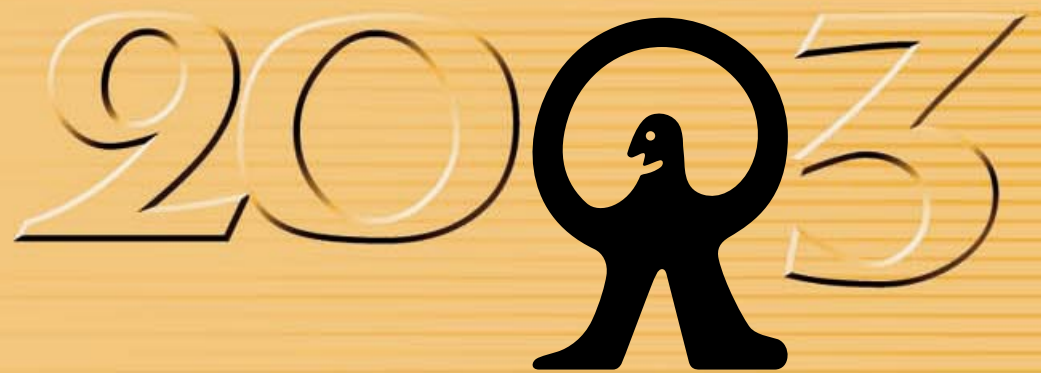


A N N U A L R E P O R T



**MONEX**  
MONEX, Inc.

## — A Message from Oki Matsumoto, President CEO —

Offering a variety of products and services to support individual investors to build assets, we are also working towards diversification of our earnings structure.



Company name as a securities company: Monex, Inc.  
Date registered: July 30, 1999 (Kanto Regional Financial Bureau Cert. No. 152)

A member of the

Japan Investor Protection Fund  
Japan Securities Dealers Association  
Tokyo Stock Exchange  
Osaka Securities Exchange

Oki Matsumoto, President CEO

April 1999 to Present President CEO, Monex, Inc.

November 1994 General Partner, The Goldman Sachs Group, L.P. in charge of Tokyo Fixed Income Business

April 1990 Joined Goldman Sachs (Japan) Ltd.

April 1987 Joined Salomon Brothers Asia, Ltd.

### Others

Regular member Director, Japan Securities Dealers Association

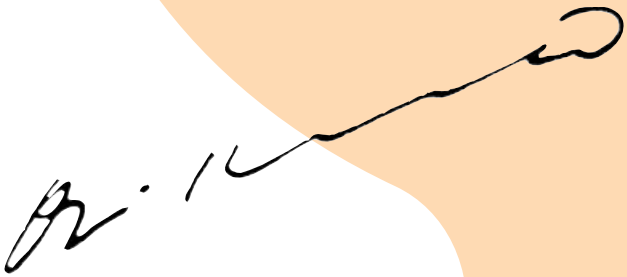
Governor, Association of Tokyo Stock Exchange Regular members

Member of Advisory Committee on Market Operation, Tokyo Stock Exchange (TSE)

# MESSAGE

## **Energizing the Capital Markets is Essential for Japan's Economic Recovery**

**Oki Matsumoto** President CEO



In the four years since founding Monex, our basic policy has been to expand our individual investor base by making our Monex Consolidated Accounts ever more convenient. The infrastructure for those accounts is now effectively in place, and the number of client accounts has grown steadily. We now rank second in the number of client accounts among all Japanese online brokerages.

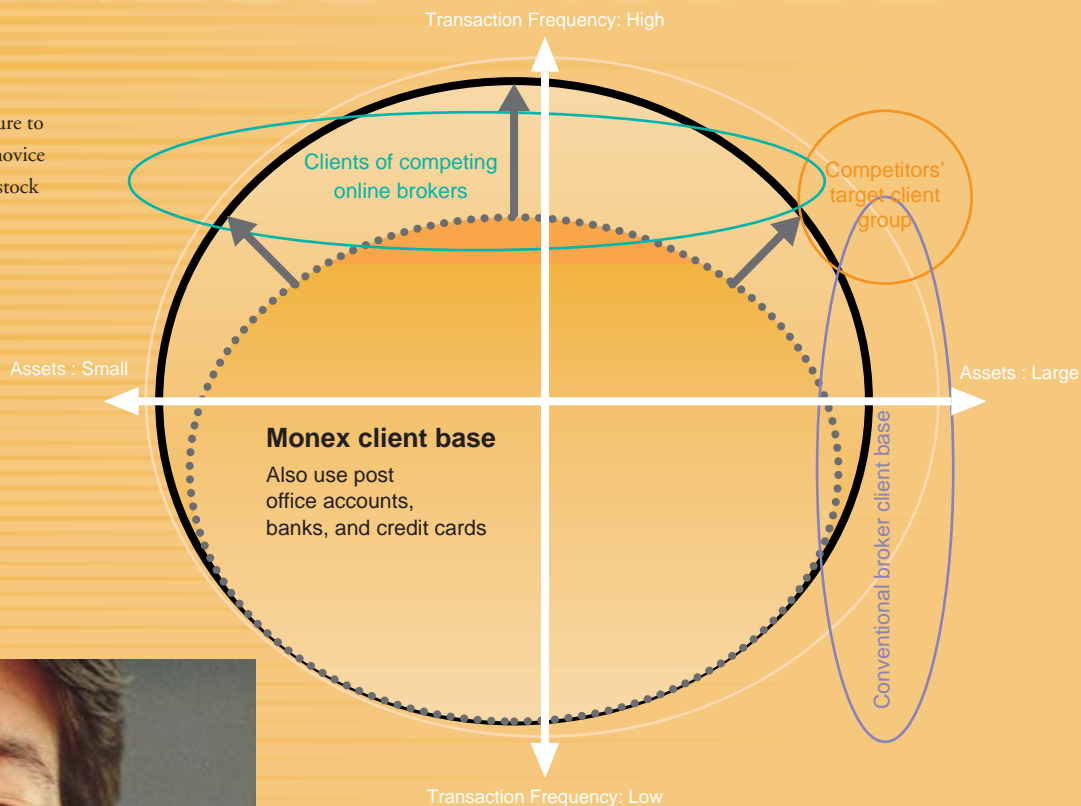
Energizing the capital markets is essential for the Japanese economy to get on track to a full recovery. Since the founding of Monex, we have built a growth model on the assumption that those markets will indeed recover their vigor. That basic position remains unchanged. To attract even more clients, and expand our business base, we will continue developing information services proactively to facilitate individuals' investment.

The extended stagnation of the Japanese stock market has been a key factor defining our operating environment; and unfortunately our performance has remained disappointing. While continuing our efforts to help energize the domestic stock markets, a new strategy is needed to reduce the impact of the stagnating markets on our bottom line and to increase our earnings. Having reached that conclusion, we have begun to take action.

# BUSINESS MODEL

## ■ The Monex target

We are building a robust IT infrastructure to serve all the individual investors, from novice investors to highly active traders in the stock market.



## Margin trading launched in response to clients' demands

For our clients, who are younger than those of other brokerages, we have played the role of gateway to investment in the stock market. We initially did not introduce margin trading which entailed additional risks and was more influenced by the information gap between institutional investors and other players, even though we understood that the margin trading could lead to more frequent trades. However, as Internet trading had penetrated so broadly and deeply that more than 50% of transactions by individual investors in value terms were carried out on the Internet partly because of lower fees, we began to see some of our actively trading clients shifted to other online brokers offering margin trading. We therefore carried out a survey of our clients and learned that even

though about 90% had no experience in margin trading, some 40% are interested in margin trading. While providing detailed information about the margin trading service on our website and through other channels, we launched margin trading on December 2, 2002.

## A new strategy for improvement in earnings

Amidst Japan's extended economic stagnation, with little progress being made on structural reform, even though we may see some rise in the stock prices, substantial and sustained gains would depend on the progress of structural reforms. In strategic moves to improve earnings in this context, Monex launched margin trading service. That was followed, in January 2003, by our innovative stock lending service. Monex borrows shares owned by our

## Monex's Basic Policy

No fundamental changes in our business model

Individuals are shifting from indirect to direct investment more slowly than initially predicted. Given the extremely challenging market environment, Monex is developing more powerful strategies to increase E2 and move swiftly into the black.



clients, lends them in the securities lending market; and returns part of the income earned to our clients.

Monex also launched "Monex FX," for foreign exchange transactions, on April 21, 2003. In the past, individuals experienced some barriers to entering the FOREX trading field, because of relatively expensive fees charged by the banks. Our low fees and support for trading by mobile phone lead to the breakthrough to this area; the Company has seen a rapid growth in the number of FX accounts since launching the new service.

We also proactively hold seminars and other educational events for individual investors in major cities throughout Japan. Since our company does not have branches where our clients could communicate face to face, these seminars have been a vital role in backing up the information the Company provides on the Internet. These seminars create valuable opportunities to explain our policies concerning the products and services, which

may be difficult to be done via the Internet, and to acquire new clients.

To create new business operations that would make even more effective use of our personnel and IT infrastructure, in April 2003, we established Strategic Businesses Department. The new department is in charge of creating innovative financial services that would be a breakthrough to a new ground in the industry.

At present, earnings from stock brokerage is Monex's main revenue source. However, given the unpredictability of the economic outlook, we are pressing ahead with strategically diversifying our income sources, developing a greater variety of products and services and aggressively moving into areas such as underwriting initial public offerings. These efforts are directed at expanding our firm's value as a unique, innovative financial services company.

