Consolidated Financial Statements

KYUDENKO CORPORATION

Years ended March 31, 2004 and 2003
with Report of Independent Auditors

Report of Independent Auditors

The Board of Directors
KYDENKO CORPORATION

We have audited the accompanying consolidated balance sheets of KYUDENKO CORPORATION and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of KYUDENKO CORPORATION and consolidated subsidiaries at March 31, 2004 and 2003, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Shin Nihon & Co.

Fukuoka, Japan
June 29, 2004

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets

	March 31, 2004	March 31, 2003	March 31, 2004
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and cash equivalents	¥ 24,899	¥ 19,809	$ 235,585
Short-term investments *(Note 14)*	14,850	13,918	140,505
Trade notes and accounts receivable	63,704	62,551	602,744
Less: Allowance for doubtful receivables	(471)	(549)	(4,456)
Inventories *(Note 4)*	23,014	26,114	217,750
Deferred tax assets *(Note 8)*	3,224	3,936	30,504
Other current assets	1,576	1,897	14,912
Total current assets	130,796	127,676	1,237,544
Property, plant and equipment *(Note 5)*:			
Land	26,034	26,039	246,324
Buildings and structures	47,719	46,357	451,500
Machinery and equipment	64,309	58,527	608,468
Construction in progress	13	203	123
	138,075	131,126	1,306,415
Accumulated depreciation	(58,313)	(55,287)	(551,736)
Property, and equipment, net	79,762	75,839	754,679
Investments and other assets:			
Investment securities *(Note 14)*	8,892	8,817	84,133
Long-term loans receivable	475	340	4,494
Investments in unconsolidated subsidiaries and affiliates	6,553	5,118	62,002
Deferred tax assets *(Note 8)*	17,177	15,661	162,523
Other	10,973	9,834	103,822
Less: Allowance for doubtful receivables	(5,153)	(4,750)	(48,756)
Total investments and other assets	38,917	35,020	368,218
Total assets	¥249,475	¥238,535	$2,360,441

	March 31,		
	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans and current portion of long-term debt *(Note 6)*	¥ 33,705	¥ 27,272	$ 318,904
Trade notes and accounts payable	53,456	50,303	505,781
Advances received on construction contracts in progress	12,382	15,339	117,154
Accrued expenses	1,593	2,180	15,072
Accrued income taxes *(Note 8)*	4,281	709	40,505
Other current liabilities	6,940	5,599	65,665
Total current liabilities	112,357	101,402	1,063,081
Long-term liabilities:			
Long-term debt *(Note 6)*	6,852	9,774	64,831
Accrued employees' retirement benefits *(Note 9)*	43,459	41,847	411,193
Accrued directors' retirement benefits	625	493	5,914
Other *(Note 8)*	596	473	5,639
Total long-term liabilities	51,532	52,587	487,577
Total liabilities	163,889	153,989	1,550,658
Minority interests	916	910	8,667
Shareholders' equity *(Notes 7 and 17)*:			
Common stock, with no par value:			
Authorized – 250,000,000 shares			
Issued – 83,005,819, shares in 2004 and 2003	7,902	7,902	74,766
Capital surplus	7,890	7,890	74,652
Retained earnings	71,816	69,986	679,497
Net unrealized gain on other securities	726	205	6,869
Translation adjustments	(80)	(92)	(757)
	88,254	85,891	835,027
Less common stock in treasury, at cost	(3,584)	(2,255)	(33,911)
Shareholders' equity, net	84,670	83,636	801,116
Contingent liabilities *(Note 13)*			
Total liabilities and shareholders' equity	¥249,475	¥238,535	$2,360,441

See notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Income

	March 31,		
	2004	**2003**	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales	¥224,703	¥222,556	$2,126,057
Cost of sales	205,845	198,731	1,947,630
Gross profit	18,858	23,825	178,427
Selling, general and administrative expenses *(Note 10)*	14,778	20,366	139,824
Operating income	4,080	3,459	38,603
Other income (expenses):			
Interest and dividend income	312	340	2,952
Interest expense	(132)	(154)	(1,249)
Loss on devaluation of investment securities	(367)	(2,506)	(3,472)
Gain (loss) on trading securities	1,751	(1,106)	16,567
Gain on sales of property and equipment	16	801	151
Loss on sales of investment securities	(37)	(220)	(350)
Additional retirement allowances paid	(538)	(4,245)	(5,090)
Gain on return of the substitutional portion of welfare pension fund plans	–	7,336	–
Other, net	1,293	1,356	12,234
Income before income taxes and minority interests	6,378	5,061	60,346
Income taxes *(Note 8)*:			
Current	4,788	1,215	45,302
Deferred	(1,184)	1,437	(11,203)
	3,604	2,652	34,099
Minority interests	(45)	(29)	(426)
Net income *(Note 11)*	¥ 2,729	¥ 2,380	$ 25,821

See notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Shareholders' Equity

	Year ended March 31,		
	2004	**2003**	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Common stock			
Balance at beginning and end of year	¥ 7,902	¥ 7,902	$ 74,766
Capital surplus			
Balance at beginning and end of year	¥ 7,890	¥ 7,890	$ 74,652
Retained earnings			
Balance at beginning of year	¥69,986	¥68,572	$662,183
Increase (decrease) due to the inclusion of subsidiaries in consolidation	3	(6)	28
Net income	2,729	2,380	25,821
Bonuses to directors and statutory auditors	(134)	(130)	(1,268)
Cash dividends paid	(768)	(830)	(7,267)
Balance at end of year	¥71,816	¥69,986	$679,497
Net unrealized gain on other securities			
Balance at beginning of year	¥ 205	¥ (234)	$ 1,939
Net change during the year	521	439	4,930
Balance at end of year	¥ 726	¥ 205	$ 6,869
Translation adjustments			
Balance at beginning of year	¥ (92)	¥ (88)	$ (870)
Net change during the year	12	(4)	113
Balance at end of year	¥ (80)	¥ (92)	$ (757)

See notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Year ended March 31,		
	2004	2003	2004
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Operating activities			
Income before income taxes and minority interests	¥ 6,378	¥ 5,061	$ 60,346
Depreciation and amortization	9,585	8,756	90,690
Provision for retirement benefits, net of payments	1,745	(7,888)	16,511
Interest and dividend income	(312)	(340)	(2,952)
Interest expense	132	154	1,249
Unrealized (gain) loss on securities	(772)	3,396	(7,304)
(Gain) loss on sales of securities	(613)	387	(5,800)
(Gain) loss on sales and disposal of property and equipment, net	679	(346)	6,424
Trade notes and accounts receivable	(499)	(3,047)	(4,721)
Inventories	3,102	933	29,350
Trade notes and accounts payable	3,083	(6,904)	29,170
Advances received on construction contracts in progress	(2,956)	(1,878)	(27,969)
Other	(217)	(1,428)	(2,053)
	19,335	(3,144)	182,941
Interest and dividend received	312	340	2,952
Interest paid	(132)	(154)	(1,249)
Income taxes paid	(1,196)	(2,439)	(11,316)
Net cash provided by (used in) operating activities	18,319	(5,397)	173,328
Investing activities			
Purchases of marketable and investment securities	(16,837)	(22,078)	(159,305)
Proceeds from sales of marketable and investment securities	16,332	24,182	154,527
Purchases of property and equipment	(13,575)	(9,292)	(128,442)
Proceeds from sales of property and equipment	440	809	4,163
(Increase) decrease in time deposits	(118)	291	(1,116)
(Increase) decrease in long-term loans receivable	(136)	6	(1,287)
Other	(838)	5	(7,929)
Net cash used in investing activities	(14,732)	(6,077)	(139,389)
Financing activities			
Increase (decrease) in short-term bank loans	5,170	(620)	48,917
(Decrease) increase in long-term debt	(1,638)	1,088	(15,498)
Cash dividends paid	(768)	(830)	(7,267)
Repurchase of the treasury stock	(1,330)	(2,236)	(12,584)
Other	(5)	(6)	(48)
Net cash provided by (used in) financing activities	1,429	(2,604)	13,520
Effect of exchange rate changes on cash and cash equivalents	(14)	(14)	(132)
Net increase (decrease) in cash and cash equivalents	5,002	(14,092)	47,327
Cash and cash equivalents at beginning of year	19,809	33,876	187,425
Increase due to inclusion of subsidiaries in consolidation	88	25	833
Cash and cash equivalents at end of year	¥ 24,899	¥ 19,809	$ 235,585

