KPMG

THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years ended March 31, 2006 and 2007

KPMG

# Independent Auditors' Report

To the Board of Directors of KINKI SHARYO CO., LTD. :

We have audited the accompanying consolidated balance sheets of KINKI SHARYO CO., LTD. and consolidated subsidiaries as of March 31, 2006 and 2007, the related consolidated statements of income for the years then ended, the consolidated statement of changes in net assets for the year ended March 31, 2007, the consolidated statement of shareholders' equity for the year ended March 31, 2006, and the consolidated statements of cash flows for the years ended March 31, 2006 and 2007, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of KINKI SHARYO CO., LTD. and consolidated subsidiaries as of March 31, 2006 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Osaka, Japan
June 28, 2007

KPMG AZSA & Co.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2006 and 2007

| | Millions of yen | |
|---|---|---|
| | 2006 | 2007 |
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and time deposits (Note 4) | ¥ 3,671 | ¥ 11,250 |
| Receivables: | | |
| Trade notes (Note 5) | 361 | 485 |
| Trade accounts | 12,555 | 12,657 |
| Other accounts | 436 | 321 |
| Allowance for doubtful receivables | (15) | (21) |
| | 13,337 | 13,442 |
| Inventories: | | |
| Finished goods | 221 | 196 |
| Work in process | 8,275 | 9,300 |
| Raw materials and supplies | 991 | 1,033 |
| | 9,487 | 10,529 |
| Deferred income tax assets (Note 10) | 205 | 534 |
| Other current assets | 675 | 707 |
| Total current assets | 27,375 | 36,462 |
| **Investments and Long-term Receivables:** | | |
| Investments: | | |
| Unconsolidated subsidiaries and affiliates | 172 | 357 |
| Investment securities (Note 6) | 6,256 | 6,912 |
| | 6,428 | 7,269 |
| Long-term receivables | 124 | 157 |
| Allowance for doubtful receivables | (31) | (46) |
| | 6,521 | 7,380 |
| **Property, Plant and Equipment** | | |
| Land | 2,029 | 2,029 |
| Buildings and structures (Note 7) | 7,363 | 7,530 |
| Machinery and equipment | 12,194 | 12,091 |
| Construction in progress | 19 | 310 |
| | 21,605 | 21,960 |
| Accumulated depreciation | (14,167) | (13,985) |
| | 7,438 | 7,975 |
| **Other Assets** | | |
| Intangible assets | 245 | 212 |
| Deferred income tax assets (Note 10) | 164 | - |
| Long-term prepaid expenses | - | 360 |
| | ¥ 41,743 | ¥ 52,389 |

| | Millions of yen | |
|---|---|---|
| | 2006 | 2007 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY/NET ASSETS** | | |
| **Current Liabilities:** | | |
| Bank loans (Note 8) | ¥ 3,000 | ¥ - |
| Current portion of long-term debt (Note 8) | 200 | - |
| Payables: | | |
| Trade notes (Note 5) | 1,166 | 1,184 |
| Trade accounts | 3,446 | 5,443 |
| Construction | 733 | 1,316 |
| Advances received | 4,129 | 13,318 |
| Income and enterprise taxes payable | 92 | 438 |
| Accrued expenses | 1,080 | 1,597 |
| Deferred income tax liabilities (Note 10) | 3 | - |
| Allowance for losses on contracts | - | 521 |
| Other current liabilities | 793 | 569 |
| Total current liabilities | 14,642 | 24,386 |
| **Noncurrent Liabilities:** | | |
| Retirement and severance benefits (Note 9) | 1,444 | 1,548 |
| Deferred income tax liabilities (Note 10) | 331 | 547 |
| Long-term deposits received (Note 7) | 1,974 | 1,963 |
| Other liabilities | - | 136 |
| | 3,749 | 4,194 |
| **Contingent Liabilities (Note 16)** | | |
| **Shareholders' Equity (Note 11)** | | |
| Common stock : | | |
| Authorised — 120,000,000 shares | | |
| Issued — 69,083,597 shares | 5,253 | - |
| Capital surplus | 3,125 | - |
| Retained earnings | 13,305 | - |
| Net unrealized holding gains on securities | 1,640 | - |
| Foreign currency translation adjustments | 61 | - |
| Treasury stock, at cost | | |
| 113,970 shares in 2006 | (32) | - |
| Total shareholders' equity | 23,352 | - |
| **Net Assets (Note 11)** | | |
| Common stock : | | |
| Authorised — 120,000,000 shares | | |
| Issued — 69,083,597 shares | - | 5,253 |
| Capital surplus | - | 3,125 |
| Retained earnings | - | 13,434 |
| Treasury stock, at cost | - | (40) |
| 129,435 shares in 2007 | | |
| Net unrealized holding gains on securities | - | 2,029 |
| Net unrealized holding losses on derivatives | - | (79) |
| Foreign currency translation adjustments | - | 87 |
| Total net assets | - | 23,809 |
| | ¥ 41,743 | ¥ 52,389 |

