Japan Transcity Corporation

Audited Consolidated Financial Statements

March 31, 2005 and 2004

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, 2005 and 2004, 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, 2005 and 2004, 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, 2005

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Assets			
Current assets:			
Cash and cash equivalents	¥ 11,219	¥ 11,752	$ 104,850
Short-term investments (Notes 4 and 5)	323	119	3,019
Trade receivables:			
Notes	886	935	8,281
Accounts	11,991	12,341	112,065
Allowance for doubtful accounts	(20)	(18)	(187)
	12,857	13,258	120,159
Inventories (Note 3)	554	2,063	5,178
Deferred tax assets (Note 11)	439	454	4,103
Other current assets	1,374	1,108	12,841
Total current assets	26,766	28,754	250,150
Property and equipment, at cost (Note 5):			
Land	31,947	31,343	298,570
Buildings and structures	39,889	40,193	372,795
Machinery and equipment	9,355	9,387	87,430
Vehicles and vessels	9,333	9,353	87,224
Construction in progress	732	3	6,841
	91,256	90,279	852,860
Less, accumulated depreciation	(40,992)	(40,570)	(383,103)
Net property and equipment	50,264	49,709	469,757
Investments and other assets:			
Investment securities (Notes 4 and 5)	7,414	7,327	69,289
Investments in unconsolidated subsidiaries and affiliates	2,631	2,492	24,589
Deferred tax assets (Note 11)	1,426	2,972	13,327
Lease deposits	888	882	8,299
Other assets (Note 5)	1,212	1,351	11,327
Allowance for doubtful accounts	(76)	(124)	(710)
Total investments and other assets	13,495	14,900	126,121
	¥ 90,525	¥ 93,363	$ 846,028

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 5)	¥ 4,151	¥ 8,300	$ 38,794
Current maturities of long-term debt (Note 5)	8,076	2,057	75,477
Trade payables:			
Notes	1,856	1,377	17,346
Accounts	6,009	5,418	56,159
	7,865	6,795	73,505
Accrued expenses	1,628	1,639	15,215
Income taxes payable	296	615	2,766
Other current liabilities	1,622	1,424	15,159
Total current liabilities	23,638	20,830	220,916
Long-term debt (Note 5)	18,957	25,206	177,168
Employee retirement benefit liability (Note 6)	5,372	9,114	50,206
Guarantee deposits received	4,608	4,501	43,066
Deferred tax liabilities for revaluation	1,819	1,903	17,000
Accrued severance indemnities for officers	403	397	3,766
Other non-current liabilities (Note 11)	47	218	439
Commitments and contingent liabilities (Notes 7 and 8)			
Minority interests in consolidated subsidiaries	1,039	832	9,710
Shareholders' equity (Note 10):			
Common stock, no par value- Authorized: 240,000,000 shares, Issued: 64,262,367 shares in 2005 and 63,613,246 shares in 2004	7,884	7,792	73,682
Capital surplus	6,193	5,908	57,879
Retained earnings	15,731	12,292	147,019
Land revaluation increment	2,717	2,842	25,393
Net unrealized gains on available-for-sale securities	2,188	2,164	20,448
Foreign currency translation adjustment	(58)	(35)	(542)
Less, treasury stock, at cost – 52,261 shares in 2005 and 2,807,251 shares in 2004	(13)	(601)	(122)
	34,642	30,362	323,757
	¥ 90,525	¥ 93,363	$ 846,028

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Operating revenues (Note 12)	¥ 78,393	¥ 73,230	$ 732,645
Operating expenses (Notes 6, 8 and 12)	75,045	70,871	701,355
Operating income	3,348	2,359	31,290
Other income (expenses) :			
Interest and dividend income	98	74	916
Interest expenses	(424)	(455)	(3,963)
Equity in net earnings of unconsolidated subsidiaries and affiliates	274	224	2,561
Loss on sale or disposal of property and equipment	(510)	(33)	(4,767)
Gain on return of substituted portion of the employee welfare pension fund	3,673	-	34,327
Other, net	(466)	17	(4,355)
	2,645	(173)	24,719
Income before income taxes and minority interests	5,993	2,186	56,009
Income tax expenses (Note 11)	2,203	944	20,588
Less, minority interests in net income of consolidated subsidiaries	72	36	673
Net income	¥ 3,718	¥ 1,206	$ 34,748

