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***Trusco Nakayama Corporation***

*Financial Statements for the Years  
Ended March 31, 2007 and 2006, and  
Independent Auditors' Report*

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## **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, 2007 and 2006, and the related statements of income, changes in 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, 2007 and 2006, 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 15, 2007

## Trusco Nakayama Corporation

### Balance Sheets March 31, 2007 and 2006

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007		2007	2006	2007
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents	¥ 13,207	¥ 17,154	\$ 111,925	Accounts payable - trade (Note 9)	¥ 11,483	¥ 12,786	\$ 97,311
Short-term investments (Note 4)	10	10	85	Other payables	2,573	1,814	21,803
Notes receivable - trade		32		Income taxes payable	1,838	2,080	15,573
Accounts receivable - trade (Note 9)	20,290	18,994	171,945	Accrued expenses	1,025	930	8,689
Inventories (Note 5)	16,548	14,065	140,238	Other current liabilities	62	27	530
Deferred tax assets (Note 8)	734	735	6,219				
Other current assets	232	287	1,966	Total current liabilities	16,981	17,637	143,906
Allowance for doubtful accounts	(2)	(8)	(14)				
Total current assets	51,019	51,269	432,364	<b>LONG-TERM LIABILITIES:</b>			
<b>PROPERTY, PLANT AND EQUIPMENT:</b>				Retirement benefits for directors and corporate auditors	303	304	2,564
Land	13,389	12,248	113,468	Deposit received for guarantees	1,002	783	8,494
Buildings and structures	18,798	19,051	159,304	Deferred tax liabilities (Note 8)	26	62	223
Machinery and equipment	4,322	3,840	36,628				
Construction in progress	1,707	451	14,465	Total long-term liabilities	1,331	1,149	11,281
Total	38,216	35,590	323,865	<b>EQUITY (Notes 7 and 10):</b>			
Accumulated depreciation	(10,719)	(9,711)	(90,843)	Common stock - authorized, 57,190,000 shares; issued, 33,004,372 shares in 2007 and 2006	5,022	5,022	42,562
Net property, plant and equipment	27,497	25,879	233,022	Capital surplus:			
<b>INVESTMENTS AND OTHER ASSETS:</b>				Additional paid-in capital	4,710	4,710	39,915
Investments in affiliated companies (Note 9)	99	99	836	Other capital surplus	3	2	24
Investment securities (Note 3)	1,597	1,352	13,536	Retained earnings:			
Long-term receivables	4	37	35	Legal reserve	1,256	1,256	10,641
Long-term deposit	500	600	4,237	Unappropriated	56,643	53,290	480,029
Software	3,455	1,949	29,281	Land revaluation difference (Note 6)	(1,003)	(1,003)	(8,496)
Insurance premiums		249		Unrealized gain on available-for-sale securities	325	407	2,752
Security deposits	303	291	2,569	Treasury stock - at cost 18,970 shares in 2007 and 17,637 shares in 2006	(38)	(35)	(326)
Deferred tax assets on land revaluation difference (Note 6)	680	680	5,759				
Other	108	96	923	Total equity	66,918	63,649	567,101
Allowance for doubtful accounts	(32)	(66)	(274)				
Total investments and other assets	6,714	5,287	56,902	<b>TOTAL</b>	<b>¥ 85,230</b>	<b>¥ 82,435</b>	<b>\$ 722,288</b>
<b>TOTAL</b>	<b>¥ 85,230</b>	<b>¥ 82,435</b>	<b>\$ 722,288</b>				

See notes to financial statements.

# Trusco Nakayama Corporation

## Statements of Income Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	2007
NET SALES (Note 9)	¥ 134,057	¥ 129,176	\$ 1,136,074
COST OF GOODS SOLD (Note 9)	107,508	104,755	911,088
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	17,965	16,086	152,243
OPERATING INCOME	8,584	8,335	72,743
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 9)	36	17	306
Purchase discounts	1,551	1,466	13,145
Sales discounts	(1,353)	(1,251)	(11,467)
Gain on sales of property, plant and equipment	2	0	16
Loss on sales and disposals of property, plant and equipment	(720)	(156)	(6,103)
Loss on devaluation of investment securities	(70)		(596)
Other income - net	175	179	1,490
Total other income (expenses)	(379)	255	(3,209)
INCOME BEFORE INCOME TAXES	8,205	8,590	69,534
INCOME TAXES (Note 8):			
Current	3,566	3,578	30,216
Deferred	21	(32)	179
Total	3,587	3,546	30,395
NET INCOME	¥ 4,618	¥ 5,044	\$ 39,139
	Yen		U.S. Dollars
AMOUNTS PER SHARE (Note 2.n):			
Net income	¥140.01	¥151.56	\$1.19
Cash dividends applicable to the year	35.00	38.00	0.30

See notes to financial statements.

