Japan Transcity Corporation

Consolidated Financial Statements

March 31, 2006 and 2005

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, 2006 and 2005, 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, 2006 and 2005, 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.

As described in Note 3, effective for the year ended March 31, 2006, Japan Transcity Corporation and its domestic consolidated subsidiaries have adopted a new accounting standard for impairment of fixed assets.

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, 2006

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Assets			
Current assets:			
Cash and cash equivalents	¥ 14,332	¥ 11,219	$ 122,496
Short-term investments (Notes 5 and 6)	275	323	2,351
Trade receivables:			
Notes	865	886	7,393
Accounts	13,192	11,991	112,752
Allowance for doubtful accounts	(18)	(20)	(154)
	14,039	12,857	119,991
Inventories (Note 4)	106	554	906
Deferred tax assets (Note 12)	512	439	4,376
Other current assets	1,567	1,374	13,393
Total current assets	30,831	26,766	263,513
Property and equipment, at cost (Note 6):			
Land	27,734	31,947	237,043
Buildings and structures	41,631	39,889	355,820
Machinery and equipment	10,877	9,355	92,966
Vehicles and vessels	8,369	9,333	71,530
Construction in progress	141	732	1,205
	88,752	91,256	758,564
Less, accumulated depreciation	(41,633)	(40,992)	(355,838)
Net property and equipment	47,119	50,264	402,726
Investments and other assets:			
Investment securities (Notes 5 and 6)	11,737	7,414	100,316
Investments in unconsolidated subsidiaries and affiliates	2,814	2,631	24,051
Deferred tax assets (Note 12)	491	1,426	4,197
Lease deposits	929	888	7,940
Other assets (Note 6)	1,473	1,212	12,590
Allowance for doubtful accounts	(51)	(76)	(436)
Total investments and other assets	17,393	13,495	148,658
Total	¥ 95,343	¥ 90,525	$ 814,897

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Liabilities, Minority Interests and Shareholders' Equity			
Current liabilities:			
Short-term borrowings (Note 6)	¥ 3,208	¥ 4,151	$ 27,419
Current maturities of long-term debt (Note 6)	1,357	8,076	11,598
Trade payables:			
Notes	1,447	1,856	12,367
Accounts	6,645	6,009	56,795
	8,092	7,865	69,162
Accrued expenses	1,654	1,628	14,137
Income taxes payable	1,392	296	11,897
Other current liabilities	1,550	1,622	13,248
Total current liabilities	17,253	23,638	147,461
Long-term debt (Note 6)	26,339	18,957	225,120
Employee retirement benefit liability (Note 7)	4,814	5,372	41,145
Guarantee deposits received	4,466	4,608	38,171
Deferred tax liabilities for revaluation	5,281	1,819	45,137
Deferred tax liabilities (Note 12)	1,709	9	14,607
Accrued severance indemnities for officers	436	403	3,727
Other non-current liabilities	45	38	384
Minority interests in consolidated subsidiaries	1,201	1,039	10,265
Shareholders' equity (Notes 8 and 13):			
Common stock, no par value- Authorized: 240,000,000 shares, Issued: 67,019,610 shares in 2006 and 64,262,367 shares in 2005	8,411	7,884	71,889
Capital surplus	6,720	6,193	57,436
Retained earnings	16,256	15,731	138,940
Land revaluation (decrement) increment	(2,018)	2,717	(17,248)
Net unrealized gains on available-for-sale securities	4,467	2,188	38,179
Foreign currency translation adjustment	(9)	(58)	(77)
Less, treasury stock, at cost – 80,167 shares in 2006 and 52,261 shares in 2005	(28)	(13)	(239)
	33,799	34,642	288,880
Commitments and contingent liabilities (Notes 9 and 10)			
Total	¥ 95,343	¥ 90,525	$ 814,897

