

Five-Year Consolidated Financial Summary

USS Co., Ltd. and Consolidated Subsidiaries

For the Years Ended March 31, 2006, 2005, 2004, 2003 and 2002

Financial Section

	Millions of Yen					Percentage	Thousands of
	2006	2005	2004	2003	2002	Change	U.S. Dollars
For the year:							
Operating revenues	¥60,243	¥50,484	¥42,426	¥33,820	¥26,009	19.3%	\$514,897
Operating income	23,104	20,673	18,017	15,336	11,345	11.8	197,470
Income before income taxes and minority interests	23,052	20,612	16,175	13,727	10,061	27.4	197,026
Income taxes	9,643	8,603	6,983	5,909	4,302	23.2	82,419
Less, minority interests in net income of consolidated subsidiaries	205	194	285	173	269	5.7	1,752
Net income	13,204	11,815	8,907	7,645	5,490	11.8	112,855
Capital expenditures	13,207	19,142	17,900	15,313	17,136	(31.0)	112,880
Depreciation and amortization	4,199	2,969	1,837	1,804	1,793	41.4	35,889
Net cash provided by operating activities	20,868	16,297	11,188	12,310	8,482	28.0	177,359
Net cash used in investing activities	(12,148)	(18,597)	(7,744)	(16,537)	(13,226)	(34.7)	(103,829)
Net cash provided by (used in) financing activities	(4,898)	2,383	(3,401)	(2,225)	14,725	—	(41,863)
Cash and cash equivalents at end of year	19,495	15,673	15,119	15,076	21,478	24.8	166,624
At year-end:							
Shareholders' equity	97,392	84,878	67,498	43,812	34,402	14.7	832,410
Total assets	131,909	115,705	92,539	88,979	80,929	14.0	1,127,427
Number of common shares issued ...	32,486,932	31,981,969	30,815,069	27,412,942	26,825,200		
Number of shareholders	11,761	8,011	4,484	3,521	2,602		
Number of employees	1,034	933	785	685	395		
Temporary and part-time staff	479	443	392	332	285		
Ratios:							
Return on equity (ROE) (%)	14.5	15.5	16.0	19.5	16.5		
Equity ratio (%)	73.8	73.4	72.9	49.3	42.5		

Yen

U.S. Dollars

Per share:

Net income:

Basic	¥ 407.08	¥ 377.69	¥ 300.72	¥ 279.47	¥ 204.29		\$ 3.48
Diluted	406.03	366.03	277.76	242.85	187.63		3.47
Cash dividends	80.00	65.00	50.00	40.00	30.00		0.68
Shareholders' equity	3,008.92	2,652.32	2,189.02	1,596.96	1,282.45		25.72

Notes: 1. The U.S. dollar amounts have been translated, for convenience only, at the rate of ¥117=US\$1, the approximate rate of exchange at March 31, 2006.

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 consists of the parent company, 16 subsidiaries and one affiliate. The Group is primarily engaged in the used vehicle auction business. The scope of its operations and Group companies active in each area of business are described below. Please note that these business categories are the same as those used for segment information.

Automobile Auction Segment (14 Companies Including the Parent Company)

The parent company and its subsidiaries (nine subsidiaries including consolidated subsidiary USS Okayama Co., Ltd.) manage automobile auctions for auction members, consisting mainly of used vehicle dealers. The parent company also manages satellite-based TV automobile auctions and sells special purpose TV automobile auction terminals. Consolidated subsidiary US Butsuryu Co., Ltd., specializes in transportation of submitted and sold vehicles to and from auctions. Consolidated subsidiary CAR QUEST Co., Ltd., provides used vehicle information services via the Internet. InfoCarry Co., Ltd., an affiliate, offers the service of mobile phone-based distribution of used vehicle information.

Sales of Used Cars Segment (2 Companies)

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

Recycling Segment (2 Companies)

Consolidated subsidiary ARBIZ Co., Ltd., manages a salvage and recycling business for the goods such as the end-of-life vehicles. Consolidated subsidiary USS Toyo Co., Ltd., engages in recycling of scrap rubber.

Operating Environment

The used vehicle distribution market enjoyed steady growth, with the number of new and used vehicle registrations rising 0.7% and 4.9%, respectively, from the previous year. In the used vehicle auction industry, the number of vehicles submitted for auction grew 16.3% over the previous year, to 8.11 million. This result reflected an increasing tendency for used vehicle dealers to put up stocked vehicles for auction in an effort to avoid the risk of holding long-term inventory, and increased demand for reusable vehicles (dated vehicles with high mileage)—a type of vehicle that up until recently has not traded at auctions—spurred by the expansion of export markets. The contract completion rate, however, showed a decline to 53.3%, down 2.4 percentage points from a year earlier.

Against this backdrop, the USS Group sought to strengthen its management base through aggressive capital investment such as the launch of new auction sites. In the recycling business, in April 2005 the Group acquired Misawa Toyo Co., Ltd. (the present USS Toyo Co., Ltd.), which operates a recycling business for scrap rubber.

Revenue Overview

Consolidated operating revenues in fiscal 2005 amounted to ¥60,243 million, up ¥9,759 million, or 19.3%, compared with the previous year.

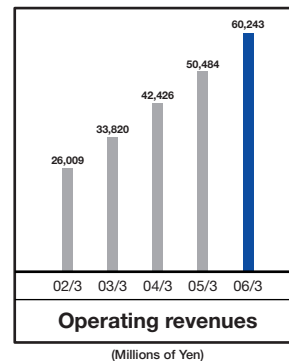
The increase was due primarily to a sharp rise in the number of vehicles put up for auction, which grew 23.9%, to 2.66 million units. This total comprised 1.44 million cars, up

6.3%, that were handled at six auction sites directly operated by the parent company, and 1.21 million cars, up 54.2%, that were handled at 10 subsidiary-managed sites.