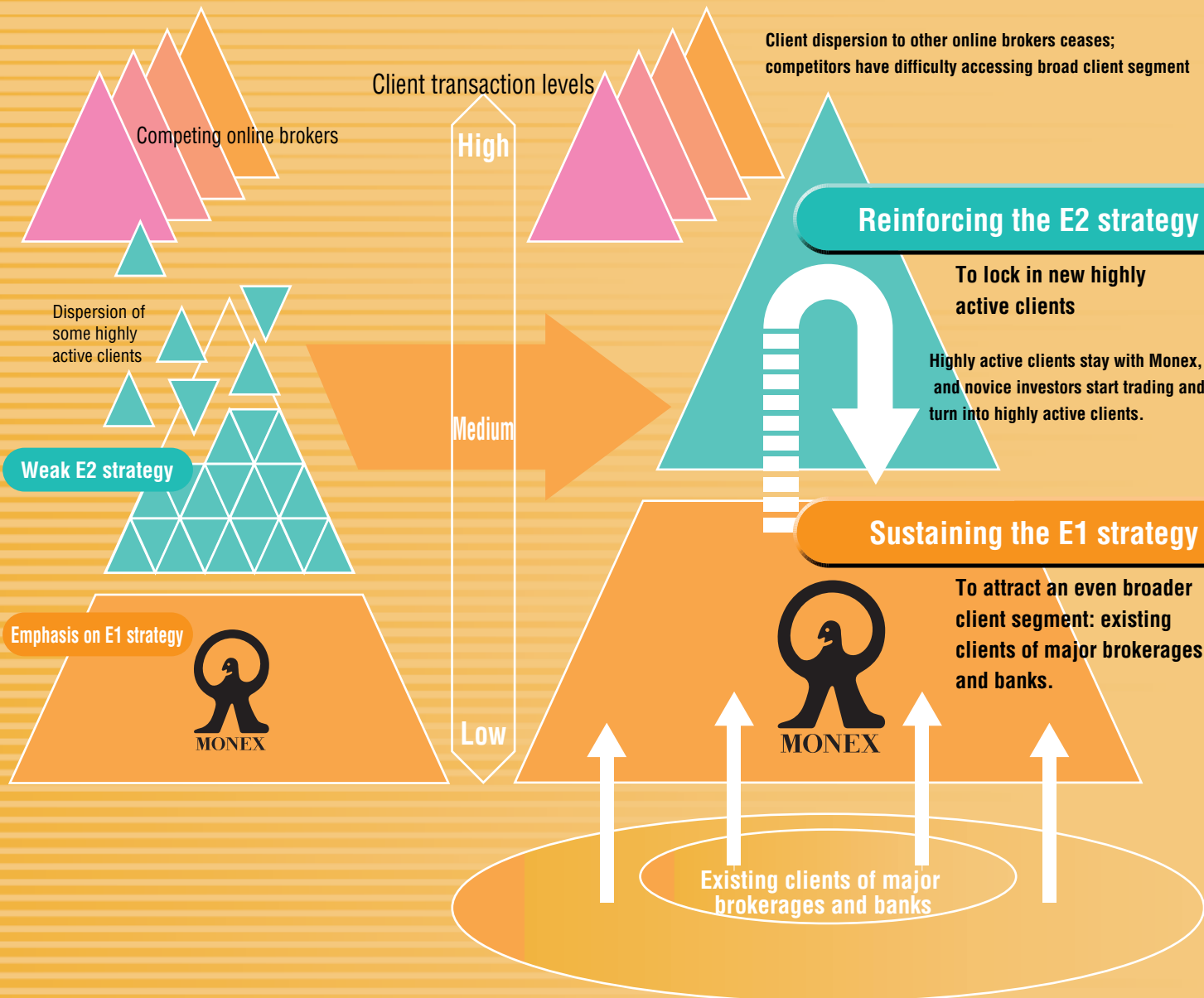
— Monex's Growth Strategy and Strategic Products and Services —

Monex will both continue to expand its client base and emphasize attracting highly active clients.

# SERVICE CONCEPT

## Growth Strategy

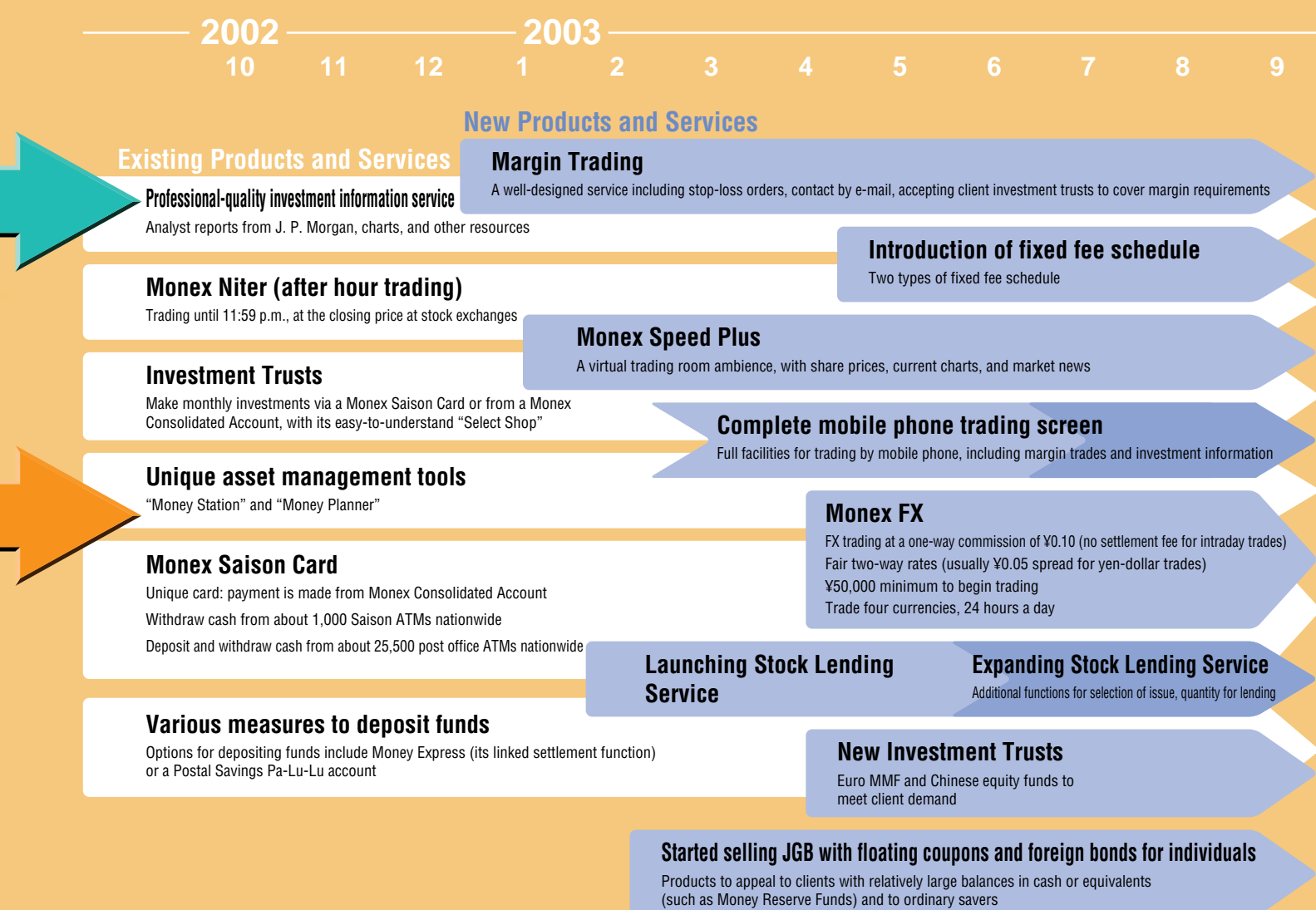
Monex's basic concept for its growth strategy is providing financial services closely tied to individuals' needs throughout their daily lives. To expand its client base, the Company differentiates itself from competitors by providing a highly varied mix of products and services useful in individuals' asset formation and a very convenient asset management infrastructure, with a focus on gathering client assets. At the same time, the Company is working on measures to improve its earnings in the currently daunting market environment by maintaining and expanding its client base in the highly active clients segment through offering margin trading, foreign exchange trading, and other attractive services.



## A Robust Set of Strategic Products and Services

In order to expand the client base which is the core growth strategy, Monex is expanding its products and services by adding Euro MMF, Chinese equity funds, and others in which its clients are highly interested of its growth. The Company is also making a further expansion of its stock lending service. In addition, the Company has started handling foreign bonds as well as Japanese Government Bonds (“JGB”) designed specifically for individuals.

For the highly active client segment, the Company has introduced a fixed fee schedule and is offering expanded margin trading services including provision of “long and short model”. We are also reaching new client segments by launching “Monex FX”, the foreign exchange margin trading service.



# Maintaining the “Client-First philosophy,” Monex seeks to expand earnings by providing strategic new products and services.

Monex is progressing with the strategic development of new products and services in line with the “Client-First philosophy” that underlies all its efforts, including lowering commissions, and providing various product information. While reacting to movements in a new era, such development is positioned to be measures for diversifying revenue sources.

