THE KINKI SHARYO CO., LTD.
AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

Years ended 31st March, 2005 and 2006

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, 2005 and 2006, 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, 2005 and 2006, 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, 2006

KPMG AZSA & Co.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
31st March, 2005 and 2006

	Millions of yen	
	2005	2006
ASSETS		
Current Assets:		
Cash and time deposits (Note 4)	¥ 7,496	¥ 3,671
Receivables:		
Trade notes	429	361
Trade accounts	12,055	12,555
Other accounts	116	436
Allowance for doubtful receivables	(9)	(15)
	12,591	13,337
Inventories:		
Finished goods	236	221
Work in process	5,521	8,275
Raw materials and supplies	1,029	991
	6,786	9,487
Deferred income tax assets (Note 9)	260	205
Other current assets	515	675
Total current assets	27,648	27,375
Investments and Long-term Receivables:		
Investments:		
Unconsolidated subsidiaries and affiliates	144	172
Investment securities (Note 5)	5,433	6,256
	5,577	6,428
Long -term receivables	146	124
Allowance for doubtful receivables	(49)	(31)
	5,674	6,521
Property, Plant and Equipment		
Land	2,040	2,029
Buildings and structures (Note 6)	6,917	7,363
Machinery and equipment	11,646	12,194
Construction in progress	55	19
	20,658	21,605
Accumulated depreciation	(13,651)	(14,167)
	7,007	7,438
Other Assets		
Intangible assets	362	245
Deferred income tax assets (Note 9)	227	164
	¥ 40,918	¥ 41,743

	Millions of yen	
	2005	2006
LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Bank loans (Note 7)	¥ 5,465	¥ 3,000
Current portion of long-term debt (Note 7)	320	200
Payables:		
Trade notes	1,012	1,166
Trade accounts	4,118	3,446
Construction	528	733
Advances received on uncompleted contracts	1,001	4,129
Income and enterprise taxes payable	636	92
Accrued expenses	1,212	1,080
Deferred income tax liabilities (Note 9)	7	3
Other current liabilities	1,710	793
Total current liabilities	16,009	14,642
Non-current Liabilities:		
Long-term debt, due after one year (Note 7)	200	-
Retirement and severance benefits (Note 8)	1,128	1,444
Deferred income tax liabilities (Note 9)	170	331
Long-term deposits received (Note 6)	1,813	1,974
	3,311	3,749
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	12,645	13,305
Net unrealised holding gains on securities	1,065	1,640
Foreign currency translation adjustments	(467)	61
Treasury stock, at cost		
95,725 shares in 2005 and 113,970 shares in 2006	(23)	(32)
Total shareholders' equity	21,598	23,352
	¥ 40,918	¥ 41,743

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended 31st March, 2005 and 2006

	Millions of yen	
	2005	2006
Net sales (Note 11)	¥ 41,131	¥ 30,054
Cost of sales	35,131	26,719
Gross profit	6,000	3,335
Selling, general and administrative expenses	3,163	2,991
Operating income	2,837	344
Other income (expenses):		
Interest and dividend income	103	87
Interest expense	(69)	(30)
Gain on sales of securities	453	625
Equity in net income of an affiliate	3	27
Foreign exchange gain	112	316
Gain on sales of fixed assets	-	48
Loss on disposal of property, plant and equipment	(29)	(12)
Special repair expence	-	(108)
Other, net	38	102
	611	1,055
Income before income taxes	3,448	1,399
Income taxes (Note 9)		
Current	(1,453)	(401)
Deferred	90	77
Net income	¥ 2,085	¥ 1,075

	Yen	
Amounts per share:		
Net income	¥ 29.20	¥ 14.86
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, 2005 and 2006

		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, 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)
Net income for the year	-	-	-	1,075	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	528	-
Net unrealised holding gains on securities	-	-	-	-	575	-	-
Treasury stock	-	-	-	-	-	-	(9)
Cash dividends paid at ￥5.00 per share	-	-	-	(345)	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(70)	-	-	-
Balance at 31st March, 2006	69,083,597	¥ 5,253	¥ 3,125	¥ 13,305	¥ 1,640	¥ 61	¥ (32)

See accompanying notes.