	Yen		U.S. Dollars
Per share:			
Net income:			
-Basic	¥ 59.54	¥ 19.14	$ 0.56
-Diluted	45.32	16.02	0.42
Cash dividends	7.50	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, 2005 and 2004

	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, 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)
Net income for the year	-	-	-	3,718	-	-	-	-
Cash dividends	-	-	-	(428)	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(39)	-	-	-	-
Increase in retained earnings through inclusion of additional subsidiary on consolidation	-	-	-	63	-	-	-	-
Reversal of land revaluation increment	-	-	-	125	(125)	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	24	-	-
Translation adjustment	-	-	-	-	-	-	(23)	-
Conversion of convertible bonds, including delivery of treasury stock held	649,121	92	285	-	-	-	-	608
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	-	-	-	(20)
Balance at March 31, 2005	64,262,367	¥ 7,884	¥ 6,193	¥ 15,731	¥ 2,717	¥ 2,188	¥ (58)	¥ (13)

	Common stock	Capital surplus	Retained earnings	Land revaluation increment	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
	Thousands of U.S. Dollars						
Balance at March 31, 2004	$ 72,822	$ 55,215	$ 114,879	$ 26,561	$ 20,224	$ (327)	$ (5,617)
Net income for the year	-	-	34,748	-	-	-	-
Cash dividends	-	-	(4,000)	-	-	-	-
Bonuses to directors and statutory auditors	-	-	(364)	-	-	-	-
Increase in retained earnings through inclusion of additional subsidiary on consolidation	-	-	588	-	-	-	-
Reversal of land revaluation increment	-	-	1,168	(1,168)	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	224	-	-
Translation adjustment	-	-	-	-	-	(215)	-
Conversion of convertible bonds, including delivery of treasury stock held	860	2,664	-	-	-	-	5,682
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	-	-	(187)
Balance at March 31, 2005	$ 73,682	$ 57,879	$ 147,019	$ 25,393	$ 20,448	$ (542)	$ (122)

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 5,993	¥ 2,186	$ 56,009
Adjustments for:			
Depreciation	2,533	2,676	23,673
Net (reversal) provision for employee retirement benefit liability	(73)	264	(682)
Gain on return of substituted portion of the employee welfare pension fund	(3,673)	-	(34,327)
Decrease (increase) in trade receivables	554	(498)	5,178
Decrease in inventories	194	186	1,813
Increase (decrease) in trade payables	796	(120)	7,439
Other, net	713	(551)	6,663
Sub-total	7,037	4,143	65,766
Interest and dividend received	132	109	1,234
Interest paid	(416)	(462)	(3,888)
Income taxes paid	(1,032)	(1,294)	(9,645)
Net cash provided by operating activities	5,721	2,496	53,467
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(2,496)	(1,732)	(23,327)
Acquisition, net of cash acquired	(117)	(29)	(1,094)
(Increase) decrease in short-term investments	(79)	793	(738)
Other, net	136	212	1,271
Net cash used in investing activities	(2,556)	(756)	(23,888)
Cash flows from financing activities:			
Increase in long-term debt	2,953	3,897	27,598
Repayment of long-term debt	(2,197)	(3,652)	(20,533)
(Decrease) increase in short-term borrowings	(4,149)	201	(38,775)
Dividends paid	(428)	(434)	(4,000)
Other, net	(24)	(429)	(224)
Net cash used in financing activities	(3,845)	(417)	(35,934)
Effect of exchange rate changes on cash and cash equivalents	(3)	(7)	(28)
Net (decrease) increase in cash and cash equivalents	(683)	1,316	(6,383)
Cash and cash equivalents at beginning of year	11,752	10,408	109,831
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	150	28	1,402
Cash and cash equivalents at end of year	¥ 11,219	¥ 11,752	$ 104,850

See accompanying 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 ¥107 to $1, the approximate rate of exchange at March 31, 2005. 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 ¥107 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, 2005 and 2004 was as follows:

	2005	2004
Consolidated subsidiaries	27	24
Unconsolidated subsidiaries and affiliates, accounted for by the equity method	5	7
Unconsolidated subsidiaries, stated at cost	12	11
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 (three subsidiaries in 2005 and two subsidiaries in 2004). 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. 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. As the Company had 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 had 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 would have been recognized on the accompanying consolidated statements of income. On January 1, 2005, the Company received additional approval for the exemption from the payment of past benefit and established a new benefit pension plan for its employees. The Company recorded “Gain on return of substituted portion of the employee welfare pension plan” in the amount of ¥3,673 million ($34,327 thousand) in the accompanying consolidated statement of income for the year ended March 31, 2005.

