The Sumitomo Warehouse Co., Ltd.
Consolidated Balance Sheets
31 March 2005 and 2006

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
ASSETS	2005	2006	*2006*
Current assets:			
Cash and cash equivalents	¥ 10,690	¥ 8,882	*$ 75,611*
Short-term investments (Note 5)	594	669	*5,695*
Receivables			
Trade notes and accounts	13,205	14,628	*124,525*
Other	10,397	1,889	*16,081*
Allowance for doubtful receivables	(238)	(188)	*(1,600)*
	23,364	16,329	*139,006*
Deferred tax assets (Note 8)	593	837	*7,125*
Other	829	1,111	*9,458*
Total current assets	36,070	27,828	*236,895*
Investments and other non-current assets:			
Investment securities (Notes 3, 4 and 5)	51,231	101,892	*867,387*
Long-term loans receivable	388	215	*1,830*
Other (Notes 3, 4 and 5)	4,792	5,079	*43,237*
Allowance for doubtful receivables	(371)	(272)	*(2,315)*
	56,040	106,914	*910,139*
Property and equipment (Note 5) **:**			
Land	28,837	33,269	*283,213*
Buildings and structures	133,124	137,620	*1,171,533*
Machinery and equipment	20,067	21,033	*179,050*
Construction in progress	1,547	1,506	*12,820*
	183,575	193,428	*1,646,616*
Less accumulated depreciation	(91,813)	(96,625)	*(822,550)*
	91,762	96,803	*824,066*
Intangibles:			
Leasehold (Note 5)	3,286	2,751	*23,419*
Software	174	183	*1,558*
Other	166	764	*6,503*
	3,626	3,698	*31,480*
Deferred tax assets (Note 8)	7	16	*136*
	¥ 187,505	¥ 235,259	*$ 2,002,716*

See accompanying notes.

The Sumitomo Warehouse Co., Ltd.
Consolidated Balance Sheets
31 March 2005 and 2006

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
LIABILITIES AND SHAREHOLDERS' EQUITY	2005	2006	*2006*
Current liabilities:			
Bank loans (Note 5)	¥ 5,494	¥ 14,577	*$ 124,091*
Long-term debt due within one year (Note 5)	951	1,149	*9,781*
Payables :			
Trade notes and accounts	7,970	9,204	*78,352*
Other	3,766	3,526	*30,016*
	11,736	12,730	*108,368*
Income taxes payable	2,037	2,052	*17,468*
Accrued employees' bonuses	1,400	1,376	*11,714*
Deferred tax liabilities (Note 8)	3	—	—
Other	1,714	1,238	*10,539*
Total current liabilities	23,335	33,122	*281,961*
Long-term debt due after one year (Note 5)	14,232	5,972	*50,839*
Deferred tax liabilities (Note 8)	20,203	36,017	*306,606*
Employees' retirement benefits (Note 7)	6,547	3,628	*30,884*
Directors' and corporate auditors' retirement benefits	802	33	*281*
Deposits on contracts	15,160	14,571	*124,040*
Other non-current liabilities	374	875	*7,450*
Minority interest in consolidated subsidiaries	587	1,130	*9,619*
Contingent liabilities (Note 10)			
Shareholders' equity:			
Common stock			
Authorized — 395,872,000 shares			
Issued — 175,996,765 shares at 31 March 2005			
— 191,479,582 shares at 31 March 2006	17,177	20,785	*176,939*
Capital surplus	14,617	18,224	*155,137*
Retained earnings	52,413	55,614	*473,431*
Unrealized gains on investment securities	22,816	45,648	*388,593*
Foreign currency translation adjustments	(656)	(231)	*(1,966)*
Treasury stock, at cost			
— 375,750 shares at 31 March 2005			
— 321,698 shares at 31 March 2006	(102)	(129)	*(1,098)*
Total shareholders' equity	106,265	139,911	*1,191,036*
	¥ 187,505	¥ 235,259	*$ 2,002,716*

See accompanying notes.

The Sumitomo Warehouse Co., Ltd.
Consolidated Statements of Income
Years ended 31 March 2005 and 2006

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2005	2006	*2006*
Net sales	¥ 98,992	¥ 105,697	*$ 899,779*
Cost of sales	86,564	93,988	*800,102*
Selling, general and administrative expenses	6,051	6,005	*51,120*
Operating income	6,377	5,704	*48,557*
Other income (expenses):			
Interest and dividend income	494	916	*7,798*
Interest expense	(232)	(154)	*(1,311)*
Equity in earnings of affiliates	166	142	*1,209*
Gain on sale of investment securities	1,213	3,414	*29,063*
Reversal of allowance for doubtful receivables	193	—	*—*
Unrealized loss on deposits for golf club memberships	(180)	(—)	*(—)*
Loss on liquidation of a subsidiary	(—)	(141)	*(1,200)*
Loss on disposal of property and equipment	(155)	(118)	*(1,005)*
Impairment loss on fixed assets (Note 14)	(—)	(804)	*(6,844)*
Cost of renovation of warehouses and rental properties	(173)	(776)	*(6,606)*
Fee for arrangement of syndicated loans	(—)	(400)	*(3,405)*
Bond conversion expenses	(150)	(46)	*(392)*
Gain on contribution of securities to retirement benefit trust (Note 7)	—	143	*1,217*
Contributions (Note 11)	(303)	(3)	*(26)*
Business alliance expenses	(500)	(—)	*(—)*
Other, net	90	177	*1,507*
Income before income taxes and minority interests	6,840	8,054	*68,562*
Income taxes			
Current	2,922	3,368	*28,671*
Deferred	(285)	(197)	*(1,677)*
	2,637	3,171	*26,994*
Minority interests	51	103	*877*
Net income	¥ 4,152	¥ 4,780	*$ 40,691*

