GULLIVER INTERNATIONAL CO., LTD. ANNUAL REPORT 2003

# Gulliver International

# TRENDS IN THE USED-CAR MARKET

### Japan's Used-Car Market

Used-car registrations first exceeded those for new cars in 1992, and the used-car market has grown steadily ever since. (However, calculations of used-car registrations may be artificially high since ownership titles are changed when automobiles are traded from business to business. The actual number of units is estimated to be half the number of registrations.)

The ratio of new cars to used cars is estimated at 3:2. Although Japan's used-car market has shown little fluctuation in recent years, considering that the new-car to used-car ratio in Europe and North America is approximately 1:2, the Japanese used-car market still has room for growth.

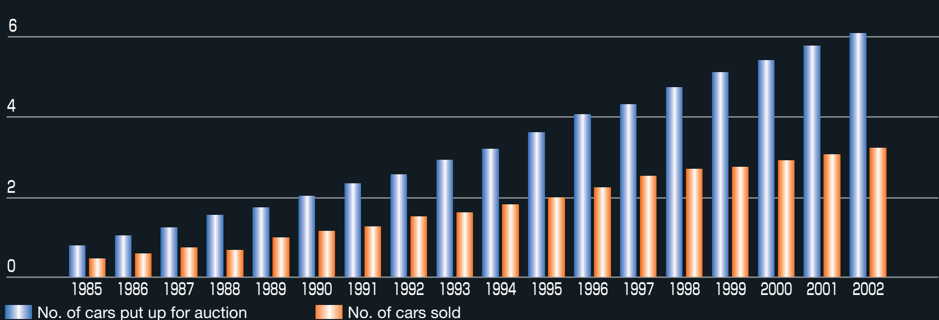
### The Rise of Auctions

As stated above, since the new-car to used-car ratio is higher than that of Europe and North America, the Japanese automobile market features an overabundance of used cars. Hence, used-car prices change every two to three weeks on the auction market, and, in many cases, used cars that are left in long-term inventory become dead stock. New-car dealer stores and used-car businesses must dispose of their inventories of dead-stock automobiles that they are unable to sell on their own. This situation has led to the rise in the number of auction sites that conduct B-to-B resale of automobiles.

Auction sites are often run by the Japan Used Car Distributors Association and have increased in activity with the emergence of such independent auction administration companies as USS Co., Ltd., and Aucnet Inc. Today's auctions consist of on-site auctions, in which the vehicles are transported to any actual site, and TV auctions, which use satellite communications without physically moving the actual cars. USS conducts both TV auctions and on-site auctions, while Aucnet specializes in TV auctions.

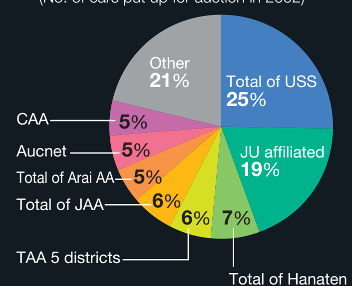
Approximately six million automobiles are put up for auction annually at Japan's approximately 150 auction sites, and more than 50% of these automobiles are successfully sold. Moreover, recent years have seen an increase in the use of computer systems, with some cars sold in a matter of seconds. Such features make Japan's automobile auctions among the most advanced in the world.

**NO. OF CARS PUT UP FOR AUCTION AND NO. ACTUALLY SOLD** (Millions of cars)




Source: Monthly *Used Car*

**AUCTION COMPANIES' MARKET SHARE**
(No. of cars put up for auction in 2002)




Source: Monthly *Used Car*

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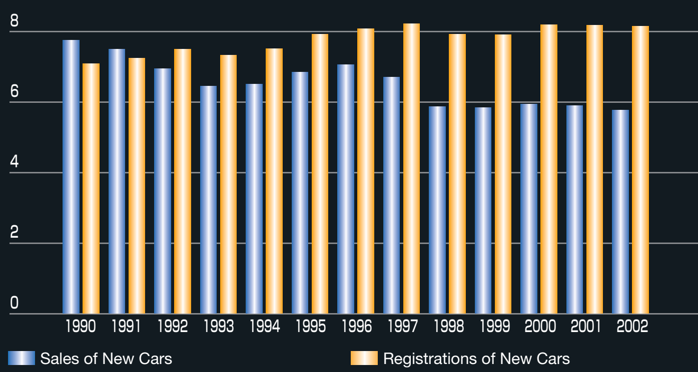
Cautionary Statement with Respect to Forward-Looking Statements

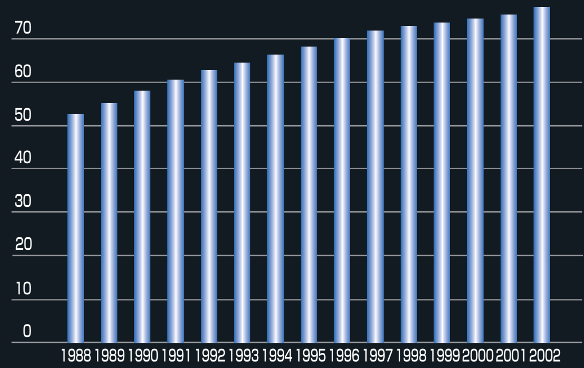
This annual report contains statements about Gulliver's future business plans and strategies as well as estimates. Statements regarding the Company's projected business results are not based on historical facts and are subject to various risks and uncertainties.

■ NEW-CAR SALES AND USED-CAR REGISTRATIONS (Millions of cars)




Sources: Japan Automobile Dealers Association, Japan Mini Vehicles Association

■ CAR OWNERSHIP (Millions of cars)




Source: Automobile Inspection & Registration Association

## Used-Car Market

Japan's used-car industry comprises three main functions covering the process by which cars are sold by one owner and purchased by a new owner. All three of these functions have been established as businesses.

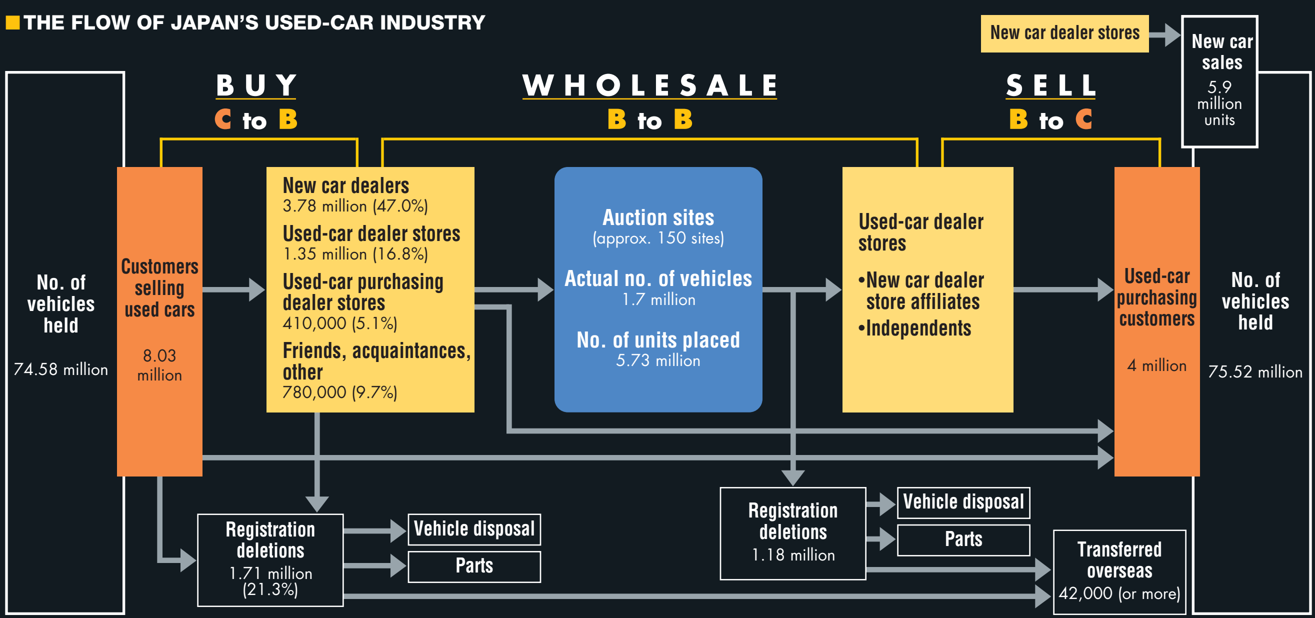
1) The vehicle is purchased from a customer. BUY (C to B (B to B from C))

2) The vehicle is sold from one dealer store to another through an auction. WHOLESALE (B to B (Marketplace for B))

3) The vehicle is sold to a new customer. SELL (B to C (B to C from B))

Companies in this industry work to expand their businesses with emphasis on their respective function of expertise, with many variations existing side by side.

■ THE FLOW OF JAPAN'S USED-CAR INDUSTRY




Note: The above numerical data were compiled based on information obtained by the Company as well as estimations made by the Company. Hence, there is a 930,000-unit discrepancy between the IN and OUT figures, and actual volumes may differ from these data. Furthermore, this flowchart is based on the flow of business from the year 2000 to 2001.


Kenichi Hatori, President

**Earnings**

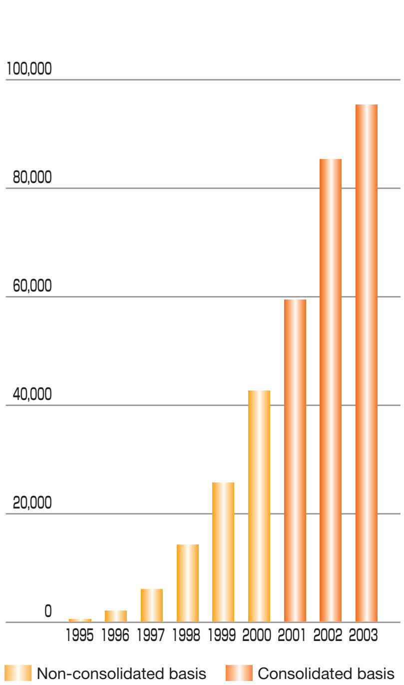
Consolidated net sales for Gulliver International Co., Ltd., for the fiscal year ended February 28, 2003, increased 11.9%, compared with the previous fiscal year, to ¥94,957 million. Consolidated operating income grew 24.5%, to ¥5,244 million, and consolidated net income grew 47.9%, to ¥2,777 million. These year-on-year increases in both revenue and profit reflect both an increase in the number of customers attracted by each Gulliver dealer store as well as a steady increase in the number of vehicles purchased, thanks to the continual opening of new Gulliver dealer stores.

For the nine consecutive years since its establishment in 1994, Gulliver International has continually recorded increases in both revenue and profit (net sales and operating income). We attribute this success to our swift capture of the largest share of Japan's used-car purchasing market, which was a completely new industry at the time of our establishment, and we have been quick to expand our nationwide franchise operations. Having thus established its basic infrastructure, starting in 2000, the Company shifted its focus from franchise-based operations to directly managed operations in determined efforts to further expand profitability. As a result, in the future we expect to have 300 directly managed dealer stores and 200 franchised dealer stores, for a total of 500 dealer stores.