(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) Enterprise taxes

With the implementation of the “Revision of Local Tax Law”(Legislation No.9, 2003)on March 31,2003,size-based corporate taxes for local government enterprise taxes have been newly levied from the fiscal year beginning on and after April 1, 2004. As a result, the Japan Transcity Group has recorded enterprise taxes calculates based on the “added value” and “capital” amounts in the amount of ¥70 million ($654 thousand) as selling, general and administrative expenses for the year ended March 31, 2005 in accordance with practical guidance issued by Accounting Standards Board of Japan.

(o) 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.

(p) Appropriation of retained earnings

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders. Bonuses to directors and corporate auditors are recorded as a part of the appropriation of retained earnings, instead of charging to income, as permitted by the Japanese accounting standards.

(q) 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, 2005 and 2004, 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 ¥5,795 million ($54,159 thousand) and ¥4,349 million, respectively.

(r) 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.

(s) 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 Japan Transcity Group has not adopted this new standard nor has determined the effect of applying it on its consolidated financial statements.

3. Inventories

At March 31, 2005 and 2004, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Real estate held for sale	¥ 501	¥ 2,006	$ 4,682
Supplies and other	53	57	496
	¥ 554	¥ 2,063	$ 5,178

4. Investments

At March 31, 2005 and 2004, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Marketable securities	¥ 40	¥ -	$ 374
Time deposits with an original maturity of more than three months	283	119	2,645
	¥ 323	¥ 119	$ 3,019

At March 31, 2005 and 2004, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Marketable securities:			
Equity securities	¥ 6,570	¥ 6,462	$ 61,402
Other	-	41	-
	6,570	6,503	61,402
Other non-marketable securities	844	824	7,887
	¥ 7,414	¥ 7,327	$ 69,289

Marketable investment securities classified as available-for-sale, including short-term investments, 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, 2005 and 2004, 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, 2005:				
Equity securities	¥ 2,824	¥ 3,768	¥ (22)	¥ 6,570
Other	40	-	-	40
	¥ 2,864	¥ 3,768	¥ (22)	¥ 6,610
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
	Thousands of U.S. Dollars			
Available-for-sale securities at March 31, 2005:				
Equity securities	$ 26,393	$ 35,215	$ (206)	$ 61,402
	$ 26,393	$ 35,215	$ (206)	$ 61,402

For the year ended March 31, 2005 and 2004, the Japan Transcity Group recorded no loss on devaluation of marketable investment securities.

5. Short-term Borrowings and Long-term Debt

At March 31, 2005 and 2004, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Short-term bank loans or bank overdrafts with interest rates ranging from 0.54 % to 3.79 % per annum at March 31, 2005:			
Collateralized	¥ 2,517	¥ 3,451	$ 23,523
Unsecured	1,634	4,849	15,271
	¥ 4,151	¥ 8,300	$ 38,794

At March 31, 2005 and 2004, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
0.85 % convertible bonds due September 2005	¥ 7,459	¥ 7,459	$ 69,710
Zero coupon convertible bonds due March 2008	515	1,500	4,813
1.47 % unsecured bonds due July 2008	2,500	2,500	23,364
1.41 % unsecured bonds due July 2008	1,500	1,500	14,019
1.76 % unsecured bonds due September 2008	4,000	4,000	37,383
Zero coupon convertible bonds due September 2009	1,500	-	14,019
Long-term loans from banks and other financial institutions due through 2022 with interest rates ranging from 0.05 % to 6.30 % per annum at March 31, 2005:			
Collateralized	3,536	3,672	33,047
Unsecured	6,023	6,632	56,290
	27,033	27,263	252,645
Less, current maturities	(8,076)	(2,057)	(75,477)
	¥ 18,957	¥ 25,206	$ 177,168

At March 31, 2005, the current conversion price per share of 0.85 % convertible bonds due September 2005, zero coupon convertible bonds due March 2008 and zero coupon convertible bonds due September 2009 are ¥534, ¥285 and ¥410, respectively,all of which are subject to adjustment under certain circumstances, including stock splits. At March 31, 2005, 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, 2005 was as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2006	¥ 8,076	$ 75,477
2007	1,133	10,589
2008	1,168	10,916
2009	9,875	92,289
2010	2,620	24,486
2011 and thereafter	4,161	38,888
	¥ 27,033	$ 252,645

At March 31, 2005, the following assets were pledged as collateral for short-term borrowing and long-term debt:

	Millions of Yen	Thousands of U.S. Dollars
Time deposits included in short-term investments	¥ 38	$ 355
Land	11,388	106,430
Buildings and structures	2,015	18,832
Machinery and equipment, and other property	137	1,280
Investment securities and other assets	3	28

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.