THE KINKI SHARYO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended 31st March, 2005 and 2006

	Millions of yen	
	2005	2006
Cash flows from operating activities:		
Net income before income taxes	¥ 3,448	¥ 1,399
Adjustments to reconcile net income before income taxes to net cash used in operating activities:		
Depreciation and amortisation	823	844
Increase in retirement benefits	65	316
Interest and dividend income	(103)	(87)
Interest expense	69	30
Gain on sales of property, plant and equipment	(0)	(48)
Gain on sales of securities	(453)	(625)
Equity in net income of an affiliate	(3)	(27)
Loss on disposal of property, plant and equipment	29	12
Decrease in trade notes and accounts receivable	6,692	2,926
Decrease (increase) in inventories	4,352	(2,431)
Decrease in trade notes and trade accounts payable	(4,894)	(982)
Interest and dividends received	103	87
Interest paid	(80)	(34)
Income taxes paid	(1,481)	(1,264)
Other, net	771	(907)
Net cash provided by (used in) operating activities	9,338	(791)
Cash flows from investing activities:		
Acquisitions of property, plant and equipment, and intangible assets	(1,229)	(977)
Proceeds from sales of property, plant and equipment, and intangible assets	9	67
Acquisitions of investment securities	(107)	-
Proceeds from sales of investment securities	1,693	771
Net cash provided by (used in) investing activities	366	(139)
Cash flows from financing activities:		
Repayment of short-term bank loans	(12,315)	(10,165)
Proceeds from short-term bank loans	8,965	7,700
Repayment of long-term debt	(4,720)	(320)
Cash dividends paid	(345)	(345)
Payments for treasury stock	(8)	(8)
Net cash used in financing activities	(8,423)	(3,138)
Effect of exchange rate changes on cash and cash equivalents	(47)	243
Net increase (decrease) in cash and cash equivalents	1,234	(3,825)
Cash and cash equivalents at beginning of year	6,257	7,491
Cash and cash equivalents at end of year (Note 4)	¥ 7,491	¥ 3,666

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 of THE KINKI SHARYO CO ., LTD.(the “Company”) 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.

2. Significant accounting policies

(a) Consolidation - The consolidated financial statements include the accounts of the Company and its four 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
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 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.

2. Significant accounting policies (cont'd.)

(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 recognise 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 recognised.

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 recognised in the statement of income in the period which includes the inception date, and

2. Significant accounting policies (cont'd.)

(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 recognised 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 recognised.

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 amortised on the straight-line method over the estimated useful lives.

(j) Software costs - The Companies include software used for internal purposes in intangible assets and amortise 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 ¥ 195 million and ¥ 142 million for the years ended 31st March, 2005 and 2006, respectively.

2. Significant accounting policies (cont'd.)

(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 recognised 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 unamortised net transition obligation is being amortised over fifteen years by the straight-line method from the year ended 31st March, 2001.

(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.

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

The asset and liability approach is used to recognise 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.

2. Significant accounting policies (cont'd.)

(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, 2005 and 2006.

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

(s) Reclassifications - Certain prior year amounts have been reclassified to conform to the 2006 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Change in accounting policy– Effective 1st April, 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 of 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 31st March, 2005 and 2006 are as follows:

	Millions of yen	
	2005	2006
Cash and time deposits …………………………………	¥ 7,496	¥ 3,671
Deposits placed with banks with a maturity of over three months…………………………………	(5)	(5)
Cash and cash equivalents………………………………	¥ 7,491	¥ 3,666

5. Securities

At 31st March, 2005 and 2006 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, 2005 and 2006 whose fair values are readily determinable are as follows:

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

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

	Millions of yen		
	2006		
	Acquisition cost	Book value	Difference
Equity securities	¥ 3,319	¥ 6,071	¥ 2,751
Other	9	23	14
Total	¥ 3,328	¥ 6,094	¥ 2,765

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

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

	Millions of yen		
	2006		
	Acquisition cost	Book value	Difference
Equity securities	¥ —	¥ —	¥ —
Other	10	10	(0)
Total	¥ 10	¥ 10	¥ (0)

5. Securities (cont'd)

d. Total sales of available-for-sale securities sold in the years ended 31st March, 2005 and 2006 are as follows:

	Millions of yen	
	2005	2006
Total sales of available-for-sale securities ……….	¥ 1,693	¥ 771
Amount of related gains ………………………………	453	625
Amount of related losses ………………………………	-	-

e. At 31st March, 2005 and 2006, securities whose fair values are not readily determinable are as follows :

	Millions of yen	
	2005	2006
Other securities (excluding securities traded over the counter) ………………………	¥ 153	¥ 153

6. Pledged assets

At 31st March, 2005 and 2006 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	
	2005	2006
Buildings , net book value	¥ 816	¥ 777

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% and 0.3% at 31st March, 2005 and 2006,respectively. The Company has had no difficulty in renewing such notes upon maturity.

Long-term debt at 31st March, 2005 and 2006 is comprised as follows:

	Millions of yen	
	2005	2006
Unsecured:		
Banks, due through 2006 at average interest rate of 0.74%	¥ 320	¥ 200
Banks, due through 2007 at average interest rate of 0.29%-0.74%	200	-
	520	200
Current portion of long-term debt	(320)	(200)
	¥ 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.

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, 2005 and 2006.

