

Japan Transcity Corporation
Audited Consolidated Financial Statements
March 31, 2003 and 2002

ChuoAoyama Audit Corporation

Report of Independent Auditors

To the Board of Directors and Shareholders of
Japan Transcity Corporation

We have audited the accompanying consolidated balance sheets of Japan Transcity Corporation and its consolidated subsidiaries as of March 31, 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. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Japan Transcity Corporation and its consolidated subsidiaries as of March 31, 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 1).

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

ChuoAoyama Audit Corporation
Nagoya, Japan
June 27, 2003

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Assets			
Current assets:			
Cash and cash equivalents	¥ 10,408	¥ 10,854	\$ 86,733
Short-term investments (Notes 4 and 5)	912	925	7,600
Trade receivables:			
Notes	1,145	1,618	9,541
Accounts	11,528	12,652	96,067
Allowance for doubtful accounts	(25)	(30)	(208)
	<u>12,648</u>	<u>14,240</u>	<u>105,400</u>
Inventories (Note 3)	2,596	2,595	21,633
Deferred tax assets (Note 11)	396	289	3,300
Other current assets	1,190	1,269	9,917
Total current assets	<u>28,150</u>	<u>30,172</u>	<u>234,583</u>
Property and equipment, at cost (Note 5):			
Land	31,300	31,707	260,833
Buildings and structures	39,639	37,749	330,325
Machinery and equipment	9,522	9,445	79,350
Vehicles and vessels	9,476	9,281	78,967
Construction in progress	46	62	383
	<u>89,983</u>	<u>88,244</u>	<u>749,858</u>
Less, accumulated depreciation	(39,223)	(38,126)	(326,858)
Net property and equipment	<u>50,760</u>	<u>50,118</u>	<u>423,000</u>
Investments and other assets:			
Investment securities (Notes 4 and 5)	4,455	5,418	37,125
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 4)	2,393	2,031	19,942
Deferred tax assets (Note 11)	3,933	3,506	32,775
Lease deposits	930	905	7,750
Other assets	1,250	1,569	10,416
Allowance for doubtful accounts	(172)	(152)	(1,433)
Total investments and other assets	<u>12,789</u>	<u>13,277</u>	<u>106,575</u>
	<u>¥ 91,699</u>	<u>¥ 93,567</u>	<u>\$ 764,158</u>

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 5)	¥ 8,101	¥ 8,359	\$ 67,508
Current maturities of long-term debt (Note 5)	3,423	4,046	28,525
Trade payables:			
Notes	1,732	1,978	14,433
Accounts	5,181	4,974	43,175
	<u>6,913</u>	<u>6,952</u>	<u>57,608</u>
Accrued expenses	1,653	1,703	13,775
Income taxes payable	734	307	6,117
Other current liabilities	2,124	4,153	17,700
Total current liabilities	<u>22,948</u>	<u>25,520</u>	<u>191,233</u>
Long-term debt (Note 5)	23,595	22,379	196,625
Employee retirement benefit liability (Note 6)	8,850	8,680	73,750
Guarantee deposits received (Note 5)	4,584	4,719	38,200
Deferred tax liabilities for revaluation	1,931	2,154	16,092
Accrued severance indemnities for officers	371	318	3,092
Other non-current liabilities (Note 11)	217	191	1,808
Commitments and contingent liabilities			
(Notes 7 and 8)			
Minority interests in consolidated subsidiaries	767	759	6,391
Shareholders' equity (Note 10):			
Common stock, no par value-	7,792	7,792	64,933
Authorized: 240,000,000 shares, Issued: 63,613,246 shares in 2003 and 2002			
Capital surplus	5,908	5,908	49,233
Retained earnings	11,514	11,223	95,950
Land revaluation increment	2,885	3,050	24,042
Net unrealized gains on available-for-sale securities	522	858	4,350
Foreign currency translation adjustment	(11)	19	(91)
Less, treasury stock, at cost - 786,974 shares in 2003 and 12,110 shares in 2002	(174)	(3)	(1,450)
	<u>28,436</u>	<u>28,847</u>	<u>236,967</u>
	<u>¥ 91,699</u>	<u>¥ 93,567</u>	<u>\$ 764,158</u>

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars
Operating revenues (Note 12)	¥ 69,465	¥ 69,854	\$ 578,875
Operating expenses (Notes 6, 8 and 12)	67,723	67,906	564,358
Operating income	1,742	1,948	14,517
Other income (expenses) :			
Interest and dividend income	102	117	850
Interest expenses	(459)	(616)	(3,825)
Equity in net earnings of unconsolidated subsidiaries and affiliates	232	209	1,933
Net loss on sale or devaluation of securities	(447)	(150)	(3,725)
Other, net	(107)	(62)	(892)
	(679)	(502)	(5,659)
Income before income taxes and minority interests	1,063	1,446	8,858
Income tax expenses (Note 11)	615	676	5,125
Less, minority interests in net income of consolidated subsidiaries	14	27	116
Net income	¥ 434	¥ 743	\$ 3,617
Per share:			
Net income :			
-Basic	¥ 6.26	¥ 11.08	\$ 0.05
-Diluted	5.63	9.81	0.05
Cash dividends	7.00	7.00	0.06