**Trusco Nakayama Corporation**

**Statements of Changes in Equity  
Years Ended March 31, 2007 and 2006**

	Thousands Outstanding  Number of Shares of Common Stock	Millions of Yen								Total Equity
		Common Stock	Capital Surplus		Retained Earnings		Land Revaluation Difference	Unrealized Gain on Available-for- Sale Securities	Treasury Stock	
			Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated				
BALANCE, APRIL 1, 2005	32,993	¥ 5,022	¥ 4,710	¥ 0	¥ 1,256	¥ 49,625	¥ (1,003)	¥ 206	¥(18)	¥ 59,798
Net income						5,044				5,044
Cash dividends, ¥40.5 per share						(1,336)				(1,336)
Bonuses to directors and corporate auditors						(43)				(43)
Net increase of treasury stock	(6)								(17)	(17)
Net increase in unrealized gain on available-for-sale securities								201		201
Gain on sales of treasury stock				2						2
BALANCE, MARCH 31, 2006	32,987	5,022	4,710	2	1,256	53,290	(1,003)	407	(35)	63,649
Net income						4,618				4,618
Cash dividends, ¥37.0 per share						(1,221)				(1,221)
Bonuses to directors and corporate auditors						(44)				(44)
Net increase of treasury stock	(1)								(3)	(3)
Gain on sales of treasury stock				1						1
Net change in the year								(82)		(82)
BALANCE, MARCH 31, 2007	<u>32,986</u>	<u>¥ 5,022</u>	<u>¥ 4,710</u>	<u>¥ 3</u>	<u>¥ 1,256</u>	<u>¥ 56,643</u>	<u>¥ (1,003)</u>	<u>¥ 325</u>	<u>¥(38)</u>	<u>¥ 66,918</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	Total Equity
		Additional Paid-in Capital	Other Capital Surplus	Legal Reserve	Unappropriated				
BALANCE, MARCH 31, 2006	\$ 42,562	\$ 39,915	\$ 16	\$ 10,641	\$ 451,608	\$ (8,496)	\$ 3,449	\$ (293)	\$ 539,402
Net income					39,139				39,139
Cash dividends, \$0.31 per share					(10,343)				(10,343)
Bonuses to directors and corporate auditors					(375)				(375)
Net increase of treasury stock								(33)	(33)
Gain on sales of treasury stock			8						8
Net change in the year							(697)		(697)
BALANCE, MARCH 31, 2007	<u>\$ 42,562</u>	<u>\$ 39,915</u>	<u>\$ 24</u>	<u>\$ 10,641</u>	<u>\$ 480,029</u>	<u>\$ (8,496)</u>	<u>\$ 2,752</u>	<u>\$ (326)</u>	<u>\$ 567,101</u>

See notes to financial statements.

# Trusco Nakayama Corporation

## Statements of Cash Flows Years Ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2007</u>	<u>2006</u>	<u>2007</u>
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 8,205	¥ 8,590	\$ 69,534
Adjustments for:			
Depreciation and amortization	1,739	1,137	14,741
Decrease in retirement benefits for directors and corporate auditors	(1)	(78)	(11)
Decrease in allowance for doubtful accounts	(11)	(61)	(92)
Interest and dividend income	(36)	(17)	(306)
Gain on sales of property, plant and equipment	(2)	(0)	(16)
Loss on sales and disposals of property, plant and equipment	631	84	5,349
Loss on devaluation of investment securities	70		596
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	(1,260)	327	(10,677)
Increase in inventories	(2,483)	(716)	(21,039)
Increase (decrease) in notes and accounts payable	(1,303)	1,188	(11,046)
Other - net	846	365	7,162
Interest and dividends received	36	17	307
Income taxes paid	(3,803)	(3,390)	(32,229)
Net cash provided by operating activities	<u>2,628</u>	<u>7,446</u>	<u>22,273</u>
<b>INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(3,733)	(5,783)	(31,634)
Proceeds from sales of property, plants and equipment	11	2	89
Purchases of intangible assets	(1,377)	(1,625)	(11,668)
Purchases of marketable and investment securities	(451)	(401)	(3,823)
Proceeds from retirement of investment securities		100	
Other - net	198	(65)	1,679
Net cash used in investing activities	<u>(5,352)</u>	<u>(7,773)</u>	<u>(45,357)</u>
<b>FINANCING ACTIVITIES:</b>			
Resales of treasury stocks	5	6	46
Repurchases of treasury stocks	(8)	(21)	(71)
Dividends paid	(1,220)	(1,335)	(10,337)
Net cash used in financing activities	<u>(1,223)</u>	<u>(1,350)</u>	<u>(10,362)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,947)	(1,677)	(33,446)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>17,154</u>	<u>18,831</u>	<u>145,371</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥13,207</u>	<u>¥ 17,154</u>	<u>\$ 111,925</u>

See notes to financial statements.

