

KEIHIN ELECTRIC EXPRESS RAILWAY CO., LTD.
AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Basis of Presentation

The accompanying consolidated financial statements of Keihin Electric Express Railway Co., Ltd. (the “Company”) and consolidated subsidiaries are prepared 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, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

For the convenience of the reader, the accompanying consolidated financial statements as at and for the year ended March 31, 2005 have been presented in U.S. dollars by translating Japanese yen amounts at ¥107.39 = US \$1.00, the exchange rate prevailing as at March 31, 2005.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in affiliates

The accompanying consolidated financial statements include the accounts of the Company and all its subsidiaries controlled directly or indirectly by the Group, and companies over which the Group exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis.

All significant intercompany balances and transactions have been eliminated in consolidation.

Significant differences arising from the cost of the companies’ investments in subsidiaries and affiliates over the equity in their net assets at the dates of acquisition are amortized over a period of five years.

(b) Cash equivalents

For the purposes of the consolidated balance sheets and statements of cash flows, the Company and subsidiaries consider all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

(c) Securities

In general, securities are classified into three categories: trading, held-to-maturity or other securities. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders’ equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(d) Allowance for doubtful accounts (directly deducted from accounts receivables and long-term loans)

The allowance for bad debts on receivables is provided at estimated unrecoverable amounts. The allowance for other receivables is provided based on the historical rate of losses on receivables.

(e) Inventories

Inventories are stated at cost determined by the following methods:

Real estate for sale	- the identified cost method
Merchandise	- principally the retail method
Other	- principally the moving average cost method

(f) Property and equipment

Property and equipment is carried at cost. Depreciation of certain railway structures is determined by the replacement cost method and depreciation of other property and equipment is determined mainly by the declining-balance method, except for the Kamioooka Keikyu building and other buildings acquired subsequent to March 31, 1998 on which depreciation is computed by the straight-line method, at rates based on the estimated useful lives of the respective assets, ranging from 3 to 65 years for buildings and structures and from 3 to 20 years for machinery, equipment and rolling stock.

Where property and equipment have been retired or otherwise disposed of, the cost and related depreciation are reversed from the respective accounts and the net difference, less any amounts realized on disposal, is reflected in income.

Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(g) Intangible assets

Intangible assets having a limited useful life are amortized by the straight-line method over their estimated useful lives.

(h) Employees' bonuses (included in accrued expenses)

Employees' bonuses are provided on an accrual basis based on the estimated amounts to be paid subsequent to the balance sheet date.

(i) Employees' retirement benefits

The liabilities for employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized net retirement obligation at transition, unrecognized actuarial gain or loss and unrecognized prior service cost. The net retirement benefit obligation at transition with respect to the subsidiaries is being amortized over a period of 15 years by the straight-line method. Actuarial gain and loss are amortized mainly by the straight-line method over a period of average remaining service years of employees at the time of occurrence from the following year of occurrence. Past service cost is amortized as incurred by the straight-line method over a period of average remaining service years of employees at the time of occurrence.

(j) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(k) Leases

Noncancelable lease transactions are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

(l) Appropriation of retained earnings

Under the Commercial Code of Japan (the "Code"), dividends and other appropriations of retained earnings with respect to a given fiscal year are made by resolution of the shareholders at a general meeting held subsequent to the end of such fiscal year. The accompanying consolidated financial statements do not, therefore, reflect such appropriations.

(m) Treatment of railway business contributions for the construction

The Company receives a portion of the construction costs applicable to work undertaken to elevate railway lines and crossings, and for the improvement of grade crossings in the form of contributions for the construction provided by national and municipal governments. An amount equivalent to the contributions for the construction is recorded as a deduction from the acquisition costs of property and equipment purchased on completion of construction. In addition, the contributions for the construction amount received are recorded as an

extraordinary gain in the consolidated statement of income. At the same time, the amount recorded as a deduction from the acquisition costs of property and equipment purchased is posted as an extraordinary loss on deduction of property and equipment.