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, 2005 and 2004:

	Millions of Yen		Thousands of U.S Dollars
	2005	2004	2005
Reconciliation of benefit liability:			
Projected benefit obligation	¥ 21,959	¥ 27,495	$ 205,224
Less, fair value of pension plan assets at end of year	(15,709)	(15,230)	(146,813)
	6,250	12,265	58,411
Less, unrecognized actuarial differences (loss)	(1,289)	(4,218)	(12,046)
Unrecognized prior service cost of retroactive benefits granted by the pension plan amendment	411	1,067	3,841
Net amount of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 5,372	¥ 9,114	$ 50,206

Note: 1. The table above includes the amounts related to the portion subject to the Japanese Welfare Pension Insurance Law for the year ended March 31, 2004 .

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 ¥198 million ($1,850 thousand) and ¥197 million at March 31, 2005 and 2004, respectively

	Millions of Yen		Thousands of U.S Dollars
	2005	2004	2005
Components of net periodic retirement benefit expense:			
Service cost	¥ 574	¥ 750	$ 5,365
Interest cost	559	655	5,224
Expected return on pension plan assets	(317)	(291)	(2,963)
Amortization of actuarial differences	473	791	4,421
Amortization of prior service cost	(96)	(44)	(897)
Net periodic retirement benefit expense	¥ 1,193	¥ 1,861	$ 11,150

Major assumptions used in the calculation of the above information for the years ended March 31, 2005 and 2004 were as follows:

	2005	2004
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.0%	2.5%
Expected rate of return on pension plan assets	2.0%	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, 2005 and 2004, the Japan Transcity Group was contingently liable for guarantees of indebtedness principally of affiliates in amounts of ¥2,035 million ($19,019 thousand) and ¥2,416 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, 2005 and 2004 were ¥6,195 million ($57,897 thousand) and ¥6,062 million, respectively. For the years ended March 31, 2005 and 2004, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥301 million ($2,813 thousand) and ¥275 million, respectively.

The aggregate future minimum payments for non-cancelable operating leases and financing leases, including the imputed interest, at March 31, 2005 and 2004 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2005		2004		2005	
Operating leases:						
Due within one year	¥	779	¥	932	$	7,280
Due after one year		4,870		5,644		45,514
	¥	5,649	¥	6,576	$	52,794
Financing leases:						
Due within one year	¥	304	¥	274	$	2,841
Due after one year		1,659		1,773		15,505
	¥	1,963	¥	2,047	$	18,346

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, 2005 and 2004 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

At March 31, 2005 and 2004, 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 ($11,215 thousand) at March 31, 2005 and 2004, 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, 2005 as follows:

	Millions of Yen		Thousands of U.S. Dollars	
Cash dividends	¥	289	$	2,701
Bonuses to directors and statutory auditors		42		393

11. Income Taxes

Income tax expenses for the years ended March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Income tax expenses:			
Current	¥ 719	¥ 1,180	$ 6,719
Deferred	1,484	(236)	13,869
	¥ 2,203	¥ 944	$ 20,588

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Enterprise tax accruals	¥ 25	¥ 54	$ 234
Accrued bonuses to employees	442	445	4,131
Loss on devaluation of inventories	65	234	608
Employee retirement benefit liability	2,985	4,491	27,897
Accrued severance indemnities for officers	162	159	1,514
Inter-company capital gains	478	490	4,467
Net operating loss carryforward	243	285	2,271
Other	391	341	3,654
	4,791	6,499	44,776
Less, valuation allowance	(474)	(603)	(4,430)
Deferred tax assets	4,317	5,896	40,346
Deferred tax liabilities:			
Deferred capital gain	541	560	5,056
Accelerated depreciation	36	51	336
Unrealized gains on available-for-sale securities	1,506	1,489	14,075
Other	378	382	3,533
Deferred tax liabilities	2,461	2,482	23,000
Net deferred tax assets	¥ 1,856	¥ 3,414	$ 17,346

At March 31, 2005 and 2004, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets:			
Current	¥ 439	¥ 454	$ 4,103
Non-current	1,426	2,972	13,327
Deferred tax liabilities:			
Non-current	9	12	84

Non-current deferred tax liabilities were included in “Other non-current liabilities” in the accompanying consolidated balance sheets.