# Trusco Nakayama Corporation

## Notes to Financial Statements Years Ended March 31, 2007 and 2006

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### 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 Securities and Exchange Law and its related accounting regulations 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.

On December 27, 2005, the Accounting Standards Board of Japan ("ASBJ") published a new accounting standard for the statement of changes in equity, which is effective for fiscal years ending on or after May 1, 2006. The statement of shareholders' equity, which was previously voluntarily prepared in line with the international accounting practices, is now required under generally accepted accounting principles in Japan and has been renamed "the statement of changes in equity" in the current fiscal year.

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 ¥118 to \$1, the approximate rate of exchange at March 31, 2007. 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. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying financial statements would not be material.
- 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 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 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 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 company's 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. Presentation of Equity* - On December 9, 2005, the ASBJ published a new accounting standard for presentation of equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of equity. Such items include stock acquisition rights 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. The balance sheets as of March 31, 2007 are presented in line with this new accounting standard.
- j. 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.
- k. Bonuses to Directors and Corporate Auditors* - Prior to the fiscal year ended March 31, 2005, bonuses to directors and corporate auditors were accounted for as a reduction of retained earnings in the fiscal year following approval at the general shareholders meeting. The ASBJ issued ASBJ Practical Issues Task Force (PITF) No. 13, "Accounting Treatment for Bonuses to Directors and Corporate Auditors", which encouraged companies to record bonuses to directors and corporate auditors on the accrual basis with a related charge to income, but still permitted the direct reduction of such bonuses from retained earnings after approval of the appropriation of retained earnings.

The ASBJ replaced the above accounting pronouncement by issuing a new accounting standard for bonuses to directors and corporate auditors on November 29, 2005. Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. This accounting standard is effective for fiscal years ending on or after May 1, 2006. The companies must accrue bonuses to directors and corporate auditors at the year end to which such bonuses are attributable.

The Company adopted the new accounting standard for bonuses to directors and corporate auditors in the year ended March 31, 2007. The effect of adoption of this accounting standard was to decrease income before income taxes for the year ended March 31, 2007 by ¥44 million (\$376 thousand).

- l. 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.
- m. 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.
- n. 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.

*o. New Accounting Pronouncements*

*Measurement of Inventories* - Under generally accepted accounting principles in Japan, inventories are currently measured either by the cost method, or at the lower of cost or market. On July 5, 2006, the ASBJ issued ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories", which is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted. This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price.

*Lease Accounting* - On March 30, 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the existing accounting standard for lease transactions issued on June 17, 1993.

Under the existing accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, however, other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions should be capitalized. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

### 3. MARKETABLE AND INVESTMENT SECURITIES

Investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Non-current:			
Equity securities	¥ 931	¥ 970	\$ 7,893
Government and corporate bonds	545	260	4,615
Trust fund investments and other	<u>121</u>	<u>122</u>	<u>1,028</u>
Total	<u>¥ 1,597</u>	<u>¥1,352</u>	<u>\$ 13,536</u>

The carrying amounts and aggregate fair values of investment securities at March 31, 2007 and 2006 were as follows:

	Millions of Yen			
	<u>2007</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale:				
Equity securities	¥ 338	¥ 551	¥ 0	¥ 889
Government and corporate bonds	600		55	545
Trust fund investments and other	<u>40</u>	<u>48</u>	<u>—</u>	<u>88</u>
Total	<u>¥ 978</u>	<u>¥ 599</u>	<u>¥ 55</u>	<u>¥ 1,522</u>

	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>

	Thousands of U.S. Dollars			
	<u>2007</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Securities classified as available-for-sale:				
Equity securities	\$ 2,864	\$ 4,680	\$ 3	\$ 7,541
Government and corporate bonds	5,085		470	4,615
Trust fund investments and other	<u>335</u>	<u>410</u>	<u>—</u>	<u>745</u>
Total	<u>\$ 8,284</u>	<u>\$ 5,090</u>	<u>\$ 473</u>	<u>\$ 12,901</u>