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Notes to Consolidated Financial Statements

March 31, 2004

1. Basis of Presentation

KYUDENKO CORPORATION (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and, accordingly, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

2. Summary of Significant Accounting Policies

(a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Significant companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The excess of cost over underlying net assets at fair value as of the dates of acquisition is amortized over a period of 5 years on a straight-line basis.

Investments in companies which are not consolidated or accounted for by the equity method are carried at cost.

(b) Cash equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

2. Summary of Significant Accounting Policies (continued)

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect at the balance sheet date. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange losses and gains are charged or credited to income.

Revenue and expense accounts of the foreign consolidated subsidiaries are translated at the average rate during the year and, except for the components of shareholders' equity, the balance sheet accounts are translated into yen at the exchange rates in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates.

(d) Securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(e) Allowance for doubtful receivables

The allowance for doubtful receivables is provided at an amount determined based on the historical experience of bad debt with respect to ordinary receivables, plus an estimate of uncollectible amounts determined by reference to specific doubtful receivables from customers which are experiencing financial difficulties.

(f) Inventories

Construction contracts in progress are stated at cost by the specific identification method. Materials and supplies are stated at cost by the average method.

(g) Property and equipment and depreciation

Property, plant and equipment is stated at cost.

Depreciation of property and equipment is computed by the declining-balance method, except for buildings on which depreciation is computed by the straight-line method, based on the estimated useful lives of the respective assets. Depreciation of leased assets is computed by the straight-line method over the respective lease terms.

Significant renewals and additions are capitalized at cost. Maintenance, repairs and minor renewals are charged to income as incurred.

2. Summary of Significant Accounting Policies (continued)

(h) Research and development costs

Research and development costs are charged to income as incurred.

(i) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities, and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(j) Retirement benefits

Accrued retirement benefits for employees are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of services of the employees (14 years through 16 years). Prior service cost is being amortized by the straight-line method over 14 years.

See Note 9 for the method of accounting for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under Welfare Pension Fund Plan.

In addition, directors and corporate auditors of the Company are customarily entitled to lump-sum payments under the unfunded retirement benefit plan. Provision for retirement benefits for these officers has been made at estimated amounts.

(k) Recognition of revenue and related costs

Revenue from construction contracts and the related costs are recognized by the completed-contract method.

(l) Leases

Noncancelable lease transactions are primarily accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

2. Summary of Significant Accounting Policies (continued)

(m) Derivative financial instruments

A consolidated subsidiary has entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in interest rates. Derivative financial instruments are carried at fair value with changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.

(n) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that period do not, therefore, reflect such appropriations. See Note 17.

(o) Additional information

1) Until the year ended March 31, 2003, the Company had accounted for social insurance premiums attributable to employees' bonuses on a cash basis. Because the materiality of such premiums became increased due to a change in the calculation formula of the premiums effective April 2003, the Company changed it method of accounting for social insurance premiums to an accrual basis from a cash basis effective the year ended March 31, 2004. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥516 million ($4,882 thousand) for the year ended March 31, 2004.

2) The Company developed more detailed guidelines for allocation of overhead costs and also introduced a new specific identification cost management system for construction works during the year ended March 31, 2004. In this connection, effective the year ended March 31, 2004, the Company began to account for certain expenses, which had previously been included in selling, general and administrative expenses, as part of construction costs.