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Operating revenue (Note 14)	¥ 83,099	¥ 78,393	$ 710,248
Operating expenses (Notes 7, 10 and 14)	79,195	75,045	676,880
Operating income	3,904	3,348	33,368
Other income (expenses) :			
Interest and dividend income	126	98	1,077
Interest expenses	(381)	(424)	(3,257)
Equity in net earnings of unconsolidated subsidiaries and affiliates	128	274	1,094
Gain (loss) on sale or disposal of property and equipment	1,596	(510)	13,641
Gain on return of substituted portion of the employee welfare pension fund	-	3,673	-
Impairment loss on fixed assets	(2,953)	-	(25,239)
Other, net	195	(466)	1,666
	(1,289)	2,645	(11,018)
Income before income taxes and minority interests	2,615	5,993	22,350
Income tax expenses (Note 12)	2,183	2,203	18,658
Less, minority interests in net income of consolidated subsidiaries	103	72	880
Net income	¥ 329	¥ 3,718	$ 2,812

	Yen		U.S. Dollars
Per share:			
Net income:			
-Basic	¥ 4.27	¥ 59.54	$ 0.04
-Diluted	4.09	45.32	0.03
Cash dividends	8.00	7.50	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, 2006 and 2005

	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Land Revaluation (decrement) increment	Net unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Treasury stock
		Millions of Yen						
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 corporate auditors	-	-	-	(39)	-	-	-	-
Increase in retained earnings through inclusion of additional subsidiary on consolidation	-	-	-	63	-	-	-	-
Reversal of land revaluation increment	-	-	-	125	(125)	-	-	-
Conversion of convertible bonds, through reissuance of treasury stock	649,121	92	285	-	-	-	-	608
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	24	-	-
Translation adjustment	-	-	-	-	-	-	(23)	-
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)
Net income for the year	-	-	-	329	-	-	-	-
Cash dividends	-	-	-	(524)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(42)	-	-	-	-
Reversal of land revaluation increment	-	-	-	762	(762)	-	-	-
Adjustment for applicable income taxes	-	-	-	-	(3,973)	-	-	-
Conversion of convertible bonds	2,757,243	527	527	-	-	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	-	2,279	-	-
Translation adjustment	-	-	-	-	-	-	49	-
Fractional shares acquired, net	-	-	-	-	-	-	-	(15)
Balance at March 31, 2006	67,019,610	¥ 8,411	¥ 6,720	¥ 16,256	¥ (2,018)	¥ 4,467	¥ (9)	¥ (28)
		Thousands of U.S. Dollars						
Balance at March 31, 2005		$ 67,385	$ 52,932	$ 134,453	$ 23,222	$ 18,701	$ (496)	$ (111)
Net income for the year		-	-	2,812	-	-	-	-
Cash dividends		-	-	(4,479)	-	-	-	-
Bonuses to directors and corporate auditors		-	-	(359)	-	-	-	-
Reversal of land revaluation increment		-	-	6,513	(6,513)	-	-	-
Adjustment for applicable income taxes		-	-	-	(33,957)	-	-	-
Conversion of convertible bonds		4,504	4,504	-	-	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes		-	-	-	-	19,478	-	-
Translation adjustment		-	-	-	-	-	419	-
Fractional shares acquired, net		-	-	-	-	-	-	(128)
Balance at March 31, 2006		$ 71,889	$ 57,436	$ 138,940	$ (17,248)	$ 38,179	$ (77)	$ (239)

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,615	¥ 5,993	$ 22,350
Adjustments for:			
Depreciation	2,640	2,533	22,564
Net reversal for employee retirement benefit liability	(558)	(73)	(4,769)
(Gain) loss on sale or disposal of property and equipment	(1,596)	510	(13,641)
Gain on return of substituted portion of the employee welfare pension fund	-	(3,673)	-
Impairment loss on fixed assets	2,953	-	25,239
(Increase) decrease in trade receivables	(1,102)	554	(9,419)
Decrease in inventories	448	194	3,829
Increase in trade payables	354	796	3,026
Other, net	(212)	203	(1,812)
Sub-total	5,542	7,037	47,367
Interest and dividend received	175	132	1,496
Interest paid	(381)	(416)	(3,256)
Income taxes paid	(571)	(1,032)	(4,880)
Net cash provided by operating activities	4,765	5,721	40,727
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(4,175)	(2,496)	(35,684)
Decrease in property and equipment and intangible assets	3,067	245	26,214
Acquisition, net of cash acquired	(98)	(117)	(838)
Increase in short-term investments	(296)	(79)	(2,530)
Other, net	(395)	(109)	(3,376)
Net cash used in investing activities	(1,897)	(2,556)	(16,214)
Cash flows from financing activities:			
Increase in long-term debt	9,291	2,953	79,410
Repayment of long-term debt	(7,596)	(2,197)	(64,923)
Decrease in short-term borrowings	(954)	(4,149)	(8,154)
Dividends paid	(523)	(428)	(4,470)
Other, net	(16)	(24)	(137)
Net cash provided by (used in) financing activities	202	(3,845)	1,726
Effect of exchange rate changes on cash and cash equivalents	43	(3)	368
Net increase (decrease) in cash and cash equivalents	3,113	(683)	26,607
Cash and cash equivalents at beginning of year	11,219	11,752	95,889
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	-	150	-
Cash and cash equivalents at end of year	¥ 14,332	¥ 11,219	$ 122,496

