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# ***Trusco Nakayama Corporation***

*Non-Consolidated Financial Statements for the  
Years Ended March 31, 2001 and 2000, and  
Independent Auditors' Report*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Trusco Nakayama Corporation:

We have examined the non-consolidated balance sheets of Trusco Nakayama Corporation as of March 31, 2001 and 2000, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the non-consolidated financial statements referred to above present fairly the financial position of Trusco Nakayama Corporation as of March 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2, effective April 1, 2000, the non-consolidated financial statements have been prepared in accordance with new accounting standards for employee's retirement benefits and financial instruments, and a revised accounting standard for foreign currency transactions.

Our examinations also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

A rectangular box containing a handwritten signature in cursive script that reads "Deloitte Touche Tohmatsu".

June 15, 2001

# Trusco Nakayama Corporation

## Non-Consolidated Balance Sheets March 31, 2001 and 2000

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2001	2000	2001		2001	2000	2001
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents	¥ 4,598	¥ 7,882	\$ 37,084	Notes payable - trade (Note 11)	¥ 16,646	¥ 13,216	\$ 134,245
Marketable securities (Note 3)	360	1,122	2,905	Accounts payable - trade (Note 11)	10,134	10,103	81,722
Short-term investments (Note 4)	80	1,830	645	Current portion of long-term debt (Note 6)		425	
Notes receivable - trade	30,990	24,874	249,919	Other payables	1,190	888	9,594
Accounts receivable - trade (Note 11)	15,678	14,877	126,438	Income taxes payable	2,457	1,257	19,813
Inventories (Note 5)	11,082	9,327	89,373	Accrued expenses	792	671	6,385
Deferred tax assets (Note 10)	462	304	3,728	Other current liabilities	76	74	620
Other current assets	354	291	2,843				
Allowance for doubtful accounts	(114)	(258)	(918)	Total current liabilities	31,295	26,634	252,379
Total current assets	63,490	60,249	512,017				
<b>PROPERTY, PLANT AND EQUIPMENT:</b>				<b>LONG-TERM LIABILITIES:</b>			
Land	8,862	7,517	71,469	Retirement benefits for directors and corporate auditors (Note 8)	428	389	3,454
Buildings	11,233	10,980	90,592	Other	117	99	941
Machinery and equipment	3,540	3,408	28,550	Total long-term liabilities	545	488	4,395
Construction in progress	82	29	654				
Total	23,717	21,934	191,265	<b>SHAREHOLDERS' EQUITY (Notes 9 and 12):</b>			
Accumulated depreciation	(7,623)	(7,412)	(61,474)	Common stock, ¥50 par value - authorized, 57,190,000 shares and 60,190,000 shares in 2001 and 2000, respectively; issued and outstanding, 33,004,372 shares and 36,004,372 shares in 2001 and 2000, respectively	5,022	5,022	40,503
Net property, plant and equipment	16,094	14,522	129,791	Additional paid-in capital	4,710	4,710	37,983
<b>OTHER ASSETS:</b>				Legal reserve	1,256	1,256	10,126
Investments in subsidiary and affiliate (Note 11)	153	167	1,231	Retained earnings	39,779	39,796	320,800
Investment securities (Note 3)	1,341	1,336	10,817	Unrealized gain on available-for-sale securities	11		89
Long-term receivables	199	240	1,601	Total shareholders' equity	50,778	50,784	409,501
Insurance premiums	709	697	5,714				
Security deposits	396	398	3,197				
Deferred tax assets (Note 10)	199	188	1,603				
Other	248	349	2,002				
Allowance for doubtful accounts	(211)	(240)	(1,698)				
Total other assets	3,034	3,135	24,467				
<b>TOTAL</b>	<b>¥ 82,618</b>	<b>¥ 77,906</b>	<b>\$ 666,275</b>	<b>TOTAL</b>	<b>¥ 82,618</b>	<b>¥ 77,906</b>	<b>\$ 666,275</b>

See notes to non-consolidated financial statements.