3. Securities

Information regarding marketable securities classified as held-to-maturity debt securities and other securities as at March 31, 2004 and 2005 is as follows:

Marketable held-to-maturity debt securities

	March 31, 2004		
	Carrying value	Estimated fair value	Unrealized gain(loss)
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their carrying value:			
Government bonds	¥360	¥360	¥0
Subtotal	<u>360</u>	<u>360</u>	<u>0</u>
Securities whose carrying value exceeds their fair value:			
Government bonds	5	5	(0)
Subtotal	<u>5</u>	<u>5</u>	<u>(0)</u>
Total	<u>¥365</u>	<u>¥365</u>	<u>¥0</u>

	March 31, 2005					
	Carrying value	Estimated fair value	Unrealized gain(loss)	Carrying value	Estimated fair value	Unrealized gain(loss)
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Securities whose fair value exceeds their carrying value:						
Government bonds	¥425	¥425	¥0	\$3,958	\$3,960	\$2
Total	<u>¥425</u>	<u>¥425</u>	<u>¥0</u>	<u>\$3,958</u>	<u>\$3,960</u>	<u>\$2</u>

Marketable other securities

March 31, 2004			
	Acquisition cost	Carrying value	Unrealized gain(loss)
<i>(Millions of yen)</i>			
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥10,696	¥25,000	¥14,304
Government bonds	75	76	1
Corporate bonds	285	291	6
Subtotal	<u>11,056</u>	<u>25,367</u>	<u>14,311</u>
Securities whose acquisition cost exceeds their carrying value:			
Stock	465	425	(40)
Government bonds	55	55	(0)
Corporate bonds	10	10	(0)
Subtotal	<u>530</u>	<u>490</u>	<u>(40)</u>
Total	<u>¥11,586</u>	<u>¥25,857</u>	<u>¥14,271</u>

March 31, 2005						
	Acquisition cost	Carrying value	Unrealized gain(loss)	Acquisition cost	Carrying value	Unrealized gain(loss)
<i>(Millions of yen)</i>			<i>(Thousands of U.S.dollars)</i>			
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥11,130	¥26,134	¥15,004	\$103,644	\$243,358	\$139,714
Government bonds	75	76	1	694	709	15
Subtotal	<u>11,205</u>	<u>26,210</u>	<u>15,005</u>	<u>104,338</u>	<u>244,067</u>	<u>139,729</u>
Securities whose acquisition cost exceeds their carrying value:						
Stock	189	169	(20)	1,764	1,576	(188)
Government bonds	60	60	(0)	554	554	(0)
Corporate bonds	10	10	(0)	93	92	(1)
Subtotal	<u>259</u>	<u>239</u>	<u>(20)</u>	<u>2,411</u>	<u>2,222</u>	<u>(189)</u>
Total	<u>¥11,464</u>	<u>¥26,449</u>	<u>¥14,985</u>	<u>\$106,749</u>	<u>\$246,289</u>	<u>\$139,540</u>

Acquisition cost in the tables above represents the book value after the devaluation of certain securities. Loss on devaluation of investments securities for the year ended March 31, 2004 amounted to ¥25 million.

Sales of securities classified as other securities with aggregate gain and loss are summarized as follows:

	Year ended March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Sales proceeds	¥107	¥620	\$5,769
Aggregate gain	54	344	3,200
Aggregate loss	0	—	—

The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities is summarized as follows:

	March 31, 2004		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
	<i>(Millions of yen)</i>		
Government bonds	¥370	¥80	¥45
Corporate bonds	290	48	—
Total	¥660	¥128	¥45

	March 31, 2005					
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
Government bonds	¥75	¥435	¥50	\$698	\$4,051	\$466
Corporate bonds	22	14	—	205	130	—
Total	¥97	¥449	¥50	\$903	\$4,181	\$466

4. Derivative Transactions

The Company and one consolidated subsidiary has entered into derivative financial instruments in order to manage certain risks arising from adverse fluctuations in interest rates. As at March 31, 2004 and 2005, the disclosure of fair value information of interest-rate derivative transactions has been omitted since all derivatives have been accounted for as hedges.