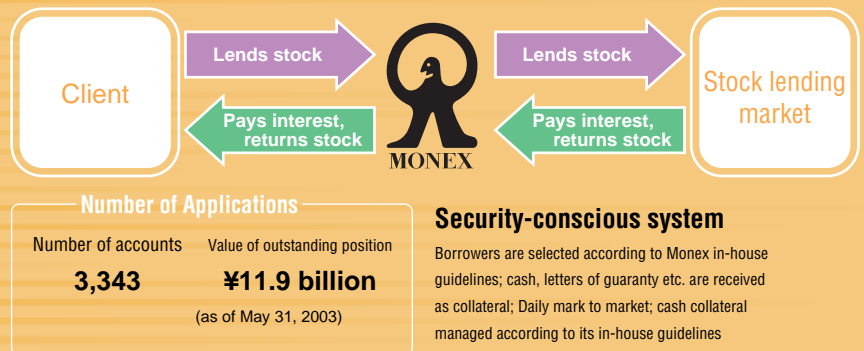
# SERVICE LINE UP

## Margin Trading

Monex started offering margin trading services on December 2, 2002, for issues subject to the Tokyo Stock Exchange and Osaka Securities Exchange standardized margin transactions. The minimum margin is ¥300,000. To provide a fully developed margin trading environment for individual investors, the Company has upgraded its Monex Speed Plus, which provides automatic share price updates in real time. In addition, Monex has also introduced a long-short model, a trading method professional traders use, among other means to provide high quality information, in addition to introducing a fixed fee schedule. While designing a system that will satisfy experienced traders, Monex has also emphasized serving beginners as well with features such as stop-loss orders, e-mail notification, accepting client investment trusts to cover margin requirements, and explanatory content about margin trading. (As of May 31, 2003, Monex had 4,455 margin trading accounts.)

## Stock Lending

Just as banks pay interest on deposits, Monex pays variable-rate interest on shares clients lend the Company. Monex lends those shares in turn to the stock lending market and returns the part of the income earned to its clients. The Company further refined the system in June, 2003, by adding an issue and number of shares selection function so that clients would lend only the issues and the quantity they wished. That makes it possible to exclude from the stock lending service shares for which clients do not wish to lose their voting rights at general meetings of shareholders or the preferential treatment given to shareholders. However, once the clients lend to the Company, these shares are not, we would note, covered by the Japan Investor Protection Fund. Offering this service for individual investors is a revolutionary step; it is expected that such service will attract new clients as well as encourage the concentration of existing clients’ stock holdings in their Monex accounts.



## Monex FX

Monex launched “Monex FX”, a foreign exchange margin trading service, on April 21, 2003. Requiring only a ¥50,000 minimum to begin trading, the Company provides FOREX transaction service in four currency pairs: the yen against the US dollar, Euro, Sterling Pound, and Australian dollar. The fees are low for individual investors in the FOREX field: in the case of transactions in US dollars, for example, ¥0.10 per dollar. The FX trading is possible 24 hours a day via the Internet, including mobile phones (i-mode, J-SKY, and EZweb services).

Monex FX is one of the Monex financial infrastructure for individuals. By offering this investment tool which is not directly affected by the stock markets, Monex meets clients’ needs and creates a new revenue source. (As of May 31, 2003, the number of Monex FX accounts was 3,481.)

通貨	買値	売値	取引量	残高	取引量	残高	取引量	残高	取引量	残高
米ドル	116.51	116.50	-0.01	116.45	116.60	116.42	+0.40	-0.1	円	
ユーロ	132.72	132.70	0.00	132.50	132.72	132.50	+1.60	-1.00	円	
英ポンド	1.100	1.100	0.000	1.100	1.100	1.100	+0.4	-0.40	円	
豪ドル	74.60	74.74	0.04	74.63	74.74	74.54	+1.01	-1.00	円	
オーストラリアドル	116.92	116.92	-0.15	116.91	116.92	116.63	+1.99	-0.4	円	

## Underwriting of IPO stocks

Monex underwrites initial public offering shares, provides advice for companies in advance of going to the public, and then provides IR support services after listing. In the fiscal year ended March, 2003, the Company underwrote 27 IPO’s, maintaining the top ranking among online brokers in both the number of issues underwritten and their value.



# Better Corporate Governance Through Disclosure

Monex regards transparency of its operations as the bedrock of good corporate governance. The Company sets up its disclosure policy and discloses the policy itself including prominent placement on its website; the Company commits to disclosing information in a timely and appropriate manner. In addition, the Company reinforces and improves its management by adopting suggestions and advice from outside and implementing the corporate governance measures described below.

## The Corporate Governance Policies

### 1. Board of Directors and Board of Statutory Auditors

Monex has adopted a board of statutory auditors system. As of June 21, 2003, the seven members of the board of directors include five outside directors in a highly effective structure for supervising its operations. The four statutory auditors include an attorney; all members, except for the standing statutory auditor, are outside auditors.

### 2. Advisory Board

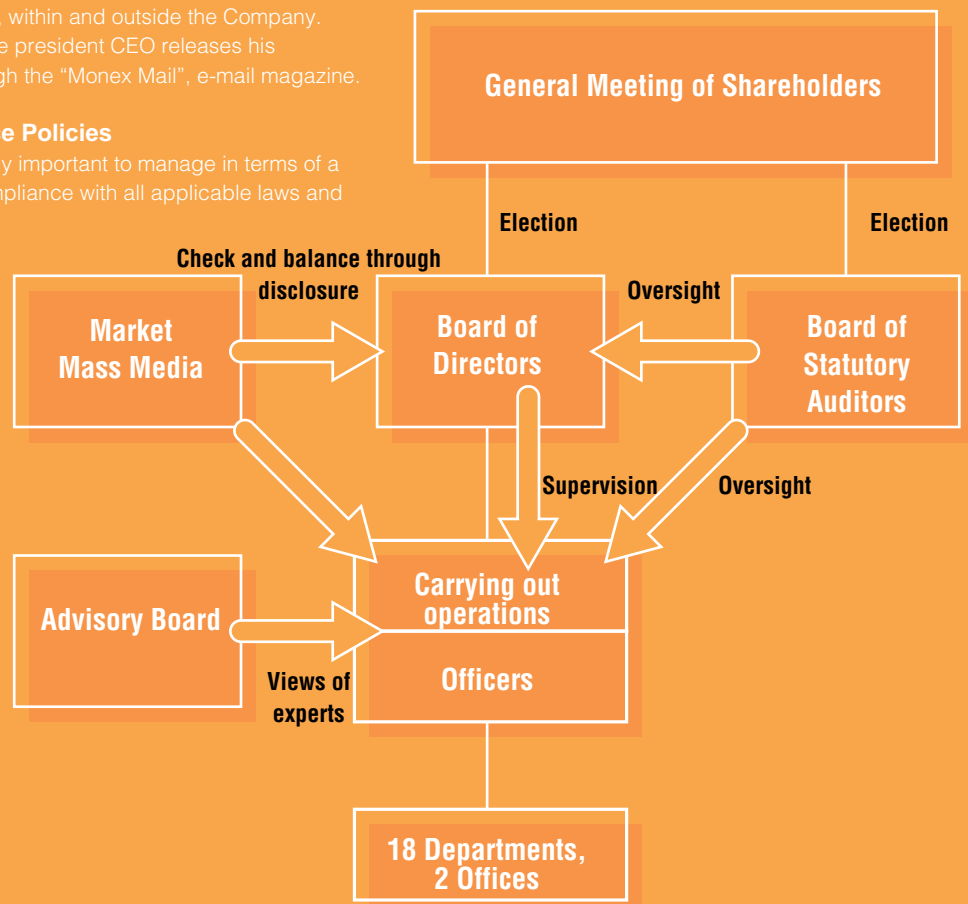
Monex has established this board to secure balanced, neutral, multifaceted views and advice from a broad perspective. Its members, who are knowledgeable, learned persons from Japan and abroad, meet quarterly and provide valuable advice.

### 3. Disclosing Management Views

The Company believes that publishing its management's perceptions of the current state of affairs is an effective way of securing check and balance, within and outside the Company. Thus, every business day, the president CEO releases his perceptions and ideas through the "Monex Mail", e-mail magazine.

### 4. Disclosing Compliance Policies

Monex believes that it is vitally important to manage in terms of a high ethical standard for compliance with all applicable laws and regulations. Thus, the Company has drawn up its Ethical Compliance Policy and is working to reinforce its internal management systems in accord with it. The Company also publishes its Ethical Compliance Policy on its website.



(As of June 2003)

## Financial Summary

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Operating Results:</b>			
Operating Revenues	¥ 2,766,382	¥ 3,281,496	\$ 23,053
Net Operating Revenues	2,712,742	3,280,364	22,606
Selling, general and administrative expenses	4,477,987	4,516,629	37,316
Operating Loss	(1,765,245)	(1,236,265)	(14,710)
Other Income	7,148	40,918	60
Other Expenses	286,604	209,338	2,389
Loss Before Income Taxes	(2,044,701)	(1,404,685)	(17,039)
Income Taxes	1,620	1,620	14
Net loss	¥ (2,046,321)	¥ (1,406,305)	\$ (17,053)
<b>Financial Position:</b>			
Total assets	¥ 23,919,046	¥ 13,124,740	\$ 199,325
Shareholders' equity	8,363,564	10,323,827	69,696
<b>Per Share Amounts:</b>			
Net loss	¥ (1,336.25)	¥ (930.11)	\$ (11.14)
Shareholders' equity	5,426.01	6,766.85	45.22
<b>Other Data:</b>			
Number of employees	45	45	

### Notes

1. The translation of Japanese yen amounts into U.S. dollar amounts is presented solely for the convenience of readers outside Japan. The exchange rate used for the translation was the prevailing exchange rate on March 31, 2003, which was ¥120.00=US\$1.00.
2. Net loss per share is computed by dividing net loss by the weighted average number of common shares outstanding for the period and shareholders' equity per share is calculated by dividing shareholders' equity by the number of common shares outstanding at the year end.

### Results of Operation (from April 1, 2002 to March 31, 2003)

In the domestic stock market in this fiscal year, the Nikkei average moved downwards through the end of the fiscal year. It in fact plunged below ¥8,000 giving a very severe tone to the market. The number of shares traded by individual investors at the Tokyo Stock Exchange has also tended to drop dramatically since June, but there was a gradual recovery after October.

One important objective in the second half has been to focus more attention on offering attractive services to middle and highly active clients and to appeal to a broader cross-section of customers. In December 2002, the Company launched margin trading, and in January 2003 the Company started stock lending services.

