

Five-Year Financial Summary

USS Co., Ltd. and Consolidated Subsidiaries

For the Years Ended March 31, 2004, 2003, 2002, 2001 and 2000

	Millions of Yen					Percentage Change	Thousands of U.S. Dollars
	2004	2003	2002	2001	2000	2004/2003	2004
For the year:							
Operating revenues	¥42,426	¥ 33,820	¥ 26,009	¥ 21,623	¥16,971	25.4%	\$404,057
Operating income.....	18,017	15,336	11,345	8,837	6,927	17.5	171,590
Income before income taxes and minority interests	16,175	13,727	10,061	8,302	6,447	17.8	154,048
Income taxes.....	6,983	5,909	4,302	3,572	2,831	18.2	66,505
Less, minority interests in net income of consolidated subsidiaries	285	173	269	237	72	64.7	2,714
Net income.....	8,907	7,645	5,490	4,493	3,544	16.5	84,829
Capital expenditures	17,900	15,313	17,136	6,662	3,266	16.9	170,476
Depreciation and amortization	1,837	1,804	1,793	1,691	1,776	1.8	17,495
Net cash provided by operating activities ..	11,188	12,310	8,482	8,021	6,103	-9.1	106,552
Net cash used in investing activities	(7,744)	(16,537)	(13,226)	(14,204)	(4,700)	-53.2	(73,752)
Net cash (used in) provided by financing activities.....	(3,401)	(2,225)	14,725	548	5,839	52.9	(32,391)
Cash and cash equivalents at end of year ...	15,119	15,076	21,478	11,497	16,729	0.3	143,990
At year-end:							
Shareholders' equity	67,498	43,812	34,402	32,267	27,601	54.1	642,838
Total assets.....	92,539	88,979	80,929	62,315	51,395	4.0	881,324
Number of common shares issued	30,815,069	27,412,942	26,825,200	26,637,600	26,487,600		
Number of shareholders.....	4,484	3,521	2,602	4,384	2,085		
Number of employees	785	685	395	380	330		
Temporary and part-time staff	392	332	285	226	219		
Ratios:							
Return on equity (ROE) (%)	16.0	19.5	16.5	15.0	18.2		
Equity ratio (%)	72.9	49.3	42.5	51.8	53.7		
Per share:							
Net income:							
Basic	¥ 300.72	¥ 279.47	¥ 204.29	¥ 168.68	¥ 206.39		\$ 2.86
Diluted.....	277.76	242.85	187.63	168.68	206.39		2.65
Cash dividends.....	50.00	40.00	30.00	20.00	5.00		0.48
Shareholders' equity	2,189.02	1,596.96	1,282.45	1,211.32	1,042.03		20.85

Note: The U.S. dollar amounts have been translated, for convenience only, at the rate of ¥105 = US\$1, the approximate rate of exchange at March 31, 2004.

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Management's Discussion and Analysis of Operations

USS Co., Ltd. and Consolidated Subsidiaries

The USS Group

The USS Group consists of the parent company, 15 subsidiaries and three affiliates. Of these the parent company and 14 subsidiaries are included in the scope of consolidation, and the equity method applies to one affiliate. During fiscal 2003, ended March 31, 2004, USS Recycle Auto Auction Co., Ltd., and ARBIZ Co., Ltd., were established, and thus included in the scope of consolidation.

Automobile Auction Segment (11 Companies)

The parent company, seven domestic consolidated subsidiaries and one overseas affiliate, Auto Exchange Italia S.p.A., operate automobile auctions for auction members, which are predominantly used vehicle dealers. In addition, the parent company operates a satellite-based remote bidding system and sells special-purpose auction terminals to the users of this system. Consolidated subsidiary US Butsuryu Co., Ltd., transports vehicles to and from auctions. Consolidated subsidiary CAR QUEST Co., Ltd., operates an Internet-based used vehicle information service, and equity-method affiliate InfoCarry Co., Ltd., operates a mobile phone-based used vehicle information service.

Sales of Used Cars Segment (4 Companies)

CAR QUEST also operates a used vehicle purchasing and sales business. Consolidated subsidiary World Automobile Co., Ltd., and two other companies operate damaged vehicle purchasing and sales businesses.

Operating Environment

In calendar 2003, new vehicle registrations increased 0.6%, to 5.83 million vehicles, and used vehicle registrations rose 0.3%, to 8.20 million vehicles, as both automobile markets remained at levels almost unchanged from the previous year. In the used automobile auction market, consolidation of auction sites, site closures and market withdrawal by operators characterized the period. At the same time, the total number of vehicles put up for auction in calendar 2003 grew a robust 7.6%, as the number of dated vehicles with high mileage—a type of vehicle particularly in demand for export—increased. In addition, a trend emerged among used vehicle dealers to secure high-quality inventory, which helped push up the number of vehicles successfully sold at auction, a brisk 11.3%.

In this operating environment, USS Group bolstered its auto auction operations through aggressive capital investment in auction facilities and by expanding the range of vehicles it handles as well as through further strategic alliances. The Group also vigorously developed its used vehicle and damaged vehicle purchasing businesses.

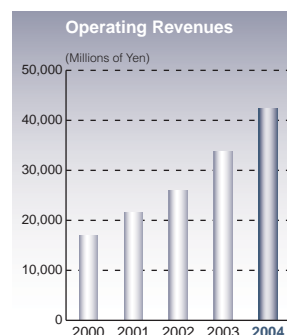
Revenue Overview

In fiscal 2003, consolidated operating revenues climbed 25.4%, to ¥42,426 million.

The number of vehicles put up for auction at USS sites during the period rose 13.9%, to 1.77 million vehicles. In terms of vehicles put up for auction at each site, large sites increased steadily, including a 13.1% increase at the Tokyo site, to 500 thousand vehicles, and a 10.8% increase at the Nagoya site, to 395 thousand vehicles. Many regional sites also achieved strong growth, including a 26.8% rise at the Sapporo site, to 100

thousand vehicles, and a 31.2% jump at the West Tokyo site, to 70 thousand vehicles. The new Yokohama site, which opened in February 2004, recorded better results than initially forecast, with 25 thousand vehicles put up for auction. Also contributing to the increase in vehicles put up for auction at USS sites were such innovations as newly created auction areas at certain sites to handle dated vehicles with high mileage, which accounted for 91 thousand vehicles, and areas for damaged vehicles, which accounted for 50 thousand vehicles, an increase of 42.5%. The contract completion (sell-through) rate improved 1.8 percentage points, to 56.1%, owing partly to a lack of high-quality vehicles in the market, but also to such factors as the rise in popularity among satellite auction members, who submit bids to auction sites via their remote bidding terminals.