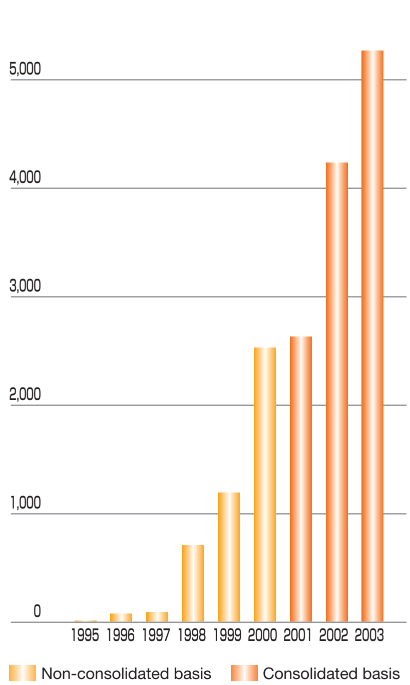
**Today's Used-Car Industry**

In recent years, the used-car industry has seen an increasing shift from the core business toward expansion into other sectors. In the purchasing industry, it is sometimes claimed that the competition has become fierce with such industry giants as Toyota entering the market. However, I consider this to be a blessing rather than a curse because, whereas traditionally the Japanese used-car business has been perceived to lack transparency, the entry of major automakers into the

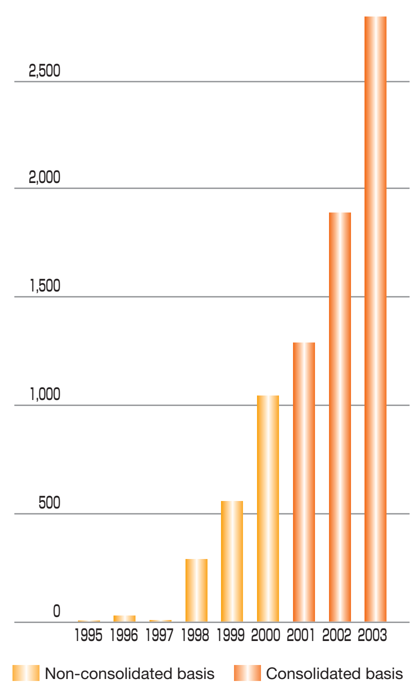
**NET SALES** (Millions of yen)




**OPERATING INCOME** (Millions of yen)




**NET INCOME** (Millions of yen)




market has served to increase consumers' confidence in the industry. Moreover, the used-car purchasing market is still not generally well known, and increasing overall awareness of the purchasing market will certainly be of benefit to Gulliver International. Indeed, the number of Gulliver assessments and purchases has risen as more and more people feel at ease about visiting used-car purchasers or using the Internet to obtain assessments of their vehicles. Most recently, we have seen expansion of the age range of our customers, with those in their 40s and 50s beginning to use our services as well.

It is a fact that billboards advertising used-car purchasing franchises are increasing along Japan's highways. However, Gulliver still lacks any true competitors: the reason being that, although other companies' franchises may resemble ours externally, they have not taken the same steps that we have to transcend traditional business models and offer low-cost operations. There is also a substantial difference in brand strength and market recognition.

At the same time, this is a good development in the sense that only the companies that provide the most value to the customers will be on the winning side. I think companies that concentrate simply on reaping the most profit out of each individual vehicle sold, or offer no post-sales service or warranty, will find it very difficult to survive in the months and years ahead without changing their ways. Business is not just about competing on price. It is also important to get to know one's customers well and nurture long-lasting relationships. Furthermore, it is crucial to achieve low-cost operations with minimal expenses and raise revenues by steadily increasing the number of vehicles traded, even at relatively low per-vehicle profit.

Negotiations using Dolphinet

**Strategy for Opening and Placement of Dealer Stores**

One of Gulliver's tasks in the short term is to attract those customers who have not yet set foot inside a Gulliver dealer store. According to one market survey, approximately 70% of the population never consider visiting any car businesses other than new-car dealer stores. We must come up with ways to approach this market stratum. To this end, we will take various steps to attract a greater number of customers to our directly managed dealer stores by giving them a high-class feel on a par with new-car dealer stores. We will open larger dealer stores, refurbish existing ones, and experiment with new dealer store designs that break away from our traditional use of a bright yellow color scheme, the Gulliver mascot, and the "used-car purchasing" signboard.

**Potential of the Dolphinet System**

The number of vehicles sold through Gulliver's Dolphinet System (hereinafter "Dolphinet") during the term under review reached a new record high of 32,156 units. When Dolphinet was launched in 1998 with the aim of establishing our own sales route, we were constantly told that we would not be able to sell cars simply by showing pictures on a display terminal. However, Dolphinet provides highly detailed information on the used cars for sale, including minute blemish data and records of past repair work, and, as the recognition that customers can rest assured when buying used cars with the system has gradually permeated the market, we now feel that the time has come when more and more customers will place their trust in and make use of Dolphinet.

Membership in GAuc* is also rising, having passed the 8,000 member mark, and auction-winning bids made with GAuc units have risen as well. Hence, Dolphinet's usage in auctions is also beginning to expand.

Dolphinet-based sales currently account for only a mere fraction of Gulliver's overall sales. While we will continue to place cars at actual auction sites, we will also promote the use of the lower-cost Dolphinet. Eventually, we would like to see the number of cars sold through Dolphinet account for 50% of all vehicles purchased by us.

* GAuc is a membership system that uses Dolphinet to provide automobile industry businesses with vehicles that are recently bought by Gulliver before they are put up for auction. Members use special GAuc terminals to sell cars to their own customers. Recently, membership in our web GAuc, which uses lower-cost Internet lines rather than satellite communication lines, is also on the rise.

One of the new Gulliver dealer stores


## IR Efforts

In IR activities, Gulliver has undertaken a serious study of the best way to promote understanding of its business among investors and analysts as well as gain their trust. In December 2002, Gulliver International received the Japan Investor Relations Association's IR Excellence Incentive Award, which I consider an extremely valuable accomplishment.

## Future Outlook

My goal in establishing Gulliver International is to bring about a distribution revolution in Japan's automobile industry. We have a strong desire to clean up the used-car industry's image, put consumers at ease, and instill a sense of the quality of used cars; it is out of our conviction to ourselves to change automobile distribution to these ends that we as a company were formed. Our signboards declaring us as used-car purchasing specialists and our nationwide network of 500 branches are only minute steps toward our goal. My ultimate aim is to tear down the used-car industry's traditional image and to be a pioneer in the creation of a new automobile culture. To this end, we have adopted the medium-term goal of attaining annual Group purchases of one million units, and we will strive to capture unparalleled market share in the used-car industry. Our initial goal is to achieve annual purchases of 500,000 units. By the time we are able to achieve our one million unit objective, the Gulliver style of business will have become the industry standard, and we will be able to establish reasonable and trustworthy used-car prices.

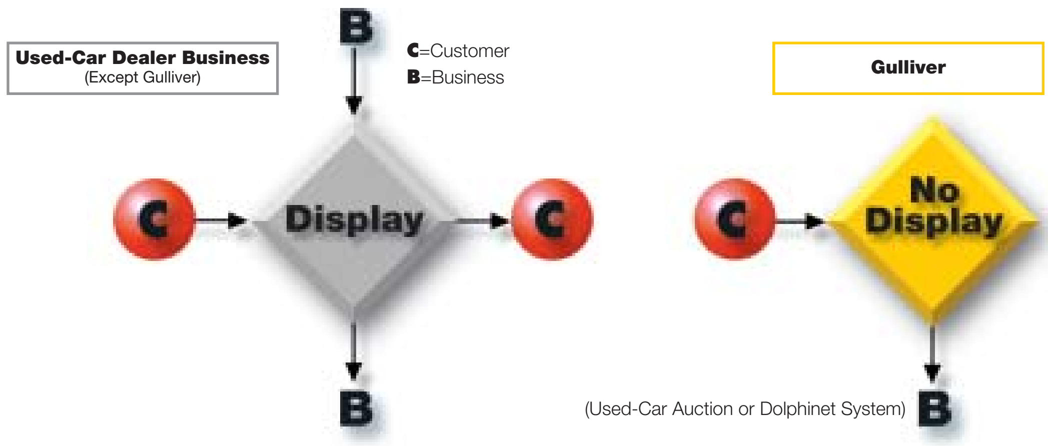
In October 2003, Gulliver will celebrate its 10th anniversary of its establishment, but I believe that it has just now reached its starting line. Until now, we have been creating our mechanisms and setting the stage for our business, and now it is time to take that stage. Gulliver seeks not merely to grow as a large corporation by amassing its earnings. It is a company that seeks to broaden its social significance by bringing about a distribution revolution in Japan's automobile industry.

I look forward to fulfilling the expectations of all stakeholders in Gulliver International.

May 2003

Kenichi Hatori
*President*

**GULLIVER'S BUSINESS MODEL SPECIALIZING IN AUTOMOBILE PURCHASING**




## Gulliver's Original Business Model

### Traditional Used-Car Dealerships

The average vehicle inventory period for used-car dealer stores is considered to be approximately two months. Because there is a surplus of supply in Japan's used-car market and auction prices for used cars tend to change within two-to-three weeks, thus inducing price degradation on long-term inventory, used-car companies constantly shoulder inventory risk.

Moreover, display sales operations must have customer drawing appeal. Raising such appeal requires a certain amount of property and number of display vehicles, which, in turn, increases personnel costs, resulting in a substantial display cost. These inventory risks and display costs engender a philosophy of purchasing as low as possible and selling as high as possible. Due to this environment, the public perception of the used-car industry has been one of non-transparent, industry-imposed price setting.

### The Gulliver Advantage

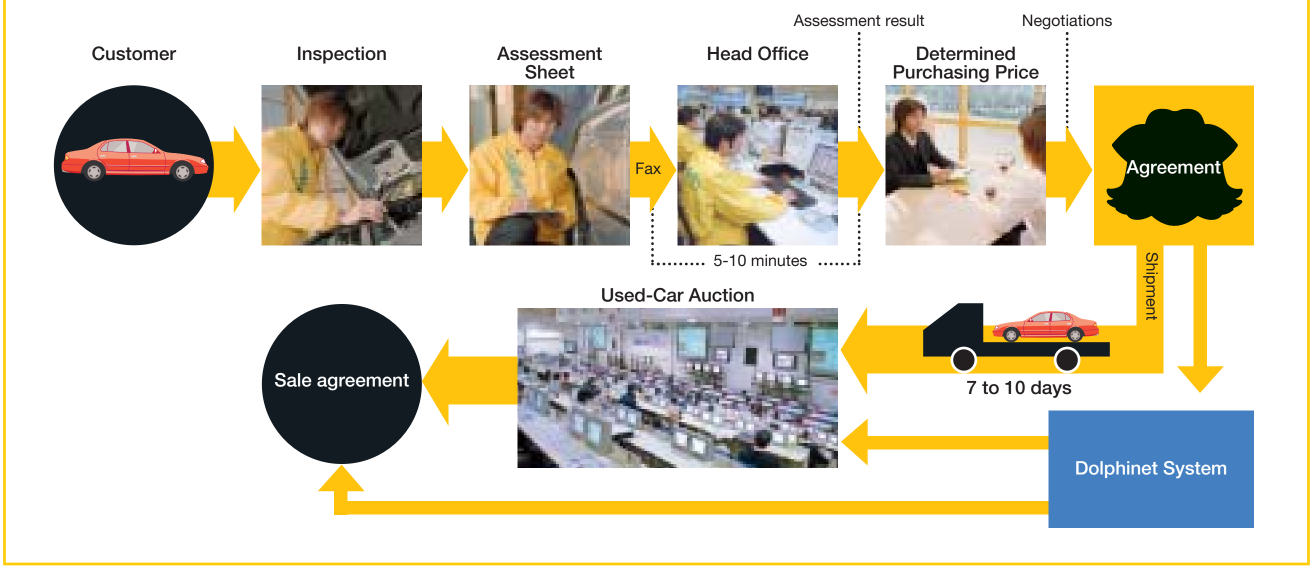
Gulliver has substantially reduced the time from purchase to sale to between 7 and 10 days by selling all vehicles it purchases through auctions. By promptly auctioning off our vehicles, we have alleviated inventory risk and reduced display costs. Thus, by reducing inventory time we have constructed a system by which we generate profit even at low gross margins by handling large volume. The used-car industry is also faced with the concern of chronic shortages of popular models. Hence, business value in this industry is determined by the ability to secure popular merchandise.

