

Growth Scenario 5:
Enlarge Profit Zones through Exploration of
New Business Frontiers

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Accelerating Leadership Growth

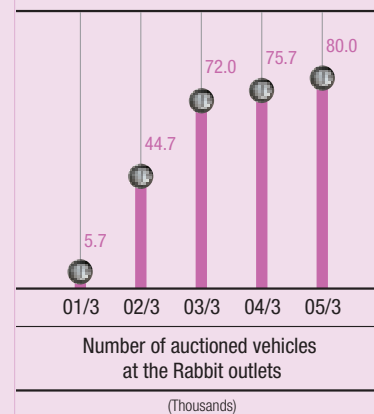
The Rabbit chain of used vehicle purchasing agencies boasts a nationwide network of **446 locations**, which are run primarily by franchisees. USS aims to enlarge its profit zones by expanding its spheres of activity into the downstream and upstream operations of the used vehicle auction business, which remains USS' core area.

Rabbit Used Vehicle Purchasing Agencies

USS entered the upstream business in July 2001 when it acquired Rabbit

Japan, a nationwide franchiser of used vehicle purchasing agencies. The entry into the upstream market of the used vehicle distribution scheme has strategic importance, because it allows USS to secure a flow of quality used vehicles available for

its auctions. TV commercials have boosted Rabbit's visibility, as evidenced by the growing number of visitors and requests for appraisal.



CarBankNet

In November 1999, USS established USS CarBankNet Co., Ltd. (later renamed CAR QUEST Co., Ltd.), to launch Internet-based auction



information services. CAR QUEST operates (1) the CarBankNet site, where its members are allowed to access information on USS auction sites, and (2) the Used Car Bazaar site, designed to disseminate information to general consumers on the vehicles put up for USS' auctions. As of March 2005, 12,286 firms were signed up as members. USS plans to boost the functionality of CarBankNet, to build it into one of Japan's largest portals with a comprehensive range of information on used vehicles.

Five-Year Consolidated Financial Summary

USS Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2005, 2004, 2003, 2002 and 2001

	Millions of Yen					Percentage Change	Thousands of U.S. Dollars
	2005	2004	2003	2002	2001	2005/2004	2005
For the year:							
Operating revenues	¥ 50,484	¥ 42,426	¥ 33,820	¥ 26,009	¥ 21,623	19.0%	\$471,813
Operating income	20,673	18,017	15,336	11,345	8,837	14.7	193,206
Income before income taxes and minority interests.....	20,612	16,175	13,727	10,061	8,302	27.4	192,636
Income taxes	8,603	6,983	5,909	4,302	3,572	23.2	80,402
Less, minority interests in net income of consolidated subsidiaries	194	285	173	269	237	-31.9	1,813
Net income	11,815	8,907	7,645	5,490	4,493	32.6	110,421
Capital expenditures	19,142	17,900	15,313	17,136	6,662	6.9	178,897
Depreciation and amortization	2,969	1,837	1,804	1,793	1,691	57.9	27,747
Net cash provided by operating activities.....	16,297	11,188	12,310	8,482	8,021	45.7	152,309
Net cash used in investing activities	(18,597)	(7,744)	(16,537)	(13,226)	(14,204)	140.1	(173,803)
Net cash provided by (used in) financing activities	2,383	(3,401)	(2,225)	14,725	548	—	22,270
Cash and cash equivalents at end of year.....	15,673	15,119	15,076	21,478	11,497	3.7	146,477
At year-end:							
Shareholders' equity	84,878	67,498	43,812	34,402	32,267	25.7	793,251
Total assets	115,705	92,539	88,979	80,929	62,315	25.0	1,081,355
Number of common shares issued	31,981,969	30,815,069	27,412,942	26,825,200	26,637,600		
Number of shareholders	8,011	4,484	3,521	2,602	4,384		
Number of employees.....	933	785	685	395	380		
Temporary and part-time staff.....	443	392	332	285	226		
Ratios:							
Return on equity (ROE) (%)	15.5	16.0	19.5	16.5	15.0		
Equity ratio (%).....	73.4	72.9	49.3	42.5	51.8		
Yen							
U.S. Dollars							
Per share:							
Net income:							
Basic	¥ 377.69	¥ 300.72	¥ 279.47	¥ 204.29	¥ 168.68		\$ 3.53
Diluted	366.03	277.76	242.85	187.63	168.68		3.42
Cash dividends	65.00	50.00	40.00	30.00	20.00		0.61
Shareholders' equity	2,652.32	2,189.02	1,596.96	1,282.45	1,211.32		24.79

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at the rate of ¥107=US\$1, the approximate rate of exchange at March 31, 2005.
2. Net income per share has been computed based on the weighted-average number of shares outstanding during each period.

Management's Discussion and Analysis of Operations

USS Co., Ltd. and Consolidated Subsidiaries

The USS Group

The USS Group, which comprises the parent company, 15 subsidiaries and one affiliate as of March 31, 2005, engages primarily in the used vehicle auction business. The scope of its operations and Group companies active in each area of business are outlined below. Please note that these business categories are the same as those used for segment information.

Automobile Auction Segment (13 Companies Including the Parent Company)

The parent company and its subsidiaries (eight companies including consolidated subsidiary USS Okayama Co., Ltd.) manage automobile auctions for auction members, consisting predominantly of used vehicle dealers. The parent company also operates a satellite-based remote bidding system and sells special-purpose auction terminals to the users of this system. US Butsuryu Co., Ltd., a consolidated subsidiary, specializes in transportation of submitted and sold vehicles to and from auctions. CAR QUEST Co., Ltd., another consolidated subsidiary, provides used vehicle information services over the Internet. Affiliated company InfoCarry Co., Ltd., operates a mobile phone-based used vehicle information service.

Sales of Used Cars Segment (2 Companies)

Consolidated subsidiary CAR QUEST operates a used vehicle purchasing and sales business. World Automobile Co., Ltd., also a consolidated subsidiary, engages in purchasing and sales of accident-damaged vehicles.

Other Segment (1 Company)

Consolidated subsidiary ARBIZ Co., Ltd., operates a salvage and recycling business for end-of-life vehicles.

Operating Environment

The used vehicle distribution market continued to face a harsh operating climate, as new vehicle registrations grew 0.4%, to 5.85 million units and used vehicle registrations fell 2.4%, to 8.00 million units, compared with the previous calendar year. In the used vehicle auction market, the total number of vehicles put up for auction grew 8.0% from the previous year to 6.98 million units. This result primarily reflected the higher trading volume of reusable vehicles (dated vehicles with high mileage)—a type of vehicle that up to now has not been traded at vehicle auctions—supported by the expansion of export markets against a backdrop of accelerating alliances and consolidation of auction sites. Nevertheless, the contract completion rate stood at 55.7%, down 0.8 percentage point from the previous year, owing to the continued shortage of high-quality used vehicles.