Consequently, the number of customer accounts was 215,399 at the end of this fiscal year (a 20,842 increase as compared to the end of the previous fiscal year). Client assets amounted to ¥404.5 billion, a decrease of ¥42.5 billion as compared with the end of the previous fiscal year. Since December 2002 through the end of the fiscal year, 4,117 new margin accounts were opened.

#### 1. Commission Revenues

**Brokerage Business** – Continuing from the previous year, both the number of orders and the number of executed trades grew steadily in April and May, but turned to decrease after June due to the weak market. While the stock market has been weakened since July through the end of the fiscal year, trading volume by individual investors at the Tokyo Stock Exchange decreased and as a result of the severe tone in the market the number of orders and executed trades continued to decrease.

With the launch of margin trading in December, there has been a modest recovery in both the number of orders and the number of executed transactions in the period from January through March 2003. As a result, the Company posted ¥2,337 million (US\$19,472 thousand) in commission revenue from stock brokerage, which combined with commission revenue from ETFs and others brought total commission revenue to ¥2,354 million (US\$19,620 thousand). This was down by 17.3% from ¥2,848 million in the previous period.

**Investment Trusts and Bonds** – Despite the fall in stock prices, the value of the assets in custody decreased only marginally. This was because of the net increase in the asset following the consistent inflow of approximately ¥150 million (US\$1.25 million) per month. Customers' assets in custody at the end of the period excluding MRF and ETF totaled ¥29.8 billion. The Company made sales free from commission (no-loading) to the greatest extent possible. Although this has resulted in lower sales commission income, agency commissions received in proportion to the balances have been growing favorably. In total, commission revenue for investment trusts totaled ¥171 million (US\$1,428 thousand), down by 5.6% from ¥181 million in the previous period.

Although the Company began sales of Japanese Government Bonds with floating interest designed for individual investors in February 2003, this generated only ¥5 million (US\$45 thousand) in commission income.

**Investment Banking, such as Underwriting Business** – In this fiscal year, the amount of capital raised through IPOs in the market decreased by approximately 65% compared to last fiscal year, and the number of new companies listed on the stock exchange decreased by 29%, which was attributable to a bearish stock market. In this environment, the Company held a robust position in terms of the number and the amount of underwrites as online securities companies, and the percentage of its underwriting is steadily increasing.

The Company underwrote ¥1.4 billion consisting of 29 issues of newly listed stocks, of which 2 issues were of already listed companies. Underwriting commission revenue was ¥62 million (US\$513 thousand), which represents a steep decline of 56.4% relative to the previous year's total of ¥141 million. The total reached ¥67 million when adjusted to include commission revenue generated from the handling of

distribution.

Additionally, commissions from consultancy contracts in the investment banking sector was ¥14 million (US\$116 thousand).

As a result, commissions received for this fiscal year totaled to ¥2,634 million (US\$21,954 thousand), a 18.2% decrease compared to last fiscal year of ¥3,223 million.

## **2. Other Service Revenues**

The Company reported advertising revenue of ¥16 million (US\$135 thousand) for 49 advertisement transactions. Additionally, an income of ¥18 million (US\$153 thousand) from IR support services for listed companies was posted, therefore, other service fees for this fiscal year totaled to ¥35 million (US\$288 thousand), a 25.4% decrease compared with the previous fiscal year amount of ¥46 million.

## **3. Net Gain on Trading Assets**

Trading profit for this year totaled to ¥7 million (US\$57 thousand). Since the Company's trading account mainly consists of profit and loss from foreign exchange transactions related to the sale of foreign currency investment trusts and marketable securities that supplement brokerage securities, trading profit/loss was minimal. In addition, balance of proprietary accounts arose from time to time, in association with the mini-stock transactions; however, an effective hedging minimized profit/loss.

## **4. Financial Income**

Financial revenue was ¥90 million (US\$751 thousand, cf. only ¥3 million in the previous period). This was generated from margin trading and stock lending services, with the former starting in December 2002 and the latter starting in January 2003.

As a result, operating revenue totaled to ¥2,766 million (US\$23,053 thousand), a 15.7% decrease compared with the previous fiscal year (¥3,281 million) and net operating revenue, after deducting financial expenses was ¥2,713 million (US\$22,606 thousand), a 17.3% decrease compared to the previous period.

## **5. Selling, General and Administrative Expenses**

Cost cutting efforts in the severe business climate resulted in a 15.3% decline in outsourcing expenses to ¥1,182 million (US\$9,852 thousand) from ¥1,396 million in the previous year and a 7.6% decline in employees salaries to ¥478 million (US\$3,984 thousand) from ¥518 million in the previous year. Lower trading volume also resulted in lower communication and freight costs, down by 27.7% to ¥224 million (US\$1,864 thousand) from previous year's ¥309 million.

However, due to an increase of lease expenses, equipment rental and maintenance increased to ¥1,281 million (US\$10,674 thousand), up by 9.4% from ¥1,170 million a year earlier. There were also information expenses which increased by 25.0% to ¥502 million (US\$4,181 thousand) from previous period's ¥402 million.

As a result, selling, general and administrative expenses were ¥4,478 million (US\$37,316 thousand) a 0.9% decrease compared to the previous fiscal year (¥4,517 million).

As a result, the Company recorded an operating loss of ¥1,765 million (US\$14,710 thousand) against last year's figure of ¥1,236 million.

## **6. Others**

Other expenses accounted for ¥287 million (US\$2,389 thousand), of which the major item was loss on lease cancellation of ¥218 million (US\$1,813 thousand), being resulted by a review of leased assets for future usability.

## 7. Profit and Loss

Overall, the Company recorded total operating revenues of ¥2,766 million (US\$23,053 thousand), a decrease of 15.7% from the previous period, a net operating revenue of ¥2,713 million (US\$22,606 thousand), a decrease of 17.3% from the previous period, an operating loss of ¥1,765 million (US\$14,710 thousand), an increase of 42.8% from the previous period, and a net loss of ¥2,046 million (US\$17,053 thousand), an increase of 45.6% from the previous period for the year ended March 31, 2002.

## Cash Flows

In this fiscal year, the Company used ¥932 million (US\$7,766 thousand) in operating activities and ¥1,596 million (US\$13,298 thousand) in investing activities. However, being partially offset by the cash generated from financing activities of ¥86 million (US\$713 thousand), the cash and cash equivalents at the end of the year decreased by ¥2,442 million (US\$20,351 thousand) to ¥5,892 million (US\$49,097 thousand).

### 1. Net Cash Used in Operating Activities

Net cash used in operating activities totaled to ¥932 million (US\$7,766 thousand), a decrease of 7.8% from the previous period. Decrease in cash and cash equivalents due to loss before income taxes for the year of ¥2,045 million (US\$17,039 thousand), an increase in cash required to be segregated of ¥2,200 million (US\$18,333 thousand) and an increase in margin transaction assets of ¥9,487 million (US\$79,057 thousand), was largely offset by an increase in margin transaction liabilities of ¥8,847 million (US\$73,723 thousand) and an increase in received margins of ¥4,051 million (US\$33,756 thousand)

### 2. Net Cash Used in Investing Activities

Net cash used in investing activities in this fiscal year totaled to ¥1,596 million (US\$13,298 thousand), an increase of 498.0% from the last fiscal year. ¥1,500 million (US\$12,500 thousand) was invested in time deposit with maturities exceeding three months from the date of acquisition. ¥69 million (US\$575 thousand) was spent for purchase of goodwill and ¥20 million (US\$167 thousand) was spent for investment securities.

### 3. Net Cash Provided by Financing Activities

Net cash provided by financing activities in this fiscal year totaled to ¥86 million (US\$713 thousand), a decrease of 20.0% from the last fiscal year. They were mainly proceeds from common stock issuance by the exercise of stock options.

**Balance Sheets**

As of March 31, 2003 and 2002

Assets	Thousands of Yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Current assets:			
Cash and deposits	¥ 7,391,673	¥ 7,334,003	\$ 61,597
Cash required to be segregated (Note 4)	5,200,000	3,000,000	43,333
Money deposited	69,060	119,496	576
Securities (Note 8)	8,994	999,727	75
Receivable from customers	4,620	16,266	39
Payments on securities subscribed	19,996	16,449	167
Prepaid expenses	145,717	139,747	1,214
Accrued revenues	111,411	89,292	928
Trading assets (Notes 7 and 9)	107,260	173,023	894
Margin transaction assets (Note 5)	9,557,217	70,362	79,643
Short-term guarantee money deposited	357,000	277,149	2,975
Others	133,291	65,317	1,111
	23,106,239	12,300,831	192,552
Property & Equipment, at cost:			
Building	30,931	30,931	258
Furniture and fixtures	38,053	37,729	317
Accumulated depreciation	(25,932)	(16,799)	(216)
	43,052	51,861	359
Intangible assets, net of amortization:			
Goodwill	127,029	121,794	1,059
Software	41,936	45,296	349
Others	4,580	4,639	38
	173,545	171,729	1,446
Investments and others:			
Investment securities (Note 8)	489,022	477,905	4,075
Long-term guarantee money deposited	80,324	74,697	669
Long-term advance payments	35,635	36,300	297
Others	27,864	48,837	232
Allowance for doubtful receivables	(36,635)	(37,420)	(305)
	596,210	600,319	4,968
	¥ 23,919,046	¥ 13,124,740	\$ 199,325

See accompanying notes.