	Millions of yen			
	2005		2006	
Benefit obligation at end of year	¥	5,971	¥	6,095
Fair value of plan assets at end of year		(350)		(581)
Funded status:				
Benefit obligation in excess of plan assets		5,621		5,514
Unrecognised net transition obligation		(3,559)		(3,204)
Unrecognised actuarial loss		(934)		(866)
Total		1,128		1,444
Retirement and severance benefits in the consolidated balance sheets	¥	1,128	¥	1,444

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, 2005 and 2006, respectively.

	Millions of yen			
	2005		2006	
Service cost	¥	265	¥	267
Interest cost		112		117
Expected return on plan assets		(4)		(5)
Amortisation of net transition obligation		356		356
Amortisation of actuarial differences		88		115
Net periodic benefit cost	¥	817	¥	850

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, 2005 and 2006 is 2.0%. The rate of expected return on plan assets used by the Companies at 31st March, 2005 and 2006 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, 2005 and 2006, are as follows:

	Millions of yen	
	2005	2006
Deferred income tax assets:		
Retirement and severance benefits	¥ 492	¥ 626
Excess bonuses accrued	160	150
Net operating loss carry forwards	-	108
Assets expensed in excess of limitation	24	21
Allowance for doubtful receivables	11	8
Valuation loss of investment securities	376	-
Other	406	459
	1,469	1,372
Valuation allowance	(405)	(186)
Total deferred income tax assets	1,064	1,186
Deferred income tax liabilities:		
Reserve for deferred gains on sales of fixed assets	(16)	(15)
Net unrealised holding gain on securities	(731)	(1,125)
Other	(7)	(11)
Total deferred income tax liabilities	(754)	(1,151)
Net deferred income tax assets	¥ 310	¥ 35

(b) The following table summarises the significant difference between the statutory tax rate and the effective tax rate for the year ended 31st March, 2006 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.

	2006	
Statutory tax rate	40.7	%
Valuation allowance for deferred income tax assets	(15.7)	
Tax effect of permanent differences	0.1	
Other	(1.9)	
Effective tax rate	23.2	

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, 2005 and 2006.

Sales to KNR for the year ended 31st March, 2005 and 2006 were ¥ 2,198 million and ¥ 2,713 million , respectively. Receivables from KNR at 31st March, 2005 and 2006 were ¥ 923 million and ¥ 1,942 million , respectively.

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

Sales to CK for the years ended 31st March, 2005 and 2006 were ¥ 3,877 million and ¥ 3,842 million, respectively. Receivables from CK at 31st March, 2005 and 2006 were ¥2,092 million and ¥2,188million, 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, 2005 and 2006, 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-capitalised finance leases at 31st March, 2005 and 2006 are as follows:

	Millions of yen	
	2005	2006
Original lease obligations for furniture and fixtures (including finance charges)	¥ 121	¥ 46
Payments due within one year	¥ 20	¥ 8
Payments due after one year	9	1
Total payments remaining	¥ 29	¥ 9

Lease payments for such leases for the years ended 31st March, 2005 and 2006, were ¥ 40 million and ¥ 19 million, respectively.

Obligations under operating leases at 31st March, 2005 and 2006 are as follows:

	Millions of yen	
	2005	2006
Payments due within one year	¥ 39	¥ 41
Payments due after one year	89	84
Total payments remaining	¥ 128	¥ 125

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.

The other segment changed its name to lease of real estate segment from this term.

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	¥ 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

Year ended 31st March, 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

14. Segment information (cont’d)

Corporate operating expenses of ¥ 1,409 million and ¥ 1,260 million for the years ended 31st March, 2005 and 2006, respectively, are mainly comprised of expenses of administration departments.

Corporate assets of ¥ 7,975 million and ¥4,705 million at 31st March, 2005 and 2006, respectively, are mainly comprised of cash and cash equivalents and assets of administration departments.

Information by geographic area is as follows:

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

Year ended 31st March, 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

Corporate operating expenses of ¥ 1,409 million and ¥ 1,260 million for the years ended 31st March, 2005 and 2006, respectively, are mainly comprised of expenses of administration departments.

Corporate assets of ¥ 7,975 million and ¥ 4,705 million at 31st March, 2005 and 2006, respectively, are mainly comprised of cash and cash equivalents and assets of administration departments.

14. Segment information (cont'd.)

Export sales and sales by the overseas subsidiaries for the years ended 31st March, 2005 and 2006, were as follows:

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 %

Year ended 31st March, 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%

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, 2005and 2006, are as follows:

	Millions of yen	
	2005	2006
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, 2006, the appropriation of retained earnings for the year ended 31st March, 2006, was duly approved as follows:

		Millions of yen
(1) Cash dividends-¥5.00 per share	¥	345
(2) Bonuses to directors and statutory auditors	¥	50