The USS Group responded to this severe operating environment by boosting its operations through such measures as intensification of marketing activities in the automobile auction business, aggressive capital investment, and acquisition of Ryutsu Auto Auction Co, Ltd., an operator of large-scale auction sites. In addition to stepping up purchasing of used vehicles and accident-damaged vehicles, the Group embarked on a recycling business for end-of-life vehicles.

Revenue Overview

In fiscal 2004, consolidated operating revenues increased by ¥8,058 million, or 19.0%, to ¥50,484 million compared with the previous term.

The advance stemmed primarily from a dramatic rise in the number of vehicles put up for auction, which surged 21.2%, to 2.14 million units. By auction site, large auction sites posted a steady gain, with handling

volume at the Tokyo site, which moved to a new location in October 2004, and trading at the Kyushu Gold site rising 18.3%, to 591,000 vehicles and 14.3%, to 186,000 vehicles, respectively. Regional sites also enjoyed across-the-board year-on-year growth, including a 23.0% increase to 103,000 vehicles at the Osaka site and a 15.5% increase to 99,000 vehicles at the Tohoku site. Furthermore, the Yokohama site, which started operation in February 2004, and the USS-R Nagoya site, which opened in June 2004, both recorded higher-than-projected trading volume, handling 157,000 cars and 58,000 cars, respectively. Although the number of contracted vehicles enjoyed a substantial rise of 17.2%, to 1.16 million units, the contract completion rate declined 1.9 percentage points to 54.2%, compared with the previous term.

Within the sales of used cars segment, operating revenues from the Rabbit chain of used vehicle purchasing agencies grew 38.6%, to ¥7,396 million. The increase was driven by the chain's marketing activities tailored to closely match the needs of each local market as well as vigorous advertising, which raised Rabbit brand recognition among consumers. Operating revenues from the business of buying and selling accident-damaged vehicles were up 22.0%, to ¥5,724 million, primarily due to the expansion of operation bases.

The recycling business operated by ARBIZ posted operating revenues of ¥523 million.

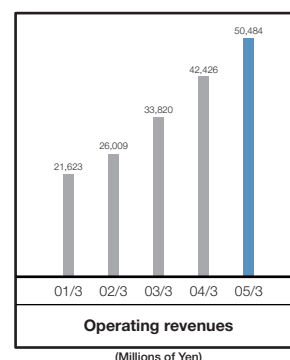
Revenue Breakdown

(1) By Auction Site

Operating revenues from our major auction sites were as follows:

Operating Revenues by Site

	Millions of Yen		Percentage Change 2005/2004
	2005	2004	
For the year:			
Nagoya site	¥6,912	¥6,860	0.8%
Kyushu Gold site	2,357	2,144	9.9
Fukuoka site	655	545	20.0
Tokyo site	9,861	9,048	9.0
Shizuoka site	1,125	1,090	3.1
Okayama site	1,037	981	5.7
Sapporo site	1,579	1,472	7.3
West Tokyo site	781	813	(4.0)
Gunma site	1,420	1,279	11.0
Tohoku site	1,303	1,152	13.1
Osaka site	1,599	1,400	14.3
Yokohama site	2,067	388	433.2
USS-R Nagoya site	589	—	—
Used Car Logistics Services	300	272	10.2
Satellite Auction	3,667	3,670	(0.1)
Internet Information Services	1,592	1,282	24.1
Used Car Purchasing			
Agency Business	7,396	5,335	38.6
Accident-Damaged Car			
Purchasing Agency Business	5,724	4,693	22.0
Recycling Business	524	—	—



The USS Group is pursuing a strategy of aiming for the No. 1 auction site position in each local market by providing services that cater to each region. Thanks to this effort, the Group as a whole posted year-on-year growth, achieving increases in operating revenues.

Among large auction sites, the Tokyo and Kyushu Gold sites enjoyed steady growth from the previous year, with operating revenues expanding to ¥9,861 million, up 9.0%, and ¥2,357 million, up 9.9%, respectively. Regional auction sites also achieved across-the-board year-on-year gains, with operating revenues at the Sapporo site rising 7.3%, to ¥1,579 million and those at the Osaka site increasing 14.3%, to ¥1,599 million.

The Yokohama site, which opened in February 2004, and the USS-R Nagoya site, which started operation in June 2004, both enjoyed higher-than-projected operating revenues, recording ¥2,067 million, up 433.2%, and ¥589 million, respectively.

(2) By Segment

Automobile Auction

Under the leadership of the business development team, the USS Group directed its efforts toward attracting new members and encouraging existing inactive members to participate in USS auctions more regularly. At the same time, we implemented aggressive measures in line with the strategy of making USS action sites No. 1 in every region, to garner a commanding market share in all regions in which we operate.

We put the Yokohama site, which opened in February 2004, on track, and substantially increased the Tokyo site's trading capacity by relocating it to a newly constructed site in October 2004. These measures have strengthened our presence in the greater Tokyo area.

To cope with the increased number of vehicles put up for auction, we expanded and upgraded parking facilities for vehicles put up for auction at the Shizuoka and Sapporo sites. At the same time, we boosted the auction capacity at the Tohoku and Shizuoka sites through the introduction of a two-lane auction system, which allows simultaneous bidding on two vehicles.

Responding to a trend toward higher numbers of dated vehicles with high mileage entering the used vehicle auction market, the USS Group in June 2004 opened the USS-R Nagoya site (an auction site that exclusively handles reusable vehicles) in the city of Nagoya's Minato Ward.

During the consolidated fiscal year under review, the above-mentioned efforts to expand business enabled the USS Group to put up 2.14 million vehicles for auction, a rise of 21.2% from the previous term, and sell 1.16 million vehicles, an expansion of 17.2%.

Consequently, the automobile auction segment generated operating revenues of ¥36,841 million, up 13.7%, and operating income of ¥20,704 million, up 13.0%.

Sales of Used Cars

The Rabbit chain of used vehicle purchasing agencies posted an increase in operating revenues, achieved through region-focused marketing activities and the fostering of staff, with a view to raising the purchase rate. It recorded an operating loss, however, due to a rise in advertising expenses resulting from the continuation of aggressive TV advertising aimed at strengthening Rabbit brand recognition among consumers.

Our accident-damaged vehicle purchasing and sales business was operated by World Automobile and its two subsidiaries. During the fiscal year under review, the two subsidiaries were merged into the USS Group

to achieve better integration of operation bases. USS succeeded in increasing the number of vehicles put up for auction by expanding its operation bases across Japan and strengthening its marketing capabilities in each region by adopting an area manager system.