<b>Liabilities and Shareholders' Equity</b>	Thousands of Yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Current Liabilities:</b>			
Deposits received (Note 10)	¥ 1,546,944	¥ 2,187,065	\$ 12,891
Received margins	4,050,758	—	33,756
Net payable arising from recognizing trading on trade date	1,046	47,400	9
Margin transaction liabilities (Note 5)	8,846,780	—	73,723
Loans payable secured by securities	419,587	—	3,497
Accrued liabilities	229,097	123,247	1,909
Accrued expenses	204,610	231,837	1,705
Trading liabilities (Notes 7 and 9)	70,376	82,067	586
Income tax payable (Note 13)	1,620	1,620	14
Others	1,182	379	10
	<b>15,372,000</b>	<b>2,673,615</b>	<b>128,100</b>
<b>Statutory Reserve:</b>			
Reserve for securities transactions (Note 14)	183,482	127,298	1,529
	<b>183,482</b>	<b>127,298</b>	<b>1,529</b>
<b>Shareholders' Equity (Notes 15 and 16):</b>			
Common stock			
Authorized – 5,137,664 shares			
Issued – 1,541,385 shares in 2003 and 1,525,647 shares in 2002	6,198,105	6,155,062	51,651
Additional paid-in capital	7,265,590	7,222,562	60,546
Accumulated deficit	(5,100,089)	(3,053,768)	(42,501)
Treasury stock	(42)	(29)	(0)
	<b>8,363,564</b>	<b>10,323,827</b>	<b>69,696</b>
	<b>¥ 23,919,046</b>	<b>¥ 13,124,740</b>	<b>\$ 199,325</b>

## Statements of Operations

For the years ended March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Operating Revenues:			
Commission revenues (Note 19)	¥ 2,634,451	¥ 3,222,986	\$ 21,954
Other service revenues (Note 20)	34,575	46,366	288
Net gain (loss) on trading assets	6,848	7,682	57
Financial income (Note 21)	90,139	3,553	751
Other sales	369	909	3
	2,766,382	3,281,496	23,053
Financial expenses (Note 21)	53,332	368	444
Cost of sales	308	764	3
Net Operating Revenue	2,712,742	3,280,364	22,606
Selling, general and administrative expenses (Note 22)	4,477,987	4,516,629	37,316
Operating Loss	(1,765,245)	(1,236,265)	(14,710)
Other Income:			
Consulting fee	—	30,000	—
Interest income	3,222	3,511	27
Interest on securities	1,196	109	10
Dividend received	470	75	4
Miscellaneous income	2,260	7,223	19
	7,148	40,918	60
Other Expenses:			
Stock issuance costs	522	661	4
Loss from sales of fixed assets	12,111	—	101
Unrealized loss on investment securities	—	5,511	—
Loss on sale of investment securities	—	1,606	—
Loss on lease cancellation	217,518	114,574	1,813
Merger expenses	—	23,223	—
Provision for statutory reserve, net (Note 14)	56,184	59,052	468
Miscellaneous expenses	269	4,711	3
	286,604	209,338	2,389
Loss Before Income Taxes	(2,044,701)	(1,404,685)	(17,039)
Income Taxes (Note 13)	1,620	1,620	14
Net Loss	¥ (2,046,321)	¥ (1,406,305)	\$ (17,053)

See accompanying notes.



## Statements of Shareholders' Equity

For the years ended March 31, 2003 and 2002

	Number of Shares of Common Stock	Thousands of Yen			
		Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock
Balance at March 31, 2001	1,434,416	¥ 6,101,264	¥ ¥5,404,150	¥ (1,647,463)	¥ —
Shares issued in stock exchange (Note 3)	71,561	—	1,764,475	—	—
Capital increase at the merger (Note 3)	—	—	159	—	—
Stock option exercised	19,670	53,798	53,778	—	—
Net Loss	—	—	—	(1,406,305)	—
Increase of treasury stock, net	(0)	—	—	—	(29)
Balance at March 31, 2002	1,525,647	¥ 6,155,062	¥ 7,222,562	¥ (3,053,768)	¥ (29)
Stock option exercised	15,738	43,043	43,028	—	—
Net Loss	—	—	—	(2,046,321)	—
Increase of treasury stock, net	—	—	—	—	(13)
Balance at March 31, 2003	1,541,385	¥ 6,198,105	¥ 7,265,590	¥ (5,100,089)	¥ (42)

	Thousands of U.S.dollars (Note 1)			
	Common Stock	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock
Balance at March 31, 2002	\$ 51,292	\$ 60,188	\$ (25,448)	\$ (0)
Stock option exercised	359	358	—	—
Net Loss	—	—	(17,053)	—
Increase of treasury stock, net	—	—	—	(0)
Balance at March 31, 2003	\$ 51,651	\$ 60,546	\$ (42,501)	\$ (0)

See accompanying notes.

## Statements of Cash Flows

For the years ended March 31, 2003 and 2002

	Thousands of Yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Cash flows from operating activities:</b>			
Loss before income taxes	¥ (2,044,701)	¥ (1,404,685)	\$ (17,039)
Provision for statutory reserve, net (Note 14)	56,184	59,052	468
Depreciation	41,918	26,217	349
Amortization of goodwill	44,765	40,598	373
Stock issuance costs	522	661	4
Loss from sales of fixed assets	12,111	—	101
Interest income	(95,027)	(7,249)	(792)
Interest expense	53,332	368	444
Decrease (increase) in cash required to be segregated (Note 4)	(2,200,000)	190,000	(18,333)
Decrease in money deposited	50,436	99,905	420
Decrease in trading assets (Notes 7 and 9)	7,717	5,928	64
Increase in margin transaction assets (Note 5)	(9,486,855)	—	(79,057)
Increase in loans receivable secured by securities	(12,686)	—	(106)
Decrease (increase) in payments on securities subscribed	(3,546)	152,832	(29)
Increases in prepaid expenses	(5,971)	(47,614)	(50)
Decrease (increase) in account receivable	(35,965)	364,053	(299)
Decrease in accrued revenues	7,698	20,513	64
Increase in short-term guarantee	(79,851)	(221,149)	(665)
Increase in margin transaction liabilities (Note 5)	8,846,780	—	73,723
Increase in loans payable secured by securities	419,587	—	3,497
Increase (decrease) in deposits received (Note 10)	(640,121)	4,054	(5,334)
Increase in received margins	4,050,758	—	33,756
Unrealized loss on investment securities	—	5,511	—
Loss on sale of investment securities	—	1,606	—
Decrease in accrued expenses	(36,339)	(347,765)	(303)
Increase in accrued liabilities	105,850	123,247	882
Other operating activities	(8,716)	(86,518)	(72)
Sub total	(952,120)	(1,020,435)	(7,934)
Interest received	65,099	11,865	542
Interest paid	(44,220)	(368)	(369)
Income taxes	(562)	(2,002)	(5)
Net cash used in operating activities	(931,803)	(1,010,940)	(7,766)
<b>Cash flows from investing activities:</b>			
Purchase of time deposit	(1,500,000)	—	(12,500)
Purchases of property & equipment	(3,989)	(41,793)	(33)
Purchases of goodwill	(68,966)	(36,171)	(575)
Purchases of investment securities (Note 8)	(20,000)	(59,406)	(167)
Proceeds from sale of investment securities	—	5,834	—
Payment for long-term guarantee	(5,627)	(66,397)	(47)
Other investing activities	2,793	(68,903)	24
Net cash used in investing activities	(1,595,789)	(266,836)	(13,298)
<b>Cash flows from financing activities:</b>			
Proceeds from sale of treasury stocks	—	189	—
Purchases of treasury stocks	(13)	(234)	(0)
Proceeds from common stock issuance	85,548	106,914	713
Net cash provided by financing activities	85,535	106,869	713
Net decrease in cash and cash equivalents	(2,442,057)	(1,170,907)	(20,351)
Cash and cash equivalents at beginning of year	8,333,730	7,974,607	69,448
Gain on cash and cash equivalents by merger (Note 3)	—	1,530,030	—
Cash and cash equivalents at end of year (Note 18)	¥ 5,891,673	¥ 8,333,730	\$ 49,097

See accompanying notes.

## Notes to Financial Statements

### 1. Basis of Presenting Financial Statements

Monex, Inc. (the "Company") maintains its accounts and records in Japanese yen, and in accordance with the provisions set forth in the Japanese Commercial Code, the amended "Uniform Accounting Standards of Securities Companies" (set by the board of directors of the Japan Securities Dealers' Association, September 28, 2001), and accounting principles and practices generally accepted in Japan ("Japanese GAAP"). Certain accounting principles and practices generally accepted in Japan are different from International Accounting Standards and standards in other countries in certain respects as to application and disclosure requirements. Accordingly, the accompanying financial statements are intended for use by those who are informed about Japanese accounting principles and practices.

The accompanying financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of statements of shareholders' equity) from the financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language financial statements, but not required for fair presentation, is not presented in the accompanying financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers, using the prevailing exchange rate at March 31, 2003, which was ¥120 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 2. Summary of Significant Accounting Policies

#### (1) Trading Account

The Company prescribes "trading" to be the conduct of transactions for the purpose of earning profit by taking advantage of fluctuations in market prices and differentials between markets as well as reducing losses from them, using such as securities exercised in one's own account, products which are treated as securities, derivatives trading, money claims, currency trading and other transactions. It excludes those for capital operation purposes.

##### (a) Securities and other assets in the trading account

Securities and other assets classified as the trading account (trading assets) are accounted for based on a trade date basis at market value or fair value.

##### (b) Derivative contracts in the trading account

Derivative contracts in the trading account (trading assets) are accounted for based on a trade date basis at market value or fair value. Accordingly, realized gains and losses on foreign-currency transactions are included in "net gain on trading assets". Deemed settlement gains and losses on these transactions are recorded in "trading assets" and "net gain on trading assets".

##### (c) Net payable or receivable arising from recognizing trading on trade date

To recognize trading assets on a trade date basis, the balances of trade settlement amounts and gains or losses on settlement accrued on a trade basis are offset and recorded in "net payable or receivable arising from recognizing trading on trade date" in either of the assets or liabilities until settlement date.

