
Trusco Nakayama Corporation

*Non-Consolidated Financial Statements for the
Years Ended March 31, 2003 and 2002, and
Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Trusco Nakayama Corporation:

We have audited the accompanying non-consolidated balance sheets of Trusco Nakayama Corporation as of March 31, 2003 and 2002, and the related non-consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These non-consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these non-consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied 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 non-consolidated financial statements referred to above present fairly, in all material respects, the financial position of Trusco Nakayama Corporation as of March 31, 2003 and 2002, 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 consistently applied during the period except for the changes, with which we concur, in the accounting for sales discounts and purchase discounts as discussed in Note 3.

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 20, 2003

Trusco Nakayama Corporation

Non-Consolidated Balance Sheets March 31, 2003 and 2002

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
CURRENT ASSETS:			
Cash and cash equivalents	¥ 11,785	¥ 6,822	\$ 98,208
Marketable securities (Note 4)		15	
Short-term investments (Note 5)	30	40	250
Notes receivable - trade	17,349	25,127	144,577
Accounts receivable - trade (Note 12)	14,288	13,551	119,063
Inventories (Note 6)	11,321	12,356	94,346
Deferred tax assets (Note 11)	661	321	5,508
Other current assets	313	242	2,608
Allowance for doubtful accounts	(144)	(63)	(1,201)
Total current assets	55,603	58,411	463,359
PROPERTY, PLANT AND EQUIPMENT:			
Land (Note 7)	8,447	7,854	70,397
Buildings and structures	12,628	12,435	105,231
Machinery and equipment	2,889	2,670	24,077
Construction in progress	9	57	73
Total	23,973	23,016	199,778
Accumulated depreciation	(8,124)	(7,429)	(67,701)
Net property, plant and equipment	15,849	15,587	132,077
OTHER ASSETS:			
Investments in subsidiary and affiliate (Note 12)	99	99	822
Investment securities (Note 4)	783	778	6,529
Long-term receivables	509	143	4,247
Insurance premiums	583	720	4,856
Security deposits	419	426	3,490
Deferred tax assets (Note 11)	382	291	3,184
Deferred tax assets on land revaluation difference (Note 7)	716	716	5,964
Other	365	264	3,044
Allowance for doubtful accounts	(529)	(155)	(4,410)
Total other assets	3,327	3,282	27,726
TOTAL	¥ 74,779	¥77,280	\$ 623,162

LIABILITIES AND SHAREHOLDERS' EQUITY	2003	2002	2003
CURRENT LIABILITIES:			
Notes payable - trade (Note 12)	¥ 7,611	¥ 14,399	\$ 63,422
Accounts payable - trade (Note 12)	9,314	8,010	77,619
Other payables	1,422	895	11,853
Income taxes payable	983	543	8,197
Employees' retirement benefits (Note 8)	422		3,516
Accrued expenses	822	569	6,847
Other current liabilities	28	84	232
Total current liabilities	20,602	24,500	171,686
LONG-TERM LIABILITIES:			
Retirement benefits for directors and corporate auditors (Note 9)	525	489	4,379
Employees' retirement benefits (Note 8)		102	
Deposit received for guarantees	169	137	1,408
Total long-term liabilities	694	728	5,787
SHAREHOLDERS' EQUITY (Notes 10 and 13):			
Common stock - authorized, 57,190,000 shares; issued, 33,004,372 shares in 2003 and 2002	5,022	5,022	41,853
Capital surplus - Additional paid-in capital	4,710	4,710	39,250
Retained earnings:			
Legal reserve	1,256	1,256	10,463
Unappropriated	43,469	42,014	362,240
Land revaluation difference (Note 7)	(992)	(992)	(8,270)
Unrealized gain on available-for-sale securities	27	44	227
Treasury stock - at cost 6,102 shares in 2003 and 866 shares in 2002	(9)	(2)	(74)
Total shareholders' equity	53,483	52,052	445,689
TOTAL	¥ 74,779	¥ 77,280	\$ 623,162

See notes to non-consolidated financial statements.