5. Inventories

Inventories are summarized as follows:

	As at March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Real estate	¥ 82,860	¥ 89,561	\$ 833,981
Merchandise	2,691	2,591	24,123
Other	5,553	5,727	53,329
	<u>¥ 91,104</u>	<u>¥ 97,879</u>	<u>\$ 911,433</u>

6. Property and Equipment

Contributions for the construction of railway facilities granted by national and municipal governments are permitted to be deducted directly from the acquisition costs of the related property and equipment in accordance with the Corporation Tax Law. For the years ended March 31, 2004 and 2005, the Company deducted contributions for the construction of railway facilities of ¥ 2,411 million and ¥ 7,359million (\$ 68,528 thousand), respectively, from the acquisition costs of railway structures. The accumulated deductions from the costs of existing property and equipment amounted to ¥ 113,770 million and ¥ 121,173 million (\$1,128,346 thousand) as at March 31, 2004 and 2005, respectively.

7. Short-Term Debt and Long-Term Debt

As at March 31, 2004 and 2005, short-term debt consisted of the following:

	2004	2005	2005
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Bank loans	¥84,675	¥71,612	\$666,839
Commercial paper	43,000	37,000	344,539
	<u>¥127,675</u>	<u>¥108,612</u>	<u>\$1,011,378</u>

Short-term bank loans represented notes or overdrafts. The annual interest rates applicable to the short-term bank loans outstanding as at March 31, 2004 and 2005 ranged from 0.439 per cent. to 2.0 per cent. and from 0.3933 per cent. to 2.0 per cent., respectively.

Commercial paper is unsecured and matures generally within three months. The interest rates applicable as at March 31, 2004 and 2005 ranged principally from 0.00884 per cent. to 0.02454 per cent. and from 0.00850 per cent. to 0.02934 per cent., respectively.

Long-term debt as at March 31, 2004 and 2005 is summarized as follows:

	As at March 31,		
	2004 (Millions of yen)	2005	2005 (Thousands of U.S. dollars)
1.15 per cent. convertible bonds due 2009	¥ 34,985	¥ 34,483	\$ 321,100
2.575 per cent. bonds due 2005	15,000	—	—
1.85 per cent. bonds due 2005	15,000	15,000	139,678
1.7 per cent. bonds due 2004	15,000	—	—
2.14 per cent. bonds due 2006	15,000	15,000	139,678
0.72 per cent. Bonds due 2008	—	30,000	279,356
Loans from banks and insurance companies at interest rates ranging from: 2004 - 0.6 per cent. to 6.9 per cent. 2005 - 0.6 per cent. to 6.9 per cent.			
Secured	118,971	118,042	1,099,191
Unsecured	107,783	121,942	1,135,506
	<u>321,739</u>	<u>334,467</u>	<u>3,114,509</u>
Less current portion	55,567	46,786	435,664
	<u>¥ 266,172</u>	<u>¥ 287,681</u>	<u>\$ 2,678,845</u>

The aggregate annual maturities of long-term debt outstanding subsequent to March 31, 2005 are summarized as follows:

<u>Year ending March 31,</u>	Millions of yen	Thousands of U.S. dollars
	2006	¥ 46,786
2007	46,326	431,383
2008	23,889	222,447
2009	82,910	772,048
2010	16,835	156,764
2011 and thereafter	117,721	1,096,203
	<u>¥ 334,467</u>	<u>\$ 3,114,509</u>

Convertible bonds are convertible into common stock of the Company at the option of the holders at the conversion prices per share listed below, subject to adjustment in certain circumstances including the issuance of common stock at prices below fair market value. As at March 31, 2005, the number of shares which would be issuable upon conversion of the outstanding convertible bonds at current conversion prices was approximately 56,902 thousand shares.