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2006 and 2007

| | Millions of yen | |
|---|---|---|
| | 2006 | 2007 |
| Net sales (Note 12) | ¥ 30,054 | ¥ 36,635 |
| Cost of sales | 26,719 | 33,023 |
| Gross profit | 3,335 | 3,612 |
| Selling, general and administrative expenses | 2,991 | 2,940 |
| Operating income | 344 | 672 |
| | | |
| Other income (expenses): | | |
| Interest and dividend income | 87 | 258 |
| Interest expense | (30) | (6) |
| Gain on sales of securities | 625 | - |
| Equity in net income of an affiliate | 27 | 27 |
| Foreign exchange gain | 316 | 7 |
| Gain on sales of property, plant and equipment | 48 | 1 |
| Loss on disposals of property, plant and equipment | (12) | (47) |
| Special repair expense | (108) | - |
| Loss on prior year adjustments | - | (41) |
| Loss on valuation of investment in an affiliate | - | (16) |
| Other, net | 102 | (15) |
| | 1,055 | 168 |
| | | |
| Income before income taxes | 1,399 | 840 |
| Income taxes (Note 10) | | |
| Current | (401) | (479) |
| Deferred | 77 | 162 |
| Net income | ¥ 1,075 | ¥ 523 |

| | Yen | |
|---|---|---|
| Amounts per share: | | |
| Net income | ¥ 14.86 | ¥ 7.59 |
| Cash dividends applicable to the year | ¥ 5.00 | ¥ 5.00 |

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Year ended March 31, 2006

| | Number of shares of common stock | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Common stock | Capital surplus | Retained earnings | Net unrealized holding gains (losses) on securities | Foreign currency translation adjustments | Treasury stock | Total |
| Balance at March 31, 2005 | 69,083,597 | 5,253 | 3,125 | 12,645 | 1,065 | (467) | (23) | 21,598 |
| Net income for the year | - | - | - | 1,075 | - | - | - | 1,075 |
| Foreign currency translation adjustments | - | - | - | - | - | 528 | - | 528 |
| Net unrealized holding losses on securities | - | - | - | - | 575 | - | - | 575 |
| Treasury stock | - | - | - | - | - | - | (9) | (9) |
| Cash dividends paid at ¥5.00 per share | - | - | - | (345) | - | - | - | (345) |
| Bonuses to directors and corporate auditors | - | - | - | (70) | - | - | - | (70) |
| Balance at March 31, 2006 | 69,083,597 | ¥ 5,253 | ¥ 3,125 | ¥ 13,305 | ¥ 1,640 | ¥ 61 | ¥ (32) | ¥ 23,352 |

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGE IN NET ASSETS

Year ended March 31, 2007

| | | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock | Net unrealized holding gains on securities | Net unrealized holding losses on derivatives | Foreign currency translation adjustments | Total |
| Balance at March 31, 2006 | 69,083,597 | ¥ 5,253 | ¥ 3,125 | ¥ 13,305 | ¥ (32) | ¥ 1,640 | ¥ 0 | ¥ 61 | ¥ 23,352 |
| Cash dividends paid at ¥5.00 per share | - | - | - | (344) | - | - | - | - | (344) |
| Bonuses to directors and corporate auditors | - | - | - | (50) | - | - | - | - | (50) |
| Net income for the year | - | - | - | 523 | - | - | - | - | 523 |
| Treasury stock | - | - | - | - | (8) | - | - | - | (8) |
| Net changes during the year | - | - | - | - | - | 389 | (79) | 26 | 336 |
| Balance at March 31, 2007 | 69,083,597 | ¥ 5,253 | ¥ 3,125 | ¥ 13,434 | ¥ (40) | ¥ 2,029 | ¥ (79) | ¥ 87 | ¥ 23,809 |