Within the sales of used cars segment, operating revenues from the Rabbit chain of used car purchasing agencies leapt 79.7%, to ¥5,335 million, which was partly attributable to an increase in the number of directly run outlets. In addition, World Automobile and its two subsidiaries, which became consolidated subsidiaries in the second half of the previous fiscal year, contributed on a full-year basis for the first time this period, leading to a 112.2% increase in operating revenues from the buying and selling of damaged vehicles, to ¥4,693 million.



Revenue Breakdown

(1) By Auction Site

Operating revenues from our major auction sites were as follows:

Operating Revenues by Site

	Millions of Yen		Percentage Change 2004/2003
	2004	2003	
For the year:			
Nagoya site	6,860	6,432	6.7
Kyushu Gold site	2,144	1,975	8.6
Fukuoka site*	545	543	0.3
Tokyo site	9,048	8,168	10.8
Shizuoka site	1,090	965	13.0
Okayama site	981	921	6.5
Sapporo site	1,472	1,156	27.3
West Tokyo site	813	636	28.0
Gunma site	1,279	1,095	16.8
Tohoku site	1,152	942	22.3
Osaka site	1,400	1,180	18.6
Yokohama site	388	—	—
Used Car Logistics Services	272	231	17.7
Satellite Auction	3,660	3,395	7.8
Internet Information Services	1,283	998	28.6
Used Car Purchasing			
Agency Business	5,335	2,969	79.7
Accident-Damaged Car			
Purchasing Agency Business	4,693	2,212	112.2

*Fukuoka results for 2003 include the results of Kyushu First.

The Tokyo site recorded a 10.8% rise in operating revenues, to ¥9,048 million, and the Nagoya site posted a 6.7% increase in operating revenues, to ¥6,860 million. The main factor contributing to these revenue increases was the ongoing trend toward consolidation of auction sites in the auto auction industry and the consequent increasing concentration of vehicles and buyers among the very large auction sites.

The Sapporo site registered a 27.3% rise in operating revenues, to ¥1,472 million, and the Gunma site posted a 16.8% increase in operating revenues, to ¥1,279 million. At the Sapporo site, an expansion of parking facilities for vehicles put up for auction and an increase in vehicle inspection capacity contributed to the large revenue rise. At the Gunma site, auction capacity was substantially raised by the introduction of a simultaneous two-lane auction system.

At other auction sites, we continued to pursue our strategy of aiming for the number one auction site position in each local market. As a result, all auction sites achieved operating revenue increases compared with the previous period.

(2) By Segment

Automobile Auction

Our business development team implemented a two-pronged auction membership drive to increase new members and encourage existing inactive members to participate in USS auctions more regularly. To enhance member satisfaction, we initiated a review of auction rules with the aim of introducing uniform rules across all USS auction sites in the near future. This was also part of our strategy to gain the top auction site position—based on market share—in each geographic area.

In February 2004, we opened the new Yokohama auction site, thus strengthening our presence in the greater Tokyo area.

To cater to higher numbers of vehicles put up for auction, we expanded auction vehicle storage capacity at the Sapporo site and introduced two-lane auction systems at the Sapporo and Gunma sites. Thanks to these measures, the capacity at both these sites was significantly raised.

Focusing on a trend toward higher numbers of dated vehicles with high mileage entering the used vehicle auction market, we created a new category of specialist auctions for this type of vehicle. The number of vehicles handled by our reusable vehicle auctions also greatly increased.

Our satellite-based remote bidding system added seven new partner auction sites during the period, making the network of participating sites even more dominant in terms of market share. Our Internet-based used vehicle information service had a membership of 11,429 firms at the end of the period, which we intend to further increase over the medium term.

Through the business expansion efforts outlined above, the USS Group achieved a total number of vehicles put up for auction of 1,772 thousand vehicles, a 13.9% increase compared with the previous period, and total vehicles successfully sold at auction of 994 thousand vehicles, a 17.8% increase.

As a result, the automobile auction segment posted operating revenues of ¥32,397 million, a 13.1% increase, and operating income totaling ¥18,319 million, up 17.6%.

Sales of Used Cars

We increased the number of directly run outlets in our nationwide chain of Rabbit used car purchasing agencies and bolstered our marketing activities for the chain with the aim of raising the level of Rabbit brand recognition among consumers. Owing to a corresponding rise in advertising and promotional expenses, the Rabbit business posted an operating loss for the period. At the end of the period, the chain comprised 14 directly operated outlets (up four) and 460 franchise outlets (down 35).

Our damaged vehicle purchasing and sales business, operated in conjunction with World Automobile and its two subsidiaries, aggressively expanded its operations, leading to a large increase in the number of damaged vehicle purchased.

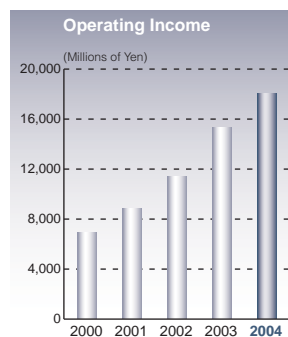
As a result of the above factors, the sales of used cars segment recorded operating revenues of ¥10,029 million, a 93.5% increase, and an operating loss of ¥306 million, compared with an operating loss of ¥237 million in the previous period.

Cost of Revenues and Selling, General and Administrative (SG&A) Expenses

Cost of revenues surged 32.6%, to ¥15,305 million. To respond to growth in the number of vehicles put up for auction, we hired new employees, which led to higher personnel expenses. In our used vehicle and damaged vehicle purchasing and sales businesses, cost of revenues rose significantly, in line with the large rise in merchandise sales.

SG&A expenses grew 31.2%, to ¥9,104 million.

In the second half of the previous period, World Automobile and its two subsidiaries became part of the consolidated Group, leading to a significant rise in SG&A expenses. Within SG&A expenses, personnel expenses increased ¥870 million, or 53.3%, owing to the hiring of new staff, an increase in directly run Rabbit outlets and, as mentioned above, the first full-term inclusion of World Automobile and its two subsidiaries. Taxes and public charges rose ¥256 million, or 94.4%, mainly as a result of an increase in stamp duty on land and buildings purchased for business operations. Owing to increased problems in debt collection, provisions to the reserve for doubtful receivables jumped ¥146 million, or 195.8%.