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Shareholders' Equity
For the Years Ended March 31, 2003 and 2002

	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Land revaluation increment	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
		Millions of Yen						
Balance at March 31, 2001	63,613,246	¥ 7,792	¥ 5,908	¥ 10,998	¥ -	¥ 1,498	¥ (7)	¥ -
Net income for the year	-	-	-	743	-	-	-	-
Cash dividends	-	-	-	(477)	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(41)	-	-	-	-
Revaluation increment on land	-	-	-	-	3,050	-	-	-
Net change in unrealized gains on available-for- sale securities, net of applicable income taxes	-	-	-	-	-	(640)	-	-
Translation adjustment	-	-	-	-	-	-	26	-
Fractional shares acquired, net	-	-	-	-	-	-	-	(3)
Balance at March 31, 2002	63,613,246	7,792	5,908	11,223	3,050	858	19	(3)
Net income for the year	-	-	-	434	-	-	-	-
Cash dividends	-	-	-	(445)	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(38)	-	-	-	-
Increase in retained earnings for the change of scope of equity method	-	-	-	112	-	-	-	-
Reversal of land revaluation increment	-	-	-	228	(228)	-	-	-
Adjustment for applicable income taxes	-	-	-	-	63	9	-	-
Net change in unrealized gains on available-for- sale securities, net of applicable income taxes	-	-	-	-	-	(345)	-	-
Translation adjustment	-	-	-	-	-	-	(30)	-
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	-	-	-	(171)
Balance at March 31, 2003	63,613,246	¥ 7,792	¥ 5,908	¥ 11,514	¥ 2,885	¥ 522	¥ (11)	¥ (174)
		Thousands of U.S. Dollars						
Balance at March 31, 2002		\$ 64,933	\$ 49,233	\$ 93,525	\$ 25,417	\$ 7,150	\$ 159	\$ (25)
Net income for the year		-	-	3,617	-	-	-	-
Cash dividends		-	-	(3,708)	-	-	-	-
Bonuses to directors and statutory auditors		-	-	(317)	-	-	-	-
Increase in retained earnings for the change of scope of equity method		-	-	933	-	-	-	-
Reversal of land revaluation increment		-	-	1,900	(1,900)	-	-	-
Adjustment for applicable income taxes		-	-	-	525	75	-	-
Net change in unrealized gains on available-for- sale securities, net of applicable income taxes		-	-	-	-	(2,875)	-	-
Translation adjustment		-	-	-	-	-	(250)	-
Purchase of treasury stock and fractional shares acquired, net		-	-	-	-	-	-	(1,425)
Balance at March 31, 2003		\$ 64,933	\$ 49,233	\$ 95,950	\$ 24,042	\$ 4,350	\$ (91)	\$ (1,450)

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 1,063	¥ 1,446	\$ 8,858
Adjustments for:			
Depreciation	2,713	2,837	22,608
Net provision for employee retirement benefit liability	170	33	1,417
Net loss on sale or devaluation of securities	447	150	(3,725)
Decrease in trade receivables	1,563	662	13,025
(Increase) decrease in inventories	(3)	218	(25)
(Decrease) increase in trade payables	(15)	43	(125)
Other, net	92	(294)	767
Sub-total	6,030	5,095	50,250
Interest and dividend received	138	143	1,150
Interest paid	(507)	(619)	(4,225)
Income taxes paid	(626)	(1,053)	(5,217)
Net cash provided by operating activities	5,035	3,566	41,958
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(5,761)	(2,663)	(48,008)
Acquisition, net of cash acquired	(1)	(75)	(8)
Decrease in short-term investments	13	254	108
Other, net	554	302	4,616
Net cash used in investing activities	(5,195)	(2,182)	(43,292)
Cash flows from financing activities:			
Increase in long-term debt	4,286	9,637	35,717
Repayment of long-term debt	(3,693)	(9,718)	(30,775)
Decrease in short-term borrowings	(257)	(1,120)	(2,142)
Dividends paid	(445)	(477)	(3,708)
Other, net	(173)	(7)	(1,442)
Net cash used in financing activities	(282)	(1,685)	(2,350)
Effect of exchange rate changes on cash and cash equivalents	(4)	16	(33)
Net decrease in cash and cash equivalents	(446)	(285)	(3,717)
Cash and cash equivalents at beginning of year	10,854	11,139	90,450
Cash and cash equivalents at end of year	¥ 10,408	¥ 10,854	\$ 86,733

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries Notes to Consolidated Financial Statements

1. Basis of Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of Japan Transcity Corporation (the "Company") and its consolidated subsidiaries (together with the Company, the "Japan Transcity Group ") have been prepared in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Accounting Standards. Certain items presented in the original consolidated financial statements in Japanese submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

(b) U.S. dollar amounts

The Company maintains its accounting records in Japanese Yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at a rate of ¥120 to \$1, the approximate rate of exchange at March 31, 2003. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that Yen and the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at ¥120 to \$1 or at any other rate.

