

Lighting the Way to a Brighter Future.



**JALUX Inc. was listed on the
1st section of the Tokyo Stock Exchange on March 1, 2004.**

As a core enterprise of JAL group's distribution and services, **JALUX** has been aiming to expand the lifestyle services business and the customer services business around the axis of the aviation field.

We will continue striving to enhance corporate values,
and to deliver greater value to individuals and the community by **"Contributing to Tomorrow"**.



JAL Building, 2-4-11 Higashi Shinagawa,
Shinagawa-ku, Tokyo 140-8638
+81-(0)3-5460-7109 (Shareholder Relations Team)
+81-(0)3-5460-7233 (Investor Relations Team)

www.jalux.com

JALUX Inc.

(Tokyo Stock Exchange, 1st section:
Stock code 2729)



This report is printed on 100% recycled paper using soy ink recognized by the America Soybean Association



Business Report 2004

April 1, 2003 to March 31, 2004

JALUX Inc.



CONTENTS

JALUX CORPORATE HIGHLIGHTS	1-2
Message from the President (Sales Outlook)	3-4
JALUX's Midterm Vision	
Consolidated Performance Trends and Plan	5-6
Consolidated Financial Statements (summary)	7-8
Share Information	
Shareholder Memo	
Share price and trade volume trends	9
Gift Certificates for Shareholder	
Company Overview	10
List of Directors	

Renewal of the corporate brand logo

The launch of the newborn JAL group provided the opportunity to redesign the logo. The new logo, unveiled on August 1, was designed to reflect the concept of "offering spiritually rich lifestyles to individuals and the community." The logo combines the letters for **JALUX** with an arc that suggests images of light and earth.



Plaza Wien Jalux Opens

The Plaza Wien JALUX gift shop opened in Vienna, Austria, on September 8. In the two European cities of Vienna and London, this new shop and the established JAL Plaza Igrisu-ya shop are providing quality goods and services for tourists.



Listed on 1st section designated by Tokyo Stock Exchange

After listing on the second section of the Tokyo Stock Exchange in February 2002, we undertook a range of measures to enhance corporate value, including sustained profitability growth and consolidation of in-house systems. On March 1, 2003, we were recognized with a listing on the first section of the Tokyo Stock Exchange (designated stock). We aim to go on raising our game with still higher growth while responding to the raised expectations of those around us and meeting our social responsibilities.



March 2004

Changes in minimum trading unit of shares

On May 1, the number of shares per unit was changed from 500 to 100 to expand share distribution and investor types.

Revision of the shareholder gift certificate system (▶ see page 10)

We planned to develop the gift certificate system to accompany the share unit revision.

- ▶ The change from discount coupons to gift certificates makes them easier to use.
- ▶ They can be used for mail order and in airport shops.
- ▶ Gift certificates have also increased in total value through the twice-yearly issue.

May 2003

August 2003

September 2003

December 2003

January 2004

Merger with JAS Trading

Business expansion has continued against a background of integration between JAL and JAS in 2002. On January 1, 2004, **JALUX** merged with JAS Trading Inc. The aims of the merger included expanding business scale, enhancing market competitiveness, and strengthening the group's business infrastructure. The merger has also led to Blue Sky's expansion to 90 shops in 25 airports as of the end of March, 2004.

Outline of Merger

- ▶ Merger method: Simple merger with **JALUX** as the surviving company.
- ▶ New shares from merger: 525,000

Outline of JAS Trading

- ▶ Business outline: Shops, mail order, and aviation-related businesses
- ▶ Profit scale: ¥12 billion net sales; ¥180 million ordinary income

BLUE SKY ISO9001 Acquisition (*)

We have always aimed to enhance the competitive quality and reliability of airport shop management. The creation of a quality management system enabled Blue Sky's established shops to acquire ISO9001:2000 certification on December 24, 2003. Looking forward, we are striving for continuous improvement by setting quality targets. We are also striving to create shops that satisfy and earn the trust of the customer.