#### (2) Accounting for securities not classified in the trading account

The Company examined the intent of holding each securities and classified those securities as (a) debt securities intended to be held to maturity ("held-to-maturity debt securities") and (b) other securities.

##### (a) Held-to-maturity debt securities

Based on the amortized cost method.

##### (b) Other securities

i) Securities with readily available market values

Based on market value on moving average method.

The Company had no securities with readily available market values held for other than trading purpose as of March 31, 2003 and 2002.

ii) Securities without readily available market values

Based on the cost method on moving average method.

**(3) Depreciation and amortization of non-current assets**

**(a) Property & Equipment**

Depreciation of buildings, furniture and fixtures is computed by the declining-balance method over its estimated useful lives.

**(b) Intangible assets**

Goodwill related to acquisition of the membership for the Tokyo Stock Exchange (“TSE”) and Osaka Stock Exchange (“OSE”) is recorded at cost and amortized on the straight-line method over the period (five years).

**(c) Software**

Software for internal use is capitalized and amortized on the straight-line method over the estimated useful lives (five years).

**(d) Long-term prepaid expenses**

Long-term prepaid expenses are amortized on the straight-line method.

**(4) Stock issuance costs**

Stock issuance costs are expensed in one lump sum when incurred.

**(5) Basis of computation of allowance**

**(a) Allowance for doubtful receivables**

Allowance for doubtful receivables is provided for the amount considered to be sufficient to cover possible losses. Uncollectible amounts are calculated by estimating amounts for certain identified doubtful accounts and applying a percentage based on the rate of actual losses in the past for other accounts.

**(b) Accrued employees’ bonuses**

Accrued employees’ bonuses are provided for estimated amounts to be paid in the subsequent period. Accrued employees’ bonuses are included in accrued liabilities on the Company’s balance sheets.

**(6) Revenue recognition**

**(a) Commissions**

“Brokerage commissions” are recorded on a trade date basis. “Commissions from subscription and distribution” are recognized and accounted for based on the date of application of subscription.

**(b) Advertising revenues**

The Company enters into certain contracts with customers where it receives an advertising fee for placing the banner-ads on its web site and its e-mail magazine “Monex mail”. Advertising revenues from these transactions are substantially recognized on an accrual basis over the term of the contract with its customers.

**(7) Lease transactions**

Finance lease transactions, other than those wherein ownership of the lease property is regarded as being transferred to the lessee, are accounted for in the same manner as operating leases.

**(8) Cash and cash equivalents**

Cash and cash equivalents in the statements of cash flows consist of cash on hand, demand deposits, and readily-marketable short-term investments bearing low risk of price fluctuation with maturities not exceeding three months.

**(9) Income taxes**

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences. A valuation allowance is provided if it is anticipated that some or all of deferred tax assets may not be realized.

#### (10) Per share amounts

The computation of net loss per share is based on the weighted average number of shares of common stock outstanding during each period. Although the subscription rights related to stock options are granted, they had no diluting effect on the calculation of net income per share during the periods because net loss is recorded.

15,738 shares were issued due to the exercise of stock option during this fiscal year.

Effective April 1, 2002 the Company adopted the new accounting standard for net income per share and its implementation guidance (the Accounting Standard No.2, "Accounting Standard for Net Income per Share" and the Accounting Standard Implementation Guidance No.4 "Implementation Guidance on the Accounting Standard for Net Income per Share", issued by Accounting Standards Board of Japan on September 25, 2002).

There is no impact to net loss per share by adopting the new accounting standard and implementation guidance.

#### (11) Consumption taxes

Consumption taxes are accounted for based on tax exclusion method.

### 3. Merger with Saison Securities Co., Ltd.

(1) Exchange of stock with Saison Securities Co., Ltd

Additional paid-in capital increased by ¥ 1,764,475 thousand due to the share exchange with Saison Securities Co., Ltd on April 1, 2001.

(2) Merger with Saison Securities Co., Ltd

On June 30, 2001 the Company merged with Saison Securities Co., Ltd. Summary of assets and liabilities taken over by the Company by the merger is as follows:

	Thousands of Yen	Thousands of U.S. dollars
Current assets	¥ 3,588,395	\$ 29,903
Fixed assets	128,965	1,075
Total assets	¥ 3,717,360	\$ 30,978
Current Liabilities	¥ 1,920,840	\$ 16,007
Statutory reserves	9,376	78
Total liabilities	¥ 1,930,216	\$ 16,085

By the merger, additional paid-in capital have increased by ¥ 159 thousand.

### 4. Cash required to be segregated

Cash amounted to ¥ 5,200,000 thousand (US\$ 43,333 thousand) and ¥ 3,000,000 thousand as of March 31, 2003 and 2002 respectively, were segregated in an account for the exclusive benefit of customers in accordance with the relevant Cabinet Orders, Prime Minister's Office Orders and Ministerial Ordinances promulgated pursuant to the Securities and Exchange Law of Japan (together the "Customer Segregation Rules").

### 5. Margin transactions

Margin transactions as of March 31, 2003 and 2002 consisted of the following:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
Assets:			
Loan receivables from customers	¥ 8,732,006	¥ —	\$ 72,766
Cash deposits as collateral for securities borrowed from securities finance companies	825,211	70,362	6,877
	¥ 9,557,217	¥ 70,362	\$ 79,643

	Thousands of Yen		Thousands of
	2003	2002	U.S. dollars
Liabilities:			2003
Loans from securities finance companies	¥ 7,059,373	¥ —	\$ 58,828
Proceeds of securities sold for customers' accounts	1,787,407	—	14,895
	¥ 8,846,780	¥ —	\$ 73,723

## 6. Pledged assets

Securities in the trading account of ¥28,632 thousand (US\$239 thousand) and collateral securities pledged by customers as the guarantee deposits of ¥2,906,679 thousand (US\$24,222 thousand) are pledged for the loan transactions with the securities financial companies.

Investment Securities of ¥313,810 thousand (US\$2,615 thousand) is pledged for borrowings from the securities financial companies, however, there is no balance of liabilities for the year ended March 31, 2003.

Total fair value of the securities deposited as collateral as of March 31, 2003 consisted of the following:

	Thousands of Yen		Thousands of
	2003	2002	U.S. dollars
Securities lending for margin transactions	¥ 1,822,175	¥ —	\$ 15,185
Securities pledged for borrowings from securities financial companies	6,805,477	—	56,712
Securities loaned	484,784	—	4,040
	¥ 9,112,436	¥ —	\$ 75,937

Total fair value of the securities received as collateral as of March 31, 2003 are of the following:

	Thousands of Yen		Thousands of
	2003	2002	U.S. dollars
Securities in custody for loans receivable from customers	¥ 7,875,442	¥ —	\$ 65,629
Securities borrowed from securities finance Companies	736,222	—	6,135
Securities borrowed	8,981,459	—	74,845
Securities deposited by customers as collateral for margin transaction	13,773,605	—	114,780
	¥ 31,366,728	¥ —	\$ 261,389

## 7. Trading Assets and Trading Liabilities

Trading assets as of March 31, 2003 and 2002 consisted of the following:

	Thousands of Yen		Thousands of
	2003	2002	U.S. dollars
Corporate shares	¥ 70,096	¥ 117,489	\$ 584
Bonds	31,216	50,135	260
Investment trust	5,875	5,130	49
Forward exchange contracts	73	269	1
	¥ 107,260	¥ 173,023	\$ 894

Trading Liabilities as of March 31, 2003 and 2002 consisted of the following:

	Thousands of Yen		Thousands of
	2003	2002	U.S. dollars
Corporate shares	¥ 70,370	¥ 81,881	\$ 586
Forward exchange contracts	6	186	0
	¥ 70,376	¥ 82,067	\$ 586

## 8. Securities for Non-Trading Purpose

The Company holds discounted government bonds for non-trading purpose which were purchased in the years ended March 31, 2003 and 2002 to be pledged as collateral for postage payable in arrears. These bonds are classified as held-to-maturity debt securities and stated at amortized cost. Their face values at March 31, 2003 are ¥ 19,000 thousand (US\$ 158 thousand) in total and redemption is within 5 years. In addition, the Company holds non-listed companies stocks for non-trading purpose, whose market values are not readily available.

The fair value of held-to-maturity debt securities with available fair market values as of March 31, 2003 and 2002 are as follows:

	Thousands of Yen		
	2003		
	Book value	Market value	Unrealized gain
Discounted government bonds	¥ 18,825	¥ 18,985	¥ 160
Total	¥ 18,825	¥ 18,985	¥ 160

	Thousands of Yen		
	2002		
	Book value	Market value	Unrealized gain
Discounted government bonds	¥ 18,714	¥ 18,958	¥ 244
Total	¥ 18,714	¥ 18,958	¥ 244

	Thousands of U.S. Dollars		
	2003		
	Book value	Market value	Unrealized gain
Discounted government bonds	\$ 157	\$ 158	\$ 1
Total	\$ 157	\$ 158	\$ 1

Book values of securities with no available fair values as of March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
Commercial paper	¥ —	¥ 999,727	\$ —
Non-listed companies stocks (investment securities)	479,191	459,191	3,993
Total	¥ 479,191	¥ 1,458,918	\$ 3,993

## 9. Derivatives

(1) Type of derivative transactions used

The Company only uses forward foreign exchange contracts.

(2) Basic policy for derivatives transactions

The Company enters into forward foreign exchange contracts only when it sells/buys underlying foreign currency denominated investment trusts.

(3) Purpose of derivatives transactions

The Company uses forward foreign exchange contracts to minimize currency fluctuation risks caused by the time lag, which is normally only a few days, between the time of fixing exchange rate for the Company's customers to buy/sell foreign currency denominated investment trusts and the time of actual remittance of foreign currencies to overseas.