(c) Reclassification

Certain comparative figures have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investments in significant unconsolidated subsidiaries and affiliates are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are stated at cost. Differences between acquisition cost of investments in subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition are principally deferred and amortized over five years.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2003 and 2002 was as follows:

	2003	2002
Consolidated subsidiaries	23	23
Unconsolidated subsidiaries and affiliates, accounted for by the equity method	8	6
Unconsolidated subsidiaries, stated at cost	10	11
Affiliates, stated at cost	3	4

All intercompany accounts and transactions have been eliminated on consolidation.

The accompanying consolidated financial statements included the account of one overseas consolidated subsidiary. Such an overseas consolidated subsidiary closes its book at December 31 every year, three months earlier than the Company and other domestic consolidated subsidiaries. The Company consolidated such subsidiary's financial statements as of its year-end. Significant transactions for the period between subsidiary's year-end and the Company's year-end are adjusted on consolidation.

An overseas consolidated subsidiary adopts accounting principles generally accepted in its country, and no adjustments to conform with accounting principles generally accepted in Japan have been made to their financial statements on consolidation as allowed under accounting principles and practices generally accepted in Japan.

(b) Cash equivalents

The Japan Transcity Group considers cash equivalents to be highly liquid debt instruments purchased with an original maturity of three months or less.

(c) Investments and marketable securities

The Japan Transcity Group classifies certain investments in debt and equity securities as "held-to-maturity", "trading" or "available-for-sale", whose classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. Held-to-maturity securities are stated at amortized cost. Marketable securities with market quotations for available-for-sale securities are stated at fair value and net unrealized gains or losses on these securities are reported as a separate component of shareholders' equity, net of applicable income taxes. Gains and losses on disposition of available-for-sale securities are computed based on the moving-average method. Nonmarketable securities without available market quotations for available-for-sale securities are carried at cost determined by the moving-average method. Adjustments in carrying values of individual securities are charged to income through write-downs, when a decline in value is deemed other than temporary.

(d) Accounting for derivatives

Derivatives are valued at fair value, if hedging accounting is not appropriate or where there is no hedging designation, and the gains or losses on derivatives are recognized in the current earnings. Certain transactions classified as hedging transactions are accounted for under a deferral method, whereby unrealized gains or losses on hedging instruments are carried as assets or liabilities on the balance sheet until the gains and losses on the hedged items are realized. Foreign exchange forward contracts are accounted for to translate foreign currency denominated assets and liabilities at such contracts rates as an interim measure, if certain hedging criteria are met. According to the special treatment as permitted by the accounting standard for financial instruments, the hedging interest rate swap is accounted for on an accrual basis, and recorded net of interest expenses generated from borrowings, a hedged item, if certain conditions are met.

(e) Inventories

Real estate held for sale is stated at cost determined by the specific identification method (see also Note 2(1)). Other inventories are stated at moving-average cost.

(f) Allowance for doubtful accounts

Allowance for doubtful accounts has been provided for at the aggregate amount of estimated credit loss based on the individual financial review approach for doubtful or troubled receivables and a general reserve for other receivables calculated based on the historical loss experience for a certain past period.

(g) Property and equipment, and depreciation

Property and equipment, including significant renewals and additions, are stated at cost, and have been depreciated principally by the declining-balance method at rates based on the estimated useful lives of the assets, except that the buildings acquired on and after April 1, 1998 have been depreciated by the straight-line method. Property of the cost of not less than ¥100,000 and below ¥200,000 each is capitalized and depreciated over three years on a straight-line basis.

Expenditures on maintenance and repairs are charged to operating income as incurred.

(h) Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the Company and its domestic consolidated subsidiaries is not capitalized and relating rental and lease expenses are charged to income as incurred.

(i) Employee retirement benefits

Employees who terminate their service with the Japan Transcity Group are entitled to retirement benefits generally determined by the reference of current basic rates of pay, length of service and conditions under which the termination occurs.

The Company has established a defined benefit pension plan, which covers 100% of retirement benefits for employees of the Company who terminate at the compulsory retirement age and 70% of other retirement benefits of the Company. Some of consolidated subsidiaries have similar pension plans.

Unrecognized actuarial differences as changes in the projected benefit obligation or pension plan assets resulting from the experience different from that assumed and from changes in assumptions are amortized on a straight-line basis over ten years as a certain period within remaining service lives of employees from the next year in which they arise. Unrecognized prior service cost is amortized using the straight-line method over ten years from the year in which they occur.

(j) Accrued severance indemnities for officers

The Japan Transcity Group may pay severance indemnities to directors and statutory auditors, which are subject to the approval of the shareholders. The Japan Transcity Group has provided for at the full amount of the liabilities of directors' and statutory auditors' severance indemnities at the respective balance sheet dates.