* ISO (International Organization for Standardization)



Remodeled JAL Shopping (WEB) Opens

The Web Mall site will be renewed on September 18, and JAL Shopping will open on the remodeled JAL website. We aim to enhance service and functionality through a partnership with JAL Mileage Bank as a shopping site where you can accumulate frequent flyer miles.

www.shop.jal.co.jp



We provide the latest news, shareholder and investor information, and more at the **JALUX** website.

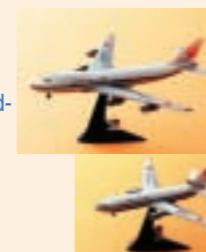
www.jalux.com



Product Topics



October 2003
JAL Selection / de SKY Series launched "seafood-taste noodles."



December 2003
First sales launch of a series of die-cast "Eternal Wing" JAL plane models.



February 2004
"Soraben" broiled mackerel sushi becomes a smash hit, and Ofunaken's pressed sushi of horse mackerel and bream is launched.

JALUX's Midterm Vision

“Lighting the Way to a Brighter Future.” JALUX is creating new business fields.

Midterm Business Strategy

In our three-year mid-term management plan starting in the year ending March 2005, we aim to enhance market competitiveness and customer satisfaction with higher business quality. At the same time, we aim to enhance corporate values by exploiting management resources with a strategic approach. In order to realize our corporate philosophy and management stance while raising mid- to long-term profitability, we aim to develop new business in the three fields of environment, culture, and welfare for sustainable growth.

Strengthening marketing ability

- Competitiveness exploiting the best approach with good quality and brand value
- For the mail order business, expand customer base by introducing FSP^(*) and strengthening CRM^(**)
- For the food business, expand development and sales of high-quality, excellent foodstuffs and direct delivery of foodstuff from the area of production

Strengthening group management

- Strengthen affiliated companies and businesses in the China/Southeast Asia region
- Expand sales of equipment and materials by participating in international airport infrastructure and Chinese public infrastructure business

Demonstrate the merger effect

- Optimize sales channels and improve management efficiency of airport shops
- Improve profitability of airport businesses by reviewing business conditions and functions, and consolidating and improving business efficiency of stores

Redistribute management resources

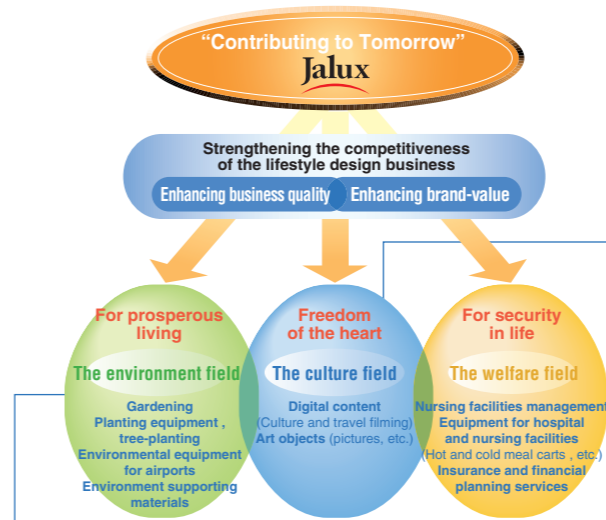
- Verify and reorganize business portfolio for overall optimization
- “Scrap and Build” through distributing business resources for growth and examining medium- and long-term profitability

Promoting new business development

- Actively invest in growth fields and expansion of existing business
- Develop environment field exploiting mail order, flower arrangement, real estate, and materials business resources
- Develop cultural field exploiting online and media businesses
- Develop public welfare field exploiting senior citizen lifestyle design, insurance, and real estate business resources

* 1 FSP—Frequent Shoppers Program
* 2 CRM—Customer Relationship Management

New business development image



New investments in content production

JALUX has decided to invest 100 million yen in producing a travelogue (a set of 10 DVDs) imparting the eternal charm of China. This production consists of a travelogue shot digitally by the Evergreen Company, which handles World Heritage video production. It will take advantage of growing interest in China in the runup to the Beijing Olympics. JALUX is planning to start selling the DVD in 2005 as a sole sales agency. Looking to the future, we plan to actively promote and create content with high cultural value.