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2006 and 2007

| | Millions of yen | |
|---|---|---|
| | 2006 | 2007 |
| **Cash flows from operating activities:** | | |
| Net income before income taxes | ¥ 1,399 | ¥ 840 |
| Adjustments to reconcile net income before income taxes to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 844 | 819 |
| Increase in retirement benefits | 316 | 104 |
| Increase in allowance for losses on contracts | - | 509 |
| Interest and dividend income | (87) | (258) |
| Interest expense | 30 | 6 |
| Gain on sales of property, plant and equipment | (48) | (1) |
| Gain on sales of securities | (625) | - |
| Equity in net income of an affiliate | (27) | (27) |
| Loss on disposal of property, plant and equipment | 12 | 47 |
| Decrease in trade notes and accounts receivable | 2,926 | 8,794 |
| Increase in inventories | (2,431) | (981) |
| Increase (decrease) in trade notes and trade accounts payable | (982) | 2,024 |
| Interest and dividends received | 87 | 258 |
| Interest paid | (34) | (6) |
| Income taxes paid | (1,264) | (201) |
| Other, net | (907) | 4 |
| Net cash used in operating activities | (791) | 11,931 |
| **Cash flows from investing activities:** | | |
| Decrease in time deposits | - | 5 |
| Acquisitions of property, plant and equipment, and intangible assets | (977) | (828) |
| Proceeds from sales of property, plant and equipment, and intangible assets | 67 | 8 |
| Acquisitions of investment securities | - | (174) |
| Proceeds from sales of investment securities | 771 | - |
| Net cash used in investing activities | (139) | (989) |
| **Cash flows from financing activities:** | | |
| Repayment of short-term bank loans | (10,165) | (4,500) |
| Proceeds from short-term bank loans | 7,700 | 1,500 |
| Repayment of long-term debt | (320) | (200) |
| Cash dividends paid | (345) | (344) |
| Payments for treasury stock | (8) | (9) |
| Net cash used in financing activities | (3,138) | (3,553) |
| Effect of exchange rate changes on cash and cash equivalents | 243 | 195 |
| Net increase (decrease) in cash and cash equivalents | (3,825) | 7,584 |
| Cash and cash equivalents at beginning of year | 7,491 | 3,666 |
| Cash and cash equivalents at end of year (Note 4) | ¥ 3,666 | ¥ 11,250 |

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of THE KINKI SHARYO Co., Ltd. ("the Company") and its consolidated subsidiaries have been prepared 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 ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of the Company's overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English , with certain expanded disclosure and the inclusion of the consolidated statement of shareholders' equity for 2006, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The consolidated balance sheet as of March 31, 2007, which has been prepared in accordance with the new accounting standard as discussed in Note 3(a), is presented with the consolidated balance sheet as of March 31, 2006, prepared in accordance with the previous presentation rules.

Also, as discussed in Note 2(u), the consolidated statement of changes in net assets for the year ended March 31, 2007 was prepared in accordance with the new accounting standard. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006 was voluntarily prepared for the purpose of inclusion in the consolidated financial statements although not required to be filed with the Local Finance Bureau.

2. Significant accounting policies

(a) Consolidation - The consolidated financial statements include the accounts of the Company and its three (four in the year ended March 31, 2006) significant companies over which the company has power of control through majority voting rights or the existence of certain other conditions evidencing control by the Company. For the year ended March 31, 2007, one subsidiary was dissolved. Intercompany transactions and accounts have been eliminated.

The Company applies the equity method of accounting for investments in one significant affiliate (one in the year ended March 31, 2006) over which the Company has the ability to exercise significant influence over operating and financial policies.

(b) Consolidated subsidiaries' fiscal year-ends - The consolidated overseas subsidiaries have fiscal years ending on December 31. Significant transactions between December 31 and March 31 are reflected in the consolidated financial statements.

(c) Cash flow statements - In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

(d) Allowance for doubtful receivables – The Company and its consolidated subsidiaries (the "Companies") provide for doubtful accounts principally at an amount computed based on managements' estimate of the bad debt ratio plus an estimated uncollectible amount based on an analysis of certain individual receivables.