	Yen		*U.S. dollars (Note 1)*
Basic net income per share	¥ 29.99	¥ 25.96	*$ 0.22*
Dilutive net income per share	¥ 21.11	¥ 24.08	*$ 0.20*
Cash dividends applicable to the year	¥ 10.00	¥ 10.00	*$ 0.09*

See accompanying notes.

The Sumitomo Warehouse Co., Ltd.
Consolidated Statements of Shareholders' Equity
Years ended 31 March 2005 and 2006

	Shares of common stock (Thousands)	Millions of yen: Common stock	Capital surplus	Retained earnings	Unrealized gains on investment securities	Foreign currency translation adjustments	Treasury stock
Balance at 31 March 2004	138,611	9,452	6,323	49,097	23,876	(640)	(1,830)
Conversion of convertible bonds	37,386	7,725	7,694				
Gain on disposal of treasury stock			600				
Net income				4,152			
Cash dividends at ¥6.0 per share				(796)			
Bonuses to directors and corporate auditors				(40)			
Net decrease in unrealized gains on investment securities, net of tax					(1,060)		
Foreign currency translation adjustments						(16)	
Net decrease in treasury stock							1,728
Balance at 31 March 2005	175,997	17,177	14,617	52,413	22,816	(656)	(102)
Conversion of convertible bonds	15,483	3,608	3,607				
Net income				4,780			
Increase resulting from newly consolidated subsidiaries				535			
Increase due to changes in affiliates accounted for by the equity method				66			
Cash dividends at ¥12.0 per share				(2,140)			
Bonuses to directors and corporate auditors				(40)			
Net increase in unrealized gains on investment securities, net of tax					22,832		
Foreign currency translation adjustments						425	
Net increase in treasury stock							(27)
Balance at 31 March 2006	191,480	¥ 20,785	¥ 18,224	¥ 55,614	¥ 45,648	¥ (231)	¥ (129)

	Thousands of U.S. dollars (Note 1): Common stock	*Capital surplus*	*Retained earnings*	*Unrealized gains on investment securities*	*Foreign currency translation adjustments*	*Treasury stock*
Balance at 31 March 2005	*$ 146,225*	*$ 124,432*	*$ 446,182*	*$ 194,228*	*$ (5,584)*	*$ (868)*
Conversion of convertible bonds	*30,714*	*30,705*				
Net income			*40,691*			
Increase resulting from newly consolidated subsidiaries			*4,554*			
Increase due to changes in affiliates accounted for by the equity method			*562*			
Cash dividends at ¥12.0 (U.S.$0.10) per share			*(18,217)*			
Bonuses to directors and corporate auditors			*(341)*			
Net increase in unrealized gains on investment securities, net of tax				*194,365*		
Foreign currency translation adjustments					*3,618*	
Net increase in treasury stock						*(230)*
Balance at 31 March 2006	*$ 176,939*	*$ 155,137*	*$ 473,431*	*$ 388,593*	*$ (1,966)*	*$ (1,098)*

See accompanying notes.

The Sumitomo Warehouse Co., Ltd.
Consolidated Statements of Cash Flows
Years ended 31 March 2005 and 2006

