KPMG

THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years ended 31st March, 2004 and 2005

KPMG

Independent Auditors' Report

To the Shareholders and Board of Directors of
The Kinki Sharyo Co., Ltd.:

We have audited the accompanying consolidated balance sheets of The Kinki Sharyo Co., Ltd. and consolidated subsidiaries as of 31st March, 2004 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, 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 The Kinki Sharyo Co., Ltd. and subsidiaries as of 31st March, 2004 and 2005, 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
29th June, 2005

KPMG AZSA & Co.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
31st March, 2004 and 2005

	Millions of yen 2004	Millions of yen 2005
ASSETS		
Current Assets:		
Cash and time deposits (Note 4)	¥ 6,262	¥ 7,496
Receivables:		
Trade notes	353	429
Trade accounts	19,079	12,055
Other accounts	58	116
Allowance for doubtful receivables	(24)	(9)
	19,466	12,591
Inventories:		
Finished goods	247	236
Work in process	10,169	5,521
Raw materials and supplies	792	1,029
	11,208	6,786
Deferred income tax assets (Note 9)	358	260
Other current assets	203	515
Total current assets	37,497	27,648
Investments and Long-term Receivables:		
Investments:		
Unconsolidated subsidiaries and affiliates	142	144
Investment securities (Note 5)	6,994	5,433
	7,136	5,577
Long -term receivables	217	146
Allowance for doubtful receivables	(91)	(49)
	7,262	5,674
Property, Plant and Equipment		
Land	2,041	2,040
Buildings and structures (Note 6)	6,706	6,917
Machinery and equipment	11,147	11,646
Construction in progress	380	55
	20,274	20,658
Accumulated depreciation	(13,244)	(13,651)
	7,030	7,007
Other Assets		
Intangible assets	452	362
Deferred income tax assets (Note 9)	145	227
	¥ 52,386	¥ 40,918

	Millions of yen 2004	Millions of yen 2005
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank loans (Note 7)	¥ 8,815	¥ 5,465
Current portion of long-term debt (Note 7)	4,720	320
Payables:		
Trade notes	2,462	1,012
Trade accounts	7,526	4,118
Construction	1,011	528
Advances received on uncompleted contracts	1,199	1,001
Income and enterprise taxes payable	623	636
Accrued expenses	1,578	1,212
Deferred income tax liabilities (Note 9)	1	7
Other current liabilities	590	1,710
Total current liabilities	28,525	16,009
Non-current Liabilities:		
Long-term debt, due after one year (Note 7)	520	200
Retirement and severance benefits (Note 8)	1,063	1,128
Deferred income tax liabilities (Note 9)	449	170
Long-term deposits received (Note 6)	1,521	1,813
	3,553	3,311
Contingent Liabilities (Note 15)		
Minority Interests	-	-
Shareholders' Equity (Note 10)		
Common stock :		
Authorised-120,000,000 shares		
Issued-69,083,597 shares	5,253	5,253
Capital surplus	3,125	3,125
Retained earnings	10,965	12,645
Net unrealised holding gains on securities	1,319	1,065
Foreign currency translation adjustments	(339)	(467)
Treasury stock, at cost		
69,668 shares in 2004 and 95,725 shares in 2005	(15)	(23)
Total shareholders' equity	20,308	21,598
	¥ 52,386	¥ 40,918

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended 31st March, 2004 and 2005

	Millions of yen	
	2004	2005
Net sales (Note 11)	¥ 48,832	¥ 41,131
Cost of sales	40,577	35,131
Gross profit	8,255	6,000
Selling, general and administrative expenses	3,594	3,163
Operating income	4,661	2,837
Other income (expenses):		
Interest and dividend income	91	103
Interest expense	(147)	(69)
Gain on sales of securities	50	453
Equity in net income of an affiliate	12	3
Foreign exchange gain (loss)	(561)	112
Loss on closure of old main office areas	(526)	-
Loss on disposal of property, plant and equipment	(149)	(29)
Other, net	(105)	38
	(1,335)	611
Income before income taxes	3,326	3,448
Income taxes (Note 9)		
Current	(1,173)	(1,453)
Deferred	365	90
Net income	¥ 2,518	¥ 2,085

	Yen	
Amounts per share:		
Net income	¥ 35.62	¥ 29.20
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