Consequently, the sales of used cars segment posted operating revenues of ¥13,120 million, up 30.8%, and an operating loss of ¥51 million, compared with an operating loss of ¥306 million in the previous term.

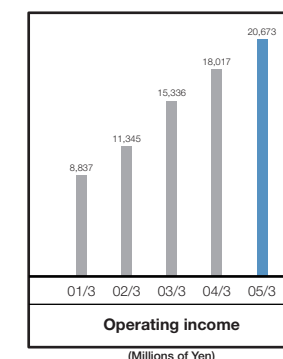
Other Business

Other business represents the recycling business operated by ARBIZ, which started operation in June 2004. In addition to scrapping used vehicles that remained unsold at auctions at the USS-R Nagoya site and thus were judged to have no commercial value, the company sells salvaged auto parts. This segment recorded operating revenues of ¥523 million and an operating loss of ¥21 million, mainly due to amortization costs on capital investment.

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

Cost of revenues amounted to ¥19,988 million, increasing by ¥4,683 million, or 30.6%, from the previous year. In the wake of expansion in merchandise sales in our used vehicle and accident-damaged vehicle purchasing and sales businesses, costs of revenues rose sharply, while depreciation costs surged due to commencement of operations at the Yokohama and new Tokyo sites.

SG&A expenses grew 7.9%, or ¥719 million, to ¥9,823 million. Advertising expenses were up 16.4%, to ¥218 million, as a result of advertising activities including TV commercials implemented by the Rabbit chain of used vehicle purchasing agencies. Employee salaries and bonuses increased 14.4%, or ¥360 million, primarily due to the hiring of new staff in connection with expansion of World Automobile's network of operation bases.



Operating Income, Other Income (Expenses) and Net Income

Operating income totaled ¥20,673 million, up 14.7%, or ¥2,656 million, compared with the previous year.

The increase was attributable to a sharp rise in the number of vehicles put up for auction, which boosted operating revenues in the automobile auction segment. In the sales of used cars segment, operating revenues grew but so did costs, resulting in an operating loss, although the amount

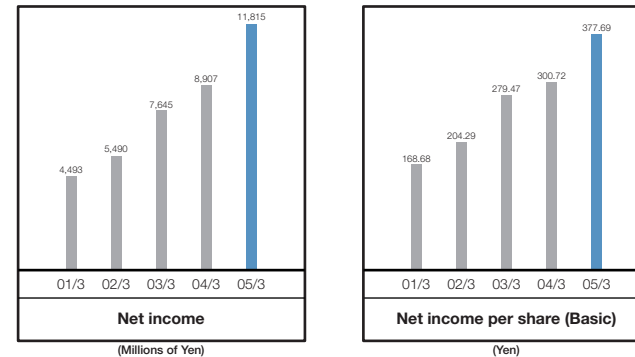
of the loss was small compared to the previous year.

Other expenses "net" declined by ¥1,781 million from the previous year, to ¥61 million. The primary factor responsible for the decrease was recording of an impairment loss of ¥557 million on underutilized real estate.

Income before income taxes and minority interests was ¥20,612 million compared with ¥16,175 million in the previous term. Income taxes amounted to ¥8,603 million, and minority interests in net income of consolidated subsidiaries totaled ¥194 million.

Consequently, net income rose 32.6%, or ¥2,908 million, to ¥11,815 million, marking six consecutive quarters of year-on-year

increases in both operating revenues and net income since we began reporting consolidated financial results. Basic net income per share was ¥377.69, while diluted net income per share was ¥366.03. Cash dividends per share applicable to the year increased to ¥65.00 from ¥50.00 in the previous year.

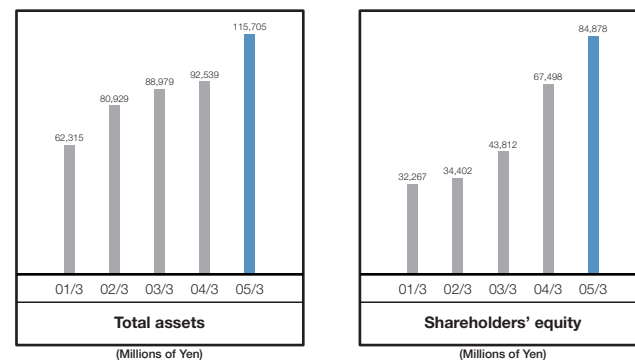


Financial Position

At year-end, total assets stood at ¥115,705 million on a consolidated basis. Total shareholders' equity amounted to ¥84,878 million, and the equity ratio stood at 73.4%.

Total assets increased by ¥23,166 million, or 25.0%, compared with the previous year, to ¥115,705 million. Current assets rose by ¥4,422 million, or 19.2%, mainly due to an increase of 65.6%, or ¥3,504 million, in receivables due from member dealers at auction (reflecting the fact that the final day of the consolidated fiscal year fell on a Thursday, the day of the week on which receivables due from member dealers at auction see a relative increase). Property and equipment, less accumulated depreciation, expanded by ¥14,033 million, or 22.8%, primarily due to acquisition of land for the Kobe auction site. Intangible fixed assets rose ¥2,818 million, or 283.9%, reflecting an increase in the consolidating adjustment account as a result of the conversion of RAA Co., Ltd., into a subsidiary.

Total shareholders' equity totaled ¥84,878 million, up 25.7%, or ¥17,380 million, from the previous year. Paid-in capital rose by ¥1,979 million, or 12.7%, and capital surplus by ¥5,166 million, or 26.4%. Other factors included an increase of ¥9,904 million, or 26.6%, in retained earnings, conversion of convertible bonds and issuance of stocks associated with the conversion of RAA into a subsidiary through a stock swap.



As a result, shareholders' equity per share of common stock amounted to ¥2,652.32, up ¥463.30 from ¥2,189.02 at the previous year-end, and the equity ratio rose to 73.4% from 72.9%.

Cash Flows

At end of the consolidated fiscal year under review, cash and cash equivalents (hereafter referred to as cash) totaled ¥15,673 million, up 3.7%, or ¥554 million.

