
Trusco Nakayama Corporation

*Financial Statements for the Years
Ended March 31, 2006 and 2005, and
Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trusco Nakayama Corporation:

We have audited the accompanying balance sheets of Trusco Nakayama Corporation as of March 31, 2006 and 2005, and the related statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Trusco Nakayama Corporation as of March 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits 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.

June 16, 2006

Trusco Nakayama Corporation

Balance Sheets March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
	2006	2005	2006	2006	2005	(Note 1) 2006	
ASSETS							
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 17,154	¥ 18,831	\$ 146,613	Accounts payable - trade (Note 10)	¥ 12,786	¥ 11,598	\$ 109,283
Marketable securities (Note 3)		2		Other payables	1,814	1,532	15,504
Short-term investments (Note 4)	10	10	85	Income taxes payable	2,080	1,884	17,773
Notes receivable - trade	32	1,355	271	Accrued expenses	930	965	7,948
Accounts receivable - trade (Note 10)	18,994	17,998	162,342	Other current liabilities	27	25	232
Inventories (Note 5)	14,065	13,349	120,218				
Deferred tax assets (Note 9)	735	625	6,282	Total current liabilities	17,637	16,004	150,740
Other current assets	287	265	2,450				
Allowance for doubtful accounts	(8)	(72)	(67)	LONG-TERM LIABILITIES:			
Total current assets	51,269	52,363	438,194	Retirement benefits for directors and corporate auditors	304	381	2,597
				Deposit received for guarantees	783	575	6,695
PROPERTY, PLANT AND EQUIPMENT:				Deferred tax liabilities (Note 9)	62		531
Land (Note 6)	12,248	10,842	104,680	Total long-term liabilities	1,149	956	9,823
Buildings and structures	19,051	14,748	162,829				
Machinery and equipment	3,840	3,279	32,825	SHAREHOLDERS' EQUITY (Notes 8 and 11):			
Construction in progress	451	1,165	3,855	Common stock - authorized, 57,190,000 shares; issued, 33,004,372 shares in 2006 and 2005	5,022	5,022	42,926
Total	35,590	30,034	304,189	Capital surplus:			
Accumulated depreciation	(9,711)	(9,056)	(83,001)	Additional paid-in capital	4,710	4,710	40,256
Net property, plant and equipment	25,879	20,978	221,188	Other capital surplus	2	0	16
				Retained earnings:			
INVESTMENTS AND OTHER ASSETS:				Legal reserve	1,256	1,256	10,731
Investments in affiliated companies (Note 10)	99	99	843	Unappropriated	53,290	49,625	455,468
Investment securities (Note 3)	1,352	713	11,554	Land revaluation difference (Note 7)	(1,003)	(1,003)	(8,568)
Long-term receivables	37	406	315	Unrealized gain on available-for-sale securities	407	206	3,478
Long-term deposit	600	500	5,128	Treasury stock - at cost 17,637 shares in 2006 and 11,751 shares in 2005	(35)	(18)	(296)
Software	1,949	635	16,665	Total shareholders' equity	63,649	59,798	544,011
Insurance premiums	249	249	2,131				
Security deposits	291	310	2,490				
Deferred tax assets (Note 9)		152					
Deferred tax assets on land revaluation difference (Note 7)	680	680	5,808				
Other	96	106	819				
Allowance for doubtful accounts	(66)	(433)	(561)				
Total investments and other assets	5,287	3,417	45,192				
TOTAL	¥ 82,435	¥ 76,758	\$ 704,574	TOTAL	¥ 82,435	¥ 76,758	\$ 704,574

See notes to financial statements.

Millions of Yen Thousands of
U.S. Dollars

Trusco Nakayama Corporation

Statements of Income Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2006</u>	<u>2005</u>	<u>2006</u>
NET SALES (Note 10)	¥ 129,176	¥ 117,731	\$ 1,104,069
COST OF GOODS SOLD (Note 10)	104,755	95,765	895,339
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>16,086</u>	<u>15,041</u>	<u>137,492</u>
OPERATING INCOME	<u>8,335</u>	<u>6,925</u>	<u>71,238</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 10)	17	11	144
Purchase discounts	1,466	1,330	12,530
Sales discounts	(1,251)	(1,039)	(10,692)
Gain on sales of property, plant and equipment	0	2	2
Loss on sales and disposals of property, plant and equipment	(156)	(36)	(1,333)
Loss on impairment of long-lived assets (Note 6)		(129)	
Other income - net	<u>179</u>	<u>144</u>	<u>1,530</u>
Total other income	<u>255</u>	<u>283</u>	<u>2,181</u>
INCOME BEFORE INCOME TAXES	8,590	7,208	73,419
INCOME TAXES (Note 9):			
Current	3,578	3,048	30,582
Deferred	<u>(32)</u>	<u>(66)</u>	<u>(275)</u>
Total	<u>3,546</u>	<u>2,982</u>	<u>30,307</u>
NET INCOME	<u>¥ 5,044</u>	<u>¥ 4,226</u>	<u>\$ 43,112</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
AMOUNTS PER SHARE (Note 2.1):			
Net income	¥151.56	¥126.77	\$1.30
Cash dividends applicable to the year	38.00	32.00	0.32

See notes to financial statements.

