
Trusco Nakayama Corporation

*Financial Statements for the Years
Ended March 31, 2005 and 2004, 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, 2005 and 2004, 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, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2.f to the financial statements, the Company adopted the new accounting standard for impairment of fixed assets as of April 1, 2004.

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 17, 2005

Trusco Nakayama Corporation

Balance Sheets March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)	<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2005</u>	<u>2004</u>	<u>(Note 1) 2005</u>	
ASSETS							
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents	¥ 18,831	¥ 14,571	\$175,990	Accounts payable - trade (Note 10)	¥ 11,598	¥ 10,559	\$ 108,397
Marketable securities (Note 3)	2		19	Other payables	1,532	1,181	14,317
Short-term investments (Note 4)	10	30	94	Income taxes payable	1,884	1,459	17,605
Notes receivable - trade	1,355	7,503	12,660	Accrued expenses	965	940	9,021
Accounts receivable - trade (Note 10)	17,998	15,574	168,208	Other current liabilities	25	11	230
Inventories (Note 5)	13,349	12,519	124,759				
Deferred tax assets (Note 9)	625	509	5,845	Total current liabilities	<u>16,004</u>	<u>14,150</u>	<u>149,570</u>
Other current assets	265	214	2,468	LONG-TERM LIABILITIES:			
Allowance for doubtful accounts	(72)	(93)	(670)	Retirement benefits for directors and corporate auditors	381	417	3,565
				Deposit received for guarantees	575	332	5,369
Total current assets	<u>52,363</u>	<u>50,827</u>	<u>489,373</u>				
				Total long-term liabilities	<u>956</u>	<u>749</u>	<u>8,934</u>
PROPERTY, PLANT AND EQUIPMENT:				SHAREHOLDERS' EQUITY (Notes 8 and 11):			
Land (Note 6)	10,842	10,324	101,329	Common stock - authorized, 57,190,000 shares; issued, 33,004,372 shares in 2005 and 2004	5,022	5,022	46,938
Buildings and structures	14,748	12,530	137,836	Capital surplus:			
Machinery and equipment	3,279	3,085	30,641	Additional paid-in capital	4,710	4,710	44,018
Construction in progress	1,165	398	10,884	Other capital surplus	0		1
Total	30,034	26,337	280,690	Retained earnings:			
Accumulated depreciation	(9,056)	(8,654)	(84,632)	Legal reserve	1,256	1,256	11,735
				Unappropriated	49,625	46,111	463,786
Net property, plant and equipment	<u>20,978</u>	<u>17,683</u>	<u>196,058</u>	Land revaluation difference (Note 7)	(1,003)	(1,018)	(9,369)
				Unrealized gain on available-for-sale securities	206	172	1,922
INVESTMENTS AND OTHER ASSETS:				Treasury stock - at cost 11,751 shares in 2005 and 8,576 shares in 2004	(18)	(12)	(169)
Investments in affiliated companies (Note 10)	99	99	922				
Investment securities (Note 3)	713	659	6,665	Total shareholders' equity	<u>59,798</u>	<u>56,241</u>	<u>558,862</u>
Long-term receivables	406	432	3,797				
Software	635	296	5,938				
Insurance premiums	249	277	2,331				
Security deposits	310	327	2,895				
Deferred tax assets (Note 9)	152	213	1,417				
Deferred tax assets on land revaluation difference (Note 7)	680	690	6,351				
Other	606	96	5,666				
Allowance for doubtful accounts	(433)	(459)	(4,047)				
Total investments and other assets	<u>3,417</u>	<u>2,630</u>	<u>31,935</u>				
TOTAL	<u>¥ 76,758</u>	<u>¥ 71,140</u>	<u>\$ 717,366</u>	TOTAL	<u>¥ 76,758</u>	<u>¥ 71,140</u>	<u>\$ 717,366</u>

See notes to financial statements.