Operating Income, Other Income (Expenses) and Net Income

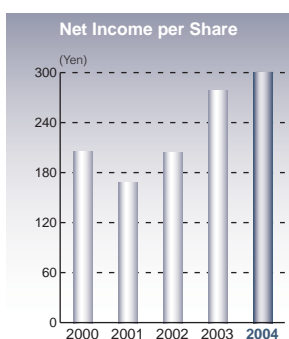
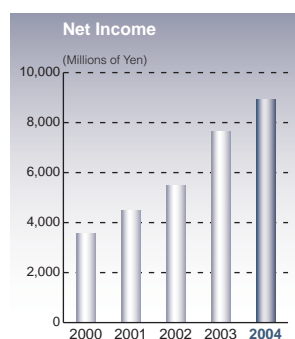
Operating income grew 17.5%, to ¥18,017 million. The large increase in the number of vehicles put up for auction led to correspondingly higher operating revenues and contributed to a rise in operating income. In contrast, the sales of used cars segment achieved an increase in operating revenues but costs also rose, leading to an increase in the

operating loss recorded by the segment.

Other expenses increased from ¥1,609 million in the previous period to ¥1,842 million. This was mainly attributable to a large rise in loss on sale or disposal of property and equipment, from ¥813 million to ¥2,005 million, owing largely to the sale of the former Yokohama Dreamland site.

Income before income taxes and minority interests amounted to ¥16,175 million, compared with ¥13,727 million in the previous period. Income taxes totaled ¥6,983 million and minority interests in net income of consolidated subsidiaries amounted to ¥285 million.

As a result, net income grew 16.5%, to ¥8,907 million. Basic net income per share amounted to ¥300.72 and diluted net income per share totaled ¥277.76. Cash dividends applicable to the period rose from ¥40.00 to ¥50.00 per share of common stock.

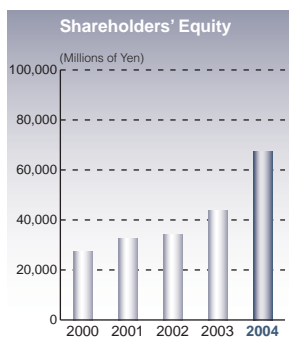
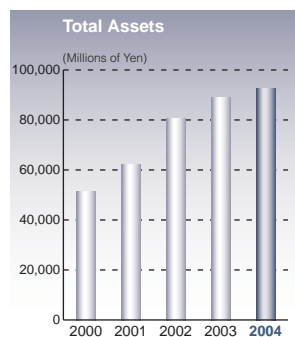


Financial Position

Total assets at end of period stood at ¥92,539 million, a 4.0% increase compared with the previous year-end. Total shareholders' equity amounted to ¥67,498 million, compared with ¥43,812 million at end of the previous period. The equity ratio rose 23.6 percentage points, to 72.9%.

Total current assets fell 8.1%, to ¥23,061 million, which was partly attributable to the end of the fiscal year falling on a Wednesday, a day on which receivables due from member dealers at auction are relatively low. During the period we completed the new Yokohama auction site and acquired the land and buildings near Nagoya port for use as the new USS-R auction site. These acquisitions were partially offset, however, by the disposal of the former Yokohama Dreamland site.

Total shareholders' equity was bolstered by net income and the conversion of convertible bonds during the period. As a result, shareholders' equity per share of common stock rose from ¥1,596.96 to ¥2,189.02.



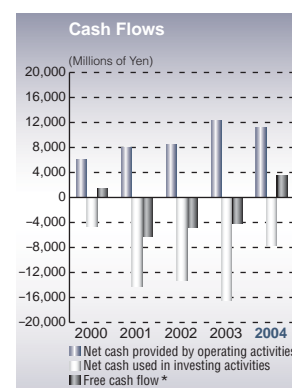
Cash Flows

Net cash provided by operating activities amounted to ¥11,188 million, which was a decrease of ¥1,122 million compared with the previous period. The main item contributing to this decline was income taxes paid, which increased from ¥4,611 million to ¥8,023 million. Partially offsetting this negative change was higher income before income taxes and minority interests of ¥16,175 million, compared with ¥13,727 million in the previous period.

Net cash used in investing activities totaled ¥7,744 million, compared with ¥16,537 million in the previous period. The largest change was decrease in property, long-term investments and other assets totaling ¥10,383 million, compared with ¥8 million in the previous period, which was mainly attributable to cash received for the sale of the former Yokohama Dreamland site. Another factor contributing cash was a decrease in short-term investments of ¥231 million, compared with an increase of ¥781 million in the previous period. Partly offsetting these cash increases was an increase in property and equipment amounting to ¥17,825 million, compared with ¥15,220 million in the previous period.

Net cash used in financing activities amounted to ¥3,401 million, compared with ¥2,225 million in the previous period. Significant items contributing to this increase in cash used included repayment of long-term debt of ¥3,574 million, compared with ¥2,949 million in the previous period, and dividends paid totaling ¥1,310 million, compared with ¥952 million in the previous period. Partially offsetting these was issuance of common stock amounting to ¥1,248 million, compared with ¥964 million in the previous period, which was mainly owing to the exercise of stock options.

As a result, cash and cash equivalents at end of year totaled ¥15,119 million, up ¥43 million, or 0.3%, from a year earlier.



*Free cash flow: Net cash provided by operating activities + Net cash used in investing activities

Risk Factors

The following is a summary of potential risk factors that may affect the future growth of the USS Group. This list is not exhaustive and new factors may arise as the result of external events.

•Laws and regulations affecting the auto auction industry

The USS Group, as an operator of auto auctions and through its other businesses involving the purchase and sale of used vehicles, is subject to various laws and regulations covering such activities. These regulations include the requirement for the USS Group to obtain specific licenses for the operation of these activities, which are subject to cancellation, should the Group infringe regulations or fail to meet licensee minimum requirements. If regulations change, the Group may be forced to modify its operations in a way that is disadvantageous to the Group's auction members.

•Related party transactions

Certain directors of companies within the USS Group, or members of these directors' respective families, have management and/or equity interests in used vehicle dealerships. In the period immediately following the establishment of the Group, such relationships helped bolster the number of vehicles put up for auction at USS sites. Should such directors sever ties from the Group, the number of vehicles put up for auction at USS sites may fall as a result.

•Attracting and maintaining a sufficient membership of auction participants

Strategies designed to attract new auction members and maintain sufficient active members are a key part of the USS Group's business. In certain circumstances, such strategies may be rendered ineffective. These include such scenarios as: competitors offering services, facilities or membership benefits not provided by the USS Group; a fall in the number of vehicles put up for auction at USS sites and/or the contract completion rate falling to levels below that of its competitors; the actions of USS staff or directors causing damage to the Group's reputation; and large-volume vehicle sellers deciding, for whatever reason, to use alternative selling methods.

•Attracting sufficient vehicles put up for auction

The USS Group's business is highly reliant on attracting sufficient vehicles put up for auction. This includes a certain level of dependence on vehicles put up for auction by large-volume used car purchasing agencies. In the fiscal year ended March 31, 1999, the Group began offering commission discounts to such high-volume customers. Future changes in the Group's commission system may affect the number of vehicles put up for auction by these customers.