(k) Bond issue expenses

Bond issue expenses are charged to income as incurred.

(l) Interest expenses

Interest expenses are charged to income as incurred, except that interest incurred in connection with the development of the real estate held for sale is capitalized as a part of the cost of the related real estate held for sale.

(m) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(n) Translation of foreign currency accounts

Receivables, payables and securities, other than stocks of subsidiaries and certain other securities, are translated into Japanese Yen at the exchange rates at the respective fiscal year-ends. Transactions in foreign currencies are recorded based on the prevailing exchange rates on the transaction dates. Resulting translation gains or losses are included in the current earnings

In respect of the financial statement items of overseas consolidated subsidiary, all asset and liability accounts are translated into Japanese Yen by applying the exchange rates in effect at the fiscal year-ends. All income and expense accounts are translated at the average rates of exchange prevailing during the respective fiscal years. Translation differences are reported as foreign currency translation adjustment in a separate component of shareholders' equity in the accompanying consolidated balance sheets.

(o) Appropriation of retained earnings

Cash dividends and bonuses to directors and statutory auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders of the Company.

(p) Revaluation of land

In accordance with the Law Concerning Revaluation of Land ("Law"), the Company elected the one-time revaluation to restate the cost of land used for the Company's business at values rationally reassessed effective on March 31, 2002, reflecting appropriate adjustments for land shape and other factors, based on the values of the municipal property tax bases. According to the Law, the amount equivalent to the tax effect on the excess of the sound reassessed values over original book values is recorded in the liabilities as deferred tax assets for revaluation account, and the rest of such excess, net of the tax effect, is recorded in the shareholders' equity as land revaluation increment account in the accompanying consolidated balance sheets. At March 31, 2003, the difference of the carrying values of land used for the banking business after reassessment over the current market value of such land at the fiscal year-end amounted to ¥2,835 million (\$23,625 thousand).

(q) Per share data

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the fiscal year. Diluted net income per share is computed assuming convertible bonds were converted at the time of issue unless having anti-dilutive effects. The Japan Transcity Group adopted the new accounting standard for earnings per share from the current fiscal year. Prior-period per share data has been restated to conform to the current computation. Cash dividends per share for each fiscal year in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

3. Inventories

At March 31, 2003 and 2002, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Real estate held for sale	¥ 2,530	¥ 2,505	\$ 21,083
Supplies and other	66	90	550
	<u>¥ 2,596</u>	<u>¥ 2,595</u>	<u>\$ 21,633</u>

4. Investments

At March 31, 2003 and 2002, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2003 and 2002, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Marketable securities:			
Equity securities	¥ 3,600	¥ 4,529	\$ 30,000
Bonds	1	1	8
Other	41	40	342
	<u>3,642</u>	<u>4,570</u>	<u>30,350</u>
Other nonmarketable securities	813	848	6,775
	<u>¥ 4,455</u>	<u>¥ 5,418</u>	<u>\$ 37,125</u>

Marketable investment securities classified as available-for-sale are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the shareholders' equity account until realized. At March 31, 2003 and 2002, gross unrealized gains and losses for marketable securities classified as available-for-sale are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of Yen			
Available-for-sale securities at March 31, 2003:				
Equity securities	¥ 2,665	¥ 1,054	¥ (119)	¥ 3,600
Bonds	1	0	-	1
Other	40	1	-	41
	<u>¥ 2,706</u>	<u>¥ 1,055</u>	<u>¥ (119)</u>	<u>¥ 3,642</u>
Available-for-sale securities at March 31, 2002:				
Equity securities	¥ 3,001	¥ 1,646	¥ (118)	¥ 4,529
Bonds	1	-	-	1
Other	40	-	-	40
	<u>¥ 3,042</u>	<u>¥ 1,646</u>	<u>¥ (118)</u>	<u>¥ 4,570</u>
				Thousands of U.S. Dollars
Available-for-sale securities at March 31, 2003:				
Equity securities	\$ 22,208	\$ 8,784	\$ 992	\$ 30,000
Bonds	8	0	-	8
Other	334	8	-	342
	<u>\$ 22,550</u>	<u>\$ 8,792</u>	<u>\$ 992</u>	<u>\$ 30,350</u>

During the years ended March 31, 2003 and 2002, the Japan Transcity Group recorded a loss on devaluation of marketable investment securities due to a permanent diminution in value in the amounts of ¥462 million (\$3,850 thousand) and ¥263 million, respectively.