By auction site, the Ryutsu site became a source of additional revenue since this fiscal term and both it and the Kobe site recorded net increases, handling 167,000 vehicles and 47,000 vehicles, respectively. The Yokohama site handled 220,000 vehicles, up 39.8%, while the USS R-Nagoya site enjoyed a substantial rise of 90.3% in handling volume, to 112,000 vehicles. Thus, the total volume of the vehicles put up for auctions exceeded the previous year's level at most of the sites. While the number of contracted vehicles surged to 1.40 million units, up 20.9%, the contract completion rate stood at 52.9%, down 1.3 percentage points from the previous year. Consequently, operating revenues in the automobile auction business amounted to ¥44,271 million, up 20.2%.

In the sales of used cars segment, operating revenues from the Rabbit chain of used vehicle purchasing agencies grew 5.7%, to ¥7,817 million, thanks to the increased brand recognition achieved by the ongoing advertising campaign. Operating revenues from the business of buying and selling accident-damaged vehicles declined 0.4%, to ¥5,700 million, as the expansion of operation bases was undermined by intensified competition.

In the recycling segment, operating revenues rose 368.4%, to ¥2,455 million. The increase was due primarily to the start of operation at ARBIZ of a shredding machine for recyclable goods such as the end-of-life vehicles, as well as a net increase in revenues generated by the scrap rubber recycling business operated by USS Toyo, a subsidiary that USS acquired in April 2005.



Revenue Breakdown

(1) By Auction Site

Operating Revenues by Site

	Millions of Yen		Percentage Change
	2006	2005	2006/2005
For the year:			
Nagoya site	¥6,458	¥6,912	93.4%
Kyushu site	2,460	2,357	104.4
Fukuoka site	854	655	130.4
Tokyo site	10,503	9,861	106.5
R-Tokyo site	896	—	—
Shizuoka site	1,220	1,125	108.5
Okayama site	1,172	1,037	113.1
Sapporo site	1,882	1,579	119.2
West Tokyo site	1,055	781	135.1
Gunma site	1,646	1,420	115.9
Tohoku site	1,452	1,303	111.5
Osaka site	1,848	1,599	115.6
Yokohama site	2,969	2,067	143.7
Kobe site	562	—	—
Ryutsu site	2,011	—	—
R-Nagoya site	1,355	589	230.2
Used Car Logistics Services	443	300	147.5
Satellite Auction	3,508	3,667	95.7
Internet Information Services	1,978	1,592	124.3
Used Car Purchasing			
Agency Business	7,817	7,396	105.7
Accident-Damaged Car			
Purchasing Agency Business	5,700	5,724	99.6
Recycling Business of End-of-Life			
Vehicles and Other Goods	1,425	524	271.9
Scrap Rubber Recycling Business	1,029	—	—

The USS Group pursues a strategy of striving for the “No.1 auction site position in each local market” by providing services that match the needs of each region. Thanks to this effort, the Group as a whole achieved year-on-year growth, enjoying a gain in operating revenues.

Among large auction sites, the Nagoya site posted a 6.6% decline in operating revenues, because operating revenues from the R-Nagoya site were reported separately. Other sites experienced steady growth in operating revenues, with the Tokyo site posting ¥10,503 million, up 6.5% over the previous year, the Yokohama site ¥2,969 million, up 43.7%, and the Kyushu site ¥2,460 million, up 4.4%. Regional auction sites also enjoyed across-the-board growth compared with the previous year, with operating revenues at the Sapporo site increasing 19.2%, to ¥1,882 million, and those at the Osaka site growing 15.6%, to ¥1,848 million.

The recycling segment of the end-of-life vehicles and other goods recorded higher-than-projected year-on-year operating revenues, which increased 171.9%, to ¥1,425 million.

(2) By Segment Automobile Auction

Under the leadership of the business development team, the USS Group sought to attract new members and encourage existing inactive members to participate in USS auctions more regularly, while implementing aggressive measures in line with the strategy of making USS auction sites No. 1 in every region, to capture a dominant market share in all regions in which USS operates.

The Ryutsu site (located in Koshigaya City, Saitama Prefecture), was made a wholly owned subsidiary in February 2005 to strengthen the Group's presence in the Kanto region. In addition, the Kobe site (located in Kobe City, Hyogo Prefecture) was launched in September 2005 as part of the measures to boost our presence in the Kansai region.

To boost the processing capacity of existing auction sites, the Group rebuilt the Kyushu site (the former Kyushu Gold site) in January 2006 and the Osaka site in March 2006. Furthermore, we introduced a six-lane auction system, which enables simultaneous auction of six vehicles, at the Nagoya site in January 2006, and a four-lane auction system in the Yokohama site in October 2005. We installed a two-lane auction system at the Okayama site in June 2005.

Responding to a trend toward a growing number of reusable vehicles (dated vehicles with high mileage) entering the used vehicle auction market, in May 2005 the USS Group reopened the former Tokyo site in Noda City, Chiba Prefecture, as the USS-R Tokyo site that exclusively handles auction of reusable vehicles, the second of its kind in Japan.

USS also improved services to its members through the launch of the USS Internet Live system in October 2005, which enables members to participate in auctions at on-site auction sites directly over the Internet.

