

Consolidated Financial Statements

VT HOLDINGS CO., LTD.

*Years ended March 31, 2006 and 2005
with Report of Independent Auditors*

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2006 and 2005

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2006	2005	2006
Assets			
Current assets:			
Cash and cash equivalents	¥ 3,029,413	¥ 4,152,846	\$ 25,788
Marketable securities	13,695	60,375	116
Notes and accounts receivable:			
Trade	4,015,657	2,291,641	34,184
Other	1,741,061	356,553	14,821
Allowance for doubtful accounts	(53,252)	(14,489)	(453)
Inventories (Note 3)	4,841,966	2,748,527	41,218
Short-term loans receivable	2,664,674	151,005	22,683
Deferred income taxes (Note 10)	396,540	196,009	3,375
Other current assets	1,008,896	530,300	8,588
Total current assets	17,658,653	10,472,769	150,324
Property and equipment:			
Land (Note 6)	6,156,233	4,130,717	52,406
Buildings and structures (Note 6)	8,629,606	4,032,569	73,462
Machinery, fixtures and vehicles	2,397,187	1,565,586	20,406
Construction in progress	358	1,626	3
	17,183,384	9,730,498	146,278
Accumulated depreciation	(6,099,008)	(2,427,660)	(51,919)
Property and equipment, net	11,084,376	7,302,838	94,359
Investments and other assets:			
Investments in securities (Notes 4 and 6)	7,413,625	6,200,762	63,110
Investments in unconsolidated subsidiaries and affiliates	929,050	38,088	7,908
Long-term loans receivable	1,619,143	1,302,073	13,783
Deferred income taxes (Note 10)	176,258	99,711	1,500
Rental deposits	856,606	598,761	7,292
Other assets	1,409,095	241,630	11,995
Allowance for doubtful accounts	(1,071,152)	(6,521)	(9,118)
Total investments and other assets	11,332,627	8,474,505	96,472
Intangible assets (Note 5)	8,366,575	6,730,203	71,223
Total assets	¥ 48,442,232	¥ 32,980,317	\$ 412,379

See accompanying notes to the consolidated financial statements.

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2006	2005	2006
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans <i>(Note 6)</i>	¥ 8,005,336	¥ 10,900,000	\$ 68,147
Current portion of long-term debt <i>(Note 6)</i>	3,348,260	1,765,120	28,503
Notes and accounts payable:			
Trade	9,352,689	2,454,290	79,617
Other	360,129	222,203	3,065
Accrued income taxes <i>(Note 10)</i>	1,040,078	684,964	8,853
Accrued bonuses	505,659	154,192	4,304
Other current liabilities	2,868,805	1,919,175	24,421
Total current liabilities	<u>25,480,958</u>	<u>18,099,946</u>	<u>216,914</u>
Long-term liabilities:			
Long-term debt <i>(Note 6)</i>	10,799,145	5,967,000	91,931
Deferred income taxes <i>(Note 10)</i>	698,278	34,430	5,944
Accrued retirement benefits for employees <i>(Note 7)</i>	1,318,714	420	11,225
Accrued retirement benefits for directors and corporate auditors	106,236	86,923	904
Accounts payable-other	94,290	115,400	802
Other long-term liabilities	183,860	134,276	1,565
Total long-term liabilities	<u>13,200,524</u>	<u>6,338,451</u>	<u>112,373</u>
Minority interests	900,203	955,887	7,663
Shareholders' equity <i>(Note 8)</i> :			
Common stock:			
Authorized – 56,600,000 shares in 2006 and 2005			
Issued – 32,543,693 shares in 2006 and 2005	2,242,200	2,242,200	19,087
Capital surplus	2,410,006	2,412,950	20,515
Retained earnings	3,322,084	2,892,874	28,280
Net unrealized holding gain on other securities	1,198,845	88,259	10,205
Foreign currency translation adjustments	8	-	0
Treasury stock, at cost – 577,965 shares in 2006 and 177,765 shares in 2005	(312,599)	(50,251)	(2,661)
Total shareholders' equity	<u>8,860,545</u>	<u>7,586,031</u>	<u>75,428</u>
Total liabilities and shareholders' equity	<u>¥ 48,442,232</u>	<u>¥ 32,980,317</u>	<u>\$ 412,379</u>

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Income

Years ended March 31, 2006 and 2005

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2006	2005	2006
Net sales (<i>Note 14</i>)	¥ 48,524,083	¥ 36,710,882	\$ 413,076
Cost of sales	38,438,452	28,841,724	327,219
Gross profit	10,085,630	7,869,157	85,857
 Selling, general and administrative expenses	 8,234,543	 6,325,227	 70,099
Operating income (<i>Note 14</i>)	1,851,086	1,543,930	15,757
 Other income (expenses):			
Interest and dividend income	97,820	44,515	832
Interest expense	(120,962)	(111,803)	(1,029)
Exchange loss	–	(58,300)	–
Gain on sales of investments in securities	1,849,759	200,569	15,746
Gain on sales of investments in a consolidated subsidiary	635,508	633,133	5,409
Gain on liquidation of a consolidated subsidiary	326,613	–	2,780
Gain on change of interest in a consolidated subsidiary	–	1,267,465	–
Loss on sales of investments in securities	(34,220)	(24,846)	(291)
Loss on sales of investments in a consolidated subsidiary	–	(21,847)	–
Loss on devaluation of investments in securities	(619,903)	(431,002)	(5,277)
Loss on impairment of long-lived assets (<i>Note 2(g)</i>)	(464,094)	–	(3,950)
Provision for doubtful accounts	(1,026,000)	–	(8,734)
Other, net	(232,097)	(315,491)	(1,975)
Income before income taxes and minority interests	412,424	1,182,391	3,510
Income before income taxes and minority interests	2,263,510	2,726,320	19,268
 Income taxes (<i>Note 10</i>):			
Current	1,431,175	939,047	12,183
Deferred	(293,477)	(96,320)	(2,498)
Income before minority interests	1,137,697	842,727	9,685
Income before minority interests	1,125,813	1,883,593	9,583

See accompanying notes to the consolidated financial statements.