According to some opinions, industry competition has recently intensified due to full-fledged entry into the market by major automakers. However, Gulliver's competitors operate under business models that differ little from the traditional used-car dealer store—with its inherent inventory risks and display costs—and they are completely different from Gulliver in their post-purchase operations. Gulliver has continued to grow steadily by implementing a level of thorough low-cost operations unrivaled in the industry, thus enabling it to pass on the savings to its customers.

## The Purchasing Process

When cars are brought into a Gulliver dealer store, not only are the make, model, year, and mileage checked, but also such items as the existence of scratches or blemishes and the condition of the car's interior. Further note is made of any beneficial points, such as the installation of optional components, and then all data are compiled in an assessment sheet. When all checks are completed, these assessment sheets are faxed to Gulliver's Head Office, where professional assessors determine the purchase price and report back to the dealer store. Dealer store staff are then able to put themselves in the position of the customer—who will be parting with his

## THE PURCHASING PROCESS




beloved vehicle—and provide highly satisfactory negotiations. For customers relinquishing their cars, the greatest concern is price. At Gulliver, we believe that, by offering prices commensurate with market value, we can provide peace of mind to used-car customers. Because used-car prices tend to change in two-to-three weeks' time, purchase prices must be determined based on an assessment of fluctuating auction rates and an accurate prediction of winning bid prices. With the inclusion of different models and classes, there are more than 6,000 different automobile models, both domestic and foreign, in market circulation. In addition, when such items as mileage, year, color, features, and repair records are factored in, the result is a near-infinite variety of vehicles. Gulliver employs a system whereby professional assessors at its Head Office provide comprehensive assessments based on a database of 450,000 entries reflecting the most recent auction prices. By so doing, we are able to offer clearly based prices for any type of car, eliminate inconsistency in price setting, and offer a uniform level of high-quality service nationwide.

### ■ISO Certification for Its Purchasing Business

In November 2001, Gulliver became the first in the industry to attain certification in the ISO 9001 quality assurance system (2000 version) for the assessment and price computation operations of its used-car purchasing business. Through the implementation of the ISO 9001 quality management system, we will enhance the quality of our assessment services (the accuracy and speed of our price calculations) and offer highly precise assessments along with the negotiations provided by our nationwide network of dealer stores.

### ■Contact Center and Dispatched Purchasing Service

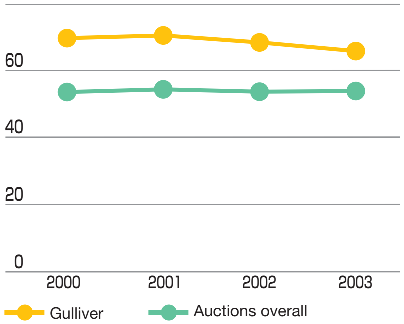
Gulliver's Contact Center handles customer inquiries and consultation. By either telephone (toll free: 0120-22-1616) or the Internet (http://221616.com), customers can easily reach our Contact Center to make assessment inquiries. A sales representative from one of our nationwide dispatch centers then visits the customer directly. Sales representatives' schedules are managed by the Contact Center, and these operations are conducted in a highly efficient manner.

A used-car auction

### Stable Sales Routes Established through the Use of Auctions

There are approximately 150 auction sites throughout Japan, to which numerous used-car dealers gather in search of popular car models. The high popularity and high quality of cars put up for auction by Gulliver are highly rated, and approximately 70% of all Gulliver cars are successfully sold, in comparison to the national average for auction sales of just above 50%.

**RATE OF OVERALL AUCTION CAR SALES AND RATE OF GULLIVER CARS SOLD AT AUCTIONS** (%)

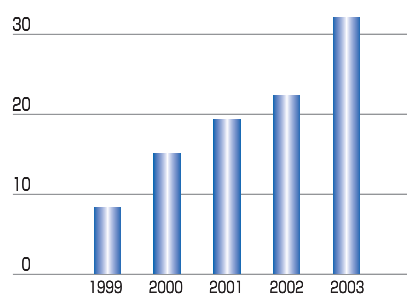



Source: Monthly *Used Car* (Rate of overall auction car sales)

The purchase prices of used cars bought by Gulliver are calculated by professional assessors at Gulliver's Head Office based on a database of more than 450,000 entries. This database ascertains the latest prices from every auction site in real time, with approximately 20,000 entries updated each month. By applying this database, we are able to offer fair purchase prices that are commensurate with current auction rates. Thus, by accurately ascertaining market saleable cars and saleable prices, we are able to avoid dead stock and maintain a high rate of successful auction sales.

Some opinions view negatively the reliance on auction sites that are run by third parties for one's sales routes. However, since auction sites usually have a shortage of vehicles for auction, and since auction sites are in competition with each other, they must constantly secure vehicles for auction so as to maintain their appeal. Hence, the number of vehicles handled is extremely high, and Gulliver cars—with their high popularity and high quality—are often given preferential treatment in terms of cost. Thus, such negative opinions do not accurately grasp actual circumstances.

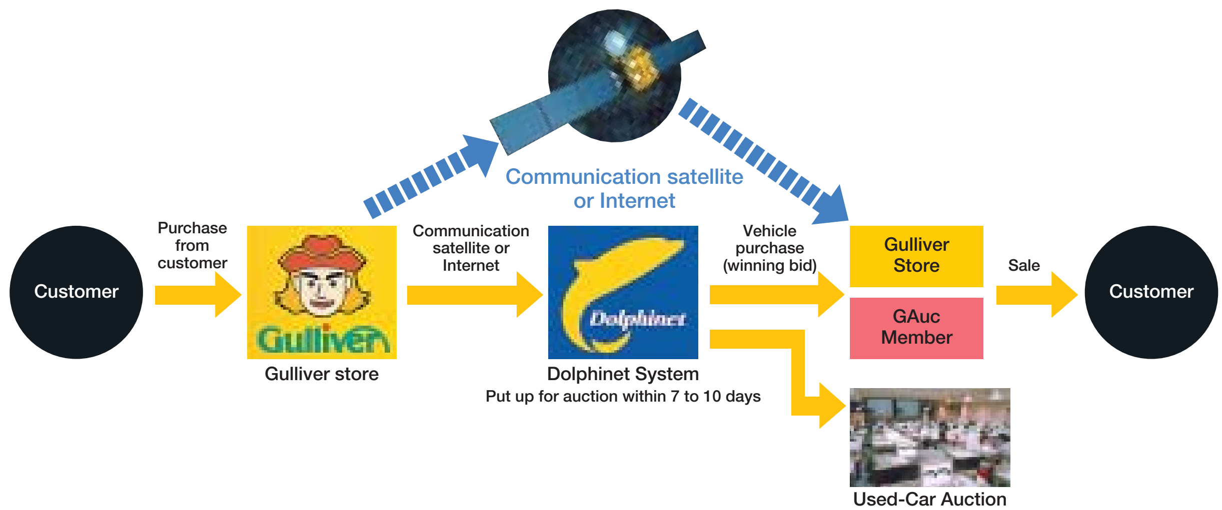
**NUMBER OF CARS SOLD BY THE DOLPHINET SYSTEM** (Thousands)




### Creating New Sales Channels

As a means to maintaining its own sales routes, in 1998 Gulliver launched its Dolphinet System (hereinafter referred to

## DOLPHINET SYSTEM




Gulliver revenue from Dolphinet operations includes gross profit on vehicles in the case of sales by directly managed Gulliver dealer stores and service charges in the case of sales by Gulliver franchise dealer stores and GAuc members.

simply as "Dolphinet"), leveraging both satellite communications and graphics technology. Dolphinet is used to sell automobiles in the brief 7- to 10-day time frame following purchase by Gulliver dealer stores, after which they are placed at auctions. The Dolphinet display monitor provides not only such basic information as images of the vehicle but also such detailed data as past repair records and whether there are any scratches or dents. The vehicle's exterior is further assessed on a scale of 100 and its interior rated according to a five-stage system, thus providing comprehensive vehicle value data.

Consumers who find it difficult to discern a used car's value try their best to do so by examining the vehicle itself. However, detailed information is seldom disclosed, making the decision to purchase difficult. With Dolphinet, such problems are alleviated without the need for hands-on examination of the vehicle by providing professional assessment and price setting as well as the open disclosure of detailed data.

For automobile industry businesses, Gulliver also offers GAuc, a membership-based system that uses Dolphinet to supply cars that are recently purchased by Gulliver before they are put up for auction. GAuc members use specialized terminals to sell cars through their own dealer stores. Recently, membership is also rising in Gulliver's web GAuc, which uses Internet-based communication, which is much less costly than satellite communications. Furthermore, in autumn 2002 we began accepting membership in the web GAuc Gold Lounge, which provides a variety of services to existing web GAuc members. While image-based car sales have not permeated the general market, we at Gulliver feel that for the sale of used cars—each with differing value—this form of sale offers the best service to the consumer. We are steadily increasing sales in this sector, which have already exceeded a total of 100,000 units, and, should the day come when buying cars based on visual data alone is a common affair, the development of Dolphinet has strong potential to contribute to future revenue.

