Japan Transcity Corporation

Consolidated Financial Statements

March 31, 2008 and 2007

Independent Auditors' Report

To the Board of Directors of Japan Transcity Corporation,

We have audited the accompanying consolidated balance sheets of Japan Transcity Corporation and its consolidated subsidiaries as of March 31, 2008, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits. The consolidated financial statements of the Company as of March 31, 2007 were audited by other auditors, whose report dated June 28, 2007, expressed an unqualified opinion on those statements.

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

In our opinion, the 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, 2008, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.
Nagoya, Japan
June 27, 2008

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Balance Sheets
March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current assets:			
Cash and cash equivalents	¥ 11,143	¥ 12,946	$ 111,430
Short-term investments (Notes 3 and 4)	429	703	4,290
Trade receivables:			
Notes	814	974	8,140
Accounts	13,080	13,673	130,800
Allowance for doubtful accounts	(18)	(19)	(180)
	13,876	14,628	138,760
Inventories	81	91	810
Deferred tax assets (Note 10)	500	236	5,000
Other current assets	1,639	1,529	16,390
Total current assets	27,668	30,133	276,680
Property and equipment (Note 4):			
Land	29,003	27,762	290,030
Buildings and structures	44,292	42,143	442,920
Machinery and equipment	10,430	10,765	104,300
Vehicles and vessels	7,252	7,482	72,520
Construction in progress	505	1,563	5,050
Total property and equipment	91,482	89,715	914,820
Less, accumulated depreciation	(42,905)	(42,125)	(429,050)
Net property and equipment	48,577	47,590	485,770
Investments and other assets:			
Investment securities (Note 3)	7,415	10,236	74,150
Investments in unconsolidated subsidiaries and affiliates	3,231	2,976	32,310
Deferred tax assets (Note 10)	609	505	6,090
Lease deposits	991	935	9,910
Other assets	1,760	1,527	17,600
Allowance for doubtful accounts	(23)	(50)	(230)
Total investments and other assets	13,983	16,129	139,830
Total assets	¥ 90,228	¥ 93,852	$ 902,280

See accompanying Notes to Consolidated Financial Statements.

	Millions of Yen				Thousands of U.S. Dollars	
	2008		2007		2008	
Current liabilities:						
Short-term borrowings (Note 4)	¥	2,675	¥	2,710	$	26,750
Current maturities of long-term debt (Note 4)		10,235		1,136		102,350
Trade payables:						
Notes		1,473		1,454		14,730
Accounts		6,695		6,476		66,950
		8,168		7,930		81,680
Accrued expenses		1,707		1,759		17,070
Income taxes payable		355		463		3,550
Deferred tax liabilities (Note 10)		-		203		-
Other current liabilities		2,116		2,507		21,160
Total current liabilities		25,256		16,708		252,560
Long-term debt (Note 4)		15,578		25,634		155,780
Employee retirement benefit liability (Note 5)		2,746		3,872		27,460
Guarantee deposits received		4,247		4,381		42,470
Deferred tax liabilities for revaluation		5,281		5,281		52,810
Deferred tax liabilities (Note 10)		1,035		1,107		10,350
Accrued severance indemnities for directors and corporate auditors		394		489		3,940
Other long-term liabilities		169		121		1,690
Total liabilities		54,706		57,593		547,060
Commitments and contingent liabilities (Notes 7 and 8)						
Net assets (Note 6):						
Shareholders' equity:						
Common stock: 240,000,000 shares authorized and 67,142,417 shares issued		8,428		8,428		84,280
Capital surplus		6,738		6,738		67,380
Retained earnings		19,978		18,253		199,780
Less, treasury stock, at cost: 1,319,830 shares in 2008 and 275,911 shares in 2007		(645)		(138)		(6,450)
Total shareholders' equity		34,499		33,281		344,990
Accumulated (losses) gains from valuation and translation adjustment		(95)		1,628		(950)
Minority interests		1,118		1,350		11,180
Total net assets		35,522		36,259		355,220
Total liabilities and net assets	¥	90,228	¥	93,852	$	902,280

