

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