(e) Securities - Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets or shareholders' equity. Realized gains and losses on the sale of such securities are computed using moving average cost. Securities with no available fair market values, including equity securities issued by subsidiaries and affiliates which are not consolidated or accounted for using the equity method, are stated at moving average cost.

2. Significant accounting policies (cont'd.)

(f) Derivatives and hedge accounting – The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts and interest rate swap contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts, interest rate swap contracts, and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,

(a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and

(b) the discount or premium on the contract (the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction is recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

3. If interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

(g) Inventories - Finished goods are stated on the identified cost method. Work in process is principally stated at identified cost. Other inventories are stated at cost determined by the moving average method.

2. Significant accounting policies (cont'd.)

(h) Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is principally calculated by the declining balance method over the estimated useful life of the asset. In accordance with revisions of the Corporation Tax Law of Japan, effective April 1, 1998, newly acquired buildings are depreciated on the straight-line method.

(i) Intangible assets - Intangible assets are amortized on the straight-line method over the estimated useful life of the asset.

(j) Software costs - The Companies include software used for internal purposes in intangible assets and amortize it using the straight-line method over the estimated useful life of five years.

(k) Research and development expenses – The Companies charge research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥142 million and ¥128 million for the years ended March 31, 2006 and 2007, respectively.

(l) Retirement and severance benefits for employees - Under the terms of the Company's and its consolidated domestic subsidiaries' unfunded lump-sum retirement plans, substantially all employees are entitled to a lump-sum payment at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, base salary at the time of retirement and cause of retirement. The Company also has a funded noncontributory pension plan which covers a portion of total retirement benefits.

In order to provide for the employees' retirement benefits, the Company and consolidated domestic subsidiaries accrue the liability as of the end of the fiscal year in an amount calculated based on the estimated projected benefit obligation and plan assets. Actuarial gains and losses are recognized in expenses using the straight-line method over 10 years, which is within the average of the estimated remaining service lives, commencing with the following period.

The unamortized net transition obligation is being amortized over fifteen years by the straight-line method from the year ended March 31, 2001.

(m) Bonuses - The Company and certain consolidated subsidiaries accrue employees' bonuses in amounts based on estimated amounts to be paid to employees in the subsequent period.

As discussed in Note 3(b), for the year ended March 31, 2007, the Company also accrues directors' and corporate auditors' bonuses in the amounts based on estimated amounts to be paid to directors and corporate auditors in the subsequent period.

2. Significant accounting policies (cont'd.)

(n) Allowance for losses on contracts – The allowance for losses on contracts is provided at the estimated amount for the future losses on contract backlog at the end of the year which can be reasonably estimated.

A consolidated subsidiary appropriated this allowance in the fiscal year ended March 31, 2007 because it became possible to estimate reasonably. The effect of this appropriation on income before tax is ¥521 million.

(o) Income taxes - Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax.

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(p) Translation of foreign currencies - Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at exchange rates prevailing at the balance sheet date.

Financial statements of the overseas consolidated subsidiaries are translated at the rates in effect at the balance sheet date, except for net assets or shareholders' equity accounts which are translated at historical rates and revenue and expense accounts which are translated at the average exchange rates in effect during the year. Resulting translation adjustments are reflected in the consolidated financial statements as "foreign currency translation adjustments."

(q) Accounting for leases - Finance leases which do not transfer ownership may be accounted for in the same manner as operating leases under Japanese GAAP.

(r) Net income and cash dividends per share – Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each financial period.

(s) Revenue recognition - Revenue and related costs are generally recorded on the delivery basis. However, consolidated overseas subsidiaries apply the percentage-of-completion method.

2. Significant accounting policies (cont'd.)

(t) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2007 presentation.

(u) Accounting Standard for Statement of Changes in Net Assets - Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

The Company prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. The accompanying consolidated statement of shareholders' equity for the year ended March 31, 2006, which was voluntarily prepared for inclusion in the consolidated financial statements, was not adapted to the new presentation rules of 2007.

3. Change in accounting policy

(a) Accounting standards for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007, prepared in accordance with the New Accounting Standards, comprises three sections, which are the assets, liabilities and net assets sections. The consolidated balance sheet as of March 31, 2006, prepared pursuant to the previous presentation rules, comprises the assets, liabilities and shareholders' equity sections.