Thanks to the sales expansion efforts described above, during the consolidated fiscal year under review the USS Group as a whole put up 2.66 million vehicles for auction, up 23.9% from the previous year, and the number of contracted vehicles rose by 20.9%, to 1.40 million units. Consequently, the automobile auction segment posted operating revenues of ¥44,271 million, up 20.2%, and operating income of ¥22,676 million, up 9.5%.

Sales of Used Cars

The Rabbit chain of used vehicle purchasing agencies concentrated its efforts on fostering staff at directly run stores,

and closed underperforming stores through a scrap-and-build approach. At franchisee shops, it embarked on a structural overhaul that included a raise in royalty payments.

In the accident-damaged vehicle purchasing and sales business, USS sought to strengthen its regional marketing capabilities through expansion of operation bases, by opening branches in the Hokkaido, Chubu and Kinki regions.

Consequently, the sales of used cars segment recorded operating revenues of ¥13,517 million, up 3.0%, and operating income of ¥161 million, compared with an operating loss of ¥50 million in the previous year.

Recycling

The recycling segment consists of the recycling business of end-of-life vehicles and other recyclable goods operated by ARBIZ and the scrap rubber recycling business managed by USS Toyo, a subsidiary acquired in April 2005. The recycling business of the end-of-life vehicles and other goods posted an operating loss due primarily to depreciation and amortization cost of the equipment, despite the commencement of full-scale operation of a shredding machine in November 2005. The scrap rubber recycling business did relatively well, supported mainly by strong demand for rubber chips for use in artificial lawns.

Consequently, the recycling segment generated operating revenues of ¥2,455 million, up 368.4%, and operating income of ¥6 million, compared with an operating loss of ¥21 million in the previous year.

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

Cost of revenues amounted to ¥25,794 million, increasing by ¥5,806 million, or 29.0%, from the previous year.

As revenues from the business of purchasing and sales of used vehicles and recycling business increased, cost of goods sold rose sharply, while depreciation costs grew substantially due to the commencement of full-scale operations at the new Tokyo site, launch of the Kobe site and additional capital expenditure in the recycling business.

SG&A expenses grew 15.5%, or ¥1,522 million, to ¥11,345 million.

Amortization of consolidated adjustment account increased by ¥545 million, or 669.4%, due primarily to the addition of USS Ryutsu Auto Auction Co., Ltd., and USS Gunma Co., Ltd., as wholly owned subsidiaries. Employee salaries and bonuses grew ¥322 million, or 11.2%, compared with the previous year.

Operating Income, Other Income (Expenses) and Net Income

Operating income amounted to ¥23,104 million, up ¥2,431 million, or 11.8%, from the previous year.

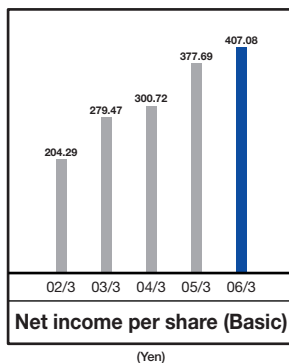
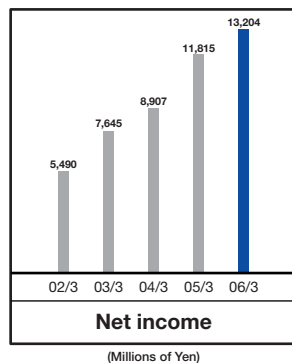
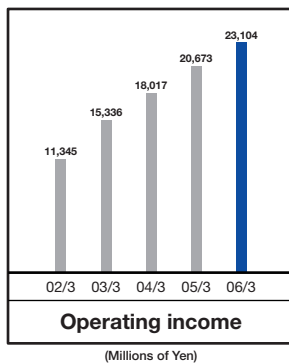
The increase was attributable to a dramatic rise in the number of vehicles submitted for auction, which resulted in the increased operating revenues in the automobile auction segment. In the sales of used cars segment, operating revenues increased but so did costs, resulting in an operating loss, although the amount of the loss was quite small.

Other expenses “net” amounted to ¥52 million. The primary responsible factor was a loss of ¥1,113 million, which consisted primarily of a loss on sale or disposal of property and equipment of ¥622 million in connection with demolition of the building of the former Kyushu Gold site and renovation of the Nagoya site. This loss more than offset a gain of ¥1,061 million, which consisted mainly of a gain of ¥570 million on sale of investment securities.

Income before income taxes and minority interests amounted to ¥23,052 million, compared with ¥20,612 million in the previous

year. Income taxes totaled ¥9,643 million, and minority interests in net income of consolidated subsidiaries amounted to ¥205 million.

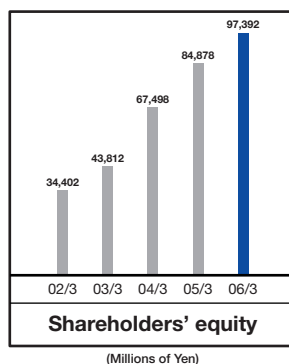
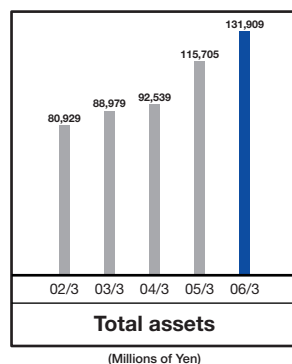
As a result, net income rose ¥1,389 million, or 11.8%, to ¥13,204 million, marking the seventh consecutive term of year-on-year increases in both operating revenues and net income since USS started reporting consolidated financial results. Basic net income per share was ¥407.08, while diluted net income per share amounted to ¥406.03. Cash dividends per share applicable to the year increased to ¥80.00, from ¥65.00 in the previous year.