	Millions of yen		Thousands of U.S.dollars (Note 1)
	2005	2006	*2006*
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,840	¥ 8,054	*$ 68,562*
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities			
Depreciation and amortization	5,144	4,931	*41,977*
Impairment loss of fixed assets	—	804	*6,844*
Equity in earnings of affiliates	(166)	(142)	*(1,209)*
Interest and dividend income	(494)	(916)	*(7,798)*
Interest expense	232	154	*1,311*
Loss on write-down of investment securities	4	14	*119*
Loss on disposal of property and equipment	24	118	*1,005*
Gain on sale of property and equipment	(4)	(23)	*(196)*
Gain on sale of investment securities	(1,213)	(3,414)	*(29,063)*
Increase in notes and accounts receivable	(380)	(973)	*(8,283)*
Increase in notes and accounts payable	408	1,052	*8,955*
Net decrease of allowance for doubtful receivables	(274)	(151)	*(1,285)*
Increase（decrease) in employees’ retirement benefits	22	(850)	*(7,236)*
Decrease in directors’ and corporate auditors’ retirement benefits	(84)	(769)	*(6,546)*
Decrease in deposits on contracts	(501)	(1,434)	*(12,207)*
Fee for arrangement of syndicated loanes	—	400	*3,405*
Other, net	720	323	*2,750*
Sub-total	10,278	7,178	*61,105*
Interest and dividends received	529	956	*8,138*
Interest paid	(233)	(145)	*(1,234)*
Income taxes paid	(2,191)	(3,553)	*(30,246)*
Net cash provided by operating activities	8,383	4,436	*37,763*
Cash flows from investing activities:			
Proceeds from time deposits maturing after three months	—	375	*3,192*
Acquisition of time deposits maturing after three months	(6)	(450)	*(3,831)*
Acquisition of securities	(913)	(14,635)	*(124,585)*
Proceeds from sale or redemption of securities	832	4,502	*38,325*
Acquisition of property and equipment	(4,111)	(9,675)	*(82,361)*
Proceeds from sale of property and equipment	5	50	*426*
Acquisition of intangible fixed assets	(104)	(399)	*(3,397)*
Advance of loans receivable	(44)	(124)	*(1,056)*
Collection of loans receivable	50	47	*400*
Other, net	94	(565)	*(4,809)*
Net cash used in investing activities	(4,197)	(20,874)	*(177,696)*
Cash flows from financing activities:			
Dividends paid	(798)	(2,147)	*(18,277)*
Proceeds from short-term debt	3,413	13,937	*118,643*
Repayments of short-term debt	(4,668)	(4,947)	*(42,113)*
Proceeds from long-term debt	60	90	*766*
Repayments of long-term debt	(24)	(952)	*(8,104)*
Payment to bond redemption funds	(8,121)	(—)	*(—)*
Proceeds from bond redemption funds	—	8,121	*69,133*
Payment of fee for arrangement of syndicated loans	(—)	(400)	*(3,405)*
Purchase of treasury stock	(52)	(52)	*(443)*
Net cash provided by (used in) financing activities	(10,190)	13,650	*116,200*
Effect of exchange rate changes on cash and cash equivalents	(10)	191	*1,626*
Net decrease in cash and cash equivalents	(6,014)	(2,597)	*(22,107)*
Cash and cash equivalents of newly consolidated subsidaiaries	—	789	*6,716*
Cash and cash equivalents at beginning of period	16,704	10,690	*91,002*
Cash and cash equivalents at end of period	¥ 10,690	¥ 8,882	*$ 75,611*

See accompanying notes.

The Sumitomo Warehouse Co., Ltd.
Notes to Consolidated Financial Statements
31 March 2005 and 2006

1. Basis of Presenting Consolidated Financial Statements

(a) The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law 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 of International Financial Reporting Standards.

The accounts of 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 (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) 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 Securities and Exchange Law. Some 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.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the previous consolidated financial statements to conform to the presentation for the current year.

(b) The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at 31 March 2006, which was ¥117.47 to U.S. $1. The convenience translations should not be construed as representations 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. Significant Accounting Policies

(a) Consolidation

The consolidated financial statements include the accounts of the Company and 23 and 28 significant subsidiaries for the years ended 31 March 2005 and 2006, respectively. All significant intercompany transactions and accounts have been eliminated. The fiscal year-end of all the consolidated foreign subsidiaries is 31 December and is different from the Company's. Significant transactions between 31 December and 31 March are reflected in the consolidated financial statements.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries. Excess of cost over equity in net assets acquired is amortized within five years.

The equity method is applied to two subsidiaries and four affiliates for the year-end 31 March 2005 and four affiliates for the year-end 31 March 2006, respectively. Other unconsolidated subsidiaries and affiliates are not accounted for by the equity method because they are immaterial.

(b) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the year-end-rates and resulting gains and losses are recognized in the statements of income.

The financial statements of consolidated foreign subsidiaries and affiliates are translated into Japanese yen at the year-end-rates, except that shareholders' equity accounts are translated at historical rates.

(c) Allowance for doubtful receivables

The Company and its consolidated subsidiaries (the "Companies") provide for doubtful accounts principally at an amount computed based on the actual ratio of bad debts in the past plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

(d) Securities

The Companies classify securities as 1) securities held for trading purposes (hereafter, "trading securities"), 2) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), 3) equity securities issued by subsidiaries and affiliates, and 4) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities").

The Companies have no trading securities.

Held-to maturity debt securities are stated at amortized cost.

Equity securities issued by subsidiaries and affiliates which are not consolidated or accounted for using the equity method are stated at moving average cost.

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains or losses on sales of such securities are computed using moving average cost. Other securities with no available fair market value are stated at moving average cost.

If the market value of held-to-maturity debt securities and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliated companies not on the equity method is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Property and equipment

Property and equipment are carried at cost. The Company and its domestic subsidiaries provide depreciation on a declining balance method over estimated useful lives. However, depreciation for buildings, except building fixtures, acquired after 31 March 1998 is stated on the straight-line method.