Cash Flow Provided by Operating Activities

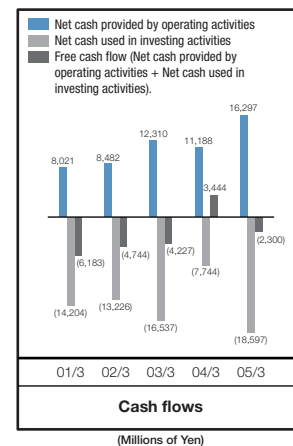
Net cash provided by operating activities amounted to ¥16,297 million, increasing 45.7%, or ¥5,109 million. This was primarily a result of increases in cash due to higher income before taxes and minority interests of ¥20,612 million, up 27.4% from the previous year, and depreciation and amortization of ¥2,969 million, up 61.6%. These increases were partially offset by a decrease in cash due to income taxes paid, which grew to ¥8,753 million, up 9.1%.

Cash Flow Used in Investing Activities

Net cash used in investing activities totaled ¥18,597 million, up 140.2% from the previous year. This was mainly attributable to a decrease in cash due to expenditures incurred in the purchase of property and equipment for the construction of the new Tokyo and Kobe auction sites, which amounted to ¥18,766 million, up 5.3% from the previous year.

Cash Flow Provided by Financing Activities

Net cash provided by financing activities totaled ¥2,383 million, compared with net cash used of ¥3,401 million the previous year. This was primarily due to increases in cash, which consisted proceeds from long-term debt of ¥4,000 million, up 3,900.0%, to finance the construction of the Kobe auction site and proceeds of ¥1,057 million, down 15.3%, from the issuance of common stock due to the exercise of stock options. These were partially offset by decreases in cash, which represented ¥1,827 million, down 48.9%, in scheduled repayment of long-term debt, and dividends paid of ¥1,702 million, up 30.0%.



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 consignors 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, 2005, the USS Group had an auction membership of 34,420 firms, a satellite auction membership of 6,768 firms and an Internet-based information membership of 12,286 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, 2005 and 2004

Assets	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Current assets:			
Cash and cash equivalents	¥ 15,673	¥15,119	\$ 146,477
Short-term investments (Note 5).....	146	50	1,364
Receivables:			
Due from member dealers at auction (Note 4)	8,848	5,344	82,692
Trade and other accounts	940	993	8,785
Allowance for doubtful accounts	(51)	(73)	(477)
Total receivables	9,737	6,264	91,000
Inventories (Note 6)	722	493	6,748
Deferred tax assets (Note 12).....	656	726	6,131
Other current assets	549	409	5,130
Total current assets.....	27,483	23,061	256,850
Property and equipment, at cost (Note 8):			
Land	43,188	38,078	403,626
Buildings and structures.....	36,056	25,322	336,972
Vehicles and equipment	7,128	6,227	66,617
Construction in progress	3,391	3,320	31,691
	89,763	72,947	838,906
Less, accumulated depreciation.....	(14,275)	(11,492)	(133,411)
	75,488	61,455	705,495
Investments and other assets:			
Investment securities (Note 5)	1,989	1,842	18,589
Intangible assets (Note 7)	3,810	992	35,607
Deferred tax assets (Note 12).....	699	588	6,533
Deferred tax assets for revaluation	3,351	3,462	31,318
Investment property	1,726	—	16,131
Other assets	1,466	1,611	13,701
Allowance for doubtful accounts	(307)	(472)	(2,869)
	12,734	8,023	119,010
Total.....	¥115,705	¥92,539	\$1,081,355

See accompanying Notes to Consolidated Financial Statements.

Liabilities, Minority Interests and Shareholders' Equity	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Current liabilities:			
Short-term borrowings (Note 8).....	¥ 1,150	¥ 131	\$ 10,748
Current portion of long-term debt (Note 8)	2,709	1,652	25,318
Payables:			
Due to member dealers at auction (Notes 4 and 13)	9,573	4,828	89,467
Trade and other accounts	2,537	2,180	23,710
Total payables	12,110	7,008	113,177
Deposits received in advance.....	1,400	1,195	13,084
Accrued expenses	715	573	6,682
Income taxes payable	4,518	4,778	42,224
Other current liabilities	85	135	795
Total current liabilities	22,687	15,472	212,028
Long-term debt (Note 8).....	3,631	5,548	33,935
Guarantee deposits received from member dealers.....	3,157	2,793	29,505
Employee retirement benefit liability (Note 9)	77	98	720
Accrued directors' and statutory auditors' severance indemnities.....	349	320	3,262
Other long-term liabilities	—	53	—
Commitments and contingent liabilities (Note 11)			
Minority interests in consolidated subsidiaries	926	757	8,654
Shareholders' equity (Notes 10 and 15):			
Common stock, no par value;			
Authorized: 100,000,000 shares;			
Issued: 31,981,969 shares in 2005 and 30,815,069 shares in 2004	17,580	15,601	164,299
Capital surplus	24,756	19,590	231,364
Retained earnings	47,168	37,264	440,822
Land revaluation decrement	(4,916)	(5,147)	(45,944)
Net unrealized gains (losses) on available-for-sale securities.....	301	198	2,813
Less, treasury stock, at cost—1,789 shares in 2005 and 1,495 shares in 2004	(11)	(8)	(103)
	84,878	67,498	793,251
Total.....	¥115,705	¥92,539	\$1,081,355



Consolidated Statements of Income

USS Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Operating revenues (Notes 13 and 14).....	¥50,484	¥42,426	\$471,813
Operating costs and expenses (Note 14):			
Costs of revenues	19,988	15,305	186,804
Selling, general and administrative expenses.....	9,823	9,104	91,803
	29,811	24,409	278,607
Operating income.....	20,673	18,017	193,206
Other income (expenses):			
Interest and dividend income	13	10	121
Interest expense.....	(59)	(101)	(551)
Gain (loss) on sale or disposal of property and equipment.....	82	(2,005)	766
Loss on liquidation of subsidiaries	(41)	—	(383)
Impairment loss on fixed assets (Note 3)	(557)	—	(5,206)
Other, net	501	254	4,683
	(61)	(1,842)	(570)
Income before income taxes and minority interests	20,612	16,175	192,636
Income taxes (Note 12).....	8,603	6,983	80,402
Less, minority interests in net income of consolidated subsidiaries	194	285	1,813
Net income	¥11,815	¥ 8,907	\$110,421
Per share:			
Net income:			
—Basic.....	¥377.69	¥300.72	\$3.53
—Diluted.....	366.03	277.76	3.42
Cash dividends	65.00	50.00	0.61