## Trusco Nakayama Corporation

### Non-Consolidated Statements of Income Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2001</u>	<u>2000</u>	<u>2001</u>
NET SALES (Note 11)	¥ 109,193	¥ 95,874	\$ 880,588
COST OF GOODS SOLD (Note 11)	89,083	78,711	718,415
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>12,071</u>	<u>11,819</u>	<u>97,344</u>
OPERATING INCOME	<u>8,039</u>	<u>5,344</u>	<u>64,829</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	57	109	461
Interest expense	(7)	(2)	(57)
Losses on sales and disposal of property, plant and equipment	(53)	(206)	(425)
Loss on devaluation of marketable and investment securities	(12)	(17)	(98)
Cancellation loss from insurance contracts		(85)	
Gain on sale of investment in affiliate	9		72
Reversal of allowance for doubtful accounts	88		711
Reversal of expired warrants	43		343
Other income (expenses) – net	<u>(18)</u>	<u>64</u>	<u>(139)</u>
Total other income (expenses)	<u>107</u>	<u>(137)</u>	<u>868</u>
INCOME BEFORE INCOME TAXES	8,146	5,207	65,697
INCOME TAXES (Note 10):			
Current	3,718	2,523	29,988
Deferred	<u>(177)</u>	<u>(79)</u>	<u>(1,426)</u>
Total	<u>3,541</u>	<u>2,444</u>	<u>28,562</u>
NET INCOME	<u>¥ 4,605</u>	<u>¥ 2,763</u>	<u>\$ 37,135</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
AMOUNTS PER SHARE (Notes 2 and 12):			
Net income	¥ 135.77	¥ 76.73	\$1.09
Cash dividends applicable to the year	18.50	17.00	0.15

See notes to non-consolidated financial statements.

## Trusco Nakayama Corporation

### Non-Consolidated Statements of Shareholders' Equity Years Ended March 31, 2001 and 2000

	Thousands of Shares Issued and Outstanding	Millions of Yen				
		Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings	Unrealized Gain on Available-for- Sale Securities
BALANCE, APRIL 1, 1999	36,004	¥ 5,022	¥ 4,710	¥ 1,256	¥ 37,259	
Net income					2,763	
Adjustment of retained earnings for newly applied accounting for income taxes					414	
Cash dividends, ¥ 17 per share					(612)	
Bonuses to directors and corporate auditors					(28)	
BALANCE, MARCH 31, 2000	36,004	5,022	4,710	1,256	39,796	
Net income					4,605	
Cash dividends, ¥ 17 per share					(587)	
Repurchase and cancellation of common shares	3,000				(4,005)	
Bonuses to directors and corporate auditors					(30)	
Unrealized gain on available-for-sale securities						¥ 11
BALANCE, MARCH 31, 2001	<u>33,004</u>	<u>¥ 5,022</u>	<u>¥ 4,710</u>	<u>¥ 1,256</u>	<u>¥ 39,779</u>	<u>¥ 11</u>
		Thousands of U.S. Dollars (Note 1)				
		Common Stock	Additional Paid-in Capital	Legal Reserve	Retained Earnings	Unrealized Gain on Available-for- Sale Securities
BALANCE, MARCH 31, 2000		\$ 40,503	\$ 37,983	\$ 10,126	\$ 320,937	
Net income					37,135	
Cash dividends, \$17 per share					(4,732)	
Repurchase and cancellation of common shares					(32,298)	
Bonuses to directors and corporate auditors					(242)	
Unrealized gain on available-for-sale securities						\$ 89
BALANCE, MARCH 31, 2001		<u>\$ 40,503</u>	<u>\$ 37,983</u>	<u>\$ 10,126</u>	<u>\$ 320,800</u>	<u>\$ 89</u>

See notes to non-consolidated financial statements.

# Trusco Nakayama Corporation

## Non-Consolidated Statements of Cash Flows Years Ended March 31, 2001 and 2000

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2001</u>	<u>2000</u>	<u>2001</u>
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 8,146	¥ 5,207	\$ 65,697
Adjustments for:			
Income taxes paid	(2,519)	(2,577)	(20,315)
Depreciation and amortization	864	855	6,968
Increase in retirement benefits for directors and corporate auditors – net	39	38	315
Increase (decrease) in allowance for doubtful accounts	(76)	45	(613)
Interest and dividend income	(57)	(109)	(459)
Interest expense	7	2	56
Loss on sales and disposal of property, plan and equipment	53	206	427
Changes in assets and liabilities:			
Increase in notes and accounts receivable	(6,973)	(2,274)	(56,234)
Decrease (increase) in inventories	(1,755)	531	(14,153)
Increase (decrease) in notes and accounts payable	3,462	(2,768)	27,915
Other – net	300	213	2,420
Interest and dividends received	102	106	823
Interest paid	(7)	(2)	(56)
Net cash provided by (used in) operating activities	<u>1,586</u>	<u>(527)</u>	<u>12,791</u>
<b>INVESTING ACTIVITIES:</b>			
Purchases of marketable and investment securities	(7)	(684)	(56)
Decrease in short-term investments	1,750	1,350	14,113
Proceeds from sales of marketable and investment securities		238	
Purchases of property, plant and equipment	(2,463)	(769)	(19,863)
Proceeds from sales of property, plant and equipment		219	
Other – net	<u>867</u>	<u>553</u>	<u>6,991</u>
Net cash provided by investing activities	<u>147</u>	<u>907</u>	<u>1,185</u>
<b>FINANCING ACTIVITIES:</b>			
Payments for bond redemption	(425)		(3,427)
Repurchase of common shares	(4,005)		(32,298)
Dividends paid	<u>(587)</u>	<u>(611)</u>	<u>(4,732)</u>
Net cash used in financing activities	<u>(5,017)</u>	<u>(611)</u>	<u>(40,457)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,284)	(231)	(26,481)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>7,882</u>	<u>8,113</u>	<u>63,565</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 4,598</u>	<u>¥ 7,882</u>	<u>\$ 37,084</u>