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Income
For the Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Operating revenue (Note 11)	¥ 86,461	¥ 83,333	$ 864,610
Operating costs and expenses (Notes 5, 8 and 11)	82,454	78,690	824,540
Operating income	4,007	4,643	40,070
Other income (expenses):			
Interest and dividend income	241	170	2,410
Interest expenses	(438)	(409)	(4,380)
Equity in net earnings of unconsolidated subsidiaries and affiliates	271	188	2,710
Loss on sale or disposal of property and equipment	(65)	(139)	(650)
Impairment loss on fixed assets (Note 2(j))	(31)	-	(310)
Other, net	(66)	78	(660)
	(88)	(112)	(880)
Income before income taxes and minority interests	3,919	4,531	39,190
Income taxes:			
Current	1,005	1,312	10,050
Deferred	540	465	5,400
Total income taxes	1,545	1,777	15,450
Less, minority interests in net income of consolidated subsidiaries	69	143	690
Net income	¥ 2,305	¥ 2,611	$ 23,050

	Yen		U.S. Dollars
Per share:			
Net income:			
-Basic	¥ 34.68	¥ 39.08	$ 0.35
-Diluted	32.87	37.05	0.33
Cash dividends	8.50	8.50	0.09

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Changes in Net Assets
For the Years Ended March 31, 2008 and 2007

		Shareholders' equity					Accumulated (losses) gains from valuation and translation adjustment					
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Land revaluation decrement	Foreign currency translation adjustment	Total accumulated (losses) gains from valuation and translation adjustment	Minority interests	Total net assets
		Millions of Yen										
Balance at March 31, 2006	67,019,610	¥ 8,411	¥ 6,720	¥ 16,256	¥ (28)	¥ 31,359	¥ 4,467	¥ (2,018)	¥ (9)	¥ 2,440	¥ 1,201	¥ 35,000
Net income for the year	-	-	-	2,611	-	2,611	-	-	-	-	-	2,611
Cash dividends	-	-	-	(568)	-	(568)	-	-	-	-	-	(568)
Bonuses to directors and corporate auditors	-	-	-	(46)	-	(46)	-	-	-	-	-	(46)
Conversion of convertible bonds	122,807	17	18	-	-	35	-	-	-	-	-	35
Purchase of treasury stock and fractional shares, net	-	-	-	-	(110)	(110)	-	-	-	-	-	(110)
Net changes other than shareholders' equity	-	-	-	-	-	-	(878)	-	66	(812)	149	(663)
Balance at March 31, 2007	67,142,417	8,428	6,738	18,253	(138)	33,281	3,589	(2,018)	57	1,628	1,350	36,259
Net income for the year	-	-	-	2,305	-	2,305	-	-	-	-	-	2,305
Cash dividends	-	-	-	(566)	-	(566)	-	-	-	-	-	(566)
Decrease in retained earnings upon changes in scope of consolidation	-	-	-	(14)	-	(14)	-	-	-	-	-	(14)
Purchase of treasury stock and fractional shares, net	-	-	-	-	(507)	(507)	-	-	-	-	-	(507)
Net changes other than shareholders' equity	-	-	-	-	-	-	(1,750)	-	27	(1,723)	(232)	(1,955)
Balance at March 31, 2008	67,142,417	¥ 8,428	¥ 6,738	¥ 19,978	¥ (645)	¥ 34,499	¥ 1,839	¥ (2,018)	¥ 84	¥ (95)	¥ 1,118	¥ 35,522

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Land revaluation decrement	Foreign currency translation adjustment	Total accumulated (losses) gains from valuation and translation adjustment	Minority interests	Total net assets
	Thousands of U.S. Dollars										
Balance at March 31, 2007	$ 84,280	$ 67,380	$ 182,530	$ (1,380)	$ 332,810	$ 35,890	$ (20,180)	$ 570	$ 16,280	$ 13,500	$ 362,590
Net income for the year	-	-	23,050	-	23,050	-	-	-	-	-	23,050
Cash dividends	-	-	(5,660)	-	(5,660)	-	-	-	-	-	(5,660)
Decrease in retained earnings upon changes in scope of consolidation	-	-	(140)	-	(140)	-	-	-	-	-	(140)
Purchase of treasury stock and fractional shares, net	-	-	-	(5,070)	(5,070)	-	-	-	-	-	(5,070)
Net changes other than shareholders' equity	-	-	-	-	-	(17,500)	-	270	(17,230)	(2,320)	(19,550)
Balance at March 31, 2008	$ 84,280	$ 67,380	$ 199,780	$ (6,450)	$ 344,990	$ 18,390	$ (20,180)	$ 840	$ (950)	$ 11,180	$ 355,220