•Limitations to the expansion of existing auction facilities

When expanding existing auction facilities, significant limitations exist on the amount of vehicle parking space that can be added. Such limitations may arise from the Group's ability to acquire or lease suitable land and/or construct multi-level parking facilities. In or near large Japanese cities, the availability of suitable space with the appropriate usage zoning for auto auctions is severely limited, which may impact on the Group's expansion plans.

•Risks relating to the construction and acquisition of new facilities

The USS Group expands its business through the construction of new auction facilities and the acquisition of existing auction sites from other operators. Such expansion includes such risks as: the inability to attract sufficient vehicles put up for auction or sufficient auction members to such new or acquired auction sites; various uncertain factors as contingent liabilities, off-balance-sheet liabilities, management problems and flawed rights arising from merger or acquisition transactions; increasing management complexity owing to a larger organization; the inability to secure all necessary regulatory permission related to auction facilities expansion or transfer to a new site; and foreign exchange risk, difficulty in adapting to local business practices, political risk and local cyclical economic risk when expanding outside Japan.

•Auto auction market growth limitations

The Japanese used car industry is a mature market with relatively low growth prospects. Vehicle ownership growth rates have also declined in recent years. The USS Group's business rests on its ability to sell the merits of its system to optimize the flow of used vehicles through the market. If the Group is unable to sustain its competitive advantage to expand its market share, its profitability and growth rate may decline.

•Competitive factors

Until now, the USS Group has maintained high market share in each geographical region in which it operates auto auctions. However, competitor firms have expanded their operations and increased their scale through alliances and mergers, which may result in these firms offering services or benefits to auction participants that the USS Group is unable to match. Furthermore, automaker-affiliated used car dealers may emerge in the future as significant competitors to the services offered by the Group. Such intensified competition may affect the Group's profitability and growth, including through downward pressure on commissions and other fees.

•Rapid technological innovation

Rapid technological innovation has had a profound impact on the auto auction market, affecting traditional auction sites, satellite-based auctions and Internet-based auction information services. Such rapid change may affect the future competitiveness of the USS Group. The Group may also need to carry out large-scale capital expenditure to keep pace with such developments, and there is no guarantee that the Group would be able to sustain its current competitive advantages despite the execution of such an investment strategy.

•Managing auto auction member information

As of March 31, 2004, the USS Group had an auction membership of 30,195 firms, a satellite auction membership of 6,419 firms and an Internet-based information membership of 11,429 firms. Should confidential information relating to the members be leaked to third parties, the Group would suffer a loss of market confidence and operating results would likely decline correspondingly.

Consolidated Balance Sheets

USS Co., Ltd. and Consolidated Subsidiaries
March 31, 2004 and 2003

Assets	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current assets:			
Cash and cash equivalents	¥ 15,119	¥15,076	\$143,990
Short-term investments (Note 4)	50	281	476
Receivables:			
Due from member dealers at auction (Note 3).....	5,344	7,577	50,895
Trade and other accounts	993	851	9,457
Allowance for doubtful accounts.....	(73)	(64)	(695)
Total receivables	6,264	8,364	59,657
Inventories (Note 5).....	493	271	4,695
Deferred tax assets (Note 11)	726	901	6,914
Other current assets	409	192	3,896
Total current assets.....	23,061	25,085	219,628
Property and equipment, at cost (Note 7):			
Land	38,078	39,520	362,648
Buildings and structures	25,322	17,952	241,162
Vehicles and equipment	6,227	5,233	59,305
Construction in progress	3,320	4,575	31,619
	72,947	67,280	694,734
Less, accumulated depreciation	(11,492)	(9,986)	(109,448)
	61,455	57,294	585,286
Investments and other assets:			
Investment securities (Note 4)	1,842	1,467	17,543
Intangible assets (Note 6)	992	1,063	9,448
Deferred tax assets (Note 11)	588	653	5,600
Deferred tax assets for revaluation	3,462	2,157	32,971
Other assets	1,611	1,540	15,343
Allowance for doubtful accounts	(472)	(280)	(4,495)
	8,023	6,600	76,410
Total	¥ 92,539	¥88,979	\$881,324

See accompanying Notes to Consolidated Financial Statements.

Liabilities, Minority Interests and Shareholders' Equity	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Current liabilities:			
Short-term borrowings (Note 7)	¥ 131	¥ 266	\$ 1,248
Current portion of long-term debt (Note 7)	1,652	3,282	15,733
Payables:			
Due to member dealers at auction (Notes 3 and 12)	4,828	6,285	45,980
Trade and other accounts	2,180	2,309	20,762
Total payables	7,008	8,594	66,742
Deposits received in advance	1,195	2,044	11,381
Accrued expenses	573	479	5,457
Income taxes payable	4,778	4,613	45,505
Other current liabilities	135	271	1,286
Total current liabilities	15,472	19,549	147,352
Long-term debt (Note 7)	5,548	22,031	52,838
Guarantee deposits received from member dealers	2,793	2,565	26,600
Employee retirement benefit liability (Note 8)	98	102	933
Accrued directors' and statutory auditors' severance indemnities	320	297	3,048
Other long-term liabilities	53	59	505
Commitments and contingent liabilities (Note 10)			
Minority interests in consolidated subsidiaries	757	564	7,210
Shareholders' equity (Notes 9 and 13):			
Common stock, no par value;			
Authorized: 100,000,000 shares;			
Issued: 30,815,069 shares in 2004 and 27,412,942 shares in 2003	15,601	7,656	148,581
Capital surplus	19,590	11,617	186,571
Land revaluation decrement	(5,147)	(3,207)	(49,019)
Retained earnings	37,264	27,761	354,895
Net unrealized gains (losses) on available-for-sale securities	198	(9)	1,886
Less, treasury stock, at cost—1,495 shares in 2004 and 1,134 shares in 2003	(8)	(6)	(76)
	67,498	43,812	642,838
Total	¥92,539	¥88,979	\$881,324

Consolidated Statements of Income

USS Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Operating revenues (Notes 12 and 14).....	¥42,426	¥33,820	\$404,057
Operating costs and expenses (Note 14):			
Costs of revenues	15,305	11,544	145,762
Selling, general and administrative expenses	9,104	6,940	86,705
	24,409	18,484	232,467
Operating income	18,017	15,336	171,590
Other income (expenses):			
Interest and dividend income	10	9	95
Interest expense	(101)	(138)	(962)
Loss on sale or disposal of property and equipment	(2,005)	(813)	(19,095)
Severance pay and provision for directors and statutory auditors.....	(29)	(298)	(276)
Loss on write-down of investment securities	(30)	(528)	(285)
Other, net	313	159	2,981
	(1,842)	(1,609)	(17,542)
Income before income taxes and minority interests	16,175	13,727	154,048
Income taxes (Note 11)	6,983	5,909	66,505
Less, minority interests in net income of consolidated subsidiaries	285	173	2,714
Net income	¥ 8,907	¥ 7,645	\$ 84,829
		Yen	U.S. Dollars
Per share:			
Net income:			
—Basic	¥300.72	¥279.47	\$2.86
—Diluted	277.76	242.85	2.65
Cash dividends	50.00	40.00	0.48