Thousands of
U.S. Dollars
(Note 1)

Millions of Yen

Trusco Nakayama Corporation

Non-Consolidated Statements of Income Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2003	2002	2003
NET SALES (Note 12)	¥ 101,708	¥ 102,334	\$ 847,567
COST OF GOODS SOLD (Note 12)	83,639	84,443	696,994
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	14,162	12,868	118,015
OPERATING INCOME	3,907	5,023	32,558
OTHER INCOME (EXPENSES):			
Interest and dividend income	18	25	149
Interest expense		(1)	
Purchase discounts (Note 3)	834	760	6,951
Sales discounts (Note 3)	(315)	(182)	(2,625)
Gain on sales of property, plant and equipment	1	9	7
Losses on sales and disposals of property, plant and equipment	(37)	(118)	(311)
Loss on termination of employees' retirement benefit plans (Note 8)	(439)		(3,656)
Loss on devaluation of marketable and investment securities	(67)	(206)	(557)
Loss on sale of investment in subsidiary		(5)	
Other income (expenses) - net	64	31	533
Total other income	59	313	491
INCOME BEFORE INCOME TAXES	3,966	5,336	33,049
INCOME TAXES (Note 11):			
Current	2,236	2,366	18,635
Deferred	(417)	25	(3,481)
Total	1,819	2,391	15,154
NET INCOME	¥ 2,147	¥ 2,945	\$ 17,895
AMOUNTS PER SHARE (Notes 2 and 13):			
Net income	¥64.40	¥88.26	\$0.54
Cash dividends applicable to the year	20.00	20.00	0.17

See notes to non-consolidated financial statements.

Trusco Nakayama Corporation

**Non-Consolidated Statements of Shareholders' Equity
Years Ended March 31, 2003 and 2002**

	Millions of Yen							
	Thousands of Shares Issued	Common Stock	Capital Surplus	Retained Earnings		Land Revaluation Difference	Unrealized Gain on Available-for- Sale Securities	Treasury Stock
			Additional Paid-in Capital	Legal Reserve	Unappropriated			
BALANCE, APRIL 1, 2001	33,004	¥ 5,022	¥ 4,710	¥ 1,256	¥ 39,779		¥ 11	
Net income					2,945			
Cash dividends, ¥20 per share					(660)			
Bonuses to directors and corporate auditors					(50)			
Repurchase of treasury stock (866 shares)								¥ (2)
Increase in revaluation difference						¥ (992)		
Unrealized gain on available-for-sale securities							33	
BALANCE, MARCH 31, 2002	33,004	5,022	4,710	1,256	42,014	(992)	44	(2)
Net income					2,147			
Cash dividends, ¥20 per share					(660)			
Bonuses to directors and corporate auditors					(32)			
Repurchase of treasury stock (5,236 shares)								(7)
Unrealized gain on available-for-sale securities							(17)	
BALANCE, MARCH 31, 2003	<u>33,004</u>	<u>¥ 5,022</u>	<u>¥ 4,710</u>	<u>¥ 1,256</u>	<u>¥ 43,469</u>	<u>¥ (992)</u>	<u>¥ 27</u>	<u>¥ (9)</u>

	Thousands of U.S. Dollars (Note 1)							
		Common Stock	Capital Surplus	Retained Earnings		Land Revaluation Difference	Unrealized Gain on Available-for- Sale Securities	Treasury Stock
			Additional Paid-in Capital	Legal Reserve	Unappropriated			
BALANCE, MARCH 31, 2002		\$ 41,853	\$ 39,250	\$ 10,463	\$ 350,114	\$(8,270)	\$ 268	\$ (10)
Net income					17,895			
Cash dividends, \$0.17 per share					(5,500)			
Bonuses to directors and corporate auditors					(269)			
Repurchase of treasury stock (5,236 shares)								(64)
Unrealized gain on available-for-sale securities							(141)	
BALANCE, MARCH 31, 2003		<u>\$ 41,853</u>	<u>\$ 39,250</u>	<u>\$ 10,463</u>	<u>\$ 362,240</u>	<u>\$(8,270)</u>	<u>\$ 227</u>	<u>\$ (74)</u>

See notes to non-consolidated financial statements.

