Japan Transcity Corporation

Audited Consolidated Financial Statements

March 31, 2004 and 2003

ChuoAoyama PricewaterhouseCoopers

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, 2004 and 2003, 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 generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our 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, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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 PricewaterhouseCoopers
Nagoya, Japan
June 29, 2004

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets			
Current assets:			
Cash and cash equivalents	¥ 11,752	¥ 10,408	$ 111,924
Short-term investments (Notes 4 and 5)	119	912	1,133
Trade receivables:			
Notes	935	1,145	8,905
Accounts	12,341	11,528	117,533
Allowance for doubtful accounts	(18)	(25)	(171)
	13,258	12,648	126,267
Inventories (Note 3)	2,063	2,596	19,647
Deferred tax assets (Note 11)	454	396	4,324
Other current assets	1,108	1,190	10,552
Total current assets	28,754	28,150	273,847
Property and equipment, at cost (Note 5):			
Land	31,343	31,300	298,505
Buildings and structures	40,193	39,639	382,790
Machinery and equipment	9,387	9,522	89,400
Vehicles and vessels	9,353	9,476	89,076
Construction in progress	3	46	29
	90,279	89,983	859,800
Less, accumulated depreciation	(40,570)	(39,223)	(386,381)
Net property and equipment	49,709	50,760	473,419
Investments and other assets:			
Investment securities (Notes 4 and 5)	7,327	4,455	69,781
Investments in and long-term loans to unconsolidated subsidiaries and affiliates (Note 4)	2,492	2,393	23,733
Deferred tax assets (Note 11)	2,972	3,933	28,305
Lease deposits	882	930	8,400
Other assets (Note 5)	1,351	1,250	12,867
Allowance for doubtful accounts	(124)	(172)	(1,181)
Total investments and other assets	14,900	12,789	141,905
	¥ 93,363	¥ 91,699	$ 889,171

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen				Thousands of U.S. Dollars	
	2004		2003		2004	
Liabilities, Minority Interests and Shareholders' Equity						
Current liabilities:						
Short-term borrowings (Note 5)	¥	8,300	¥	8,101	$	79,048
Current maturities of long-term debt (Note 5)		2,057		3,423		19,590
Trade payables:						
Notes		1,377		1,732		13,114
Accounts		5,418		5,181		51,600
		6,795		6,913		64,714
Accrued expenses		1,639		1,653		15,610
Income taxes payable		615		734		5,857
Other current liabilities		1,424		2,124		13,562
Total current liabilities		20,830		22,948		198,381
Long-term debt (Note 5)		25,206		23,595		240,057
Employee retirement benefit liability (Note 6)		9,114		8,850		86,800
Guarantee deposits received (Note 5)		4,501		4,584		42,866
Deferred tax liabilities for revaluation		1,903		1,931		18,124
Accrued severance indemnities for officers		397		371		3,781
Other non-current liabilities (Note 11)		218		217		2,076
Commitments and contingent liabilities (Notes 7 and 8)						
Minority interests in consolidated subsidiaries		832		767		7,924
Shareholders' equity (Note 10):						
Common stock, no par value- Authorized: 240,000,000 shares, Issued: 63,613,246 shares in 2004 and 2003		7,792		7,792		74,210
Capital surplus		5,908		5,908		56,267
Retained earnings		12,292		11,514		117,067
Land revaluation increment		2,842		2,885		27,067
Net unrealized gains on available-for-sale securities		2,164		522		20,609
Foreign currency translation adjustment		(35)		(11)		(334)
Less, treasury stock, at cost – 2,807,251 shares in 2004 and 786,974 shares in 2003		(601)		(174)		(5,724)
		30,362		28,436		289,162
	¥	93,363	¥	91,699	$	889,171

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Operating revenues (Note 12)	¥ 73,230	¥ 69,465	$ 697,429
Operating expenses (Notes 6, 8 and 12)	70,871	67,723	674,962
Operating income	2,359	1,742	22,467
Other income (expenses) :			
Interest and dividend income	74	102	705
Interest expenses	(455)	(459)	(4,334)
Equity in net earnings of unconsolidated subsidiaries and affiliates	224	232	2,133
Net gain (loss) on sale or devaluation of securities	32	(447)	305
Other, net	(48)	(107)	(457)
	(173)	(679)	(1,648)
Income before income taxes and minority interests	2,186	1,063	20,819
Income tax expenses (Note 11)	944	615	8,990
Less, minority interests in net income of consolidated subsidiaries	36	14	343
Net income	¥ 1,206	¥ 434	$ 11,486