A Dolphinet System terminal

# DIRECTORS AND AUDITORS (As of February 28, 2003)

(From left) Takao Hatori, Ikuo Murata, Kenichi Hatori, Yusuke Hatori, and Yukihiro Yoshida

**President**
Kenichi Hatori

**Senior Executive Vice President**
Ikuo Murata

**Senior Managing Director**
Yusuke Hatori

**Managing Directors**
Yukihiro Yoshida
Takao Hatori

**Standing Corporate Auditor**
Nitsumasa Ito

**Corporate Auditors**
Etsuya Washio
Masakatsu Endo

## CONSOLIDATED FINANCIAL HIGHLIGHTS

*For the years ended February 28, 2003 and 2002*
*Gulliver International Co., Ltd.*

| | Thousands of yen | Thousands of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **For the year:** | | | |
| Net sales | **¥94,957,515** | ¥84,880,972 | **$806,433** |
| Operating income | **5,244,913** | 4,212,432 | **44,543** |
| Net income | **2,777,175** | 1,877,556 | **23,585** |
| **At year-end:** | | | |
| Total assets | **20,057,544** | 18,941,856 | **170,340** |
| Total shareholders' equity | **12,565,484** | 11,092,972 | **106,714** |
| **Per share data** (Yen/U.S. dollars)**:** | | | |
| Net income: | | | |
| Basic | **¥ 275.67** | ¥ 180.59 | **$ 2.34** |
| Diluted | **274.49** | — | **2.33** |
| Cash dividends | **80.00** | 45.00 | **0.68** |
| Shareholders' equity | **1,197.99** | 1,091.64 | **10.17** |
| **Ratios** (%)**:** | | | |
| Return on equity (Note 2) | **23.5** | 17.3 | |
| Return on assets (Note 3) | **26.9** | 22.6 | |
| Equity ratio | **62.6** | 58.6 | |
| **Employees:** | | | |
| Number of employees | **1,199** | 1,057 | |

## NON-CONSOLIDATED SIX-YEAR SUMMARY

*Years ended February 28 or 29*
*Gulliver International Co., Ltd.*

| | | | | | | Thousands of yen |
|---|---|---|---|---|---|---|
| | 1998 | 1999 | 2000 | 2001 | 2002 | **2003** |
| **For the year:** | | | | | | |
| Net sales | ¥14,019,638 | ¥25,429,560 | ¥42,340,143 | ¥58,285,250 | ¥82,503,511 | **¥91,071,908** |
| Operating income | 699,216 | 1,181,799 | 2,514,698 | 2,541,888 | 4,033,953 | **5,032,169** |
| Net income | 285,728 | 552,391 | 1,036,557 | 1,251,516 | 1,780,142 | **2,667,689** |
| **At year-end:** | | | | | | |
| Total assets | 3,930,503 | 6,851,202 | 15,516,320 | 18,286,974 | 18,339,282 | **18,931,226** |
| Total shareholders' equity | 590,955 | 1,652,686 | 9,422,714 | 10,580,780 | 10,962,262 | **12,329,634** |
| **Per share data** (Yen/U.S. dollars)**:** | | | | | | |
| Net income: | | | | | | |
| Basic | 75,388.48 | 94.15 | 146.87 | 124.17 | 171.22 | **264.80** |
| Diluted | — | — | — | — | — | **233.67** |
| Cash dividends | (Old) 2,500.00<br>(New) 1,280.00 | 5.00 | 5.00 | 20.00 | 45.00 | **80.00** |
| Shareholders' equity | 103,822.19 | 254.57 | 1,257.70 | 1,008.76 | 1,078.78 | **1,045.14** |
| **Ratios** (%)**:** | | | | | | |
| Return on equity (Note 2) | 79.5 | 49.2 | 18.7 | 12.5 | 16.5 | **22.9** |
| Return on assets (Note 3) | 24.3 | 21.9 | 22.5 | 15.0 | 22.0 | **14.3** |
| Equity ratio | 15.0 | 24.1 | 60.7 | 57.9 | 59.8 | **65.1** |
| Dividends ratio | 3.3 | 5.5 | 3.6 | 16.7 | 25.9 | **30.0** |
| **Common stock** (Shares)**:** | | | | | | |
| Number of shares issued | 5,692 | 6,492,000 | 7,492,000 | 10,488,800 | 10,488,800 | **10,488,800** |
| **Employees:** | | | | | | |
| Number of employees | 201 | 350 | 559 | 733 | 1,035 | **1,177** |

*Notes: 1. Translation into U.S. dollars has been made on the basis of ¥117.75=$1, the effective exchange rate at February 28, 2003.*
*2. ROE=Net income/shareholders' equity (yearly average) X 100*
*3. ROA=Operating income/total assets (yearly average) X 100*

**Net Sales**

Net sales for the fiscal year ended February 28, 2003, increased 11.9% compared with the previous fiscal year, to ¥94,957 million. Vehicle net sales, which account for the greatest portion of Gulliver's net sales, rose 12.0%, to ¥84,345 million, while the volume of vehicle sales climbed 17.9%, to 101,011 units. As "the used-car purchasing expert," the primary operations of Gulliver's dealer stores comprise the purchasing of used vehicles, and the number of directly managed dealer stores increased by 24, to 178 (including purchasing dispatch centers). The number of vehicles purchased also expanded as per-dealer store patronage increased. Both of these factors contributed to the growth in vehicle sales.

Vehicles purchased by Gulliver are sold both at nationwide auctions, following a brief inventory period of 7 to 10 days, as well as through sales channels established with its own Dolphinet visual graphics sales system. The number of dealer stores equipped with the Dolphinet System increased by 512 compared with the previous fiscal year, to 8,426 (not including Gulliver dealer stores), and the number of vehicles sold through Dolphinet also increased as a result of a rise in the number of vehicles successfully tendered through web GAuc (an Internet-based sales system furnished by Gulliver primarily to used-car dealers).

**Cost of Sales, SG&A Expenses, Other Revenue, and Expenditures**

Cost of sales increased 10.2% compared with the previous fiscal year, to ¥72,575 million. Selling, general and administrative (SG&A) expenses also increased, up 15.2%, to ¥17,137 million, primarily reflecting increases in personnel expenses, depreciation and amortization, and property rental fees resulting from the increase in the number of dealer stores. As a result, operating income climbed 24.5% compared with the previous fiscal year, to ¥5,244 million, and the operating income margin edged up 0.6 percentage point, to 5.5%.

In other income (expenses), net, expenses declined ¥465 million, to ¥120 million, due primarily to the impact of losses on the retirement of software that were incurred in the previous fiscal year. Net income for the term increased 47.9%, to ¥2,777 million, with the net income margin working out to 2.9%, an increase of 0.7 percentage point.

**Segment Earnings**

**Used-Car Sales**

Although vehicle sales prices declined due to a drop in the average unit price on the used-car auction market, the number of vehicles handled by Gulliver increased steadily, and net sales in this segment rose 13.7% compared with the previous fiscal year, to ¥88,478 million.

The Company successfully secured a per-vehicle gross margin on a par with that of the previous term, and the number of vehicles handled also increased as Gulliver attracted a greater number of patrons to its dealer stores. As a result, operating income surged 55.8%, to ¥5,944 million.

**Franchise Operations**

The number of franchise dealer stores declined by 70, to 333. Although royalties and other revenue decreased as a result, the number of vehicles handled per dealer store remained strong, and the Company also obtained contracts with 19 new franchise dealer stores. As a result, net sales for this segment declined only 8.7%, to ¥6,478 million, and operating income dropped 23.7%, to ¥2,349 million.

**Financial Condition**

The Company's total capital outlays for the term under review amounted to ¥1,817 million. Investment in the opening of new directly managed dealer stores amounted to ¥756 million.

The Gulliver International Group's total assets increased ¥1,115 million, or 5.9%, compared with the previous fiscal year-end, to ¥20,057 million. Both current assets as well as investments and other assets increased slightly, amounting to ¥12,554 million and ¥7,502 million, respectively. The increase in current assets was due to a rise in accounts receivable and merchandise resulting from the increase in the number of vehicles handled. Although property and equipment increased ¥530 million, or 16.8%, to ¥3,692 million, this was a reflection of the growth in the number of directly managed dealer stores and comprised primarily the acquisition of buildings and structures.

Total liabilities declined ¥405 million, or 5.2%, to ¥7,413 million. Current liabilities decreased ¥222 million, or 3.2%, to ¥6,670 million.

Shareholders' equity increased ¥1,472 million, or 13.3%, to ¥12,565 million. This increase was due to the growth in consolidated retained earnings that resulted from the net income for the term, which exceeded the decline in treasury stock. The Group's equity ratio increased by 4.0 percentage points, to 62.6%.

Gulliver International places great emphasis on return on equity (ROE) as a vital indicator of its fiscal standing and strives to maintain an ROE of greater than 10% over the long term. ROE for the term under review increased 6.2 percentage points, to 23.5%.

**Cash Flow Analysis**

Net cash provided by operating activities declined ¥2,894 million, to ¥2,093 million. This was due to a substantial decline in the rate of increase in debts and credits, which offset the increase in income before income taxes and minority interest that resulted from the growth in vehicle sales volume.

Net cash used in investing activities declined ¥625 million, to ¥983 million. This was due to an increase in expenditures related to the opening of new directly managed dealer stores and internal systems upkeep, which coincided with an increase in net revenue from the purchase and sale of marketable securities.

Net cash used in financing activities dropped ¥2,458 million, to ¥1,011 million, due primarily to a decline in expenditures for the repayment of short-term loans.

**Dividends**

Gulliver International considers the return of profit to its shareholders to be one of the most vital tasks of its business operations. Our basic policy is to emphasize dividend payout and provide returns commensurate with our earnings. In line with this policy, the annual shareholder's dividend has been increased by ¥35 compared with the previous fiscal year, to ¥80 per share, thus producing an increase in the Company's payout ratio of 4.1 points, to 30.0%.

Retained earnings will be used efficiently and effectively in the Company's efforts to further expand future profitability and increase corporate value and will be applied in such areas as the opening of new directly managed dealer stores, fortifying internal infrastructure, and personnel education and training so as to augment its competitive strength and enhance its level of service.

**Outlook**

Japan's vast used-car market now totals eight million annual registrations (including buses, trucks, and other vehicle types), and it is the aim of the Gulliver International Group to capture the top share of this market and expand its profitability. In terms of a numerical target, the Group will strive to attain annual vehicle purchases of one million units over the medium-to-long term.

Tasks immediately facing the Group include strategic marketing efforts aimed at expanding its customer appeal by augmenting its brand strength and increasing its recognition among a wider range of age-groups; the qualitative enhancement of services and customer satisfaction; bolstering its business competence through the training and education of its human resources; and the implementation of thoroughgoing, low-cost operations.

# CONSOLIDATED BALANCE SHEETS

*As of February 28, 2003 and 2002*
*Gulliver International Co., Ltd.*

| ASSETS | Thousands of yen 2003 | Thousands of yen 2002 | Thousands of U.S. dollars (Note 2) 2003 |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | **¥ 6,513,298** | ¥ 6,419,198 | **$ 55,315** |
| Time deposits | **—** | 552,521 | **—** |
| Short-term investments (Note 2) | **78,188** | 226,163 | **664** |
| Accounts receivable: | | | |
| Trade | **3,260,617** | 2,783,780 | **27,691** |
| Allowance for doubtful accounts | **(34,104)** | (51,767) | **(290)** |
| | **3,226,513** | 2,732,013 | **27,401** |
| Inventories | **1,703,495** | 1,579,106 | **14,467** |
| Deferred income tax assets (Note 12) | **216,802** | 267,267 | **1,841** |
| Other current assets | **816,588** | 696,436 | **6,935** |
| Total current assets | **12,554,887** | 12,472,706 | **106,623** |
| **Property and equipment:** | | | |
| Land | **323,011** | 323,011 | **2,743** |
| Buildings and structures | **3,532,784** | 2,856,568 | **30,002** |
| Furniture, fixtures and equipment | **1,483,277** | 1,207,354 | **12,597** |
| Construction in progress | **31,642** | 36,729 | **269** |
| | **5,370,715** | 4,423,662 | **45,611** |
| Less—Accumulated depreciation | **(1,677,871)** | (1,261,529) | **(14,249)** |
| Net property and equipment | **3,692,845** | 3,162,134 | **31,362** |
| **Investments and other assets:** | | | |
| Investment securities (Note 3) | **189,909** | 256,693 | **1,613** |
| Leasehold and guarantee deposits (Note 4) | **1,708,191** | 1,476,279 | **14,507** |
| Deferred income tax assets (Note 12) | **177,436** | 214,080 | **1,507** |
| Software costs, net | **1,217,628** | 948,653 | **10,341** |
| Other assets | **785,356** | 657,880 | **6,669** |
| Allowance for doubtful accounts | **(268,713)** | (246,572) | **(2,282)** |
| Total investments and other assets | **3,809,811** | 3,307,014 | **32,355** |
| | **¥20,057,544** | ¥18,941,856 | **$170,340** |