Trusco Nakayama Corporation

Non-Consolidated Statements of Cash Flows Years Ended March 31, 2003 and 2002

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2003</u>	<u>2002</u>	<u>2003</u>
OPERATING ACTIVITIES:			
Income before income taxes	¥ 3,966	¥ 5,336	\$ 33,049
Adjustments for:			
Income taxes paid	(1,796)	(4,279)	(14,969)
Depreciation and amortization	912	879	7,604
Increase in retirement benefits for directors and corporate auditors	37	60	308
Increase in employees' retirement benefits	320	102	2,667
Increase in allowance for doubtful accounts	520		4,331
Loss on devaluation of marketable and investment securities	67	206	557
Interest and dividend income	(18)	(25)	(149)
Loss on sales and disposal of property, plant and equipment	37	118	311
Gain on sales of property, plant and equipment	(1)	(9)	(7)
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	6,611	7,939	55,091
Decrease (increase) in inventories	1,034	(1,273)	8,618
Decrease in notes and accounts payable	(5,483)	(4,371)	(45,695)
Other - net	887	(639)	7,387
Interest and dividends received	18	28	151
Net cash provided by operating activities	<u>7,111</u>	<u>4,072</u>	<u>59,254</u>
INVESTING ACTIVITIES:			
Purchases of marketable and investment securities	(102)	(1)	(849)
Decrease in short-term investments	10	40	83
Proceeds from sales of marketable and investment securities	16	815	131
Payment for disposals of property, plant and equipment	(14)		(115)
Purchases of property, plant and equipment	(1,544)	(2,144)	(12,865)
Proceeds from sales of property, plant and equipment	4	136	33
Other - net	151	(35)	1,261
Net cash used in investing activities	<u>(1,479)</u>	<u>(1,189)</u>	<u>(12,321)</u>
FINANCING ACTIVITIES:			
Purchases of treasury stocks	(8)		(63)
Dividends paid	(661)	(659)	(5,509)
Net cash used in financing activities	<u>(669)</u>	<u>(659)</u>	<u>(5,572)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,963	2,224	41,361
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>6,822</u>	<u>4,598</u>	<u>56,847</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 11,785</u>	<u>¥ 6,822</u>	<u>\$ 98,208</u>

See notes to non-consolidated financial statements.

Trusco Nakayama Corporation

Notes to Non-Consolidated Financial Statements Years Ended March 31, 2003 and 2002

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 Financial Reporting 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 ¥120 to \$1, the approximate rate of exchange at March 31, 2003. 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 two affiliated companies (20% - 50% ownership) are stated at cost.

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 that mature within three months of the date of acquisition.

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.

Inventories - Merchandise is stated at cost determined by the moving average 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. 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.

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. 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 as of April 1, 2000 is being amortized over two years and the annual amortization is presented in selling, general and administrative expenses in the statement of income. The Company has determined that it will terminate the non-contributory funded pension plan effective June 30, 2003. The estimated loss on termination of employees' retirement benefits plans, ¥439 million (\$3,656 thousand), is presented in other expenses in the statement of income. At March 31, 2002, the liability for retirement benefits was presented in long-term liabilities. At March 31, 2003, it is presented in current liabilities.

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 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.

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.

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 - Effective April 1, 2002, the Company adopted a new accounting standard for earnings per share of common stock issued by the Accounting Standards Board of Japan. Under the new standard, basic net income per share is computed by dividing net income available to common shareholders, which is more precisely computed than under previous practices, by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

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. ACCOUNTING CHANGES

Sales Discounts

Prior to April 1, 2001, cash discounts were deducted from net sales. Effective April 1, 2001, the Company changed its method of accounting to record such discounts as other expenses.

As a result of this change, operating income for the year ended March 31, 2002, increased by ¥198 million and income before income taxes increased by ¥16 million, compared to the previous method.

Purchase Discounts

Prior to April 1, 2001 cash purchase discounts were deducted from cost of goods sold. Effective April 1, 2001, the Company changed its method of accounting to record such discounts as other income.