Minority interests	<u>507,952</u>	<u>86,505</u>	<u>4,324</u>
Net income	<u>¥ 617,861</u>	<u>¥ 1,797,087</u>	<u>\$ 5,259</u>

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

Years ended March 31, 2006 and 2005

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2006	2005	2006
Common stock:			
Balance at beginning of the year	¥2,242,200	¥ 742,200	\$ 19,087
Conversion of convertible notes	-	1,500,000	-
Balance at end of the year	<u>¥2,242,200</u>	<u>¥ 2,242,200</u>	<u>\$ 19,087</u>
Capital surplus:			
Balance at beginning of the year	¥2,412,950	¥ 706,625	\$ 20,540
Conversion of convertible notes	-	1,500,000	-
(Loss) Gain on disposal of treasury stock	(2,943)	206,325	(25)
Balance at end of the year	<u>¥2,410,006</u>	<u>¥2,412,950</u>	<u>\$ 20,515</u>
Retained earnings:			
Balance at beginning of the year	¥2,892,874	¥1,240,200	\$ 24,626
Net income	617,861	1,797,087	5,259
Increase by merger	65,590	-	558
Cash dividends	(142,074)	(113,795)	(1,209)
Bonuses to directors	(31,234)	(30,618)	(265)
Loss on retirement of non-allotted shares in merger	(80,932)	-	(688)
Balance at end of the year	<u>¥3,322,084</u>	<u>¥2,892,874</u>	<u>\$ 28,280</u>
Net unrealized holding gain on other securities:			
Balance at beginning of the year	¥ 88,259	¥ 158,266	\$ 751
Net change during the year	1,110,586	(70,007)	9,454
Balance at end of the year	<u>¥1,198,845</u>	<u>¥ 88,259</u>	<u>\$ 10,205</u>
Foreign currency translation adjustment:			
Balance at beginning of the year	¥ -	¥ -	\$ -
Net change during the year	8	-	0
Balance at end of the year	<u>¥ 8</u>	<u>¥ -</u>	<u>\$ 0</u>

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended March 31, 2006 and 2005

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2006	2005	2006
Cash flows from operating activities:			
Net income before income taxes and minority interests	¥ 2,263,510	¥ 2,726,320	\$ 19,268
Adjustments for:			
Depreciation and amortization	1,482,003	1,179,079	12,616
Loss on impairment of long-lived assets	464,094		3,950
Increase (Decrease) in allowance for doubtful accounts	1,033,594	(17,397)	(8,798)
Increase in accrued bonus	183,980		1,566
Decrease in accrued retirement benefits for employees	(12,395)	(163,386)	(105)
Increase in accrued retirement benefits for directors and corporate auditors	14,604	8,958	124
Interest and dividend income	(97,820)	(44,515)	(832)
Interest expense	120,962	111,803	1,029
Exchange loss	4,618	67,333	39
Loss on devaluation of investments in securities	619,903	431,002	5,277
Gain on sales of investments in securities	(1,849,759)	(200,569)	(15,746)
Loss on sales of investments in securities	34,220	24,846	291
Gain on change of interest in a consolidated subsidiary		(1,267,465)	
Gain on sales of investments in a consolidated subsidiary	(635,508)	(633,133)	(5,409)
Gain on liquidation of a consolidated subsidiary	(326,613)		(2,780)
Bonuses to directors	(32,915)	(31,265)	(280)
Increase in notes and accounts receivable, trade	(663,595)	(680,363)	(5,649)
Increase in inventories	(715,374)	(421,401)	(6,089)
Decrease (Increase) in other current assets	475,325	(340,259)	4,046
Increase in notes and accounts payable, trade	1,873,337	24,392	15,947
(Decrease) Increase in other current liabilities	(812,271)	417,866	(6,914)
Other	187,951	250,487	1,599
Subtotal	3,611,854	1,442,334	30,747
Interest and dividends received	115,424	39,446	982
Interest paid	(120,360)	(106,560)	(1,024)
Income taxes paid	(1,170,519)	(725,554)	(9,964)
Net cash provided by operating activities	¥ 2,436,398	¥ 649,667	\$ 20,740

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows (continued)

Years ended March 31, 2006 and 2005

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2006	2005	2006
Cash flows from investing activities:			
Purchases of property and equipment	¥(1,629,845)	¥(1,403,811)	\$ (13,874)
Proceeds from sales of property and equipment	636,042	1,007,628	5,414
Increase in intangible assets	(125,048)	(5,199,690)	(1,064)
Increase in investments in securities	(3,584,431)	(3,956,323)	(30,513)
Proceeds from sales of investments in securities	3,505,471	1,164,253	29,841
Purchase of investment in a subsidiary resulting in inclusion in consolidation		(4,802)	
Proceeds from sales of investment in a subsidiary resulting in change of consolidation scope	62,229		529
Net proceeds from purchase of investment in subsidiaries resulting in inclusion in consolidation	37,427	398,840	318
Acquisition of consolidated subsidiaries	(1,795,514)	(15,796)	(15,284)
Proceeds from sales of investments in a consolidated subsidiary		784,943	
Increase in loans receivable	(646,460)	(2,080,116)	(5,503)
Decrease in loans receivable	266,517	2,212,552	2,268
Increase in security deposit	(167,052)	(160,195)	(1,422)
Decrease in security deposit	82,344	37,664	700
Other	(1,076,257)	581,922	(9,161)
Net cash used in investing activities	(4,434,578)	(6,632,928)	(37,750)
Cash flows from financing activities:			
(Decrease) Increase in short-term bank loans, net	(4,921,663)	1,135,000	(41,897)
Proceeds from long-term debt	9,787,973	4,962,775	83,323
Proceeds from issuance of bonds		2,966,221	
Repayment of long-term debt	(3,153,364)	(1,626,100)	(26,843)
Installment payments		(1,112,116)	
Issuance of common stock to minority shareholders	45,000	1,999,565	383
Purchase of treasury stock	(279,854)	(5,651)	(2,382)
Proceeds from sales on treasury stock	14,563	346,443	123
Purchase of treasury stock by a subsidiary	(470,997)		(4,009)
Cash dividends paid	(142,074)	(113,795)	(1,209)
Cash dividends paid to minority shareholders	(18,957)	(6,380)	(161)
Other		(33,829)	
Net cash provided by financing activities	860,624	8,512,130	7,326
Effect of exchange rate changes on cash and cash equivalents	(5,343)	(67,333)	(45)
Net (decrease) increase in cash and cash equivalents	(1,142,899)	2,461,535	(9,729)
Cash and cash equivalents at beginning of the year	4,152,846	1,678,212	35,352
Cash and cash equivalents increased due to a newly consolidated subsidiary	14,390	13,098	122

See accompanying notes to the consolidated financial statements.