At March 31, 2003 and 2002, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars
Investments, accounted for by the equity method for significant unconsolidated subsidiaries and affiliates, and stated at cost for others	¥ 2,359	¥ 2,031	\$ 19,659
Interest bearing long-term loans	34	-	283
	<u>¥ 2,393</u>	<u>¥ 2,031</u>	<u>\$ 19,942</u>

5. Short-term Borrowings and Long-term Debt

At March 31, 2003 and 2002, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars
Short-term bank loans or bank overdrafts with interest rates ranging from 0.55% to 2.40% per annum at March 31, 2003:			
Collateralized	¥ 4,765	¥ 3,570	\$ 39,708
Unsecured	3,336	4,789	27,800
	<u>¥ 8,101</u>	<u>¥ 8,359</u>	<u>\$ 67,508</u>

At March 31, 2003 and 2002, long-term debt consisted of the following:

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars
1.89% non-guaranteed bonds due May 2002	¥ -	¥ 2,000	\$ -
0.85% convertible bonds due September 2005	7,459	7,459	62,158
1.47% non-guaranteed bonds due July 2008	2,500	2,500	20,833
1.41% non-guaranteed bonds due July 2008	1,500	1,500	12,500
1.76% non-guaranteed bonds due September 2008	4,000	4,000	33,333
Long-term loans from banks and other financial institutions due through 2022 with interest rates ranging from 0.05% to 2.7% per annum at March 31, 2003:			
Collateralized	5,672	4,630	47,267
Unsecured	5,887	4,336	49,059
	<u>27,018</u>	<u>26,425</u>	<u>225,150</u>
Less, current maturities	(3,423)	(4,046)	(28,525)
	<u>¥ 23,595</u>	<u>¥ 22,379</u>	<u>\$ 196,625</u>

At March 31, 2003, the current conversion price of the 0.85% convertible bonds due September 2005 is ¥534 per share and is subject to adjustment under certain circumstances, including stock splits. At March 31, 2003, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 14 million.

The aggregate annual maturities of long-term debt at March 31, 2003 was as follows:

<u>Years ending March 31,</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2004	¥ 3,423	\$ 28,525
2005	1,860	15,500
2006	7,795	64,958
2007	891	7,425
2008	264	2,200
2009 and thereafter	12,785	106,542
	<u>¥ 27,018</u>	<u>\$ 225,150</u>

At March 31, 2003, the following assets were pledged as collateral for short-term borrowing, long-term debt and employees' savings deposits:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Time deposits included in short-term investments	¥ 861	\$ 7,175
Land	8,064	67,200
Buildings and structures	2,183	18,192
Machinery and equipment, and other property	196	1,633
Investment securities and other assets	31	258

As is customary in Japan, substantially all loans from banks (including short-term loans) are made under general agreements which provide that, at the request of the relevant bank, the Japan Transcity Group is required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to the loans, and that all assets pledged as collateral under such agreements will be applicable to all present and future indebtedness to the bank concerned. The Japan Transcity Group has not received such requests. The general agreements further provide that the banks have the right, as indebtedness matures or becomes due prematurely by reason of default thereon, to offset deposits at the banks against indebtedness due to the banks.

Guarantee deposits that were received from members of a golf club operated by a certain consolidated subsidiary bear no interest and are refundable only when members withdraw from the golf club for the period subsequent to the first ten years.

6. Employee Retirement Benefits

The Japan Transcity Group has defined benefit retirement plans covering substantially all employees. Certain portions of the benefits under the plans are covered by a pension plan, which is governed by the regulations of the Japanese Welfare Pension Insurance Law. Some of the consolidated subsidiaries have similar retirement benefit plans.

The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the years ended March 31, 2003 and 2002:

	Millions of Yen		Thousands of U.S Dollars
	2003	2002	2003
Reconciliation of benefit liability:			
Projected benefit obligation	¥ 28,091	¥ 26,545	\$ 234,092
Less, fair value of pension plan assets at end of year	(12,158)	(13,648)	(101,317)
	15,933	12,897	132,775
Less, unrecognized actuarial differences (loss)	(7,263)	(4,417)	(60,525)
Unrecognized prior service cost of retroactive benefits granted by the pension plan amendment	180	200	1,500
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 8,850	¥ 8,680	\$ 73,750

Note: 1. The table above includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law.

2. Projected benefit obligation of consolidated subsidiaries was calculated using simplified calculation method as permitted by the accounting standard for employee retirement benefits.

3. The above table excluded the amounts for the assets not separately allocatable to some of the domestic consolidated subsidiaries in certain pension funds organized by others together with the consolidated subsidiaries or effectively restricted so that they cannot be used by the employees for other purpose, which amounted to ¥232 million (\$1,933 thousand) and ¥195 million at March 31, 2003 and 2002, respectively

	Millions of Yen		Thousands of U.S Dollars
	2003	2002	2003
Components of net periodic retirement benefit expense:			
Service cost	¥ 801	¥ 800	\$ 6,675
Interest cost	744	817	6,200
Expected return on pension plan assets	(392)	(491)	(3,267)
Amortization of actuarial differences	460	181	3,833
Amortization of prior service cost	(20)	(3)	(166)
Net periodic retirement benefit expense	¥ 1,593	¥ 1,304	\$ 13,275

Major assumptions used in calculation of the above information for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.5%	3.0%
Expected rate of return on pension plan assets	2.5%	3.0%
Amortization of actuarial differences	10 years	10 years
Amortization of prior service cost	10 years	10 years

7. Contingent Liabilities

At March 31, 2003 and 2002, the Japan Transcity Group was contingently liable for guarantees of indebtedness principally of affiliates in amounts of ¥2,983 million (\$24,858 thousand) and ¥3,726 million, respectively.