As a result of this change, operating income for the year ended March 31, 2002, decreased by ¥672 million and income before income taxes increased by ¥87 million, compared to the previous method.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Current:			
Government and corporate bonds	<u>¥</u>	<u>¥ 15</u>	<u>\$</u>
Total	<u>¥</u>	<u>¥ 15</u>	<u>\$</u>
Non-current:			
Equity securities	¥ 355	¥ 429	\$ 2,957
Government and corporate bonds	99	2	828
Trust fund investments and other	<u>329</u>	<u>347</u>	<u>2,744</u>
Total	<u>¥ 783</u>	<u>¥ 778</u>	<u>\$ 6,529</u>

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2003 and 2002 were as follows:

	Millions of Yen			
	<u>2003</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale:				
Equity securities	¥ 285	¥ 73	¥ 23	¥ 336
Government and corporate bonds	102		3	99
Trust fund investments and other	<u>301</u>	<u>—</u>	<u>2</u>	<u>299</u>
Total	<u>¥ 688</u>	<u>¥ 73</u>	<u>¥ 28</u>	<u>¥ 734</u>

	Millions of Yen			
	2002			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥ 337	¥ 98	¥ 25	¥ 410
Government and corporate bonds	16	1		17
Trust fund investments and other	<u>314</u>	<u>2</u>	<u>—</u>	<u>316</u>
Total	<u>¥ 667</u>	<u>¥ 101</u>	<u>¥ 25</u>	<u>¥ 743</u>

	Thousands of U.S. Dollars			
	2003			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$ 2,378	\$ 607	\$ 194	\$ 2,791
Government and corporate bonds	848	2	22	828
Trust fund investments and other	<u>2,505</u>	<u>2</u>	<u>14</u>	<u>2,493</u>
Total	<u>\$ 5,731</u>	<u>\$ 611</u>	<u>\$ 230</u>	<u>\$ 6,112</u>

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2003 and 2002 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Available-for-sale:			
Equity securities	¥ 19	¥ 19	\$ 166
Trust fund investment and other	<u>30</u>	<u>30</u>	<u>251</u>
Total	<u>¥ 49</u>	<u>¥ 49</u>	<u>\$ 417</u>

Proceeds from sales of available-for-sale securities for the years ended March 31, 2003 and 2002 were not significant.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2003 are as follows:

	<u>Government and Corporate Bonds</u>	
	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Due in one year or less	¥ 2	\$ 17
Due after one years	<u>97</u>	<u>811</u>
Total	<u>¥ 99</u>	<u>\$ 828</u>

6. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2003 and 2002 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Time deposits other than cash equivalents	¥30	¥40	\$250

6. INVENTORIES

Inventories at March 31, 2003 and 2002 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Merchandise	¥11,321	¥ 12,356	\$94,346

7. LAND REVALUATION

Under the "Law of Land Revaluation", promulgated on March 31, 1998 and revised on March 31, 1999 and 2001, the Company elected 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 is 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 removed from the land revaluation excess account and related deferred tax liabilities. The details of the one-time revaluation as of March 31, 2002 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Land before revaluation	¥ 9,563	\$ 79,688
Land after revaluation	<u>7,855</u>	<u>65,454</u>
Land revaluation difference	(1,708)	(14,234)
Deferred tax assets on land revaluation	<u>716</u>	<u>5,964</u>
Net land revaluation difference	<u>¥ (992)</u>	<u>\$ (8,270)</u>

As at March 31, 2003, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥595 million (\$4,957 thousand).

8. 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.

The Company has determined that it will terminate the non-contributory funded pension plan effective June 30, 2003. The estimated loss on termination of employees' retirement benefits plans, ¥439 million (\$3,656 thousand), is presented in other expenses in the statement of income.

The liability for employees' retirement benefits at March 31, 2003 and 2002 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Projected benefit obligation	¥ 3,232	¥ 2,939	\$ 26,931
Fair value of plan assets	(2,899)	(2,698)	(24,156)
Unrecognized actuarial loss	(350)	(139)	(2,915)
Estimated loss on termination of employees' retirement benefit plans	<u>439</u>	<u> </u>	<u>3,656</u>
Net liability	<u>¥ 422</u>	<u>¥ 102</u>	<u>\$ 3,516</u>

The components of net periodic benefit costs for the years ended March 31, 2003 and 2002 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Service cost	¥ 196	¥ 190	\$ 1,634
Interest cost	67	63	564
Expected return on plan assets	(75)	(67)	(625)
Amortization of transitional obligation		257	
Recognized actuarial loss	<u>75</u>	<u>46</u>	<u>624</u>
Net periodic benefit costs	263	489	2,197
Estimated loss on termination of employees' retirement benefit plans	<u>439</u>	<u> </u>	<u>3,656</u>
Net periodic benefit cost	<u>¥ 702</u>	<u>¥ 489</u>	<u>\$ 5,853</u>

Assumptions used for the years ended March 31, 2003 and 2002 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

9. 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.

10. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code") to which certain amendments became effective from October 1, 2001.

The Code was revised whereby common stock par value was eliminated resulting in all shares being 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 revised 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 revised Code eliminated restrictions on the repurchase and use of treasury stock allowing Japanese companies to repurchase treasury stock by a resolution of the shareholders at the general shareholders meeting and dispose of such treasury stock by resolution of the Board of Directors beginning April 1, 2002. 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.

The amount of retained earnings available for dividends under the Code was ¥42,468 million (\$353,896 thousand) as of March 31, 2003, based on the amount recorded in the parent company's general books of account. 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.

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.

11. 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, 2003 and 2002.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2003 and 2002 are as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Deferred tax assets - current assets:			
Enterprise taxes	¥ 92	¥ 50	\$ 769
Loss on devaluation of merchandise	124	99	1,031
Accrued employees' bonuses	236	139	1,966
Employees' retirement benefits	177		1,473
Other	<u>32</u>	<u>33</u>	<u>269</u>
Deferred tax assets - current	<u>¥ 661</u>	<u>¥ 321</u>	<u>\$ 5,508</u>
Deferred tax assets - non-current assets:			
Retirement benefits for directors and corporate auditors	¥ 212	¥ 205	\$ 1,765
Allowance for doubtful accounts	148	30	1,230
Employees' retirement benefits		43	
Other	<u>68</u>	<u>73</u>	<u>568</u>
Total	<u>428</u>	<u>351</u>	<u>3,563</u>
Deferred tax liabilities - non-current liabilities:			
Tax purpose reserves regulated by Japanese tax law	(27)	(29)	(226)
Net unrealized gain on available-for-sale securities	<u>(19)</u>	<u>(31)</u>	<u>(153)</u>
Total	<u>(46)</u>	<u>(60)</u>	<u>(379)</u>
Net deferred tax assets - non-current	<u>¥ 382</u>	<u>¥ 291</u>	<u>\$ 3,184</u>

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2003 and 2002 and the actual effective tax rates reflected in the non-consolidated statements of income is as follows:

	<u>2003</u>	<u>2002</u>
Normal effective statutory tax rate	41.9%	41.9%
Inhabitant tax (per capita levy)	1.0	1.4
Permanently non-deductible expenses	0.9	1.8
Prior period income tax	1.8	
Effect of tax rate reduction	0.4	
Other - net	<u>(0.2)</u>	<u>(0.3)</u>
Actual effective tax rate	<u>45.8%</u>	<u>44.8%</u>

On March 31, 2003, a tax reform law was enacted in Japan which changed the normal effective statutory tax rate from approximately 41.9% to 40.3%, effective for years beginning April 1, 2004. The effect of this change on deferred taxes in the non-consolidated statements of income for the year ended March 31, 2003 is approximately ¥16 million (\$133 thousand) and was charged to income tax expense in 2003.

12. RELATED PARTY TRANSACTIONS

The Company owns the following subsidiary and affiliated company as of March 31, 2003 and 2002:

	<u>Percentage of Ownership</u>	
	<u>2003</u>	<u>2002</u>
Toyo Steel Corporation	28.0%	28.0%
Union Steel Corporation	29.3%	29.3%

Transactions of the Company with the subsidiary and affiliated company for the years ended March 31, 2003 and 2002 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Sales	¥ 52	¥ 56	\$ 437
Purchases	1,176	1,144	9,797

The balances due to or from the subsidiary and affiliated company at March 31, 2003 and 2002 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2003</u>	<u>2002</u>	<u>2003</u>
Accounts receivable	¥ 22	¥ 25	\$ 183
Trade notes and accounts payable	392	386	3,270

13. SUBSEQUENT EVENT

Appropriations of Retained Earnings - The following appropriations of retained earnings at March 31, 2003 were approved at the shareholders meeting held on June 20, 2003:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Cash dividends ¥10 (\$0.08) per share	¥ 330	\$ 2,750
Bonuses to directors and corporate auditors	22	183

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