   The effect of this change was to increase construction contracts in progress by ¥1,153 million ($10,909 thousand) at March 31, 2004 and to increase operating income and income before income taxes and minority interests by ¥1,153 million ($10,909 thousand) for the year ended March 31, 2004 as compared with the corresponding amounts under the previous method. In addition, this change also resulted in increase in cost of completed contracts and cost of sales for other business of ¥6,251 million ($59,145 thousand) and ¥16 million ($151 thousand), respectively, and in decrease in selling, general and administrative expenses of ¥7,421 million ($70,215 thousand) for the year ended March 31, 2004 as compared with the corresponding amounts under the previous method.

2. Summary of Significant Accounting Policies (continued)

(p) New accounting standards

A new Japanese accounting standard "Impairment of Fixed Assets" was issued in August 2002 that is effective for fiscal years beginning on or after April 1, 2005. Early adoption is permitted. The new standard requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies would be required to recognize an impairment loss in their income statement if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of future cash flows of the asset. The Company is currently assessing the impact of this new accounting standard on its financial position and operating results.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥105.69 = U.S.$1.00, the rate of exchange on March 31, 2004. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	2004	**2003**	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Construction contracts in progress	¥20,451	¥23,100	$193,500
Materials and supplies	2,563	3,014	24,250
Total	¥23,014	¥26,114	$217,750

5. Depreciation

Depreciation of property and equipment for the years ended March 31, 2004 and 2003 was as follows:

2004	**2003**	**2004**
(Millions of yen)		*(Thousands of U.S. dollars)*
¥9,585	¥8,756	$90,690

6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans are unsecured and, in general, consisted of 365-day notes principally at annual weighted average interest rates of 0.489% and 0.511 % at March 31, 2004 and 2003, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loans from banks due through 2008 at interest rates ranging from 0.79% to 6.25%	¥10,857	¥12,496	$102,725
Less current portion	(4,005)	(2,722)	(37,894)
	¥ 6,852	¥ 9,774	$ 64,831

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2005	¥ 4,005	$ 37,894
2006	2,115	20,011
2007	1,648	15,593
2008	2,989	28,281
2009	100	946
	¥10,857	$102,725

The Company has entered into loan commitment agreements amounting to ¥20,000 million ($189,233 thousand) with banks. Loans payable outstanding at March 31, 2004 under those loan commitment agreements amounted to ¥7,000 million ($66,231 thousand).

7. Capital Surplus and Retained Earnings

In accordance with the Commercial Code of Japan (the "Code"), the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the capital surplus account equals 25% of the common stock account. The legal reserve amounted to ¥0 million ($0 thousand) as of both March 31, 2004 and 2003.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The Code also provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders.

8. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in a statutory tax rate of 41.74% for both 2004 and 2003.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2004 and 2003 differ from the statutory tax rate for the following reasons:

	2004	**2003**
Statutory tax rate	41.74%	41.74%
Effect of:		
Expenses permanently not deductible for income tax purposes	10.36	15.54
Dividend income deductible for income tax purposes	(0.89)	(1.16)
Inhabitants' per capita taxes	2.60	3.25
Equity in earnings of affiliates and other consolidation adjustments	(1.12)	(18.56)
Adjustment in deferred tax assets and liabilities due to the change in tax rate	2.34	9.46
Other, net	1.47	2.14
Effective tax rate	56.50%	52.41%

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 41.74% to 40.44% effective the fiscal year beginning after March 31, 2004. The effect of this tax rate change was to decrease deferred tax assets (net of deferred tax liabilities) by ¥471 million at March 31, 2003 and to increase income tax – deferred by ¥476 million for the year ended March 31, 2003.