Trusco Nakayama Corporation

**Statements of Shareholders' Equity
Years Ended March 31, 2006 and 2005**

	Thousands	Millions of Yen							
	Outstanding	Capital Surplus			Retained Earnings		Land Revaluation Difference	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
	Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, APRIL 1, 2004	32,996	¥ 5,022	¥ 4,710		¥ 1,256	¥ 46,111	¥ (1,018)	¥ 172	¥(12)
Net income						4,226			
Cash dividends, ¥20 per share						(660)			
Bonuses to directors and corporate auditors						(37)			
Net increase of treasury stock	(3)								(6)
Net increase in unrealized gain on available-for-sale securities								33	
Reversal of land revaluation difference (Note 7)						(15)	15		
Gain on sales of treasury stock				¥ 0					
BALANCE, MARCH 31, 2005	32,993	5,022	4,710	0	1,256	49,625	(1,003)	206	(18)
Net income						5,044			
Cash dividends, ¥40.5 per share						(1,336)			
Bonuses to directors and corporate auditors						(43)			
Net increase of treasury stock	(6)								(17)
Net increase in unrealized gain on available-for-sale securities								201	
Gain on sales of treasury stock				2					
BALANCE, MARCH 31, 2006	<u>32,987</u>	<u>¥ 5,022</u>	<u>¥ 4,710</u>	<u>¥ 2</u>	<u>¥ 1,256</u>	<u>¥ 53,290</u>	<u>¥ (1,003)</u>	<u>¥ 407</u>	<u>¥(35)</u>

	Thousands of U.S. Dollars (Note 1)							
	Capital Surplus			Retained Earnings		Land Revaluation Difference	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
	Common Stock	Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated			
BALANCE, MARCH 31, 2005	\$ 42,926	\$ 40,256	\$ 1	\$ 10,731	\$ 424,146	\$ (8,568)	\$ 1,758	\$ (155)
Net income					43,112			
Cash dividends, \$0.32 per share					(11,420)			
Bonuses to directors and corporate auditors					(370)			
Net increase of treasury stock								(141)
Net increase in unrealized gain on available-for-sale securities							1,720	
Gain on sales of treasury stock			15					
BALANCE, MARCH 31, 2006	<u>\$ 42,926</u>	<u>\$ 40,256</u>	<u>\$ 16</u>	<u>\$ 10,731</u>	<u>\$ 455,468</u>	<u>\$ (8,568)</u>	<u>\$ 3,478</u>	<u>\$ (296)</u>

See notes to financial statements.

Trusco Nakayama Corporation

Statements of Cash Flows Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2006</u>	<u>2005</u>	<u>2006</u>
OPERATING ACTIVITIES:			
Income before income taxes	¥ 8,590	¥ 7,208	\$ 73,419
Adjustments for:			
Depreciation and amortization	1,137	977	9,715
Loss on impairment of long-lived assets		129	
Decrease in retirement benefits for directors and corporate auditors	(78)	(36)	(664)
Decrease in allowance for doubtful accounts	(61)	(21)	(525)
Interest and dividend income	(17)	(11)	(144)
Gain on sales of property, plant and equipment	(0)	(2)	(2)
Loss on sales and disposals of property, plant and equipment	84	36	716
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	327	3,723	2,794
Increase in inventories	(716)	(830)	(6,122)
Increase in notes and accounts payable	1,188	1,040	10,151
Other - net	365	423	3,135
Interest and dividends received	17	11	141
Income taxes paid	(3,390)	(2,709)	(28,977)
Net cash provided by operating activities	<u>7,446</u>	<u>9,938</u>	<u>63,637</u>
INVESTING ACTIVITIES:			
Purchases of marketable and investment securities	(401)	(1)	(3,424)
Proceeds from retirement of investment securities	100		854
Proceeds from sales of property, plants and equipment	2	51	15
Purchases of intangible assets	(1,625)	(162)	(13,886)
Purchases of property, plant and equipment	(5,783)	(4,446)	(49,430)
Other - net	(65)	(454)	(562)
Net cash used in investing activities	<u>(7,773)</u>	<u>(5,012)</u>	<u>(66,433)</u>
FINANCING ACTIVITIES:			
Resales of treasury stocks	6	0	50
Repurchases of treasury stocks	(21)	(6)	(176)
Dividends paid	(1,335)	(660)	(11,413)
Net cash used in financing activities	<u>(1,350)</u>	<u>(666)</u>	<u>(11,539)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	(1,677)	4,260	(14,335)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>18,831</u>	<u>14,571</u>	<u>160,948</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 17,154</u>	<u>¥ 18,831</u>	<u>\$ 146,613</u>

See notes to financial statements.