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

| LIABILITIES AND SHAREHOLDERS' EQUITY | *Thousands of yen* ***2003*** | *Thousands of yen* *2002* | *Thousands of U.S. dollars (Note 2)* ***2003*** |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Note 5) | **¥ 450,000** | ¥ 250,000 | **$ 3,822** |
| Accounts payable: | | | |
| Trade | **1,848,934** | 2,130,838 | **15,702** |
| Other | **1,588,417** | 1,412,111 | **13,490** |
| Accrued income taxes (Note 12) | **1,295,061** | 1,351,901 | **10,998** |
| Accrued bonuses | **282,126** | 235,745 | **2,396** |
| Deferred income tax liabilities (Note 12) | **167** | — | **1** |
| Other current liabilities | **1,205,806** | 1,511,970 | **10,240** |
| Total current liabilities | **6,670,514** | 6,892,566 | **56,649** |
| **Long-term liabilities:** | | | |
| Guarantee deposits received (Note 6) | **743,102** | 926,637 | **6,311** |
| Other liabilities | **50** | 95 | **0** |
| Total long-term liabilities | **743,152** | 926,732 | **6,311** |
| **Minority interest in consolidated subsidiaries** | **78,393** | 29,584 | **666** |
| **Shareholders' equity** (Note 9): | | | |
| Common stock: | | | |
| Authorized 40,000,000 shares in 2003 | | | |
| Issued 10,488,800 shares | **3,849,820** | 3,849,820 | **32,695** |
| Additional paid-in capital | **3,725,460** | 3,725,460 | **31,639** |
| Retained earnings | **6,706,077** | 4,547,559 | **56,952** |
| Foreign currency translation adjustments | **—** | 4,345 | **—** |
| Unrealized holding losses on available-for-sale securities | **(27,284)** | (20,710) | **(232)** |
| | **14,254,073** | 12,106,474 | **121,054** |
| Less—Treasury stock | **(1,688,588)** | (1,013,502) | **(14,340)** |
| Total shareholders' equity | **12,565,484** | 11,092,972 | **106,714** |
| | **¥20,057,544** | ¥18,941,856 | **$170,340** |

# CONSOLIDATED STATEMENTS OF INCOME

*For the years ended February 28, 2003 and 2002*
*Gulliver International Co., Ltd.*

| | Thousands of yen | Thousands of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **Net sales** | **¥94,957,515** | ¥84,880,972 | **$806,433** |
| **Costs and expenses:** | | | |
| Cost of sales | **72,575,504** | 65,798,885 | **616,352** |
| Selling, general and administrative expenses (Note 10) | **17,137,097** | 14,869,653 | **145,538** |
| | **89,712,601** | 80,668,538 | **761,890** |
| Operating income | **5,244,913** | 4,212,432 | **44,543** |
| **Other income (expenses):** | | | |
| Losses on disposal of software, property and equipment (Note 11) | **(121,746)** | (502,033) | **(1,034)** |
| Losses on valuation of investment securities | **(3,541)** | (25,678) | **(30)** |
| Losses on settlement of severance indemnity liabilities (Note 11) | **—** | (44,068) | **—** |
| Other, net | **4,545** | (14,466) | **38** |
| | **(120,742)** | (586,245) | **(1,026)** |
| Income before income taxes and minority interest | **5,124,170** | 3,626,186 | **43,517** |
| **Income taxes** (Note 12): | | | |
| Current | **2,239,150** | 2,034,100 | **19,016** |
| Deferred | **92,047** | (292,646) | **782** |
| | **2,331,197** | 1,741,453 | **19,798** |
| **Minority interest, net of taxes** | **15,797** | 7,176 | **134** |
| Net income | **¥ 2,777,175** | ¥ 1,877,556 | **$ 23,585** |

| | Yen | Yen | U.S. dollars (Note 2) |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Net income per share: | | | |
| Basic | **¥ 275.67** | ¥ 180.59 | **$ 2.34** |
| Diluted | **274.49** | — | **2.33** |
| Cash dividends per share | **80** | 45 | **0.68** |

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

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

*For the years ended February 28, 2003 and 2002*
*Gulliver International Co., Ltd.*

| | | Thousands of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Additional paid-in capital | Retained earnings | Foreign currency translation adjustments | Unrealized holding losses on available-for-sale securities | Treasury stock |
| **Balance at February 28, 2001** | 10,488,800 | ¥3,849,820 | ¥3,725,460 | ¥3,034,451 | ¥ — | ¥ — | ¥ (45) |
| Net income for the year | | | | 1,877,556 | | | |
| Unrealized holding losses on available-for-sale securities | | | | | | (20,710) | |
| Foreign currency translation adjustments | | | | | 4,345 | | |
| Cash dividends paid | | | | (340,397) | | | |
| Bonuses to directors and corporate auditors | | | | (24,050) | | | |
| Increase in treasury stock | | | | | | | (1,013,457) |
| **Balance at February 28, 2002** | 10,488,800 | 3,849,820 | 3,725,460 | 4,547,559 | 4,345 | (20,710) | (1,013,502) |
| Net income for the year | | | | **2,777,175** | | | |
| Unrealized holding losses on available-for-sale securities | | | | | | **(6,574)** | |
| Foreign currency translation adjustments | | | | | **(4,345)** | | |
| Cash dividends paid | | | | **(555,957)** | | | |
| Bonuses to directors and corporate auditors | | | | **(62,700)** | | | |
| Increase in treasury stock | | | | | | | **(675,086)** |
| **Balance at February 28, 2003** | **10,488,800** | **¥3,849,820** | **¥3,725,460** | **¥6,706,077** | **¥ —** | **¥(27,284)** | **¥(1,688,588)** |

| | Thousands of U.S. dollars (Note 2) | | | | | |
|---|---|---|---|---|---|---|
| | Common stock | Additional paid-in capital | Retained earnings | Foreign currency translation adjustments | Unrealized holding losses on available-for-sale securities | Treasury stock |
| **Balance at February 28, 2002** | $32,695 | $31,639 | $38,621 | $37 | $(176) | $ (8,607) |
| Net income for the year | | | **23,585** | | | |
| Unrealized holding losses on available-for-sale securities | | | | | **(56)** | |
| Foreign currency translation adjustments | | | | **(37)** | | |
| Cash dividends paid | | | **(4,722)** | | | |
| Bonuses to directors and corporate auditors | | | **(532)** | | | |
| Increase in treasury stock | | | | | | **(5,733)** |
| **Balance at February 28, 2003** | **$32,695** | **$31,639** | **$56,952** | **$ —** | **$(232)** | **$(14,340)** |

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

# CONSOLIDATED STATEMENTS OF CASH FLOWS

*For the years ended February 28, 2003 and 2002*
*Gulliver International Co., Ltd.*

| | Thousands of yen | Thousands of yen | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **Operating activities:** | | | |
| Income before income taxes and minority interest | **¥5,124,170** | ¥3,626,186 | **$ 43,517** |
| Adjustments for: | | | |
| Depreciation and amortization | **875,833** | 790,359 | **7,438** |
| Losses on disposal of software, property and equipment | **121,746** | 502,033 | **1,034** |
| (Increase) decrease in accounts receivable—trade | **(318,389)** | 93,237 | **(2,704)** |
| (Increase) decrease in inventories | **(124,389)** | 169,309 | **(1,056)** |
| (Decrease) increase in accounts payable—trade | **(394,196)** | 828,948 | **(3,348)** |
| Other, net | **(894,454)** | 183,574 | **(7,596)** |
| Subtotal | **4,390,321** | 6,193,646 | **37,285** |
| Interest and dividend income received | **3,194** | 18,636 | **27** |
| Interest expenses paid | **(4,793)** | (10,105) | **(41)** |
| Income taxes paid | **(2,295,372)** | (1,214,786) | **(19,494)** |
| Net cash provided by operating activities | **2,093,348** | 4,987,390 | **17,777** |
| **Investing activities:** | | | |
| Payments for purchase of short-term investments | **(498,532)** | (1,600,476) | **(4,234)** |
| Proceeds from sales of short-term investments | **700,332** | 1,400,496 | **5,948** |
| Payments for purchase of property and equipment | **(1,155,622)** | (1,016,065) | **(9,814)** |
| Payments for purchase of software and intangible assets | **(568,682)** | (451,242) | **(4,830)** |
| Decrease in time deposits | **552,521** | — | **4,692** |
| Other, net | **(13,728)** | 58,384 | **(117)** |
| Net cash used in investing activities | **(983,711)** | (1,608,903) | **(8,355)** |
| **Financing activities:** | | | |
| Decrease (increase) in short-term bank loans, net | **200,000** | (600,000) | **1,699** |
| Repayments of long-term debt | **—** | (1,502,560) | **—** |
| Cash dividends paid | **(555,957)** | (341,897) | **(4,721)** |
| Purchase of treasury stock | **(675,086)** | (1,013,456) | **(5,733)** |
| Other, net | **19,850** | (12,078) | **169** |
| Net cash used in financing activities | **(1,011,192)** | (3,469,991) | **(8,586)** |
| **Effect of exchange rate changes on cash and cash equivalents** | **(4,345)** | — | **(37)** |
| **Net increase (decrease) in cash and cash equivalents** | **94,099** | (91,504) | **799** |
| **Cash and cash equivalents at beginning of year** | **6,419,198** | 6,510,703 | **54,516** |
| **Cash and cash equivalents at end of year** | **¥6,513,298** | ¥6,419,198 | **$ 55,315** |

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

## 1. Nature of Operations

Gulliver International Co., Ltd. (the "Company") and its consolidated subsidiaries are mainly engaged in the purchase and sale of used cars through a nationwide network and franchising business.

## 2. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared from the accounts maintained by the Company and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and Japanese Securities and Exchange Law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of the International Accounting Standards. The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan. However, certain items presented in the consolidated financial statements filed with the Director of the Kanto Finance Bureau in Japan have been reclassified and relevant notes have been added, if appropriate, for the convenience of readers outside Japan. Certain prior-year amounts have also been reclassified to conform to the current year's presentation. All figures in the accompanying consolidated financial statements and their notes are rounded to thousands of yen, with figures of less than a thousand yen being omitted.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥117.75=U.S.$1, the rate of exchange on February 28, 2003, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

**(a) Basis of Consolidation**

The accompanying consolidated financial statements include the accounts of the Company and its three subsidiaries, as shown below.

| | *Country of incorporation* | *Fiscal year-end* |
|---|---|---|
| G Trading Co., Ltd. | Japan | February 28 |
| E-Investment Co., Ltd. | Japan | February 28 |
| Gulliver Europe Ltd. | Switzerland | December 31 |

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

The financial statements of subsidiaries are included in the consolidated financial statements on the basis of their respective fiscal years after making appropriate adjustments for material transactions during the periods from their respective year-ends to the date of the consolidated financial statements, as required.