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

USS Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2004 and 2003

	Number of common shares issued	Common stock	Capital surplus	Land revaluation decrement	Retained earnings	Net unrealized gains (losses) on available- for-sale securities	Treasury stock
Millions of Yen							
Balance at March 31, 2002	26,825,200	¥6,349	¥10,287	¥(3,136)	¥21,102	¥(200)	¥—
Net income for the year.....	—	—	—	—	7,645	—	—
Issuance of common shares upon exercise							
of stock option.....	103,000	208	209	—	—	—	—
Exercise of warrants.....	125,200	262	285	—	—	—	—
Conversion of convertible bonds.....	359,542	837	836	—	—	—	—
Cash dividends.....	—	—	—	—	(949)	—	—
Bonuses to directors and statutory auditors.....	—	—	—	—	(37)	—	—
Net change in unrealized losses on available-for-sale securities, net of applicable income taxes.....	—	—	—	—	—	191	—
Adjustments for applicable income taxes.....	—	—	—	(71)	—	—	—
Fractional shares acquired, net.....	—	—	—	—	—	—	(6)
Balance at March 31, 2003	27,412,942	7,656	11,617	(3,207)	27,761	(9)	(6)
Net income for the year.....	—	—	—	—	8,907	—	—
Issuance of common shares upon exercise							
of stock option.....	127,050	284	284	—	—	—	—
Exercise of warrants.....	129,000	340	371	—	—	—	—
Conversion of convertible bonds.....	3,146,077	7,321	7,318	—	—	—	—
Cash dividends.....	—	—	—	—	(1,308)	—	—
Bonuses to directors and statutory auditors.....	—	—	—	—	(36)	—	—
Reversal of land revaluation decrement.....	—	—	—	(1,940)	1,940	—	—
Net change in unrealized gains (losses) on available-for-sale securities, net of applicable income taxes.....	—	—	—	—	—	207	—
Fractional shares acquired, net.....	—	—	—	—	—	—	(2)
Balance at March 31, 2004	30,815,069	¥15,601	¥19,590	¥(5,147)	¥37,264	¥198	¥(8)

	Thousands of U.S. Dollars						
Balance at March 31, 2003	\$72,914	\$110,638	\$(30,543)	\$264,390	\$(86)	\$(57)	
Net income for the year.....	—	—	—	84,829	—	—	
Issuance of common shares under stock option plan.....	2,705	2,705	—	—	—	—	
Exercise of warrants.....	3,238	3,533	—	—	—	—	
Conversion of convertible bonds.....	69,724	69,695	—	—	—	—	
Cash dividends.....	—	—	—	(12,457)	—	—	
Bonuses to directors and statutory auditors.....	—	—	—	(343)	—	—	
Reversal of land revaluation decrement.....	—	—	(18,476)	18,476	—	—	
Net change in unrealized gains (losses) on available- for-sale securities, net of applicable income taxes.....	—	—	—	—	1,972	—	
Fractional shares acquired, net.....	—	—	—	—	—	—	(19)
Balance at March 31, 2004	\$148,581	\$186,571	\$(49,019)	\$354,895	\$1,886	\$(76)	

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

USS Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2004 and 2003

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 16,175	¥ 13,727	\$ 154,048
Adjustments for:			
Depreciation and amortization.....	1,837	1,804	17,495
Loss on sale or disposal of property and equipment.....	2,005	813	19,095
Loss on write-down of investment securities.....	30	528	285
Net change in amounts due from/to member dealers at auction	777	(1,092)	7,400
(Decrease) increase in deposits received in advance	(849)	229	(8,086)
Increase in accrued directors' and statutory auditors' severance indemnities	24	297	229
Other, net	(695)	745	(6,618)
Sub-total.....	19,304	17,051	183,848
Interest and dividend received	10	9	95
Interest paid	(103)	(139)	(981)
Income taxes paid	(8,023)	(4,611)	(76,410)
Net cash provided by operating activities	11,188	12,310	106,552
Cash flows from investing activities:			
Increase in property and equipment	(17,825)	(15,220)	(169,762)
Increase in long-term investments and other assets	(533)	(544)	(5,076)
Decrease in property, long-term investments and other assets.....	10,383	8	98,886
Decrease (increase) in short-term investments	231	(781)	2,200
Net cash used in investing activities	(7,744)	(16,537)	(73,752)
Cash flows from financing activities:			
Increase in long-term debt.....	100	457	952
Repayment of long-term debt	(3,574)	(2,949)	(34,038)
Net change in short-term borrowings.....	(135)	34	(1,286)
Net increase in guarantee deposits received from member dealers	228	227	2,171
Issuance of common stock.....	1,248	964	11,886
Dividends paid	(1,310)	(952)	(12,476)
Other	42	(6)	400
Net cash used in financing activities.....	(3,401)	(2,225)	(32,391)
Net increase (decrease) in cash and cash equivalents.....	43	(6,452)	409
Cash and cash equivalents at beginning of year	15,076	21,478	143,581
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	—	50	—
Cash and cash equivalents at end of year	¥ 15,119	¥ 15,076	\$ 143,990

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries
 March 31, 2004 and 2003

1. Basis of Consolidated Financial Statements

(a) Basis of presenting the consolidated financial statements

The accompanying consolidated financial statements of USS Co., Ltd. (the “Company”) and its consolidated subsidiaries (together with the Company, the “USS Group”) have been prepared in accordance with the provisions set forth in the Commercial Code of Japan (the “Code”) and the Securities and Exchange Law of Japan, and on the basis of accounting principles generally accepted in Japan, which are different in certain respects from the application and disclosure requirements of International Financial Reporting Standards. These consolidated financial statements are compiled from the original consolidated financial statements in Japanese prepared by the Company as required by the Securities and Exchange Law of Japan and submitted to the Director of Kanto Finance Bureau in Japan.

(b) U.S. dollar amounts

The USS Group maintains its accounting records in Japanese Yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating Japanese Yen into U.S. dollars at a rate of ¥105 to US\$1, the approximate rate of exchange at March 31, 2004. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that Yen and the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at ¥105 to US\$1 or at any other rate.

(c) Reclassification

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

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. Investment in a significant affiliate is accounted for by the equity method. Investments in an unconsolidated subsidiary and affiliates not accounted for by the equity method are stated at cost.