Financial Position

Total assets at year-end stood at ¥131,909 million on a consolidated basis. Total shareholders' equity was ¥97,392 million, while the equity ratio stood at 73.8%.

Total assets increased by ¥16,204 million, or 14.0%, from the previous year, to ¥131,909 million. Total current assets grew by ¥6,856 million, or 24.9%, due mainly to an increase of ¥4,177 million, or 26.4%, in cash and deposits, as well as an increase of ¥1,997 million, or 22.6%, in receivables due from member dealers at auction, reflecting the fact that the final day of the consolidated fiscal year fell on a Friday, the day of the week on which receivables due from member dealers at auction see a relative increase.



Property and equipment, less accumulated depreciation, increased by ¥9,374 million, or 12.4%, due primarily to the launch of the Kobe site and rebuilding of the Kyushu and Osaka sites.

Total shareholders' equity grew ¥12,514 million, or 14.7%, to ¥97,392 million, due mainly to an increase in retained earnings, which rose ¥10,973 million, or 23.3%.

Consequently, shareholders' equity per share of common stock stood at ¥3,008.92, up ¥356.6 from ¥2,652.32 at the end of the previous term. The equity ratio rose to 73.8%, from 73.4%.

Cash Flows

At end of the consolidated fiscal year under review, cash and cash equivalents (hereinafter referred to as cash) totaled ¥19,495 million, up 24.4%, or ¥3,822 million from the previous consolidated fiscal year.

Cash Flow Provided by Operating Activities

Net cash provided by operating activities amounted to ¥20,868 million, increasing 28.1%, or ¥4,571 million, from the previous year. This was primarily attributable to increases in cash due to greater income before income taxes and minority interests, which rose 11.8%, to ¥23,052 million, and in depreciation and amortization, which grew 41.4%, to ¥4,199 million. These increases were partly offset by a decrease in cash due to income taxes paid, which fell 1.5%, to ¥8,625 million.

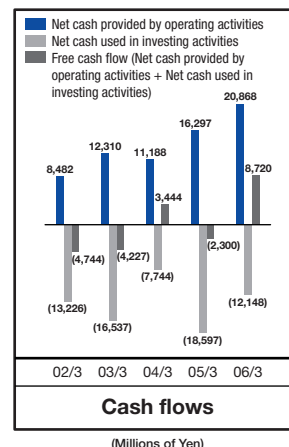
Cash Flow Used in Investing Activities

Net cash used in investing activities totaled ¥12,148 million, down 34.7% from the previous year.

The decrease was primarily attributable to expenditures of ¥12,739 million, down 32.1%, which were incurred in the purchases of property and equipment associated with the construction of the Kobe, Kyushu and Osaka auction sites.

Cash Flow Used in Financing Activities

Net cash used in financing activities totaled ¥4,898 million, compared with ¥2,383 million in net cash provided the previous year. This change was primarily attributable to increases in cash, consisting of ¥2,000 million, down 50.0%, of proceeds from long-term debt to finance the construction of the Kobe site; and proceeds from the issuance of stock of ¥708 million, down 21.5%, due to the exercise of stock options. These increases were more than offset by decreases in cash, which consisted of ¥3,209 million, up 75.6%, in scheduled repayment of long-term debt; ¥2,175 million, up 27.8%, of dividends paid; and ¥2,017 million in payment for the purchase of treasury stock, which amounted to ¥3 million a year earlier.



Risk Factors

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

•Laws and regulations affecting the auto auction industry

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

•Related party transactions

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

•Attracting and maintaining a sufficient membership of auction participants

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

•Attracting sufficient vehicles put up for auction

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

•Limitations to the expansion of existing auction facilities

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

•Risks relating to the construction and acquisition of new facilities

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

•Auto auction market growth limitations

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

•Competitive factors

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

•Rapid technological innovation

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

•Managing auto auction member information

As of March 31, 2006, the USS Group had an auction membership of 37,157 firms, a satellite auction membership of 6,648 firms and an Internet-based information membership of 16,338 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 Subsidiaries

March 31, 2006 and 2005

Assets	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current assets:			
Cash and cash equivalents.....	¥ 19,495	¥ 15,673	\$ 166,624
Short-term investments (Note 5).....	500	146	4,274
Receivables:			
Due from member dealers at auction (Note 4).....	10,845	8,848	92,692
Trade and other accounts.....	1,534	940	13,111
Allowance for doubtful accounts.....	(37)	(51)	(316)
Total receivables.....	12,342	9,737	105,487
Inventories (Note 6).....	762	722	6,513
Deferred tax assets (Note 12).....	710	656	6,068
Other current assets.....	530	549	4,530
Total current assets.....	34,339	27,483	293,496
Property and equipment, at cost (Note 8):			
Land.....	45,032	43,188	384,889
Buildings and structures.....	45,589	36,056	389,650
Vehicles and equipment.....	12,052	7,128	103,009
Construction in progress.....	201	3,391	1,717
Total.....	102,874	89,763	879,265
Less, accumulated depreciation.....	(18,012)	(14,275)	(153,949)
Total.....	84,862	75,488	725,316
Investments and other assets:			
Investment securities (Note 5).....	1,840	1,989	15,726
Intangible assets (Note 7).....	4,021	3,810	34,368
Deferred tax assets (Note 12).....	557	699	4,761
Deferred tax assets for revaluation.....	3,350	3,351	28,632
Investment property.....	1,723	1,726	14,726
Other assets.....	1,605	1,466	13,718
Allowance for doubtful accounts.....	(388)	(307)	(3,316)
Total.....	12,708	12,734	108,615
Total.....	¥131,909	¥115,705	\$1,127,427

See accompanying Notes to Consolidated Financial Statements.