Thousands of
U.S. Dollars

Trusco Nakayama Corporation

Statements of Income Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2005</u>	<u>2004</u>	<u>2005</u>
NET SALES (Note 10)	¥ 117,731	¥ 106,852	\$ 1,100,292
COST OF GOODS SOLD (Note 10)	95,765	87,185	895,002
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>15,041</u>	<u>14,183</u>	<u>140,568</u>
OPERATING INCOME	<u>6,925</u>	<u>5,484</u>	<u>64,722</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 10)	11	12	98
Purchase discounts	1,330	1,172	12,430
Sales discounts	(1,039)	(642)	(9,706)
Gain on sales of property, plant and equipment	2		18
Loss on sales and disposals of property, plant and equipment	(36)	(90)	(340)
Loss on impairment of long-lived assets (Note 6)	(129)		(1,204)
Loss on devaluation of marketable and investment securities		(9)	
Other income - net	<u>144</u>	<u>205</u>	<u>1,346</u>
Total other income	<u>283</u>	<u>648</u>	<u>2,642</u>
INCOME BEFORE INCOME TAXES	7,208	6,132	67,364
INCOME TAXES (Note 9):			
Current	3,048	2,586	28,490
Deferred	<u>(66)</u>	<u>222</u>	<u>(622)</u>
Total	<u>2,982</u>	<u>2,808</u>	<u>27,868</u>
NET INCOME	<u>¥ 4,226</u>	<u>¥ 3,324</u>	<u>\$ 39,496</u>
		<u>Yen</u>	<u>U.S. Dollars</u>
AMOUNTS PER SHARE (Note 2.1):			
Net income	¥126.77	¥99.63	\$1.18
Cash dividends applicable to the year	32.00	20.00	0.30

See notes to financial statements.

Trusco Nakayama Corporation

**Statements of Shareholders' Equity
Years Ended March 31, 2005 and 2004**

	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, 2003	32,998	¥ 5,022	¥ 4,710		¥ 1,256	¥ 43,469	¥ (992)	¥ 27	¥ (9)
Net income						3,324			
Cash dividends, ¥20 per share						(660)			
Bonuses to directors and corporate auditors						(22)			
Repurchase of treasury stock	(2)								(3)
Net increase in unrealized gain on available-for-sale securities								145	
Net increase in land revaluation difference							(26)		
BALANCE, MARCH 31, 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)			
Repurchase 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	<u>32,993</u>	<u>¥ 5,022</u>	<u>¥ 4,710</u>	<u>¥ 0</u>	<u>¥ 1,256</u>	<u>¥ 49,625</u>	<u>¥ (1,003)</u>	<u>¥ 206</u>	<u>¥ (18)</u>
		Thousands of U.S. Dollars (Note 1)							
		Common Stock	Capital Surplus		Legal Reserve	Retained Earnings	Land Revaluation Difference	Unrealized Gain on Available-for-Sale Securities	Treasury Stock
			Additional Paid-in Capital	Other Capital Surplus		Unappropriated			
BALANCE, MARCH 31, 2004		\$ 46,938	\$ 44,018		\$ 11,735	\$ 430,945	\$ (9,514)	\$ 1,607	\$ (116)
Net income						39,496			
Cash dividends, \$0.19 per share						(6,167)			
Bonuses to directors and corporate auditors						(343)			
Repurchase of treasury stock									(53)
Net increase in unrealized gain on available-for-sale securities								315	
Reversal of land revaluation difference (Note 7)						(145)	145		
Gain on sales of treasury stock				\$ 1					
BALANCE, MARCH 31, 2005		<u>\$ 46,938</u>	<u>\$ 44,018</u>	<u>\$ 1</u>	<u>\$ 11,735</u>	<u>\$ 463,786</u>	<u>\$ (9,369)</u>	<u>\$ 1,922</u>	<u>\$ (169)</u>

See notes to financial statements.