The number of consolidated subsidiaries and affiliates for the years ended March 31, 2004 and 2003, was as follows:

	2004	2003
Consolidated subsidiaries	14	12
Affiliate, accounted for by the equity method	1	1
Unconsolidated subsidiary and affiliates, stated at cost	3	3

All inter-company transactions and accounts have been eliminated. The difference between the cost of investments in consolidated subsidiaries and the underlying equity in their net assets adjusted based on the fair value at the time of acquisition, which was included in intangible assets in the accompanying consolidated balance sheets, is amortized over five years on a straight-line basis.

At March 31, 2004 and 2003, the Company provided for an allowance for future loss on guarantee for indebtedness of a certain affiliate not accounted for by the equity method in the amounts of ¥53 million (\$505 thousand) and ¥59 million, which was included in other long-term liabilities.

Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

(b) Cash equivalents

The USS Group considers cash equivalents to be highly liquid debt instruments purchased with an original maturity of three months or less.

(c) Investments and marketable securities

The USS Group classifies certain investments in debt and equity securities as “held-to-maturity,” “trading” or “available-for-sale,” whose classification determines the respective accounting method as stipulated by the accounting standard for financial instruments. Marketable securities with available market quotations for available-for-sale securities are stated at fair value and net unrealized gains or losses on these securities are reported as a separate component of shareholders’ equity, net of applicable income taxes. Gains and losses on disposition of marketable securities are computed by 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 investment securities are charged to income through write-downs, when a decline in value is deemed other than temporary.

(d) Accounting for derivatives

The USS Group is a party to derivative instruments such as interest rate contract in the normal course of business to reduce its own exposure to fluctuations in interest rates on borrowings for hedge purposes. According to a special treatment as permitted by the accounting standard for financial instruments, the hedging interest rate swap or cap contracts are accounted for on an accrual basis, and recorded net of interest expenses generated from borrowings, hedged items, if certain conditions are met. The USS Group is exposed to credit loss in the event of nonperformance by other parties. However, the USS Group does not expect nonperformance by counterparties, as the Company considers that counterparties are limited to the domestic financial institutions with a relatively high credit rating. The Company’s consolidated subsidiaries do not hold or have not issued any derivative transactions.

(e) Inventories

Vehicles are stated at cost, determined by the specific identification method. Merchandise and supplies are stated at cost, determined by the moving-average method.

(f) Allowance for doubtful accounts

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

(g) Property and equipment, and depreciation

Property and equipment are stated at cost. Depreciation is computed by the declining-balance method at the rates based on estimated useful lives of the respective assets, except that the buildings acquired on and after April 1, 1998 have been depreciated by the straight-line method.

(h) Leases

Where financing leases do not transfer ownership of the leased property to the lessee during the term of the lease, the leased property of the USS Group as lessee is not capitalized and the relating rental and lease expenses are charged to income as incurred.

(i) Intangible assets

Software, which is included in intangible assets, is amortized by the straight-line method over a five-year period as its estimated useful life.

(j) Employee retirement benefits

Employees who terminate their service with the USS Group are entitled to retirement benefits generally determined by the reference of current basic rates of pay, the length of service and conditions under which the termination occurs. The Company has a non-contributory qualified defined benefit pension plan. Two of the consolidated

subsidiaries have a lump-sum defined benefit retirement plan. Some of the other consolidated subsidiaries have defined contribution retirement plans. The USS Group recognized the retirement benefits for employees including pension cost and related liability based on estimated projected benefit obligation, net of fair value of the pension plan assets available for benefits at the fiscal year-ends. The USS Group has calculated the projected benefit obligation using the simplified calculation method to compute the amount that would be payable assuming all eligible employees voluntarily terminate their service at the respective balance sheet dates as permitted by the accounting standard for employee retirement benefits.

(k) Accrued severance indemnities for directors and statutory auditors

The USS Group may pay retirement benefits to directors and statutory auditors, which are subject to the approval of shareholders of each relevant company. Until the year ended March 31, 2002, the USS Group recorded severance pay to directors or statutory auditors on a cash basis. From the year ended March 31, 2003, the Company has provided for the liability of such severance indemnities at the fiscal year-end based on the internal guidelines to ensure a better allocation of expenses. A provision attributable to the prior years in relation to this accounting change amounted to ¥272 million, and was included in severance pay and provision for directors and statutory auditors in the accompanying consolidated statements of income for the year ended March 31, 2003.

(l) Revenue recognition

The primary business of the USS Group is to conduct auctions of used cars in the Japanese car market which are participated in by member car dealers and to provide auction opportunities by which buy orders and sell orders from member car dealers are matched. The USS Group recognizes auction fees from member car dealers as operating revenues when buy/sell orders are matched at the auctions on a trade date basis. These auction fees are recorded based on predetermined rates and the number of cars purchased/sold through the auctions.

(m) New share issuance expenses and bond issuance expenses

New share issuance expenses and bond issuance expenses are charged to income as incurred.

(n) 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 financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss carryforward. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date.

(o) Appropriations of retained earnings

Cash dividends and bonuses to directors and statutory auditors are recorded in the fiscal year when a proposed appropriation of retained earnings is approved by the Board of Directors and/or shareholders.

(p) Revaluation of land

In accordance with the Law Concerning Revaluation of Land, the Company elected the one-time revaluation to restate the cost of land used for the Company's business operations at values rationally reassessed effective on March 31, 2002, reflecting appropriate adjustments for land condition and other factors, based on the values for municipal property tax bases. According to the Law, the amount equivalent to the tax effect on the excess of the original book values over sound reassessed values is recorded in the assets as deferred tax assets for revaluation account, and the rest of such excess, net of the tax effect, is recorded in the shareholders' equity as land revaluation decrement account in the accompanying consolidated balance sheets. At March 31, 2004 and 2003, the difference between the carrying values of land used for the Company's business after revaluation over the current market value of such land at the fiscal year-ends amounted to ¥1,911 million (\$18,200 thousand) and ¥749 million, respectively.

Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

(q) Per share data

Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years. Diluted net income per share is computed assuming convertible bonds were converted at the time of issue unless having anti-dilutive effects, and as if warrants or stock options were exercised at the beginning of the relevant year or (if later) on their first exercise date and as if the funds obtained thereby were used to purchase common stock at the average market price during the respective years under the treasury stock method.

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

(r) Adoption of new accounting standards

On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets." The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset's net selling price or value in use. The standard shall be effective for fiscal years beginning April 1, 2005, with earlier adoption permitted. The USS Group will apply this new standard from the year beginning April 1, 2004 and is in the process of evaluating what impact, if any, the new standard may have on the consolidated financial statements.