Cash and cash equivalents increased due to merger of non-consolidated subsidiaries by consolidated subsidiaries	<u>5,076</u>	<u> </u>	<u>43</u>
Cash and cash equivalents at end of the year	<u>¥ 3,029,413</u>	<u>¥ 4,152,846</u>	<u>\$ 25,788</u>

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to the Consolidated Financial Statements

March 31, 2006 and 2005

1. Basis of Preparation

VT HOLDINGS CO., LTD. (the “Company”) and consolidated subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and Exchange Law of Japan and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and consolidated subsidiaries as required by the Securities and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader and, as a matter of arithmetic computation only, at ¥117.47= U.S.\$1.00, the rate of exchange prevailing on March 31, 2006. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one thousand yen for the years ended March 31, 2006 and 2005 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2006 and 2005 (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and the significant companies over which substantial control is exerted either through majority ownership of voting stock and/or by other means. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for in the consolidated financial statements by the equity method. The assets and liabilities of the newly consolidated subsidiaries are stated at fair value as of their respective dates of acquisition.

At March 31, 2006 and 2005, the Company held an interest in excess of 50% in three investment fund associations. The accounts of the investment associations have not been consolidated since the Company cannot control them.

At March 31, 2006 and 2005, the Company held a 20%-to-50% interest in four investment fund associations. The investments are reflected in the movement of the net assets of the associations although the Company does not exercise significant influence over these associations.

The differences between the costs and underlying net equity in the net assets of the consolidated subsidiaries at the respective dates of acquisition are amortized by the straight-line method over 20 years.

(b) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments such as money market fund which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that payables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates. Gain or loss on each transaction is credited or charged to income. Revenues and expenses are translated at the rates of exchange prevailing when such transactions were recorded. Assets and liabilities of foreign subsidiaries and others are translated at the rate of exchange in effect at the balance sheet date. Revenues and expenses of foreign subsidiaries and others are translated at the average rate of the fiscal year, and differences caused by translation are shown as foreign currency translation adjustments in a separate component of shareholders' equity.

(d) Allowance for doubtful accounts

The allowance for doubtful accounts is computed based on the historical ratio of bad debts and an estimate of certain uncollectible amounts determined after an analysis of specific individual receivables.

(e) Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are carried at fair value. Gains and losses, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(f) Inventories

The Company and consolidated subsidiaries apply the following methods in the valuation of their inventories:

New cars, used cars, real estate for sale and work in process are stated by the individual cost method.

Merchandise such as furniture and household utensils are stated at cost determined by the moving average method.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Parts, supplies and raw materials are mainly stated at cost determined by the last invoice price method.

Finished goods are stated at cost determined by the average method.

(g) Long-lived assets

Property and equipment are stated at cost. Depreciation is calculated by the declining-balance method based on the estimated useful lives of the respective assets, except for buildings (other than structures attached to the buildings) acquired subsequent to April 1, 1998 and cars for rental purposes owned by a subsidiary to which the straight-line method is applied.

In August 2002, the Business Accounting Council (BAC) issued a Statement of Opinion, Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No.6, Guidance for Accounting Standard for Impairment of Fixed Assets. These new pronouncements were effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004. The Group adopted the new accounting standard for impairment of fixed assets as of April 1, 2005.

The Group reviews its long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes and minority interests for the year ended March 31, 2006 by ¥ 444,646 thousand (\$ 3,785 thousand).

(h) Stock and bond issuance expenses

Stock and bond issuance expenses are charged to income as incurred.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(i) Accrued retirement benefits for employees

The Company and certain consolidated subsidiaries have a defined contribution plan, in which employees can select either defined contribution pension plan or prepayment plan. In addition, as defined benefit plan, there are severance payment plan, mutual assistance of retirement plan for small business and funded contributory pension plan.

Certain consolidated subsidiaries record accrued retirement benefits based on the projected benefit obligations and pension assets. Actuarial differences are amortized over 10 years, within employees' average service period.

As of March 31, 2005, one consolidated subsidiary has adopted a simplified method of calculation. Under this simplified method, accrued retirement benefits for employees are stated at the amount which would be required to be paid if all eligible employees voluntarily terminated their employment at the balance sheet date, less the amounts to be covered by the pension plans.

(j) Accrued retirement benefits for directors and corporate auditors

Directors and corporate auditors are customarily entitled to lump-sum payments under an unfunded retirement benefit plan. The provision for retirement allowances for these officers has been made at an estimated amount based on the Company's and consolidated subsidiaries' internal rules.

(k) Accrued bonuses

Accrued bonuses are provided for the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(l) Leases

Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(m) Computer software

Expenditures relating to computer software developed for internal use are charged to income when incurred, except if the software is expected to contribute to the generation of income or to cost savings. Such expenditures are capitalized as assets and are amortized by the straight-line method over their estimated useful life, generally a 5-year period.

(n) Income taxes

Deferred income taxes have been provided for temporary differences between the balances of assets and liabilities reported for financial reporting purposes and the corresponding balances for income tax purposes.

(o) Derivatives

Derivative financial instruments are utilized by a consolidated subsidiary principally to reduce the risk of fluctuation in foreign exchange rates. The consolidated subsidiary has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of derivative transactions. The Company and consolidated subsidiaries do not hold or issue derivative financial instruments for speculative trading purposes.

This consolidated subsidiary is exposed to a certain level of market risk arising from its forward foreign exchange contracts. The consolidated subsidiary is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to the currency contracts; however, the consolidated subsidiary does not anticipate nonperformance by any of these counterparties all of whom are financial institutions with high credit ratings.