Liabilities, Minority Interests and Shareholders' Equity	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current liabilities:			
Short-term borrowings (Note 8).....	¥ 700	¥ 1,150	\$ 5,983
Current portion of long-term debt (Note 8).....	1,500	2,709	12,820
Payables:			
Due to member dealers at auction (Notes 4 and 13)	12,422	9,573	106,171
Trade and other accounts.....	2,502	2,537	21,385
Total payables.....	14,924	12,110	127,556
Deposits received in advance.....	2,813	1,400	24,043
Accrued expenses	723	715	6,179
Income taxes payable.....	5,389	4,518	46,060
Other current liabilities.....	442	85	3,778
Total current liabilities	26,491	22,687	226,419
Long-term debt (Note 8)	3,000	3,631	25,641
Guarantee deposits received from member dealers	3,402	3,157	29,077
Employee retirement benefit liability (Note 9).....	95	77	812
Accrued directors' and statutory auditors' severance indemnities	382	349	3,265
Deferred tax liabilities for revaluation	471	—	4,025
Commitments and contingent liabilities (Note 11)			
Minority interests in subsidiaries	676	926	5,778
Shareholders' equity (Note 10):			
Common stock, no par value;			
Authorized: 120,000,000 shares;			
Issued: 32,486,932 shares in 2006 and 31,981,969 shares in 2005.....	18,250	17,580	155,983
Capital surplus.....	27,360	24,756	233,846
Retained earnings.....	58,141	47,168	496,931
Land revaluation decrement.....	(4,980)	(4,916)	(42,564)
Net unrealized gains on available-for-sale securities	389	301	3,325
Less, treasury stock, at cost—144,006 shares in 2006 and 1,789 shares in 2005	(1,768)	(11)	(15,111)
Total.....	97,392	84,878	832,410
Total	¥131,909	¥115,705	\$1,127,427

Consolidated Statements of Income

USS Co., Ltd. and Subsidiaries

For the Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Operating revenue (Notes 13 and 14).....	¥60,243	¥50,484	\$514,897
Operating costs and expenses (Note 14):			
Costs of revenue.....	25,794	19,988	220,462
Selling, general and administrative expenses.....	11,345	9,823	96,965
	37,139	29,811	317,427
Operating income.....	23,104	20,673	197,470
Other income (expenses):			
Interest and dividend income	17	13	145
Interest expense.....	(56)	(59)	(478)
(Loss) gain on sale or disposal of property and equipment.....	(622)	82	(5,316)
Gain on sale of investment securities	570	55	4,872
Loss on liquidation of subsidiaries	—	(41)	—
Impairment loss on fixed assets	(27)	(557)	(231)
Loss on legal settlement	(408)	—	(3,487)
Other expenses, net	474	446	4,051
	(52)	(61)	(444)
Income before income taxes and minority interests.....	23,052	20,612	197,026
Income taxes (Note 12).....	9,643	8,603	82,419
Less, minority interests in net income of subsidiaries	205	194	1,752
Net income.....	¥13,204	¥11,815	\$112,855
		Yen	U.S. Dollars
Per share:			
Net income:			
—Basic.....	¥407.08	¥377.69	\$3.48
—Diluted	406.03	366.03	3.47
Cash dividends	80.00	65.00	0.68

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

USS Co., Ltd. and Subsidiaries

For the Years Ended March 31, 2006 and 2005

	Number of common shares issued	Common stock	Capital surplus	Retained earnings	Land revaluation decrement	Net unrealized gains on available- for-sale securities	Treasury stock
Millions of Yen							
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 options.....	178,730	451	451	—	—	—	—
Conversion of convertible bonds.....	656,949	1,528	1,528	—	—	—	—
Stock issued under stock-for-stock exchange transaction (Note 3).....	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)
Net income for the year.....	—	—	—	13,204	—	—	—
Issuance of common shares upon exercise of stock options.....	129,270	354	354	—	—	—	—
Conversion of convertible bonds.....	135,573	316	315	—	—	—	—
Stock issued under stock-for-stock exchange transaction (Note 3).....	240,120	—	1,935	—	—	—	—
Cash dividends.....	—	—	—	(2,173)	—	—	—
Bonuses to directors and statutory auditors.....	—	—	—	(56)	—	—	—
Reversal of land revaluation decrement.....	—	—	—	(2)	2	—	—
Adjustments for applicable income taxes.....	—	—	—	—	(66)	—	—
Net change in unrealized gains on available-for- sale securities, net of applicable income taxes.....	—	—	—	—	—	88	—
Purchases of treasury stock and fractional shares, net....	—	—	—	—	—	—	(1,757)
Balance at March 31, 2006	32,486,932	¥18,250	¥27,360	¥58,141	¥(4,980)	¥389	¥(1,768)