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 3,919	¥ 4,531	$ 39,190
Adjustments for:			
Depreciation	2,981	2,755	29,810
Net reversal for employee retirement benefit liability	(1,124)	(943)	(11,240)
Loss on sale or disposal of property and equipment	65	139	650
Impairment loss on fixed assets	31	-	310
Decrease (increase) in trade receivables	707	(503)	7,070
Decrease in inventories	5	16	50
Increase (decrease) in trade payables	279	(123)	2,790
Increase in prepaid pension cost	(315)	(43)	(3,150)
Other, net	(510)	236	(5,100)
Sub-total	6,038	6,065	60,380
Interest and dividend received	281	210	2,810
Interest paid	(435)	(403)	(4,350)
Income taxes paid	(1,119)	(2,246)	(11,190)
Net cash provided by operating activities	4,765	3,626	47,650
Cash flows from investing activities:			
Increase in property and equipment and intangible assets	(4,465)	(2,555)	(44,650)
Decrease in property and equipment and intangible assets	238	76	2,380
Increase in investments in subsidiaries	(261)	(3)	(2,610)
Increase in short-term investments	285	(427)	2,850
Other, net	(257)	(25)	(2,570)
Net cash used in investing activities	(4,460)	(2,934)	(44,600)
Cash flows from financing activities:			
Increase in long-term debt	12	253	120
Repayment of long-term debt	(1,017)	(1,211)	(10,170)
Decrease in short-term borrowings	(35)	(499)	(350)
Purchase of treasury stock and fractional shares, net	(507)	(110)	(5,070)
Dividends paid	(566)	(568)	(5,660)
Other, net	(6)	-	(60)
Net cash used in financing activities	(2,119)	(2,135)	(21,190)
Effect of exchange rate changes on cash and cash equivalents	11	57	110
Net decrease in cash and cash equivalents	(1,803)	(1,386)	(18,030)
Cash and cash equivalents at beginning of year	12,946	14,332	129,460
Cash and cash equivalents at end of year	¥ 11,143	¥ 12,946	$ 111,430

See accompanying Notes to Consolidated Financial Statements.

Japan Transcity Corporation and Consolidated Subsidiaries
Notes to Consolidated Financial Statements

1. Basis of 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 Financial Instrument and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company’s overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instrument and Exchange Law of Japan. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

Comparative figures have been reclassified to conform to the current year’s presentation.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing approximate exchange rate at March 31, 2008, which was ¥100 to U.S. $1.00. The translation should not be construed as a representation that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(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 as goodwill or negative goodwill and amortized over five years.

The number of consolidated subsidiaries, unconsolidated subsidiaries and affiliates for the years ended March 31, 2008 and 2007was as follows:

	2008	2007
Consolidated subsidiaries:		
Domestic	23	24
Overseas	3	3
Unconsolidated subsidiaries and affiliates, accounted for by the equity method	5	5
Unconsolidated subsidiaries, stated at cost	14	13
Affiliates, stated at cost	5	4

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 2008 and 2007). Such overseas consolidated subsidiaries close their books at December 31, three months earlier than the Company and other domestic consolidated subsidiaries. The Company consolidated the 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) Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Japan Transicty Group adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan ("ASBJ")), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (ASBJ Guidance No. 8).

The consolidated balance sheets prepared in accordance with the new standards comprise three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet reported pursuant to the previous presentation rules comprises the assets, liabilities, minority interests and shareholders' equity sections. Under the new standards, the following items are presented differently from the previous reporting. Under the previous presentation rules, companies were required to present minority interests between the non-current liabilities and the shareholders' equity sections. If the previous accounting method had been applied for the consolidated balance sheet at March 31, 2007, shareholders' equity would have amounted to ¥34,908 million.

(c) 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.

(d) 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," the classification of which 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 component of net assets, net of applicable income taxes. Gains and losses on the 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.

(e) 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 the derivatives are recognized in current earnings.

According to the special treatment permitted by the accounting standard for financial instruments, hedging interest rate swaps are accounted for on an accrual basis and recorded net of interest expenses generated from the hedged borrowings if certain conditions are met.

(f) Inventories

Inventories consisted of supplies and other. Supplies are stated at cost, using the moving-average method.

(g) Allowance for doubtful accounts

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

(h) Property and equipment, and depreciation

Property and equipment, including significant renewals and additions, are stated at cost, and depreciated principally by the declining-balance method at rates based on the estimated useful life of the asset. Buildings acquired on and after April 1, 1998 are depreciated by the straight-line method. Property with the cost of not less than ¥100,000 but 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.

(Change in depreciation method)
In accordance with the amendment of the Corporation Tax Law of Japan, effective April 1, 2007, the Company and its domestic consolidated subsidiaries changed the depreciation method for property and equipment acquired on and after April 1, 2007 to the method pursuant to the amended Corporation Tax Law of Japan. As a result, operating income decreased by ¥105 million ($1,050 thousand) and income before income taxes and minority interests decreased by ¥106 million ($1,060 thousand) for the year ended March 31, 2008, respectively, as compared with the previous accounting method.