See notes to non-consolidated financial statements.

# Trusco Nakayama Corporation

## Notes to Non-Consolidated Financial Statements Years Ended March 31, 2001 and 2000

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### 1. BASIS OF PRESENTING NON-CONSOLIDATED FINANCIAL STATEMENTS

The accompanying non-consolidated financial statements have been prepared from the accounts maintained by Trusco Nakayama Corporation (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code (the "Code") and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards. The non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥ 124 to \$1, the approximate rate of exchange at March 31, 2001. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Non-Consolidation** - The financial statements do not include the accounts of a subsidiary. Investments in the subsidiary and an affiliated company (20% - 50% ownership) are stated at cost.

Consolidation of the Company's subsidiary and accounting for the affiliated company under the equity method would not significantly change the total assets, net sales, or net income reported in the accompanying non-consolidated financial statements.

**Cash and Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits and money market funds that mature or become due within three months of the date of acquisition.

**Marketable and Investment Securities** - Prior to April 1, 2000, current and non-current marketable securities listed on stock exchanges were stated at the lower of cost, determined by the moving-average method, or market. Effective April 1, 2000, the Company adopted a new accounting standard for financial instruments. Under this standard, all of the Company's securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. The cost of securities sold is determined based on the moving-average method. The effect of this change was to increase income before income taxes by ¥ 67 million (\$540 thousand) for the year ended March 31, 2001.

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

**Inventories** - Merchandise, finished products, work in process, raw materials and most supplies are stated at cost determined by the moving average method. Certain supplies are stated at cost determined by the most recent purchase price method.

**Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the useful lives of the assets as stipulated by the Japanese Corporation Tax Law.

**Allowance for Doubtful Accounts** - The allowance for doubtful accounts is stated in amounts considered to be appropriated based on the companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

**Employees' Retirement Benefits** - The Company has a non-contributory funded pension plan covering substantially all of its employees. Prior to April 1, 2000, the amounts contributed to the fund, including past service costs amortized over seven years, were charged to income when paid. Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date. The transitional obligation of ¥ 513 million (\$4,138 thousand) at the beginning of the year is being amortized over two years and the annual amortization is presented in selling, general and administrative expenses in the statement of income. As a result of adopting this new standard, net periodic benefit costs as compared with the prior method, decreased by ¥ 13 million (\$105 thousand) and income before income taxes increased by the same amount for the year ended March 31, 2001.

**Retirement Benefits for Directors and Corporate Auditors** - Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

**Income Taxes** - The Company accounts for the income taxes based on the asset and liability method.

Deferred income taxes are recorded to reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

**Research and Development Costs** - Research and development costs are charged to income as incurred in accordance with the accounting standard for research and development costs.

**Leases** - All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that are deemed 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.

**Foreign Currency Transactions** - Prior to April 1, 2000, short-term receivables and payables denominated in foreign currencies were translated into Japanese yen at the current exchange rates at each balance sheet date, while long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company adopted a revised accounting standard for foreign currency transactions. In accordance with the revised standard, all short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates at each balance sheet date. The foreign exchange gains and losses from translation are recognized in the statement of income to the extent that they are not hedged by forward exchange contracts.

**Appropriations of Retained Earnings** - Appropriations of retained earnings at each fiscal period end are reflected in the financial statements in the following period after shareholders' approval has been obtained.

**Per Share Information** - The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year, retroactively adjusted for stock splits. The average number of common shares used in the computation was 33,916,701 shares and 36,004,372 shares for the years ended March 31, 2001 and 2000, respectively.

Diluted net income per share is not disclosed because the effect of the warrants outstanding in 2000 was anti-dilutive.