The significant components of deferred tax assets and liabilities as of March 31, 2004 and 2003 were as follows:

	2004	**2003**	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued bonuses	¥ 2,059	¥ 1,607	$ 19,482
Accrued retirement benefits	16,686	15,391	157,877
Net operating loss carryforwards	145	1,959	1,372
Contributions to employees' benefit association	251	290	2,375
Allowance for doubtful receivables	1,489	1,607	14,088
Other	2,963	1,038	28,034
Gross deferred tax assets	23,593	21,892	223,228
Valuation allowance	(1,001)	(950)	(9,471)
Total deferred tax assets	22,592	20,942	213,757
Deferred tax liabilities:			
Reserve under Special Taxation Measures Law	(1,087)	(1,063)	(10,285)
Other	(1,147)	(333)	(10,852)
Total deferred tax liabilities	(2,234)	(1,396)	(21,137)
Net deferred tax assets	¥20,358	¥19,546	$192,620

9. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans ("WPFP"), tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2004	**2003**	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation	¥(76,671)	¥(74,832)	$(725,433)
Plan assets at fair value	20,241	15,348	191,513
Unfunded retirement benefit obligation	(56,430)	(59,484)	(533,920)
Unrecognized actuarial loss	17,125	22,124	162,030
Unrecognized prior service cost	(4,154)	(4,487)	(39,303)
Accrued retirement benefits	¥(43,459)	¥(41,847)	$(411,193)

On March 14, 2003, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to future employee services under the government-sponsored portion ("substitutional portion") of the WPFP.

In accordance with the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits," the Company accounted for the separation of the substitutional portion of the benefit obligation from the corporate portion of the benefit obligation under its WPFP as of the date of approval of its exemption assuming that the transfer to the Japanese government of the substitutional portion of the benefit obligation and related pension plan assets had been completed as of that date. As a result, the Company recognized a gain of ¥7,336 million for the year ended March 31, 2003. The pension assets which are to be transferred were calculated at ¥33,612 million at March 31, 2003.

9. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the years ended March 31, 2004 and 2003 are outlined as follows:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥2,912	¥ 3,843	$27,552
Interest cost	1,777	3,627	16,813
Expected return on plan assets	(321)	(1,599)	(3,037)
Amortization of actuarial loss	1,580	1,645	14,949
Amortization of prior service cost	(332)	(166)	(3,141)
Subtotal	5,616	7,350	53,136
Gain on return of the substitutional portion of WPFP	–	(7,336)	–
Total	¥5,616	¥ 14	$53,136

In addition to the above retirement benefit expenses, additional retirement allowances of ¥538 million ($5,090 thousand) and ¥4,245 million were paid for the years ended March 31, 2004 and 2003, respectively.

The assumptions used in the accounting for the above plans are as follows:

	2004	2003
Discount rate	2.50%	2.50%
Expected rate of return on plan assets	2.50%	3.00%

10. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2004 and 2003 amounted to ¥246 million ($2,327 thousand) and ¥253 million, respectively.

11. Amounts per Share

	2004	2003	2004
	(Yen)		*(U.S. dollars)*
Net income	¥ 33.60	¥ 27.36	$0.32
Cash dividends	10.00	10.00	0.09
Net assets	1,131.06	1,072.96	10.70

11. Amounts per Share (continued)

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year, and amounts per share of net assets are computed based on net assets available for distribution to the shareholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends declared as applicable to the respective years, together with the interim cash dividends paid.

12. Leases

(Lessors' accounting)

a) Finance leases

The following amounts represent the acquisition costs, accumulated depreciation and net book value of leased assets relating to finance leases accounted for as operating leases at March 31, 2004 and 2003:

	2004	2003	2004
	(Millions of yen)		*(Thousands of U.S. dollars)*
Acquisition costs:			
Machinery and equipment	¥33,965	¥30,026	$321,364
Accumulated depreciation:			
Machinery and equipment	¥15,765	¥14,196	$149,162
Net book value:			
Machinery and equipment	¥18,200	¥15,830	$172,202

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥6,462 million ($61,141 thousand) and ¥5,983 million for the years ended March 31, 2004 and 2003, respectively. Depreciation of the assets leased under finance leases accounted for as operating leases and the interest portion included in lease income amounted to ¥6,019 million ($56,949 thousand) and ¥573 million ($5,421 thousand), respectively, for the year ended March 31, 2004, and ¥5,468 million and ¥830 million, respectively, for the year ended March 31, 2003.