(Additional information)
As for property and equipment acquired before April 1, 2007, from the year ended March 31, 2008, the residual value is depreciated over five years using the straight-line method from the fiscal year following the year in which the depreciable limit (5% of the acquisition cost) is reached. As a result, this change resulted in decreases in operating income by ¥107 million ($1,070 thousand) and income before income taxes and minority interests by ¥116 million ($1,160 thousand), respectively, for the year ended March 31, 2008.

(i) 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 the related rental and lease expenses are charged to income as incurred, as permitted by the "Opinion Concerning Accounting Standard for Leases" issued by the Business Accounting Council of Japan (“BACJ”) and the related practical guideline issued by the Japanese Institute of Certified Public Accountants (“JICPA”).

(j) Accounting standard for impairment of fixed assets

The Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for

Impairment of Fixed Assets" issued by BACJ and the related practical guidance issued by ASBJ. 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. Impairment loss is to be recognized in the income statement by reducing the carrying amount of impaired asset or group of assets to the recoverable amount, measured as the higher of the asset's net selling price or 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. For the purpose of recognition and measurement of impairment loss, fixed assets are principally grouped into cash-generating units, such as regional business divisions, other than idle or unused property. For the year ended March 31, 2008, the Japan Transcity Group recognized impairment loss as follows:

	Millions of Yen	Thousands of U.S. Dollars
Machinery and equipment to be disposed	¥ 31	$ 310

(k) 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 adjustments for land shape and other factors and based on municipal property tax bases. According to the Law, an amount equivalent to the tax effect on the difference between the original book value and the reassessed value is recorded as deferred tax liabilities for revaluation account. The rest of the difference, net of the tax effect and minority interests portion, is recorded as a component of the net assets section in the land revaluation decrement account in the accompanying consolidated balance sheets. At March 31, 2008 and 2007, 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 ¥7,412 million ($74,120 thousand) and ¥7,240 million, respectively.

(l) Employee retirement benefits

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

In accordance with the accounting standard for employee retirement benefits, the Japan Transcity Group recognizes 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 value of 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 the assumptions are amortized on a straight-line basis over ten years, a period within the remaining service years of the employees, from the year after which they arise. Unrecognized prior service cost is amortized using the straight-line method over ten years from the year in which it occurs.

(m) Accrued severance indemnities for directors and corporate auditors

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 the full amount of the liabilities for directors' and corporate auditors' severance indemnities at the respective balance sheet dates.

(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 year-end exchange rates. Transactions in foreign currencies are recorded at the prevailing exchange rates on the transaction dates. Resulting translation gains or losses are included in the current earnings.

For the financial statement items of overseas consolidated subsidiaries, 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 component of net assets in the accompanying consolidated balance sheets.

(o) 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 carryforwards. 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.

(p) Enterprise taxes

The Japan Transcity Group records enterprise taxes based on the “added value” and “capital” amounts when levied as size-based corporate taxes for local government enterprise taxes, which are included in selling, general and administrative expenses.

(q) Accounting standard for directors’ bonus

From the year ended March 31, 2007, the Japan Transcity Group adopted “Accounting Standard for Directors’ Bonus (ASBJ Statement No. 4)” issued by ASBJ on November 29, 2005. The standard requires that the directors’ bonuses, including those for corporate auditors, shall be accounted for as an expense of the accounting period in which such bonuses are accrued. Until the year ended March 31, 2006, bonuses to directors and corporate auditors were recorded as a part of the appropriation of retained earnings in the fiscal year when a proposed appropriation of retained earnings for directors and corporate auditors’ bonuses was approved by the Board of Directors and/or shareholders.

(r) Appropriations of retained earnings

Cash dividends are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders. See Note 2(q) for the accounting for bonuses to directors and corporate auditors.