New developments in the nursing business

JALUX and Sousei Jigyoudan Co., Ltd. jointly established the nursing facilities management company JALUX Life Design Inc. (capitalized at 100 million yen) in April 2004. JALUX Life Design will open the 76-room “JALUX Good-time Home” in the west Tokyo suburb of Chofu in November 2004. The home will provide high-quality comfortable services for senior citizens. As the aging society draws nearer, JALUX Life Design will be helping senior citizens to live full and rich lives. We will seek for entry into businesses connected with the management of the nursing facilities.

Specialist “green” catalog issued

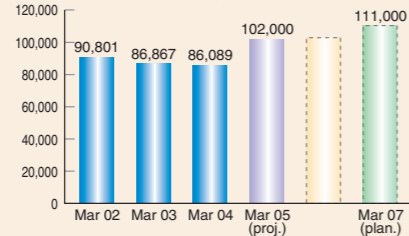
The interior design catalog “Living Green” was launched in June 2004. The catalog introduces plants grown through hydroculture with the theme of spacious living areas. Looking forward, we aim to develop garden planning, plant equipment, and other garden businesses, as well tree planting to sustain the environment.

Consolidated Performance Trends and Plan

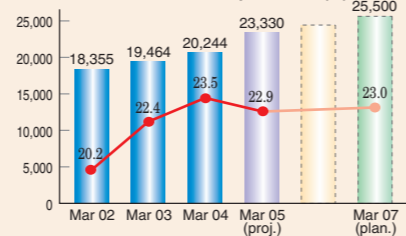
(Unit: million yen)

The description concerning the plan for the future is based on information and assumptions available now. Actual performance may differ from the plan as a result of various factors.

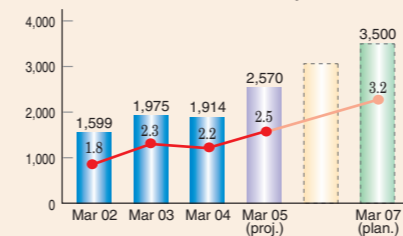
■ Sales (Period ending)



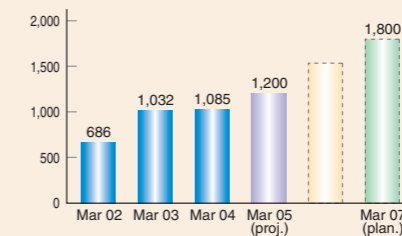
■ Gross profit — Gross profit ratio (%)



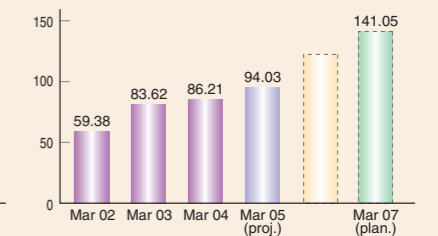
■ Ordinary income — Ordinary income ratio (%)



■ Net income



■ Earnings per share (yen)



Consolidated Financial Statements (summary) (Unit: million yen, rounded down)

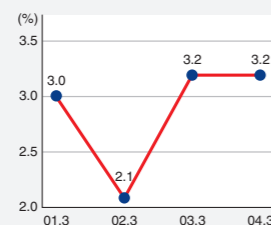
Consolidated Balance Sheet

Account	year-end Previous (42 nd) Mar 03	Current (43 rd) Mar 04
Assets		
Current assets	21,784	24,068
Cash and deposits	3,546	4,130
Notes and accounts receivable	11,007	12,042
Inventories	5,181	5,115
Deferred tax assets	288	412
Other current assets	1,786	2,401
Allowance for doubtful accounts	▲ 26	▲ 34
Fixed assets	10,872	11,638
Property, plant and equip.	4,568	4,648
Intangible fixed assets	482	540
Investments and other assets	5,822	6,449
Investment securities	2,076	2,065
Other investments	3,899	4,602
Allowance for doubtful accounts	▲ 153	▲ 218
Deferred assets	0	—
Unamortized discount of debenture	0	—
Total assets	32,657	35,706

ROA (return on assets)

(net income ÷ average total assets)

The ROA was largely unchanged from the previous year due to a 3 billion yen increase in total assets accompanying the January merger.