	Yen		U.S. Dollars
Per share:			
Net income:			
-Basic	¥ 19.14	¥ 6.26	$ 0.18
-Diluted	16.02	5.63	0.15
Cash dividends	7.00	7.00	0.07

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Shareholders' Equity
For the Years Ended March 31, 2004 and 2003

	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, 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 in 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)
Net income for the year	-	-	-	1,206	-	-	-	-
Cash dividends	-	-	-	(433)	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(37)	-	-	-	-
Reversal of land revaluation increment	-	-	-	42	(42)	-	-	-
Adjustment for applicable income taxes	-	-	-	-	(1)	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	1,642	-	-
Translation adjustment	-	-	-	-	-	-	(24)	-
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	-	-	-	(427)
Balance at March 31, 2004	63,613,246	¥ 7,792	¥ 5,908	¥ 12,292	¥ 2,842	¥ 2,164	¥ (35)	¥ (601)
		Thousands of U.S. Dollars						
Balance at March 31, 2003		$ 74,210	$ 56,267	$ 109,657	$ 27,476	$ 4,971	$ (105)	$ (1,657)
Net income for the year		-	-	11,486	-	-	-	-
Cash dividends		-	-	(4,124)	-	-	-	-
Bonuses to directors and statutory auditors		-	-	(352)	-	-	-	-
Reversal of land revaluation increment		-	-	400	(400)	-	-	-
Adjustment for applicable income taxes		-	-	-	(9)	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes		-	-	-	-	15,638	-	-
Translation adjustment		-	-	-	-	-	(229)	-
Purchase of treasury stock and fractional shares acquired, net		-	-	-	-	-	-	(4,067)
Balance at March 31, 2004		$ 74,210	$ 56,267	$ 117,067	$ 27,067	$ 20,609	$ (334)	$ (5,724)

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,186	¥ 1,063	$ 20,819
Adjustments for:			
Depreciation	2,676	2,713	25,486
Net provision for employee retirement benefit liability	264	170	2,514
Net (gain) loss on sale or devaluation of securities	(32)	447	(305)
(Increase) decrease in trade receivables	(498)	1,563	(4,743)
Decrease (increase) in inventories	186	(3)	1,771
Decrease in trade payables	(120)	(15)	(1,143)
Other, net	(519)	92	(4,942)
Sub-total	4,143	6,030	39,457
Interest and dividend received	109	138	1,038
Interest paid	(462)	(507)	(4,400)
Income taxes paid	(1,294)	(626)	(12,324)
Net cash provided by operating activities	2,496	5,035	23,771
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(1,732)	(5,761)	(16,495)
Acquisition, net of cash acquired	(29)	(1)	(276)
Decrease in short-term investments	793	13	7,552
Other, net	212	554	2,019
Net cash used in investing activities	(756)	(5,195)	(7,200)
Cash flows from financing activities:			
Increase in long-term debt	3,897	4,286	37,114
Repayment of long-term debt	(3,652)	(3,693)	(34,781)
Increase (decrease) in short-term borrowings	201	(257)	1,914
Dividends paid	(434)	(445)	(4,133)
Other, net	(429)	(173)	(4,085)
Net cash used in financing activities	(417)	(282)	(3,971)
Effect of exchange rate changes on cash and cash equivalents	(7)	(4)	(67)
Net increase (decrease) in cash and cash equivalents	1,316	(446)	12,533
Cash and cash equivalents at beginning of year	10,408	10,854	99,124
Increase in cash and cash equivalents upon inclusion of additional subsidiary on consolidation	28	-	267
Cash and cash equivalents at end of year	¥ 11,752	¥ 10,408	$ 111,924

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 on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Securities and Exchange Law of Japan and submitted to the Director of Kanto Finance Bureau of 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 ¥105 to $1, the approximate rate of exchange at March 31, 2004. 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 ¥105 to $1 or at any other rate.

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, 2004 and 2003 was as follows:

	2004	2003
Consolidated subsidiaries	24	23
Unconsolidated subsidiaries and affiliates, accounted for by the equity method	7	8
Unconsolidated subsidiaries, stated at cost	11	10
Affiliates, stated at cost	3	3

All inter-company accounts and transactions have been eliminated on consolidation.