Years ended 31st March, 2004 and 2005

		Millions of yen					
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealised holding gains (losses) on securities	Foreign currency translation adjustments	Treasury stock
Balance at 31st March, 2003	69,083,597	5,253	3,125	8,831	(102)	(14)	(10)
Net income for the year	-	-	-	2,518	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	(325)	-
Net unrealised holding gains on securities	-	-	-	-	1,421	-	-
Treasury stock	-	-	-	-	-	-	(5)
Cash dividends paid at ￥5.00 per share	-	-	-	(344)	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(40)	-	-	-
Balance at 31st March, 2004	69,083,597	5,253	3,125	10,965	1,319	(339)	(15)
Net income for the year	-	-	-	2,085	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	(128)	-
Net unrealised holding losses on securities	-	-	-	-	(254)	-	-
Treasury stock	-	-	-	-	-	-	(8)
Cash dividends paid at ￥5.00 per share	-	-	-	(345)	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(60)	-	-	-
Balance at 31st March, 2005	69,083,597	¥ 5,253	¥ 3,125	¥ 12,645	¥ 1,065	¥ (467)	¥ (23)

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended 31st March, 2004 and 2005

	Millions of yen 2004	Millions of yen 2005
Cash flows from operating activities:		
Net income before income taxes	¥ 3,326	¥ 3,448
Adjustments to reconcile net income before income taxes to net cash used in operating activities:		
Depreciation and amortisation	755	823
Increase in retirement benefits	135	65
Interest and dividend income	(91)	(103)
Interest expense	147	69
Gain on sales of property, plant and equipment	(4)	(0)
Gain on sales of securities	(50)	(453)
Equity in net income of an affiliate	(12)	(3)
Loss on disposal of property, plant and equipment	347	29
Decrease in trade notes and accounts receivable	2,704	6,692
Decrease (increase) in inventories	(935)	4,352
Increase (decrease) in trade notes and trade accounts payable	574	(4,894)
Interest and dividends received	91	103
Interest paid	(145)	(80)
Income taxes paid	(573)	(1,481)
Other, net	407	771
Net cash provided by operating activities	6,676	9,338
Cash flows from investing activities:		
Acquisitions of property, plant and equipment, and intangible assets	(727)	(1,229)
Proceeds from sales of property, plant and equipment, and intangible assets	33	9
Acquisitions of investment securities	(20)	(107)
Proceeds from sales of investment securities	144	1,693
Net cash provided by (used in) investing activities	(570)	366
Cash flows from financing activities:		
Repayment of short-term bank loans	(11,816)	(12,315)
Proceeds from short-term bank loans	11,315	8,965
Repayment of long-term debt	(3,160)	(4,720)
Proceeds from long-term debt	1,000	-
Cash dividends paid	(344)	(345)
Payments for treasury stock	(5)	(8)
Net cash used in financing activities	(3,010)	(8,423)
Effect of exchange rate changes on cash and cash equivalents	(426)	(47)
Net increase in cash and cash equivalents	2,670	1,234
Cash and cash equivalents at beginning of year	3,587	6,257
Cash and cash equivalents at end of year (Note 4)	¥ 6,257	¥ 7,491

See accompanying notes.

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 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, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of 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 some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) 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. Some 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.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted effective 1st April, 2005.

The Company does not believe that adoption of this new accounting standard will have a material impact on its consolidated financial statements.

2. Significant accounting policies

(a) Consolidation - The consolidated financial statements include the accounts of the Company and its four (four in 2004) significant subsidiaries that meet the control requirements for consolidation. Intercompany transactions and accounts have been eliminated. The excess of the cost of investments in consolidated subsidiaries over the

2. Significant accounting policies (cont'd.)

underlying equity at dates of acquisition is expensed in the year of acquisition.

The Company applies the equity method of accounting for investments in one significant affiliate (one in 2004) which meets the significant influence requirement.

(b) Consolidated subsidiaries' fiscal year-ends - The consolidated foreign subsidiaries have fiscal years ending on 31st December. Significant transactions between 31st December and 31st March 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 management's estimate of the bad debt ratio plus the estimated uncollectible amounts based on the analysis of certain individual receivables.