(s) 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. Investments

At March 31, 2008 and 2007, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2008 and 2007, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Marketable securities:			
Equity securities	¥ 6,579	¥ 9,400	$ 65,790
Other	9	11	90
	6,588	9,411	65,880
Other non-marketable securities	827	825	8,270
	¥ 7,415	¥ 10,236	$ 74,150

Marketable investment securities classified as available-for-sale are stated at fair value with unrealized gains and losses excluded from the current earnings and reported as a net amount within the net assets account until realized. At March 31, 2008 and 2007, gross unrealized gains and losses for marketable securities classified as available-for-sale were as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
	Millions of Yen			
Available-for-sale securities at March 31, 2008:				
Equity securities	¥ 3,398	¥ 3,279	¥ (98)	¥ 6,579
Other	10	-	(1)	9
	¥ 3,408	¥ 3,279	¥ (99)	¥ 6,588
Available-for-sale securities at March 31, 2007:				
Equity securities	¥ 3,268	¥ 6,150	¥ (18)	¥ 9,400
Other	10	1	-	11
	¥ 3,278	¥ 6,151	¥ (18)	¥ 9,411
	Thousands of U.S. Dollars			
Available-for-sale securities at March 31, 2008:				
Equity securities	$ 33,980	$ 32,790	$ (980)	$ 65,790
Other	100	-	(10)	90
	$ 34,080	$ 32,790	$ (990)	$ 65,880

4. Short-term Borrowings and Long-term Debt

At March 31, 2008 and 2007, short-term borrowings consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Short-term bank loans or bank overdrafts with interest rates ranging from 1.19 % to 1.97 % per annum at March 31, 2008:			
Collateralized	¥ 10	¥ 30	$ 100
Unsecured	2,665	2,680	26,650
	¥ 2,675	¥ 2,710	$ 26,750

At March 31, 2008 and 2007, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
1.47% unsecured bonds due July 2008	2,500	2,500	25,000
1.41% unsecured bonds due July 2008	1,500	1,500	15,000
1.76% unsecured bonds due September 2008	4,000	4,000	40,000
Zero coupon unsecured convertible bonds due September 2009	1,500	1,500	15,000
Long-term loans from banks and other financial institutions due through 2022 with interest rates ranging from 0.65% to 6.97% per annum at March 31, 2008:			
Collateralized	439	470	4,390
Unsecured	15,874	16,800	158,740
	25,813	26,770	258,130
Less, current maturities	(10,235)	(1,136)	(102,350)
	¥ 15,578	¥ 25,634	$ 155,780

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

Year ending March 31,	Millions of Yen	Thousands of U.S. Dollars
2009	10,235	102,350
2010	3,181	31,810
2011	3,131	31,310
2012	413	4,130
2013	7,339	73,390
2014 and thereafter	1,514	15,140
	¥ 25,813	$ 258,130

At March 31, 2008 and 2007, the following assets were pledged as collateral for short-term borrowing and long-term liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Time deposits included in short-term investments	¥ 32	¥ 41	$ 320
Buildings and structures	802	850	8,020

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.

5. Employee Retirement Benefits

The Company has defined benefit retirement plans, which covers 100% of the retirement benefits for the employees of the Company who terminate at the compulsory retirement age and 70 % of other retirement benefits of the Company. Some of the consolidated subsidiaries have similar retirement benefit plans. In addition, two consolidated subsidiaries have a defined contribution pension plan in certain pension funds organized by others.

The following table reconciles the benefit liability and net periodic retirement benefit expense as at or for the years ended March 31, 2008 and 2007:

	Millions of Yen		Thousands of U.S Dollars
	2008	2007	2008
Reconciliation of benefit liability:			
Projected benefit obligation	¥ 13,622	¥ 14,828	$ 136,220
Less, fair value of pension plan assets at end of year	(10,857)	(13,161)	(108,570)
	2,765	1,667	27,650
Unrecognized actuarial differences (loss)	(661)	1,836	(6,610)
Unrecognized prior service cost of retroactive benefits granted by the pension plan amendment	284	326	2,840
Accrued retirement and severance benefits	2,388	3,829	23,880
Prepaid pension cost	358	43	3,580
Net amount of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 2,746	¥ 3,872	$ 27,460

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

	Millions of Yen		Thousands of U.S Dollars
	2008	2007	2008
Components of net periodic retirement benefit expense:			
Service cost	¥ 603	¥ 560	$ 6,030
Interest cost	256	257	2,560
Expected return on pension plan assets	(245)	(232)	(2,450)
Amortization of actuarial differences	(88)	(99)	(880)
Amortization of prior service cost	(42)	(42)	(420)
Premiums to defined contribution plan	-	14	-
Net periodic retirement benefit expense	¥ 484	¥ 458	$ 4,840

Major assumptions used in the calculation of the above information for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Method to attribute the projected benefits to the periods of service	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

6. Net Assets

The Japanese Corporate Law (“the Law”) became effective on May 1, 2006, replacing the former Japanese Commercial Code. The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting. Additional paid-in capital and legal earnings reserve may not be distributed as dividends. All additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At March 31, 2008 and 2007, respectively, capital surplus principally consisted of additional paid-in capital. In addition, retained earnings included legal earnings reserve of the Company in the amount of ¥1,200 million ($12,000 thousand) at March 31, 2008 and 2007, respectively.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

During the year ended March 31, 2008, the Company paid interim dividends of ¥4.00 per share. In addition, at the annual shareholders' meeting held on June 27, 2008, the shareholders approved cash dividends of ¥4.50 per share amounting to ¥296 million ($2,960 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2008 as such appropriations are recognized in the period in which they are approved by the shareholders.