The accompanying consolidated financial statements included the accounts of overseas consolidated subsidiaries (two subsidiaries in 2004 and one subsidiary in 2003). Such overseas consolidated subsidiaries close their books at December 31 every year, three months earlier than the Company and other domestic consolidated subsidiaries. The Company consolidated such subsidiaries' financial statements as of their year-end. Significant transactions for the period between subsidiaries' year-end and the Company's year-end are adjusted on consolidation.

Overseas consolidated subsidiaries adopt accounting principles generally accepted in their countries, and no adjustments to conform to accounting principles generally accepted in Japan have been made to their financial statements on consolidation as allowed under accounting principles 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. Marketable securities with available 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. Non-marketable 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 hedge 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. 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.

In accordance with the accounting standard for employee retirement benefits, the Japan Transcity Group has recognized the retirement benefits for employees including pension cost and related liability based on actuarial present value of projected benefit obligation using actuarial appraisal approach and the pension plan assets available for benefits at the fiscal year-ends. 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 it occurs.

In conjunction with enforcement of the Defined Benefit Enterprise Pension Plan Law, the Company received an approval from the Minister of Health, Labor and Welfare of Japan, for exemption from payment of future benefit regarding the substituted portion of the employee pension fund on January 1, 2004. As of March 31, 2004, pension plan assets equivalent to the amount to be returned to the Japanese Government amounted to ¥7,341 million ($69,914 thousand). As the Company has not elected to apply for the transitional accounting treatment specified in paragraph 47-2 of the "Practical Guidelines of Accounting for Retirement Benefits (Interim Report)" (Accounting Committee Report No.13 issued by the Japanese Institute of Certified Public Accountants), the Company has not recognized an extinguishment of retirement benefit obligation with respect to such substituted portion as of the date of the approval. If the Company had applied for the transitional treatment as of the current fiscal year ended March 31, 2004, an other income of ¥3,299 million ($31,419 thousand) would have been recognized on the accompanying consolidated statements of income. The Company expects to complete such procedures for a return of pension plan assets to the Japanese government in a year

(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 as deferred tax liabilities 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, 2004 and 2003, the difference of the carrying values of land used for the Company's business after reassessment over the current market value at the fiscal year-ends amounted to ¥4,349 million ($41,419 thousand) and ¥2,835 million, respectively.

(q) Per share data

Basic 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. Cash dividends per share for each fiscal year in the accompanying consolidated statements of income represent dividends declared by the Company as applicable to the respective years.

(r) Adoption of new accounting standards

On August 9, 2002, the Business Accounting Council of Japan issued “Accounting Standard for Impairment of Fixed Assets”. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset’s net selling price and value in use. The standard shall be effective for fiscal years beginning April 1, 2005, with earlier adoption permitted. The Company has not determined the timing of adoption and cannot estimate the financial impact of this new accounting standard at the date of adoption at present. However, the Company believes that any such impact would be a charge to earnings.

3. Inventories

At March 31, 2004 and 2003, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Real estate held for sale	¥ 2,006	¥ 2,530	$ 19,104
Supplies and other	57	66	543
	¥ 2,063	¥ 2,596	$ 19,647

4. Investments

At March 31, 2004 and 2003, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2004 and 2003, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Marketable securities:			
Equity securities	¥ 6,462	¥ 3,600	$ 61,543
Bonds	-	1	-
Other	41	41	390
	6,503	3,642	61,933
Other non-marketable securities	824	813	7,848
	¥ 7,327	¥ 4,455	$ 69,781

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, 2004 and 2003, 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, 2004:				
Equity securities	¥ 2,759	¥ 3,729	¥ (26)	¥ 6,462
Other	40	1	-	41
	¥ 2,799	¥ 3,730	¥ (26)	¥ 6,503
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
	¥ 2,706	¥ 1,055	¥ (119)	¥ 3,642
	Thousands of U.S. Dollars			
Available-for-sale securities at March 31, 2004:				
Equity securities	$ 26,276	$ 35,515	$ (248)	$ 61,543
Other	381	9	-	390
	$ 26,657	$ 35,524	$ (248)	$ 61,933

During the year ended March 31, 2003, the Japan Transcity Group recorded a loss on devaluation of marketable investment securities due to a permanent diminution in value in the amount of ¥462 million. For the year ended march 31, 2004, the Japan Transcity Group recorded no loss on devaluation of marketable investment securities.