(4) Risks involved in derivatives transactions

Since the Company's customers can buy the foreign currency denominated investment trusts only when they have cash, MRF or MMF sufficient to cover trade amounts at their accounts with the Company, the

clients' default risks are considered minimal. The Company has contracts forward foreign exchange only with banks which are considered good credit standing in Japan. The counterparty risks associated with foreign exchange contracts are considered minimal.

(5) Internal control for derivative transactions

The Operations Department aggregates the amount of necessary forward foreign currency contracts and the Accounting Department confirms if such transactions are based on actual demands. In accordance with the Company's internal Risk Management Guidelines, as a mean of risk management by numerical indicators, Accounting Department calculates the amount of risk by multiplying the notional amount prescribed in the Cabinet Office Ordinance Regarding Securities Companies' Capital Adequacy Requirements (1% of the principal in case of forward foreign currency contracts with maturities of not more than 1 year) and the risk weight determined as to respective counter-parties (0% to 25%), and reports it to the Board of Directors monthly.

Derivative contracts for trading purpose as of March 31, 2003 and 2002 are as follows:

		Thousands of Yen			
		2003			
		Assets		Liabilities	
		Contract amount	Fair value	Contract amount	Fair value
Forward currency contracts	¥	24,479	¥ 73	¥ 21,950	¥ 6

		Thousands of U.S. dollars			
		2003			
		Assets		Liabilities	
		Contract amount	Fair value	Contract amount	Fair value
Forward currency contracts	\$	204	\$ 1	\$ 183	\$ 0

		Thousands of Yen			
		2002			
		Assets		Liabilities	
		Contract amount	Fair value	Contract amount	Fair value
Forward currency contracts	¥	41,272	¥ 269	¥ 49,374	¥ 186

There are no derivative contracts for non-trading purpose as of March 31, 2003 and 2002.

## 10. Deposits Received

Details of deposits received at March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
Cash received for customers' accounts on trading	¥ 1,472,131	¥ 1,836,318	\$ 12,268
Deposit received from offering	46,050	—	384
Others	28,763	350,747	239
	¥ 1,546,944	¥ 2,187,065	\$ 12,891

## 11. Leases

Information of leased property such as acquisition costs, accumulated depreciation, obligation under finance leases, depreciation expense and imputed interest expense of finance leases that do not transfer ownership of leased property for the years ended March 31, 2003 and 2002 is as follows:

Acquisition costs and accumulated depreciation:



	Thousands of Yen		
	2003		
	Equipment	Software	Total
Acquisition costs	¥ 2,951,445	¥ 1,482,300	¥ 4,433,745
Accumulated depreciation	(1,597,980)	(461,599)	(2,059,579)
Net balance at year end	¥ 1,353,465	¥ 1,020,701	¥ 2,374,166

	Thousands of Yen		
	2002		
	Equipment	Software	Total
Acquisition costs	¥ 3,491,600	¥ 1,145,376	¥ 4,636,976
Accumulated depreciation	(1,284,552)	(229,529)	(1,514,081)
Net balance at year end	¥ 2,207,048	¥ 915,847	¥ 3,122,895

	Thousands of U.S. dollars		
	2003		
	Equipment	Software	Total
Acquisition costs	\$ 24,595	\$ 12,353	\$ 36,948
Accumulated depreciation	(13,316)	(3,847)	(17,163)
Net balance at year end	\$ 11,279	\$ 8,506	\$ 19,785

Obligation under finance leases:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
	Due within one year	¥ 901,377	¥ 917,143
Due after one year	1,559,002	2,292,624	12,992
	¥ 2,460,379	¥ 3,209,767	\$ 20,503

Lease payments, depreciation and interest expense:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
	Lease payments	¥ 1,033,735	¥ 930,797
Depreciation	941,697	817,806	7,847
Interest expense	¥ 101,500	¥ 119,437	\$ 846

Depreciation for the leased property is calculated using the straight-line method over the estimated useful lives of the respective leased assets with zero residual value. The difference between total lease payments and acquisition costs of leased assets is recognized as interest expense, which is allocated to relevant accounting periods based on the interest method.

## 12. Retirement Benefits

The Company does not have retirement benefit plans and is not a member of any pension plan.

## 13. Income Taxes

The normal effective statutory income tax rate in Japan arising out of the aggregation of corporate, enterprise and inhabitants taxes was approximately 42% for 2003 and 2002.

The tax effects of significant temporary differences and tax losses carry forward which result in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
Deferred tax assets:			
Tax losses carry forward	¥ 2,024,489	¥ 1,269,206	\$ 16,871
Reserve for securities transaction	74,292	53,529	619
Allowance for doubtful receivables	14,834	15,735	124
Others	14,155	10,401	117
	2,127,770	1,348,871	17,731
Valuation allowance	(2,127,770)	(1,348,871)	(17,731)
Deferred tax assets total	¥ —	¥ —	\$ —

#### 14. Statutory Reserve

Statutory reserve at March 31, 2003 and 2002 is as follows:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
Reserve for securities transactions	¥ 183,482	¥ 127,298	\$ 1,529

Reserve for securities transactions is recorded in accordance with Article 51 of the Securities and Exchange Law, which requires a securities company to set aside a reserve in proportion to its securities transactions and other related trading to cover possible customer losses incurred by default of the securities company on securities transactions.

#### 15. Shareholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Effective October 1, 2001, the Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. As of March 31, 2003 and 2002, there were no retained earnings available for payment of dividends.

Effective April 1, 2002 the Company adopted new accounting standard for treasury stock and reversal of statutory reserves (Accounting Standard No.1 "Accounting Standard for Treasury Stock and Reversal of Statutory Reserves" issued by Accounting Standards Board of Japan on February 21, 2002).

The effect of adopting the new accounting standard to the statements of operations for the year ended March 31, 2003 was immaterial.

#### 16. Stock Option

The Company has a stock option plan to directors and employees.

The following table summarizes information about the stock options.

Entitled to	Date of approval at the shareholders' meeting	Number of shares	Exercise Price	Exercisable Period
	November 26, 1999	19,715	¥ 5,469	December 1, 2001 – November 25, 2009
Directors	November 26, 1999	15,276	5,469	December 1, 2001 – November 30, 2004
and	May 2, 2000	13,632	39,064	May 4, 2002 – May 1, 2010
employees	May 2, 2000	896	39,064	May 4, 2002 – May 3, 2005
	June 23, 2001	17,350	56,700	July 1, 2003 – June 30, 2008

The stock option rights entitled to directors and employees should be forfeited for any reason if they no longer belong to the Company. The stock option rights are nontransferable to the third party.

### 17. Capital Adequacy Requirements

In Japan, a securities company is subject to risk-based capital adequacy rules established and administered by the Financial Services Agency (“FSA”), The Company reports its capital adequacy ratio as defined pursuant to these rules.

The capital adequacy rules require a securities company to report to the FSA if the ratio falls to 140% or below and the securities company must report its capital adequacy ratio to the FSA on a daily basis while its ratio is 120% or below. The Company’s capital adequacy ratios were 565.3% (unaudited) and 860.5% (unaudited) as of March 31, 2003 and 2002, respectively.

### 18. Cash and cash equivalents

“Cash and cash equivalents” in the statements of cash flows and “Cash and deposits” in the balance sheets as of March 31, 2003 and 2002 are reconciled as follows:

	Yen		U.S. dollars
	2003	2002	2003
Cash and deposits	¥ 7,391,673	¥ 7,334,003	\$ 61,597
Time deposit with maturities of exceeding three months from the date of acquisition	(1,500,000)	—	(12,500)
Securities	—	999,727	—
Cash and cash equivalents	¥ 5,891,673	¥ 8,333,730	\$ 49,097

### 19. Commission Revenues

Details of commission revenues for the years ended March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
Brokerage:			
Equity	¥ 2,336,629	¥ 2,833,376	\$ 19,472
Bonds	308	390	3
Investment trust	17,445	13,854	145
Underwriting and distribution:			
Equity	61,556	141,192	513
Subscription and distribution:			
Equity	5,334	—	44
Bonds	5,341	—	45
Investment trust	51,920	68,992	433
Other commissions:			
Equity	11,413	8,284	95
Bonds	108	76	1
Investment trust	118,967	111,951	991
Others	25,430	44,871	212
	¥ 2,634,451	¥ 3,222,986	\$ 21,954

### 20. Other Service Revenues

Details of other service revenues for the years ended March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of U.S. dollars
	2003	2002	2003
Advertising revenues	¥ 16,267	¥ 33,247	\$ 135
Others	18,308	13,119	153
	¥ 34,575	¥ 46,366	\$ 288

## 21. Financial Income and Financial expenses

Details of financial income for the years ended March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of
	2003	2002	U.S. dollars
Income from margin transactions	¥ 83,095	¥ 319	\$ 693
Income from securities lending	4,494	—	37
Received dividends	751	192	6
Received interest on bonds	965	789	8
Interest income	834	2,253	7
	¥ 90,139	¥ 3,553	\$ 751

Details of financial expenses for the years ended March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of
	2003	2002	U.S. dollars
Expenses for margin transactions	¥ 44,694	¥ 368	\$ 372
Expenses for securities lending	8,638	0	72
	¥ 53,332	¥ 368	\$ 444

## 22. Selling, General and Administrative Expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2003 and 2002 are as follows:

	Thousands of Yen		Thousands of
	2003	2002	U.S. dollars
Commissions paid	¥ 141,630	¥ 138,334	\$ 1,180
Exchange and association dues	95,106	89,897	793
Communication and freight	223,703	309,431	1,864
Information expenses	501,712	401,541	4,181
Traveling and transportation	5,659	14,800	47
Advertising expenses	63,969	57,015	533
Entertainment expenses	3,616	3,144	30
Directors' compensation	25,625	29,750	214
Employees salaries	478,116	517,517	3,984
Welfare expenses	55,478	56,730	462
Office rent and maintenance	97,476	40,771	812
Equipment rental and maintenance	1,280,821	1,170,057	10,674
Outsourcing expenses	1,182,184	1,396,069	9,852
Office supply expenses	40,719	64,967	339
Depreciation expenses	41,918	26,217	349
Taxes and dues	12,247	3,751	102
Amortization of goodwill	44,765	40,598	373
Other operating expenses	183,243	156,040	1,527
	¥ 4,477,987	¥ 4,516,629	\$ 37,316

## Independent Auditors' Report

### To the Shareholders and the Board of Directors of Monex, Inc.:

We have audited the accompanying balance sheets of Monex, Inc. (a Japanese corporation) as of March 31, 2003 and 2002, and the related statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese 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 financial position of Monex, Inc. as of March 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan as described in Note 1 to the financial statements.