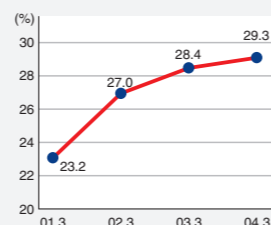


Account	year-end Previous (42 nd) Mar 03	Current (43 rd) Mar 04
Liabilities		
Current Liabilities	17,771	20,343
Notes and accounts payable	10,004	12,312
Short-term debt	2,896	3,267
Accrued expenses	1,702	2,407
Other current debt	3,168	2,355
Fixed liabilities	5,046	4,260
Long-term debt	4,448	3,618
Director's retirement allowances	136	139
Other fixed debts	461	502
Total liabilities	22,818	24,603
Minority interests		
Minority interests	557	626
Shareholders' equity		
Common stock	2,558	2,558
Paid-in capital	661	711
Retained earnings	6,148	7,448
Unrealized gains on securities	▲ 11	8
Conversion adjustment	▲ 70	▲ 242
Treasury stock	▲ 4	▲ 6
Total shareholders' equity	9,281	10,477
Total liabilities, minority interests and shareholders' equity	32,657	35,706

Equity ratio

(shareholders' equity ÷ total assets)

The equity ratio is continuously improving due to a rise in shareholders' equity of around 1.2 billion yen accompanying an increase in the retained earnings.



Consolidated Income Statements

Account	period Previous (42 nd) Apr 02 - Mar 03	Current (43 rd) Apr 03 - Mar 04
Net Sales	86,867	86,089
Cost of sales	67,402	65,845
Gross profit	19,464	20,244
SG&A	17,627	18,163
Operating income	1,836	2,081
Non-operating income	294	321
Non-operating expenses	155	488
Ordinary income	1,975	1,914
Extraordinary profits	198	429
Extraordinary losses	121	110
Net income before taxes and minority interests	2,052	2,233
Current income taxes	1,048	1,207
Deferred income taxes	▲ 159	▲ 166
Minority interests	130	106
Net income	1,032	1,085

SG&A (selling, general and administrative expenses)

SG&A increased by 540 million yen due to a rise of around 400 million yen in personnel and other costs accompanying the merger.

Non-operating income and expenses

Net non-operating income fell to 170 million yen in the red due to causes including the 340 million yen impact of the currency conversion arising from the consolidation treatment (non-operating expenses).

Extraordinary profits and losses

Net extraordinary profit rose to 320 million yen due to factors such as a 310 million yen gain from sales of fixed assets and a 120 million yen profit on sale of securities.

Consolidated Statement of Shareholders' Equity

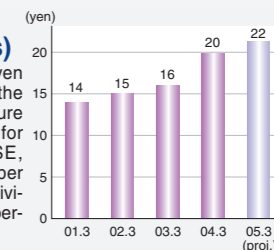
Account	period Previous (42 nd) Apr 02 - Mar 03	Current (43 rd) Apr 03 - Mar 04
Paid-in Capital		
At beginning	661	661
Increase	—	50
At end	661	711
Retained earnings		
At beginning	5,309	6,148
Increase	1,032	1,507
Net income	1,032	1,085
Decrease	193	207
Cash dividend paid	183	195
Directors' bonuses paid	10	11
At end	6,148	7,448

Consolidated Cash Flow Statement

Account	period Previous (42 nd) Apr 02 - Mar 03	Current (43 rd) Apr 03 - Mar 04
Cash flows from operating activities	262	1,474
Cash flows from investment activities	▲ 1,146	▲ 211
Cash flows from financial activities	442	▲ 899
Conversion effect on cash and cash equivalents	▲ 1	5
Net increase in cash and cash equivalents	▲ 444	369
Cash and cash equivalents at beginning	3,967	3,523
Increase due to merger	—	212
Cash and cash equivalents at end	3,523	4,106