Upon acquisition of a subsidiary, all of the subsidiary's assets and liabilities are revalued to their respective fair value at the date of acquisition.

**(b) Translation of Foreign Currencies**

Effective from the year ended February 28, 2002, the Company and its subsidiaries have adopted the revised Financial Accounting Standard for Foreign Currency Translation issued by the Business Accounting Deliberation Council. The adoption of this revised standard had no effect on the accompanying consolidated financial statements.

**(c) Cash and Cash Equivalents**

Cash and cash equivalents comprise cash on hand, bank deposits withdrawable on demand and all highly liquid investments with original maturities of three months or less which present insignificant risk of change in value.

**(d) Short-Term Investments and Investment Securities**

Effective from the year ended February 28, 2002, as a result of the adoption of the new Financial Accounting Standard for Financial Instruments issued by the Business Accounting Deliberation Council, securities have been classified into four categories: trading securities, held-to-maturity debt securities, equity securities of unconsolidated subsidiaries and affiliates, and available-for-sale securities. The classification of securities between current and noncurrent was also reexamined, the result being that debt securities with a maturity date of one year or less were classified as current and debt securities with a maturity date of more than one year and equity securities other than trading securities were classified as noncurrent. As a result of the reclassification, the balance of securities in the current asset section increased by ¥10,300 thousand ($77 thousand) and the balance of "Investment securities" decreased by the same amount, as at March 1, 2001.

Held-to-maturity securities are carried at amortized cost under the straight-line method. Marketable available-for-sale securities are stated at market value with unrealized gains and losses, net of applicable taxes, being reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. Available-for-sale securities that do not have readily determinable fair values are reported at cost.

Under the previous standard, marketable securities were stated at the lower of cost or market, cost being determined by the moving average method. Other securities without market quotations were stated at cost, cost being determined by the moving average method.

**(e) Allowance for Doubtful Accounts**

Effective from the year ended February 28, 2002, as a result of the adoption of the new Financial Accounting Standard for Financial Instruments issued by the Business Accounting Deliberation Council, receivables are required to be categorized into "normal receivables" and "doubtful receivables" for the purpose of providing an allowance for doubtful accounts. An allowance is then provided for "normal receivables" based on the Company's historical write-off experience rate and an estimate of irrecoverable amounts for doubtful receivables on an individual account basis.

As a result of the adoption of the new standard for Financial Instruments, "Income before income taxes and minority interest" for the year ended February 28, 2002 increased by ¥35,738 thousand ($266 thousand) as compared with the amount which would have been reported if the previous standard had been applied consistently.

Under the previous standard, the allowance for doubtful accounts of the Company was provided at the average percentage of actual bad debt losses to total accounts receivable, as stipulated by the Income Tax Law, together with an amount deemed uncollectible based on management's best estimate. The allowance for doubtful accounts of its subsidiaries was provided at the maximum deductible amount based on the percentage permitted by the Income Tax Law, together with an amount deemed uncollectible based on management's best estimate.

**(f) Inventories**

Vehicles for resale are stated at cost, cost being determined by the individual cost method.

Other merchandise is stated at cost, cost being determined by the first-in, first-out method.

Supplies are valued under the last invoice cost method.

**(g) Property and Equipment**

Property and equipment are stated at cost. Depreciation is computed using the declining-balance method, except for buildings acquired on or after April 1, 1998, for which it is computed using the straight-line method.

The range of the estimated useful lives for property and equipment is as follows:

| | |
|---|---|
| Buildings and structures | 15 to 20 years |
| Motor vehicles | 2 to 6 years |

Expenditures for maintenance, repairs and minor renewals are charged to income as incurred.

**(h) Finance Leases**

Lease payments under finance lease contracts are charged to income as incurred. Under Japanese accounting principles, finance leases where ownership of the assets does not transfer to the lessee at the end of the lease period may be accounted for as operating leases with an appropriate footnote disclosure.

**(i) Capitalized Software Costs**

The costs of software for internal use are amortized based on the straight-line method over its estimated useful life, five years.

**( j) Intangible and Other Assets**

Amortization of intangible assets and long-term prepaid expenses included in “Other assets” is computed using the straight-line method.

Development costs for new markets are deferred and amortized over five years, as permitted under the Commercial Code.

Common stock issue costs are charged to income as incurred.

**(k) Accrued Bonuses**

Accrued employees’ bonuses are provided at the estimated amount to be paid.

**(l) Income Taxes**

Income taxes consist of corporate income tax, local inhabitants’ taxes and enterprise tax.

Income taxes are determined using the “asset and liability approach,” in which deferred income tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

**(m) Derivatives**

Derivative financial instruments are stated at fair value. Deferred hedge accounting is applied to hedging instruments which meet certain criteria.

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

Basic net income per share is computed based on the weighted average number of shares of common stock outstanding during each year. The weighted average number of shares used in the computation was 10,074 thousand and 10,396 thousand for the years ended February 28, 2003 and 2002, respectively.

As a result of calculation with appropriate adjustments, diluted net income per share was not applicable for the year ended February 28, 2002.

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

**(o) Appropriation of Retained Earnings**

Under the Commercial Code and the Articles of Incorporation of the Company, a proposal by the Board of Directors for the appropriation of retained earnings, including the payment of annual cash dividends, should be approved by the shareholders’ meeting which must be held within three months after the end of each fiscal year. The appropriation of retained earnings is recorded in the accompanying consolidated financial statements following the approval of the shareholders’ meeting. As is customary practice in Japan, the payment of bonuses to directors and corporate auditors is made out of retained earnings instead of being charged to income for the year and constitutes a part of the appropriation referred to above.

## 3. Short-Term Investments and Investments in Securities

Held-to-maturity securities and available-for-sale securities as of February 28, 2003 and 2002 were analyzed as follows:

| | | | Thousands of yen |
|---|---|---|---|
| ***2003*** | *Carrying amount* | *Market value* | *Difference* |
| Held-to-maturity securities: | | | |
| With available market value | **¥ —** | **¥—** | **¥—** |
| Without market value | **52,910** | | |
| Total | **¥52,910** | | |

| | | | Thousands of yen |
|---|---|---|---|
| ***2003*** | *Carrying amount* | *Acquisition cost* | *Difference* |
| Available-for-sale securities: | | | |
| With available market value: | | | |
| Securities whose carrying amount does not exceed their acquisition cost | **¥ 80,658** | **¥127,742** | **¥47,083** |
| Without market value | **134,529** | | |
| Total | **¥215,187** | | |

| | | | Thousands of yen |
|---|---|---|---|
| *2002* | *Carrying amount* | *Market value* | *Difference* |
| Held-to-maturity securities: | | | |
| With available market value: | | | |
| Securities whose market value does not exceed their carrying amount | ¥199,980 | ¥199,980 | ¥— |
| Without market value | 52,801 | | |
| Total | ¥252,781 | | |

| | | | Thousands of yen |
|---|---|---|---|
| *2002* | *Carrying amount* | *Acquisition cost* | *Difference* |
| Available-for-sale securities: | | | |
| With available market value: | | | |
| Securities whose carrying amount does not exceed their acquisition cost | ¥ 81,703 | ¥120,942 | ¥39,239 |
| Without market value | 148,371 | | |
| Total | ¥230,074 | | |

| 2003 | Carrying amount | Market value | Difference |
|---|---|---|---|
| | | | Thousands of U.S. dollars |
| Held-to-maturity securities: | | | |
| With available market value | **$ —** | **$—** | **$—** |
| Without market value | **449** | | |
| Total | **$449** | | |

| 2003 | Carrying amount | Acquisition cost | Difference |
|---|---|---|---|
| | | | Thousands of U.S. dollars |
| Available-for-sale securities: | | | |
| With available market value: | | | |
| Securities whose carrying amount does not exceed their acquisition cost | **$ 685** | **$1,085** | **$400** |
| Without market value | **1,143** | | |
| Total | **$1,828** | | |

Proceeds from sales as well as the relevant gains/losses in respect of available-for-sale securities sold during the year ended February 28, 2003 and 2002 were summarized as follows:

| | Thousands of yen | Thousands of yen | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Proceeds from sales | **¥6,032** | ¥10,384 | **$51** |
| Gains on sales | **5,190** | 9,995 | **44** |
| Losses on sales | **—** | — | **—** |

The aggregate annual maturities of bonds included in held-to-maturity securities and available-for-sale securities outstanding as of February 28, 2003 were as follows:

| Year ended February 28 | Thousands of yen | Thousands of U.S. dollars |
|---|---|---|
| 2004 | **¥52,910** | **$449** |
| Thereafter | **—** | **—** |

## 4. Leasehold and Guarantee Deposits

Leasehold and guarantee deposits are mainly those paid to lessors in connection with the lease of facilities for shops and office space. As is customary practice in Japan, non-interest bearing leasehold and guarantee deposits are paid to the lessors, which are generally returnable to the Company only when the lease agreements are terminated.

## 5. Short-Term Bank Loans

The average interest rate applicable to short-term bank loans as of February 28, 2003 and 2002 was 0.675% and 0.686%, respectively.

## 6. Guarantee Deposits Received

Guarantee deposits received were non-interest bearing guarantee deposits paid by franchisees for franchise agreements, which are returnable to franchisees upon termination of the franchise agreements.

## 7. Leases

Leased assets and related expenses in respect of the Company's finance leases, other than those which transfer ownership of the leased assets to the lessee, are accounted for using a method similar to that for operating leases. Finance lease charges for the years ended February 28, 2003 and 2002 were ¥288,579 thousand ($2,450 thousand) and ¥267,285 thousand, respectively. Had the leased assets been capitalized on the balance sheets, the following items would have been recognized on the consolidated balance sheets and the consolidated statements of income at, and for the years ended, February 28, 2003 and 2002.

| | *Thousands of yen* | *Thousands of yen* | *Thousands of U.S. dollars* |
|---|---|---|---|
| | ***2003*** | *2002* | ***2003*** |
| Furniture, fixtures and equipment—at cost | **¥1,176,720** | ¥1,186,640 | **$9,993** |
| Software—at cost | **75,397** | 64,767 | **640** |
| Other | **5,980** | 6,704 | **51** |
| Less—Accumulated depreciation | **(722,423)** | (607,997) | **(6,135)** |
| | **¥ 535,676** | ¥ 650,115 | **$4,549** |
| Depreciation | **¥ 269,244** | ¥ 247,167 | **$2,286** |
| Interest expense | **21,445** | 25,235 | **182** |

The depreciation above is computed based on the straight-line method over the lease term of the leased assets, the residual value of which is deemed to be zero.

The present values of future finance lease payments at February 28, 2003 and 2002 were as follows:

| | *Thousands of yen* | *Thousands of yen* | *Thousands of U.S. dollars* |
|---|---|---|---|
| | ***2003*** | *2002* | ***2003*** |
| Within one year | **¥262,213** | ¥260,255 | **$2,226** |
| Over one year | **299,921** | 414,628 | **2,547** |
| | **¥562,134** | ¥674,883 | **$4,773** |

## 8. Derivatives and Hedging Activities

The Company entered into interest rate swap agreements as hedging instruments. These agreements are designed to hedge the Company's exposures to interest rate fluctuations upon its debt. The Company does not hold or issue any financial instruments for trading or speculative purposes. The Company's management believes that there is no credit risk associated with the swaps since they are executed with domestic creditworthy financial institutions. Deferred hedge accounting was applied to these derivatives.