Trusco Nakayama Corporation

Statements of Cash Flows Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	2005
OPERATING ACTIVITIES:			
Income before income taxes	¥ 7,208	¥ 6,132	\$ 67,364
Adjustments for:			
Depreciation and amortization	977	889	9,134
Loss on impairment of long-lived assets	129		1,204
Decrease in retirement benefits for directors and corporate auditors	(36)	(108)	(337)
Decrease in employees' retirement benefits		(422)	
Decrease in allowance for doubtful accounts	(21)	(63)	(194)
Loss on devaluation of marketable and investment securities		9	
Interest and dividend income	(11)	(12)	(98)
Gain on sales of property, plant and equipment	(2)		(18)
Loss on sales and disposals of property, plant and equipment	36	90	340
Loss on sales of marketable and investment securities		3	
Gain on sales of marketable and investment securities		(18)	
Changes in assets and liabilities:			
Decrease in notes and accounts receivable	3,723	8,579	34,798
Increase in inventories	(830)	(1,198)	(7,757)
Increase (decrease) in notes and accounts payable	1,040	(6,366)	9,718
Other - net	423	155	3,935
Interest and dividends received	11	13	101
Income taxes paid	(2,709)	(2,111)	(25,314)
Net cash provided by operating activities	<u>9,938</u>	<u>5,572</u>	<u>92,876</u>
INVESTING ACTIVITIES:			
Purchases of marketable and investment securities	(1)	(4)	(6)
Proceeds from sales of marketable and investment securities		379	
Payments for disposals of property, plant and equipment		(1)	
Proceeds from sales of property, plants and equipment	51		474
Purchases of intangible assets	(162)	(167)	(1,518)
Purchases of property, plant and equipment	(4,446)	(2,760)	(41,550)
Other - net	(454)	430	(4,244)
Net cash used in investing activities	<u>(5,012)</u>	<u>(2,123)</u>	<u>(46,844)</u>
FINANCING ACTIVITIES:			
Resales of treasury stocks	0		7
Repurchases of treasury stocks	(6)	(3)	(59)
Dividends paid	(660)	(660)	(6,167)
Net cash used in financing activities	<u>(666)</u>	<u>(663)</u>	<u>(6,219)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,260	2,786	39,813
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>14,571</u>	<u>11,785</u>	<u>136,177</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 18,831</u>	<u>¥ 14,571</u>	<u>\$ 175,990</u>

See notes to financial statements.

Trusco Nakayama Corporation

Notes to Financial Statements Years Ended March 31, 2005 and 2004

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 2004 financial statements to conform to the classifications used in 2005.

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 ¥107 to \$1, the approximate rate of exchange at March 31, 2005. 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* - In August 2002, the Business Accounting Council issued a Statement of Opinion, Accounting for Impairment of Fixed Assets, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, Guidance for Accounting Standard for Impairment of Fixed Assets. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Company adopted the new accounting standard for impairment of fixed assets as of 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.

The effect of adoption of the new accounting standard for impairment of fixed assets was to decrease income before income taxes for the year ended March 31, 2005 by ¥129 million (\$1,204 thousand).

- 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, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2005</u>	<u>2004</u>	<u>2005</u>
Current:			
Government and corporate bonds	<u>¥ 2</u>	—	<u>\$ 19</u>
Total	<u>¥ 2</u>	<u>¥</u>	<u>\$ 19</u>
Non-current:			
Marketable equity securities	¥ 623	¥ 568	\$ 5,822
Government and corporate bonds		2	
Trust fund investments and other	<u>90</u>	<u>89</u>	<u>843</u>
Total	<u>¥ 713</u>	<u>¥ 659</u>	<u>\$ 6,665</u>

The carrying amounts and aggregate fair values of investment securities at March 31, 2005 and 2004 were as follows:

	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>60</u>
Total	<u>¥ 329</u>	<u>¥ 346</u>	<u>¥ 1</u>	<u>¥ 674</u>
	<u>2004</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	¥ 271	¥ 1	¥ 557
Government and corporate bonds	2	0		2
Trust fund investments and other	<u>40</u>	<u>19</u>	—	<u>59</u>
Total	<u>¥ 329</u>	<u>¥ 290</u>	<u>¥ 1</u>	<u>¥ 618</u>

	Thousands of U.S. Dollars			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	\$ 2,685	\$ 3,045	\$ 13	\$ 5,717
Government and corporate bonds	16	3		19
Trust fund investments and other	370	190		560
Total	<u>\$ 3,071</u>	<u>\$ 3,238</u>	<u>\$ 13</u>	<u>\$ 6,296</u>

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Available-for-sale:			
Equity securities	¥ 11	¥ 11	\$ 105
Trust fund investment and other	30	30	283
Total	<u>¥ 41</u>	<u>¥ 41</u>	<u>\$ 388</u>

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

Proceeds from sales of available-for-sale securities for the years ended March 31, 2004 were ¥379 million. Gross realized gain and loss on these sales, computed on the moving average cost basis, were ¥18 million and ¥3 million, respectively.

