

Consolidated Financial Statements

VT HOLDINGS CO., LTD.

*Years ended March 31, 2007 and 2006
with Report of Independent Auditors*

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2007 and 2006

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Assets			
Current assets:			
Cash and cash equivalents	¥ 2,215,068	¥ 3,029,413	\$ 18,763
Marketable securities (Note 5)	-	13,695	-
Notes and accounts receivable:			
Trade	5,868,848	4,015,657	49,714
Other	1,116,754	1,641,061	9,460
Allowance for doubtful accounts	(202,901)	(53,252)	(1,718)
Inventories (Note 4)	7,987,602	4,841,966	67,662
Short-term loans receivable	111,421	2,664,674	943
Deferred tax assets (Note 13)	591,307	396,540	5,008
Other current assets	977,423	1,008,896	8,279
Total current assets	<u>18,665,524</u>	<u>17,558,653</u>	<u>158,115</u>
Property and equipment:			
Land (Note 8)	16,517,808	6,156,233	139,922
Buildings and structures (Note 8)	16,642,107	8,629,606	140,975
Machinery, fixtures and vehicles	4,770,607	2,397,187	40,411
Construction in progress	17,980	358	152
	<u>37,948,503</u>	<u>17,183,384</u>	<u>321,461</u>
Accumulated depreciation	(12,865,319)	(6,099,008)	(108,981)
Property and equipment, net	<u>25,083,184</u>	<u>11,084,376</u>	<u>212,479</u>
Intangible assets (Note 7)	14,866,403	8,366,575	125,933
Investments and other assets:			
Investment securities (Notes 5 and 8)	2,604,645	7,413,625	22,063
Investments in unconsolidated subsidiaries and associated companies	2,928,449	929,050	24,806
Long-term loans receivable	1,883,101	1,619,143	15,951
Deferred tax assets (Note 13)	421,512	176,258	3,570
Rental deposits	1,112,847	856,606	9,426
Other assets	1,362,170	1,409,095	11,538
Allowance for doubtful accounts	(1,559,641)	(1,071,152)	(13,211)
Total investments and other assets	<u>8,753,085</u>	<u>11,332,627</u>	<u>74,147</u>
Deferred assets	<u>8,805</u>	<u>-</u>	<u>74</u>
Total assets	<u>¥ 67,377,002</u>	<u>¥ 48,342,232</u>	<u>\$ 570,749</u>

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Balance Sheets

March 31, 2007 and 2006

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Liabilities and equity			
Current liabilities:			
Short-term bank loans (<i>Note 8</i>)	¥ 12,440,528	¥ 8,005,336	\$ 105,383
Current portion of long-term debt (<i>Note 8</i>)	4,510,760	3,348,260	38,210
Notes and accounts payable:			
Trade	16,761,438	9,352,689	141,985
Other	301,223	360,129	2,551
Income taxes payable (<i>Note 13</i>)	1,048,721	1,040,078	8,883
Accrued bonuses to employees	867,372	505,659	7,347
Other current liabilities	3,341,851	2,868,805	28,308
Total current liabilities	<u>39,271,896</u>	<u>25,480,958</u>	<u>332,671</u>
Long-term liabilities:			
Long-term debt (<i>Note 8</i>)	13,322,685	10,799,145	112,856
Deferred tax liabilities (<i>Note 13</i>)	1,191,331	698,278	10,091
Liability for retirement benefits for employees (<i>Note 9</i>)	1,992,164	1,318,714	16,875
Liability for retirement benefits for directors and corporate auditors	112,152	106,236	950
Accounts payable-other	619,665	94,290	5,249
Other long-term liabilities	179,218	183,860	1,518
Total long-term liabilities	<u>17,417,217</u>	<u>13,200,524</u>	<u>147,541</u>
Minority interests	-	900,203	-
Commitments and contingent liabilities (<i>Notes 12 and 14</i>)			
Equity (<i>Note 10</i>):			
Common stock:			
Authorized – 56,600,000 shares in 2007 and 2006			
Issued – 34,293,693 shares in 2007 and 32,543,693 shares in 2006	2,378,700	2,242,200	20,149
Capital surplus	2,179,898	2,410,006	18,465
Retained earnings	2,780,802	3,222,084	23,556
Unrealized gain on available-for-sale securities	104,733	1,198,845	887
Foreign currency translation adjustments	74	8	0
Treasury stock, at cost – 125,465 shares in 2007 and 577,965 shares in 2006	(71,338)	(312,599)	(604)
Total	<u>7,372,871</u>	<u>8,760,545</u>	<u>62,455</u>
Minority interests	3,315,017	-	28,081
Total equity	<u>10,687,888</u>	<u>8,760,545</u>	<u>90,536</u>
Total liabilities and equity	<u>¥ 67,377,002</u>	<u>¥ 48,342,232</u>	<u>\$ 570,749</u>

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Operations

Years ended March 31, 2007 and 2006

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2007	2006	2007
Net sales (<i>Note 18</i>)	¥ 97,735,138	¥ 48,524,083	\$ 827,913
Cost of sales	79,855,571	38,438,452	676,455
Gross profit	17,879,567	10,085,630	151,457
Selling, general and administrative expenses	15,058,829	8,234,543	127,563
Operating income (<i>Note 18</i>)	2,820,737	1,851,086	23,894
Other income (expenses):			
Interest and dividend income	64,309	97,820	544
Interest expense	(293,663)	(120,962)	(2,487)
Foreign exchange gain, net	15,851	20,847	134
Gain on sales of investment securities	898,252	1,849,759	7,609
Gain on sales of investments in a consolidated subsidiary	45,000	635,508	381
Gain on liquidation of a consolidated subsidiary	-	326,613	-
Gain on sales of property and equipment	524,282	118,473	4,441
Incentive received	87,244	13,022	739
Lease revenue received	143,872	41,267	1,218
Loss on sales of investment securities	(322,309)	(27,220)	(2,730)
Write-down of investment securities	(261,657)	(726,903)	(2,216)
Loss on impairment of long-lived assets	(1,979,536)	(464,094)	(16,768)
Loss on sales and disposal of property and equipment	(169,689)	(47,870)	(1,437)
Provision for doubtful accounts	(590,240)	(1,026,000)	(4,999)
Cost of leasing business	(167,701)	(44,158)	(1,420)
Other, net	(42,068)	(333,678)	(356)
	(2,048,053)	312,424	(17,349)
Income before income taxes and minority interests	772,684	2,163,510	6,545
Income taxes (<i>Note 13</i>):			
Current	1,495,828	1,431,175	12,671
Deferred	(130,129)	(293,477)	(1,102)
Total income taxes	1,365,698	1,137,697	11,568
Minority interests in net income	126,025	507,952	1,067
Net income (loss)	¥ (719,039)	¥ 517,861	\$ (6,090)

See accompanying notes to the consolidated financial statements.