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

USS Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2005 and 2004

	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Land revaluation decrement	Net unrealized gains (losses) on available- for-sale securities		Treasury stock
						¥	U.S. Dollars	
Millions of Yen								
Balance at March 31, 2003	27,412,942	¥ 7,656	¥11,617	¥27,761	¥(3,207)	¥ (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)	—	—	—	
Net change in unrealized gains (losses) on available- for-sale securities, net of applicable income taxes	—	—	—	1,940	(1,940)	—	—	
Adjustments for applicable income taxes.....	—	—	—	—	—	207	—	
Fractional shares acquired, net.....	—	—	—	—	—	—	(2)	
Balance at March 31, 2004	30,815,069	15,601	19,590	37,264	(5,147)	198	(8)	
Net income for the year	—	—	—	11,815	—	—	—	
Issuance of common shares upon exercise of stock option	178,730	451	451	—	—	—	—	
Conversion of convertible bonds	656,949	1,528	1,528	—	—	—	—	
Stock issued under stock-for-stock exchange transaction	331,221	—	3,187	—	—	—	—	
Cash dividends	—	—	—	(1,700)	—	—	—	
Bonuses to directors and statutory auditors	—	—	—	(46)	—	—	—	
Reversal of land revaluation decrement	—	—	—	(165)	165	—	—	
Adjustments for applicable income taxes.....	—	—	—	—	66	—	—	
Net change in unrealized gains on available- for-sale securities, net of applicable income taxes	—	—	—	—	—	103	—	
Fractional shares acquired, net.....	—	—	—	—	—	—	(3)	
Balance at March 31, 2005	31,981,969	¥17,580	¥24,756	¥47,168	¥(4,916)	¥301	¥(11)	

	Thousands of U.S. Dollars						
Balance at March 31, 2004	\$145,804	\$183,084	\$348,262	\$(48,103)	\$1,850	\$ (75)	
Net income for the year.....	—	—	110,421	—	—	—	
Issuance of common shares under exercise of stock option	4,215	4,215	—	—	—	—	
Conversion of convertible bonds.....	14,280	14,280	—	—	—	—	
Stock issued under stock-for-stock exchange transaction	—	29,785	—	—	—	—	
Cash dividends	—	—	(15,888)	—	—	—	
Bonuses to directors and statutory auditors.....	—	—	(430)	—	—	—	
Reversal of land revaluation decrement.....	—	—	(1,543)	1,543	—	—	
Adjustments for applicable income taxes	—	—	—	616	—	—	
Net change in unrealized gains on available- for-sale securities, net of applicable income taxes.....	—	—	—	—	963	—	
Fractional shares acquired, net	—	—	—	—	—	(28)	
Balance at March 31, 2005	\$164,299	\$231,364	\$440,822	\$(45,944)	\$2,813	\$(103)	

See accompanying Notes to Consolidated Financial Statements.



Consolidated Statements of Cash Flows

USS Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 20,612	¥ 16,175	\$ 192,636
Adjustments for:			
Depreciation and amortization.....	2,969	1,837	27,747
(Gain) loss on sale or disposal of property and equipment	(82)	2,005	(766)
Impairment loss on fixed assets	557	—	5,206
Net change in amounts due from/to member dealers at auction	1,248	777	11,664
Increase (decrease) in deposits received in advance	112	(849)	1,047
Other, net	(320)	(641)	(2,991)
Sub-total.....	25,096	19,304	234,543
Interest and dividend received.....	13	10	121
Interest paid.....	(59)	(103)	(551)
Income taxes paid.....	(8,753)	(8,023)	(81,804)
Net cash provided by operating activities	16,297	11,188	152,309
Cash flows from investing activities:			
Increase in property and equipment	(18,766)	(17,825)	(175,383)
Increase in long-term investments and other assets	(432)	(533)	(4,037)
Decrease in property, long-term investments and other assets	697	10,383	6,514
Increase (decrease) in short-term investments.....	(96)	231	(897)
Net cash used in investing activities.....	(18,597)	(7,744)	(173,803)
Cash flows from financing activities:			
Increase in long-term debt	4,000	100	37,383
Repayment of long-term debt	(1,827)	(3,574)	(17,075)
Net change in short-term borrowings.....	629	(135)	5,879
Net increase in guarantee deposits received from member dealers	229	228	2,140
Issuance of common stock	1,057	1,248	9,879
Dividends paid	(1,702)	(1,310)	(15,907)
Other	(3)	42	(29)
Net cash provided by (used in) financing activities	2,383	(3,401)	22,270
Net increase in cash and cash equivalents	83	43	776
Cash and cash equivalents at beginning of year	15,119	15,076	141,299
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation.....	471	—	4,402
Cash and cash equivalents at end of year	¥ 15,673	¥ 15,119	\$ 146,477

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

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 as to 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 of 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 \$107 to US\$1, the approximate rate of exchange at March 31, 2005. The inclusion of such dollar amounts is solely for the convenience of the readers and is not intended to imply that Yen and the assets and liabilities originating in Yen have been or could be readily converted, realized or settled in dollars at \$107 to 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-1) Principles of consolidation

The consolidated financial statements include the accounts of the Company and all of its subsidiaries at March 31, 2005. Investment in significant affiliates is accounted for by the equity method. Investments in unconsolidated subsidiaries 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, 2005 and 2004, was as follows:

	2005	2004
Consolidated subsidiaries	15	14
Affiliate, accounted for by the equity method	—	1
Unconsolidated subsidiary and affiliates, stated at cost.....	—	1
Affiliates, stated at cost.....	1	2

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 is included in intangible assets as consolidating adjustment account in the accompanying consolidated balance sheets, is amortized over five years on a straight-line basis.

At March 31, 2004, 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 amount of ¥53 million, which was included in other long-term liabilities.

(a-2) Change in consolidation scope

On February 1, 2005, the Company completed the stock-for-stock exchange transaction with RAA Co., Ltd. ("RAA") As a result, the Company issued 331,221 shares of common stock of the Company to RAA's shareholders and recorded no change of common stock account and an increase in capital surplus account of ¥3,187 million (\$29,875 thousand) on February 1, 2005.

Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

The assets acquired and the liabilities assumed of RAA and its subsidiary, Ryutsu Auto Auction Co., Ltd. in relation to this stock-for-stock exchange transaction, were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Cash and cash equivalents	¥ 471	\$ 4,402
Other current assets	290	2,710
Non-current assets	705	6,589
Consolidating adjustment account	2,958	27,645
Total assets	4,424	41,346
Current liabilities	(825)	(7,710)
Non-current liabilities	(135)	(1,262)
Total liabilities	(960)	(8,972)
Acquisition cost of RAA	¥3,464	\$32,374

(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. Three 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 has 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. The company has provided for the liability of such severance indemnities at the fiscal year-end based on the internal regulations.

(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) Enterprise taxes

With the implementation of the "Revision of the Local Tax Law" (Legislation No.9, 2003) on March 31, 2003, size-based corporate taxes for local government enterprise taxes have been newly levied from the fiscal year beginning April 1, 2004. As a result, the USS Group has recorded enterprise taxes calculated based on the "added value" and "capital" amounts in the amount of ¥169 million (\$1,579 thousand) as selling, general and administrative expenses for the year ended March 31, 2005 in accordance with practical solution report issued by Accounting Standards Board of Japan.