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 ¥117 to $1, the approximate rate of exchange at March 31, 2006. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at ¥117 to $1 or at any other rate.

(c) Reclassification

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

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, 2006 and 2005 was as follows:

	2006	2005
Consolidated subsidiaries	27	27
Unconsolidated subsidiaries and affiliates, accounted for by the equity method	5	5
Unconsolidated subsidiaries, stated at cost	13	12
Affiliates, stated at cost	4	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 2006 and 2005). 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 the hedged borrowings, 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. 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 in the accompanying consolidated statement of income for the year ended March 31, 2005. Excess of the estimated balance equivalent to the amount to be returned to the Japanese Government as of March 31, 2005 over the actual payment of liability reserve of the pension plan in the current year was recorded as other income in the amount of ¥72 million ($615 thousand) in the accompanying consolidated statement of income for the year ended March 31, 2006.

(j) Accrued severance indemnities for officers

The Japan Transcity Group may pay severance indemnities to directors and corporate 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 corporate auditors' severance indemnities at the respective balance sheet dates.

(k) Bond issue expenses and new share issue expenses

Bond issue expenses and new share issue expenses are charged to income as incurred.

(l) 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.

(m) 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 as selling, general and administrative expenses in accordance with practical guidance issued by Accounting Standards Board of Japan.

(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 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 paid to directors and corporate auditors are recorded as a part of the appropriation of retained earnings, instead of being charged to income, as permitted by the Japanese accounting standard.

(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, 2006 and

2005, 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 ¥6,736 million ($57,573 thousand) and ¥5,795 million, respectively.

On September 8, 2005, the Japanese Institute of Certified Public Accountants issued "Q&A for the Treatment of Revaluation Increment Account of Land". As the Company adopted this treatment relating to the assessment of relaizability of deferred tax assets for land revaluation from the year ended March 31, 2006, land revaluation excess deceased by ¥3,973 million ($33,957 thousand), and deferred tax liabilities for revaluation increased by the same amount. This change of accounting treatment resulted in no effect on the operating results for the year ended March 31, 2006..

(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.

3. Accounting change-Adoption of New Accounting standard for impairment of fixed assets

On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets", which is effective for the fiscal years beginning on and after April 1, 2005, with earlier adoption permitted. The Accounting Standards Board of Japan issued related practical guidance on October 31, 2003. The Company and its domestic consolidated subsidiaries have adopted this new accounting standard and related practical guidance effective for the year ended March 31, 2006. 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. Fixed assets include land, buildings and other forms of property as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets. For the purpose of recognition and measurement of an impairment loss, fixed assets are principally grouped into cash-generating units, such as regional business divisions, other than idle or unused property. Recoverable amounts of the assets were measured based on value in use calculated using discounted future cash flows by interest rate of 4.0% for Golf club courses or net selling prices primarily for municipal property tax bases or estimated disposal value for idle or unused property. For the year ended March 31, 2006, the Japan Transcity Group recognized impairment loss as follows:

	Millions of Yen	Thousands of U.S. Dollars
Buildings and structures	¥ 82	$ 701
Land	2,871	24,538
	¥ 2,953	$ 25,239

As a result of adoption of this new accounting standard, income before income taxes and minority interests decreased by ¥2,953 million ($25,239 thousand), as compared with the previous accounting method.