At March 31, 2004 and 2003, investments in and long-term loans to unconsolidated subsidiaries and affiliates consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Investments, accounted for by the equity method for significant unconsolidated subsidiaries and affiliates, and stated at cost for others	¥ 2,492	¥ 2,359	$ 23,733
Interest bearing long-term loans	-	34	-
	¥ 2,492	¥ 2,393	$ 23,733

5. Short-term Borrowings and Long-term Debt

At March 31, 2004 and 2003, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Short-term bank loans or bank overdrafts with interest rates ranging from 0.54% to 1.92% per annum at March 31, 2004:			
Collateralized	¥ 3,451	¥ 3,360	$ 32,867
Unsecured	4,849	4,741	46,181
	¥ 8,300	¥ 8,101	$ 79,048

At March 31, 2004 and 2003, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
0.85% convertible bonds due September 2005	¥ 7,459	¥ 7,459	$ 71,038
Zero coupon convertible bonds due March 2008	1,500	-	14,286
1.47% unsecured bonds due July 2008	2,500	2,500	23,809
1.41% unsecured bonds due July 2008	1,500	1,500	14,286
1.76% unsecured bonds due September 2008	4,000	4,000	38,095
Long-term loans from banks and other financial institutions due through 2022 with interest rates ranging from 0.05% to 3.08% per annum at March 31, 2004:			
Collateralized	3,672	3,887	34,971
Unsecured	6,632	7,672	63,162
	27,263	27,018	259,647
Less, current maturities	(2,057)	(3,423)	(19,590)
	¥ 25,206	¥ 23,595	$ 240,057

At March 31, 2004, the current conversion price of 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, 2004, the current conversion price of zero coupon convertible bonds due March 2008 is ¥285 per share and is subject to adjustment under certain circumstances, including stock splits. At March 31, 2004, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 19 million.

The aggregate annual maturities of long-term debt at March 31, 2004 was as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2005	¥ 2,057	$ 19,590
2006	8,018	76,362
2007	1,108	10,552
2008	1,936	18,438
2009	9,977	95,019
2010 and thereafter	4,167	39,686
	¥ 27,263	$ 259,647

At March 31, 2004, the following assets were pledged as collateral for short-term borrowing, long-term debt and employees' savings deposits:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits included in short-term investments	¥ 32	$ 305
Land	8,064	76,800
Buildings and structures	2,024	19,276
Machinery and equipment, and other property	163	1,552
Investment securities and other assets	38	362

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, 2004 and 2003:

	Millions of Yen		Thousands of U.S Dollars
	2004	2003	2004
Reconciliation of benefit liability:			
Projected benefit obligation	¥ 27,495	¥ 28,091	$ 261,857
Less, fair value of pension plan assets at end of year	(15,230)	(12,158)	(145,047)
	12,265	15,933	116,810
Less, unrecognized actuarial differences (loss)	(4,218)	(7,263)	(40,172)
Unrecognized prior service cost of retroactive benefits granted by the pension plan amendment	1,067	180	10,162
Net amount of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 9,114	¥ 8,850	$ 86,800

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 the 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 ¥197 million ($1,876 thousand) and ¥232 million at March 31, 2004 and 2003, respectively

	Millions of Yen		Thousands of U.S Dollars
	2004	2003	2004
Components of net periodic retirement benefit expense:			
Service cost	¥ 750	¥ 801	$ 7,143
Interest cost	655	744	6,238
Expected return on pension plan assets	(291)	(392)	(2,771)
Amortization of actuarial differences	791	460	7,533
Amortization of prior service cost	(44)	(20)	(419)
Net periodic retirement benefit expense	¥ 1,861	¥ 1,593	$ 17,724

Major assumptions used in the calculation of the above information for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.5%	2.5%
Expected rate of return on pension plan assets	2.5%	2.5%
Amortization of actuarial differences	10 years	10 years
Amortization of prior service cost	10 years	10 years

7. Contingent Liabilities

At March 31, 2004 and 2003, the Japan Transcity Group was contingently liable for guarantees of indebtedness principally of affiliates in amounts of ¥2,416 million ($23,010 thousand) and ¥2,983 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 non-cancelable 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 non-cancelable leases for the years ended March 31, 2004 and 2003 were ¥6,062 million ($57,733 thousand) and ¥6,345 million, respectively. For the years ended March 31, 2004 and 2003, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥275 million ($2,619 thousand) and ¥167 million, respectively.