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

	Government and Corporate Bonds	
	Millions of Yen	Thousands of U.S. Dollars
Due in one year	¥2	\$19

4. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	2005
Time deposits other than cash equivalents	¥10	¥30	\$94

5. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of
	<u>2005</u>	<u>2004</u>	<u>U.S. Dollars</u>
Merchandise	¥13,349	¥ 12,519	\$124,759

6. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of the year ended March 31, 2005 and, as a result, recognized an impairment loss of ¥129 million (\$1,204 thousand) 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, 2005, adjusted changes after March 31, 2002 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Land before revaluation	¥ 9,489	\$ 88,682
Land after revaluation	<u>7,806</u>	<u>72,962</u>
Land revaluation difference	1,683	15,720
Deferred tax assets on land revaluation	<u>680</u>	<u>6,351</u>
Net land revaluation difference	<u>¥ 1,003</u>	<u>\$ 9,369</u>

As at March 31, 2005, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥1,572 million (\$14,695 thousand).

8. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (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 ¥48,605 million (\$454,249 thousand) as of March 31, 2005, 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.

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, 2005 and 41.9% for the year ended March 31, 2004.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2005 and 2004 are as follows:

	Millions of Yen		Thousands of
	<u>2005</u>	<u>2004</u>	<u>U.S. Dollars</u>
			<u>2005</u>
Deferred tax assets - current assets:			
Enterprise taxes	¥ 140	¥ 128	\$ 1,313
Accrued employees' bonuses	300	297	2,805
Other	185	84	1,728
Total	<u>¥ 625</u>	<u>¥ 509</u>	<u>\$ 5,846</u>
Deferred tax liabilities - current liabilities:			
Net unrealized gain on available-for-sale securities	¥ 0		\$ 1
Total	<u>¥ 0</u>	<u>¥</u>	<u>\$ 1</u>
Net deferred tax assets - current	<u>¥ 625</u>	<u>¥ 509</u>	<u>\$ 5,845</u>

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2005</u>	<u>2004</u>	<u>2005</u>
Deferred tax assets - non-current assets:			
Retirement benefits for directors and corporate auditors	¥ 154	¥ 169	\$ 1,440
Allowance for doubtful accounts	82	96	767
Other	81	93	758
Total	<u>¥ 317</u>	<u>¥ 358</u>	<u>\$ 2,965</u>
Deferred tax liabilities - non-current liabilities:			
Tax purpose reserves regulated by Japanese tax law	¥ 26	¥ 27	\$ 246
Net unrealized gain on available-for-sale securities	139	118	1,302
Total	<u>¥ 165</u>	<u>¥ 145</u>	<u>\$ 1,548</u>
Net deferred tax assets - non-current	<u>¥ 152</u>	<u>¥ 213</u>	<u>\$ 1,417</u>

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2005 and 2004 and the actual effective tax rates reflected in the statements of income is as follows:

	<u>2005</u>	<u>2004</u>
Normal effective statutory tax rate	40.4 %	41.9 %
Inhabitant tax (per capita levy)	0.6	1.3
Permanently non-deductible expenses	1.1	2.0
Effect of tax rate reduction		0.3
Other - net	<u>(0.7)</u>	<u>0.3</u>
Actual effective tax rate	<u>41.4 %</u>	<u>45.8 %</u>

On March 31, 2003, a tax reform law concerning enterprise tax was enacted in Japan which changed the normal effective statutory tax rate from approximately 41.9% to 40.3%, effective for years beginning on or after April 1, 2004.

The normal effective statutory tax rate was increased from 40.3% to 40.4% with decision making of head office relocation. The effect on the financial statements of tax rate rise is not significant.

10. RELATED PARTY TRANSACTIONS

The Company owns the following affiliated companies as of March 31, 2005 and 2004:

	<u>Percentage of Ownership</u>	
	<u>2005</u>	<u>2004</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, 2005 and 2004 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2005</u>	<u>2004</u>	<u>U.S. Dollars</u>
Sales	¥ 4	¥ 17	\$ 37
Purchases	1,403	1,297	13
Dividend income	1	1	8

The balances due to or from the affiliated companies at March 31, 2005 and 2004 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2005</u>	<u>2004</u>	<u>U.S. Dollars</u>
Accounts receivable	¥ 1		\$ 6
Accounts payable	62	¥ 175	579

11. SUBSEQUENT EVENT

Appropriations of Retained Earnings - The following appropriations of retained earnings at March 31, 2005 were approved at the shareholders meeting held on June 17, 2005:

	<u>Millions</u>	<u>Thousands of</u>
	<u>of Yen</u>	<u>U.S. Dollars</u>
Cash dividends ¥22 (\$0.21) per share	¥ 726	\$ 6,784
Bonuses to directors and corporate auditors	43	404

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