Trusco Nakayama Corporation

Notes to Financial Statements Years Ended March 31, 2006 and 2005

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying 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 generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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. In addition, certain reclassifications have been made in the 2005 financial statements to conform to the classifications used in 2006.

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 ¥117 to \$1, the approximate rate of exchange at March 31, 2006. 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

- a. Non-Consolidation* - The Company has no subsidiaries. Investments in two affiliated companies (20% - 50% ownership) are stated at cost.
- b. 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 that mature within three months of the date of acquisition.
- c. Inventories* - Merchandise is stated at cost determined by the moving average method.
- d. Marketable and Investment Securities* - Marketable and investment securities are classified and accounted for, based on management's intent, as available-for-sale securities, and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of shareholders' 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, available-for-sale securities are reduced to net realizable value by a charge to income.

- e. 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. The range of useful lives is principally from 10 to 50 years for buildings and structures, and from 3 to 12 years for machinery and equipment.
- f. Long-lived Assets* - The Company adopted the new accounting standard for impairment of fixed assets beginning after April 1, 2004.

The Company reviews its long-lived assets for impairment whenever events or changes in circumstance 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.

- g. 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.
- h. Retirement Benefits for Directors and Corporate Auditors** - The Company terminated retirement benefits for directors and corporate auditors effective March 31, 2004, by the resolution of the Board of Directors on March 28, 2004. Retirement allowances for directors and corporate auditors are recorded to state the liability at the amount that would be required if all present directors and corporate auditors retired at March 31, 2004.
- i. 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. Since the amount of such finance leases are not material, "as if capitalized" information is not disclosed.
- j. Income Taxes** - The Company accounts for 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.
- k. 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.
- l. 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 is not disclosed because the Company has no dilutive securities.

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

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of
	<u>2006</u>	<u>2005</u>	<u>U.S. Dollars</u>
Current:			
Government and corporate bonds		<u>¥ 2</u>	
Total		<u>¥ 2</u>	
Non-current:			
Marketable equity securities	¥ 970	¥ 623	\$ 8,294
Government and corporate bonds	260		2,221
Trust fund investments and other	<u>122</u>	<u>90</u>	<u>1,039</u>
Total	<u>¥1,352</u>	<u>¥ 713</u>	<u>\$ 11,554</u>

The carrying amounts and aggregate fair values of investment securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
	<u>2006</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale:				
Equity securities	¥ 288	¥ 672	¥ 1	¥ 959
Government and corporate bonds	300	0	40	260
Trust fund investments and other	<u>40</u>	<u>52</u>	<u>—</u>	<u>92</u>
Total	<u>¥ 628</u>	<u>¥ 724</u>	<u>¥ 41</u>	<u>¥ 1,311</u>

	Millions of Yen			
	<u>2005</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale:				
Equity securities	¥ 287	¥ 326	¥ 1	¥ 612
Government and corporate bonds	2	0		2
Trust fund investments and other	<u>40</u>	<u>20</u>	<u>—</u>	<u>60</u>
Total	<u>¥ 329</u>	<u>¥ 346</u>	<u>¥ 1</u>	<u>¥ 674</u>

	Thousands of U.S. Dollars			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$ 2,461	\$ 5,743	\$ 6	\$ 8,198
Government and corporate bonds	2,564	4	346	2,222
Trust fund investments and other	338	442		780
Total	<u>\$ 5,363</u>	<u>\$ 6,189</u>	<u>\$ 352</u>	<u>\$ 11,200</u>

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥ 11	¥ 11	\$ 95
Trust fund investment and other	30	30	259
Total	<u>¥ 41</u>	<u>¥ 41</u>	<u>\$ 354</u>

Proceeds from sales of available-for-sale securities for the years ended March 31, 2006 and 2005 were not significant.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2006 and 2005 are as follows:

	Government and Corporate Bonds		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due in one year		¥ 2	
Due after ten years	¥260		\$2,222
Total	<u>¥ 260</u>	<u>¥ 2</u>	<u>\$2,222</u>

4. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
	Time deposits other than cash equivalents	¥10	¥10

5. INVENTORIES

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

	Millions of Yen		Thousands of
	<u>2006</u>	<u>2005</u>	<u>U.S. Dollars</u>
Merchandise	¥14,065	¥13,349	\$120,218

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of April 1, 2004 and, as a result, recognized an impairment loss of ¥129 million as other expense for certain idle assets of the former Planet Hokkaido and the carrying amount of the relevant idle assets were written down to the recoverable amount. The recoverable amount of the idle assets group were measured at their net realizable values.