The foreign exchange forward contracts are measured at fair value and the unrealized gains/losses are recognized in income unless the forward contracts qualify for hedge accounting.

(p) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for the period thus do not reflect such appropriations.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

(q) New Accounting Pronouncements

Business Combination and Business Separation

In October 2003, the BAC issued a Statement of Opinion, Accounting for Business Combinations, and on December 27, 2005, the ASBJ issued Accounting Standard for Business Separations and ASBJ Guidance No.10, Guidance for Accounting Standard for Business Combinations and Business Separations. These new accounting pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. These specific criteria are as follows:

- (a) the consideration for the business combination consists solely of common shares with voting rights,
- (b) the ratio of voting rights of each predecessor shareholder group after the business combination is nearly equal, and
- (c) there are no other factors that would indicate any control exerted by any shareholder group other than voting rights.

For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. Goodwill, including negative goodwill, is to be systematically amortized over 20 years or less, but is also subject to an impairment test.

Under the accounting standard for business separations, in a business separation where the interests of the investor no longer continue and the investment is settled, the difference between the fair value of the consideration received for the transferred business and the book value of net assets transferred to the separated business is recognized as a gain or loss on business separation in the statement of income. In a business separation where the interests of the investor continue and the investment is not settled, no such gain or loss on business separation is recognized.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

2. Summary of Significant Accounting Policies (continued)

Stock options

On December 27, 2005, the ASBJ issued Accounting Standard for Stock Options and related guidance. The new standard and guidance are applicable to stock options newly granted on and after May 1, 2006.

This standard requires companies to recognize compensation expense for employee stock options based on the fair value at the date of grant and over the vesting period as consideration for receiving goods or services. The standard also requires companies to account for stock options granted to non-employees based on the fair value of either the stock option or the goods or services received. In the balance sheet, the stock option is presented as a stock acquisition right as a separate component of shareholders' equity until exercised. The standard covers equity-settled, share-based payment transactions, but does not cover cash-settled, share-based payment transactions. In addition, the standard allows unlisted companies to measure options at their intrinsic value if they cannot reliably estimate fair value.

Bonuses to directors and corporate auditors

Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No.13, Accounting treatment for bonuses to directors and corporate auditors, which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Inventories

Inventories at March 31, 2006 and 2005 consisted of the following:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2006	2005	<i>U.S. dollars</i>
			2006
New cars, used cars and real estate	¥ 4,135,363	¥ 2,299,387	\$ 35,203
Merchandise	14,027	170,890	119
Finished goods	68,992	-	587
Parts	199,597	146,205	1,699
Work in process	333,163	86,943	2,836
Supplies	45,337	45,099	385
Raw materials	45,486	-	387
Total	¥ 4,841,966	¥ 2,748,527	\$ 41,218

4. Securities

(a) Information regarding marketable securities classified as other securities at March 31, 2006 and 2005 is summarized as follows:

	<i>Thousands of yen</i>			Book value (estimated fair value)
	2006			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	
Equities	¥1,639,609	¥2,062,623	¥ (52,954)	¥3,649,278
Bonds	502,800	-	(997)	501,802
Other	83,346	21,785	(656)	104,475
Total	¥2,225,757	¥2,084,408	¥ (54,609)	¥4,255,557

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Securities (continued)

	<i>Thousands of yen</i>			
	2005			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equities	¥830,158	¥166,270	¥ (23,942)	¥972,485
Bonds	52,165	-	(266)	51,899
Other	107,650	6,298	(15,010)	98,938
Total	<u>¥989,975</u>	<u>¥172,568</u>	<u>¥ (39,219)</u>	<u>¥1,123,324</u>

	<i>Thousands of U.S. dollars</i>			
	2006			
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equities	\$13,957	\$17,558	\$ (450)	\$31,065
Bonds	4,280	-	(8)	4,271
Other	709	185	(5)	889
Total	<u>\$18,947</u>	<u>\$17,744</u>	<u>\$ (464)</u>	<u>\$36,226</u>

- (b) Securities whose market value is not determinable were classified as other securities at March 31, 2006 and 2005 are summarized as follows:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2006	2005	2006
Marketable value not determinable:			
Equities	¥ 562,050	¥1,024,212	\$ 4,784
Bonds	10,000	120,000	85
Investment interest in investment fund associations	2,599,711	3,993,600	22,130
Total	<u>¥3,171,762</u>	<u>¥5,137,812</u>	<u>\$ 27,000</u>

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Securities (continued)

- (c) Sales of securities classified as other securities for the years ended March 31, 2006 and 2005 are summarized as follows:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2006	2005	2006
Proceeds from sales	¥3,469,494	¥1,232,850	\$29,535
Gross realized gain	1,849,759	184,779	15,746
Gross realized loss	(34,220)	(24,285)	(291)

- (d) The redemption schedule for debt securities with maturity dates classified as other securities at March 31, 2006 is summarized as follows:

	<i>Thousands</i>	<i>Thousands of U.S.</i>
	<i>of yen</i>	<i>dollars</i>
	Due in one year or less	Due in one year or less
Straight bonds	¥ 11,539	\$ 98
Other debt securities	2,155	18
Total	¥ 13,694	\$ 116

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

5. Intangible assets

Intangible assets at March 31, 2006 and 2005 consisted of the following:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2006	2005	<i>U.S. dollars</i>
			2006
Excess of investment costs over underlying net assets of consolidated subsidiaries	¥6,122,651	¥1,818,163	\$ 52,120
Goodwill	39,365	771,752	335
Patent	1,774,266	2,038,280	15,103
Trademark	132,492	1,979,282	1,127
Other	297,798	122,723	2,535
Total	¥8,366,575	¥6,730,203	\$ 71,223

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans principally represent short-term notes and overdrafts with annual average interest rates of 0.453% and 0.449% at March 31, 2006 and 2005, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2006	2005	<i>U.S. dollars</i>
			2006
Loans from banks and other financial institutions, payable in yen, at rates from 0.35% to 2.20%, due through 2011	¥13,847,405	¥ 7,432,120	\$ 117,880
Unsecured bonds, payable in yen, at variable interest rates, due 2009	300,000	300,000	2,553
	14,147,405	7,732,120	120,434
Less current portion	(3,348,260)	(1,765,120)	(28,503)
Long-term debt, less current portion	¥10,799,145	¥ 5,967,000	\$ 91,931