Future minimum lease income subsequent to March 31, 2004 from finance leases accounted for as operating leases is summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2005	¥ 5,284	$ 49,995
2006 and thereafter	11,286	106,784
Total	¥16,570	$156,779

12. Leases (continued)

(Lessors' accounting) (continued)

b) Operating leases

Future minimum operating lease income subsequent to March 31, 2004 from non-cancelable operating leases are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2005	¥ 47	$ 445
2006 and thereafter	528	4,996
Total	¥575	$5,441

13. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2004:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Trade notes receivable endorsed and discounted with banks	¥ 53	$ 501
Guarantees of indebtedness	532	5,033

14. Securities

a) Trading securities as of March 31, 2004 and 2003 amounted to ¥12,312 million ($116,492 thousand) and ¥12,186 million, respectively, and the related unrealized gain (loss) included in the operating results for the years ended March 31, 2004 and 2003 amounted to ¥1,100 million ($10,408 thousand) and ¥(889) million, respectively.

b) Information regarding marketable securities classified as other securities as of March 31, 2004 and 2003 is as follows:

	Year ended March 31, 2004					
	Acquisition cost	Carrying value	Gross unrealized gains (losses)	Acquisition cost	Carrying value	Gross unrealized gains (losses)
	(Millions of yen)			(Thousands of U.S. dollars)		
Securities whose fair value exceeds their carrying value						
Equity securities	¥ 476	¥1,497	¥1,021	$ 4,504	$ 14,164	$ 9,660
Debt securities	760	775	15	7,191	7,333	142
Others	1,227	1,457	230	11,609	13,785	2,176
Subtotal	¥2,463	¥3,729	¥1,266	$23,304	$ 35,282	$ 11,978
Securities whose carrying value exceeds their fair value						
Equity securities	¥ 86	¥ 82	¥ (4)	$ 814	$ 776	$ (38)
Debt securities	8	5	(3)	76	47	(29)
Others	891	823	(68)	8,430	7,787	(643)
Subtotal	¥ 985	¥ 910	¥ (75)	$ 9,320	$ 8,610	$ (710)
Total	¥3,448	¥4,639	¥1,191	$32,624	$43,892	$ 11,268

	Year ended March 31, 2003		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)
	(Millions of yen)		
Securities whose fair value exceeds their carrying value			
Equity securities	¥ 486	¥1,342	¥ 856
Debt securities	42	43	1
Others	545	545	0
Subtotal	¥1,073	¥1,930	¥ 857
Securities whose carrying value exceeds their fair value			
Equity securities	¥ 82	¥ 61	¥ (21)
Debt securities	58	55	(3)
Others	2,842	2,309	(533)
Subtotal	¥2,982	¥2,425	¥ (557)
Total	¥4,055	¥4,355	¥ 300

14. Securities (continued)

c) Information regarding sales of securities classified as other securities for the years ended March 31, 2004 and 2003 is as follows:

	2004	**2003**	**2004**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Proceeds from sales	¥1,517	¥722	$14,353
Gains on sales	143	47	1,353
Losses on sales	154	219	1,457

d) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities as of March 31, 2004 is as follows:

	Due in one year or less	Due after one year through 5 years	Due after 5 years through 10 years	Due in one year or less	Due after one year through 5 years	Due after 5 years through 10 years
	(Millions of yen)			*(Thousands of U.S. dollars)*		
Debt securities:						
Government bonds	¥ –	¥ –	¥ –	$ –	$ –	$ –
Corporate bonds	2	101	–	18	955	–
Other debt securities	1,559	2,395	–	14,751	22,660	–
Other	–	833	179	–	7,882	1,693
Total	¥1,561	¥3,329	¥179	$14,769	$31,497	$1,693