Consolidated foreign subsidiaries compute depreciation on the straight-line method over estimated useful lives.

Effective 1 April 2005, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on 9 August 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on 31 October 2003).

(f) Finance leases

Finance leases of the Company and certain consolidated subsidiaries which do not transfer ownership are accounted for in the same manner as operating leases in accordance with Japanese GAAP. Under Japanese accounting policies for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain information is disclosed in the notes to the lessee's financial statements.

(g) Software costs

The Company and its consolidated domestic subsidiaries depreciate software using the straight-line method over the estimated useful life of five years.

(h) Income taxes

The Companies recognize tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(i) Bonuses

The Company and its consolidated domestic subsidiaries follow the general Japanese practice of paying bonuses mainly in June and December. Accrued bonus liabilities at the balance sheet date are calculated based upon management's estimate of annual amounts thereof.

Bonuses to directors and corporate auditors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

(j) Retirement benefits

ⓘ Employees:

The Company and its consolidated domestic subsidiaries provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. Certain consolidated foreign subsidiaries have unfunded lump-sum benefit plans.

The liabilities and expenses for retirement benefits are determined based on the amounts actuarially calculated using certain assumptions.

The Company and its consolidated domestic subsidiaries provide the liability for employees' retirement benefits at the balance sheet date based on the estimated amount of projected benefit obligation and the fair value of the plan assets at that date.

Actuarial gains and losses are recognized in expenses using the straight-line method within the average of the estimated remaining service lives commencing with the following period.

ⓘⓘ Directors and corporate auditors:

Certain subsidiaries accrue the liability for directors' and corporate auditors' retirement benefits equal to the amount of their retirement payment required if they retired their positions at the balance sheet dates.

On 29 June 2005, the Company terminated its retirement benefits plan for directors and corporate auditors. The balance of benefits granted prior to the termination date is included in other non-current liabilities.

(k) Net income per share

The computation of basic net income per share of common stock shown in the consolidated statements of income is based on the weighted average number of shares outstanding during the period and net income available to common shareholders. The computation of dilutive net income per share of common stock is based on the weighted average number of shares of common stock outstanding increased by the number of shares which would have been outstanding assuming the conversion of outstanding dilutive bonds at the beginning of the period. The related interest expense, net of income taxes, has been eliminated for the purposes of this calculation.

(l) Cash and cash equivalents

Cash and cash equivalents include cash on hand, readily-available deposits and short-term investments, which are easily convertible into cash and present insignificant risk of changes in value, with original maturities of three months or less.

3. Securities

The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of 31 March 2005:

Held-to-maturity debt securities:

Securities with available fair values exceeding book values:

	Millions of yen
Book value	¥ 41
Fair value	42
Difference	¥ 1

Securities with available fair values not exceeding book values:

	Millions of yen
Book value	¥ 780
Fair value	778
Difference	¥ (2)

These debt securities are pledged as deposits on lease contracts of land.

Available-for-sale securities:

Securities with book values exceeding acquisition cost:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 9,303	¥ 47,905	¥ 38,602
Other	1	1	—
Total	¥ 9,304	¥ 47,906	¥ 38,602

Securities with book values not exceeding acquisition cost:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 140	¥ 124	¥ (16)
Other	4	3	(1)
Total	¥ 144	¥ 127	¥ (17)

The following table summarizes book values of securities with no available fair values as of 31 March 2005:

	Millions of yen
Available-for-sale securities	
Non-listed equity securities	¥ 2,028
Equity securities issued by subsidiaries and affiliates	1,170
Total	¥ 3,198

Held-to-maturity debt securities at 31 March 2005 mature as follows:

	Millions of yen		
	Within one year	Over one year but within five years	Over five years but within ten years
Government bonds	¥ 45	¥ —	¥ 774

Total sales of available-for-sale securities in the year ended 31 March 2005 amounted to ¥1,439 million and the related gains amounted to ¥1,213 million.

The following tables summarize acquisition costs, book values and fair value of securities with available fair values as of 31 March 2006:

Held-to-maturity debt securities:

Securities with available fair values not exceeding book values:

	Millions of yen	*Thousands of U.S. dollars*
Book value	¥ 791	*$ 6,734*
Fair value	762	*6,487*
Difference	¥ (29)	*$ (247)*

These debt securities are pledged as deposits on lease contracts of land.