	Thousands of U.S. Dollars					
Balance at March 31, 2005	\$ 150,256	\$ 211,590	\$ 403,145	\$ (42,017)	\$ 2,573	\$ (94)
Net income for the year.....	—	—	112,855	—	—	—
Issuance of common shares under exercise of stock options.....	3,026	3,026	—	—	—	—
Conversion of convertible bonds.....	2,701	2,692	—	—	—	—
Stock issued under stock-for-stock exchange transaction (Note 3).....	—	16,538	—	—	—	—
Cash dividends.....	—	—	(18,573)	—	—	—
Bonuses to directors and statutory auditors.....	—	—	(479)	—	—	—
Reversal of land revaluation decrement.....	—	—	(17)	17	—	—
Adjustments for applicable income taxes.....	—	—	—	(564)	—	—
Net change in unrealized gains on available-for-sale securities, net of applicable income taxes.....	—	—	—	—	752	—
Purchases of treasury stock and fractional shares, net.....	—	—	—	—	—	(15,017)
Balance at March 31, 2006	\$155,983	\$233,846	\$496,931	\$(42,564)	\$3,325	\$(15,111)

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

USS Co., Ltd. and Subsidiaries

For the Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests.....	¥23,052	¥20,612	\$197,026
Adjustments for:			
Depreciation and amortization.....	4,199	2,969	35,889
Loss (gain) on sale or disposal of property and equipment	622	(82)	5,316
Impairment loss on fixed assets	27	557	231
Net change in amounts due from/to member dealers at auction.....	852	1,248	7,282
Decrease in deposits received in advance.....	1,411	112	12,060
Other, net	(221)	(320)	(1,890)
Sub-total.....	29,942	25,096	255,914
Interest and dividend received.....	16	13	137
Interest paid	(57)	(59)	(487)
Legal settlement paid	(408)	—	(3,487)
Income taxes paid	(8,625)	(8,753)	(73,718)
Net cash provided by operating activities.....	20,868	16,297	177,359
Cash flows from investing activities:			
Payments for purchases of property and equipment.....	(12,739)	(18,766)	(108,880)
Increase in long-term investments and other assets.....	(523)	(433)	(4,470)
Decrease in property, long-term investments and other assets	1,189	697	10,162
Increase in short-term investments	(354)	(96)	(3,026)
Other	279	1	2,385
Net cash used in investing activities.....	(12,148)	(18,597)	(103,829)
Cash flows from financing activities:			
Increase in long-term debt	2,000	4,000	17,094
Repayment of long-term debt.....	(3,209)	(1,827)	(27,427)
Net change in short-term borrowings.....	(625)	629	(5,342)
Net increase in guarantee deposits received from member dealers	245	229	2,094
Issuance of common stock.....	708	902	6,052
Payments for purchase of treasury stock	(2,017)	(3)	(17,239)
Dividends paid.....	(2,175)	(1,702)	(18,590)
Other	175	155	1,495
Net cash (used in) provided by financing activities.....	(4,898)	2,383	(41,863)
Net increase in cash and cash equivalents	3,822	83	32,667
Cash and cash equivalents at beginning of year.....	15,673	15,119	133,957
Increase in cash and cash equivalents upon inclusion of additional subsidiaries on consolidation	—	471	—
Cash and cash equivalents at end of year.....	¥19,495	¥15,673	\$166,624

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

USS Co., Ltd. and Subsidiaries
March 31, 2006 and 2005

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 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 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 ¥117 to US\$1, the approximate rate of exchange at March 31, 2006. 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 ¥117 to US\$1 or at any other rate.

(c) Reclassification

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

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

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

The number of subsidiaries and affiliates for the years ended March 31, 2006 and 2005 was as follows:

	2006	2005
Consolidated subsidiaries.....	16	15
Affiliates, stated at cost	1	1

All inter-company transactions and accounts have been eliminated. The difference between the cost of investments in 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.

(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 fluctuation 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 expense generated from the underlying hedged borrowings, 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. As of March 31, 2006, the

Notes to Consolidated Financial Statements

USS Co., Ltd. and Subsidiaries

USS Group has terminated hedging interest rate swap contracts accounted for on an accrual basis due to the repayment of the underlying hedged borrowings. The Company's 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 or retail 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 using the declining-balance method at rates based on estimated useful lives of the respective assets, except that the buildings acquired on and after April 1, 1998 have been depreciated using 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 using the straight-line method over a five-year period as its estimated useful life.

(j) 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 adopted this new accounting standard and related practical guidance beginning in 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, sales stores and factories, other than idle or unused property. 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 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, as compared with the previous accounting method. For the year ended March 31, 2006, the USS Group recognized ¥27 million (\$231 thousand) impairment loss on fixed assets such as buildings and other property, which were classified as sales stores planned for the close-down.

(k) Employee retirement benefits

Employees who terminate their service with the USS Group are entitled to retirement benefits generally determined based on 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 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.

(l) 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 internal policies.

(m) 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.

(n) New share issuance expenses

New share issuance expenses are charged to income as incurred.

(o) Income taxes

Deferred 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 being charged to income, as permitted by the Japanese accounting standard.

(q) Revaluation of land

In accordance with the Law Concerning Revaluation of Land (the "Law"), 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. A certain subsidiary elected the one-time revaluation to restate the cost of land used for the business operations at values rationally reassessed effective on March 31, 2001. According to the Law, the amount equivalent to the tax effect on the differences between the original book values and sound reassessed values is recorded as deferred tax assets or liabilities for revaluation account, and the rest of such differences, 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, 2006 and 2005, the difference between the carrying values of land used for the business after revaluation over the current market value of such land at the fiscal year ends amounted to ¥3,695 million (\$31,581 thousand) and ¥2,610 million, respectively.

(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. Acquisitions

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 on February 1, 2005.