4. Inventories

At March 31, 2006 and 2005, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Real estate held for sale	¥ -	¥ 501	$ -
Supplies and other	106	53	906
	¥ 106	¥ 554	$ 906

5. Investments

At March 31, 2006 and 2005, short-term investments consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Marketable securities	¥ -	¥ 40	$ -
Time deposits with an original maturity of more than three months	275	283	2,351
	¥ 275	¥ 323	$ 2,351

At March 31, 2006 and 2005, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Marketable securities:			
Equity securities	¥ 10,889	¥ 6,570	$ 93,068
Other	10	-	86
	10,899	6,570	93,154
Other non-marketable securities	838	844	7,162
	¥ 11,737	¥ 7,414	$ 100,316

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, 2006 and 2005, 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, 2006:				
Equity securities	¥ 3,252	¥ 7,640	¥ (3)	¥ 10,889
Other	10	-	-	10
	¥ 3,262	¥ 7,640	¥ (3)	¥ 10,899

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
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
	Thousands of U.S. Dollars			
Available-for-sale securities at March 31, 2006:				
Equity securities	$ 27,795	$ 65,299	$ (26)	$ 93,068
Other	86	-	-	86
	$ 27,881	$ 65,299	$ (26)	$ 93,154

6. Short-term Borrowings and Long-term Debt

At March 31, 2006 and 2005, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Short-term bank loans or bank overdrafts with interest rates ranging from 0.38 % to 5.56 % per annum at March 31, 2006:			
Collateralized	¥ 745	¥ 2,517	$ 6,368
Unsecured	2,463	1,634	21,051
	¥ 3,208	¥ 4,151	$ 27,419

At March 31, 2006 and 2005, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
0.85 % unsecured convertible bonds due September 2005	¥ -	¥ 7,459	$ -
Zero coupon unsecured convertible bonds due March 2008	35	515	299
1.47 % unsecured bonds due July 2008	2,500	2,500	21,367
1.41 % unsecured bonds due July 2008	1,500	1,500	12,821
1.76 % unsecured bonds due September 2008	4,000	4,000	34,188
Zero coupon unsecured convertible bonds due September 2009	1,500	1,500	12,821
Long-term loans from banks and other financial institutions due through 2022 with interest rates ranging from 0.05 % to 6.50 % per annum at March 31, 2006:			
Collateralized	1,561	3,536	13,342
Unsecured	16,600	6,023	141,880
	27,696	27,033	236,718
Less, current maturities	(1,357)	(8,076)	(11,598)
	¥ 26,339	¥ 18,957	$ 225,120

At March 31, 2006, the current conversion price per share of zero coupon convertible bonds due March 2008 and zero coupon convertible bonds due September 2009 are ¥285 and ¥410, respectively, all of which are subject to adjustment under certain circumstances, including stock splits. At March 31, 2006, the number of shares of common stock necessary for conversion of all convertible bonds outstanding was approximately 4 million.

The aggregate annual maturities of long-term debt at March 31, 2006 ware as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 1,357	$ 11,598
2008	1,009	8,624
2009	10,162	86,855
2010	2,906	24,837
2011	3,025	25,855
2012 and thereafter	9,237	78,949
	¥ 27,696	$ 236,718

At March 31, 2006, 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	¥ 39	$ 333
Land	6,402	54,718
Buildings and structures	2,348	20,068
Machinery and equipment, and other property	116	991
Investment and other assets	3	26

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.

7. Employee Retirement Benefits

The Company has defined benefit retirement plans, under which certain portions of the benefits are covered by a pension plan 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, 2006 and 2005:

	Millions of Yen		Thousands of U.S Dollars
	2006	2005	2006
Reconciliation of benefit liability:			
Projected benefit obligation	¥ 14,850	¥ 21,959	$ 126,923
Less, fair value of pension plan assets at end of year	(12,451)	(15,709)	(106,419)
	2,399	6,250	20,504
Unrecognized actuarial differences (loss)	2,047	(1,289)	17,496
Unrecognized prior service cost of retroactive benefits granted by the pension plan amendment	368	411	3,145
Net amount of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 4,814	¥ 5,372	$ 41,145

Note: 1. Projected benefit obligation of consolidated subsidiaries was calculated using the simplified calculation method as permitted by the accounting standard for employee retirement benefits.

2. 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 ¥249 million ($2,128 thousand) and ¥198 million at March 31, 2006 and 2005, respectively.