7. Contingent Liabilities

At March 31, 2008 and 2007, the Japan Transcity Group was contingently liable for guarantees of indebtedness of others in the amounts of ¥1,072 million ($10,720 thousand) and ¥1,349 million, respectively. Such amounts included the guarantees of indebtedness of a certain 50%-ownded affiliate in the amount of ¥1.406 million ($14,060 thousand) and ¥1,331 million at March 31, 2008 and 2007, respectively.

8. 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. The Japan Transcity Group also leases computer equipment, other equipment and vehicles under leases which are not generally cancelable.

Total rental and lease expenses, including cancelable and non-cancelable leases, for the years ended March 31, 2008 and 2007 were ¥6,541 million ($65,410 thousand) and ¥6,409 million, respectively. For the years ended March 31, 2008 and 2007, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥473 million ($4,730 thousand) and ¥454 million, respectively.

The aggregate future minimum payments for non-cancelable operating leases and financing leases, including the imputed interest, at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Operating leases:			
Due within one year	¥ 580	¥ 546	$ 5,800
Due after one year	3,362	3,654	33,620
	¥ 3,942	¥ 4,200	$ 39,420
Financing leases:			
Due within one year	¥ 504	¥ 451	$ 5,040
Due after one year	2,352	2,513	23,520
	¥ 2,856	¥ 2,964	$ 28,560

9. 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. In addition, during the year ended March 31, 2007, the Company entered into a derivative contract relating to earthquakes for hedging purposes. The outstanding contract amount was ¥300 million ($3,000 thousand) at March 31, 2008 and 2007, respectively. As the fair value for such a contract is not considered determinable, that derivative contract has not been accounted for at fair value. All other derivative instrument contracts qualify for 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, as the counterparties of the derivative transactions are limited to major banks with relatively high credit ratings.

10. Income Taxes

The tax effects of temporary differences that give rise to a significant portion of the deferred tax assets and liabilities at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Enterprise tax accruals	¥ 38	¥ 40	$ 380
Accrued bonuses to employees	459	458	4,590
Employee retirement benefit liability	1,950	2,489	19,500
Accrued severance indemnities for directors and corporate auditors	159	197	1,590
Inter-company capital gains	333	339	3,330
Net operating loss carryforwards	168	182	1,680
Impairment loss on fixed assets	1,200	1,187	12,000
Other	357	345	3,570
	4,664	5,237	46,640
Less, valuation allowance	(1,568)	(1,581)	(15,680)
Deferred tax assets	3,096	3,656	30,960
Deferred tax liabilities:			
Deferred capital gain	1,314	1,364	13,140
Unrealized gains on available-for-sale securities	1,280	2,465	12,800
Other	428	396	4,280
Deferred tax liabilities	3,022	4,225	30,220
Net deferred tax assets/(liabilities)	¥ 74	¥ (569)	$ 740

At March 31, 2008 and 2007, deferred tax assets and liabilities were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Deferred tax assets:			
Current	¥ 500	¥ 236	$ 5,000
Non-current	609	505	6,090
Deferred tax liabilities:			
Current	-	203	-
Non-current	1,035	1,107	10,350

In assessing the realizability of deferred tax assets, management of the Japan Transcity Group considers whether 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, 2008 and 2007, a valuation allowance was provided to reduce the deferred tax assets to the extent that management believes that the deferred tax assets were 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, 2008 and 2007 were not disclosed as such differences were not material.

