

JALUX Inc. and Consolidated Subsidiaries
Notes to Consolidated Financial Statements

March 31, 2007

1. Summary of Significant Accounting Policies

a. Basis of preparation

JALUX Inc. (the “Company”) and its consolidated domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance 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, and its consolidated foreign subsidiaries, in conformity with those of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements filed with the Financial Services Agency as required by the Securities and Exchange Law of Japan and include certain additional financial information for the convenience of readers outside Japan.

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

Certain amounts previously reported have been reclassified to conform to the current year’s classification except for the effects with respect to the adoption of new accounting standards.

b. Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

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

The balance sheet date of six of the consolidated subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary, for the respective years.

All significant intercompany accounts and transactions and unrealized gain or loss on intercompany accounts and transactions have been eliminated.

1. Summary of Significant Accounting Policies (continued)

c. Securities

Securities except for investments in an unconsolidated subsidiaries and affiliates are classified as trading securities, held-to-maturity securities or other securities. Trading securities are carried at fair value. Held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any unrealized gain or loss reported as a separate component of net assets, net of taxes. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the average method.

d. Derivatives

Derivatives positions are stated at fair value.

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Foreign receivables and payables are translated at the applicable forward foreign exchange rates if certain conditions are met. In addition, the related interest differential paid or received under interest-rate swaps utilized as hedging instruments is recognized over the terms of the swap agreements as an adjustment of interest expense on the hedged items if certain conditions are met.

e. Inventories

Inventories are stated at cost determined as follows:

Merchandise	– principally by the first-in, first-out method
Real estate for sale	– by the specific identification method
Supplies for aircraft cabins	– by the moving average method

(Notes)

The Company changes a classification. As a result ¥279,216 thousand of yen (\$2,366 thousands of U.S. dollars) of property and equipment (Building and structure, Land, Other) is transferred to Inventories on March 31, 2007.

f. Property and equipment

Property and equipment is stated at cost and depreciation is computed as follows:

Flight equipment:

Depreciation of flight equipment is computed by the straight-line method based on the estimated useful lives of the respective assets.

1. Summary of Significant Accounting Policies (continued)

f. Property and equipment (continued)

Other property and equipment:

For the Company and the consolidated domestic subsidiaries, depreciation of the shops in airports is computed principally by the straight-line method and depreciation of other property and equipment is computed principally by the declining-balance method based on the useful lives stipulated in the Corporation Tax Law of Japan. The consolidated foreign subsidiaries principally adopt the straight-line method based on the estimated useful lives of the respective assets.

g. Software

Computer software intended for internal use is amortized by the straight-line method based on their estimated useful life.

h. Accrued pension and severance costs

To provide for employees' severance indemnities and pension payments, net periodic pension and severance costs are computed based on the projected benefit obligation and the pension plan assets.

The unrecognized benefit obligation at transition is being amortized by the straight-line method principally over a period of 5 years.

The adjustment incurred during this fiscal year arising from revisions to the actuarial assumptions (the "actuarial assumption adjustment") is to be amortized by the straight-line method beginning the following fiscal year over a period of 5 years, which is less than the average remaining years of service of the active participants in the plans.

i. Directors' and statutory auditors' retirement benefits

Reserve for directors' and statutory auditors' retirement benefits is provided at the amount which would have been paid had all directors and statutory auditors resigned at the year end.

j. Reserve for bonuses to officers

Reserve for bonuses to officers is provided for at the necessary amounts based on the estimated amounts payable at the end March 31, 2007.

1. Summary of Significant Accounting Policies (continued)

k. Foreign currency translation

Foreign currency receivables and payables are translated into yen at the applicable year-end exchange rates and translation adjustments are included in current earnings.

Translation adjustments arising from the translation of assets, liabilities, revenues and expenses of consolidated foreign subsidiaries accounted for by the equity method into yen at the applicable year-end exchange rates are presented as minority interests and a separate component of net assets.

l. Leases (As lessee)

The Company and its consolidated subsidiaries lease certain equipment under noncancelable leases referred to as financing leases. At the Company and the domestic subsidiaries, financing leases which do not transfer the ownership of the leased property to the lessee are principally accounted for as operating leases.

m. Cash equivalents

The Company and its consolidated subsidiaries define cash equivalents as highly liquid, short-term investments with an original maturity of three months or less.

2. Accounting Change

Accounting Standard for Presentation of Net Assets in the Balance Sheet

Effective April 1, 2006, the Company and its consolidated subsidiaries have adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Statement No. 5 issued on December 9, 2005) and the "Implementation Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan Implementation Guidance No. 8 issued on December 9, 2005). In this connection, the financial statements for the years ended March 31, 2006 and 2005 have been restated to conform to the presentation of the financial statements for the year ended March 31, 2007.

Impairment of Fixed Assets

A new Japanese accounting standard "Impairment of Fixed Assets" was issued in August 2002 that is effective for fiscal years beginning on or after April 1, 2005. Early adoption is allowed from fiscal years beginning on or after April 1, 2004 and an application from fiscal years ending March 31, 2004 to March 30, 2005 is also permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset.

2. Accounting Change (continued)

Impairment of Fixed Assets (continued)

Effective the fiscal year ended March 31, 2005, the Company and its consolidated subsidiaries opted for an early adoption of the new accounting standard for the impairment of fixed assets. The effect of adoption of this standard was to recognize an impairment loss of ¥123,340 thousand. As a result, income before income taxes and minority interests decreased by ¥123,340 thousand.

After the recognition of the impairment loss, “fixed assets” represents the total recoverable amount which is stated at the carrying amount less the accumulated impairment loss. See Note 15 for the effective of the loss on impairment of fixed assets on the segment information.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of the reader. The rate of ¥118.00 = U.S.\$1.00, the approximate exchange rate prevailing on March 31, 2007, has been used. The inclusion of such amounts is not intended to imply that yen have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

4. Cash Flow Information

The components of cash and cash equivalents are summarized as follows:

	March 31,		
	<u>2007</u>	<u>2006</u>	<u>2007</u>
	<i>(Thousands of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and time deposits	¥5,688,228	¥4,954,081	\$48,205
Time deposits with maturities of more than three months	(65,474)	(9,186)	(555)
Credit balances of current accounts included in short-term bank loans	(758)	(1,774)	(6)
Current assets – other (Deposits Paid)	24,178	3,828	205
	<u>¥5,646,173</u>	<u>¥4,946,949</u>	<u>\$47,849</u>