3. Due from/to Member Dealers at Auction

The USS Group intermediates buy and sell orders from member car dealers at the auction and upon matching of orders, the USS Group records accounts receivable from member car dealers who purchased the cars at the auction for the price of cars purchased, auction fees and others to be paid by the buyers. On the other hand, the USS Group records accounts payable to member car dealers who sold the cars at auction for the price of the cars sold to be received by the sellers and also records auction fees and others to be paid by the sellers. The balances of "due from member dealers at auction" as assets and "due to member dealers at auction" as liabilities represent those unsettled accounts arising from the auction between the USS Group and member car dealers.

4. Short-Term Investments and Investment Securities

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Investment securities:			
Investment in unconsolidated subsidiary and affiliates	¥ 34	¥ 64	\$ 324
Marketable securities:			
Equity securities	228	152	2,171
Others	970	697	9,238
	1,198	849	11,409
Other non-marketable securities	610	554	5,810
Total	¥1,842	¥1,467	\$17,543

Marketable investment securities are classified as available-for-sale under the USS Group's investment policy and are stated at fair value with net unrealized gains and losses excluded from the current earnings and reported as a net amount within the shareholders' equity account until realized. At March 31, 2004 and 2003, gross unrealized gains and losses for marketable securities are summarized as follows:

	Cost	Gross unrealized gains	Gross unrealized losses	Fair and carrying value
Millions of Yen				
As of March 31, 2004:				
Marketable securities:				
Equity securities.....	¥ 151	¥ 77	¥ —	¥ 228
Others.....	714	271	(15)	970
	¥ 865	¥ 348	¥ (15)	¥1,198

As of March 31, 2003:				
Marketable securities:				
Equity securities.....	¥ 151	¥ 4	¥ (3)	¥ 152
Others.....	712	—	(15)	697
	¥ 863	¥ 4	¥ (18)	¥ 849

Thousands of U.S. Dollars

As of March 31, 2004:				
Marketable securities:				
Equity securities.....	\$1,438	\$ 733	\$ —	\$ 2,171
Others	6,800	2,581	(143)	9,238
	\$8,238	\$3,314	\$(143)	\$11,409

During the year ended March 31, 2003, the USS Group recorded a loss on write-down of marketable investment securities due to a permanent diminution in value in the amount of ¥494 million. During the year ended March 31, 2004, the USS Group recorded no loss on write-down of marketable investment securities.

5. Inventories

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Merchandise	¥436	¥220	\$4,152
Vehicles	4	4	38
Supplies	53	47	505
	¥493	¥271	\$4,695

Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

6. Intangible Assets

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Excess of cost of investments in consolidated subsidiaries			
over equity in net assets acquired	¥272	¥ 375	\$2,590
Software	363	320	3,458
Other intangible assets.....	357	368	3,400
	¥992	¥1,063	\$9,448

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings consisted of unsecured bank loans with an average interest rate of 1.09% per annum at March 31, 2004.

The Company had unsecured overdraft and loan commitment agreements with a certain bank. At March 31, 2004, the Company was entitled to withdraw up to ¥1,000 million (\$9,524 thousand) under such an agreement, the entire amounts of which were undrawn.

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Convertible bonds, zero coupon, due September 2006	¥ 3,688	¥18,327	\$ 35,124
Bonds at interest rates ranging from 1.15% to 0.3%, due March 2005			
through March 2006 issued by a certain consolidated subsidiary.....	300	300	2,857
Loans from banks, due through 2011 repayable on an installment basis with			
interest rates ranging from 1.004% to 4.875% per annum at March 31, 2004:			
Collateralized	855	2,587	8,142
Unsecured	2,357	4,099	22,448
	7,200	25,313	68,571
Less, current portion	(1,652)	(3,282)	(15,733)
	¥ 5,548	¥22,031	\$ 52,838

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

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥1,652	\$15,733
2006	1,730	16,476
2007	3,724	35,467
2008	30	286
2009	26	247
Thereafter	38	362
	¥7,200	\$68,571

Each holder of convertible bonds is entitled to convert into shares of common stock of the Company at ¥4,653 per share, which is subject to adjustment in certain circumstances including stock splits. At March 31, 2004, the number of shares of common stock necessary for conversion of convertible bonds outstanding was approximately 790,000.

At March 31, 2004 and 2003, the following assets were pledged as collateral for long-term debt:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Land.....	¥3,911	¥4,554	\$37,248
Buildings and structures.....	1,692	1,791	16,114

As is customary in Japan, substantially all bank borrowings are subject to general agreements which provide, among other things, that the banks may, under certain circumstances, request additional security for these borrowings and may treat any security so furnished to the banks, as well as cash deposited with them, as security for all present and future indebtedness. The banks have never requested the Company or its subsidiaries to submit such additional security. Also, as is customary in Japan, the Company and certain of its subsidiaries have time deposits with the banks from which they have short-term and long-term borrowings. However, there are no agreements with any banks, which would require maintaining such deposits.

8. Employee Retirement Benefits

The following table reconciles the benefit liability and net periodic retirement benefit expense as at, or for the years ended March 31, 2004 and 2003:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Reconciliation of benefit liability:			
Retirement benefit liability.....	¥ 319	¥ 255	\$ 3,038
Less, fair value of pension plan assets at end of year	(221)	(153)	(2,105)
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 98	¥ 102	\$ 933

Note: Projected benefit obligation 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
	2004	2003	2004
Component of net periodic retirement benefit expense:			
Retirement benefit expense for defined benefit plan.....	¥ 64	¥ 44	\$ 610
Retirement benefit expense for defined contribution plan	23	22	219
Net periodic retirement benefit expense	¥ 87	¥ 66	\$ 829

9. Shareholders' Equity

At March 31, 2004 and 2003, respectively, capital surplus principally consisted of additional paid-in capital. At March 31, 2004 and 2003, retained earnings included legal reserve of the Company in the amount of ¥370 million (\$3,524 thousand), respectively. The Code provides that an amount equivalent to at least 10% of cash payments as an appropriation of retained earnings shall be appropriated as a legal reserve until a total amount of additional paid-in capital and such reserve equals 25% of common stock. Such legal reserve is not available for distribution as dividends, but may be used to reduce a deficit or may be transferred to common stock by proper actions of the Board of Directors and/or shareholders of the Company.

Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

The Company has implemented a stock option plan in accordance with the Code. Options granted in 2000 through 2003 were granted to the members of the Board of Directors and selected executive employees of the Company and its consolidated subsidiaries and each stock option is exercisable under the following terms:

	Number of common shares	Exercise price	Exercise period of option
Option, granted in 2000	1,500	¥3,970	June 30, 2000 through June 30, 2004
Option, granted in 2001	52,950	¥4,519	June 29, 2001 through June 29, 2005
Option, granted in 2002	284,000	¥5,110	June 27, 2002 through October 31, 2006
Option, granted in 2003	210,500	¥6,510	June 26, 2003 through October 31, 2007

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

10. Commitments and Contingent Liabilities

At March 31, 2004 and 2003, the USS Group did not have any contingent liabilities.