3. Change in accounting policy (cont'd.)

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to March 31, 2006. The net assets section includes unrealized holding losses on derivatives. Under the previous presentation rules, unrealized holding losses on derivatives were included in the assets or liabilities section without considering the related income tax effects. Share subscription rights and minority interests were included in the net assets section at March 31, 2007.

The adoption of the New Accounting Standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, shareholders' equity amounting to ￥23,888 million would have been presented.

(b) Accounting Standard for Bonuses to Directors

Bonuses to directors and corporate auditors were formerly accounted for by a decrease in retained earnings. Effective from the fiscal year ended March 31, 2007, the Company adopted new accounting standards, "Accounting Standards for Bonuses to Directors"(Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005), and bonuses to directors are accounted for as an expense in the period during which the bonuses had occurred. The effect of this adoption of this new accounting standard on income before income tax was ¥80 million.

(c) Accounting Standard for Impairment of Fixed Assets

Effective April 1, 2005, the new Japanese accounting standards for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the Implementation Guidance for Accounting Standards for Impairment of Long-lived Assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003) was adopted. There was no effect from this change.

4. Cash flow information

The reconciliations of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2006 and 2007 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2006 | 2007 |
| Cash and time deposits | ¥ 3,671 | ¥ 11,250 |
| Deposits placed with banks with a maturity of over three months | (5) | - |
| Cash and cash equivalents | ¥ 3,666 | ¥ 11,250 |

5. Effects of bank holiday

As financial institutions in Japan were closed on March 31, 2007, amounts that would normally have been settled on March 31, 2007, were collected on the following business day in April. The effects were as follows:

| | Millions of yen |
|---|---|
| | 2007 |
| Trade notes receivable increased by | ¥ 77 |
| Trade notes payable increased by | 41 |

6. Securities

At March 31, 2006 and 2007 information on securities was as follows:

a. Trading securities: None

b. Bonds intended to be held to maturity and whose fair values were readily determinable: None

c. Available-for-sale securities of March 31, 2006 and 2007 whose fair values were readily determinable were as follows:

Securities with book values (fair values) that exceeded acquisition costs

| | Millions of yen | | |
|---|---|---|---|
| | 2006 | | |
| | Acquisition costs | Book value | Difference |
| Equity securities | ¥ 3,319 | ¥ 6,071 | ¥ 2,752 |
| Other | 9 | 23 | 14 |
| Total | ¥ 3,328 | ¥ 6,094 | ¥ 2,766 |

6. Securities (cont'd)

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | | | | |
| | Acquisition costs | | Book value | | Difference | |
| Equity securities | ¥ | 3,319 | ¥ | 6,728 | ¥ | 3,409 |
| Other | | 9 | | 22 | | 13 |
| Total | ¥ | 3,328 | ¥ | 6,750 | ¥ | 3,422 |

Securities with book values (fair values) that did not exceed acquisition costs

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | | | |
| | Acquisition costs | | Book value | | Difference | |
| Equity securities | ¥ | - | ¥ | - | ¥ | - |
| Other | | 10 | | 10 | | (0) |
| Total | ¥ | 10 | ¥ | 10 | ¥ | (0) |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2007 | | | | | |
| | Acquisition costs | | Book value | | Difference | |
| Equity securities | ¥ | - | ¥ | - | ¥ | - |
| Other | | 10 | | 9 | | (1) |
| Total | ¥ | 10 | ¥ | 9 | ¥ | (1) |

d. Total sales of available-for-sale securities in the years ended March 31, 2006 and 2007 were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2006 | | 2007 | |
| Total sales of available-for-sale securities ········· | ¥ | 771 | ¥ | - |
| Amount of related gains ····························· | | 625 | | - |

e. At March 31, 2006 and 2007, securities whose fair values were not readily determinable were as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2006 | | 2007 | |
| Non-quoted equity securities······················· | ¥ | 153 | ¥ | 153 |

7. Pledged assets

At March 31, 2006 and 2007, the following were pledged as collateral for deposits on contracts of ¥1,205 million and deposits from tenants of ¥70 million (included in long-term deposits received):

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2006 | | 2007 | |
| Buildings , net book value | ¥ | 777 | ¥ | 742 |

8. Bank loans and long-term debt

Bank loans are represented by short-term notes, principally with maturities of one year and bearing interest at an average annual rate of 0.3% and 0.4% at March 31, 2006 and 2007, respectively. Though the Company had bank loans, they were all refunded in the years ended March 31, 2007. The Company has had no difficulty in renewing such notes upon maturity.