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

(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 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 fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

2. Significant accounting policies (cont'd.)

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange 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 (that is, 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 will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, 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 and periodic average cost methods. Other inventories are stated at cost determined by the moving average method.

(h) Property, plant and equipment - Property, plant and equipment are carried at cost. Depreciation is principally provided on a declining balance method over estimated useful lives. In accordance with revisions of the Corporation Tax Law of Japan, effective 1st April, 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 lives.

2. Significant accounting policies (cont'd.)

(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 Company charges research and development expenses to selling, general and administrative expenses and manufacturing costs as incurred. Research and development expenses amounted to ¥ 244 million and ¥ 195 million for the years ended 31st March, 2004 and 2005, respectively.

(l) Retirement and severance benefits for employees, and directors and statutory auditors - Under the terms of the Company's and certain domestic consolidated 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 non-contributory pension plan which covers a portion of total retirement benefits.

In order to provide for the employees' retirement benefits, the Company and certain of its consolidated 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 31st March, 2001.

The liability for directors' and statutory auditors' retirement benefits has been principally provided based upon the Company's internally established criteria. This plan was terminated at the shareholders' meeting on June 29, 2004. The liability for directors' and statutory auditors' retirement benefits prior to termination in the amount of ￥150 million is included in other current liabilities.

(m) Bonuses - The Company and certain consolidated subsidiaries follow the general Japanese practice of paying bonuses to employees in July and December, and accrue employees' bonuses in the amounts, attributable to services performed through the balance sheet date, based on estimated amounts to be paid to employees in the subsequent period. Bonuses to directors and statutory auditors, which are subject to approval at the shareholders' meeting, are accounted for as an appropriation of retained earnings.

2. Significant accounting policies (cont'd.)

(n) 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.

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

Financial statements of the overseas consolidated subsidiaries are translated at the current rate, that is, the rate in effect at the balance sheet date except for 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".

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

(q) 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.

In accordance with the Commercial Code of Japan, the declaration of year-end dividends and the appropriation of unappropriated retained earnings are approved at the general meeting of shareholders held after the end of the fiscal year. Therefore, cash dividends per share shown in the consolidated statements of income include the final dividends approved after the end of the relevant fiscal year.

Diluted net income per share is not disclosed because there are no dilutive stock options at 31st March, 2004 and 2005.

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

2. Significant accounting policies (cont'd.)

(s) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Change in accounting policy

Effective 1st April, 2004, the valuation method of finished goods and work in process in the sash and door segment was changed to the identified cost method from the moving average cost method. This change was made because a new cost accounting system was introduced which changed to the job cost system from the process cost system to improve cost control for finished goods and work in process. The effect of this change was not significant.

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 31st March, 2004 and 2005 are as follows:

	Millions of yen	
	2004	2005
Cash and time deposits	¥ 6,262	¥ 7,496
Deposits placed with banks with a maturity of over three months	(5)	(5)
Cash and cash equivalents	¥ 6,257	¥ 7,491

5. Securities

At 31st March, 2004 and 2005 information on securities is as follows:

a. Trading securities

None

b. Held-to-maturity debt-securities

None

c. Available-for-sale securities of March 31, 2004 and 2005 whose fair values are readily determinable are as follows:

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

	Millions of yen		
	2004		
	Acquisition costs	Book value	Difference
Equity securities	¥ 4,501	¥ 6,750	¥ 2,249
Other	9	14	5
Total	¥ 4,510	¥ 6,764	¥ 2,254

	Millions of yen		
	2005		
	Acquisition costs	Book value	Difference
Equity securities	¥ 3,367	¥ 5,198	¥ 1,831
Other	9	15	6
Total	¥ 3,376	¥ 5,213	¥ 1,837

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

	Millions of yen		
	2004		
	Acquisition costs	Book value	Difference
Equity securities	¥ 98	¥ 68	¥ (30)
Other	10	10	(0)
Total	¥ 108	¥ 78	¥ (30)

	Millions of yen		
	2005		
	Acquisition costs	Book value	Difference
Equity securities	¥ 98	¥ 57	¥ (41)
Other	10	10	(0)
Total	¥ 108	¥ 67	¥ (41)

5. Securities (cont'd)

d. Total sales of available-for-sale securities sold in the years ended 31st March, 2004 and 2005 are as follows:

	Millions of yen	
	2004	2005
Total sales of available-for-sale securities ·········	¥ 144	¥ 1,693
Amount of related gains ································	50	453
Amount of related losses ·······························	1	-

e. At 31st March, 2004 and 2005, securities whose fair values are not readily determinable are as follows :

	Millions of yen	
	2004	2005
Other securities (excluding securities traded over the counter) ························	¥ 153	¥ 153

6. Pledged assets

At 31st March, 2004 and 2005 the following are 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	
	2004	2005
Buildings , net book value	¥ 861	¥ 816

7. Bank loans and long-term debt

Bank loans are represented by short-term notes, principally of one year's maturity, bearing interest at an average annual rate of 0.7% at 31st March, 2004 and 2005. The Company has had no difficulty in renewing such notes upon maturity.

Long-term debt at 31st March, 2004 and 2005 is comprised as follows:

	Millions of yen	
	2004	2005
Unsecured:		
Banks, due through 2006		
interest 0.74%	¥ 4,720	¥ 320
Banks, due through 2007		
interest 0.74%	520	200
	5,240	520
Current portion of long-term debt	(4,720)	(320)
	¥ 520	¥ 200

Substantially all of the loans from banks are made under basic agreements, customary in Japan, which provide that, with respect to all present or future liabilities to the banks, the Company shall provide collateral or a third party guarantee at the request of any such bank, that any collateral provided under any such agreement will be applicable to indebtedness to the bank and that such lending bank has the right to offset deposits with it against any debt or obligation that becomes due and, in case of default and certain other specified events, against all debts payable to the bank.

The aggregate annual maturities of long-term debt outstanding at 31st March, 2005 are as follows:

Year ended 31st March	Millions of yen
2007	¥ 200

8. Retirement and severance benefits

The Company and certain consolidated subsidiaries provide for employees' retirement and severance benefits under two plans, a funded non-contributory 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 31st March, 2004 and 2005.

	Millions of yen			
	2004		2005	
Benefit obligation at end of year	¥	5,803	¥	5,971
Fair value of plan assets at end of year		(276)		(350)
Funded status:				
Benefit obligation in excess of plan assets		5,527		5,621
Unrecognized net transition obligation		(3,915)		(3,559)
Unrecognized actuarial loss		(753)		(934)
Total		859		1,128
Retirement benefits for directors and statutory auditors		204		-
Retirement and severance benefits in the consolidated balance sheets	¥	1,063	¥	1,128

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

Severance and pension costs of the Companies included the following components for the years ended 31st March, 2004 and 2005, respectively.

	Millions of yen			
	2004		2005	
Service cost	¥	242	¥	265
Interest cost		142		112
Expected return on plan assets		(4)		(4)
Amortisation of net transition obligation		356		356
Amortisation of actuarial differences		57		88
Net periodic benefit cost	¥	793	¥	817

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

8. Retirement and severance benefits (cont'd.)

The discount rate used by the Companies at 31st March, 2004 and 2005 is 2.0%. The rate of expected return on plan assets used by the Companies at 31st March, 2004 and 2005 is 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.

9. Income taxes

(a) Significant components of the Companies' deferred tax assets and liabilities as of 31st March, 2004 and 2005, are as follows:

	Millions of yen	
	2004	2005
Deferred income tax assets:		
Retirement and severance benefits	¥ 403	¥ 492
Excess bonuses accrued	163	160
Net operating loss carry forwards	95	-
Assets expensed in excess of limitation	22	24
Allowance for doubtful receivables	20	11
Valuation loss of investment securities	378	376
Other	386	406
	1,467	1,469
Valuation allowance	(491)	(405)
Total deferred income tax assets	976	1,064
Deferred income tax liabilities:		
Reserve for deferred gains on sales of fixed assets	(17)	(16)
Net unrealised holding gain on securities	(904)	(731)
Other	(2)	(7)
Total deferred income tax liabilities	(923)	(754)
Net deferred income tax assets	¥ 53	¥ 310

(b) The following table summarizes the significant difference between the statutory tax rate and the effective tax rate for the year ended 31st March, 2004 after tax effect accounting was applied. The table for the year ended 31st March, 2005 was not shown because the difference between the statutory tax rate and the effective tax rate for the year ended 31st March, 2005 after tax effect accounting was applied was less than 5% of the statutory tax rate.