Per share of common stock (<i>Notes 2(s) and 15</i>)	<i>Yen</i>		<i>U.S. Dollars</i> <i>(Note 1)</i>
Basic net income	¥ (22.45)	¥ 15.85	\$ (0.19)
Diluted net income	-	15.78	-
Cash dividends applicable to the year	-	4.40	-

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity

Years ended March 31, 2007 and 2006

	Outstanding number of shares of common stock	Common stock	Capital surplus	Retained earnings	Unrealized gains on available-for- sale securities	Foreign currency translation adjustments	Treasury stock	Total	Minority interests	Total equity
<i>Thousands of Yen</i>										
Balance at April 1, 2005	31,965,728	¥ 2,242,200	¥ 2,412,950	¥ 2,892,874	¥ 88,259	¥ -	¥ (50,251)	¥ 7,586,031	-	¥ 7,586,031
Net income for the year	-	-	-	517,861	-	-	-	517,861	-	571,861
Cash dividends, ¥4.40 per share	-	-	-	(142,074)	-	-	-	(142,074)	-	(142,074)
Bonuses to directors and corporate auditors	-	-	-	(31,234)	-	-	-	(31,234)	-	(31,234)
Loss on retirement of non-allotted shares in merger	-	-	-	(80,932)	-	-	-	(80,932)	-	(80,932)
Increase by merger	-	-	-	65,590	-	-	-	65,590	-	65,590
Net change in unrealized gain on available-for-sale securities	-	-	-	-	1,110,586	-	-	1,110,586	-	1,110,586
Net change in foreign currency translation adjustment	-	-	-	-	-	8	-	8	-	8
Purchase and disposal of treasury stock, net	-	-	(2,943)	-	-	-	(262,348)	(265,291)	-	(265,291)
Balance at March 31, 2006	31,965,728	2,242,200	2,410,006	3,222,084	1,198,845	8	(312,599)	8,760,545	-	8,760,545
Reclassified balances as of March 31, 2006 (Note 2 (n))	-	-	-	-	-	-	-	-	¥ 900,203	900,203
Net loss for the year	-	-	-	(719,039)	-	-	-	(719,039)	-	(719,039)
Cash dividends, ¥2.40 per share	-	-	(76,717)	-	-	-	-	(76,717)	-	(76,717)
Bonuses to directors and corporate auditors	-	-	-	(8,168)	-	-	-	(8,168)	-	(8,168)
Issuance of common stock	1,750,000	136,500	134,860	-	-	-	-	271,360	-	271,360
Disposal of treasury stock	452,500	-	(2,323)	-	-	-	241,261	238,937	-	238,937
Transfer from capital surplus to retained earnings	-	-	(285,926)	285,926	-	-	-	-	-	-
Net change in the year	-	-	-	-	(1,094,111)	65	-	(1,094,046)	2,414,813	1,320,767
Balance at March 31, 2007	34,168,228	¥ 2,378,700	¥ 2,179,898	¥ 2,780,802	¥ 104,733	¥ 74	¥ (71,338)	¥ 7,372,871	¥ 3,315,017	¥ 10,687,888
<i>Thousands of U.S. Dollars (Note 1)</i>										
Balance at March 31, 2006		\$ 18,993	\$ 20,415	\$ 27,294	\$ 10,155	\$ 0	\$ (2,648)	\$ 74,210	-	\$ 74,210
Reclassified balances as of March 31, 2006 (Note 2 (n))		-	-	-	-	-	-	-	\$ 7,625	7,625
Net loss for the year		-	-	(6,090)	-	-	-	(6,090)	-	(6,090)
Cash dividends, \$0.02 per share		-	(649)	-	-	-	-	(649)	-	(649)
Bonuses to directors and corporate auditors		-	-	(69)	-	-	-	(69)	-	(69)
Issuance of common stock		1,156	1,142	-	-	-	-	2,298	-	2,298
Sales of treasury stock		-	(19)	-	-	-	2,043	2,024	-	2,024
Transfer from capital surplus to retained earnings		-	(2,422)	2,422	-	-	-	-	-	-
Net change in the year		-	-	-	(9,268)	0	-	(9,267)	20,455	11,188
Balance at March 31, 2007		\$ 20,149	\$ 18,465	\$ 23,556	\$ 887	\$ 0	\$ (604)	\$ 62,455	\$ 28,081	\$ 90,536

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

Years ended March 31, 2007 and 2006

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Cash flows from operating activities:			
Net income before income taxes and minority interests	¥ 772,684	¥ 2,163,510	\$ 6,545
Adjustments for:			
Depreciation and amortization	2,168,440	1,482,003	18,368
Loss on impairment of long-lived assets	1,979,536	464,094	16,768
Increase in allowance for doubtful accounts	615,439	1,033,594	5,213
(Decrease) increase in accrued bonus	(135,117)	183,980	(1,144)
Decrease in accrued retirement benefits for employees	(309,322)	(12,395)	(2,620)
Increase in accrued retirement benefits for directors and corporate auditors	5,916	14,604	50
Interest and dividend income	(64,309)	(97,820)	(544)
Interest expense	293,663	120,962	2,487
Foreign exchange (gain) loss	(31,850)	4,618	(269)
Gain on sales of property and equipment	(524,282)	-	(4,441)
Write-down of investments securities	261,657	726,903	2,216
Gain on sales of investment securities	(898,252)	(1,849,759)	(7,609)
Loss on sales of investment securities	322,309	27,220	2,730
Gain on sales of investments in a consolidated subsidiary	(45,000)	(635,508)	(381)
Gain on liquidation of a consolidated subsidiary	-	(326,613)	-
Bonuses to directors and corporate auditors	(9,900)	(32,915)	(83)
Decrease (increase) in notes and accounts receivable, trade	81,589	(663,595)	691
Increase in inventories	(807,140)	(715,374)	(6,837)
Decrease in other current assets	360,210	475,325	3,051
Increase in notes and accounts payable, trade	904,171	1,873,337	7,659
Decrease in other current liabilities	(568,778)	(812,271)	(4,818)
Other	33,042	187,951	279
Subtotal	<u>4,404,709</u>	<u>3,611,854</u>	<u>37,312</u>
Interest and dividends received	108,267	115,424	916
Interest paid	(298,070)	(120,360)	(2,524)
Income taxes paid	(1,673,012)	(1,170,519)	(14,172)
Net cash provided by operating activities	<u>¥ 2,541,894</u>	<u>¥ 2,436,398</u>	<u>\$ 21,532</u>