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

### 3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2001</u>	<u>2000</u>	<u>2001</u>
Current:			
Marketable equity securities		¥ 42	
Government and corporate bonds	¥ 360	16	\$ 2,905
Investment fund		<u>1,064</u>	
Total	<u>¥ 360</u>	<u>¥ 1,122</u>	<u>\$ 2,905</u>
Non-current:			
Equity securities	¥ 555	¥ 473	\$ 4,478
Government and corporate bonds	17	833	137
Trust fund investments and other	<u>769</u>	<u>30</u>	<u>6,202</u>
Total	<u>¥ 1,341</u>	<u>¥ 1,336</u>	<u>\$ 10,817</u>

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2001 were as follows:

	Millions of Yen			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale:				
Equity securities	¥ 502	¥ 120	¥ 86	¥ 536
Government and corporate bonds	359	19	1	377
Trust fund investments and other	<u>772</u>	<u>3</u>	<u>36</u>	<u>739</u>
Total	<u>¥ 1,633</u>	<u>¥ 142</u>	<u>¥ 123</u>	<u>¥ 1,652</u>

	Thousands of U.S. Dollars			Fair Value
	Cost	Unrealized Gains	Unrealized Losses	
Securities classified as available-for-sale:				
Equity securities	\$ 4,047	\$ 964	\$ 693	\$ 4,318
Government and corporate bonds	2,898	152	7	3,043
Trust fund investments and other	<u>6,224</u>	<u>27</u>	<u>289</u>	<u>5,962</u>
Total	<u>\$ 13,169</u>	<u>\$ 1,143</u>	<u>\$ 989</u>	<u>\$ 13,323</u>

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2001 were as follows:

	Carrying Amount	
	Millions of Yen	Thousands of U.S. Dollars
Available-for-sale:		
Equity securities	¥ 19	\$ 159
Trust fund investment and other	<u>30</u>	<u>240</u>
Total	<u>¥ 49</u>	<u>\$399</u>

There were no sales of available-for-sale securities during the year ended March 31, 2001.

The carrying amount of marketable securities at March 31, 2000, approximated their aggregate market value. The carrying amount and aggregate market value of investment securities at March 31, 2000, were ¥ 1,336 million and ¥ 1,567 million, respectively.

#### 4. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Time deposits other than cash equivalents	¥ 80	¥ 1,830	\$645

#### 5. INVENTORIES

Inventories at March 31, 2001 and 2000 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2001	2000	2001
Merchandise	¥ 10,700	¥ 8,892	\$ 86,294
Finished products	318	393	2,562
Work in process	14	10	112
Raw materials and supplies	<u>50</u>	<u>32</u>	<u>405</u>
Total	<u>¥ 11,082</u>	<u>¥ 9,327</u>	<u>\$ 89,373</u>

## 6. LONG-TERM DEBT

Current portion of long-term debt at March 31, 2000 represents ¥ 425 million unsecured 0.4% bonds with detachable warrants due in June, 2000. Each warrant entitles the holder to subscribe ¥ 1 million for shares of common stock of the Company at ¥ 2,758.2 per share. Upon issuance of the bonds, the Company purchased all of the warrants and distributed them to the directors, corporate auditors and certain employees of the Company as a part of their remuneration. The 425 warrants expired on June 26, 2000.

## 7. EMPLOYEES' RETIREMENT BENEFITS

Under the Company's pension plan, employees terminating their employment are, in most circumstances, entitled to pension payments based on their average pay during their employment, length of service and certain other factors.

Effective April 1, 2000, the Company adopted a new accounting standard for employees' retirement benefits.

The liability (asset) for employees' retirement benefits at March 31, 2001 consisted of the following:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Projected benefit obligation	¥ 2,735	\$ 22,056
Fair value of plan assets	(2,406)	(19,405)
Unrecognized actuarial gain	(85)	(691)
Unrecognized transitional obligation	<u>(257)</u>	<u>(2,069)</u>
Net asset	<u>¥ (13)</u>	<u>\$ (109)</u>

The components of net periodic benefit costs for the year ended March 31, 2001 are as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Service cost	¥ 193	\$ 1,560
Interest cost	60	482
Expected return on plan assets	(58)	(467)
Amortization of transitional obligation	<u>257</u>	<u>2,068</u>
Net periodic benefit costs	<u>¥ 452</u>	<u>\$ 3,643</u>

Assumptions used for the year ended March 31, 2001 are set forth as follows:

Discount rate	2.30%
Expected rate of return on plan assets	2.78%
Recognition period of actuarial gain/loss	3 years
Amortization period of transitional obligation	2 years

## 8. RETIREMENT BENEFITS FOR DIRECTORS AND CORPORATE AUDITORS

Retirement benefits for directors and corporate auditors are paid subject to approval of the shareholders in accordance with the Japanese Commercial Code. The Company recorded a liability for 100% of the unfunded retirement benefits for all of its directors and corporate auditors.