Available-for-sale securities:

Securities with book values exceeding acquisition cost:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 21,520	¥ 98,773	¥ 77,253
Other	2	3	1
Total	¥ 21,522	¥ 98,776	¥ 77,254

	Thousands of U. S. dollars		
	Acquisition cost	*Book value*	*Difference*
Equity securities	*$ 183,196*	*$ 840,836*	*$ 657,640*
Other	*17*	*26*	*9*
Total	*$ 183,213*	*$ 840,862*	*$ 657,649*

Securities with book values not exceeding acquisition cost:

	Millions of yen		
	Acquisition cost	Book value	Difference
Equity securities	¥ 92	¥ 84	¥ (8)
Other	2	2	(―)
Total	¥ 94	¥ 86	¥ (8)

	Thousands of U. S. dollars		
	Acquisition cost	*Book value*	*Difference*
Equity securities	*$ 783*	*$ 715*	*$ (68)*
Other	*17*	*17*	*(―)*
Total	*$ 800*	*$ 732*	*$ (68)*

The following table summarizes book values of securities with no available fair values as of 31 March 2006:

	Millions of yen	*Thousands of U.S. dollars*
Available-for-sale securities		
Non-listed equity securities	¥ 2,116	*$ 18,013*
Equity securities issued by subsidiaries and affiliates	913	*7,772*
Total	¥ 3,029	*$ 25,785*

Held-to-maturity debt securities at 31 March 2006 mature as follows:

	Millions of yen		
	Within one year	Over one year but within five years	Over five years but within ten years
Government bonds	¥ ―	¥ 15	¥ 774

	Thousands of U. S. dollars		
	Within one year	*Over one year but within five years*	*Over five years but within ten years*
Government bonds	*$ ―*	*$ 128*	*$ 6,589*

Total sales of available-for-sale securities in the year ended 31 March 2006 amounted to ¥3,802 million (*US$ 32,366 thousand*) and the related gains and losses amounted to ¥3,414 million (*US$ 29,063 thousand*) and ¥6 million (*US$ 51 thousand*), respectively.

4. Investments in Related Companies

Investments in non-consolidated subsidiaries and affiliates included in the balance sheet at 31 March 2005 and 2006 were as follows:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Investment securities and investment in capital	¥ 1,173	¥ 916	*$ 7,798*

5. Bank Loans and Long-term Debt

Short-term bank loans at 31 March 2005 and 2006 bore interest ranging from 0.46% to 2.20% and from 0.26% to 3.75%, respectively.

Long-term debt at 31 March 2005 and 2006 consisted of the following:

	Millions of yen		*Thousands of U. S. dollars*
Secured	2005	2006	*2006*
Loans principally from banks 0.93%- 6.60% maturing through 2019	¥ 2,600	¥ 2,304	*$ 19,613*
Unsecured			
Zero Coupon convertible bonds due 2009, convertible into shares of the Company' common stock at a price of ¥466 (*US$3.97*) per share	9,835	2,620	*22,304*
Loans principally from banks 0.53%- 2.13% maturing through 2010	2,748	2,197	*18,703*
	15,183	7,121	*60,620*
Less amounts due within one year	(951)	(1,149)	*(9,781)*
	¥ 14,232	¥ 5,972	*$ 50,839*

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

Year ending 31 March	Millions of yen	*Thousands of U. S. dollars*
2007	¥ 1,149	*$ 9,781*
2008	984	*8,377*
2009	3,482	*29,642*
2010	583	*4,963*
2011	262	*2,230*
2012 and thereafter	661	*5,627*
	¥ 7,121	*$ 60,620*

At 31 March 2006, assets pledged as collateral for short-term bank loans of ¥4,254 million (*US$36,214 thousand*) and secured long-term debt of ¥2,304 *(US$19,614 thousand*) were as follows:

	Millions of yen	*Thousands of U. S. dollars*
Deposits placed with banks with maturities of over three months (short-term investments)	¥ 232	*$ 1,975*
Investment securities	10,142	*86,337*
Property and equipment, net of accumulated depreciation	4,013	*34,162*
Leasehold and other	368	*3,133*
	¥ 14,755	*$ 125,607*

The Company has concluded commitment line agreements with seven financial institutions in order to obtain funds for operations in a stable and efficient manner.

The commitment line of credit at 31 March 2006, was as follows:

	Millions of yen	*Thousands of U. S. dollars*
Total commitment line of credit	¥ 20,000	*$ 170,256*
Outstanding borrowings	9,000	*76,615*
Net outstanding credit	¥ 11,000	*$ 93,641*

6. Leases

(a) Finance leases as lessee

At 31 March 2005 and 2006, non-capitalized finance leases for machinery and equipment were as follows:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Original lease obligations	¥ 1,705	¥ 1,995	*$ 16,983*
Lease payments	(898)	(1,002)	*(8,530)*
Remaining lease obligations	¥ 807	¥ 993	*$ 8,453*

Total lease payments under non-capitalized finance leases arrangements were ¥359 million and ¥350 million (*US$2,979 thousand*) for the years ended 31 March 2005 and 2006, respectively.