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, 2007 and 2006

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars (Note 1)</i>
	2007	2006	2007
Cash flows from investing activities:			
Purchases of property and equipment	¥(4,512,226)	¥(1,629,845)	\$ (38,223)
Proceeds from sales of property and equipment	2,723,319	636,042	23,069
Purchases of intangible assets	(107,873)	(125,048)	(913)
Purchases of investment securities	(3,886,964)	(3,584,431)	(32,926)
Proceeds from sales of investment securities	4,534,017	3,505,471	38,407
Purchase of subsidiaries resulting in inclusion in consolidation	(2,518,455)	-	(21,333)
Proceeds from sales of investment in a subsidiary resulting in exclusion from consolidation	-	62,229	-
Net proceeds from purchase of investment in subsidiaries resulting in inclusion in consolidation	-	37,427	-
Acquisition of consolidated subsidiaries	(34,000)	(1,795,514)	(288)
Increase in loans receivable	(1,365,474)	(646,460)	(11,566)
Decrease in loans receivable	2,778,055	266,517	23,532
Increase in security deposit	(114,382)	(167,052)	(968)
Decrease in security deposit	105,357	82,344	892
Other	222,977	(1,076,257)	1,888
Net cash used in investing activities	(2,175,650)	(4,434,578)	(18,429)
Cash flows from financing activities:			
Net decrease in short-term bank loans, net	(2,484,807)	(4,921,663)	(21,048)
Proceeds from long-term debt	5,500,000	9,787,973	46,590
Repayment of long-term debt	(4,548,360)	(3,153,364)	(38,529)
Issuance of common stock	402,508	-	3,409
Issuance of common stock to minority shareholders	-	45,000	-
Purchase of treasury stock	-	(279,854)	-
Proceeds from sales of treasury stock	104,297	14,563	883
Purchase of treasury stock by a subsidiary	(65,654)	(470,997)	(556)
Proceeds from sales of treasury stock by a subsidiary	2,500	-	21
Cash dividends paid	(76,717)	(142,074)	(649)
Cash dividends paid to minority shareholders	(32,628)	(18,957)	(276)
Net cash (used in) provided by financing activities	(1,198,861)	860,624	(10,155)
Foreign currency translation adjustments on cash and cash equivalents	18,273	(5,343)	154
Net decrease in cash and cash equivalents	(814,344)	(1,142,899)	(6,898)
Cash and cash equivalents, beginning of year	3,029,413	4,152,846	25,662
Cash and cash equivalents increase due to a newly consolidated subsidiary	-	14,390	-
Cash and cash equivalents increase due to merger of non-consolidated subsidiaries by consolidated subsidiaries	-	5,076	-
Cash and cash equivalents, end of year	¥ 2,215,068	¥ 3,029,413	\$ 18,763

See accompanying notes to the consolidated financial statements.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to the Consolidated Financial Statements

March 31, 2007 and 2006

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 Corporate Law 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.

On December 27, 2005, the Accounting Standards Board of Japan (the “ASBJ”) published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The consolidated statement of shareholders’ equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed “the consolidated statement of changes in equity” in the current fiscal year.

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 2006 financial statements to conform to the classifications used in 2007.

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 ¥118.05= U.S.\$1.00, the rate of exchange prevailing on March 30, 2007. This translation should not be construed as a representation that the Japanese yen amounts could be converted into U.S. dollars at the that 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, 2007 and 2006 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2007 and 2006 (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.

The consolidated financial statements as of March 31, 2007 include the accounts of the Company and its 29 significant (19 in 2006) subsidiaries (together, the “Group”).

Investments in six (four in 2006) associated companies are accounted for by the equity method. Investments in the remaining unconsolidated subsidiary (nil in 2007 and one in 2006) and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

On September 8, 2006, the ASBJ issued Practical Issues Task Force No.20, “Practical Solution on Application of Control Criteria and Influence Criteria to Investment Associations,” which is effective for fiscal years ending on or after September 8, 2006. The practical solution clarifies how the control and influence concept should be practically applied to the consolidation scope of collective investment vehicles, such as limited partnerships, anonymous association and other entities with similar characteristics, in order to avoid such vehicles being intentionally excluded from consolidation. The Company applied this Task Force for the year ended March 31, 2007, which resulted in two collective investment vehicles newly consolidated in 2007.

At March 31, 2006, the Company held an interest in excess of 50% in three collective investment vehicles. The accounts of the collective investment vehicles have not been consolidated since the Company could not control them.

At March 31, 2007, the Company held a 20%-to-50% interest in two (four in 2006) collective investment vehicles. The investments reflected the movement of the net assets of the vehicles although the Company does not exercise significant influence over these investment vehicles.

Goodwill, including the excess of the cost of an acquisition over the fair value of the net assets of the acquired subsidiary at the date of acquisition is being amortized over a period of 20 years.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

For the year ended March 31, 2007, four consolidated subsidiaries have a fiscal year ending December 31. The consolidated financial statements include such subsidiaries' annual financial statements ended December 31. Material transactions occurring during the period from the subsidiaries' fiscal year end to March 31, 2007 have been adjusted within the consolidated financial statements.

(b) Business combination

In October 2003, the Business Accounting Council (the "BAC") issued a Statement of Opinion, "Accounting for Business Combinations," and on December 27, 2005, the ASBJ issued ASBJ Statement No.7, "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.

For business combinations that do not meet the uniting-of-interests criteria, it 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.

The effect of adoption of this accounting standard is nil.

(c) 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.

(d) 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 for payables, hedged by qualified forward foreign exchange contracts, which 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 except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "foreign currency translation

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

adjustments” in a separate component of equity. Revenues and expenses of foreign subsidiaries and others are translated at the average rate of the fiscal year.

(e) 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.

(f) Marketable and investment securities

Marketable and investment securities are classified and accounted for, depending on management’s intent, as follows:

i) trading securities, which are held for the purpose of earning capital gains in the near term are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost and iii) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

(g) 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.

Mail-order merchandises are stated at cost determined by the moving average method.

Merchandises such as parts are stated by the last invoice price method.

Finished goods are stated at cost by the average method.

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

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(h) Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment of the Company and its subsidiaries is computed by the declining-balance method at rates based on the estimated useful lives of the 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.

(i) Long-lived assets

In August 2002, the BAC issued a Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the ASBJ issued ASBJ Guidance No.6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These new pronouncements are 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.

(j) Deferred assets

Stock issuance expenses are charged to income as incurred. Certain consolidated subsidiaries amortize them over three years.

Business commencement expenses are amortized by the straight-line method over five years.