(o) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the 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.

(p) 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. Bonuses paid to directors and statutory auditors are recorded as a part of the appropriation of retained earnings, instead of charging to incomes, as permitted by the Japanese accounting standards.

(q) 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, 2005 and 2004, 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 ¥2,610 million (\$24,393 thousand) and ¥1,911 million, respectively.



Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

(r) Per share data

Basic net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the 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.

3. Accounting Change – Adoption of New Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council of Japan issued "Accounting Standard for Impairment of Fixed Assets", which is effective for the fiscal years beginning April 1, 2005, with earlier adoption permitted. The Accounting Standards Board of Japan issued related practical guidance on October 31, 2003. The USS Group has adopted this new accounting standard and related practical guidance from the year ended March 31, 2005. The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of the asset's net selling price and value in use. Fixed assets include land, buildings and other forms of property, and equipment as well as intangible assets and are to be grouped at the lowest level for which there are identifiable cash flows from other groups of assets.

For the purpose of recognition and measurement of an impairment loss, fixed assets of the USS Group are principally grouped into cash-generating units such as auto auction sites, other than idle or unused property. The USS Group determines if assets are impaired by comparing their undiscounted expected cash flows to the carrying amounts in the accounting records. An impairment loss is recognized if undiscounted expected cash flows are less than the carrying amount of the asset. The management of the USS Group assessed the impairment test that there was no indication for impairment for the principal business. Recoverable amounts of the assets were measured based on their net selling prices primarily for applicable market values less costs of disposal.

For the year ended March 31, 2005, the USS Group recognized ¥557 million (\$5,206 thousand) impairment loss on fixed assets such as land, buildings and other property, which were classified as idle or unused status. As a result of adoption of this new accounting standard, income before income taxes and minority interests for the year ended March 31, 2005 decreased by ¥557 million (\$5,206 thousand), as compared with the previous accounting method.

4. 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.

5. Short-term Investments and Investment Securities

At March 31, 2005 and 2004, short-term investments consisted of time deposits with an original maturity of more than three months.

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Investment securities:			
Investment in unconsolidated subsidiary and affiliates	¥ 4	¥ 34	\$ 37
Marketable securities:			
Equity securities	236	228	2,206
Others	1,425	970	13,318
	1,661	1,198	15,524
Other non-marketable securities	324	610	3,028
Total	¥1,989	¥1,842	\$18,589

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, 2005 and 2004, 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, 2005:				
Marketable securities:				
Equity securities	¥ 102	¥134	¥—	¥ 236
Others	1,056	384	(15)	1,425
	¥1,158	¥518	¥(15)	¥1,661

As of March 31, 2004:

Marketable securities:				
Equity securities	¥151	¥ 77	¥—	¥ 228
Others	714	271	(15)	970
	¥865	¥348	¥(15)	¥1,198

Thousands of U.S. Dollars

As of March 31, 2005:

Marketable securities:				
Equity securities	\$ 954	\$1,252	\$ —	\$ 2,206
Others	9,869	3,589	(140)	13,318
	\$10,823	\$4,841	\$(140)	\$15,524



Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

6. Inventories

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Merchandise	¥643	¥436	\$6,009
Vehicles	13	4	122
Supplies	66	53	617
	¥722	¥493	\$6,748

7. Intangible Assets

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Consolidating adjustment account (as excess of cost of investments in subsidiaries over equity in net assets acquired)	¥3,100	¥272	\$28,972
Software	369	363	3,448
Other intangible assets	341	357	3,187
	¥3,810	¥992	\$35,607

8. Short-term Borrowings and Long-term Debt

Short-term borrowings consisted of unsecured bank loans with an average interest rate of 0.63% per annum at March 31, 2005.

The Company had unsecured overdraft and loan commitment agreements with a certain bank. At March 31, 2005, the Company was entitled to withdraw up to ¥1,000 million (\$9,346 thousand) under such an agreement, the entire amounts of which were undrawn.

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Convertible bonds, zero coupon, due September 2006	¥ 631	¥3,688	\$ 5,897
Bonds at interest rate 0.3%, due March 2006 issued by a certain consolidated subsidiary	200	300	1,869
Loans from banks, due through 2009 repayable on an installment basis with interest rates ranging from 0.550% to 3.510% per annum at March 31, 2005:			
Collateralized	173	855	1,617
Unsecured	5,336	2,357	49,870
	6,340	7,200	59,253
Less, current portion	(2,709)	(1,652)	(25,318)
	¥3,631	¥5,548	\$33,935

The aggregate annual maturities of long-term debt at March 31, 2005 were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2005	¥2,709	\$25,318
2006	1,631	15,243
2007	1,000	9,346
2008	1,000	9,346
	¥6,340	\$59,253

At March 31, 2005, each holder of convertible bonds was entitled to convert into shares of common stock of the Company at ¥4,653 per share. All convertible bonds were fully converted to issue 135,373 shares of common stock of the Company for the period through May 31, 2005.

At March 31, 2005 and 2004, the following assets were pledged as collateral for long-term debt:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Land	¥2,825	¥3,911	\$26,402
Buildings and structures	1,235	1,692	11,542

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.

9. 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, 2005 and 2004:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Reconciliation of benefit liability:			
Retirement benefit liability	¥317	¥319	\$2,963
Less, fair value of pension plan assets at end of year	(240)	(221)	(2,243)
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets	¥ 77	¥ 98	\$ 720

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
	2005	2004	2005
Component of net periodic retirement benefit expense:			
Retirement benefit expense for defined benefit plan	¥ 64	¥ 64	\$ 598
Retirement benefit expense for defined contribution plan	30	23	280
Net periodic retirement benefit expense	¥ 94	¥ 87	\$ 878

10. Shareholders' Equity

At March 31, 2005 and 2004, respectively, capital surplus principally consisted of additional paid-in capital. At March 31, 2005 and 2004, retained earnings included legal reserve of the Company in the amount of ¥370 million (\$3,458 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 2001 through 2004 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 2001.....	19,520	¥4,519	June 29, 2001 through June 29, 2005
Option, granted in 2002.....	141,200	¥5,110	June 27, 2002 through October 31, 2006
Option, granted in 2003.....	197,500	¥6,510	June 26, 2003 through October 31, 2007
Option, granted in 2004.....	226,500	¥9,320	June 30, 2004 through October 31, 2008

Pursuant to the Code and the Company's amended Article 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.