8. Lease Commitments

The Japan Transcity Group leases land and buildings to be used for office spaces and warehouses principally under long-term cancelable or noncancelable operating lease agreements, and also computer equipment, other equipment and vehicles which are not generally cancelable for mainly four-to-ten year contract terms as lessee.

Total rental and lease expenses including cancelable and noncancelable leases for the years ended March 31, 2003 and 2002 were ¥6,345 million (\$52,875 thousand) and ¥7,178 million, respectively. For the years ended March 31, 2003 and 2002, the lease expenses for noncancelable lease agreements which were categorized as financing leases amounted to ¥167 million (\$1,392 thousand) and ¥179 million, respectively.

The aggregate future minimum payments for noncancelable operating leases and financing leases, including the imputed interest, at March 31, 2003 and 2002 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Operating leases:			
Due within one year	¥ 966	¥ 959	\$ 8,050
Due after one year	6,590	7,150	54,917
	<u>¥ 7,556</u>	<u>¥ 8,109</u>	<u>\$ 62,967</u>
Financing leases:			
Due within one year	¥ 223	¥ 101	\$ 1,858
Due after one year	1,722	67	14,350
	<u>¥ 1,945</u>	<u>¥ 168</u>	<u>\$ 16,208</u>

9. Derivative Instruments

The Japan Transcity Group is a party to derivative instruments such as foreign currency forward exchange contracts or interest rate swap contracts in the normal course of business to reduce its own exposure to fluctuations in exchange rates or interest rates for the hedge purposes. As disclosed in Note 2(d), hedge accounting is qualified and all derivative instruments outstanding at March 31, 2003 and 2002 were accounted for by the hedge accounting. The Japan Transcity Group is exposed to credit loss in the event of nonperformance by the other parties. However, the Japan Transcity Group does not expect nonperformance by the counterparties.

10. Shareholders' Equity

The authorized number of shares of no par value common stock is 240 million at March 31, 2003, unless there may be a reduction due to a cancellation of treasury stock acquired.

Pursuant to the Commercial Code of Japan and the resolution by shareholders at the annual general meeting on June 27, 2003, the Company can purchase the treasury stock of the Company up to 5,000,000 shares in maximum consideration for ¥1,200 million (\$10,000 thousand) for the period through the date of its next annual shareholders' general meeting.

At March 31, 2003 and 2002, capital surplus consisted of additional paid-in capital, respectively. In addition, retained earnings included legal reserve of the Company in the amount of ¥1,200 million (\$10,000 thousand) at March 31, 2003 and 2002, respectively. The Commercial Code of Japan provides that an amount equivalent to at least 10% of cash payments as an appropriation of retained earnings shall be appropriated as a legal reserve until a total amount of additional paid-in capital and such legal reserve equals 25% of common stock. Such a legal reserve is not available for

dividend distribution, but may be used to reduce a deficit or may be transferred to common stock by proper actions of the Board of Directors and/or shareholders of the Company.

Shareholders of the Company approved the appropriation of retained earnings at the annual general meeting of shareholders on June 27, 2003 as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Cash dividends	¥ 251	\$ 2,092
Bonuses to directors and statutory auditors	36	300

11. Income Taxes

Income tax expenses for the years ended March 31, 2003 and 2002 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	2003	2002	2003
Income tax expenses:			
Current	¥ 1,055	¥ 632	\$ 8,792
Deferred	(440)	44	(3,667)
	<u>¥ 615</u>	<u>¥ 676</u>	<u>\$ 5,125</u>

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2003 and 2002 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	2003	2002	2003
Deferred tax assets:			
Enterprise tax accruals	¥ 63	¥ 23	\$ 525
Accrued bonuses to employees	387	322	3,225
Loss on devaluation of inventories	296	321	2,467
Employee retirement benefit liability	4,288	4,246	35,733
Accrued severance indemnities for officers	149	132	1,242
Intercompany capital gains	498	500	4,150
Net operating loss carryforward	237	213	1,975
Other	408	278	3,400
	<u>6,326</u>	<u>6,035</u>	<u>52,717</u>
Less, valuation allowance	<u>(606)</u>	<u>(594)</u>	<u>(5,050)</u>
Deferred tax assets	<u>5,720</u>	<u>5,441</u>	<u>47,667</u>
Deferred tax liabilities:			
Deferred capital gain	577	547	4,808
Accelerated depreciation	68	87	567
Unrealized gains on available-for-sale securities	378	633	3,150
Other	372	382	3,100
Deferred tax liabilities	<u>1,395</u>	<u>1,649</u>	<u>11,625</u>
Net deferred tax assets	<u>¥ 4,325</u>	<u>¥ 3,792</u>	<u>\$ 36,042</u>

At March 31, 2003 and 2002, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Deferred tax assets:			
Current	¥ 396	¥ 289	\$ 3,300
Non-current	3,933	3,506	32,775
Deferred tax liabilities:			
Non-current	4	3	33

In assessing the realizability of deferred tax assets, management of the Japan Transcity Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2003 and 2002, a valuation allowance was provided to reduce the deferred tax assets to the extent that the management believes that the amount of the deferred tax assets is expected to be realizable.