7. LAND REVALUATION

Under the "Law of Land Revaluation", promulgated on March 31, 1998 and revised on March 31, 1999 and 2001, the Company selected a one-time revaluation of its own-use land to a value based on real estate appraisal information as of March 31, 2002.

The resulting land revaluation difference represents the net unrealized devaluation of land values and is stated, net of income taxes, as a component of shareholders' equity. There was no effect on the statement of income. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be added to the land revaluation difference account and related deferred tax assets. When a certain revalued land is sold off or the loss on impairment of the land is recognized, its land revaluation difference is directly reversed to retained earnings. The details of the one-time revaluation as of March 31, 2006, adjusted changes after March 31, 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥ 9,489	\$ 81,102
Land after revaluation	<u>7,806</u>	<u>66,726</u>
Land revaluation difference	<u>1,683</u>	<u>14,376</u>
Deferred tax assets on land revaluation	<u>(680)</u>	<u>(5,808)</u>
Net land revaluation difference	<u>¥ 1,003</u>	<u>\$ 8,568</u>

As at March 31, 2006, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥2,104 million (\$17,986 thousand).

8. SHAREHOLDERS' EQUITY

Through May 1, 2006, Japanese companies are subject to the Code.

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

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

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the general shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥47,210 million (\$403,508 thousand) as of March 31, 2006, based on the amount recorded in the company's general books of account.

Dividends are approved by the 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.

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

(a) Dividends

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

The Corporate Law also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Corporate Law, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Corporate Law also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

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

9. 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 40.4% for the year ended March 31, 2006 and 2005.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2006 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Deferred tax assets - current assets:			
Enterprise taxes	¥ 170	¥ 140	\$ 1,457
Accrued employees' bonuses	286	300	2,445
Other	279	185	2,380
Total	<u>¥ 735</u>	<u>¥ 625</u>	<u>\$ 6,282</u>
Deferred tax liabilities - current liabilities:			
Net unrealized gain on available-for-sale securities		¥ 0	
Total		<u>¥ 0</u>	
Net deferred tax assets - current	<u>¥ 735</u>	<u>¥ 625</u>	<u>\$ 6,282</u>

	<u>Millions of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Deferred tax assets - non-current assets:			
Retirement benefits for directors and corporate auditors	¥ 123	¥ 154	\$ 1,049
Allowance for doubtful accounts	47	82	404
Other	70	81	595
Total	<u>¥ 240</u>	<u>¥ 317</u>	<u>\$ 2,048</u>
Deferred tax liabilities - non-current liabilities:			
Tax purpose reserves regulated by Japanese tax law	¥ 26	¥ 26	\$ 222
Net unrealized gain on available-for-sale securities	276	139	2,358
Total	<u>¥ 302</u>	<u>¥ 165</u>	<u>\$ 2,580</u>
Net deferred tax assets (liabilities) - non-current	<u>¥ (62)</u>	<u>¥ 152</u>	<u>\$ (531)</u>

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2006 and 2005 and the actual effective tax rates reflected in the statements of income is as follows:

	<u>2006</u>	<u>2005</u>
Normal effective statutory tax rate	40.4 %	40.4 %
Inhabitant tax (per capital levy)	1.1	0.6
Permanently non-deductible expenses	1.0	1.1
Tax deduction	(1.4)	(0.3)
Other - net	<u>0.2</u>	<u>(0.4)</u>
Actual effective tax rate	<u>41.3 %</u>	<u>41.4 %</u>

10. RELATED PARTY TRANSACTIONS

The Company owns the following affiliated companies as of March 31, 2006 and 2005:

	<u>Percentage of Ownership</u>	
	<u>2006</u>	<u>2005</u>
Toyo Steel Corporation	28.0%	28.0%
Union Steel Corporation	29.3%	29.3%

Transactions of the Company with the affiliated companies for the years ended March 31, 2006 and 2005 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>
Sales	¥ 5	¥ 4	\$ 40
Purchases	1,374	1,403	11,743
Dividend income	1	1	8

The balances due to or from the affiliated companies at March 31, 2006 and 2005 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2006</u>	<u>2005</u>	<u>U.S. Dollars</u>
Accounts receivable	¥ 1	¥ 1	\$ 8
Accounts payable	191	190	1,636

11. SUBSEQUENT EVENT

Appropriations of Retained Earnings - The following appropriations of retained earnings at March 31, 2006 were approved at the shareholders meeting held on June 16, 2006:

	<u>Millions</u>	<u>Thousands of</u>
	<u>of Yen</u>	<u>U.S. Dollars</u>
Cash dividends ¥19.5 (\$0.17) per share	¥ 643	\$ 5,498
Bonuses to directors and corporate auditors	44	378

* * * * *