11. Commitments and Contingent Liabilities

At March 31, 2005 and 2004, 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, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Due within one year.....	¥ 630	¥428	\$ 5,888
Due after one year.....	1,518	241	14,187
	¥2,148	¥669	\$20,075

The gross rental and lease expenses, consisting of minimum rental payments for all operating leases and financing leases, for the years ended March 31, 2005 and 2004, were ¥1,449 million (\$13,542 thousand) and ¥1,170 million, respectively. For the years ended March 31, 2005 and 2004, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥444 million (\$4,150 thousand) and ¥509 million, respectively.

12. Income Taxes

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Income taxes:			
Current	¥8,493	¥8,187	\$79,374
Deferred.....	110	(1,204)	1,028
	¥8,603	¥6,983	\$80,402

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

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Deferred tax assets—Current:			
Enterprise tax accruals.....	¥331	¥413	\$3,093
Other	332	314	3,103
Less, valuation allowance.....	(7)	(1)	(65)
	¥656	¥726	\$6,131
Deferred tax assets—Non-current:			
Allowance for doubtful accounts	¥ 65	¥122	\$ 607
Loss on disposal of buildings	80	80	748
Unrealized (gains) losses on available-for-sale securities.....	(200)	(132)	(1,869)
Operating loss carryforward of consolidated subsidiaries	29	36	271
Accrued directors' and statutory auditors' severance indemnities	140	129	1,308
Loss on write-down of securities	220	244	2,056
Impairment loss.....	310	—	2,897
Other	85	114	795
Less, valuation allowance.....	(30)	(5)	(280)
	¥699	¥588	\$6,533

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, 2005 and 2004, 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.

13. Related Party Transactions

During the years ended March 31, 2005 and 2004, 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, 2005 and 2004, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
For the year:			
Number of related parties.....	6	6	
Number of cars put up for auction.....	64,893	56,613	
Number of cars actually traded	29,763	27,087	
Auction fees recorded as operating revenues.....	¥419	¥371	\$3,916
At year-end:			
Due to member dealers at auction	¥ 84	¥ 41	\$ 785



Notes to Consolidated Financial Statements

USS Co., Ltd. and Consolidated Subsidiaries

14. Segment Information

The USS Group operates in three segments, "Automobile auction", "Sales of used cars", and other business. A summary of information classified by lines of business of the USS Group for the years ended March 31, 2005 and 2004, is as follows:

	Automobile auction	Sales of used cars	Other	Total	Elimination of inter-segment transactions	Consolidated total
Millions of Yen						
For the year 2005:						
Operating revenues:						
Outside customers	¥ 36,841	¥13,120	¥ 523	¥ 50,484	¥ —	¥ 50,484
Inter-segment sales/transfers.....	226	—	—	226	(226)	—
Total operating revenues.....	37,067	13,120	523	50,710	(226)	50,484
Operating costs and expenses.....	16,363	13,170	544	30,077	(266)	29,811
Operating income (loss).....	¥ 20,704	¥ (50)	¥ (21)	¥ 20,633	¥ 40	¥ 20,673
Identifiable assets	¥111,121	¥ 3,839	¥1,792	¥116,752	¥(1,047)	¥115,705
Depreciation	2,804	59	38	2,901	—	2,901
Capital expenditures	17,734	131	1,277	19,142	—	19,142
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

Thousands of U.S. Dollars

For the year 2005:						
Operating revenues:						
Outside customers	\$ 344,308	\$122,617	\$ 4,888	\$ 471,813	\$ —	\$ 471,813
Inter-segment sales/transfers.....	2,113	—	—	2,113	(2,113)	—
Total operating revenues.....	346,421	122,617	4,888	473,926	(2,113)	471,813
Operating costs and expenses.....	152,925	123,084	5,084	281,093	(2,486)	278,607
Operating income (loss).....	\$ 193,496	\$ (467)	\$ (196)	\$ 192,833	\$ 373	\$ 193,206
Identifiable assets	\$1,038,514	\$ 35,878	\$16,748	\$1,091,140	\$(9,785)	\$1,081,355
Depreciation	26,206	551	355	27,112	—	27,112
Capital expenditures	165,738	1,224	11,935	178,897	—	178,897

Note 1: The USS Group began to operate the recycling business for scrapped cars, the operations of which were included in other business segment.

2. As the USS Group has adopted a new accounting standard for impairment of fixed assets from the year ended March 31, 2005, identifiable assets for automobile auction business decreased by ¥247 million (\$2,308 thousand) at March 31, 2005.

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.

15. Subsequent Events

(a) On June 28, 2005, 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.....	¥1,119	\$10,458
Bonuses to directors and statutory auditors.....	40	374

Shareholders approved to increase the number of authorized shares of common stock of the Company from 100 million to 120 million on June 28, 2005.

(b) On June 28, 2005, 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 29, 2005 to October 31, 2009. Up to 300,000 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.

(c) On April 28, 2005, the Company acquired 100% interest in the issued and outstanding shares of common stock of Misawa Toyo Co., Ltd. ("Toyo") for ¥1 in accordance with the agreement with MISAWA HOMES HOLDINGS, INC. ("Misawa") dated March 29, 2005. The Company also purchased the claims held by Misawa Homes Co., Ltd. due from Toyo in of a principal amount of ¥2,306 million (\$21,551 thousand) for ¥175 million according to the agreement with MISAWA, and at the same time the Company abandoned such claims due from Toyo. Toyo is engaged in the recycling business for rubber materials. The Company expects to realize the synergies for the integration of the recycling business of the USS Group.

The assets acquired and the liabilities assumed of Toyo, as adjusted for the purchase and Company's abandonment of the claims due from Toyo, as of March 31, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total assets	¥2,011	\$18,795
Total liabilities	1,057	9,879
Net assets	¥ 954	\$ 8,916



Report of Independent Auditors



ChuoAoyama PricewaterhouseCoopers
Dai Nagoya Building
3-28-12, Meieki, Nakamura-ku,
Nagoya, 450-8565, Japan
Telephone: +81-52-551-3001
Facsimile: +81-52-551-3005

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, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USS Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 3, effective from the year ended March 31, 2005, USS Co., Ltd. and its consolidated subsidiaries have adopted a new accounting standard for impairment of fixed assets. As disclosed in Note 14, USS Co., Ltd. acquired 100% interest in the issued and outstanding shares of common stock of Misawa Toyo Co., Ltd. on April 28, 2005.