Lease obligations under non-capitalized finance leases, including finance charges, at 31 March 2005 and 2006, were as follows:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Due within one year	¥ 307	¥ 369	*$ 3,141*
Due after one year	500	624	*5,312*
Total	¥ 807	¥ 993	*$ 8,453*

(b) Finance leases as lessor

At 31 March 2005 and 2006, buildings and structures leased by a consolidated subsidiary under finance leases were as follows:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Acquisition cost	¥ 6	¥ —	*$ —*
Less accumulated depreciation	(4)	—	*—*
Total	¥ 2	¥ —	*$ —*

(c) Operating leases as lessee

Lease obligations under operating leases, at 31 March 2005 and 2006, were as follows:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Due within one year	¥ —	¥ 28	*$ 238*
Due after one year	—	76	*647*
Total	¥ —	¥ 104	*$ 885*

(d) Operating leases as lessor

Lease receipts under operating leases, at 31 March 2005 and 2006, were as follows:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Due within one year	¥ 543	¥ 770	*$ 6,555*
Due after one year	4,494	4,295	*36,562*
Total	¥ 5,037	¥ 5,065	*$ 43,117*

7. Employees' Retirement Benefits

The liabilities for employees' retirement benefits included in the liability section of the consolidated balance sheets as of 31 March 2005 and 2006 consisted of the following:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Projected retirement benefit obligation	¥ (11,771)	¥ (11,736)	*$ (99,906)*
Plan assets	4,179	7,986	*67,983*
Unfunded retirement benefit obligation	(7,592)	(3,750)	*(31,923)*
Less unrecognized actuarial differences	1,045	122	*1,039*
Liability for retirement benefits	¥ (6,547)	¥ (3,628)	*$ (30,884)*

Included in the consolidated statements of income for the years ended 31 March 2005 and 2006 are retirement benefit expenses comprised of the following:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Service costs – benefits earned during the year	¥ 632	¥ 652	*$ 5,550*
Interest cost on projected benefit obligation	250	247	*2,103*
Expected return on plan assets	(75)	(78)	*(664)*
Amortization of actuarial differences	173	158	*1,345*
Retirement benefit expenses	¥ 980	¥ 979	*$ 8,334*

The assumptions and bases used for the calculation of retirement benefit obligations for the years ended 31 March 2005 and 2006 were as follows:

	2005	2006
Discount rate	2.5%	2.5%
Expected return rate for plan assets	2.0%	2.0%
Amortization period for actuarial differences	10 years	10 years

The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years.

In the year ended 31 March 2006, the Company contributed securities to the employee retirement benefit trust.

8. Deferred Income Taxes

Significant components of the Companies' deferred tax assets and liabilities at 31 March 2005 and 2006 were as follows:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
Deferred tax assets:			
Employees' retirement benefits	¥ 2,465	¥ 2,581	*$ 21,971*
Accrued employees' bonuses	569	559	*4,759*
Directors' and corporate auditors' retirement benefits	453	335	*2,852*
Impairment loss on fixed assets	—	327	*2,784*
Enterprise taxes	164	169	*1,439*
Accrued real estate acquisition tax	70	78	*664*
Allowance for doubtful receivables	14	4	*34*
Other	507	417	*3,549*
Total deferred tax assets	4,242	4,470	*38,052*
Less valuation allowance	(645)	(886)	*(7,542)*
Net deferred tax assets	3,597	3,584	*30,510*
Deferred tax liabilities:			
Unrealized gains on investment securities	(15,707)	(31,443)	*(267,668)*
Deferred gains on properties for tax purposes	(7,050)	(6,851)	*(58,321)*
Reserve for special depreciation	(213)	(156)	*(1,328)*
Other	(233)	(298)	*(2,538)*
Total deferred tax liabilities	(23,203)	(38,748)	*(329,855)*
Net deferred tax liabilities	¥ (19,606)	¥ (35,164)	*$(299,345)*

Classification of "Deferred tax liabilities, net" on the consolidated balance sheet as of 31 March 2005 and 2006 were as follows:

Balance sheet item		Millions of yen		*Thousands of U. S. dollars*
		2005	2006	*2006*
Current assets	Deferred tax assets	¥ 593	¥ 837	*$ 7,125*
Non-current assets	Deferred tax assets	7	16	*136*
Current liabilities	Deferred tax liabilities	(3)	(—)	*(—)*
Non-current liabilities	Deferred tax liabilities	(20,203)	(36,017)	*(306,606)*
		¥ (19,606)	¥ (35,164)	*$(299,345)*

The significant differences between the aggregate statutory income tax rates and the effective income tax rates for the year ended 31 March 2005 were follows:

	2005
Statutory income tax rate	40.7%
Non-deductible expenses	1.3%
Net loss of consolidated subsidiaries	0.5%
Utilization of previously unrecognized tax loss carry forward of a consolidated subsidiary	(1.4%)
Non-taxable dividend income	(1.3%)
Decrease in valuation allowance	(0.1%)
Other	(1.1%)
Effective income tax rate	38.6%

The differences for the year ended 31 March 2006, were immaterial.

9. Shareholders' Equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Commercial Code of Japan provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

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 the Commercial Code.

10. Contingent Liabilities

At 31 March 2005 and 2006, the Companies were contingently liable as follows:

	Millions of yen		*Thousands of U. S. dollars*
	2005	2006	*2006*
As endorser of notes endorsed	¥ 526	¥ 531	*$ 4,520*
As guarantor of indebtedness	4,344	3,956	*33,677*

11. Contributions

The contributions for the year ended 31 March 2005 were mainly for the promotion of construction of a pedestrian bridge paid to a local government.