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Short-Term Bank Loans and Long-Term Debt (continued)

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	<i>Thousands of yen</i>	<i>Thousands of U.S. dollars</i>
2007	¥ 3,348,260	\$ 28,503
2008	3,273,260	27,864
2009	3,190,085	27,156
2010	2,233,400	19,012
2011 and thereafter	2,102,400	17,897
Total	¥14,147,405	\$120,434

The assets pledged as collateral for short-term bank loans and long-term debt at March 31, 2006 were as follows:

	<i>Thousands of yen</i>	<i>Thousands of U.S. dollars</i>
Land	¥1,747,088	\$ 14,872
Buildings	317,802	2,705
Investments in securities	40,500	344
Total	¥2,105,390	\$ 17,922

7. Accrued Retirement Benefits for Employees

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and consolidated subsidiaries' defined benefit pension plans:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2006	2005	2006
Projected benefit obligation	¥(2,138,442)	¥ (420)	\$(18,204)
Plan assets at fair value	852,835	–	7,260
Unfunded retirement benefit obligation	(1,285,607)	(420)	(10,944)
Unrecognized actuarial benefits	(33,107)	–	(281)
Accrued retirement benefits	¥(1,318,714)	¥ (420)	\$(11,225)

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

7. Accrued Retirement Benefits for Employees (continued)

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2006	2005	<i>U.S. dollars</i>
Service cost	¥ 17,073	¥ 1,150	\$ 145
Interest cost	8,250	–	70
Contribution to defined contribution pension plan	34,345	23,420	292
Prepaid retirement payments	7,969	3,489	67
Contribution to contributory pension plan and expense incurred due to transfer of pension plan	66,947	57,787	569
Retirement benefit expenses	<u>¥ 134,586</u>	<u>¥ 85,848</u>	<u>\$ 1,145</u>

The Company and certain consolidated subsidiaries participate in a multi-employer pension plan established by the Honda Car Dealers. The total pension assets of the fund allocable to the Company and consolidated subsidiaries at March 31, 2006 and 2005 amounted to ¥969,467 thousand (\$8,252 thousand) and ¥729,358 thousand, respectively, which was calculated based on the proportional percentages of the contributions to the pension plan by the Company and consolidated subsidiaries and on the total contributions to the pension plan.

8. Shareholders' Equity

Through May 1, 2006, Japanese companies are subject to the Commercial Code of Japan (the "Code").

The Code requires that all shares of common stock be issued with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds are required to be presented as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration by way of a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Shareholders' Equity (continued)

The Code also provides that an amount of 10% or more of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period (such as bonuses to directors) shall be appropriated as a legal reserve (a component of retained earnings) until the total of such reserve and additional paid-in capital equals 25% of common stock. The amount of total legal reserve and additional paid-in capital that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders after transferring such excess in accordance with the Code. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to purchase treasury stock and dispose of such treasury stock upon resolution of the Board of Directors. The aggregate purchased amount of treasury stock cannot exceed the amount available for future dividends plus the amount of common stock, additional paid-in capital or legal reserve that could be transferred to retained earnings or other capital surplus other than additional paid-in capital upon approval of such transfer at the annual general meeting of shareholders.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash outlays, the Code also imposes certain limitations on the amount of capital surplus and retained earnings available for dividends. The amount of capital surplus and retained earnings available for dividends under the Code was ¥99 million (\$842 thousand) as of March 31, 2006, based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Shareholders' Equity (continued)

(a) Dividends

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation.

The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

(b) Increases / decreases and transfer of common stock, reserve and surplus

The Corporate Law requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Code, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be made available for dividends by resolution of the shareholders. Under the Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Corporate Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

8. Shareholders' Equity (continued)

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula. Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity. The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

On December 9, 2005, the ASBJ published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

During the year ended March 31, 2005, ¥3,000,000 thousand of the unsecured yen convertible notes due 2008 were converted into shares of the Company's common stock. The effect of the conversion of the notes was to increase both common stock and capital surplus by ¥1,500,000 thousand.

In accordance with the Commercial Code of Japan, a stock option plan for directors was approved at the annual general meeting of the shareholders held on June 25, 2004. Under the terms of this plan, a new issuance of up to 2,500,000 shares of common stock has been authorized. The eligible participant may purchase the underlying common stock at an exercise price of ¥680 per share. The exercise price was adjusted for the abovementioned stock split. The options are exercisable beginning April 1, 2005 and are scheduled to expire on June 30, 2009.

In accordance with the Commercial Code of Japan, a stock option plan for advisors and employees of the Company and directors and employees of subsidiaries was approved at the annual general meeting of the shareholders held on June 28, 2006. Under the terms of this plan, 105,500 shares of common stock were issuable at an exercise price of ¥776 per share. The options became exercisable on August 1, 2007 and are scheduled to expire on June 30, 2011.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Leases

As lessee

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of the leased assets at March 31, 2006 and 2005, which would have been reflected in the consolidated balance sheets if finance leases other than those which transfer the ownership of the leased property to the Company and consolidated subsidiaries (which are currently accounted for as operating leases) were capitalized:

	<i>Thousands of yen</i>			
	2006			
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Impairment loss</u>	<u>Net book value</u>
Machinery and vehicles	¥2,315,208	¥715,389		¥1,599,818
Other	163,441	61,385	¥18,535	83,520
Total	<u>¥2,478,650</u>	<u>¥776,775</u>	<u>¥18,535</u>	<u>¥1,683,339</u>

	<i>Thousands of yen</i>		
	2005		
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Machinery and vehicles	¥790,331	¥182,936	¥607,395
Other	107,354	48,679	58,674
Total	<u>¥897,685</u>	<u>¥231,616</u>	<u>¥666,069</u>

	<i>Thousands of U.S. dollars</i>			
	2006			
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Impairment loss</u>	<u>Net book value</u>
Machinery and vehicles	\$19,708	\$ 6,089		\$13,618
Other	1,391	522	\$ 157	710
Total	<u>\$21,100</u>	<u>\$ 6,612</u>	<u>\$ 157</u>	<u>\$14,329</u>

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Leases (continued)

Lease payments relating to finance leases accounted for as operating leases in the consolidated financial statements amounted to ¥658,333 thousand (\$5,604 thousand) and ¥132,826 thousand for the years ended March 31, 2006 and 2005, respectively.