11. 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 real estate trading and golf club operations and other services. Information by industry segment for the years ended March 31, 2008 and 2007 was summarized as follows:

	Integrated logistics services	Others	Total	Elimination	Consolidated
	Millions of Yen				
For the year 2008:					
Operating revenue:					
External customers	¥ 85,037	¥ 1,424	¥ 86,461	¥ -	¥ 86,461
Inter-segment sales	28	1,285	1,313	(1,313)	-
Total operating revenue	85,065	2,709	87,774	(1,313)	86,461
Operating costs and expenses	81,250	2,551	83,801	(1,347)	82,454
Operating income	¥ 3,815	¥ 158	¥ 3,973	¥ 34	¥ 4,007
Identifiable assets	¥ 91,843	¥ 1,901	¥ 93,744	¥ (3,516)	¥ 90,228
Depreciation	2,813	168	2,981	-	2,981
Impairment loss on fixed assets	-	31	31	-	31
Capital expenditures	4,198	20	4,218	-	4,218
For the year 2007:					
Operating revenue:					
External customers	¥ 81,803	¥ 1,530	¥ 83,333	¥ -	¥ 83,333
Inter-segment sales	28	1,484	1,512	(1,512)	-
Total operating revenue	81,831	3,014	84,845	(1,512)	83,333
Operating costs and expenses	77,432	2,737	80,169	(1,479)	78,690
Operating income	¥ 4,399	¥ 277	¥ 4,676	¥ (33)	¥ 4,643
Identifiable assets	¥ 95,845	¥ 2,503	¥ 98,348	¥ (4,496)	¥ 93,852
Depreciation	2,544	211	2,755	-	2,755
Capital expenditures	3,299	56	3,355	-	3,355
	Thousands of U.S. Dollars				
For the year 2008:					
Operating revenue:					
External customers	$ 850,370	$ 14,240	$ 864,610	$ -	$ 864,610
Inter-segment sales	280	12,850	13,130	(13,130)	-
Total operating revenue	850,650	27,090	877,740	(13,130)	864,610
Operating costs and expenses	812,500	25,510	838,010	(13,470)	824,540
Operating income	$ 38,150	$ 1,580	$ 39,730	$ 340	$ 40,070
Identifiable assets	$ 918,430	$ 19,010	$ 937,440	$ (35,160)	$ 902,280
Depreciation	28,130	1,680	29,810	-	29,810
Impairment loss on fixed assets	-	310	310	-	310
Capital expenditures	41,980	200	42,180	-	42,180

(Change in depreciation method)

As disclosed in Note 2(h), the Company and its domestic consolidated subsidiaries changed the depreciation method of property and equipment acquired on and after April 1, 2007 to the method pursuant to the amended Corporation Tax Law of Japan. As a result, for the year ended March 31, 2008, the depreciation expenses increased, and operating income for the "Integrated logistics services" segment and for the "Others" segment decreased by ¥103 million ($1,030 thousand) and ¥2 million ($20 thousand), respectively, as compared with the previous accounting method.

(Additional information)

As also described in Note 2(h), as for the property and equipment acquired before April 1, 2007, from the current year ended March 31, 2008, the residual value is depreciated over five years using the straight-line method from the fiscal year following the year in which the depreciable limit is reached. As a result, for the year ended March 31, 2008, operating income for the "Integrated logistics services" segment and for the "Others" segment decreased by ¥93 million ($930 thousand) and ¥14 million ($140 thousand), respectively, as compared with previous accounting method.

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

12. Condensed Financial Statements of Japan Transcity Corporation (Parent)

Presented below are the condensed non-consolidated balance sheets, non-consolidated statements of income and changes in net assets of Japan Transcity Corporation, the parent company.

Non-Consolidated Balance Sheets
Japan Transcity Corporation (Parent)

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current assets:			
Cash and cash equivalents	¥ 8,918	¥ 10,510	$ 89,180
Short-term investments	34	38	340
Trade receivables, net of allowance for doubtful accounts	13,101	13,866	131,010
Inventories	18	26	180
Deferred tax assets	277	-	2,770
Other current assets	1,484	1,981	14,840
Total current assets	23,832	26,421	238,320
Property and equipment, at cost	68,884	66,131	688,840
Less, accumulated depreciation	(29,611)	(28,439)	(296,110)
Net property and equipment	39,273	37,692	392,730
Investments and other assets:			
Investment securities	6,919	9,557	69,190
Investments in and long-term loans to subsidiaries and affiliates	3,728	3,499	37,280
Lease deposits	949	891	9,490
Other assets	1,727	1,442	17,270
Allowance for doubtful accounts	(22)	(50)	(220)
Total investments and other assets	13,301	15,339	133,010
Total assets	¥ 76,406	¥ 79,452	$ 764,060