	<u>Conversion price per share</u> (Yen)
1.15 per cent. convertible bonds due 2009	606.00

The assets pledged as collateral for short-term bank loans amounting to ¥ 390 million and ¥ 370 million (\$ 3,445 thousand) and long-term debt amounting to ¥ 118,971 million and ¥ 118,042 million (\$ 1,099,191 thousand) as at March 31, 2004 and 2005, respectively, were as follows:

As at March 31,	Millions of yen		Thousands of U.S. dollars
	2004	2005	2005
Property and equipment, at net book value:			
Railway	¥ 241,198	¥ 238,205	\$ 2,218,128
Other	18,981	19,168	178,490
	<u>¥ 260,179</u>	<u>¥ 257,373</u>	<u>\$ 2,396,618</u>

8. Employees' Retirement Benefits

The company and subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as at March 31, 2004 and 2005 for the Company's and subsidiaries' defined benefit plans:

As at March 31,	<i>(Millions of yen)</i>		<i>U.S.dollars)</i>
	2004	2005	2005
Retirement benefit obligation	¥ (77,183)	¥ (76,415)	\$ (711,566)
Plan assets at fair value	53,150	53,508	498,258
Unfunded retirement benefit obligation	(24,033)	(22,907)	(213,308)
Unrecognized plan assets	—	(2,383)	(22,193)
Unrecognized net retirement benefit obligation at transition	4,028	3,591	33,446
Unrecognized actuarial gain or loss	4,964	3,621	33,717
Unrecognized past service costs	(1,737)	(1,595)	(14,852)
Net retirement obligation	<u>(16,778)</u>	<u>(19,673)</u>	<u>(183,190)</u>
Prepaid pension cost	1,409	329	3,066
Employees' retirement benefits	<u>¥ (18,187)</u>	<u>¥ (20,002)</u>	<u>\$ (186,256)</u>

Components of retirement benefit expenses for the years ended March 31, 2004 and 2005 are outlined as follows:

As at March 31,	<i>(Millions of yen)</i>		<i>(Thousands of U.S.dollars)</i>
	2004	2005	2005
Service cost	¥ 2,156	¥ 2,719	\$ 25,321
Interest cost	1,585	1,472	13,705
Expected return on plan assets	(291)	(362)	(3,375)
Amortization of net retirement obligation at transition	676	400	3,728
Amortization of actuarial gain or loss	2,727	721	6,712
Amortization of past service cost	(235)	(142)	(1,321)
Total	<u>¥ 6,618</u>	<u>¥ 4,808</u>	<u>\$ 44,770</u>

The assumptions used in the accounting for the above plans were as follows:

	As at March 31,	
	2004	2005
Method of amortization	Straight-line method	Straight-line method
Discount rate	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 1.0%	Mainly 1.0%
Period of recognition of amortization of past service cost	Mainly 15 years	Mainly 15 years
Period of recognition of actuarial gain or loss (which are amortized by the straight-line method over a period of average remaining service years of employees at the time of occurrence from the following year of occurrence.)	Mainly 15 years	Mainly 15 years
Period of recognition of net retirement benefit obligation at transition	15 years	15 years

9. Shareholders' Equity

In accordance with the Code, the Company has provided a legal reserve as an appropriation of retained earnings, which is included in retained earnings. This reserve amounted to ¥ 6,666 million (\$ 62,068 thousand) at March 31, 2004 and 2005. The Code provides that the total of additional paid-in capital and the legal reserve, if less than one-quarter of the amount of common stock, is not available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. If the total amount of additional paid-in capital and the legal reserve exceeds one-quarter of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or in the form of dividends subject to the approval of the shareholders.

10. Stock Option Plan

On June 28, 2001, the shareholders approved a stock option plan for directors and key employees to purchase shares of the Company's common stock which had been purchased by the Company on stock exchanges in accordance with Clause 2 of Article 210-2 of the Code. Under this plan, a maximum of 550,000 shares may be granted to directors and key employees of the Company at the exercise price of ¥553. The Company purchased the maximum number of shares allowable and these have been disclosed as treasury stock and stated at their market value of ¥307 million as of March 31, 2002. The stock options will become exercisable during the period from July 1, 2003 to June 30, 2005.