The aggregate future minimum payments for non-cancelable operating leases and financing leases, including the imputed interest, at March 31, 2004 and 2003 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2004		2003		2004	
Operating leases:						
Due within one year	¥	932	¥	966	$	8,876
Due after one year		5,644		6,590		53,753
	¥	6,576	¥	7,556	$	62,629
Financing leases:						
Due within one year	¥	274	¥	223	$	2,609
Due after one year		1,773		1,722		16,886
	¥	2,047	¥	1,945	$	19,495

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, 2004 and 2003 were accounted for by the hedge accounting. The Japan Transcity Group is exposed to credit loss in the event of nonperformance by 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, 2004, unless there may be a reduction due to a cancellation of treasury stock acquired.

Pursuant to the Commercial Code of Japan and the Company’s amended articles of incorporation approved by shareholders at the annual general meeting on June 29, 2004, the Company can purchase the treasury stock subject to the resolution of the Board of Directors from that date.

At March 31, 2004 and 2003, capital surplus consisted of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥1,200 million ($11,429 thousand) at March 31, 2004 and 2003, 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 29, 2004 as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Cash dividends	¥	243	$	2,314
Bonuses to directors and statutory auditors		39		371

11. Income Taxes

Income tax expenses for the years ended March 31, 2004 and 2003 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Income tax expenses:			
Current	¥ 1,180	¥ 1,055	$ 11,238
Deferred	(236)	(440)	(2,248)
	¥ 944	¥ 615	$ 8,990

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2004 and 2003 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Enterprise tax accruals	¥ 54	¥ 63	$ 514
Accrued bonuses to employees	445	387	4,238
Loss on devaluation of inventories	234	296	2,229
Employee retirement benefit liability	4,491	4,288	42,771
Accrued severance indemnities for officers	159	149	1,514
Inter-company capital gains	490	498	4,667
Net operating loss carryforward	285	237	2,714
Other	341	408	3,248
	6,499	6,326	61,895
Less, valuation allowance	(603)	(606)	(5,743)
Deferred tax assets	5,896	5,720	56,152
Deferred tax liabilities:			
Deferred capital gain	560	577	5,333
Accelerated depreciation	51	68	486
Unrealized gains on available-for-sale securities	1,489	378	14,181
Other	382	372	3,638
Deferred tax liabilities	2,482	1,395	23,638
Net deferred tax assets	¥ 3,414	¥ 4,325	$ 32,514

At March 31, 2004 and 2003, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets:			
Current	¥ 454	¥ 396	$ 4,324
Non-current	2,972	3,933	28,305
Deferred tax liabilities:			
Non-current	12	4	115

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, 2004 and 2003, 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 year ended March 31, 2003 was as follows:

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

The reconciliation for the year ended March 31, 2004 was not disclosed, as such difference was not material.

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, 2004 and 2003 was summarized as follows:

	Integrated logistics services	Others	Total	Elimination	Consolidated
	Millions of Yen				
For the year 2004:					
Operating revenues:					
Outside customers	¥ 70,834	¥ 2,396	¥ 73,230	¥ -	¥ 73,230
Inter-segment sales	4	2,307	2,311	(2,311)	-
Total operating revenues	70,838	4,703	75,541	(2,311)	73,230
Operating expenses	68,627	4,521	73,148	(2,277)	70,871
Operating income	¥ 2,211	¥ 182	¥ 2,393	¥ (34)	¥ 2,359
Identifiable assets	¥ 87,642	¥ 9,056	¥ 96,698	¥ (3,335)	¥ 93,363
Depreciation	2,287	389	2,676	-	2,676
Capital expenditures	1,087	117	1,204	-	1,204
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
	Thousands of U.S. Dollars				
For the year 2004:					
Operating revenues:					
Outside customers	$ 674,610	$ 22,819	$ 697,429	$ -	$ 697,429
Inter-segment sales	38	21,971	22,009	(22,009)	-
Total operating revenues	674,648	44,790	719,438	(22,009)	697,429
Operating expenses	653,591	43,057	696,648	(21,686)	674,962
Operating income	$ 21,057	$ 1,733	$ 22,790	$ (323)	$ 22,467
Identifiable assets	$ 834,686	$ 86,247	$ 920,933	$ (31,762)	$ 889,171
Depreciation	21,781	3,705	25,486	-	25,486
Capital expenditures	10,353	1,114	11,467	-	11,467

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

13. Financial Information of Japan Transcity Corporation (Parent)

Presented below are the non-consolidated balance sheets, non-consolidated statements of income and shareholders' equity of Japan Transcity Corporation, the parent company, for the years ended March 31, 2004 and 2003.