A reconciliation of the difference between the Japanese statutory effective tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2003 and 2002 was as follows:

	Percentage of pre-tax income			
	2003		2002	
Japanese statutory effective tax rate	41.4	%	41.4	%
Increase (decrease) due to:				
Permanently non-deductible expenses	7.2		5.9	
Tax exempt income	(2.4)		(2.8)	
Local minimum taxes per capita levy	3.4		2.5	
Income from the trust for retirement benefit plan	0.9		1.9	
Equity in net earnings of unconsolidated subsidiaries and affiliates	(9.0)		(6.0)	
Elimination of intercompany dividend	2.6		-	
Adjustments due to a change in tax rate	10.6		-	
Other	3.1		3.9	
Actual effective income tax rate	57.8	%	46.8	%

With the implementation of the 'Revision of the Local Tax Law' on March 31, 2003, the Japanese statutory effective tax rate used in the calculation of deferred tax assets or liabilities effective from the fiscal year beginning on April 1, 2004 has been changed from 41.4% to 40.1%. As a result, deferred income tax expenses increased by ¥112 million (\$933 thousand) for the year ended March 31, 2003.

12. Segment Information

The Japan Transcity Group's operations are classified into two major segments: Integrated logistics services and other services. Information by industry segment for the years ended March 31, 2003 and 2002 was summarized as follows:

	Integrated logistics services	Others	Total	Elimination	Consolidated
Millions of Yen					
For the year 2003:					
Operating revenues:					
Outside customers	¥ 67,062	¥ 2,403	¥ 69,465	¥ -	¥ 69,465
Inter-segment sales	4	1,852	1,856	(1,856)	-
Total operating revenues	67,066	4,255	71,321	(1,856)	69,465
Operating expenses	65,335	4,264	69,599	(1,876)	67,723
Operating income (Loss)	¥ 1,731	¥ (9)	¥ 1,722	¥ 20	¥ 1,742
Identifiable assets	¥ 84,296	¥ 9,700	¥ 93,996	¥ (2,297)	¥ 91,699
Depreciation	2,288	425	2,713	-	2,713
Capital expenditures	3,413	78	3,491	-	3,491
For the year 2002:					
Operating revenues:					
Outside customers	¥ 66,294	¥ 3,560	¥ 69,854	¥ -	¥ 69,854
Inter-segment sales	11	1,618	1,629	(1,629)	-
Total operating revenues	66,305	5,178	71,483	(1,629)	69,854
Operating expenses	64,621	4,951	69,572	(1,666)	67,906
Operating income	¥ 1,684	¥ 227	¥ 1,911	¥ 37	¥ 1,948
Identifiable assets	¥ 85,418	¥ 10,648	¥ 96,066	¥ (2,499)	¥ 93,567
Depreciation	2,432	405	2,837	-	2,837
Capital expenditures	9,223	263	9,486	-	9,486
Thousands of U.S. Dollars					
For the year 2003:					
Operating revenues:					
Outside customers	\$ 558,850	\$ 20,025	\$ 578,875	\$ -	\$ 578,875
Inter-segment sales	33	15,434	15,467	(15,467)	-
Total operating revenues	558,883	35,459	594,342	(15,467)	578,875
Operating expenses	544,458	35,534	579,992	(15,634)	564,358
Operating income (Loss)	\$ 14,425	\$ (75)	\$ 14,350	\$ 167	\$ 14,517
Identifiable assets	\$ 702,467	\$ 80,833	\$ 783,300	\$ (19,142)	\$ 764,158
Depreciation	19,067	3,541	22,608	-	22,608
Capital expenditures	28,442	650	29,092	-	29,092

Geographic segment information is not shown, as the operating revenues of overseas subsidiaries were not material. Information for overseas sales is not disclosed, as such sales are not material.

Note: Capital expenditures for the year ended March 31, 2002 included the increment of carrying values of land used for the Company's business in the amount of ¥5,204 million due to the revaluation of land. (See Note 2(p))

13. Financial Information of Japan Transcity Corporation (Parent)

Presented below are the non-consolidated balance sheets, non-consolidated statements of operations and shareholders' equity of Japan Transcity Corporation, the parent company, for the years ended March 31, 2003 and 2002.