12. Supplemental cash flow information

Supplemental cash flow information for the year ended 31 March 2005 and 2006 were as follows:

Non-cash financing activities:

	Millions of yen		*Thousands of U.S. dollars*
	2005	2006	*2006*
Conversion of convertible bonds			
Increase in common stock by conversion of convertible bonds	¥ 7,725	¥ 3,608	*$ 30,714*
Increase in capital surplus by conversion of convertible bonds	7,694	3,607	*30,705*
Treasury stock used for conversion of convertible bonds	1,780	—	—
Gain on disposal of the above treasury stocks	600	—	—
Total	¥ 17,799	¥ 7,215	*$ 61,419*
Contribution of securities to the employee retirement benefit trust	—	¥ 2,212	*$ 18,830*
Increases due to consolidation of subsidiaries previously unconsolidated			
Current assets	—	¥ 1,263	*$ 10,751*
Non-current assets	—	450	*3,831*
Total	—	¥ 1,713	*$ 14,582*
Current liabilities	—	¥ 233	*$ 1,984*
Non-current liabilities	—	10	*85*
Total	—	¥ 243	*$ 2,069*

13. Segment Information

(a) Information by operating segment

Segment	Main operations
Logistics	Warehousing (stock operations, bonded cargo handling) Harbor transportation, Customs clearance International multimodal transportation, Air cargo agent Land transportation
Real estate	Office space and Land leasing

Effective 1 April 2005, the Companies shifted the warehouse and logistics facilities leasing operations from the Real Estate segment to the Logistics segment.

The Companies changed the classifications in the information by operating segment in accordance with that in the business management and the Mid-term Business Plan to achieve a better presentation of operations.

Segment information for the year ended 31 March 2005 has been prepared using the new segment classifications.

	Millions of yen			
Year ended 31 March 2005	Logistics	Real estate	Corporate & Elimination	Consolidated
Sales to outside customers	¥ 88,850	¥ 10,142	¥ —	¥ 98,992
Inter-segment transfers	0	142	(142)	—
Total sales	88,850	10,284	(142)	98,992
Operating cost	85,185	4,272	3,158	92,615
Operating income	¥ 3,665	¥ 6,012	¥ (3,300)	¥ 6,377
Assets	¥ 83,173	¥ 34,662	¥ 69,670	¥ 187,505
Depreciation	¥ 2,984	¥ 1,992	¥ 168	¥ 5,144
Capital expenditures	¥ 1,583	¥ 2,413	¥ 112	¥ 4,108

	Millions of yen			
Year ended 31 March 2006	Logistics	Real estate	Corporate & Elimination	Consolidated
Sales to outside customers	¥ 96,813	¥ 8,884	¥ —	¥ 105,697
Inter-segment transfers	1	268	(269)	—
Total sales	96,814	9,152	(269)	105,697
Operating cost	92,643	4,308	3,042	99,993
Operating income	¥ 4,171	¥ 4,844	¥ (3,311)	¥ 5,704
Assets	¥ 91,440	¥ 36,209	¥ 107,610	¥ 235,259
Depreciation	¥ 2,829	¥ 1,954	¥ 148	¥ 4,931
Impairment loss on fixed assets	¥ 804	¥ —	¥ —	¥ 804
Capital expenditures	¥ 5,243	¥ 4,626	¥ 530	¥ 10,399

	Thousands of U. S. dollars			
Year ended 31 March 2006	*Logistics*	*Real estate*	*Corporate & Elimination*	*Consolidated*
Sales to outside customers	*$ 824,151*	*$ 75,628*	*$ —*	*$ 899,779*
Inter-segment transfers	*8*	*2,281*	*(2,289)*	*—*
Total sales	*824,159*	*77,909*	*(2,289)*	*899,779*
Operating cost	*788,652*	*36,673*	*25,897*	*851,222*
Operating income	*$ 35,507*	*$ 41,236*	*$ (28,186)*	*$ 48,557*
Assets	*$ 778,412*	*$ 308,240*	*$ 916,064*	*$ 2,002,716*
Depreciation	*$ 24,083*	*$ 16,634*	*$ 1,260*	*$ 41,977*
Impairment loss on fixed assets	*$ 6,844*	*$ —*	*$ —*	*$ 6,844*
Capital expenditures	*$ 44,633*	*$ 39,380*	*$ 4,512*	*$ 88,525*

Corporate costs and expenses of ¥3,300 million and ¥ 3,311 million (*US$ 28,186 thousand*) for years ended 31 March 2005 and 2006, respectively, mainly consisted of expenses of administrative departments of the Company.

Corporate assets of ¥70,111 million and ¥108,267 million (*US$ 921,657 thousand*) at 31 March 2005 and 2006, respectively, mainly consisted of cash and cash equivalents, investment securities and assets of the administrative departments of the Company.