	Millions of Yen		Thousands of U.S Dollars
	2006	2005	2006
Components of net periodic retirement benefit expense:			
Service cost	¥ 541	¥ 574	$ 4,624
Interest cost	262	559	2,239
Expected return on pension plan assets	(161)	(317)	(1,376)
Amortization of actuarial differences	214	473	1,829
Amortization of prior service cost	(42)	(96)	(359)
Net periodic retirement benefit expense	¥ 814	¥ 1,193	$ 6,957

Major assumptions used in the calculation of the above information for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Method attributing the projected benefits to periods of services	Straight-line method	Straight-line method
Discount rate	2.0%	2.0%
Expected rate of return on pension plan assets	2.0%	2.0%
Amortization of actuarial differences	10 years	10 years
Amortization of prior service cost	10 years	10 years

8. Shareholders' Equity

At March 31, 2006 and 2005, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal reserve of the Company in the amount of ¥1,200 million ($10,256 thousand) at March 31, 2006 and 2005, respectively. The Corporate Law of Japan in force on May 1, 2006 provides that an amount equivalent to at least 10 % of dividends 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 or retained earnings by proper actions of the Board of Directors and/or shareholders of the Company.

9. Contingent Liabilities

At March 31, 2006 and 2005, the Japan Transcity Group was contingently liable for guarantees of indebtedness principally of affiliates in amounts of ¥1,688 million ($14,427 thousand) and ¥2,035 million, respectively.

10. Lease Commitments

The Japan Transcity Group leases, as lessee, 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.

Total rental and lease expenses including cancelable and non-cancelable leases for the years ended March 31, 2006 and 2005 were ¥6,116 million ($52,274 thousand) and ¥6,195 million, respectively. For the years ended March 31, 2006 and 2005, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥366 million ($3,128 thousand) and ¥301 million, respectively.

The aggregate future minimum payments for non-cancelable operating leases and financing leases, including the imputed interest, at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Operating leases:			
Due within one year	¥ 592	¥ 779	$ 5,060
Due after one year	4,129	4,870	35,290
	¥ 4,721	¥ 5,649	$ 40,350
Financing leases:			
Due within one year	¥ 446	¥ 304	$ 3,812
Due after one year	2,772	1,659	23,692
	¥ 3,218	¥ 1,963	$ 27,504

11. Derivative Instruments

The Japan Transcity Group is a party to derivative instruments such as interest rate swap contracts in the normal course of business to reduce its own exposure to fluctuations in interest rates for the hedge purposes. As disclosed in Note 2(d), hedge accounting is qualified and all derivative instruments outstanding at March 31, 2006 and 2005 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.

12. Income Taxes

Income tax expenses for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Income tax expenses:			
Current	¥ 1,691	¥ 719	$ 14,453
Deferred	492	1,484	4,205
	¥ 2,183	¥ 2,203	$ 18,658

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Enterprise tax accruals	¥ 112	¥ 25	$ 957
Accrued bonuses to employees	447	442	3,820
Employee retirement benefit liability	2,925	2,985	25,000
Accrued severance indemnities for officers	175	162	1,496
Inter-company capital gains	346	478	2,957
Net operating loss carryforward	232	243	1,983
Impairment loss on fixed assets	1,190	-	10,171
Other	391	456	3,342
	5,818	4,791	49,726
Less, valuation allowance	(1,648)	(474)	(14,085)
Deferred tax assets	4,170	4,317	35,641
Deferred tax liabilities:			
Deferred capital gain	1,404	541	12,000
Unrealized gains on available-for-sale securities	3,070	1,506	26,239
Other	402	414	3,436
Deferred tax liabilities	4,876	2,461	41,675
Net deferred tax (liabilities) assets	¥ (706)	¥ 1,856	$ (6,034)

At March 31, 2006 and 2005, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Current	¥ 512	¥ 439	$ 4,376
Non-current	491	1,426	4,197
Deferred tax liabilities:			
Non-current	1,709	9	14,607

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, 2006 and 2005, a valuation allowance was provided to reduce the deferred tax assets to the extent that the management believes that the amount of the deferred tax assets is expected to be realizable.

