Consolidated Financial Statements

KYUDENKO CORPORATION

Years ended March 31, 2007 and 2006
with Report of Independent Auditors

Report of Independent Auditors

The Board of Directors
KYUDENKO CORPORATION

We have audited the accompanying consolidated balance sheets of KYUDENKO CORPORATION and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets, 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, 2007 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.

Supplementary Information

As described in Note 2(n), effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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.

Fukuoka, Japan
June 28, 2007

Ernst & Young Shinnihon

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Balance Sheets

	March 31, 2007	March 31, 2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Assets			
Current assets:			
Cash and cash equivalents	¥ 12,981	¥ 14,674	$ 109,962
Short-term investments *(Note 15)*	827	16,202	7,005
Trade notes and accounts receivable	87,006	67,208	737,027
Less: Allowance for doubtful receivables	(905)	(899)	(7,666)
Inventories *(Note 4)*	28,692	28,930	243,050
Deferred tax assets *(Note 8)*	2,742	2,909	23,227
Other current assets	3,924	4,645	33,240
Total current assets	135,267	133,669	1,145,845
Property, plant and equipment *(Note 5)*:			
Land	26,548	26,571	224,888
Buildings and structures	51,989	48,489	440,398
Machinery and equipment	61,483	67,428	520,822
Construction in progress	215	572	1,821
	140,235	143,060	1,187,929
Accumulated depreciation	(62,931)	(63,774)	(533,088)
Property, and equipment, net	77,304	79,286	654,841
Investments and other assets:			
Investment securities *(Note 15)*	21,140	8,122	179,076
Long-term loans receivable	842	981	7,133
Investments in unconsolidated subsidiaries and affiliates	7,791	7,503	65,997
Deferred tax assets *(Note 8)*	13,442	16,732	113,867
Other	12,749	13,543	107,997
Less: Allowance for doubtful receivables	(6,716)	(7,486)	(56,891)
Total investments and other assets	49,248	39,395	417,179
Total assets	¥261,819	¥252,350	$2,217,865

	March 31,		
	2007	**2006**	**2007**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Liabilities and net assets			
Current liabilities:			
Short-term bank loans and current portion of long-term debt *(Note 6)*	¥ 31,502	¥ 34,321	$ 266,853
Trade notes and accounts payable	66,815	58,795	565,989
Advances received on construction contracts in progress	14,834	10,860	125,658
Accrued expenses	1,998	1,828	16,925
Accrued income taxes *(Note 8)*	1,107	1,945	9,377
Other current liabilities	9,199	6,810	77,925
Total current liabilities	125,455	114,559	1,062,727
Long-term liabilities:			
Long-term debt *(Note 6)*	13,153	8,088	111,419
Accrued employees' retirement benefits *(Note 9)*	30,023	31,923	254,325
Accrued directors' retirement benefits	189	856	1,601
Payables relating to defined contribution plans	5,395	6,879	45,701
Other *(Note 8)*	2,542	1,608	21,533
Total long-term liabilities	51,302	49,354	434,579
Total liabilities	176,757	163,913	1,497,306
Contingent liabilities *(Note 14)*			
Net assets :			
Shareholders' equity *(Note 7)*:			
Common stock, with no par value:			
Authorized – 250,000,000 shares			
Issued – 83,005,819, shares in 2007 and 2006	7,902	7,902	66,938
Capital surplus	7,890	7,890	66,836
Retained earnings	70,741	74,243	599,246
Treasury stock, at cost	(3,681)	(3,650)	(31,182)
Total shareholders' equity	82,852	86,385	701,838
Valuation, translation adjustments and others:			
Net unrealized gain on other securities	1,354	1,191	11,470
Translation adjustments	(7)	(7)	(59)
Total valuation, translation adjustments and others	1,347	1,184	11,411
Minority interest	863	868	7,310
Total net assets	85,062	88,437	720,559
Total liabilities and net assets	¥261,819	¥252,350	$2,217,865

See notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Operations

	March 31,		
	2007	2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 3)*
Net sales	¥251,751	¥233,560	$2,132,579
Cost of sales	228,964	215,232	1,939,551
Gross profit	22,787	18,328	193,028
Selling, general and administrative expenses *(Note 10)*	19,839	19,197	168,056
Operating income (loss)	2,948	(869)	24,972
Other income (expenses):			
Interest and dividend income	462	496	3,914
Interest expense	(145)	(118)	(1,228)
Loss on devaluation of investment securities	(95)	(80)	(805)
Gain on trading securities	–	4,080	–
Loss on trading securities	(1,202)	–	(10,182)
Gain on sales of property and equipment	–	1,061	–
Loss on sales of property and equipment	(8)	–	(68)
Gain on sales of investment securities	190	163	1,609
Additional retirement allowances paid	(443)	(500)	(3,752)
Loss on impairment of fixed assets	–	(1,043)	–
Loss on restructuring of overseas operations	(540)	–	(4,574)
Provision for allowance for doubtful receivables	–	(157)	–
Other, net	1,243	1,793	10,529
Income before income taxes and minority interests	2,410	4,826	20,415
Income taxes *(Note 8)*:			
Current	1,568	2,849	13,283
Deferred	3,384	269	28,665
	4,952	3,118	41,948
Minority interests	(34)	(35)	(288)
Net (loss) income *(Note 11)*	¥ (2,576)	¥ 1,673	$ (21,821)

See notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

		Shareholders' equity					Valuation, translation adjustments and others				
	Number of shared issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on other securities	Translation adjustments	Total valuation, translation adjustments and others	Minority interests	Total net assets
	(Thousands)					*(Millions of yen)*					
Balance at March 31, 2005	83,005	¥7,902	¥7,890	¥73,489	¥(3,612)	¥85,669	¥ 934	¥(39)	¥ 895	¥914	¥87,478
Cash dividends paid	–	–	–	(746)	–	(746)	–	–	–	–	(746)
Bonuses to directors	–	–	–	(173)	–	(173)	–	–	–	–	(173)
Net income	–	–	–	1,673	–	1,673	–	–	–	–	1,673
Purchases of treasury stock	–	–	–	–	(38)	(38)	–	–	–	–	(38)
Net changes in items other than those in shareholders' equity during the year	–	–	–	–	–	–	257	32	289	(46)	243
Balance at March 31, 2006	83,005	7,902	7,890	74,243	(3,650)	86,385	1,191	(7)	1,184	868	88,437
Cash dividends paid	–	–	–	(746)	–	(746)	–	–	–	–	(746)
Bonuses to directors	–	–	–	(157)	–	(157)	–	–	–	–	(157)
Decrease due to inclusion of subsidiaries in consolidation	–	–	–	(23)	–	(23)	–	–	–	–	(23)
Net loss	–	–	–	(2,576)	–	(2,576)	–	–	–	–	(2,576)
Purchases of treasury stock	–	–	–	–	(31)	(31)	–	–	–	–	(31)
Net changes in items other than those in shareholders' equity during the year	–	–	–	–	–	–	163	–	163	(5)	158
Balance at March 31, 2007	83,005	¥7,902	¥7,890	¥70,741	¥(3,681)	¥82,852	¥1,354	¥ (7)	¥1,347	¥863	¥85,062

		Shareholders' equity					Valuation, translation adjustments and others				
	Number of shared issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gain on other securities	Translation adjustments	Total valuation, translation adjustments and others	Minority interests	Total net assets
	(Thousands)					*(Thousands of U.S. dollars)*					
Balance at March 31, 2006	83,005	$66,938	$66,836	$628,911	$(30,919)	$731,766	$10,089	$(59)	$10,030	$7,352	$749,148
Cash dividends paid	–	–	–	(6,319)	–	(6,319)	–	–	–	–	(6,319)
Bonuses to directors	–	–	–	(1,330)	–	(1,330)	–	–	–	–	(1,330)
Decrease due to inclusion of subsidiaries in consolidation	–	–	–	(195)	–	(195)	–	–	–	–	(195)
Net loss	–	–	–	(21,821)	–	(21,821)	–	–	–	–	(21,821)
Purchases of treasury stock	–	–	–	–	(263)	(263)	–	–	–	–	(263)
Net changes in items other than those in shareholders' equity during the year	–	–	–	–	–	–	1,381	–	1,381	(42)	1,339
Balance at March 31, 2007	83,005	$66,938	$66,836	$599,246	$(31,182)	$701,838	$11,470	$(59)	$11,411	$7,310	$720,559

See notes to consolidated financial statements.