Dividend per share (non-consolidated basis)

We paid an ordinary dividend of 16 yen per share in the previous period. In the current period, we will add to this figure a commemorative dividend of 4 yen for listing on the 1st section of the TSE, bringing the total dividend to 20 yen per share. We are planning an ordinary dividend of 22 yen per share in the next period to accompany the rise in profit.



■ Share information (as of March 31, 2004)

Total no. of shares issued by **JALUX** : 20 million
 Total no. of shares issued (after deduction of treasury stock): 12,761,791
 Total no. of shareholders: 3,407

■ Major shareholders (ten largest)

Name of shareholder	Shares held (thousand)	Voting right (%)
Japan Airlines International Co., Ltd. *	6,890	54.1%
Japan Airlines Domestic Co., Ltd. *	525	4.1%
Nissay Dowa General Insurance Co., Ltd.	392	3.0%
The Tokio Marine And Fire Insurance Co., Ltd.	392	3.0%
JALUX Employees Shareholding Association	305	2.3%
Mitsui Sumitomo Insurance Co., Ltd.	252	1.9%
Aioi Insurance Co., Ltd.	189	1.4%
Sompo Japan Insurance Inc.	189	1.4%
Airport Facilities Co., Ltd.	168	1.3%
Japan Trustee Services Bank, Ltd. (trust account)	129	1.0%

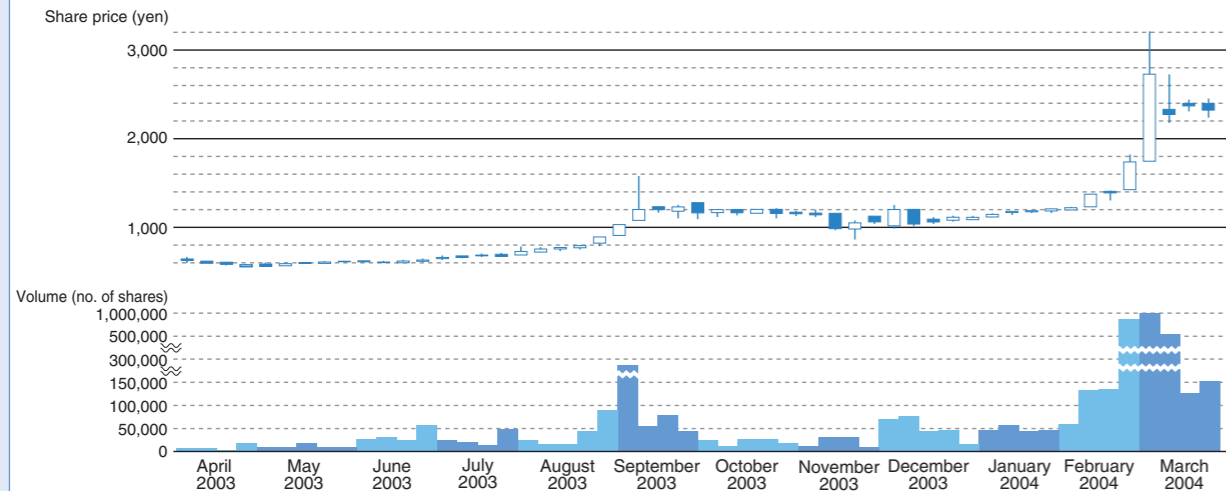
* On April 1, 2004, Japan Airlines Co., Ltd. changed its name to Japan Airlines International Co., Ltd., and Japan Air Systems Co., Ltd. changed its name to Japan Airlines Domestic Co., Ltd.