A reconciliation of the difference between the Japanese statutory effective tax rate and the actual effective income tax rate on pre-tax income reflected in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 were as follows:

	Percentage of pre-tax income	
	2006	2005
Japanese statutory effective tax rate	40.1%	40.1%
Increase (decrease) due to:		
Permanently non-deductible expenses	2.7	1.1
Tax exempt income	(1.9)	(0.6)
Local minimum taxes per capita levy	1.4	0.6
Equity in net earnings of unconsolidated subsidiaries and affiliates	(2.0)	(1.8)
Change in valuation allowance	44.9	(2.2)
Other	(1.7)	(0.4)
Actual effective income tax rate	83.5%	36.8%

13. Subsequent Event

Shareholders of the Company approved the appropriation of retained earnings at the annual general meeting of shareholders on June 29, 2006 as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥ 301	$ 2,573
Bonuses to directors and corporate auditors	46	393

14. Segment Information

The Japan Transcity Group's operations are classified into two major segments: Integrated logistics services and other services. Other services segment includes the operations for the trading of real estate or golf club and other services. Information by industry segment for the years ended March 31, 2006 and 2005 was summarized as follows:

	Integrated logistics services	Others	Total	Elimination	Consolidated
	Millions of Yen				
For the year 2006:					
Operating revenue:					
External customers	¥ 80,229	¥ 2,870	¥ 83,099	¥ -	¥ 83,099
Inter-segment sales	28	2,510	2,538	(2,538)	-
Total operating revenue	80,257	5,380	85,637	(2,538)	83,099
Operating expenses	76,475	5,283	81,758	(2,563)	79,195
Operating income	¥ 3,782	¥ 97	¥ 3,879	¥ 25	¥ 3,904
Identifiable assets	¥ 97,061	¥ 2,692	¥ 99,753	¥ (4,410)	¥ 95,343
Depreciation	2,371	269	2,640	-	2,640
Impairment loss on fixed assets	85	2,868	2,953	-	2,953
Capital expenditures	3,799	160	3,959	-	3,959
For the year 2005:					
Operating revenue:					
External customers	¥ 76,016	¥ 2,377	¥ 78,393	¥ -	¥ 78,393
Inter-segment sales	27	2,932	2,959	(2,959)	-
Total operating revenue	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
	Thousands of U.S. Dollars				
For the year 2006:					
Operating revenue:					
External customers	$ 685,718	$ 24,530	$ 710,248	$ -	$ 710,248
Inter-segment sales	239	21,453	21,692	(21,692)	-
Total operating revenue	685,957	45,983	731,940	(21,692)	710,248
Operating expenses	653,632	45,154	698,786	(21,906)	676,880
Operating income	$ 32,325	$ 829	$ 33,154	$ 214	$ 33,368
Identifiable assets	$ 829,581	$ 23,008	$ 852,589	$ (37,692)	$ 814,897
Depreciation	20,265	2,299	22,564	-	22,564
Impairment loss on fixed assets	726	24,513	25,239	-	25,239
Capital expenditures	32,470	1,368	33,838	-	33,838

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.

15. 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, 2006 and 2005.

Non-Consolidated Balance Sheets
Japan Transcity Corporation (Parent)
March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Assets			
Current assets:			
Cash and cash equivalents	¥ 10,084	¥ 8,512	$ 86,188
Short-term investments	2,039	79	17,427
Trade receivables, net of allowance for doubtful accounts	13,192	12,343	112,752
Inventories	16	12	137
Deferred tax assets	307	227	2,624
Other current assets	1,595	2,032	13,633
Total current assets	27,233	23,205	232,761
Property and equipment, at cost	64,300	65,026	549,572
Less, accumulated depreciation	(27,576)	(27,224)	(235,692)
	36,724	37,802	313,880
Investments and other assets:			
Investment securities	10,929	6,886	93,410
Investments in and long-term loans to subsidiaries and affiliates	3,928	4,003	33,573
Deferred tax assets	-	664	-
Lease deposits	890	851	7,607
Other assets	1,427	1,189	12,196
Allowance for doubtful accounts	(50)	(75)	(427)
Total investments and other assets	17,124	13,518	146,359
	¥ 81,081	¥ 74,525	$ 693,000
Liabilities and Shareholders' Equity			
Current liabilities:			
Short-term borrowings	¥ 4,200	¥ 5,453	$ 35,897
Current maturities of long-term debt	1,003	7,812	8,573
Trade payables	8,289	7,835	70,846
Accrued expenses	835	835	7,137
Income taxes payable	1,180	16	10,086
Other current liabilities	1,348	1,408	11,521
Total current liabilities	16,855	23,359	144,060
Long-term debt	21,375	14,408	182,692
Employee retirement benefit liability	3,657	4,195	31,256
Deferred tax liabilities for revaluation	5,281	1,819	45,137
Deferred tax liabilities	1,673	-	14,299
Accrued severance indemnities for officers	392	364	3,351
Other non-current liabilities	284	225	2,427
Shareholders' equity:			
Common stock	8,411	7,884	71,889
Capital surplus	6,720	6,193	57,436
Retained earnings	14,271	11,332	121,974
Land revaluation (decrement) increment	(2,018)	2,717	(17,248)
Net unrealized gains on available-for-sale securities	4,208	2,042	35,966
Less, treasury stock, at cost	(28)	(13)	(239)
Total shareholders' equity	31,564	30,155	269,778
	¥ 81,081	¥ 74,525	$ 693,000

