	4	\$	48
Proceeds from sale				

19. Stock Acquisition Rights

Details of issuance of stock acquisition rights for the year ended March 31, 2011 were as follows

(1) Number of persons granted

	Number of persons
Directors	4
Employees	91
Total	95

(2) Class and number of shares to be issued or transferred upon exercise of stock acquisition right:

1,789,000 shares of common stock

(3) Grant Date

July 21, 2010

(4) Conditions for the exercise of stock acquisition rights:

a) If a person granted with stock acquisition rights (hereinafter, "Grantee") is deceased, only one of his or her heirs at law (hereinafter, "Heir") can assume the right to exercise stock acquisition rights. An heir to the heir of the Grantee may not assume the stock acquisition rights.

b) In case of any of the followings, the Grantee loses its status as Grantee and will not be able to exercise the stock acquisition rights

i) If the Grantee loses its status as director, auditor or employee of the Company, excluding due to retirement with the expiration of term of office, mandatory retirement or other justifiable reason

ii) If the Grantee is sentenced to imprisonment or severer penalty

c) Other conditions shall be as provided in the Stock Acquisition Rights Allotment Agreement that is to be executed between the Company and the Grantee in accordance with resolutions adopted by the Ordinary Shareholders' Meeting and the Board of Directors of the Company.

(5) Period during which the Grantee provides service in return for stock acquisition right: from July 21, 2010 to July 21, 2012

(6) Period during which stock acquisition rights may be exercised: from July 22, 2012 to July 21, 2015

(7) Exercise price of the stock acquisition rights: ¥58

(8) Fair unit price of the stock acquisition rights at the date of grant: ¥33

(9) Calculation of fair unit price

Fair unit price was calculated using the Black-Scholes formula with the following assumptions:

a) Historical volatility for the underlying stock price: 92.06%

b) Time to expiration of stock acquisition rights: 3.5years

c) Return on the underlying stock: 0.00%

d) Risk free interest rate: 0.192%

20. Retirement Benefits

Accrued retirement benefits at March 31, 2010 and 2011 consist of those for employees amounting to ¥212 million and ¥218 million (US\$ 2,624 thousand), respectively, and those for directors amounting to ¥67 million and ¥62million (US\$ 754 thousand), respectively. Information on retirement benefits for employees is as follows:

(1) Method of Retirement Benefits

The Companies employ a combination of a defined benefit plan under which one-time defined-benefit payment at retirement is made and a defined contribution pension plan. The defined contribution pension plan has been effective since September 1, 2008.

(2) Projected Benefit Obligation

	At March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars
Projected benefit obligation (retirement benefit)	¥ 212	¥ 218	\$ 2,624
Accrued retirement benefits	212	218	2,624

(3) Retirement Benefits Expenses

	At March 31		
	2010	2011	2011
	Millions of yen		Thousands of U.S. dollars
Service cost	¥ 42	¥ 35	\$ 432
Other	29	20	248
Total	72	56	680

Other consists of contribution payments for the defined contribution pension plan.

21. Subsequent Events

At the 30th Annual General Meeting of Shareholders held on June 24, 2011, the Company approved a resolution to reduce share capital and to appropriate other capital surplus.

(1) Purpose of reducing share capital and appropriation of other capital surplus

For the year ended March 31, 2011, the Company recorded a significant net loss and accumulated deficit at March 31, 2011 came to ¥21,047 million. Since it is likely to take considerable time to make up for the deficit, it was decided to reduce the deficit in order to restore the Company to a sound financial position.

(2) Reduction of share capital

Pursuant to the provision of Article 447 Paragraph 1 of the Corporate Law, the share capital was reduced and the amount reduced was transferred to other capital surplus.

a) The amount of share capital reduced

¥23,166 million

b) Effective date

July 31, 2011

(3) Appropriation of other capital surplus

Pursuant to the provision of Article 452 of the Corporate Law, subsequent to the above mentioned transfer of share capital to other share capital surplus, the other capital surplus was in turn transferred to retained earnings to cover the deficit.

a) Item and amount of surplus to be reduced

Other capital surplus: ¥21,047 million

b) Item and amount of surplus to be increased

Retained earnings: ¥21,047 million

c) Effective date

July 31, 2011

Japan Asia
Investment Co., Ltd.