Notes to Consolidated Financial Statements

USS Co., Ltd. and Subsidiaries

The assets acquired and the liabilities assumed of RAA on a consolidated basis in relation to this stock-for-stock exchange transaction were as follows:

	Millions of Yen
Cash and cash equivalents	¥ 471
Other current assets	290
Non-current assets	705
Consolidating adjustment account.....	2,958
Total assets	4,424
Current liabilities.....	(825)
Non-current liabilities	(135)
Total liabilities	(960)
Acquisition cost of RAA.....	¥3,464

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 a principal amount of ¥2,306 million (\$21,551 thousand) for ¥175 million (\$1,496 thousand) 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
Current assets.....	¥ 377	\$ 3,222
Non-current assets.....	1,637	13,991
Total assets	2,014	17,213
Current liabilities.....	520	4,444
Non-current liabilities.....	540	4,615
Total liabilities	1,060	9,059
Consolidating adjustment account.....	¥ 954	\$ 8,154

On September 1, 2005, the Company acquired the shares of common stock of USS Gunma Co., Ltd. held by minority shareholders through the stock-for-stock exchange transaction. The Company issued 240,120 shares of common stock of the Company and recorded an increase in capital surplus account of ¥1,935 million (\$16,538 thousand) on September 1, 2005. As a result, USS Gunma Co., Ltd. became a wholly owned subsidiary.

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 other 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 auctions 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, 2006 and 2005, short-term investments consisted of time deposits with an original maturity of more than three months.

At March 31, 2006 and 2005, investment securities consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Investment securities:			
Investment in unconsolidated subsidiary and affiliates	¥ 6	¥ 4	\$ 51
Marketable securities:			
Equity securities	205	236	1,752
Others	1,451	1,425	12,402
	1,656	1,661	14,154
Other non-marketable securities	178	324	1,521
Total	¥1,840	¥1,989	\$15,726

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, 2006 and 2005, 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, 2006:				
Marketable securities:				
Equity securities.....	¥ 71	¥134	¥ —	¥ 205
Others	934	535	(18)	1,451
	¥1,005	¥669	¥(18)	¥1,656

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

Thousands of U.S. Dollars

As of March 31, 2006:

Marketable securities:				
Equity securities.....	\$ 607	\$1,145	\$ —	\$ 1,752
Others	7,983	4,573	(154)	12,402
	\$8,590	\$5,718	\$(154)	\$14,154

Notes to Consolidated Financial Statements

USS Co., Ltd. and Subsidiaries

6. Inventories

At March 31, 2006 and 2005, inventories consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Merchandise.....	¥620	¥643	\$5,299
Vehicles.....	51	13	436
Supplies.....	58	66	496
Material	33	—	282
	¥762	¥722	\$6,513

7. Intangible Assets

At March 31, 2006 and 2005, intangible assets consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Consolidating adjustment account (as excess of cost of investments in subsidiaries over equity in net assets acquired).....	¥3,090	¥3,100	\$26,410
Software	581	369	4,966
Other intangible assets.....	350	341	2,992
	¥4,021	¥3,810	\$34,368

8. Short-term Borrowings and Long-term Debt

Short-term borrowings consisted of unsecured bank loans with an average interest rate of 0.53% per annum at March 31, 2006.

The Company had unsecured overdraft and loan commitment agreements with a certain bank. At March 31, 2006 and 2005, the Company was entitled to withdraw up to ¥1,000 million (\$8,547 thousand) under such an agreement, the entire amount of which was undrawn.

At March 31, 2006 and 2005, long-term debt consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Convertible bonds, zero coupon, due September 2006.....	¥ —	¥ 631	\$ —
Bonds, at interest rate of 0.3%, due March 2006 issued by a certain subsidiary	—	200	—
Loans from banks, due through 2009 repayable on an installment basis with interest rates ranging from 0.55% to 3.51% per annum at March 31, 2006:			
Collateralized	—	173	—
Unsecured.....	4,500	5,336	38,461
	4,500	6,340	38,461
Less, current portion.....	(1,500)	(2,709)	(12,820)
	¥3,000	¥3,631	\$25,641

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

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥1,500	\$12,820
2008	1,500	12,820
2009	1,500	12,821
	¥4,500	\$38,461

At March 31, 2005, land, buildings and structures in the aggregate amount of ¥4,060 million were pledged as collateral for long-term debt, while no assets were pledged as collateral at March 31, 2006.

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, 2006 and 2005:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Reconciliation of benefit liability:			
Retirement benefit liability	¥404	¥317	\$3,453
Less, fair value of pension plan assets at end of year	(322)	(240)	(2,752)
	82	77	701
Prepaid pension expenses	(13)	—	(111)
Net amounts of employee retirement benefit liability recognized on the consolidated balance sheets.....	¥ 95	¥ 77	\$ 812

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
	2006	2005	2006
Component of net periodic retirement benefit expense:			
Retirement benefit expense for defined benefit plan	¥ 37	¥64	\$316
Retirement benefit expense for defined contribution plan	65	30	556
Net periodic retirement benefit expense.....	¥102	¥94	\$872

10. Shareholders' Equity

At March 31, 2006 and 2005, respectively, capital surplus principally consisted of additional paid-in capital. Retained earnings included legal reserve of the Company in the amount of ¥370 million (\$3,162 thousand) at March 31, 2006 and 2005, 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 with proper approval of the Board of Directors and/or shareholders of the Company.