(k) Liability for retirement benefits for employees

The Company and certain consolidated subsidiaries have a defined contribution pension 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 to 11 years, within employees' average service period. Prior service costs are amortized over 11 years, within employees' average service period. Transitional obligation was expensed as

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Notes to Consolidated Financial Statements (continued)

incurred in the Group, except that Shizuoka Nissan Auto Sales Co., Ltd., which was newly consolidated for the year ended March 31, 2007, amortizes it over 15 years.

According to the enactment of the Defined Contribution Pension Plan Law in October 2001, certain consolidated subsidiaries implemented a defined contribution pension plan in February 2007 by which certain part of the former qualified defined benefit pension plan and the severance lump-sum payment plan were terminated. The consolidated subsidiaries applied accounting treatments specified in the guidance issued by the ASBJ. The effect of this transfer was not material.

(l) Liability for 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 them has been made at an estimated amount based on the Company's and consolidated subsidiaries' internal rules.

(m) Accrued bonuses to employees

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

(n) Presentation of equity

On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights, minority interests, 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. The consolidated balance sheet as of March 31, 2007 is presented in line with this new accounting standard.

(o) Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

(p) Intangible assets

Expenditures relating to 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

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Notes to Consolidated Financial Statements (continued)

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.

(q) Income taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

(r) Appropriations of retained earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

(s) Per share information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years including dividends to be paid after the end of the year.

(t) New accounting pronouncements

Measurement of Inventories—Under generally accepted accounting principles in Japan (“Japanese GAAP”), inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No.9, “Accounting Standard for Measurement of Inventories,” which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that

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Notes to Consolidated Financial Statements (continued)

inventories held for trading purposes be measured at the market price.

Lease Accounting—On March 30, 2007, the ASBJ issued ASBJ Statement No.13, “Accounting Standard for Lease Transactions”, which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the note to the lessee’s financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements—Under Japanese GAAP, a company currently can use the financial statements of foreign subsidiaries which are prepared in accordance with generally accepted accounting principles in their respective jurisdictions for its consolidation process unless they are clearly unreasonable. On May 17, 2006, the ASBJ issued ASBJ Practical Issues Task Force (PITF) No.18, “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements.” The new task force prescribes: 1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, 2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process, 3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material;

- (1) Amortization of goodwill
- (2) Actuarial gains and losses of defined benefit plans recognized outside profit or loss
- (3) Capitalization of intangible assets arising from development phases
- (4) Fair value measurement of investment properties, and the revaluation model for property, plant and equipment, and intangible assets
- (5) Retrospective application when accounting policies are changed
- (6) Accounting for net income attributable to a minority interest

The new task force is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

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Notes to Consolidated Financial Statements (continued)

3. Business Combination

In August 2006, Honda Verno Tokai Co., Ltd. and Honda Primo Tokai Co., Ltd., which were 100% consolidated subsidiaries of the Company, were merged to achieve more efficient business operation. The surviving company was Honda Verno Tokai Co., Ltd. and renamed as Honda Cars Tokai Co., Ltd.

This business combination was treated as a transaction under the common parent company based on "Accounting for Business Combinations," issued by the BAC on October 31, 2003 and ASBJ Guidance No.10 "Guidance for Accounting Standard for Business Combinations and Business Separations."

4. Inventories

Inventories at March 31, 2007 and 2006 consisted of the following:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2007	2006	<i>U.S. dollars</i>
			2007
New and used cars	¥ 6,684,130	¥ 3,506,353	\$ 56,621
Parts	240,618	199,597	2,038
Other merchandise	578,134	712,029	4,897
Total merchandise	7,502,882	4,417,979	63,556
Raw materials	46,867	45,486	397
Work in process	378,794	333,163	3,208
Supplies	59,057	45,337	500
Total	¥ 7,987,602	¥ 4,841,966	\$ 67,662

5. Marketable and Investment Securities

(a) Information regarding marketable securities classified as available-for-sale securities at March 31, 2007 and 2006 is summarized as follows:

	<i>Thousands of yen</i>			<i>Book value</i> <i>(estimated</i> <i>fair value)</i>
	2007	2007	2007	
	<i>Acquisition</i> <i>cost</i>	<i>Gross</i> <i>unrealized gain</i>	<i>Gross</i> <i>unrealized loss</i>	<i>Book value</i> <i>(estimated</i> <i>fair value)</i>
Equities	¥ 682,416	¥ 163,795	¥ (9,156)	¥ 837,056
Other	678,117	28,498	(4,801)	701,814
Total	¥ 1,360,534	¥ 192,294	¥ (13,957)	¥ 1,538,872

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Notes to Consolidated Financial Statements (continued)

<i>Thousands of yen</i>				
2006				
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
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	<u>¥ 2,225,757</u>	<u>¥ 2,084,408</u>	<u>¥ (54,609)</u>	<u>¥ 4,255,557</u>

<i>Thousands of U.S. dollars</i>				
2007				
	Acquisition cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Equities	\$ 5,780	\$ 1,387	\$ (77)	\$ 7,090
Other	5,744	241	(40)	5,945
Total	<u>\$ 11,525</u>	<u>\$ 1,628</u>	<u>\$ (118)</u>	<u>\$ 13,035</u>

- (b) Investment securities whose market value is not determinable and classified as available-for-sale securities at March 31, 2007 and 2006 are summarized as follows:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	2007	2006	2007
Marketable value not determinable:			
Equities	¥ 762,922	¥ 562,050	\$ 6,462
Bonds	-	10,000	-
Investment interest in collective investment vehicles	302,851	2,599,711	2,565
Total	<u>¥ 1,065,773</u>	<u>¥ 3,171,762</u>	<u>\$ 9,028</u>

- (c) Sales of investment securities classified as available-for-sale securities for the years ended March 31, 2007 and 2006 are summarized as follows:

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Notes to Consolidated Financial Statements (continued)

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2007	2006	<i>U.S. dollars</i>
Proceeds from sales	¥ 2,632,746	¥ 3,369,494	\$ 22,301
Gross realized gain	947,490	1,849,759	8,026
Gross realized loss	(326,547)	(27,220)	(2,766)

- (d) The redemption schedule for debt securities with maturity dates classified as available-for-sale securities at March 31, 2007 is summarized as follows:

	<i>Thousands of yen</i>			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Debt securities	-	¥ 19,130	¥ 75,169	-
Total	-	¥ 19,130	¥ 75,169	-

	<i>Thousands of U.S. dollars</i>			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Debt securities	-	\$ 162	\$ 636	-
Total	-	\$ 162	\$ 636	-

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Notes to Consolidated Financial Statements (continued)

6. Long-lived Assets

The Group reviewed its long-lived assets for impairment as of March 31, 2006 and, as a result, recognized impairment losses of ¥464,094 thousand for certain leasing assets located in Nagoya (land, buildings and structures etc.), idle assets located in Sabae (land), business assets located in Yashio (buildings, fixtures, software and telephone rights etc.) and goodwill arising from consolidation of Home Direct Co., Ltd. Book value was written down to the recoverable amount due to decline of land value regarding the leasing assets and idle assets and due to low business performance of Home Direct Co., Ltd. regarding the business assets and goodwill for the year ended March 31, 2006. The recoverable amounts were measured at its value in use and the discount rate used for computation of present value of future cash flows was 1.24%.