With the implementation of the “Revision of Local Tax Law”(Legislation No.9, 2003)on March 31,2003,size-based corporate taxes for local government enterprise taxes have been newly levied from the fiscal year beginning on and after April 1,2004. As a result, the Group has recorded enterprise taxes calculates based on the “added value” and “capital” amounts in the amount of ¥70 million ($654 thousand) as selling, general and administrative expenses for the year ended March 31, 2005 in accordance with practical guidance issued by Accounting Standards Board of Japan.

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, 2005 and 2004, 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, 2005 was as follows:

	Percentage of pre-tax income
Japanese statutory effective tax rate	40.1%
Increase (decrease) due to:	
Permanently non-deductible expenses	1.1
Tax exempt income	(0.6)
Local minimum taxes per capita levy	0.6
Equity in net earnings of unconsolidated subsidiaries and affiliates	(1.8)
Change in valuation allowance	(2.2)
Other	(0.4)
Actual effective income tax rate	36.8%

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, 2005 and 2004 was summarized as follows:

		Integrated logistics services		Others		Total		Elimination		Consolidated
						Millions of Yen				
For the year 2005:										
Operating revenues:										
Outside customers	¥	76,016	¥	2,377	¥	78,393	¥	-	¥	78,393
Inter-segment sales		27		2,932		2,959		(2,959)		-
Total operating revenues		76,043		5,309		81,352		(2,959)		78,393
Operating expenses		72,888		5,028		77,916		(2,871)		75,045
Operating income	¥	3,155	¥	281	¥	3,436	¥	(88)	¥	3,348
Identifiable assets	¥	88,218	¥	6,277	¥	94,495	¥	(3,970)	¥	90,525
Depreciation		2,211		322		2,533		-		2,533
Capital expenditures		3,105		52		3,157		-		3,157
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	4,703	75,541	75,541	(2,311)	(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)	(3,335) ¥	93,363
Depreciation		2,287		389		2,676		-	-	2,676
Capital expenditures		1,087		117		1,204		-	-	1,204
						Thousands of U.S. Dollars				
For the year 2005:										
Operating revenues:										
Outside customers	$	710,430	$	22,215	$	732,645	$	-	$	732,645
Inter-segment sales		252		27,402		27,654		(27,654)		-
Total operating revenues		710,682		49,617		760,299		(27,654)		732,645
Operating expenses		681,196		46,991		728,187		(26,832)		701,355
Operating income	$	29,486	$	2,626	$	32,112	$	(822)	$	31,290
Identifiable assets	$	824,467	$	58,664	$	883,131	$	(37,103)	$	846,028

Depreciation	20,664	3,009	23,673	-	23,673
Capital expenditures	29,019	486	29,505	-	29,505

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, 2005 and 2004.

Non-Consolidated Balance Sheets
Japan Transcity Corporation (Parent)
March 31, 2005 and 2004

		Millions of Yen				Thousands of U.S. Dollars
		2005		2004		2005
Assets						
Current assets:						
Cash and cash equivalents	¥	8,512	¥	8,224	$	79,551
Short-term investments		79		38		738
Trade receivables, net of allowance for doubtful accounts		12,343		12,574		115,355
Inventories		12		18		112
Deferred tax assets		227		260		2,122
Other current assets		2,032		1,073		18,991
Total current assets		23,205		22,187		216,869
Property and equipment, at cost		65,026		64,372	6 4 , 3 7 2	607,720
Less, accumulated depreciation		(27,224)		(27,129)	7 , 1 2 9)	(254,430)
Net property and equipment		37,802		37,243		353,290
Investments and other assets:						
Investment securities		6,886		6,823		64,355
Investments in and long-term loans to subsidiaries and affiliates		4,003		3,008		37,411
Deferred tax assets		664		2,257		6,206
Lease deposits		851		849		7,953
Other assets		1,189		1,331		11,112
Allowance for doubtful accounts		(75)		(122)		(701)
Total investments and other assets		13,518	1 4 , 1 4 6	14,146		126,336
	¥	74,525	¥	73,576	$	696,495
Liabilities and Shareholders' Equity						
Current liabilities:						
Short-term borrowings	¥	5,453	¥	4,196	$	50,962
Current maturities of long-term debt		7,812		1,353		73,009
Trade payables		7,835		7,153		73,224
Accrued expenses		835		851		7,804
Income taxes payable		16		428		150
Other current liabilities		1,408		1,194		13,159