Non-Consolidated Statements of Income
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Operating revenue	¥ 77,054	¥ 72,814	$ 658,581
Operating expenses	74,452	70,820	636,342
Operating income	2,602	1,994	22,239
Other income (expenses):			
Interest and dividend income	230	171	1,966
Interest expenses	(285)	(287)	(2,436)
Gain (loss) on sale or disposal of property and equipment	1,635	(450)	13,975
Loss on liquidation of a subsidiary	-	(970)	-
Gain on return of substituted portion of the employee welfare pension fund	-	3,673	-
Impairment loss on fixed assets	(75)	-	(641)
Miscellaneous, net	185	(392)	1,581
	1,690	1,745	14,445
Income before income taxes	4,292	3,739	36,684
Income tax expenses:			
Current	1,250	232	10,684
Deferred	299	1,532	2,556
Total income tax expenses	1,549	1,764	13,240
Net income	¥ 2,743	¥ 1,975	$ 23,444
	Yen		U.S. Dollars
Per share:			
Net income:			
- Basic	¥ 40.66	¥ 31.31	$ 0.35
- Diluted	35.57	24.06	0.30
Cash dividends	8.00	7.50	0.07

Non-Consolidated Statements of Shareholders' Equity
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2006 and 2005

	Common stock	Capital surplus	Retained earnings	Land revaluation (decrement) increment	Net unrealized gains on available-for- sale securities	Treasury stock
	Millions of Yen					
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 corporate auditors	-	-	(39)	-	-	-
Reversal of land revaluation increment	-	-	125	(125)	-	-
Conversion of convertible bonds, through reissuance of treasury stock	92	285	-	-	-	608
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	13	-
Fractional shares acquired, net	-	-	-	-	-	(20)
Balance at March 31, 2005	7,884	6,193	11,332	2,717	2,042	(13)
Net income for the year	-	-	2,743	-	-	-
Cash dividends	-	-	(524)	-	-	-
Bonuses to directors and corporate auditors	-	-	(42)	-	-	-
Reversal of land revaluation increment	-	-	762	(762)	-	-
Adjustments for applicable income taxes	-	-	-	(3,973)	-	-
Conversion of convertible bonds	527	527	-	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	2,166	-
Fractional shares acquired, net	-	-	-	-	-	(15)
Balance at March 31, 2006	¥ 8,411	¥ 6,720	¥ 14,271	¥ (2,018)	¥ 4,208	¥ (28)
	Thousand of U.S. Dollars					
Balance at March 31, 2005	$ 67,385	$ 52,932	$ 96,855	$ 23,222	$ 17,453	$ (111)
Net income for the year	-	-	23,444	-	-	-
Cash dividends	-	-	(4,479)	-	-	-
Bonuses to directors and corporate auditors	-	-	(359)	-	-	-
Reversal of land revaluation increment	-	-	6,513	(6,513)	-	-
Adjustments for applicable income taxes	-	-	-	(33,957)	-	-
Conversion of convertible bonds	4,504	4,504	-	-	-	-
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes	-	-	-	-	18,513	-
Fractional shares acquired, net	-	-	-	-	-	(128)
Balance at March 31, 2006	$ 71,889	$ 57,436	$ 121,974	$ (17,248)	$ 35,966	$ (239)