The Group reviewed its long-lived assets for impairment as of March 31, 2007 and, as a result, recognized impairment losses of ¥1,979,536 thousand (\$16,768 thousand) for certain business assets in the car segment located in Seki and Nagano (land and buildings etc.), assets in the environment segment located in Tokyo (patent and trademark etc.) and goodwill arising from Aiko Epoch Corporation and HD Asset Management Co., Ltd. (formerly Home Direct Co., Ltd.). Book value of the business assets in the car segment was written down to the net selling value based on appraisal value estimated by real estate appraiser. Book value of the assets in the environment segment was written down to zero due to low business performance of Aiko Epoch Corporation and HD Asset Management Co., Ltd., which engage in environment business.

7. Intangible Assets

Intangible assets at March 31, 2007 and 2006 consisted of the following:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2007	2006	<i>U.S. dollars</i>
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Goodwill, net	¥14,132,677	¥ 7,936,282	\$ 119,717
Patent	-	1,774,266	-
Trademark	421	132,492	3
Other	733,305	297,798	6,211
Total	<u>¥14,866,403</u>	<u>¥ 8,366,575</u>	<u>\$ 125,933</u>

8. 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 1.042% and 0.453% at March 31, 2007 and 2006, respectively.

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Notes to Consolidated Financial Statements (continued)

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2007	2006	<i>U.S. dollars</i>
			2007
Loans from banks and other financial institutions, payable in yen, at rates from 0.589 to 2.575%, due through 2013	¥ 17,533,445	¥ 13,847,405	\$ 148,525
Unsecured bonds, payable in yen, at variable interest rates of 0.19%, due 2009	300,000	300,000	2,541
	17,833,445	14,147,405	151,066
Less current portion	(4,510,760)	(3,348,260)	(38,210)
Long-term debt, less current portion	<u>¥ 13,322,685</u>	<u>¥ 10,799,145</u>	<u>\$ 112,856</u>

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

<u>Year ending March 31,</u>	<i>Thousands of yen</i>	<i>Thousands of</i>
		<i>U.S. dollars</i>
2008	¥ 4,510,760	\$ 38,210
2009	4,359,285	36,927
2010	3,622,600	30,686
2011	2,749,800	23,293
2012 and thereafter	2,591,000	21,948
Total	<u>¥ 17,833,445</u>	<u>\$ 151,066</u>

The assets pledged as collateral for short-term bank loans of ¥4,360,000 thousand (\$36,933 thousand) and long-term debt of ¥1,924,300 thousand (\$16,300 thousand) including the current portion at March 31, 2007 were as follows:

	<i>Thousands of yen</i>	<i>Thousands of</i>
		<i>U.S. dollars</i>
Land	¥ 9,076,637	\$ 76,888
Buildings	1,464,761	12,407
Investment securities	31,700	268
Total	<u>¥10,573,099</u>	<u>\$ 89,564</u>

Financial covenants relating to syndicate loans of ¥12,658,000 thousand (\$107,225 thousand) are as follows:

Syndicate loan executed on July 9, 2003 contains restrictions that amount of equity in the consolidated balance sheets at semiannual year end or annual year end should not be under 75% of

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Notes to Consolidated Financial Statements (continued)

amount of equity in the consolidated balance sheets at March 31, 2003.

Syndicate loan executed on March 25, 2004 contains restrictions that amount of equity in the consolidated balance sheets at annual year end should not be under 75% of amount of equity in the consolidated balance sheets at March 31, 2003.

Syndicate loan executed on March 25, 2005 contains restrictions that amount of equity in the consolidated balance sheets at annual year end should not be under 75% of the larger of amount of equity in the latest annual consolidated balance sheets or amount of equity in the consolidated balance sheets at March 31, 2004.

Syndicate loan executed on September 28, 2005 contains restrictions that amount of equity in the consolidated balance sheets at annual year end should not be under 75% of amount of equity in the consolidated balance sheets at March 31, 2005.

Syndicate loan executed on September 25, 2006 contains restrictions that amount of equity in the consolidated balance sheets (excluding unrealized gain or loss on available-for-sale securities) at annual year end should not be under 75% of amount of equity (excluding unrealized gain or loss on available-for-sale securities) in the consolidated balance sheets at March 31, 2006 (as for the consolidated balance sheets at March 31, 2006, equity (excluding unrealized gain or loss on available-for-sale securities) shall include “stock acquisition rights,” “minority interests” and “deferred gain or loss on derivatives under hedge accounting,” if any).

9. Retirement and Pension Plans

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, 2007 and 2006 for the Company’s and consolidated subsidiaries’ defined benefit pension plans:

	<i>Thousands of yen</i>		<i>Thousands of U.S. dollars</i>
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Projected benefit obligation	¥ (2,897,028)	¥ (2,138,442)	\$ (24,540)
Plan assets at fair value	854,080	852,835	7,234
Unfunded retirement benefit obligation	(2,042,948)	(1,285,607)	(17,305)
Unrecognized transitional obligation	(94,774)	-	(802)
Unrecognized actuarial loss (gain)	8,105	(33,107)	68
Unrecognized prior service cost	137,453	-	1,164
Liability for retirement benefits	<u>¥ (1,992,164)</u>	<u>¥ (1,318,714)</u>	<u>\$ (16,875)</u>

The components of net periodic benefit costs for the years ended March 31, 2007 and 2006 are as follows:

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Notes to Consolidated Financial Statements (continued)

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2007	2006	<i>U.S. dollars</i>
Service cost	¥ 143,063	¥ 17,073	\$ 1,211
Interest cost	64,431	8,250	545
Expected return on plan assets	(5,645)	-	(47)
Amortization of transitional obligation	(12,388)	-	(104)
Recognized actuarial loss	14,410	-	122
Amortization of prior service cost	1,049	-	8
Contribution to defined contribution pension plan	71,641	34,345	606
Prepaid retirement payments	7,869	7,969	66
Other periodic benefit costs	67,403	66,947	570
Net periodic benefit costs	<u>¥ 351,835</u>	<u>¥ 134,586</u>	<u>\$ 2,980</u>

Certain consolidated subsidiaries implemented a defined contribution pension plan in February 2007 by which certain part of the former qualified defined benefit pension plan and the severance lump-sum payment plan were terminated. The effect of this termination is as follows:

	<i>Thousands of</i>	<i>Thousands of</i>
	<i>yen</i>	<i>U.S. dollar</i>
Decrease in projected benefit obligation	¥ 235,739	\$ 1,996
Decrease in pension assets	(255,962)	(2,168)
Unrecognized actuarial gain	(29,753)	(252)
Unrecognized transitional obligation	24,015	203
Increase in liability for retirement benefits	<u>¥ (25,960)</u>	<u>\$ (219)</u>

The amount of assets to be transferred to defined contribution pension plan was ¥464,847 thousand (\$3,937 thousand), and all of the assets will be transferred over four years. The amount not transferred was ¥156,500 thousand (\$1,325 thousand), and recorded as accounts payable – other (current and non-current) at March 31, 2007.