Non-Consolidated Balance Sheets Japan Transcity Corporation (Parent) March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars
	2003	2002	2003
Assets			
Current assets:			
Cash and cash equivalents	¥ 7,183	¥ 7,600	\$ 59,858
Short-term investments	867	872	7,225
Trade receivables, net of allowance for doubtful accounts	12,055	13,420	100,458
Inventories	13	10	109
Deferred tax assets	178	175	1,483
Other current assets	1,028	1,096	8,567
Total current assets	21,324	23,173	177,700
Property and equipment, at cost	64,255	64,265	535,458
Less, accumulated depreciation	(26,342)	(25,572)	(219,517)
Net property and equipment	37,913	38,693	315,941
Investments and other assets:			
Investment securities	4,107	5,045	34,225
Investments in and long-term loans to subsidiaries and affiliates	3,014	2,915	25,117
Deferred tax assets	3,136	2,754	26,133
Lease deposits	899	876	7,492
Other assets	1,206	1,464	10,050
Allowance for doubtful accounts	(171)	(151)	(1,425)
Total investments and other assets	12,191	12,903	101,592
	¥ 71,428	¥ 74,769	\$ 595,233
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings	¥ 4,325	¥ 4,395	\$ 36,042
Current maturities of long-term debt	2,460	3,340	20,500
Trade payables	6,922	6,699	57,683
Accrued expenses	870	899	7,250
Income taxes payable	527	206	4,392
Other current liabilities	1,836	1,922	15,300
Total current liabilities	16,940	17,461	141,167
Long-term debt	18,004	20,009	150,033
Employee retirement benefit liability	7,649	7,526	63,741
Deferred tax liabilities for revaluation	1,931	2,154	16,092
Accrued severance indemnities for officers	330	289	2,750
Other non-current liabilities	180	182	1,500
Shareholders' equity:			
Common stock	7,792	7,792	64,933
Capital surplus	5,908	5,908	49,233
Retained earnings	9,531	9,621	79,425
Land revaluation increment	2,885	3,050	24,042
Net unrealized gains on available-for-sale securities	452	780	3,767
Less, treasury stock, at cost	(174)	(3)	(1,450)
Total shareholders' equity	26,394	27,148	219,950
	¥ 71,428	¥ 74,769	\$ 595,233

Non-Consolidated Statements of Operations
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of
	2003	2002	U.S. Dollars
Operating revenues	¥ 64,444	¥ 63,276	\$ 537,033
Operating expenses	63,099	61,880	525,825
Operating income	1,345	1,396	11,208
Other income (expenses):			
Interest and dividend income	158	145	1,317
Interest expenses	(320)	(508)	(2,666)
Net loss on sale or devaluation of securities	(434)	(149)	(3,617)
Miscellaneous, net	(123)	(7)	(1,025)
	(719)	(519)	(5,991)
Income before income taxes	626	877	5,217
Income tax expenses:			
Current	760	446	6,333
Deferred	(298)	(0)	(2,483)
Total income tax expenses	462	446	3,850
Net income	¥ 164	¥ 431	\$ 1,367
Per share:			
Net income:			
- Basic	¥ 2.01	¥ 6.20	\$ 0.02
- Diluted	2.01	5.71	0.02
Cash dividends	¥ 7.00	¥ 7.00	\$ 0.06

Non-Consolidated Statements of Shareholders' Equity
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2003 and 2002

	Common stock	Capital surplus	Retained earnings	Land revaluation increment	Net unrealized gains on available-for- sale securities	Treasury stock
Millions of Yen						
Balance at March 31, 2001	¥ 7,792	¥ 5,908	¥ 9,708	¥ -	¥ 1,415	¥ -
Net income for the year	-	-	431	-	-	-
Cash dividends	-	-	(477)	-	-	-
Bonuses to directors and statutory auditors	-	-	(41)	-	-	-
Revaluation increment on land	-	-	-	3,050	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	(635)	-
Fractional shares acquired, net	-	-	-	-	-	(3)
Balance at March 31, 2002	7,792	5,908	9,621	3,050	780	(3)
Net income for the year	-	-	164	-	-	-
Cash dividends	-	-	(445)	-	-	-
Bonuses to directors and statutory auditors	-	-	(37)	-	-	-
Reversal of land revaluation increment	-	-	228	(228)	-	-
Adjustment for applicable income taxes	-	-	-	63	9	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	(337)	-
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	-	(171)
Balance at March 31, 2003	¥ 7,792	¥ 5,908	¥ 9,531	¥ 2,885	¥ 452	¥ (174)
Thousand of U.S. Dollars						
Balance at March 31, 2002	\$ 64,933	\$ 49,233	\$ 80,175	\$ 25,417	\$ 6,500	\$ (25)
Net income for the year	-	-	1,367	-	-	-
Cash dividends	-	-	(3,708)	-	-	-
Bonuses to directors and statutory auditors	-	-	(309)	-	-	-
Reversal of land revaluation increment	-	-	1,900	(1,900)	-	-
Adjustment for applicable income taxes	-	-	-	525	75	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	(2,808)	-
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	-	(1,425)
Balance at March 31, 2003	\$ 64,933	\$ 49,233	\$ 79,425	\$ 24,042	\$ 3,767	\$ (1,450)