Depreciation of the leased assets computed by the straight-line method over the respective lease terms amounted to ¥552,953 thousand (\$4,707 thousand) and ¥132,826 thousand for the years ended March 31, 2006 and 2005, respectively.

Reversal of impairment account of leased assets, interest expense and impairment loss amounted to ¥5,224 thousand (\$44,470 thousand), ¥ 31,846 thousand (\$271,099 thousand) and ¥18,535 thousand (\$157,784 thousand), respectively for the year ended March 31, 2006.

Future minimum lease payments subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

<u>Year ending March 31,</u>	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars</u>
2007	¥689,391	\$5,868
	(172,142)	(1,465)
2008 and thereafter	1,005,575	8,560
	(497,443)	(4,234)
Total	<u>¥1,694,966</u>	<u>\$14,428</u>
	<u>(669,585)</u>	<u>(5,700)</u>
Impairment account of leased assets at March 31, 2006	¥13,311	\$113

Parenthetic items described above are accrued lease payments on sublease transactions.

The acquisition costs and future minimum lease payments under finance leases presented in the above table include the imputed interest expense portion at March 31, 2005, and does not include it at March 31, 2006, because accrued lease payments became material.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Leases (continued)

As lessor

The following amounts represent the acquisition cost, accumulated depreciation, impairment loss and net book value of the lease assets at March 31, 2006.

	<i>Thousands of yen</i>		
	2006		
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Machinery and vehicles	¥ 574,601	¥ 60,488	¥ 514,112
Other	1,117,350	44,120	1,073,229
Total	<u>¥1,691,951</u>	<u>¥104,608</u>	<u>¥1,587,342</u>

	<i>Thousands of U.S. dollars</i>		
	2006		
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Net book value</u>
Machinery and vehicles	\$ 4,891	\$ 514	\$4,376
Other	9,511	375	9,136
Total	<u>\$ 14,403</u>	<u>\$ 890</u>	<u>\$13,512</u>

Lease receivable relating to finance leases accounted for as operating leases in the consolidated financial statements amounted to ¥124,697 thousand (\$1,061 thousand) for the year ended March 31, 2006.

Depreciation of the lease assets and interest income, on an as if basis, amounted to ¥104,646 thousand (\$890 thousand) and ¥35,874 thousand (\$305 thousand), respectively for the year ended March 31, 2006. Interest income is computed by interest method.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Leases (continued)

Future minimum lease receivables subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

<u>Year ending March 31,</u>	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars</u>
2007	¥384,622	\$3,274
	(183,605)	(1,562)
2008 and thereafter	1,399,865	11,916
	(526,149)	(4,479)
Total	¥1,784,488	\$15,191
	(709,755)	(6,042)

Parenthetic items described above is the accrued lease receivable on sublease transactions.

10. Income Taxes

Income taxes applicable to the Company and consolidated subsidiaries comprise corporate, inhabitants and enterprise taxes which, in the aggregate, resulted 40.5% and 39.9% for the years ended March 31, 2006 and 2005, respectively.

The effective tax rate reflected in the consolidated statement of income for the year ended March 31, 2006 and 2005 differs from the statutory tax rate for the following reasons:

	<u>2006</u>	<u>2005</u>
Statutory tax rate	40.5%	39.9%
Valuation allowance	11.9	10.8
Utilization of tax loss carryforward or carryback	(5.1)	(1.1)
Loss (Gain) on change of interest in a consolidated subsidiary	0.8	(18.6)
Expenses not deductible for income tax purposes	0.9	
Per capita tax	0.8	
Other	0.5	(0.1)
Effective tax rate	<u>50.3%</u>	<u>30.9%</u>

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

10. Income Taxes (continued)

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of deferred tax assets and liabilities of the Company and consolidated subsidiaries at March 31, 2006 and 2005 are summarized as follows:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2006	2005	2006
Deferred tax assets:			
Accrued enterprise tax	¥ 105,106	¥ 58,124	\$ 894
Tax loss carryforwards	669,584	567,290	5,700
Accrued retirement benefits for employees	533,204	56,074	4,539
Accrued retirement benefits for directors and corporate auditors		35,018	
Accrued bonuses	203,732	62,507	1,734
Allowance for doubtful accounts	424,078		3,610
Loss on impairment of long-lived assets	304,854		2,595
Loss on devaluation of investments in securities	197,353	335,714	1,680
Gain on aquisition of warrant	397,419		3,383
Unrealized holding loss on other securities		15,471	
Depreciation		68,058	
Other	231,194	24,121	1,968
Total gross deferred tax assets	<u>3,066,526</u>	<u>1,222,381</u>	<u>26,104</u>
Valuation allowance	<u>(2,183,853)</u>	<u>(840,225)</u>	<u>(18,590)</u>
Deferred tax assets	882,673	382,156	7,514
Deferred tax liabilities:			
Unrealized holding gain on other securities	(846,756)	(73,432)	(7,208)
Other	(161,396)	(47,468)	(1,373)
Deferred tax liabilities	<u>(1,008,153)</u>	<u>(120,900)</u>	<u>(8,582)</u>
Net deferred tax (liabilities) assets	<u>¥ (125,479)</u>	<u>¥ 261,255</u>	<u>\$ (1,068)</u>

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Derivatives

The Group had the following derivatives contracts outstanding at March 31, 2005.