The Company has implemented a stock option plan in accordance with the Code. Options granted in 2002 through 2005 were granted to the members of the Board of Directors and selected executive employees of the Company or its subsidiaries and each stock option is exercisable under the following terms:

Notes to Consolidated Financial Statements

USS Co., Ltd. and Subsidiaries

	Number of common shares to be issued	Exercise price	Exercise period of option
Option, granted in 2002.....	70,500	¥5,110	June 27, 2002 through October 31, 2006
Option, granted in 2003.....	150,250	¥6,510	June 26, 2003 through October 31, 2007
Option, granted in 2004.....	216,500	¥9,320	June 30, 2004 through October 31, 2008
Option, granted in 2005.....	248,500	¥7,510	June 29, 2005 through October 31, 2009

11. Commitments and Contingent Liabilities

At March 31, 2006 and 2005, 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 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, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due within one year	¥ 847	¥ 630	\$ 7,239
Due after one year.....	2,145	1,518	18,334
	¥2,992	¥2,148	\$25,573

The gross rental and lease expenses, consisting of minimum rental payments for all operating leases and financing leases, for the years ended March 31, 2006 and 2005, were ¥1,925 million (\$16,453 thousand) and ¥1,449 million, respectively. For the years ended March 31, 2006 and 2004, the lease expenses for non-cancelable lease agreements which were categorized as financing leases amounted to ¥767 million (\$6,556 thousand) and ¥660 million, respectively.

12. Income Taxes

Income taxes for the years ended March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Income taxes:			
Current	¥9,567	¥8,493	\$81,769
Deferred.....	76	110	650
	¥9,643	¥8,603	\$82,419

The tax effects on temporary differences that give rise to a significant portion of deferred tax assets and liabilities at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets—Current:			
Enterprise tax accruals	¥442	¥331	\$3,778
Other	443	332	3,786
Less, valuation allowance	(175)	(7)	(1,496)
	¥710	¥656	\$6,068
Deferred tax assets—Non-current:			
Allowance for doubtful accounts	¥ 64	¥ 65	\$ 547
Loss on disposal of buildings	80	80	684
Unrealized gains on available-for-sale securities	(260)	(200)	(2,222)
Operating loss carryforwards of subsidiaries	40	29	342
Accrued directors' and statutory auditors' severance indemnities	153	140	1,308
Loss on write-down of securities	130	220	1,111
Impairment loss on fixed assets	313	310	2,675
Other	80	85	684
Less, valuation allowance	(43)	(30)	(368)
	¥557	¥699	\$4,761

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, 2006 and 2005, 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, 2006 and 2005, the USS Group had principally 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, 2006 and 2005, is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
For the year:			
Number of related parties.....	6	6	
Number of cars put up for auction.....	76,510	64,893	
Number of cars actually traded	33,342	29,763	
Auction fees recorded as operating revenue.....	¥ 481	¥ 419	\$4,111
At year end:			
Due to member dealers at auction	¥ 137	¥ 84	\$1,171
Receivables due from member dealers at auction.....	¥ 2	¥ 0	\$ 17

Notes to Consolidated Financial Statements

USS Co., Ltd. and Subsidiaries

14. Segment Information

The USS Group operates in three segments, "Automobile auction", "Sales of used cars", and "recycling" business. A summary of information classified by lines of business of the USS Group for the years ended March 31, 2006 and 2005, is as follows:

	Automobile auction	Sales of used cars	Recycling	Total	Elimination of inter-segment transactions	Consolidated total
Millions of Yen						
For the year 2006:						
Operating revenue:						
External customers	¥ 44,271	¥13,517	¥2,455	¥ 60,243	¥ —	¥ 60,243
Inter-segment sales/transfers	567	—	3	570	(570)	—
Total operating revenues	44,838	13,517	2,458	60,813	(570)	60,243
Operating costs and expenses	22,162	13,356	2,452	37,970	(831)	37,139
Operating income	¥ 22,676	¥ 161	¥ 6	¥ 22,843	¥ 261	¥ 23,104
Identifiable assets	¥124,499	¥ 4,113	¥4,548	¥133,160	¥(1,251)	¥131,909
Depreciation	3,695	63	385	4,143	—	4,143
Capital expenditures	12,586	52	569	13,207	—	13,207

For the year 2005:

Operating revenue:						
External 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

Thousands of U.S. Dollars

For the year 2006:

Operating revenue:						
External customers	\$ 378,384	\$115,530	\$20,983	\$ 514,897	\$ —	\$ 514,897
Inter—segment sales/transfers	4,846	—	26	4,872	(4,872)	—
Total operating revenues	383,230	115,530	21,009	519,769	(4,872)	514,897
Operating costs and expenses	189,419	114,154	20,957	324,530	(7,103)	317,427
Operating income	\$ 193,811	\$ 1,376	\$ 52	\$ 195,239	\$ 2,231	\$ 197,470
Identifiable assets	\$1,064,094	\$ 35,154	\$38,872	\$1,138,120	\$(10,693)	\$1,127,427
Depreciation	31,581	538	3,291	35,410	—	35,410
Capital expenditures	107,573	444	4,863	112,880	—	112,880

Note: As the USS Group adopted a new accounting standard for impairment of fixed assets beginning in the year ended March 31, 2005, identifiable assets for automobile auction business decreased by ¥247 million at March 31, 2005.

Information by geographic segment and overseas sales is not shown because the USS Group has neither subsidiaries nor branches outside Japan.

15. Subsequent Events

On June 28, 2006, 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	¥1,536	\$13,128
Bonuses to directors and statutory auditors.....	51	436

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 subsidiaries as of March 31, 2006 and 2005, 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 subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As described in Note 2(j), effective from the year ended March 31, 2005, USS Co., Ltd. and its subsidiaries adopted a new accounting standard for impairment of fixed assets.

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
Nagoya, Japan
June 28, 2006