Without qualifying our opinion, we draw attention to Note 1 to the financial statements, which states that Monex, Inc. prospectively adopted the amended Uniform Accounting Standards of Securities Companies in the year ended March 31, 2002.

The financial statements as of and for the year ended March 31, 2003 have been translated into United States dollars solely for the convenience of the reader. We have recomputed the translation and, in our opinion, the financial statements expressed in Japanese yen have been translated into United States dollars on the basis set forth in Note 1 to the financial statements.

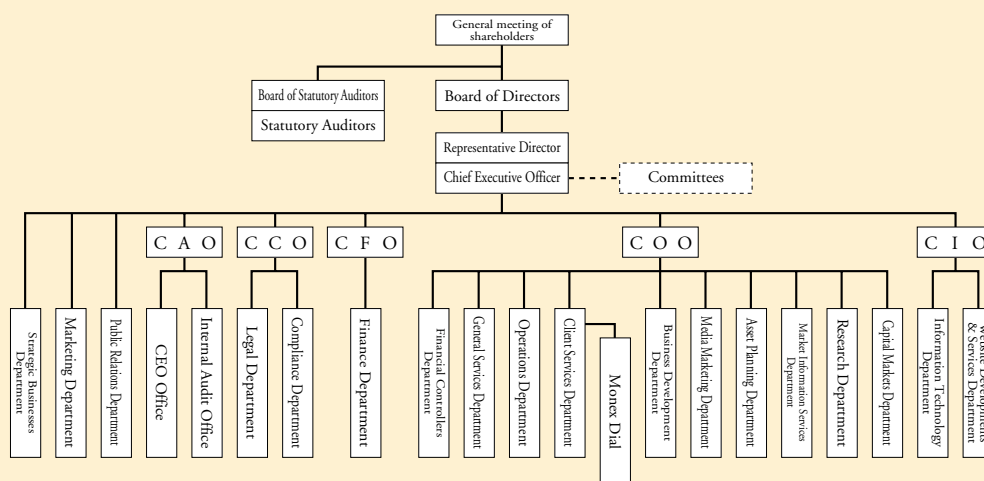
*Asahi & Co.*

Tokyo, Japan  
June 21, 2003

● Company History

Years	Subjects
April 1999	Monex, Inc. ("Kabushiki Kaisha Monex") (Capital 50 million yen) was founded at 13, Nishiki-cho 3-chome, Chiyoda-ku, Tokyo. The objective on the Articles of Incorporation included the business of acquiring and managing negotiable securities.
June 1999	Increased capital to 200 million yen by issuing new shares to third parties. The Company's objective on the Articles of Incorporation was changed to securities trading, etc., and the Japanese business name was changed to "Monex Shoken Kabushiki Kaisha". English name was unchanged.
July 1999	Became a registered securities company in accordance with the Securities Exchange Law. The Company was registered as an investment consulting business in accordance with laws and regulations governing securities-related investment consulting businesses. Became a member of the Japan Investor Protection Fund.
August 1999	Increased capital to 1,165 million yen through a new share issue to third parties. Became a member of the Japan Securities Dealers Association and started operations as a securities company. The Monex Dial (a call center) was established in Bunkyo-ku, Tokyo.
October 1999	Entered an online brokerage and agency business, offering securities transactions via the Internet and telephone.
November 1999	Participation in the advertising business was approved in accordance with the requirements of the Securities Exchange Law.
February 2000	Increased capital to 3,550 million yen through a new share issue to third parties.
March 2000	Customer accounts topped 50,000.
April 2000	Became a member of the Tokyo Stock Exchange. Became securities underwriter in accordance with the requirements of the Securities Exchange Law.
May 2000	Upgraded website and servers to support continuing growth.
June 2000	Increased capital to 3,550.06 million yen by a 1:3 allotment of new shares to existing shareholders. Increased capital to 3,550.30 million yen by a 1:3 allotment of new shares to existing shareholders. Increased capital to 3,551.26 million yen by a 1:3 allotment of new shares to existing shareholders. Total shares issued reached 1,284,416.
August 2000	Public offering increased capital to 6,101.26 million yen. Total shares issued reached 1,434,416. Shares are listed on the Tokyo Stock Exchange "Mothers" Market.
November 2000	Customer accounts topped 100,000.
December 2000	Entered tie-up with Credit Saison Co., Ltd.
January 2001	Launched "Monex Niter", Japan's first proprietary trading system for individual investors.
April 2001	Exchange of shares results in Saison Securities Co., Ltd.'s becoming a wholly owned subsidiary. Total shares issued reached 1,505,977.
June 2001	Began issuing the Monex Saison Card. Absorbed and merged Saison Securities Co., Ltd.
August 2001	Installed Monex ATM in Osaka Sony Tower.
October 2001	Reciprocal use of post office ATMs with Monex Saison Cards began.
January 2002	Moved headquarters to 11-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo.
March 2002	Launched operations as non-life insurance agency.
June 2002	Customer accounts topped 200,000.
December 2002	Launched a margin trading service.
January 2003	Launched a stock lending service.
April 2003	Launched a foreign exchange margin trading service.

● Organization  
(as of June 21, 2003)



Note) The CEO chairs four in-house committees (the Steering Committee, which discusses management issues; the Operating Committee, which addresses day-to-day operations; the Investment Committee, which screens proposed investments; and the Commitment Committee, which screens proposed underwriting opportunities and reports to the Operating Committee) and the Advisory Board, composed of external advisors, and the Orientation Committee, which elicits the views of customer representatives.

●Major Shareholders (as of March 31, 2003)

(Top 10)

	Number of Shares	Percentage of Shareholdings
Sony Corporation	470,400	30.52
Oki Matsumoto	294,879	19.13
Koichi Suzuki	73,121	4.74
Internet Initiative Japan Inc.	71,680	4.65
J.P. Morgan Malaysia Ltd.	67,122	4.35
Recruit Inc.	63,903	4.15
Credit Saison Co.,Ltd.	39,675	2.57
Kyoko Kudo	27,976	1.82
GS Capital Partners III, L.P.	26,624	1.73
Takashi Oyagi	19,248	1.25

●Directors and Auditors (as of June 21, 2003)

President CEO	Oki Matsumoto	Director	Masakazu Sasaki
Director	Kyoko Kudo	Standing Statutory Auditor	Tsunehiko Suga
Director	Kenichi Oyama	Statutory Auditor	Takemi Nagasaka
Director	Yoshinori Hashitani	Statutory Auditor	Seigoro Ohta
Director	Akihisa Watai	Statutory Auditor	Tetsuo Ozawa
Director	Shinji Hojo		

1. Directors Kenichi Oyama, Yoshinori Hashitani, Akihisa Watai, Shinji Hojo, and Masakazu Sasaki are all external directors as specified in Article 188, Para. 2, 7-2 of the Commercial Code.
2. Statutory Auditors Takemi Nagasaka, Seigoro Ohta, and Tetsuo Ozawa are external auditors as defined in the Law for Special Exceptions to the Commercial Code Concerning Audit of Joint-Stock Companies, Art.18, Para.1.

●Our Businesses

●Securities Business (the Securities and Exchange Law, Art. 2, Para. 8)

- 1) Securities brokerage  
Acting as a broker or a finder for our customers for buying and selling securities.
- 2) Securities trading  
Trading in securities on our own account.
- 3) Securities underwriting  
Acquiring newly issued or outstanding securities for the purpose of soliciting an unspecified large number of investors for the purchase of the securities, and taking over any securities remaining unsold.
- 4) Handling of public offerings and private placements  
Soliciting an unspecified large number of investors for the purchase of newly issued or outstanding securities, and soliciting a small number of investors for the purchase of newly issued securities.
- 5) Operating a proprietary trading system  
Using electronic data processing systems, acting as a broker or a finder for customers for buying and selling securities.

●Incidental Business (the Securities and Exchange Law, Art. 34, Para.1)

- 1) Safekeeping of securities
- 2) Acting as an agent for customers relating to securities
- 3) Acting as an agent for the payment of income, redemption money, and cancellation money of investment trusts
- 4) Concluding cumulative investment contracts
- 5) Providing information concerning, and advice on, securities
- 6) Other incident business

●Other Services (the Securities and Exchange Law, Art. 34, Para. 2&4)

- 1) Investment advisory service
- 2) Concluding a partnership agreement etc.
- 3) Handling of advertisement
- 4) Management consultancy
- 5) Sales of computers, their peripherals, computer software, and books.
- 6) Insurance sales
- 7) Currency trading

Headquarters: 11-1, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-6219  
Phone: +81-3-6212-3800  
Monex Dial: (Bunkyo-ku, Tokyo)  
Phone: +81-3-5800-4047



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