	<i>(Thousands of Yen)</i>		
	2005		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts:			
Buying	¥ 586,854	¥ 506,220	¥ (80,634)

12. Amounts Per Share

	<i>Yen</i>		<i>U.S. dollars</i>
	2006	2005	2006
Basic net income	¥18.96	¥59.19	\$ 0.16
Diluted net income	18.88	56.49	0.16
Cash dividends applicable to the year	4.4	12.4	0.03
Net assets	276.94	233.44	2.35

Basic net income per share has been computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year, and the amounts per share of net assets have been computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

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.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

Reconciliation of the differences between basic and diluted net income per share for the year ended March 31, 2006 is as follows:

	<i>Thousands of Yen</i>	<i>Thousand of shares</i>	<i>EPS</i>	
	<u>Net income</u>	<u>Weighted average shares</u>	<u>Yen</u>	<u>Dollars</u>
<u>For the year ended March 31,</u>				
<u>2006:</u>				
Basic EPS				
Net income available to common shareholders	¥ 609,846	32,162	¥ 18.96	\$ 0.16
Effect of Dilutive Securities				
Stock option	(1,414)	60		
Diluted EPS				
Net income for computation	¥ 608,432	32,222	¥ 18.88	\$ 0.16

13. Supplemental Information on the Consolidated Statements of Cash Flows

Non-cash financing activities for the years ended March 31, 2005 were as follows:

	<i>Thousand of yen</i>
	<u>2005</u>
Convertible notes converted into common stock and capital surplus	¥ 3,000,000
Installment purchase of assets	265,203
Assets acquired by business transfer	
Current assets	108,482
Non-current assets	5,707,457

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Supplemental Information on the Consolidated Statements of Cash Flows (continued)

The Company purchased equity interests and newly consolidated the accounts of five entities for the year ended March 31, 2006. The following summarizes the assets and liabilities included in consolidation and presents information on acquisition costs and cash disbursements:

NN limited investment fund association, Nagano Nissan Co., Ltd. and its three subsidiaries	<i>Thousands of yen</i>	<i>Thousands of U.S. dollars</i>
	2006	2006
Current assets	¥3,593,996	\$ 30,595
Non-current assets	4,989,213	42,472
Excess of investment cost over underlying net assets acquired	4,306,577	36,661
Current liabilities	(8,268,003)	(70,383)
Non-current liabilities	(1,494,588)	(12,723)
Minority interests	(1,287,196)	(10,957)
Acquisition costs	1,840,000	15,663
Transfer from investments in securities	(1,520,000)	(12,939)
Cash and cash equivalents transferred	357,427	3,042
Proceeds from purchase of equity interest	¥ 37,427	\$ 318

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Supplemental Information on the Consolidated Statements of Cash Flows (continued)

The Company sold the shares of the following subsidiary and excluded it from the consolidation for the year ended March 31, 2006. The following summarizes the assets and liabilities excluded from consolidation and information on sales amount and cash disbursements:

SEISHIN WORKS Co., LTD.

	<i>Thousands of yen</i>	<i>Thousands of U.S. dollars</i>
	2006	2006
Current assets	¥1,025,384	\$ 8,728
Non-current assets	2,843,338	24,204
Excess of investment cost over underlying net assets of a consolidated subsidiary	172,082	1,464
Current liabilities	(1,079,296)	(9,187)
Non-current liabilities	(2,445,017)	(20,813)
Gain on sales of investments in a consolidated subsidiary	635,508	5,409
Sales amount	1,152,000	9,806
Receivable of sales proceeds at year end	(622,000)	(5,294)
Cash and cash equivalents of SEISHIN WORKS Co., LTD.	(467,770)	(3,982)
Proceeds from sales of a subsidiary	¥ 62,229	\$ 529

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Supplemental Information on the Consolidated Statements of Cash Flows (continued)

The Company purchased shares of the following three subsidiaries and newly consolidated the accounts of those subsidiaries for the year ended March 31, 2005. The following summarizes the assets and liabilities included in consolidation and presents information on acquisition costs and cash disbursements:

1) AIKOH EPOCH Co., LTD.

	<i>Thousands of yen</i>
	<u>2005</u>
Current assets	¥1,014,264
Non-current assets	-
Excess of investment cost over underlying net assets of a consolidated subsidiary	83,385
Current liabilities	(1,085,099)
Non-current liabilities	-
Minority interests	-
Acquisition costs	<u>12,550</u>
Cash and cash equivalents of AIKOH EPOCH Co., LTD.	<u>386,573</u>
Proceeds from purchase of shares	<u>¥ 374,023</u>

2) FACE ON Co., LTD.

	<i>Thousands of yen</i>
	<u>2005</u>
Current assets	¥ 34,970
Non-current assets	-
Excess of investment cost over underlying net assets of a consolidated subsidiary	211
Current liabilities	(25,272)
Non-current liabilities	-
Minority interests	(2,909)
Acquisition costs	<u>7,000</u>
Cash and cash equivalents of FACE ON Co., LTD.	<u>31,817</u>
Proceeds from purchase of shares	<u>¥ 24,817</u>

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

**13. Supplemental Information on the Consolidated Statements of Cash Flows
(continued)**

3) SEISHIN WORKS Co., LTD.

Thousands of yen

	2005
Current assets	¥ 12,552
Non-current assets	–
Excess of investment cost over underlying net assets of a consolidated subsidiary	186,035
Current liabilities	(193,785)
Non-current liabilities	–
Minority interests	–
Acquisition costs	4,802
Cash and cash equivalents of SEISHIN WORKS Co., LTD.	–
Cash disbursement	¥ 4,802

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Segment Information

The Company and consolidated subsidiaries are primarily engaged in the car business, housing business, real estate business, investment business and environment business.

The car business includes sales of cars, repairs to cars, car rentals and sales of car parts. The housing business includes home sales, construction of houses and related business. The real estate business includes the leasing of real estate. The investment business includes investment in securities and consulting services for investees. The environment business includes design, development and sales of control device of electric power.