(b) Information by geographic segment

	Millions of yen			
Year ended 31 March 2006	Japan	Others	Corporate & Elimination	Consolidated
Sales to outside customers	¥ 95,986	¥ 9,711	¥ —	¥ 105,697
Inter-segment transfers	677	3,990	(4,667)	—
Total sales	96,663	13,701	(4,667)	105,697
Operating cost	88,257	13,092	(1,356)	99,993
Operating income	¥ 8,406	¥ 609	¥ (3,311)	¥ 5,704
Assets	¥ 118,332	¥ 9,839	¥ 107,088	¥ 235,259

	Thousands of U. S. dollars			
Year ended 31 March 2006	*Japan*	*Others*	*Corporate & Elimination*	*Consolidated*
Sales to outside customers	*$ 817,111*	*$ 82,668*	*$ —*	*$ 899,779*
Inter-segment transfers	*5,763*	*33,966*	*(39,729)*	*—*
Total sales	*822,874*	*116,634*	*(39,729)*	*899,779*
Operating cost	*751,315*	*111,450*	*(11,543)*	*851,222*
Operating income	*$ 71,559*	*$ 5,184*	*$ (28,186)*	*$ 48,557*
Assets	*$ 1,007,338*	*$ 83,758*	*$ 911,620*	*$ 2,002,716*

"Others" consists of Asia, Europe and North America.

Corporate costs and expenses of ¥ 3,311 million (*US$ 28,186 thousand*) for year ended 31 March 2006, mainly consisted of expenses of administrative departments of the Company.

Corporate assets of ¥108,267 million (*US$ 921,657 thousand*) at 31 March 2006, mainly consisted of cash and cash equivalents, investment securities and assets of the administrative departments of the Company.

Information by geographic segment for the year ended 31 March 2005 was immaterial and is not disclosed.

(c) Overseas sales

Overseas sales, which represent sales to customers outside Japan, of the Companies were immaterial. Accordingly, overseas sales are not disclosed.

14. Impairment loss on fixed assets

The Company and its consolidated domestic subsidiaries grouped their business assets based on the business management units and assets for leasing based on each asset. The Company recognized impairment loss on a part of business assets due to the recent decline in land prices or deterioration of profitability and wrote them down to the recoverable amounts.

Impairment loss of ¥ 804 million (*US$ 6,844 thousand*) was recognized in the period ended 31 March 2006 consisting of loss on land.

The recoverable amounts of these business assets were their net realized values principally calculated based on appraisal values by real estate appraisers.

The amount of recognized impairment loss was deducted directly from the acquisition costs of land.

15. Subsequent Events

(a) Appropriation

At the ordinary shareholders' meeting of the Company held on 29 June 2006, the appropriation of retained earnings at 31 March 2006 was duly approved as follows:

	Millions of yen	*Thousands of U. S. dollars*
Cash dividends at ¥ 5.0 (*U. S. $0.04*) per share	¥ 956	*$ 8,138*
Bonuses to directors and corporate auditors	40	*341*

(b) Acquisition of all of the outstanding shares of I-STAR Co., Ltd.

At the meeting of the Board of Directors held on 28 April 2006, the Company decided to acquire all of the outstanding shares of I-STAR Co., Ltd. ("I-STAR") and make both I-STAR and its wholly owned subsidiary Seishin Information Services Co., Ltd.("SIS") into one of the Companies in order to strengthen our Information System Department, keep pace with continuing advances in the logistics field and provide our customers with the highest quality logistics services.

(1) Outline of newly acquired subsidiaries

Company name	I-STAR	SIS
Business activities	Contract development of computer software, technical staff services related to software development, contract operation and management of computer systems, etc.	Same
Location	Osaka, Japan	Same
Amount of capital		
Millions of yen	¥ 40	¥ 10
Thousands of U. S. dollars	*$ 341*	*$ 85*
Net sales	For the year ended 28 February 2006	For the year ended 31 December 2005
Millions of yen	¥ 2,161	¥ 518
Thousands of U. S. dollars	*$ 18,396*	*$ 4,410*

(2) Number of shares purchased and share ownership before and after acquisition and cost for share acquisition

Number of shares owned before transfer: 0 shares (percent ownership: 0%)

Number of shares purchased: 800 shares

Number of shares owned after transfer: 800 shares (percent ownership: 100%)

Cost for share acquisition: ¥ 850 million (*US$ 7,236 thousand*)

(c) Stock options

In accordance with the Company Law of Japan (newly enacted on 1 May 2006), a stock option plan for directors of the Company was approved at the Company's ordinary general meeting of the shareholders held on 29 June 2006.

Under this plan, the maximum number of shares to be issued or transferred upon the exercise of the stock acquisition rights to be issued is 200,000 common shares of the Company.

The exercise price shall be the average of closing prices of regular tradings of the Company's common shares on the Tokyo Stock Exchange on the days (excluding the days when no transaction is made) of the month immediately prior to the month that includes the day of allocation of stock acquisition rights (hereinafter referred to as "allotment day") or the closing price on the allocation day (or the closing price of the nearest transaction day before the allotment day, if there is no closing price on the allotment day), whichever is higher.