## 9. Shareholders' Equity

The Commercial Code requires that at least 50% of the issue price of new shares be included in the stated capital. The portion to be recorded as stated capital is determined by resolution of the Board of Directors. Proceeds in excess of the stated capital are credited to additional paid-in capital.

The Commercial Code provides that an amount equivalent to a minimum of 10% of cash dividends and bonuses paid to directors and statutory auditors be appropriated as a legal reserve until the reserve reaches a certain limit, which is 25% of the stated capital, less certain capital reserves.

The Commercial Code provides that both additional paid-in capital and the legal reserve may be transferred to the stated capital by a resolution of the Board of Directors, or may be used to reduce a deficit following the approval of a shareholders' meeting. In addition, under the Commercial Code, additional paid-in capital and the legal reserve may be available for dividends to the extent that the total amount of additional paid-in capital and the legal reserve do not fall below 25% of the stated capital. The legal reserve of the Company and its subsidiaries is included in the retained earnings on the consolidated balance sheet and is not shown separately.

## 10. Selling, General and Administrative Expenses

Selling, general and administrative expenses mainly consisted of the following:

| | *Thousands of yen* | *Thousands of yen* | *Thousands of U.S. dollars* |
|---|---|---|---|
| | ***2003*** | *2002* | ***2003*** |
| Employees' salaries and bonuses | **¥5,878,272** | ¥4,416,834 | **$49,921** |
| Rental expenses | **1,956,359** | 1,742,059 | **16,614** |
| Advertising expenses | **1,738,410** | 1,919,896 | **14,763** |

## 11. Other Income (Expenses)

(1) Losses on disposal of software, property and equipment

"Losses on disposal of software, property and equipment" were summarized as follows:

| | *Thousands of yen* | *Thousands of yen* | *Thousands of U.S. dollars* |
|---|---|---|---|
| | ***2003*** | *2002* | ***2003*** |
| Property and equipment | **¥ 40,535** | ¥ 50,531 | **$ 344** |
| Software | **81,211** | 451,502 | **690** |
| Total | **¥121,746** | ¥502,033 | **$1,034** |

(2) Losses on settlement of severance indemnity liability

As of February 28, 2001, the accrued severance indemnities represented 40% of the liability that the Company would have been required to pay if all eligible employees had voluntarily terminated their employment at the balance sheet date. Employees of the Company with more than three years of service were entitled to receive lump-sum indemnities upon termination of their employment, and the amount of the benefits was determined based upon current basic rate of pay, length of service and cause of retirement.

However, the Company has abolished its severance indemnities regulation and settled the relevant liabilities in the year ended February 28, 2002. As a result, an additional one-off settlement cost amounting to ¥44,068 thousand was incurred, and the Company reversed its balance of the accrued severance indemnities previously recognized on the balance sheet. The unpaid portion of severance indemnities as at February 28, 2002 was included in "Accounts payable—Other".

## 12. Income Taxes

The Company is subject to several taxes based on income, which resulted in a statutory tax rate of approximately 42.0% in the aggregate.

The effective tax rates for the years ended February 28, 2003 and 2002 differed from the statutory tax rates for the following reasons:

| | **2003** | 2002 |
|---|---|---|
| Statutory tax rate: | **42.0%** | 42.0% |
| Expenses not deductible for income tax purposes, entertainment expenses and other | **1.4** | 1.5 |
| Tax charged upon undistributed net income | **1.0** | 2.7 |
| Local inhabitants' taxes levied per capita | **1.6** | 2.0 |
| Other | **(0.5)** | (0.2) |
| Effective tax rate | **45.5%** | 48.0% |

Major components of deferred income tax assets as of February 28, 2003 and 2002 are as follows:

| | Thousands of yen | Thousands of yen | Thousands of U.S. dollars |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Deferred income tax assets | | | |
| Current assets: | | | |
| Enterprise tax payable | **¥108,475** | ¥109,287 | **$ 921** |
| Accrued bonuses | **54,363** | 21,039 | **462** |
| Losses on valuation of inventories | **9,211** | 22,772 | **78** |
| Automobile acquisition tax to be refunded | **—** | 87,257 | **—** |
| Other | **44,752** | 26,912 | **380** |
| Total | **¥216,802** | ¥267,267 | **$1,841** |
| Investments and other assets: | | | |
| Allowance for doubtful accounts | **¥112,220** | ¥102,808 | **$ 953** |
| Losses on valuation of investment securities | **46,452** | 44,963 | **395** |
| Software development expense | **—** | 28,173 | **—** |
| Other | **18,762** | 38,136 | **159** |
| Total | **¥177,436** | ¥214,080 | **$1,507** |

## 13. Segment Information

The Company has two business segments, covering its used-car sales and franchising businesses. The car sales business mainly involves the purchase and sale of used cars through the Company's directly managed dealership organization. The franchising business includes earning royalty income on franchise contracts, providing staff education services and acting as an agent for used-car transactions.

Certain financial information relating to these two operating segments is summarized below.

| | | | | Thousands of yen |
|---|---|---|---|---|
| **2003** | Used-car sales business | Franchising business | Corporate/ (eliminations) | Consolidated |
| Sales to external customers | **¥88,478,636** | **¥6,478,878** | **¥ —** | **¥94,957,515** |
| Intersegment sales/transfers | **—** | **—** | **—** | **—** |
| Total | **88,478,636** | **6,478,878** | **—** | **94,957,515** |
| Operating costs and expenses | **82,533,678** | **4,129,337** | **3,049,586** | **89,712,601** |
| Operating income | **5,944,958** | **2,349,541** | **(3,049,586)** | **5,244,913** |
| Segment assets | **9,749,407** | **1,905,027** | **8,403,109** | **20,057,544** |
| Depreciation and amortization | **386,652** | **139,673** | **349,507** | **875,833** |
| Expenditures to acquire long-lived assets | **1,015,721** | **264,884** | **489,788** | **1,770,394** |

| | | | | Thousands of yen |
|---|---|---|---|---|
| 2002 | Used-car sales business | Franchising business | Corporate/ (eliminations) | Consolidated |
| Sales to external customers | ¥77,783,945 | ¥7,097,026 | ¥ — | ¥84,880,972 |
| Intersegment sales/transfers | — | — | — | — |
| Total | 77,783,945 | 7,097,026 | — | 84,880,972 |
| Operating costs and expenses | 73,970,543 | 4,017,695 | 2,680,299 | 80,668,538 |
| Operating income | 3,813,401 | 3,079,330 | (2,680,299) | 4,212,432 |
| Segment assets | 7,677,599 | 1,556,578 | 9,707,679 | 18,941,856 |
| Depreciation and amortization | 307,106 | 127,069 | 303,166 | 737,341 |
| Expenditures to acquire long-lived assets | 838,299 | 305,063 | 193,682 | 1,337,045 |

| | | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| **2003** | Used-car sales business | Franchising business | Corporate/ (eliminations) | Consolidated |
| Sales to external customers | **$751,410** | **$55,022** | **$ —** | **$806,433** |
| Intersegment sales/transfers | **—** | **—** | **—** | **—** |
| Total | **751,410** | **55,022** | **—** | **806,433** |
| Operating costs and expenses | **700,923** | **35,068** | **25,899** | **761,890** |
| Operating income | **50,487** | **19,954** | **(25,899)** | **44,543** |
| Segment assets | **82,798** | **16,179** | **71,363** | **170,340** |
| Depreciation and amortization | **3,284** | **1,186** | **2,968** | **7,438** |
| Expenditures to acquire long-lived assets | **8,626** | **2,249** | **4,160** | **15,035** |

The method of allocating corporate expenses and assets to each segment was changed in the year ended February 28, 2002. This change was made to provide a more rational allocation of these items in line with the internal control purposes. The effect of the change for the year ended February 28, 2002 was to increase "Operating income" for the "Used-car sales business" and "Franchising business" by ¥752 million and ¥624 million, respectively, and to decrease "Operating income" for "Corporate/(eliminations)" by ¥1,376 million. This also decreased "Segment assets" for the "Used-car sales business" and the "Franchising business" by ¥245 million and ¥330 million, respectively, and increased "Segment assets" for "Corporate/(eliminations)" by ¥576 million.

Operating costs and expenses shown as "Corporate" are mainly administrative division expenses of the Company's headquarters. The major components of "Segment assets" shown as "Corporate" are the Company's surplus funds included in "Cash and cash equivalents" and short-term investments, and assets of the administrative division.

There are no major geographic areas other than Japan in which sales and assets are material. The ratio of foreign customer sales to consolidated sales is also immaterial, meaning less than 10%.

## 14. Related Party Transactions

The Company's transactions with its directors for the years ended February 28, 2003 and 2002 were as follows:

| | *Thousands of yen* | *Thousands of yen* | *Thousands of U.S. dollars* |
|---|---|---|---|
| | ***2003*** | *2002* | ***2003*** |
| Sales of vehicles | **¥11,049** | ¥ 5,658 | **$93** |
| Rental expense for company houses | **11,510** | 11,510 | **97** |

The terms and conditions of these transactions were determined in accordance with the Company's internal rules.

The Company sold vehicles and supplies to Tokyo My Car Co., Ltd., which is wholly owned by Yusuke Hatori, a director of the Company. The Company's directors own the majority of the voting rights of its Board of Directors. Sales for the years ended February 28, 2003 and 2002 were ¥11,139 thousand ($357 thousand) and ¥47,904 thousand, respectively. The terms and conditions of these sales transactions were the same as those available to other customers in the ordinary course of business.

Kenichi Hatori, a director, guaranteed the Company's obligations in connection with used-car auctions and the Company's leased assets for the years ended February 28, 2003 and 2002. Such guarantees are provided by the directors to the Company without any compensation being paid.

## 15. Subsequent Events

The following appropriation of the Company's retained earnings in respect of the year ended February 28, 2003 was approved by the shareholders at the annual general meeting held on May 21, 2003.

| | *Thousands of yen* | *Thousands of U.S. dollars* |
|---|---|---|
| Cash dividends (¥55 per share) | **¥548,986** | **$4,662** |
| Bonuses to directors and corporate auditors | **73,150** | **621** |
| Total | **¥622,136** | **$5,283** |

# REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors

Gulliver International Co., Ltd.

We have audited the accompanying consolidated balance sheets of Gulliver International Co., Ltd. and its consolidated subsidiaries as of February 28, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our audits were carried out in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Gulliver International Co., Ltd. and its consolidated subsidiaries as of February 28, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan (see Note 2) applied on a consistent basis.

As described in Note 2, Gulliver International Co., Ltd. and its consolidated subsidiaries have adopted new Japanese Accounting Standards for Financial Instruments and Foreign Currency Translation effective for the year ended February 28, 2002.

The amounts expressed in U.S. dollars, provided solely for the convenience of the reader, have been translated on the basis set forth in Note 2 to the accompanying consolidated financial statements.