Non-Consolidated Balance Sheets
Japan Transcity Corporation (Parent)
March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Assets			
Current assets:			
Cash and cash equivalents	¥ 8,224	¥ 7,183	$ 78,324
Short-term investments	38	867	362
Trade receivables, net of allowance for doubtful accounts	12,574	12,055	119,752
Inventories	18	13	172
Deferred tax assets	260	178	2,476
Other current assets	1,073	1,028	10,219
Total current assets	22,187	21,324	211,305
Property and equipment, at cost	64,372	64,255	613,067
Less, accumulated depreciation	(27,129)	(26,342)	(258,372)
Net property and equipment	37,243	37,913	354,695
Investments and other assets:			
Investment securities	6,823	4,107	64,981
Investments in and long-term loans to subsidiaries and affiliates	3,008	3,014	28,648
Deferred tax assets	2,257	3,136	21,495
Lease deposits	849	899	8,086
Other assets	1,331	1,206	12,676
Allowance for doubtful accounts	(122)	(171)	(1,162)
Total investments and other assets	14,146	12,191	134,724
	¥ 73,576	¥ 71,428	$ 700,724
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings	¥ 4,196	¥ 4,325	$ 39,962
Current maturities of long-term debt	1,353	2,460	12,886
Trade payables	7,153	6,922	68,124
Accrued expenses	851	870	8,105
Income taxes payable	428	527	4,076
Other current liabilities	1,194	1,836	11,371
Total current liabilities	15,175	16,940	144,524
Long-term debt	20,354	18,004	193,848
Employee retirement benefit liability	7,950	7,649	75,714
Deferred tax liabilities for revaluation	1,903	1,931	18,124
Accrued severance indemnities for officers	350	330	3,333
Other non-current liabilities	175	180	1,667
Shareholders' equity:			
Common stock	7,792	7,792	74,210
Capital surplus	5,908	5,908	56,267
Retained earnings	9,699	9,531	92,371
Land revaluation increment	2,842	2,885	27,067
Net unrealized gains on available-for-sale securities	2,029	452	19,323
Less, treasury stock, at cost	(601)	(174)	(5,724)
Total shareholders' equity	27,669	26,394	263,514
	¥ 73,576	¥ 71,428	$ 700,724

Non-Consolidated Statements of Income
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Operating revenues	¥ 67,900	¥ 64,444	$ 646,666
Operating expenses	66,582	63,099	634,114
Operating income	1,318	1,345	12,552
Other income (expenses):			
Interest and dividend income	145	158	1,381
Interest expenses	(295)	(320)	(2,809)
Net gain (loss) on sale or devaluation of securities	32	(434)	305
Miscellaneous, net	(44)	(123)	(419)
	(162)	(719)	(1,542)
Income before income taxes	1,156	626	11,010
Income tax expenses:			
Current	848	760	8,076
Deferred	(288)	(298)	(2,742)
Total income tax expenses	560	462	5,334
Net income	¥ 596	¥ 164	$ 5,676

	Yen		U.S. Dollars
Per share:			
Net income:			
- Basic	¥ 9.14	¥ 2.01	$ 0.09
- Diluted	7.91	2.01	0.08
Cash dividends	7.00	7.00	0.07

Non-Consolidated Statements of Shareholders' Equity
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2004 and 2003

	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, 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)
Net income for the year	-	-	596	-	-	-
Cash dividends	-	-	(433)	-	-	-
Bonuses to directors and statutory auditors	-	-	(37)	-	-	-
Revaluation increment on land	-	-	42	(42)	-	-
Adjustment for applicable income taxes	-	-	-	(1)	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	-
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	1,577	(427)
Balance at March 31, 2004	¥ 7,792	¥ 5,908	¥ 9,699	¥ 2,842	¥ 2,029	¥ (601)
	Thousand of U.S. Dollars					
Balance at March 31, 2003	$ 74,210	$ 56,267	$ 90,771	$ 27,476	$ 4,304	$ (1,657)
Net income for the year	-	-	5,676	-	-	-
Cash dividends	-	-	(4,124)	-	-	-
Bonuses to directors and statutory auditors	-	-	(352)	-	-	-
Reversal of land revaluation increment	-	-	400	(400)	-	-
Adjustment for applicable income taxes	-	-	-	(9)	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	15,019	-
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	-	(4,067)
Balance at March 31, 2004	$ 74,210	$ 56,267	$ 92,371	$ 27,067	$ 19,323	$ (5,724)