Long-term debt at March 31, 2006 comprised the following:

| | Millions of yen | |
|---|---|---|
| | 2006 | |
| Unsecured: | | |
| Banks, due through 2007 at average interest rate of 0.29% — 0.74% | ¥ | 200 |
| | | 200 |
| Current portion of long-term debt | | (200) |
| | ¥ | - |

9. Retirement and severance benefits

The Company and its consolidated domestic subsidiaries provide for employees' retirement and severance benefits under two plans, a funded noncontributory pension plan established pursuant to the Corporate Tax Law and an unfunded lump-sum benefits plan.

The following table sets forth the changes in benefit obligation, plan assets and funded status of the Companies at March 31, 2006 and 2007.

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2006 | | 2007 | |
| Benefit obligation | ¥ | 6,095 | ¥ | 5,942 |
| Fair value of plan assets | | (581) | | (741) |
| Funded status: | | | | |
| Benefit obligation in excess of plan assets | | 5,514 | | 5,201 |
| Unrecognized net transition obligation | | (3,204) | | (2,848) |
| Unrecognized actuarial differences | | (866) | | (805) |
| Total | | 1,444 | | 1,548 |
| Retirement and severance benefits in the consolidated balance sheets | ¥ | 1,444 | ¥ | 1,548 |

9. Retirement and severance benefits (cont'd)

Note: Consolidated domestic subsidiaries have adopted the allowed alternative treatment under the accounting standards for retirement benefits allowed for small business entities.

Severance and pension costs of the Companies included the following components for the years ended March 31, 2006 and 2007, respectively.

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2006 | | 2007 | |
| Service cost | ¥ | 245 | ¥ | 248 |
| Interest cost | | 117 | | 119 |
| Expected return on plan assets | | (5) | | (9) |
| Amortization of net transition obligation | | 356 | | 356 |
| Amortization of actuarial differences | | 115 | | 120 |
| Other | | 22 | | 28 |
| Net periodic benefit cost | ¥ | 850 | ¥ | 862 |

Note: (a) Service cost included severance and pension costs of consolidated domestic subsidiaries which had adopted the allowed alternative treatment under the accounting standards for retirement benefits allowed for small business entities.

(b) Other was the payment for the defined contribution pension plans of consolidated overseas subsidiaries.

The discount rate used by the Companies at March 31, 2006 and 2007 was 2.0%. The rate of expected return on plan assets used by the Companies at March 31, 2006 and 2007 was 1.5%. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total years.

10. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2007, were as follows:

| | | Millions of yen |
|---|---|---|
| | | 2006 |
| Deferred income tax assets: | | |
| Retirement and severance benefits | ¥ | 626 |
| Excess bonuses accrued | | 150 |
| Net operating loss carryforwards | | 108 |
| Assets expensed in excess of limitations | | 21 |
| Allowance for doubtful receivables | | 8 |
| Other | | 459 |
| | | 1,372 |
| Valuation allowance | | (186) |
| Total deferred income tax assets | | 1,186 |
| Deferred income tax liabilities: | | |
| Reserve for deferred gains on sales of fixed assets | | (15) |
| Net unrealized holding gain on securities | | (1,125) |
| Other | | (11) |
| Total deferred income tax liabilities | | (1,151) |
| Net deferred income tax assets | ¥ | 35 |

| | | Millions of yen |
|---|---|---|
| | | 2007 |
| Deferred income tax assets: | | |
| Retirement and severance benefits | ¥ | 629 |
| Net operating loss carryforwards | | 160 |
| Allowance for losses on contracts | | 195 |
| Excess bonuses accrued | | 157 |
| Long-term deposits received | | 113 |
| Net unrealized holding losses on derivatives | | 55 |
| Foreign tax | | 43 |
| Enterprise tax | | 42 |
| Other | | 322 |
| | | 1,716 |
| Valuation allowance | | (312) |
| Total deferred income tax assets | | 1,404 |
| Deferred income tax liabilities: | | |
| Net unrealized holding gains on securities | | (1,392) |
| Reserve for deferred gains on sales of fixed assets | | (13) |
| Other | | (12) |
| Total deferred income tax liabilities | | (1,417) |
| Net deferred income tax liabilities | ¥ | (13) |