The USS Group has entered into various rental and lease agreements principally for auction spaces which are cancelable with a few months' advance notice and also for satellite communication network equipment and computer equipment, which is not usually cancelable as lessee. The aggregate future minimum payments for such non-cancelable financing leases, including imputed interest, at March 31, 2004 and 2003, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Due within one year.....	¥428	¥ 498	\$4,076
Due after one year	241	601	2,295
	¥669	¥1,099	\$6,371

The gross rental and lease expenses, consisting of minimum rental payments for all operating leases and financing leases, for the years ended March 31, 2004 and 2003, were ¥1,170 million (\$11,143 thousand) and ¥1,154 million, respectively. For the years ended March 31, 2004 and 2003, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥509 million (\$4,848 thousand) and ¥521 million, respectively.

11. Income Taxes

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Income taxes:			
Current.....	¥ 8,187	¥6,806	\$ 77,971
Deferred	(1,204)	(897)	(11,466)
	¥ 6,983	¥5,909	\$ 66,505

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

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
Deferred tax assets—Current:			
Enterprise tax accruals	¥ 413	¥424	\$ 3,933
Other	314	478	2,990
Less, valuation allowance	(1)	(1)	(9)
	¥ 726	¥901	\$ 6,914
Deferred tax assets—Non-current:			
Allowance for doubtful accounts	¥ 122	¥ 52	\$ 1,162
Loss on disposal of buildings	80	81	762
Unrealized (gains) losses on available-for-sale securities	(132)	8	(1,257)
Operating loss carryforward of consolidated subsidiaries	36	84	343
Accrued directors' and statutory auditors' severance indemnities	129	119	1,229
Loss on write-down of securities	244	232	2,324
Other	114	116	1,085
Less, valuation allowance	(5)	(39)	(48)
	¥ 588	¥653	\$ 5,600

In assessing the realizability of deferred tax assets, management of the USS Group considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of the future taxable income during the periods in which those temporary differences become deductible. At March 31, 2004 and 2003, a valuation allowance was provided to reduce the deferred tax assets to the extent that the management believes the amount of the deferred tax assets is expected to be realizable.

12. Related Party Transactions

During the years ended March 31, 2004 and 2003, the USS Group had operational transactions with car dealer companies, of which the Company's directors, statutory auditors, and/or their immediate families hold a majority voting interest. A summary of the significant transactions with such companies for the years ended, or as at March 31, 2004 and 2003, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	2003	2004
For the year:			
Number of related parties	6	4	
Number of cars put up for auction	56,613	30,414	
Number of cars actually traded	27,087	16,326	
Auction fees recorded as operating revenues	¥371	¥221	\$3,533
At year-end:			
Due to member dealers at auction	¥ 41	¥ 17	\$ 390

Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

13. Subsequent Events

(a) On June 29, 2004, the following appropriation of retained earnings was approved at an annual general meeting of shareholders of the Company:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends	¥770	\$7,333
Bonuses to directors and statutory auditors	26	248

(b) On June 29, 2004, shareholders also approved to implement the stock option plan in accordance with the Code. Under the plan, stock options were granted as new share subscription rights to members of the Board of Directors and selected executive employees of the Company and its consolidated subsidiaries, and each stock option is exercisable for the period from June 30, 2004 to October 31, 2008. Up to 250,000 shares of the common stock would be issuable for exercise of these new share subscription rights, which will be issued at the considerably beneficial terms.

14. Segment Information

The USS Group operates in two segments, "Automobile auction" and "Sales of used cars." A summary of information classified by lines of business of the USS Group for the years ended March 31, 2004 and 2003, is as follows:

	Automobile auction	Sales of used cars	Total	Elimination of inter-segment transactions	Consolidated total
Millions of Yen					
For the year 2004:					
Operating revenues:					
Outside customers	¥32,397	¥10,029	¥42,426	¥ —	¥42,426
Inter-segment sales/transfers.....	102	—	102	(102)	—
Total operating revenues	32,499	10,029	42,528	(102)	42,426
Operating costs and expenses.....	14,180	10,335	24,515	(106)	24,409
Operating income (loss).....	¥18,319	¥ (306)	¥18,013	¥ 4	¥18,017
Identifiable assets	¥89,796	¥ 2,757	¥92,553	¥ (14)	¥92,539
Depreciation	1,682	59	1,741	—	1,741
Capital expenditures	17,760	140	17,900	—	17,900
For the year 2003:					
Operating revenues:					
Outside customers	¥28,638	¥5,182	¥33,820	¥ —	¥33,820
Inter-segment sales/transfers.....	26	—	26	(26)	—
Total operating revenues	28,664	5,182	33,846	(26)	33,820
Operating costs and expenses.....	13,092	5,419	18,511	(27)	18,484
Operating income (loss).....	¥15,572	¥ (237)	¥15,335	¥ 1	¥15,336
Identifiable assets	¥86,314	¥2,665	¥88,979	¥ —	¥88,979
Depreciation	1,661	27	1,688	—	1,688
Capital expenditures	15,180	133	15,313	—	15,313

	Automobile auction	Sales of used cars	Total	Elimination of inter-segment transactions	Consolidated total
Thousands of U.S. Dollars					
For the year 2004:					
Operating revenues:					
Outside customers	\$308,543	\$95,514	\$404,057	\$ —	\$404,057
Inter-segment sales/transfers.....	971	—	971	(971)	—
Total operating revenues	309,514	95,514	405,028	(971)	404,057
Operating costs and expenses.....	135,048	98,428	233,476	(1,009)	232,467
Operating income (loss).....	\$174,466	\$ (2,914)	\$171,552	\$ 38	\$171,590
Identifiable assets	\$855,200	\$26,257	\$881,457	\$ (133)	\$881,324
Depreciation	16,019	562	16,581	—	16,581
Capital expenditures	169,143	1,333	170,476	—	170,476

Information of geographic segment and overseas sales is not shown because the USS Group has neither a consolidated subsidiary outside Japan nor a branch outside Japan.

Report of Independent Auditors



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Report of Independent Auditors

To the Board of Directors and Shareholders of
USS Co., Ltd.

We have audited the accompanying consolidated balance sheets of USS Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USS Co., Ltd. and its consolidated subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2 (k), effective from the year ended March 31, 2003, USS Co., Ltd. has provided for accrued severance indemnities for directors and statutory auditors.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 1 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Nagoya, Japan
June 29, 2004