15. Related Party Transactions

Consolidated net sales included those to Kyushu Electric Power Co., Inc., who owns approximately 30% of the Company's ownership interest, in amounts of ¥51,177 million ($484,218 thousand) and ¥54,641 million for the years ended March 31, 2004 and 2003, respectively, and the related receivables at March 31, 2004 and 2003 amounted to ¥7,884 million ($74,596 thousand) and ¥9,543 million, respectively.

The terms of the transactions referred to above were negotiated and determined on an arm's-length basis.

16. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the equipment construction business in Japan. The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2004 and 2003 is as follows:

	Year ended March 31, 2004				
	Equipment construction work	Other	Total	Eliminations	Consolidated
			(Millions of yen)		
I. Sales and operating income					
Sales to third parties	¥210,696	¥14,007	¥224,703	¥ –	¥224,703
Intersegment sales and transfers	1,354	14,429	15,783	(15,783)	–
Total sales	212,050	28,436	240,486	(15,783)	224,703
Operating expenses	209,170	27,098	236,268	(15,645)	220,623
Operating income	¥ 2,880	¥ 1,338	¥ 4,218	¥ (138)	¥ 4,080
II. Assets, depreciation and capital expenditures					
Total assets	¥211,019	¥45,584	¥256,602	¥ (7,127)	¥249,475
Depreciation and amortization	1,811	7,826	9,637	(52)	9,585
Capital expenditures	2,248	13,180	15,428	(56)	15,372

	Year ended March 31, 2004				
	Equipment construction work	Other	Total	Eliminations	Consolidated
			(Thousands of U.S. dollars)		
I. Sales and operating income					
Sales to third parties	$1,993,528	$132,529	$2,126,057	$ –	$2,126,057
Intersegment sales and transfers	12,811	136,522	149,333	(149,333)	–
Total sales	2,006,339	269,051	2,275,390	(149,333)	2,126,057
Operating expenses	1,979,090	256,391	2,235,481	(148,027)	2,087,454
Operating income	$ 27,249	$ 12,660	$ 39,909	$ (1,306)	$ 38,603
II. Assets, depreciation and capital expenditures					
Total assets	$1,996,584	$431,299	$2,427,874	$ (67,433)	$2,360,441
Depreciation and amortization	17,135	74,047	91,182	(492)	90,690
Capital expenditures	21,270	124,704	145,974	(530)	145,444

16. Segment Information (continued)

	Year ended March 31, 2003				
	Equipment construction work	Other	Total	Eliminations	Consolidated
			(Millions of yen)		
I. Sales and operating income					
Sales to third parties	¥211,796	¥10,760	¥222,556	¥ –	¥222,556
Intersegment sales and transfers	179	13,825	14,004	(14,004)	–
Total sales	211,975	24,585	236,560	(14,004)	222,556
Operating expenses	209,454	23,661	233,115	(14,018)	219,097
Operating income	¥ 2,521	¥ 924	¥ 3,445	¥ 14	¥ 3,459
II. Assets, depreciation and capital expenditures					
Total assets	¥207,716	¥36,777	¥244,493	¥ (5,958)	¥238,535
Depreciation and amortization	1,852	6,971	8,823	(67)	8,756
Capital expenditures	1,338	8,601	9,939	(47)	9,892

The disclosure of geographical segment information has been omitted as net sales and total assets of the foreign operations constituted less than 10% of the consolidated totals for both years ended March 31, 2004 and 2003.

Overseas sales of the Company and its consolidated subsidiaries constituted less than 10% of the consolidated net sales for both years ended March 31, 2004 and 2003.

17. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a shareholders' meeting held on June 29, 2004:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends (¥5 = $0.04 per share)	¥373	$3,529
Bonuses to directors and corporate auditors	65	615