## **9. SHAREHOLDERS' EQUITY**

The Code requires at least 50% of the issue price of new shares, with a minimum of the par value thereof, to be designated as stated capital as determined by resolution of the Board of Directors. Proceeds in excess of amounts designated as stated capital are credited to additional paid-in capital.

Under the Code, the Company may issue new common shares to existing shareholders without consideration as a stock split pursuant to resolution of the Board of Directors. The Company may make such a stock split to the extent the aggregate par value of the shares outstanding after the stock split does not exceed the stated capital. However, the amount calculated by dividing the total amount of shareholders' equity by the number of outstanding shares after the stock split shall not be less than ¥50.

The Code also requires the Company to appropriate from retained earnings to a legal reserve an amount equal to at least 10% of all cash payments made as an appropriation of retained earnings until such reserve equals 25% of stated capital. This reserve is not available for dividends but may be used to reduce a deficit by resolution of the shareholders.

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

The Company is authorized to repurchase, at management's discretion, up to 3.6 million shares of the Company's stock for the purpose of canceling the shares. In 2001, the Company repurchased and cancelled 3 million shares for ¥ 4,005 million (\$32,298 thousand).

## **10. INCOME TAXES**

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 41.9% for the years ended March 31, 2001 and 2000.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2001 and 2000 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2001</u>	<u>2000</u>	<u>2001</u>
Deferred tax assets – current assets			
Enterprise taxes	¥ 231	¥ 103	\$ 1,862
Loss and devaluation of merchandise	93	78	749
Accrued employees' bonuses	75	53	609
Other	70	70	564
Total	<u>469</u>	<u>304</u>	<u>3,784</u>
Net unrealized gain on available-for-sale securities	<u>(7)</u>	<u>—</u>	<u>(56)</u>
Net	<u>462</u>	<u>304</u>	<u>3,728</u>
Deferred tax assets – non-current assets			
Retirement benefits for directors and corporate auditors	180	163	1,447
Allowance for doubtful accounts		50	
Other	55	4	445
Total	<u>235</u>	<u>217</u>	<u>1,892</u>
Deferred tax liabilities – non-current liabilities			
Tax purpose reserves regulated by Japanese tax law	(29)	(29)	(234)
Net unrealized gain on available-for-sale securities	(1)	—	(8)
Other	<u>(6)</u>	<u>—</u>	<u>(47)</u>
Total	<u>(36)</u>	<u>(29)</u>	<u>(289)</u>
Net deferred tax assets – non-current	<u>¥ 199</u>	<u>¥ 188</u>	<u>\$ 1,603</u>

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2001 and 2000 and the actual effective tax rates reflected in the non-consolidated statements of income is as follows:

	<u>2001</u>	<u>2000</u>
Normal effective statutory tax rate	41.9%	41.9%
Taxation on retained earnings of family corporation		3.0
Inhabitant tax (per capita)	0.9	1.4
Other – net	<u>0.7</u>	<u>0.6</u>
Actual effective tax rate	<u>43.5%</u>	<u>46.9%</u>

#### 11. RELATED PARTY TRANSACTIONS

The Company owns the following subsidiary and affiliated company as of March 31, 2001 and 2000:

	Percentage of Ownership	
	<u>2001</u>	<u>2000</u>
Toyo Steel Corporation	53.0%	53.0%
Union Steel Corporation	29.3%	40.5%

Transactions of the Company with the subsidiary and affiliated company for the years ended March 31, 2001 and 2000 were as follows :

	Millions of Yen		Thousands of U.S. Dollars
	<u>2001</u>	<u>2000</u>	<u>2001</u>
Sales	¥ 89	¥ 48	\$ 720
Purchases	1,357	1,037	10,941

The balances due to or from the subsidiary and affiliated company at March 31, 2001 and 2000 were as follows :

	Millions of Yen		Thousands of U.S. Dollars
	<u>2001</u>	<u>2000</u>	<u>2001</u>
Accounts receivable	¥ 13	¥ 10	\$ 102
Trade notes and accounts payable	522	325	4,209

## 12. SUBSEQUENT EVENTS

*Appropriations of Retained Earnings* - The following appropriations of retained earnings at March 31, 2001 were approved at the shareholders meeting held on June 15, 2001:

	Millions of Yen	Thousands of U.S. Dollars
	<u>          </u>	<u>          </u>
Cash dividends ¥ 10 (\$0.08) per share	¥ 330	\$ 2,661
Bonuses to directors and corporate auditors	51	407

\* \* \* \* \*