The business segment information of the Company and consolidated subsidiaries for the years ended March 31, 2006 and 2005 is outlined as follows:

		<i>Thousands of yen</i>							
		2006							
		Car	Housing	Real estate	Investment	Environment	Total	Elimina- tions or corporate	Consolida- ted
I. Sales and operating income:									
Sales to third parties		¥ 42,717,583	¥ 2,779,863	¥ 296,107	¥ 2,164,633	¥ 565,895	¥ 48,524,083	-	¥ 48,524,083
Intersegment sales		5,196	370,738	38,112	-	8,309	422,356	¥ (422,356)	-
Total sales		42,722,779	3,150,601	334,220	2,164,633	574,204	48,946,439	(422,356)	48,524,083
Operating expenses		40,524,757	3,272,964	192,212	1,969,941	976,861	46,936,736	(263,740)	46,672,996
Operating income (loss)		¥ 2,198,022	¥ (122,362)	¥ 142,008	¥ 194,691	¥ (402,657)	¥ 2,009,703	¥ (158,616)	¥ 1,851,086
II. Assets, depreciation, impairment loss and capital expenditures:									
Assets		¥ 29,225,753	¥ 2,267,772	¥ 2,311,150	¥ 5,592,243	¥ 2,794,371	¥ 42,191,292	¥ 6,250,940	¥ 48,442,232
Depreciation		451,365	52,280	34,046	490,619	294,353	1,322,666	2,924	1,325,590
Impairment loss		-	150,211	312,558	1,325	-	464,094	-	464,094
Capital expenditures		1,382,477	14,737	98,323	283,651	27,242	1,806,433	(29,148)	1,777,285

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Segment Information (continued)

As mentioned in Note 2(g), the Company and consolidated subsidiaries have introduced accounting for impairment on long-lived assets. The effect of this change was to decrease operating expenses in the real estate business segment and in the housing business segment by ¥1,054 thousand (\$8 thousand) and by ¥18,393 thousand (\$156 thousand), respectively, and to increase operating income by the same amounts, respectively, compared with the amounts which would have been recorded under the method applied in the previous year.

		<i>Thousands of yen</i>							
		2005							
		Car	Housing	Real estate	Investment	Environment	Total	Elimina- tions or corporate	Consolida- ted
I.	Sales and operating income:								
	Sales to third parties	¥ 31,421,600	¥ 3,385,248	¥ 278,813	¥ 1,292,119	¥ 333,099	¥ 36,710,882	-	¥ 36,710,882
	Intersegment sales	1,452	161,195	29,698	-	14,218	206,565	¥ (206,565)	-
	Total sales	31,423,053	3,546,444	308,512	1,292,119	347,318	36,917,448	(206,565)	36,710,882
	Operating expenses	29,875,388	3,883,910	179,615	759,589	439,681	35,138,184	28,767	35,166,952
	Operating income (loss)	<u>¥ 1,547,664</u>	<u>¥ (337,466)</u>	<u>¥ 128,897</u>	<u>¥ 532,530</u>	<u>¥ (92,363)</u>	<u>¥ 1,779,263</u>	<u>¥ (235,333)</u>	<u>¥ 1,543,930</u>
II.	Assets, depreciation and capital expenditures:								
	Assets	¥ 14,236,976	¥ 1,471,024	¥ 2,733,869	¥ 8,112,356	¥ 3,933,754	¥ 30,487,981	¥ 2,492,335	¥ 32,980,317
	Depreciation	489,403	77,626	28,184	293,358	180,898	1,069,471	5,328	1,074,799
	Capital expenditures	942,854	23,293	123,651	3,164,712	2,676,884	6,931,396	(6,206)	6,925,189

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Segment Information (continued)

Thousands of U.S. dollars

		2006						Elimina- tions or corporate	Consolida- ted
		Car	Housing	Real estate	Investment	Environment	Total		
I. Sales and operating income:									
Sales to third parties		\$ 363,646	\$ 23,664	\$ 2,520	\$ 18,427	\$ 4,817	\$ 413,076	-	\$ 413,076
Intersegment sales		44	3,156	324	-	70	3,595	\$ (3,595)	-
Total sales		363,690	26,820	2,845	18,427	4,888	416,671	(3,595)	413,076
Operating expenses		344,979	27,862	1,636	16,769	8,315	399,563	(2,245)	397,318
Operating income (loss)		<u>\$ 18,711</u>	<u>\$ (1,041)</u>	<u>\$ 1,208</u>	<u>\$ 1,657</u>	<u>\$ (3,427)</u>	<u>\$ 17,108</u>	<u>\$ (1,350)</u>	<u>\$ 15,757</u>
II. Assets, depreciation, impairment loss and capital expenditures:									
Assets		\$ 248,793	\$ 19,305	\$ 19,674	\$ 47,605	\$ 23,787	\$ 359,166	\$ 53,213	\$ 412,379
Depreciation		3,842	445	289	4,176	2,505	11,259	24	11,284
Impairment loss		-	1,278	2,660	11	-	3,950	-	3,950
Capital expenditures		11,768	125	837	2,414	231	15,377	(248)	15,129

As the Company does not have significant consolidated subsidiaries or branches in foreign countries, the disclosure of geographical segment information has been omitted.

Sales to Foreign Customers

Thousands of yen

		2006					Total
		Africa	Central and South America	Oceania	Europe	Asia	
Overseas sales		¥ 2,737,622	¥ 1,117,478	¥ 808,379	¥ 402,957	¥ 60,633	¥ 5,127,071
Net sales		-	-	-	-	-	48,524,083
Ratio of overseas sales to net sales		5.6 %	2.3 %	1.7 %	0.8 %	0.1 %	10.5 %

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Segment Information (continued)

	<i>Thousands of yen</i>					
	2005					
	Africa	Central and South America	Oceania	Europe	Asia	Total
Overseas sales	¥ 3,057,885	¥ 1,195,689	¥ 845,040	¥ 242,413	¥ 51,432	¥ 5,392,461
Net sales	-	-	-	-	-	36,710,882
Ratio of overseas sales to net sales	8.3 %	3.3 %	2.3 %	0.7 %	0.1 %	14.7 %

	<i>Thousands of U.S. dollars</i>					
	2006					
	Africa	Central and South America	Oceania	Europe	Asia	Total
Overseas sales	\$ 23,304	\$ 9,512	\$ 6,881	\$ 3,430	\$ 516	\$ 43,645
Net sales	-	-	-	-	-	413,076

15. Subsequent Event

The following appropriations of capital surplus of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2006, were approved at a shareholders' meeting held on June 29, 2006:

	<i>Thousands of yen</i>	<i>Thousands of U.S. dollars</i>
Cash dividends (¥2.40 = U.S.\$0.02 per share)	¥76,717	\$653
Transfer of capital surplus to retained earnings	285,926	2,434