Total current liabilities	23,359	15,175	218,308
Long-term debt	14,408	20,354	134,654
Employee retirement benefit liability	4,195	7,950	39,205
Deferred tax liabilities for revaluation	1,819	1,903	17,000
Accrued severance indemnities for officers	364	350	3,402
Other non-current liabilities	225	175	2,103
Shareholders' equity:			
Common stock	7,884	7,792	73,682
Capital surplus	6,193	5,908	57,879
Retained earnings	11,332	9,699	105,907
Land revaluation increment	2,717	2,842	25,393
Net unrealized gains on available-for-sale securities	2,042	2,029	19,084
Less, treasury stock, at cost	(13)	(601)	(122)
Total shareholders' equity	30,155	27,669	281,823
	¥ 74,525	¥ 73,576	$ 696,495

Non-Consolidated Statements of Income
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Operating revenues	¥ 72,814	¥ 67,900	$ 680,505
Operating expenses	70,820	66,582	661,869
Operating income	1,994	1,318	18,636

Other income (expenses):				
Interest and dividend income	171	145	145	1,598
Interest expenses	(287)	(295)	(295)	(2,682)
Loss on liquidation of a subsidiary	(970)		-	(9,066)
Gain on return of substituted portion of the employee welfare pension fund	3,673		-	34,327
Miscellaneous, net	(842)	(44)	(12)	(7,869)
	1,745	(162)	(162)	16,308
Income before income taxes	3,739	1,156	1,156	34,944
Income tax expenses:				
Current	232	848	848	2,168
Deferred	1,532	(288)	(288)	14,318
Total income tax expenses	1,764	560	560	16,486
Net income	¥ 1,975	596	¥ 596	$ 18,458
	Yen			U.S. Dollars
Per share:				
Net income:				
- Basic	¥ 31.31		¥ 9.14	$ 0.29
- Diluted	24.06		7.91	0.22
Cash dividends	7.50		7.00	0.07

Non-Consolidated Statements of Shareholders' Equity
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2005 and 2004

		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, 2003	¥	7,792	¥	5,908	¥	9,531	¥	2,885	¥	452	¥	(174)
Net income for the year		-		-	596	596	-	-	-	-	-	-
Cash dividends		-		-	(433)	(433)	-	-	-	-	-	-
Bonuses to directors and statutory auditors		-		-	(37)	(37)	-	-	-	-	-	-
Reversal of land revaluation increment		-		-	42	42	(42)	(42)	-	-	-	-
Adjustment for applicable income taxes		-		-	-	-	(1)	(1)	-	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes		-		-	-	-	-	-	-	1,577	-	-
Purchase of treasury stock and fractional shares acquired, net		-		-	-	-	-	-	1,577	-	(427)	(427)
Balance at March 31, 2004		7,792		5,908		9,699		2,842		2,029		(601)
Net income for the year		-		-		1,975		-		-		-
Cash dividends		-		-		(428)		-		-		-
Bonuses to directors and statutory auditors		-		-		(39)		-		-		-
Reversal of land revaluation increment		-		-		125		(125)		-		-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes		-		-		-		-		13		-
Conversion of convertible bonds, including delivery of treasury stock held		92		285		-		-		-		608
Purchase of treasury stock and fractional shares acquired, net		-		-		-		-		-		(20)
Balance at March 31, 2005	¥	7,884	¥	6,193	¥	11,332	¥	2,717	¥	2,042	¥	(13)
	Thousand of U.S. Dollars											
Balance at March 31, 2004	$	72,822	$	55,215	$	90,645	$	26,561	$	18,963	$	(5,617)
Net income for the year		-		-		18,458		-		-		-
Cash dividends		-		-		(4,000)		-		-		-

Bonuses to directors and statutory auditors	-	-	(364)	-	-	-
Reversal of land revaluation increment	-	-	1,168	(1,168)	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	121	-
Conversion of convertible bonds, including delivery of treasury stock held	860	2,664	-	-	-	5,682
Purchase of treasury stock and fractional shares acquired, net	-	-	-	-	-	(187)
Balance at March 31, 2005	$ 73,682	$ 57,879	$ 105,907	$ 25,393	$ 19,084	$ (122)