Assumptions used for the years ended March 31, 2007 and 2006 are set forth as follows:

	2007	2006
Periodic recognition of projected benefit obligation	Straight-line method	Straight-line method
Discount rate	2.0 to 2.3%	2.0%
Expected rate of return on plan assets	3.0%	-
Amortization period of prior service cost	11 years	-
Recognition period of actuarial gain / loss	10 to 11 years	10 years
Amortization period of transitional obligation	As incurred	-

For the year ended March 31, 2007, Shizuoka Nissan Auto Sales Co., Ltd., which was newly

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Notes to Consolidated Financial Statements (continued)

consolidated, amortizes transitional obligation over 15 years.

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, 2007 and 2006 amounted to ¥1,082,593 thousand (\$9,170 thousand) and ¥969,467 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.

10. Equity

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan (the "Code") with various revisions that are, for the most part, 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:

(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) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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. The Corporate Law 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 equity 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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.

(c) Treasury stock and treasury stock acquisition rights

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Notes to Consolidated Financial Statements (continued)

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 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 equity or deducted directly from stock acquisition rights.

11. Stock Options

The outstanding stock option granted by the Group as of March 31, 2007 is as follows:

Stock option (granted by)	Persons granted	Number of options granted (shares)	Date of grant	Exercise price Yen (U.S. dollars)	Exercise period
2000 Stock option (the Company)	5 directors and 60 employees of the Company	400,000	October 6, 2000	¥ 219 (\$ 1.85)	From July 1, 2002 To June 30, 2006
2004 Stock option (the Company)	3 directors of the Company	2,500,000	June 30, 2004	¥ 680 (\$ 5.76)	From April 1, 2005 To June 30, 2009
2005 Stock option (the Company)	6 advisors and 5 employees of the Company 13 directors and 10 employees of subsidiaries	106,500	July 20, 2005	¥ 776 (\$ 6.57)	From August 1, 2007 To June 30, 2011
2003 Stock option (Trust Company Limited (the "Trust"))	2 directors and 4 employees of the Trust	2,750	November 20, 2003	¥ 10,000 (\$ 84.70)	From November 21, 2005 To November 20, 2008
2005 Stock option (the Trust)	A director and 2 officers of the Trust	3,000	July 15, 2005	¥ 69,229 (\$586.43)	From August 1, 2007 To July 30, 2010

Number of options granted and exercise prices are adjusted for stock splits at November 17, 2004.

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Notes to Consolidated Financial Statements (continued)

The stock option activity is as follows:

(Stock option granted by the Company)

	2000 Stock option	2004 Stock option	2005 Stock option
		(Shares)	
<u>For the year ended March 31, 2007</u>			
<u>Non-vested</u>			
March 31, 2006 – Outstanding	-	-	105,500
Granted	-	-	-
Canceled	-	-	2,000
Vested	-	-	-
March 31, 2007 - Outstanding	-	-	103,500
<u>Vested</u>			
March 31, 2006 - Outstanding	52,500	2,500,000	-
Vested	-	-	-
Exercised	52,500	-	-
Canceled	-	-	-
March 31, 2007 - Outstanding	-	2,500,000	-
Exercise price	¥ 219 (\$ 1.85)	¥ 680 (\$ 5.76)	¥ 776 (\$ 6.57)
Average stock price at exercise	¥ 456.35 (\$ 3.86)	-	-

(Stock option granted by the Trust)

	2003 Stock option	2005 Stock option
		(Shares)
<u>For the year ended March 31, 2007</u>		
<u>Non-vested</u>		
March 31, 2006 – Outstanding	-	500
Granted	-	-
Canceled	-	-
Vested	-	-
March 31, 2007 - Outstanding	-	500
<u>Vested</u>		
March 31, 2006 - Outstanding	250	-
Vested	-	-
Exercised	250	-
Canceled	-	-
March 31, 2007 - Outstanding	-	-
Exercise price	¥ 10,000 (\$ 84.70)	¥ 69,229 (\$ 586.43)
Average stock price at exercise	¥ 35,700 (\$ 302.41)	-

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Notes to Consolidated Financial Statements (continued)

12. 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, 2007 and 2006, 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>				
2007				
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Impairment loss</u>	<u>Net book value</u>
Machinery and vehicles	¥ 3,170,922	¥1,262,974	¥ 3,095	¥1,904,851
Other	199,224	88,504	11,340	99,378
Total	¥ 3,370,146	¥1,351,479	¥ 14,435	¥2,004,231

<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	¥ 2,478,650	¥ 776,775	¥ 18,535	¥ 1,683,339

<i>Thousands of U.S. dollars</i>				
2007				
	<u>Acquisition cost</u>	<u>Accumulated depreciation</u>	<u>Impairment loss</u>	<u>Net book value</u>
Machinery and vehicles	\$ 26,860	\$ 10,698	\$ 26	\$ 16,135
Other	1,687	749	96	841
Total	\$ 28,548	\$ 11,448	\$ 122	\$ 16,977

Lease payments relating to finance leases accounted for as operating leases in the consolidated financial statements amounted to ¥902,845 thousand (\$7,647 thousand) and ¥658,333 thousand for the years ended March 31, 2007 and 2006, respectively.

Depreciation of the leased property computed by the straight-line method over the respective lease terms amounted to ¥783,608 thousand (\$6,637 thousand) and ¥552,953 thousand for the years ended March 31, 2007 and 2006, respectively.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

Reversal of allowance for impairment loss on leased property, interest expense computed by the interest method and impairment loss amounted to ¥ 15,389 thousand (\$130 thousand), and ¥5,224 thousand, ¥39,707 thousand (\$336 thousand) and ¥31,846 thousand, and ¥14,435 thousand (\$122 thousand) and ¥18,535 thousand for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments subsequent to March 31, 2007 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>
2008	¥ 831,866 (227,605)	\$ 7,046 (1,928)
2009 and thereafter	1,208,095 (481,062)	10,233 (4,075)
Total	<u>¥ 2,039,962</u> <u>(708,667)</u>	<u>\$ 17,280</u> <u>(6,003)</u>

Allowance for impairment loss on leased property at March 31, 2007

¥ 12,358 \$ 104

Parenthetic items described above are future minimum lease payments on sublease items.