■ Shareholder Memo (as of June 23, 2004)

Accounting year: April 1 to March 31
 Annual shareholders' meeting: June
 Shareholders entitled to annual meeting entry and dividend payment: those on registry as of March 31
 Minimum trading unit of shares: 100 shares *
 Transfer agent: UFJ Trust Bank, Limited
 1-4-3 Marunouchi, Chiyoda-ku, Tokyo
 Administrative procedures: UFJ Trust Bank, Limited
 7-10-11 Higashi-suna, Koto-ku, Tokyo
 Tel. (general) +81-3-5683-5111
 Agent: UFJ Trust Bank branches nationwide
 Nomura Securities Co., Ltd. headquarters as well as branches and offices nationwide
 Newspaper for carrying announcements: Nihon Keizai Shimbun
 (Further information on the financial statements will be provided on our website (<http://www.jalux.com>).)

* The minimum trading unit of shares changed on May 1, 2003.

■ Share price and trade volume trends (April 1, 2003 to March 31, 2004)



■ Gift Certificates for Shareholders (as of June 23, 2004)

JALUX will present shareholders possessing 100 shares or above with **JALUX** product gift certificates twice a year, as of March 31 and September 30, according to the following formula:

- Between 100 and 499 shares: 2 certificates (4 per year)
- Between 500 and 1,999 shares: 4 certificates (8 per year)
- Between 2,000 and 3,999 shares: 7 certificates (14 per year)
- Between 4,000 and 5,999 shares: 10 certificates (20 per year)
- Between 6,000 and 9,999 shares: 12 certificates (24 per year)
- 10,000 shares or more: 14 certificates (28 per year)

■ About gift certificates

JALUX gift certificates are valued at 1,000 yen each and are valid for one year. They can be used with **JALUX** mail order catalogs or at airport shops. Please note the following:

- * These certificates cannot be used in combination with discount coupons.
- * Change cannot be given when paying with gift certificates only.

■ Where to use gift certificates

Mail order catalog **JAL World Shopping Club**

Chain of airport shops (nationwide) **BLUE SKY**



Before using your certificates, please be aware that changes (including shop addresses) may be made to the system due to a number of factors.

■ Company Overview (as of June 23, 2004)

Trade name	JALUX Inc.
Established	March 28, 1962
Capitalization	¥2,558,550,000
Number of employees	1,537 (including 894 at consolidated subsidiaries) (as of March 31, 2004)
Domestic airport branches	Ninety shops in twenty-five airports including Chitose, Narita, Haneda, Osaka, and Fukuoka.
Domestic subsidiaries	JAL-DFS Co., Ltd. (duty-free sales) *1 *2 JALUX Airport Inc. (airport shop management business) *
Overseas office	JALUX EUROPE Ltd. (London) *1 JALUX EUROPE Ltd., Vienna Branch (Vienna) JALUX AMERICAS, Inc. (Los Angeles) *1 JALUX ASIA Ltd. (Bangkok) *1 JALUX ASIA Ltd., Hong Kong Branch (Hong Kong) JALUX HAWAII, Inc. (Honolulu) JALUX Inc. Shanghai Representative Office (Shanghai)

* 1 Consolidated subsidiary
 * 2 JAL/DFS Duty Free Shoppers Co., Ltd. will change its name to JAL-DFS Co., Ltd. on July 1, 2004

■ List of Directors (as of June 23, 2004)

Chairman of the Board, President & CEO	Zenta Yokoyama
Executive Vice-President	Hiroyasu Muraki
Managing Director	Yoshikazu Kato
Managing Director	Yoshiyuki Tsutsumi
Managing Director	Kazuro Aoyama
Managing Director	Hiroaki Nai
Managing Director	Toshio Sakamoto
Managing Director	Sumio Shionoya
Director	Ryoji Yoshida
Director	Hiroshi Iijima
Director	Yuji Tsukahara
Director	Kenji Ichikawa
Director (External)	Akio Kono
Director (External)	Toshihiro Ishii
Director (External)	Hiroyuki Kato
Auditor	Tsunehiko Nakano
Auditor (External)	Yasunaka Furukawa
Auditor (External)	Kimio Hiroike