	2004
Statutory tax rate	42.1 %
Valuation allowance for deferred income tax assets	(19.0)
Tax effect of permanent differences	0.2
Other	1.0
Effective tax rate	24.3

9. Income taxes(cont'd)

(c) In addition, a revision of Japan's Local Tax Law (Law No. 9, 2003) came into effect on 31st March, 2003.

As a result, for the year starting on or after 1st April, 2004 an external standards taxation system was introduced. For the year ended 31st March, 2005 in accordance with the "Practical Treatment for Presentation of External Standards Taxation of the Enterprise Taxes in the Statements of Operations (Accounting Standards Board Application Report No.12, 13th February, 2004), the Company records the portion of corporate enterprise taxes that is based on the "amount of added value" and the "amount of capital" in selling, as general and administrative (SGA) expenses.

As a result, SGA expenses increased ¥45 million for the year ended 31st March, 2005.

10. Shareholders' equity

Under the Commercial Code of Japan, the entire amount of the issue price of shares is required to be accounted for as stated capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid –in capital, which is included in capital surplus.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for dividends by the resolution of shareholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Commercial Code of Japan.

11. Related party transactions

Kinki Nippon Railway Co., Ltd. ("KNR") directly owned 14% of the Company's outstanding common stock and owned 35% indirectly through The Master Trust Bank of Japan, Ltd. at 31st March, 2004 and 2005.

Sales to KNR for the year ended 31st March, 2004 were not material. Sales to KNR for the year ended 31st March, 2005 were ¥ 2,198 million. Receivables from KNR at 31st March, 2005 were ¥ 923 million.

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

Sales to CK for the years ended 31st March, 2004 and 2005 were ¥4,701 million and ¥3,877 million, respectively. Receivables from CK at 31st March, 2004 and 2005 were ¥2,445 million and ¥2,092 million, respectively.

12. 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.

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.

The Company and its subsidiaries had derivatives outstanding at 31st March, 2004 and 2005, 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 to the executive directors' meetings.

13. Leases

Information for non-capitalized finance leases at 31st March, 2004 and 2005 are as follows:

	Millions of yen	
	2004	2005
Original lease obligations for furniture and fixtures (including finance charges) ·········	¥ 245	¥ 121
Payments due within one year ·····················	¥ 40	¥ 20
Payments due after one year ·····················	29	9
Total payments remaining ························	¥ 69	¥ 29

Lease payments for such leases for the years ended 31st March, 2004 and 2005, were ¥ 68 million and ¥ 40 million, respectively.

Obligations under operating leases at 31st March, 2004 and 2005 are as follows:

	Millions of yen	
	2004	2005
Payments due within one year ·····················	¥ 54	¥ 39
Payments due after one year ·····················	4	89
Total payments remaining ························	¥ 58	¥ 128

14. Segment information

Information by business segment of the Company and its consolidated subsidiaries is as follows:

The Company's and its consolidated subsidiaries' 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, sells and installs these products in buildings. The other segment includes lease of real estate and a golf driving range, which was closed at the end of December, 2003.

Year ended 31st March, 2004:

	Millions of yen				
	Rolling stock	Sash and door	Other	Elimination and corporate	Consolidated
Net sales	¥ 43,609	¥ 4,767	¥ 501	¥ (45)	¥ 48,832
Costs and expenses	37,954	4,621	203	1,393	44,171
Operating income	¥ 5,655	¥ 146	¥ 298	¥ (1,438)	¥ 4,661
Identifiable assets	¥ 40,058	¥ 4,212	¥ 1,420	¥ 6,696	¥ 52,386
Depreciation and amortization	423	180	79	73	755
Capital expenditure	1,107	185	105	30	1,427

Year ended 31st March, 2005:

	Millions of yen				
	Rolling stock	Sash and door	Other	Elimination and corporate	Consolidated
Net sales	¥ 36,910	¥ 3,920	¥ 351	¥ (50)	¥ 41,131
Costs and expenses	32,667	4,125	143	1,359	38,294
Operating income (loss)	¥ 4,243	¥ (205)	¥ 208	¥ (1,409)	¥ 2,837
Identifiable assets	¥ 27,915	¥ 3,661	¥ 1,369	¥ 7,973	¥ 40,918
Depreciation and amortization	522	163	71	67	823
Capital expenditure	635	55	33	23	746

14. Segment information (cont'd)

Corporate operating expenses of ¥ 1,438 million and ¥ 1,409 million for the years ended 31st March, 2004 and 2005, respectively, are mainly comprised of expenses of administration departments.