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 28, 2005

CORPORATE HISTORY

USS Co., Ltd. and Consolidated Subsidiaries

- 1980**
 - Oct. The forerunner of USS Co., Ltd., Aichi Automobile General Services Co., Ltd., was established and the USS brand name was adopted.
- 1982**
 - Aug. The Company launched its first auction site, USS Nagoya, in Nawa-cho, Tokai City, Aichi Prefecture.
 - Oct. The Company introduced a POS bidding system for the first time in the Chubu region.
- 1987**
 - May The Company began two-lane auctions at USS Nagoya.
- 1990**
 - Jan. The USS Kyushu auction site was opened in Tosu City, Saga Prefecture. The Company introduced two-lane auctions for the first time in the Kyushu region.
- 1994**
 - May The USS Tokyo auction site was opened in Kozutsumi, Funagata, Noda City, Chiba Prefecture.
 - Nov. The USS Kyushu Gold site was opened in Tosu City, Saga Prefecture. USS Kyushu was renamed USS Kyushu First.
 - Dec. The Company established US Butsuryu Co., Ltd.
- 1995**
 - Mar. The parent company was renamed USS Co., Ltd.
 - July Satellite auctions were launched.
- 1996**
 - Apr. The USS Nagoya site was relocated to Shinpou-machi, Tokai City, Aichi Prefecture.
 - July The USS Okayama auction site was opened in Akaiwa County, Okayama Prefecture.
 - Nov. The USS Shizuoka auction site was opened in Fukuroi City, Shizuoka Prefecture.
- 1998**
 - Mar. The USS Sapporo auction site was opened in Ebetsu City, Hokkaido.
 - Nov. The USS West Tokyo auction site was opened in Mizuho-cho, Nishitama County, Tokyo.
- 1999**
 - Sep. USS Co., Ltd., was listed on the Second Section of the Nagoya Stock Exchange.
 - Oct. The USS Gunma auction site was opened in Fujioka City, Gunma Prefecture.
 - Nov. The Company established USS CarBankNet Co., Ltd. (later renamed CAR QUEST Co., Ltd.).
- 2000**
 - Apr. The USS Tohoku auction site, operated by USS Tohoku Co., Ltd., was opened in Karita County, Miyagi Prefecture.
 - Dec. USS Co., Ltd., was listed on the first section of the Tokyo and Nagoya stock exchanges.
- 2001**
 - Jan. The four-lane auction was started at the USS Nagoya site. The USS Tohoku site was relocated to Shibata County, Miyagi Prefecture.
 - Nov. The USS Osaka Auto Auction site was opened in Nishiyodogawa-ku, Osaka.
- 2002**
 - Oct. World Communications Co., Ltd. became a USS subsidiary (later renamed World Automobile Co., Ltd.).
- 2003**
 - Mar. The USS Fukuoka auction site was opened in Chikushino City, Fukuoka Prefecture.
 - Dec. The Company established ARBIZ Co., Ltd.
- 2004**
 - Feb. The USS Yokohama auction site was opened in Yokohama City, Kanagawa Prefecture.
 - June The USS-R auction site was opened in Nagoya City, Aichi Prefecture.
 - Oct. The USS Tokyo auction site was relocated to Kimagase, Noda City, Chiba Prefecture.
- 2005**
 - Feb. The USS Ryutsu auction site was opened in Koshigaya, Saitama Prefecture.



STOCK INFORMATION

USS Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005

Shares

Authorized Shares
100,000,000
Number of Common Shares Issued
31,981,969
Number of Shareholders
8,011
Trading Unit
10 Shares
Transfer Agent
The Chuo Mitsui Trust and Banking Company, Limited

Major Shareholders

	Thousands of Shares	Percentage
Futoshi Hattori	3,317	10.37
The Master Trust Bank of Japan, Ltd. (Money Trust)	2,946	9.21
Japan Trustee Services Bank, Ltd. (Money Trust)	2,941	9.19
Yukihiko Ando	890	2.78
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	851	2.66
The Master Trust Bank of Japan, Ltd. (Retirement Benefits Trust Account for UFJ Bank Limited)	840	2.62
State Street Bank and Trust Company	806	2.52
Hattori Motors Co., Ltd.	721	2.25
Maruichi Motors Co., Ltd.	699	2.18
Dai Seta	690	2.15
Mamoru Seta	690	2.15

Breakdown of Shareholders by Type

	Number of Shareholders	Percentage
Individuals and Others	7,502	93.65
Foreign Investors	272	3.39
Other Japanese Corporations	139	1.74
Financial Institutions	73	0.91
Securities Companies	23	0.29
Japan Securities Depository Center, Inc.	1	0.01
Treasury Stock	1	0.01

Breakdown of Shares Held by Shareholder Type

	Number of Shares	Percentage
Foreign Investors	10,446	32.66
Financial Institutions	9,954	31.12
Individuals and Others	8,890	27.80
Other Japanese Corporations	2,463	7.70
Securities Companies	223	0.70
Japan Securities Depository Center, Inc.	1	0.01
Treasury Stock	1	0.01

CORPORATE DATA

USS Co., Ltd. and Consolidated Subsidiaries

Company Name

USS Co., Ltd.

Head Office

507-20 Shinpo-machi, Tokai City,
Aichi Prefecture 476-0005, Japan
Phone: +81-52-689-1129
Fax: +81-52-604-1915

Established

October 1980

Common Stock

¥17,580 million

Business

Management of Used Car Auction Sites

Number of Employees

933 (As of March 31, 2005)

Fiscal Year-End

March 31

Stock Exchange Listings

First Section of Tokyo Stock Exchange and Nagoya
Stock Exchange

Stock Code

4732

Board of Directors and Statutory Auditors

(As of June 28, 2005)

President

Futoshi Hattori*

Executive Vice Presidents

Yukihiko Ando
Fumihiko Tamura
Shigeo Hara

Senior Managing Directors

Motohiro Masuda
Eiji Gono

Directors

Dai Seta
Masafumi Yamanaka
Hiromitsu Ikeda
Hiroaki Inoue
Masayuki Akase
Yasuhisa Koga

Statutory Auditors

Yukihiko Inoue
Masura Takei
Isao Otsuka

*Representative Director

Consolidated Subsidiaries

USS Okayama Co., Ltd.
USS Sapporo Co., Ltd.
USS Tokyo Mizuho Co., Ltd.
USS Gunma Co., Ltd.
USS Tohoku Co., Ltd.
USS Osaka Co., Ltd.
USS Yokohama Co., Ltd.
USS Kobe Co., Ltd.
USS Recycle Auto Auction Co., Ltd.
USS Ryutsu Auto Auction Co, Ltd.
CAR QUEST Co., Ltd.
US Butsuryu Co., Ltd.
World Automobile Co., Ltd.
ARBIZ Co., Ltd.
RAA Co., Ltd.

Affiliate

InfoCarry Co., Ltd.

As of March 31, 2005