(b) The following table summarizes the significant difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2006 and 2007 after tax effect accounting was applied.

| | 2006 | | 2007 | |
|---|---|---|---|---|
| Statutory tax rate | 40.7 | % | 40.7 | % |
| Valuation allowance for deferred income tax assets | (15.7) | | (11.1) | |
| Tax effect of permanent differences | 0.1 | | 4.0 | |
| Other | (1.9) | | 4.1 | |
| Effective tax rate | 23.2 | | 37.7 | |

11. Net assets

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock. Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve was included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

12. Related party transactions

Kintetsu Corporation ("KC") directly owned 14% of the Company's outstanding common stock and owned 35% indirectly through The Master Trust Bank of Japan, Ltd. at March 31, 2006 and 2007.

Sales to KC for the year ended March 31, 2006 and 2007 were ¥2,713 million and ¥1,052 million, respectively. Receivables from KC at March 31, 2006 and 2007 were ¥1,942 million and ¥21 million, respectively.

The Company directly owns 40% of COSMO KINKI Co., Ltd. ("CK").

Sales to CK for the years ended March 31, 2006 and 2007 were ¥3,842 million and ¥3,718 million, respectively. Receivables from CK at March 31, 2006 and 2007 were ¥2,188 million and ¥2,173 million, respectively.

13. Derivative transactions

(a) The nature and purpose of derivative transactions

The Company enters into foreign currency forward contracts and interest rate swap transactions to manage risk and reduce exposure to market fluctuations in relation to foreign currency denominated monetary assets and liabilities and interest rates. It does not use derivatives for leveraging or speculative purposes.

The Companies had derivatives outstanding at March 31, 2006 and 2007, all of which were accounted for as hedges.

(b) Risks of transactions

Foreign currency forward contracts and interest rate swap contracts have market risk that is due to market fluctuations. The Company has low credit risk because the Company only uses highly rated domestic banks as counter parties to these contracts.

(c) The Company's control system

The Company sets policies concerning derivative transactions at executive directors' meetings. Control of derivative transactions is carried out by the accounting department. The Company has policies that limit authority and amounts of derivative transactions, and results of derivative transactions are reported at the executive directors' meetings.

14. Leases

Information for non-capitalized finance leases at March 31, 2006 and 2007 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2006 | 2007 |
| Original lease obligations for furniture and fixtures (including finance charges) | ¥ 46 | ¥ 35 |
| Payments due within one year | ¥ 8 | ¥ 5 |
| Payments due after one year | 1 | 13 |
| Total payments remaining | ¥ 9 | ¥ 18 |

Lease payments for such leases for the years ended March 31, 2006 and 2007, were ¥19 million and ¥10 million, respectively.

Obligations under operating leases at March 31, 2006 and 2007 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2006 | 2007 |
| Payments due within one year | ¥ 41 | ¥ 92 |
| Payments due after one year | 84 | 84 |
| Total payments remaining | ¥ 125 | ¥ 176 |

15. Segment information

Information by business segment of the Companies was as follows:

The Companies' businesses are divided into rolling stock, sash and door, and other segments.

The rolling stock segment includes trains for the JR group, private railways and subways and related parts and maintenance. The sash and door segment manufactures products for the building construction industry and repairs.

Year ended March 31, 2006:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Rolling stock | Sash and door | Lease of real estate | Elimination and corporate | Consolidated |
| Net sales | ¥ 25,562 | ¥ 3,866 | ¥ 678 | ¥ (52) | ¥ 30,054 |
| Costs and expenses | 24,360 | 3,985 | 157 | 1,208 | 29,710 |
| Operating income (loss) | ¥ 1,202 | ¥ (119) | ¥ 521 | ¥ (1,260) | ¥ 344 |
| Identifiable assets | ¥ 32,102 | ¥ 3,606 | ¥ 1,330 | ¥ 4,705 | ¥ 41,743 |
| Depreciation and amortization | 573 | 137 | 67 | 67 | 844 |
| Capital expenditure | 868 | 75 | 33 | 205 | 1,181 |