Yusei Audit Corporation

Yusei Audit Corporation

Tokyo, Japan

May 21, 2003

# NON-CONSOLIDATED BALANCE SHEETS (UNAUDITED)

*As of February 28, 2003 and 2002*
*(Supplemental Information)*
*Gulliver International Co., Ltd.*

| | Thousands of yen | Thousands of yen | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| **ASSETS** | **2003** | 2002 | **2003** |
| **Current assets:** | | | |
| Cash and cash equivalents | **¥ 5,655,527** | ¥ 6,106,083 | **$ 48,030** |
| Time deposits | **—** | 552,521 | **—** |
| Short-term investments | **78,188** | 226,163 | **664** |
| Accounts receivable: | | | |
| Trade | **3,083,870** | 2,602,139 | **26,190** |
| Allowance for doubtful accounts | **(37,523)** | (50,188) | **(319)** |
| | **3,046,347** | 2,551,951 | **25,871** |
| Inventories | **1,415,060** | 1,331,301 | **12,017** |
| Deferred income tax assets | **207,346** | 261,658 | **1,761** |
| Other current assets | **864,126** | 578,107 | **7,339** |
| Total current assets | **11,266,599** | 11,607,789 | **95,682** |
| **Property and equipment:** | | | |
| Land | **323,011** | 323,011 | **2,743** |
| Buildings and structures | **3,527,873** | 2,851,991 | **29,961** |
| Furniture, fixtures and equipment | **1,476,031** | 1,206,170 | **12,535** |
| Construction in progress | **31,642** | 36,729 | **269** |
| | **5,358,557** | 4,417,901 | **45,508** |
| Less—Accumulated depreciation | **(1,674,478)** | (1,261,529) | **(14,221)** |
| Net property and equipment | **3,684,080** | 3,156,374 | **31,287** |
| **Investments and other assets:** | | | |
| Investment securities | **532,538** | 589,570 | **4,523** |
| Leasehold and guarantee deposits | **1,640,375** | 1,432,255 | **13,931** |
| Deferred income tax assets | **176,569** | 214,815 | **1,500** |
| Software costs, net | **1,216,905** | 948,653 | **10,335** |
| Other assets | **680,341** | 638,103 | **5,778** |
| Allowance for doubtful accounts | **(266,189)** | (248,282) | **(2,261)** |
| Total investments and other assets | **3,980,545** | 3,375,114 | **33,806** |
| | **¥18,931,226** | ¥18,339,282 | **$160,775** |

*Notes: 1. Translation into U.S. dollars has been made on the basis of ¥117.75=$1, the effective exchange rate at February 28, 2003.*

*2. Retained earnings included legal reserve, which was ¥39,556 thousand ($335 thousand) and ¥39,556 thousand as of February 28, 2003 and 2002, respectively.*

| LIABILITIES AND SHAREHOLDERS' EQUITY | *Thousands of yen* **2003** | *Thousands of yen* *2002* | *Thousands of U.S. dollars (Note 1)* **2003** |
|---|---|---|---|
| **Current liabilities:** | | | |
| Accounts payable: | | | |
| Trade | **¥ 1,783,863** | ¥ 2,050,272 | **$ 15,150** |
| Other | **1,373,701** | 1,483,245 | **11,666** |
| Accrued income taxes | **1,209,793** | 1,305,706 | **10,274** |
| Accrued bonuses | **275,139** | 232,679 | **2,337** |
| Other current liabilities | **1,215,937** | 1,378,027 | **10,326** |
| Total current liabilities | **5,858,438** | 6,449,933 | **49,753** |
| **Long-term liabilities:** | | | |
| Guarantee deposits received | **743,102** | 926,637 | **6,311** |
| Other liabilities | **50** | 449 | **0** |
| Total long-term liabilities | **743,152** | 927,086 | **6,311** |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized 40,000,000 shares | | | |
| Issued 10,488,800 shares | **3,849,820** | 3,849,820 | **32,695** |
| Additional paid-in capital | **3,725,460** | 3,725,460 | **31,639** |
| Retained earnings (Note 2) | **6,470,226** | 4,421,194 | **54,949** |
| Unrealized holding losses on available-for-sale securities | **(27,284)** | (20,710) | **(232)** |
| | **14,018,222** | 11,975,764 | **119,051** |
| Less—Treasury stock | **(1,688,588)** | (1,013,502) | **(14,340)** |
| Total shareholders' equity | **12,329,634** | 10,962,262 | **104,711** |
| | **¥18,931,226** | ¥18,339,282 | **$160,775** |

# NON-CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

*For the years ended February 28, 2003 and 2002*
*(Supplemental Information)*
*Gulliver International Co., Ltd.*

| | Thousands of yen | Thousands of yen | Thousands of U.S. dollars (Note) |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| **Net sales** | **¥91,071,908** | ¥82,503,511 | **$773,434** |
| **Costs and expenses:** | | | |
| Cost of sales | **69,274,012** | 63,855,439 | **588,314** |
| Selling, general and administrative expenses | **16,765,726** | 14,614,119 | **142,384** |
| | **86,039,738** | 78,469,558 | **730,698** |
| Operating income | **5,032,169** | 4,033,953 | **42,736** |
| **Other income (expenses):** | | | |
| Losses on disposal of software, property and equipment | **(116,816)** | (502,033) | **(992)** |
| Losses on valuation of investment securities | **(3,541)** | (25,678) | **(30)** |
| Losses on settlement of severance indemnity liabilities | **—** | (44,068) | **—** |
| Other, net | **12,034** | 2,452 | **102** |
| | **(108,323)** | (569,327) | **(920)** |
| Income before income taxes and minority interest | **4,923,845** | 3,464,626 | **41,816** |
| **Income taxes:** | | | |
| Current | **2,158,825** | 1,975,009 | **18,334** |
| Deferred | **97,329** | (290,525) | **827** |
| | **2,256,155** | 1,684,483 | **19,161** |
| Net income | **¥ 2,667,689** | ¥ 1,780,142 | **$ 22,655** |

| | Yen | Yen | U.S. dollars (Note) |
|---|---|---|---|
| | **2003** | 2002 | **2003** |
| Net income per share: | | | |
| Basic | **¥ 264.80** | ¥ 171.22 | **$ 2.25** |
| Diluted | **263.67** | — | **2.24** |
| Cash dividends per share | **80** | 45 | **0.68** |

*Note: Translation into U.S. dollars has been made on the basis of ¥117.75= $1, the effective exchange rate at February 28, 2003.*

# NON-CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

*For the years ended February 28, 2003 and 2002*
*(Supplemental Information)*
*Gulliver International Co., Ltd.*

| | | | | | Thousands of yen | |
|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Additional paid-in capital | Retained earnings | Unrealized holding gains/(losses) on available-for-sale securities | Treasury stock |
| **Balance at February 28, 2001** | 10,488,800 | ¥3,849,820 | ¥3,725,460 | ¥3,005,499 | ¥ — | ¥ (45) |
| Net income | | | | 1,780,142 | | |
| Unrealized holding gains on available-for-sale securities | | | | | (20,710) | |
| Cash dividends paid | | | | (340,397) | | |
| Bonuses to directors and corporate auditors | | | | (24,050) | | |
| Increase in treasury stock | | | | | | (1,013,457) |
| **Balance at February 28, 2002** | 10,488,800 | 3,849,820 | 3,725,460 | 4,421,194 | (20,710) | (1,013,502) |
| Net income | | | | **2,667,689** | | |
| Unrealized holding gains on available-for-sale securities | | | | | **(6,574)** | |
| Cash dividends paid | | | | **(555,957)** | | |
| Bonuses to directors and corporate auditors | | | | **(62,700)** | | |
| Increase in treasury stock | | | | | | **(675,086)** |
| **Balance at February 28, 2003** | **10,488,800** | **¥3,849,820** | **¥3,725,460** | **¥6,470,226** | **¥(27,284)** | **¥(1,688,588)** |

| | | | | Thousands of U.S. dollars (Note) | |
|---|---|---|---|---|---|
| | Common stock | Additional paid-in capital | Retained earnings | Unrealized holding gains/(losses) on available-for-sale securities | Treasury stock |
| **Balance at February 28, 2002** | $32,695 | $31,639 | $37,547 | $(176) | $ (8,607) |
| Net income | | | **22,655** | | |
| Unrealized holding gains on available-for-sale securities | | | | **(56)** | |
| Cash dividends paid | | | **(4,722)** | | |
| Bonuses to directors and corporate auditors | | | **(532)** | | |
| Increase in treasury stock | | | | | **(5,733)** |
| **Balance at August 31, 2003** | **$32,695** | **$31,639** | **$54,949** | **$(232)** | **$(14,340)** |

*Note: Translation into U.S. dollars has been made on the basis of ¥117.75= $1, the effective exchange rate at February 28, 2003.*

## GULLIVER'S HISTORY

| | |
|---|---|
| **April 1994** | Gulliver's first dealership established as the automobile purchase division of Tokyo My Car Sales Co., Ltd. |
| **October 1994** | Gulliver International Corporation established. |
| **December 1995** | Business consignment contract signed with Venture Link Co., Ltd., aimed at franchise recruitment activities to expand the Gulliver franchise chain. (The contract has since expired.) |
| **April 1996** | Company name changed to Gulliver International Co., Ltd. |
| **February 1998** | Full-scale Dolphinet System operations start. |
| **December 1998** | Gulliver's stock registered with the Japan Securities Dealers Association. |
| **May 2000** | Head Office relocated to Chiyoda-ku, Tokyo. |
| **December 2000** | Company's stock listed on the Tokyo Stock Exchange's Second Section. |
| **November 2001** | Company attained ISO 9001 (fiscal 2000 version) for its assessed price calculation services. |

## CORPORATE DATA (As of February 28, 2003)

**GULLIVER INTERNATIONAL CO., LTD.**

**Head Office**
5F, Shin-Tokyo Building,
3-3-1 Marunouchi, Chiyoda-ku,
Tokyo 100-0005, Japan

**IR Section**
Telephone: 81-3-5208-5503
Fax: 81-3-5208-5513

URL: (investor relations) http://www.glv.co.jp
(vehicle information) http://221616.com

**Established**
October 25, 1994

**Fiscal Year**
The end of February

**Paid-in Capital**
¥3,849.82 million

**Number of Employees**
1,177

**Total Number of Shares Authorized**
40,000,000

**Total Number of Shares Issued**
10,488,800

**Unit of Shares**
100 shares

**Securities Code**
7599

**Transfer Agent**
The Chuo Mitsui Trust & Banking Company, Limited
3-33-1 Shiba, Minato-ku,
Tokyo 105-8574, Japan

**Stock Exchange Listing**
Tokyo

**Number of Shareholders**
1,329

**Major Shareholders** (As of February 28, 2003)

| | Number of shares held (Shares) | Percentage of total shares issued (%) |
|---|---|---|
| Forward Co., Ltd. | 2,800,000 | 26.69 |
| Yusuke Hatori | 896,000 | 8.54 |
| Takao Hatori | 896,000 | 8.54 |
| Kenichi Hatori | 624,400 | 5.95 |
| Goldman Sachs International Ltd. | 510,550 | 4.86 |
| Gulliver International Co., Ltd. | 507,223 | 4.83 |
| The Master Trust Bank of Japan, Ltd. (Held in trust account) | 431,800 | 4.11 |
| Japan Trustee Services Bank, Ltd. (Held in trust account) | 220,000 | 2.09 |
| UFJ Trust Bank Limited (Held in trust account A) | 219,500 | 2.09 |
| The Nomura Trust and Banking Company, Limited (Held in trust account) | 219,200 | 2.08 |

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