The acquisition costs and future minimum lease payments under finance leases presented in the above table does not include allowance for impairment loss on leased property at March 31, 2007 and 2006.

Future minimum lease payments subsequent to March 31, 2007 for operating leases are summarized as follows:

<u>Year ending March 31,</u>	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars</u>
2008	¥ 25,627 (5,644)	\$ 217 (47)
2009 and thereafter	28,380 (14,008)	240 (118)
Total	<u>¥ 54,008</u> <u>(19,653)</u>	<u>\$ 457</u> <u>(166)</u>

Parenthetic items described above are future minimum lease payments on sublease items.

As lessor

The following amounts represent the acquisition cost, accumulated depreciation, impairment loss

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

and net book value of the leasing property at March 31, 2007 and 2006.

	<i>Thousands of yen</i>		
	2007		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	¥ 763,641	¥ 218,335	¥ 545,305
Other	1,117,350	211,822	905,528
Total	<u>¥ 1,880,991</u>	<u>¥ 430,157</u>	<u>¥1,450,833</u>

	<i>Thousands of yen</i>		
	2006		
	Acquisition cost	Accumulated depreciation	Net book value
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>		
	2007		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery and vehicles	\$ 6,468	\$ 1,849	\$ 4,619
Other	9,465	1,794	7,670
Total	<u>\$ 15,933</u>	<u>\$ 3,643</u>	<u>\$12,289</u>

Lease revenue received relating to finance leases accounted for as operating leases in the consolidated financial statements amounted to ¥360,858 thousand (\$3,056 thousand) and ¥124,697 thousand for the years ended March 31, 2007 and 2006, respectively.

Depreciation of the leased property, and interest income on an as if basis, amounted to ¥326,012 thousand (\$2,761 thousand) and ¥104,646 thousand and ¥110,703 thousand (\$937 thousand) and ¥35,874 thousand for the years ended March 31, 2007 and 2006, respectively. Interest income is computed by interest method.

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

Future minimum lease receivables subsequent to March 31, 2007 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>
2008	¥ 392,738 (241,699)	\$ 3,326 (2,047)
2009 and thereafter	1,288,206 (500,478)	10,912 (4,239)
Total	<u>¥ 1,680,944</u> <u>(742,177)</u>	<u>\$ 14,239</u> <u>(6,286)</u>

Parenthetic items described above are future minimum lease receivables on sublease items.

Future minimum lease receivables subsequent to March 31, 2007 for operating leases are summarized as follows:

<u>Year ending March 31,</u>	<u>Thousands of yen</u>	<u>Thousands of U.S. dollars</u>
2008	¥ 15,636 (12,669)	\$ 132 (107)
2009 and thereafter	50,397 (39,829)	426 (337)
Total	<u>¥ 66,033</u> <u>(52,498)</u>	<u>\$ 559</u> <u>(444)</u>

Parenthetic items described above are future minimum lease receivables on sublease items.

13. Income Taxes

The Company and consolidated subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.5% for the years ended March 31, 2007 and 2006.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2007 and 2006 is as follows:

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

	<u>2007</u>	<u>2006</u>
Statutory tax rate	40.5%	40.5%
Valuation allowance	20.9	14.4
Changes in tax loss carryforward of consolidated subsidiaries	64.3	(5.3)
Loss on change of interest in a consolidated subsidiary	-	0.8
Amortization of goodwill	40.2	-
Unrealized gain	13.0	-
Realization of unrealized gain on subsidiaries' assets and liabilities arising from consolidation	(9.5)	-
Expenses not deductible for income tax purposes	2.9	0.9
Per capita tax	4.2	0.8
Other	0.2	0.4
Effective tax rate	<u>176.7%</u>	<u>52.6%</u>

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 are as follows:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	2007	2006	<i>U.S. dollars</i>
			2007
Deferred tax assets:			
Accrued enterprise tax	¥ 94,188	¥ 105,106	\$ 797
Tax loss carryforwards	1,280,583	669,584	10,847
Liability for retirement benefits for employees	804,501	533,204	6,814
Accrued bonuses to employees	353,621	203,732	2,995
Allowance for doubtful accounts	403,825	424,078	3,420
Loss on impairment of long-lived assets	1,080,590	304,854	9,153
Write-down of investment securities	124,129	239,939	1,051
Gain on acquisition of warrant	289,362	397,419	2,451
Accounts payable - other, non-current	313,357	-	2,654
Other	285,356	231,194	2,417
Total gross deferred tax assets	5,029,518	3,109,112	42,604
Valuation allowance	(3,491,735)	(2,226,439)	(29,578)
Deferred tax assets	1,537,782	882,673	13,026
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	(81,511)	(846,756)	(690)
Unrealized gain on subsidiaries' assets and liabilities arising from consolidation	(1,633,721)	-	(13,839)
Other	(1,060)	(161,396)	(8)
Deferred tax liabilities	(1,716,293)	(1,008,153)	(14,538)
Net deferred tax (liabilities) assets	¥ (178,511)	¥ (125,479)	\$ (1,512)

14. Contingent Liabilities

At March 31, 2007, the Group had the following contingent liabilities:

	<i>Thousands of Yen</i>	<i>Thousands of U.S. dollars</i>
Guarantees of credit liabilities	¥ 30,494	\$ 258

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Net Income Per Share

Reconciliation of the differences between basic and diluted net income per share (“EPS”) for the years ended March 31, 2007 and 2006 is as follows:

	<i>Thousands of yen</i>	<i>Shares</i>	<i>Yen</i>	<i>U.S. dollars</i>
	<u>Net income</u>	<u>Weighted average shares</u>	<u>EPS</u>	
<u>For the year ended March 31, 2007</u>				
Basic EPS				
Net income available to common shareholders	¥ (719,039)	32,027,105	¥ (22.45)	\$ (0.19)
<u>For the year ended March 31, 2006</u>				
Basic EPS				
Net income available to common shareholders	¥ 509,846	32,162,129	¥ 15.85	
Effect of Dilutive Securities				
Stock option	(1,414)	60,098		
Diluted EPS				
Net income for computation	¥ 508,432	32,222,227	¥ 15.78	

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Supplemental Information on the Consolidated Statements of Cash Flows

The Company purchased equity interests and newly consolidated the accounts of eight entities for the year ended March 31, 2007. The following summarizes the assets and liabilities included in consolidation and presents information on acquisition costs and cash disbursements:

PZ No.16 collective investment vehicle, PZ Motors Co., Ltd., Shizuoka Nissan Auto Sales Co., Ltd. and its subsidiary	<i>Thousands of yen</i>	<i>Thousands of U.S. dollars</i>
	July 2, 2006	July 2, 2006
Current assets	¥ 4,907,231	\$ 41,569
Non-current assets	11,149,922	94,450
Deferred assets	13,211	111
Goodwill	6,970,075	59,043
Current liabilities	(11,710,960)	(99,203)
Non-current liabilities	(4,136,457)	(35,039)
Minority interests	(2,277,424)	(19,292)
Acquisition costs	4,915,599	41,639
Transfer from investment securities	(2,305,599)	(19,530)
Cash and cash equivalents transferred	269,636	2,284
Expenditure for purchase of equity interest	¥2,340,363	\$ 19,825
PZ No.5 collective investment vehicle, Mikawa Nissan Motor Co., Ltd. and its two subsidiaries	<i>Thousands of yen</i>	<i>Thousands of U.S. dollars</i>
	July 2, 2006	July 2, 2006
Current assets	¥ 2,053,823	\$ 17,397
Non-current assets	4,725,339	40,028
Goodwill	1,633,430	13,836
Current liabilities	(5,766,121)	(48,844)
Non-current liabilities	(1,454,415)	(12,320)
Minority interests	(104,828)	(887)
Acquisition costs	1,087,227	9,209
Transfer from investment securities	(385,227)	(3,263)
Cash and cash equivalents transferred	523,907	4,438
Expenditure for purchase of equity interest	¥ 178,092	\$ 1,508

The Company purchased equity interests and newly consolidated the accounts of five entities for

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

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 collective investment vehicle, Nagano Nissan Co., Ltd. and its three subsidiaries	<i>Thousands of yen</i> December 31, 2005
Current assets	¥ 3,593,996
Non-current assets	4,989,213
Goodwill	4,306,577
Current liabilities	(8,268,003)
Non-current liabilities	(1,494,588)
Minority interests	(1,287,196)
Acquisition costs	1,840,000
Transfer from investment securities	(1,520,000)
Cash and cash equivalents transferred	357,427
Proceeds from purchase of equity interest	¥ 37,427

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 proceeds:

SEISHIN WORKS Co., LTD.	<i>Thousands of yen</i> March 31, 2006
Current assets	¥ 1,025,384
Non-current assets	2,843,338
Goodwill	172,082
Current liabilities	(1,079,296)
Non-current liabilities	(2,445,017)
Gain on sales of investments in a consolidated subsidiary	635,508
Sales amount	1,152,000
Receivable of sales proceeds at year end	(622,000)
Cash and cash equivalents of SEISHIN WORKS Co., LTD.	(467,770)
Proceeds from sales of a subsidiary	¥ 62,229

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Related Party Transactions

Transactions with related party for the years ended March 31, 2007 and 2006 were as follows:

	<i>Thousands of yen</i>		<i>Thousands of</i>
	<u>2007</u>	<u>2006</u>	<u>U.S. dollars</u>
			<u>2007</u>
Related party controlled by directors and its close relatives:			
Purchase of investment securities	¥ 1,095,000	-	\$ 9,275

18. Segment Information

(a) Industry segments

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

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

The business segment information of the Company and consolidated subsidiaries for the years ended March 31, 2007 and 2006 is outlined as follows:

		<i>Thousands of yen</i>							
		2007							
		Car	Housing	Real estate	Investment	Environment	Total	Elimina- tions or corporate	Consolida- ted
I. Sales and operating income:									
Sales to third parties		¥ 94,626,837	¥ 2,023,851	¥ 296,844	¥ 32,650	¥ 754,955	¥ 97,735,138	-	¥ 97,735,138
Intersegment sales		9,129	164,184	40,184	60,000	37,957	311,455	¥ (311,455)	-
Total sales		94,635,966	2,188,036	337,028	92,650	792,912	98,046,593	(311,455)	97,735,138
Operating expenses		91,657,406	2,211,708	178,990	192,365	759,577	95,000,048	(85,647)	94,914,400
Operating income (loss)		¥ 2,978,559	¥ (23,671)	¥ 158,037	¥ (99,715)	¥ 33,335	¥ 3,046,545	¥ (225,807)	¥ 2,820,737
II. Assets, depreciation, impairment loss and capital expenditures:									
Assets		¥ 59,270,143	¥ 998,128	¥ 2,317,435	¥ 3,295,543	¥ 263,749	¥ 66,144,999	¥ 1,232,003	¥ 67,377,002
Depreciation		1,318,882	6,447	38,174	-	150,502	1,514,006	1,426	1,515,432
Impairment loss		12,780	48,750	-	-	1,918,005	1,979,536	-	1,979,536
Capital expenditures		4,243,051	20,916	263,790	72	58,544	4,586,375	6,407	4,592,783

VT HOLDINGS CO., LTD. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

<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 and capital expenditures:								
Assets	¥ 29,225,753	¥ 2,267,772	¥ 2,311,150	¥ 5,492,243	¥ 2,794,371	¥ 42,091,292	¥ 6,250,940	¥ 48,342,232
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)

Thousands of U.S. dollars

		2007						Elimina-	Consolida-
		Car	Housing	Real estate	Investment	Environment	Total	tions or	ated
								corporate	
I. Sales and operating income:									
Sales to third parties		\$ 801,582	\$ 17,144	\$ 2,514	\$ 276	\$ 6,395	\$ 827,913	-	\$ 827,913
Intersegment sales		77	1,390	340	508	321	2,638	\$ (2,638)	-
Total sales		801,660	18,534	2,854	784	6,716	830,551	(2,638)	827,913
Operating expenses		776,428	18,735	1,516	1,629	6,434	804,744	(725)	804,018
Operating income (loss)		\$ 25,231	\$ (200)	\$ 1,338	\$ (844)	\$ 282	\$ 25,807	\$ (1,912)	\$ 23,894
II. Assets, depreciation, impairment loss and capital expenditures:									
Assets		\$ 502,076	\$ 8,455	\$ 19,630	\$ 27,916	\$ 2,234	\$ 560,313	\$ 10,436	\$ 570,749
Depreciation		11,172	54	323	-	1,274	12,825	12	12,837
Impairment loss		108	412	-	-	16,247	16,768	-	16,768
Capital expenditures		35,942	177	2,234	0	495	38,851	54	38,905

(b) Geographical segments

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

(c) Sales to foreign customers

Sales to foreign customers information is not disclosed for the year ended March 31, 2007 because sales to foreign customers was less than 10% of consolidated sales.

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 %