In addition, on June 27, 2002, the shareholders approved to grant stock subscription rights free of charge to directors, corporate auditors and key employees of the Company and its subsidiaries in accordance with Article 280-20 and Article 280-21 of the Code. The holders of these right are entitled to subscribe for shares of common stock of the Company at a fixed price of ¥594 per share. The aggregate number of units and shares granted for subscription are 580 units and 580,000 shares, respectively. The subscription rights are exercisable during the period from October 1, 2004 to September 30, 2006.

11. Income Taxes

Income taxes applicable to the Company and subsidiaries comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rate of 42.05% for 2004 and 40.69% for 2005.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2004 and 2005 differ from the statutory tax rates for the following reasons:

	<u>2004</u>	<u>2005</u>
Statutory tax rates	42.05%	40.69%
Effect of:		
Expenses permanently not deductible for income tax purposes	1.57	2.87
Inhabitants' per capita taxes	0.56	0.49
Change in valuation allowance	(7.19)	3.51
Unrealized profit (loss) not subject to tax effect accounting	—	(8.37)
Other, net	<u>(0.08)</u>	<u>(0.74)</u>
Effective tax rates	<u>36.91%</u>	<u>38.45%</u>

The significant components of deferred tax assets and liabilities as at March 31, 2004 and 2005 were as follows:

	As at March 31,		
	<u>2004</u>	<u>2005</u>	<u>2005</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Accrued bonuses	¥ 568	¥ 578	\$ 5,379
Accrued enterprise tax	336	697	6,493
Employees' retirement benefits	7,115	10,041	93,497
Tax loss carryforwards of consolidated subsidiaries	2,400	2,012	18,732
Depreciation	1,293	1,334	12,419
Unrealized gain on intercompany sales of fixed assets	1,100	850	7,920
Other	3,279	3,020	28,120
Valuation allowance	<u>(4,088)</u>	<u>(3,717)</u>	<u>(34,608)</u>
Total deferred tax assets	<u>12,003</u>	<u>14,815</u>	<u>137,952</u>
Deferred tax liabilities:			
Reserves under Special Taxation Measures Law	205	205	1,911
Difference between the cost of investments and their underlying net equity at fair value	210	210	1,954
Unrealized holding gains on securities	<u>5,810</u>	<u>6,101</u>	<u>56,812</u>
Total deferred tax liabilities	<u>6,225</u>	<u>6,516</u>	<u>60,677</u>
Net deferred tax assets	<u>¥ 5,778</u>	<u>¥ 8,299</u>	<u>\$ 77,275</u>

12. Contingent Liabilities

As at March 31, 2004 and 2005, the Company and subsidiaries were contingently liable as follows:

	As at March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Notes endorsed in the ordinary course of business	¥ 401	¥ 609	\$ 5,670
Guarantees of indebtedness of:			
Affiliates	¥ 235	¥ 168	\$ 1,565
Customers	260	355	3,307
Employees	6	5	46
Constructors of housings	3,424	200	1,862
Others	24	10	93
	¥ 3,949	¥ 738	\$ 6,873

13. Leases

a) As lessee

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as at March 31, 2004 and 2005, and the related depreciation and interest expense for the years ended March 31, 2004 and 2005, which would have been reflected in the consolidated balance sheets, and the related statements of income if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	As at March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs:			
Machinery and rolling stock	¥ 167	¥ 154	\$ 1,428
Other equipment	1,273	705	6,567
	1,440	859	7,995
Accumulated depreciation:			
Machinery and rolling stock	73	68	631
Other equipment	989	508	4,732
	1,062	576	5,363
Net book value:			
Machinery and rolling stock	94	86	797
Other equipment	284	197	1,835
	¥ 378	¥ 283	\$ 2,632

	Year ended March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Depreciation expense	¥169	¥144	\$1,345
Interest expense	¥ 11	¥ 9	\$ 83

Lease expenses relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥ 192 million and ¥ 156 million (\$1,452 thousand) for the years ended March 31, 2004 and 2005, respectively.