Corporate assets of ¥ 6,711 million and ¥7,975 million at 31st March, 2004 and 2005, respectively, are mainly comprised of cash and cash equivalents and assets of administration departments.

Although previously there were four classifications (the rolling stock, sash and door, industrial machinery and exterior equipment, and other segments), the industrial machinery and exterior equipment is included in the rolling stock commencing in the year ended 31st March, 2004.

As a result, in the rolling stock segment, sales increased ¥138 million, costs and expense increased ¥172 million, operating income decreased ¥34 million, identifiable assets increased ¥84 million, depreciation and amortisation increased ¥5 million, and capital expenditure increased ¥0 million, at 31st March, 2004, compared to the prior segmentation.

As explained in Note 3. Change in accounting policy, the valuation method of finished goods and work in process in the sash and door segment was changed to the identified cost method from the moving average cost method. The effect of this change was not significant.

14. Segment information (cont'd.)

Information by geographic area is as follows:

Year ended 31st March, 2004:

	Millions of yen			
	Japan	North America	Elimination and corporate	Consolidated
Net sales	¥ 34,140	¥ 14,793	¥ (101)	¥ 48,832
Cost and expenses	29,455	13,379	1,337	44,171
Operating income	¥ 4,685	¥ 1,414	¥ (1,438)	¥ 4,661
Identifiable assets	¥ 36,379	¥ 9,573	¥ 6,434	¥ 52,386

Year ended 31st March, 2005:

	Millions of yen			
	Japan	North America	Elimination And corporate	Consolidated
Net sales	¥ 30,160	¥ 12,232	¥ (1,261)	¥ 41,131
Cost and expenses	27,808	10,338	148	38,294
Operating income	¥ 2,352	¥ 1,894	¥ (1,409)	¥ 2,837
Identifiable assets	¥ 25,605	¥ 8,430	¥ 6,883	¥ 40,918

Corporate operating expenses of ¥ 1,438 million and ¥ 1,409 million for the years ended 31st March, 2004 and 2005, respectively, are mainly comprised of expenses of administration departments.

Corporate assets of ¥ 6,711 million and ¥ 7,975 million at 31st March, 2004 and 2005, respectively, are mainly comprised of cash and cash equivalents and assets of administration departments.

As explained in Note 3. Change in accounting policy, the valuation method of finished goods and work in process in the sash and door segment was changed to the identified cost method from the moving average cost method. The effect of this change was not significant.

14. Segment information (cont'd.)

Export sales and sales by the overseas subsidiaries for the years ended 31st March, 2004 and 2005, were as follows:

Year ended 31st March, 2004:

	Millions of yen			
	North America	Africa	Asia	Total
Overseas sales	¥ 19,604	¥ 1,861	¥ 10,624	¥ 32,089
Consolidated net sales				48,832
Ratio of overseas sales to consolidated net sales	40.2 %	3.8 %	21.7 %	65.7 %

Year ended 31st March, 2005:

	Millions of yen			
	North America	Africa	Asia	Total
Overseas sales	¥ 13,723	¥ 2,662	¥ 3,896	¥ 20,281
Consolidated net sales				41,131
Ratio of overseas sales to consolidated net sales	33.3 %	6.5 %	9.5 %	49.3 %

Principal countries and areas in each segment are as follows:

North America	United States of America
Africa	Arab Republic of Egypt
Asia	China (Hong Kong)

15. Contingent liabilities

Contingent liabilities at 31st March, 2004 and 2005, are as follows:

	Millions of yen	
	2004	2005
Guarantee of loan from a bank to an affiliate ……………	¥ 200	¥ 200

16. Subsequent events

At the ordinary shareholders' meeting of the Company held on 29th June, 2005, the appropriation of retained earnings for the year ended 31st March, 2005, was duly approved as follows:

	Millions of yen
(1) Cash dividends-¥5.00 per share …………………………………	¥ 345
(2) Bonuses to directors and statutory auditors……	¥ 70