Year ended March 31, 2007:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Rolling stock | Sash and door | Lease of real estate | Elimination and corporate | Consolidated |
| Net sales | ¥ 32,176 | ¥ 3,736 | ¥ 780 | ¥ (57) | ¥ 36,635 |
| Costs and expenses | 30,973 | 3,691 | 147 | 1,152 | 35,963 |
| Operating income (loss) | ¥ 1,203 | ¥ 45 | ¥ 633 | ¥ (1,209) | ¥ 672 |
| Identifiable assets | ¥ 43,384 | ¥ 3,443 | ¥ 2,151 | ¥ 3,411 | ¥ 52,389 |
| Depreciation and amortization | 552 | 120 | 63 | 84 | 819 |
| Capital expenditure | 1,265 | 50 | - | 96 | 1,411 |

15. Segment information (cont'd)

Corporate operating expenses of ¥1,260 million and ¥1,211 million for the years ended March 31, 2006 and 2007, respectively, mainly comprised expenses of administration departments.

Corporate assets of ¥4,705 million and ¥3,415 million at March 31, 2006 and 2007, respectively, mainly comprised cash and cash equivalents and assets of administration departments.

Information by geographic area was as follows:

Year ended March 31, 2006:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Japan | North America | Elimination and corporate | Consolidated |
| Net sales | ¥ 22,001 | ¥ 8,550 | ¥ (497) | ¥ 30,054 |
| Cost and expenses | 21,284 | 7,663 | 763 | 29,710 |
| Operating income | ¥ 717 | ¥ 887 | ¥ (1,260) | ¥ 344 |
| Identifiable assets | ¥ 31,087 | ¥ 6,229 | ¥ 4,427 | ¥ 41,743 |

Year ended March 31, 2007:

| | Millions of yen | | | |
|---|---|---|---|---|
| | Japan | North America | Elimination and corporate | Consolidated |
| Net sales | ¥ 31,859 | ¥ 9,327 | ¥ (4,551) | ¥ 36,635 |
| Cost and expenses | 29,577 | 9,603 | (3,217) | 35,963 |
| Operating income (loss) | ¥ 2,282 | ¥ (276) | ¥ (1,334) | ¥ 672 |
| Identifiable assets | ¥ 36,539 | ¥ 16,223 | ¥ (373) | ¥ 52,389 |

The principal geographic area in North America is the United States of America.

15 Segment information (cont'd.)

Export sales and sales by the overseas subsidiaries for the years ended March 31, 2006 and 2007 were as follows:

Year ended March 31, 2006:

| | Millions of yen | | | |
|---|---|---|---|---|
| | North America | Africa | Asia | Total |
| Overseas sales | ¥ 8,545 | ¥ 95 | ¥ 875 | ¥ 9,515 |
| Consolidated net sales | | | | 30,054 |
| Ratio of overseas sales to Consolidated net sales | 28.5 % | 0.3% | 2.9 % | 31.7% |

Year ended March 31, 2007:

| | Millions of yen | | | |
|---|---|---|---|---|
| | North America | Africa | Asia | Total |
| Overseas sales | ¥ 9,327 | ¥ 7 | ¥ 4,532 | ¥ 13,866 |
| Consolidated net sales | | | | 36,635 |
| Ratio of overseas sales to consolidated net sales | 25.4 % | 0.0 % | 12.4 % | 37.8 % |

The principal countries and areas in each segment were as follows:

| | |
|---|---|
| North America | United States of America |
| Africa | Arab Republic of Egypt |
| Asia | China (Hong Kong), Republic of the Philippines |

16. Contingent liabilities

Contingent liabilities at March 31, 2006 and 2007 were as follows:

| | Millions of yen | |
|---|---|---|
| | 2006 | 2007 |
| Guarantees of loans from banks to an affiliate ··············· | ¥ 200 | ¥ 200 |

17. Subsequent events

Cash dividends

At the meeting of the Board of Directors of the Company held on May 15, 2007, an appropriation of nonconsolidated retained earnings for the year ended March 31, 2007 was duly approved as follows:

| | Millions of yen |
|---|---|
| Cash dividends - ¥5.00 per share ··············· | ¥ 344 |