The present value of future rental expenses under finance lease transactions accounted for as operating leases outstanding as at March 31, 2004 and 2005 is as follows:

	As at March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Within 1 year	¥ 142	¥ 145	\$ 1,355
Over 1 year	235	126	1,174
Total	<u>¥ 377</u>	<u>¥ 271</u>	<u>\$ 2,529</u>

Future rental expenses under operating leases outstanding as at March 31, 2004 and 2005 are as follows:

	As at March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Within 1 year	¥ 4,050	¥ 4,550	\$ 42,369
Over 1 year	38,129	33,579	312,684
Total	<u>¥ 42,179</u>	<u>¥ 38,129</u>	<u>\$ 355,053</u>

Leases whose fees have not yet been determined have been excluded from the above table.

b) As lessor

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property as at March 31, 2004 and 2005, and the related depreciation and interest revenue for the years ended March 31, 2004 and 2005, which would have been reflected in the consolidated balance sheets and the related statements of income if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	As at March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Acquisition costs:			
Buildings and structures	¥ 2,408	¥ 2,408	\$ 22,423
Land	551	551	5,129
	<u>2,959</u>	<u>2,959</u>	<u>27,552</u>
Accumulated depreciation:			
Buildings and structures	119	199	1,853
Land	—	—	—
	<u>119</u>	<u>199</u>	<u>1,853</u>
Net book value:			
Buildings and structures	2,289	2,209	20,570
Land	551	551	5,129
	<u>¥ 2,840</u>	<u>¥ 2,760</u>	<u>\$ 25,699</u>

	Year ended March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Depreciation expense	¥ 77	¥ 80	\$ 747
Interest income	229	251	2,335

Lease revenues relating to finance lease transactions accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥ 246 million and ¥270 million (\$ 2,514 thousand) for the year ended March 31, 2004 and 2005, respectively

The present value of future rental revenues under finance lease transactions accounted for as operating leases as at March 31, 2004 and 2005 is as follows:

	As at March 31,		
	2004	2005	2005
	(Millions of yen)		(Thousands of U.S. dollars)
Within 1 year	¥ 19	¥ 23	\$ 215
Over 1 year	2,908	2,885	26,866
Total	¥ 2,927	¥ 2,908	\$ 27,081

14. Amounts Per Share

The computation of basic net income per share is based on the weighted average number of shares of common stock outstanding during each year. Diluted net income per share is based on the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of the shares of common stock to be issued upon the conversion of convertible bonds and the exercise of warrants.

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at each balance sheet date.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years, together with the interim cash dividends paid.

	(Yen)		(U.S.dollars)
	2004	2005	2005
Net income:			
Basic	¥ 21.31	¥ 21.02	\$ 0.196
Diluted	19.29	19.34	0.180
Net assets	233.32	249.26	2.321
Cash dividends applicable to the year	6.00	5.00	0.047

15. Subsequent Events

(a) Appropriations of retained earnings

The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements, were approved at a meeting of the shareholders of the Company held on June 29, 2005:

	<u>(Millions of yen)</u>	<u>(Thousands of U.S. dollars)</u>
Cash dividends - ¥2.50 (\$ 0.023) per share	¥1,285	\$11,969
Directors' and corporate auditors' bonuses	95	885

(b) Issuance of bonds

The company issued the 26th unsecured bonds on April 27, 2005. Details of the issuance are as follows:

- (1) Total amount ¥ 30 billion
- (2) Interest rate 0.73% per annum
- (3) Date of issuance April 27, 2005
- (4) Term 5 years
- (5) Purpose Redemption of bonds and capital expenditures

(c) Acquisition of buildings

The Company decided to acquire the buildings at a board of directors meeting held on May 20, 2005, and acquired them on May 31, 2005. Details of acquisition are as follows:

- (1) Purpose To strengthen foundation of city hotel business
- (2) Details of buildings acquired
 - ① Name Hotel Grand Pacific Meridien
 - ② Location 2-6-1, Daiba, Minato-ku, Tokyo
 - ③ Area Ground area 20,870 m²
Total floor space 123,229 m²
 - ④ Purchase amount ¥ 33 billion
 - ⑤ Seller Nippon Life Insurance Company

16. Segment Information

Business segment information is summarized as follows:

As at or for the year ended March 31,2004	Millions of yen						Elimination/Corporate	Consolidated
	Transportation	Real estate	Tourism and Leisure	Distribution	Other	Total		
Revenues:								
Outside customers	¥ 115,079	¥ 30,391	¥ 49,212	¥ 91,847	¥ 25,989	¥ 312,518	—	¥ 312,518
Intersegments	1,886	5,726	4,001	7,748	27,859	47,220	¥ (47,220)	0
	116,965	36,117	53,213	99,595	53,848	359,738	(47,220)	312,518
Cost and expenses	100,709	29,240	52,120	97,688	51,315	331,072	(47,388)	283,684
Operating income	¥ 16,256	¥ 6,877	¥ 1,093	¥ 1,907	¥ 2,533	¥ 28,666	¥ 168	¥ 28,834
Assets	¥ 344,039	¥ 188,312	¥ 110,903	¥ 34,996	¥ 30,299	¥ 708,549	¥ 36,106	¥ 744,655
Depreciation	¥ 19,126	¥ 3,638	¥ 4,362	¥ 1,275	¥ 735	¥ 29,136	¥ 0	¥ 29,136
Capital expenditures	¥ 23,748	¥ 3,731	¥ 2,046	¥ 3,572	¥ 1,141	¥ 34,238	¥ 0	¥ 34,238

As at or for the year ended March 31,2005	Millions of yen						Elimination/Corporate	Consolidated
	Transportation	Real estate	Tourism and Leisure	Distribution	Other	Total		
Revenues:								
Outside customers	¥ 114,856	¥ 30,650	¥ 47,741	¥ 94,621	¥ 28,798	¥ 316,666	—	¥ 316,666
Intersegments	1,996	6,041	4,038	7,827	28,151	48,053	¥ (48,053)	0
	116,852	36,691	51,779	102,448	56,949	364,719	(48,053)	316,666
Cost and expenses	97,216	30,684	51,071	100,712	54,394	334,077	(48,280)	285,797
Operating income	¥ 19,636	¥ 6,007	¥ 708	¥ 1,736	¥ 2,555	¥ 30,642	¥ 227	¥ 30,869
Assets	¥ 351,228	¥ 198,272	¥ 99,271	¥ 35,350	¥ 33,139	¥ 717,260	¥ 36,132	¥ 753,392
Depreciation	¥ 18,145	¥ 3,718	¥ 4,033	¥ 1,306	¥ 746	¥ 27,948	¥ 0	¥ 27,948
Capital expenditures	¥ 26,419	¥ 6,401	¥ 2,115	¥ 1,615	¥ 681	¥ 37,231	¥ 0	¥ 37,231

As at or for the year ended March 31,2005	Thousand of U.S.dollar						Elimination/Corporate	Consolidated
	Transportation	Real estate	Tourism and Leisure	Distribution	Other	Total		
Revenues:								
Outside customers	\$ 1,069,522	\$ 285,411	\$ 444,557	\$ 881,093	\$ 268,165	\$ 2,948,748	—	\$ 2,948,748
Intersegments	18,584	56,257	37,597	72,888	262,136	447,462	\$ (447,462)	0
	1,088,106	341,668	482,154	953,981	530,301	3,396,210	(447,462)	2,948,748
Cost and expenses	905,261	285,726	475,563	937,812	506,514	3,110,876	(449,577)	2,661,299
Operating income	\$ 182,845	\$ 55,942	\$ 6,591	\$ 16,169	\$ 23,787	\$ 285,334	\$ 2,115	\$ 287,449
Assets	\$ 3,270,582	\$ 1,846,279	\$ 924,397	\$ 329,175	\$ 308,585	\$ 6,679,018	\$ 336,458	\$ 7,015,476
Depreciation	\$ 168,960	\$ 34,626	\$ 37,552	\$ 12,159	\$ 6,950	\$ 260,247	\$ 0	\$ 260,247
Capital expenditures	\$ 246,013	\$ 59,607	\$ 19,695	\$ 15,042	\$ 6,337	\$ 346,694	\$ 0	\$ 346,694