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2007 and 2006 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Available-for-sale:			
Equity securities	¥ 42	¥ 11	\$ 352
Trust fund investment and other	<u>33</u>	<u>30</u>	<u>283</u>
Total	<u>¥ 75</u>	<u>¥ 41</u>	<u>\$ 635</u>

Proceeds from sales of available-for-sale securities for the years ended March 31, 2007 and 2006 were not significant.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2007 and 2006 were as follows:

	Government and Corporate Bonds		
	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Due in one to five years	¥ 100	¥	\$ 847
Due after ten years	<u>445</u>	<u>260</u>	<u>3,768</u>
Total	<u>¥ 545</u>	<u>¥ 260</u>	<u>\$ 4,615</u>

#### 4. SHORT-TERM INVESTMENTS

Short-term investments at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
	Time deposits other than cash equivalents	¥10	¥10

#### 5. INVENTORIES

Inventories at March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
	Merchandise	¥16,548	¥14,065

#### 6. 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 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, 2007, adjusted changes after March 31, 2002 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Acquisition cost	¥ 9,489	\$ 80,415
Land after revaluation	<u>7,806</u>	<u>66,160</u>
Land revaluation difference	1,683	14,255
Deferred tax assets on land revaluation	<u>(680)</u>	<u>(5,759)</u>
Net land revaluation difference	<u>¥ 1,003</u>	<u>\$ 8,496</u>

As at March 31, 2007, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥2,223 million (\$18,836 thousand).

## 7. EQUITY

On and after May 1, 2006, Japanese companies are subject to a new corporate law of Japan (the "Corporate Law"), which reformed and replaced the Commercial Code of Japan with various revisions that are, for the most part, 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) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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. The Corporate Law 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 Corporate Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 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 equity or deducted directly from stock acquisition rights.

## 8. 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 years ended March 31, 2007 and 2006.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2007 and 2006 were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2007</u>	<u>2006</u>	<u>U.S. Dollars</u>
			<u>2007</u>
Deferred tax assets - current assets:			
Enterprise taxes	¥ 139	¥ 170	\$ 1,179
Accrued employees' bonuses	299	286	2,530
Other payable	185	167	1,571
Other	111	112	939
Total	<u>734</u>	<u>735</u>	<u>6,219</u>
Net deferred tax assets - current	<u>¥ 734</u>	<u>¥ 735</u>	<u>\$ 6,219</u>
Deferred tax assets - non-current assets:			
Retirement benefits for directors and corporate auditors	¥ 122	¥ 123	\$ 1,036
Allowance for doubtful accounts		47	
Other	97	70	823
Total	<u>219</u>	<u>240</u>	<u>1,859</u>
Deferred tax liabilities - non-current liabilities:			
Tax purpose reserves regulated by Japanese tax law	¥ 25	¥ 26	\$ 217
Net unrealized gain on available-for-sale securities	220	276	1,865
Total	<u>245</u>	<u>302</u>	<u>2,082</u>
Net deferred tax liabilities - non-current	<u>¥ 26</u>	<u>¥ 62</u>	<u>\$ 223</u>

A reconciliation between the normal effective statutory tax rate for the years ended March 31, 2007 and 2006 and the actual effective tax rates reflected in the statements of income were as follows:

	<u>2007</u>	<u>2006</u>
Normal effective statutory tax rate	40.4%	40.4%
Inhabitant tax (per capital levy)	1.1	1.1
Permanently non-deductible expenses	1.9	1.0
Tax deduction	(0.1)	(1.4)
Other - net	<u>0.4</u>	<u>0.2</u>
Actual effective tax rate	<u>43.7%</u>	<u>41.3%</u>

## 9. RELATED PARTY TRANSACTIONS

The Company owns the following affiliated companies as of March 31, 2007 and 2006:

	Percentage of Ownership	
	<u>2007</u>	<u>2006</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, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Sales	¥ 6	¥ 5	\$ 48
Purchases	1,332	1,374	11,290
Dividend income	2	1	17

The balances due to or from the affiliated companies at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2007</u>	<u>2006</u>	<u>2007</u>
Accounts receivable	¥ 0	¥ 1	\$ 2
Accounts payable	159	191	1,346

## 10. SUBSEQUENT EVENT

**Appropriations of Retained Earnings** - The following appropriations of retained earnings at March 31, 2007 was resolved at the meeting of Board of Directors held on May 8, 2007:

	Millions of Yen	Thousands of U.S. Dollars
	<u>Yen</u>	<u>U.S. Dollars</u>
Cash dividends ¥17.5 (\$0.15) per share	¥577	\$4,892

\* \* \* \* \*