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Current liabilities:			
Short-term borrowings	¥ 4,793	¥ 4,547	$ 47,930
Current maturities of long-term debt	9,873	713	98,730
Trade payables	8,566	8,350	85,660
Accrued expenses	878	862	8,780
Income taxes payable	177	173	1,770
Deferred tax liabilities	-	203	-
Other current liabilities	1,961	2,174	19,610
Total current liabilities	26,248	17,022	262,480
Long-term debt	11,180	20,827	111,800
Employee retirement benefit liability	1,625	2,770	16,250
Deferred tax liabilities for revaluation	5,281	5,281	52,810
Deferred tax liabilities	964	1,078	9,640
Accrued severance indemnities for directors and corporate auditors	340	434	3,400
Other long-term liabilities	246	288	2,460
Total liabilities	45,884	47,700	458,840
Net assets:			
Common stock	8,428	8,428	84,280
Capital surplus	6,738	6,738	67,380
Retained earnings	16,293	15,355	162,930
Less, treasury stock, at cost	(645)	(138)	(6,450)
Total shareholders' equity	30,814	30,383	308,140
Accumulated (losses) gains from valuation adjustment	(292)	1,369	(2,920)
Total net assets	30,522	31,752	305,220
Total liabilities and net assets	¥ 76,406	¥ 79,452	$ 764,060

Non-Consolidated Statements of Income (Unaudited)
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars
	2008	2007	2008
Operating revenue	¥ 80,431	¥ 77,649	$ 804,310
Operating costs and expenses	77,673	74,624	776,730
Operating income	2,758	3,025	27,580
Other income (expenses):			
Interest and dividend income	329	257	3,290
Interest expenses	(335)	(299)	(3,350)
Miscellaneous, net	(160)	(30)	(1,600)
	(166)	(72)	(1,660)
Income before income taxes	2,592	2,953	25,920
Income taxes:			
Current	570	791	5,700
Deferred	518	464	5,180
Total income taxes	1,088	1,255	10,880
Net income	¥ 1,504	¥ 1,698	$ 15,040

	Yen		U.S. Dollars
Per share:			
Net income:			
-Basic	¥ 22.61	¥ 25.41	$ 0.23
-Diluted	21.43	24.09	0.21
Cash dividends	8.50	8.50	0.09

Non-Consolidated Statements of Changes in Net Assets
Japan Transcity Corporation (Parent)
For the Years Ended March 31, 2008 and 2007

	Shareholders' equity					Accumulated (losses) gains from valuation adjustment			
	Common stock	Capital surplus	Retained Earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on available-for-sale securities	Land revaluation decrement	Total accumulated (losses) gains from valuation adjustment	Total net assets
	Millions of Yen								
Balance at March 31, 2006	¥ 8,411	¥ 6,720	¥ 14,271	¥ (28)	¥ 29,374	¥ 4,208	¥ (2,018)	¥ 2,190	¥ 31,564
Net income for the year	-	-	1,698	-	1,698	-	-	-	1,698
Cash dividends	-	-	(568)	-	(568)	-	-	-	(568)
Bonuses to directors and corporate auditors	-	-	(46)	-	(46)	-	-	-	(46)
Conversion of convertible bonds	17	18			35				35
Purchase of treasury stock and fractional shares, net	-	-	-	(110)	(110)	-	-	-	(110)
Net changes other than shareholders' equity	-	-	-	-	-	(821)	-	(821)	(821)
Balance at March 31, 2007	8,428	6,738	15,355	(138)	30,383	3,387	(2,018)	1,369	31,752
Net income for the year	-	-	1,504	-	1,504	-	-	-	1,504
Cash dividends	-	-	(566)	-	(566)	-	-	-	(566)
Purchase of treasury stock and fractional shares, net	-	-	-	(507)	(507)	-	-	-	(507)
Net changes other than shareholders' equity	-	-	-	-	-	(1,661)	-	(1,661)	(1,661)
Balance at March 31, 2008	¥ 8,428	¥ 6,738	¥ 16,293	¥ (645)	¥ 30,814	¥ 1,726	¥ (2,018)	¥ (292)	¥ 30,522
	Thousands of U.S. Dollars								
Balance at March 31, 2007	$ 84,280	$ 67,380	$ 153,550	$ (1,380)	$ 303,830	$ 33,870	$ (20,180)	$ 13,690	$ 317,520
Net income for the year	-	-	15,040	-	15,040	-	-	-	15,040
Cash dividends	-	-	(5,660)	-	(5,660)	-	-	-	(5,660)
Purchase of treasury stock and fractional shares, net	-	-	-	(5,070)	(5,070)	-	-	-	(5,070)
Net changes other than shareholders' equity	-	-	-	-	-	(16,610)	-	(16,610)	(16,610)
Balance at March 31, 2008	$ 84,280	$ 67,380	$ 162,930	$ (6,450)	$ 308,140	$ 17,260	$ (20,180)	$ (2,920)	$ 305,220