KYUDENKO CORPORATION and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Year ended March 31,		
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Operating activities			
Income before income taxes and minority interests	¥ 2,410	¥ 4,826	$ 20,415
Depreciation and amortization	9,310	10,440	78,865
Loss on impairment of fixed assets	–	1,043	–
Provision for retirement benefits, net of payments	(2,568)	(1,011)	(21,753)
Interest and dividend income	(462)	(496)	(3,914)
Interest expense	145	118	1,228
Unrealized loss (gain) on securities	1,984	(3,554)	16,806
Gain on sales of securities	(589)	(608)	(4,989)
Loss (gain) on sales and disposal of property and equipment, net	1,184	(695)	10,030
Trade notes and accounts receivable	(17,855)	(314)	(151,250)
Inventories	238	(3,377)	2,016
Trade notes and accounts payable	8,013	(883)	67,878
Payables relating to defined contribution plan	(1,484)	(1,612)	(12,571)
Advances received on construction contracts in progress	3,972	191	33,647
Other	5,378	793	45,557
	9,676	4,861	81,965
Interest and dividend received	461	497	3,905
Interest paid	(145)	(118)	(1,228)
Income taxes paid	(2,405)	(2,751)	(20,373)
Net cash provided by operating activities	7,587	2,489	64,269
Investing activities			
Purchases of marketable and investment securities	(6,359)	(5,010)	(53,867)
Proceeds from sales of marketable and investment securities	7,312	6,993	61,940
Purchases of property and equipment	(10,308)	(12,164)	(87,319)
Proceeds from sales of property and equipment	696	1,942	5,896
Increase in time deposits	(309)	(278)	(2,618)
Decrease (increase) in long-term loans receivable	6	(117)	51
Other	(1,884)	(446)	(15,959)
Net cash used in investing activities	(10,846)	(9,080)	(91,876)
Financing activities			
Decrease in short-term bank loans	(6,362)	(1,040)	(53,892)
Increase in long-term debt	8,606	1,460	72,902
Cash dividends paid	(745)	(746)	(6,311)
Repurchase of the treasury stock	(31)	(38)	(263)
Other	(4)	(3)	(34)
Net cash provided by (used in) financing activities	1,464	(367)	12,402
Effect of exchange rate changes on cash and cash equivalents	2	27	17
Net decrease in cash and cash equivalents	(1,793)	(6,931)	(15,188)
Cash and cash equivalents at beginning of year	14,674	21,605	124,303
Increase due to inclusion of subsidiaries in consolidation	100	–	847
Cash and cash equivalents at end of year	¥ 12,981	¥ 14,674	$ 109,962

See notes to consolidated financial statements.

KYUDENKO CORPORATION

Notes to Consolidated Financial Statements

March 31, 2007

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 net assets excluding minority interests, the balance sheet accounts are translated into yen at the exchange rates in effect at the balance sheet date. The components of net assets excluding minority interests 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 net assets. Non-marketable securities classified as other securities are carried at cost except for investments in limited partnerships that are accounted for by the equity method. Cost of securities sold is determined by the moving average method.

(Additional Information)

In accordance with a resolution approved at a meeting of the Executive Board Committee of the Company held on March 19, 2007 to change its cash management policy, the Company discontinued security trading transactions and abolished the related section effective March 31, 2007.

In this connection, trading securities at March 31, 2007 previously included in short-term investment were reclassified to other securities at fair value on that day and included in investments securities.

As a result, short-term investments at March 31, 2007 decreased by ¥11,488 million ($97,315 thousand) and investment securities increased by the same amount as compared with the corresponding amounts which would have been recorded under the previous cash management policy. The valuation loss arising from this reclassification was charged to operations for the year ended March 31, 2007.

2. Summary of Significant Accounting Policies (continued)

(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. See Note 2(g).

(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.

(Accounting Change)

Until the year ended March 31, 2006, the Company had provided an allowance for doubtful receivables at an estimated amount of uncollectible lease receivables from lessees experiencing financial difficulties. Effective the year ended March 31, 2007, the Company began providing an accrual for losses on disposition of leased assets which is directly deducted from the carrying value of the respective leased assets in line with the accounting standard for lease transactions issued on March 30, 2007. This change in method of accounting had no effect on the operating results of the Company for the year ended March 31, 2007.

(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.

2. Summary of Significant Accounting Policies (continued)

(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 the average remaining years of services of the employees (14 years through 15 years).

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.

(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 a component of net assets.

(n) Adoption of new accounting standards

1) Effective April 1, 2005, the Company and its domestic consolidated subsidiaries adopted a new accounting standard for the impairment of fixed assets. 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 are 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.

2. Summary of Significant Accounting Policies (continued)

(n) Adoption of new accounting standards (continued)

The Group bases its grouping for assessing the impairment loss on fixed assets on its management accounting units (i.e., mainly branches). However, the Group determines whether an asset is impaired on an individual asset basis when the asset is deemed idle or it is scheduled to be disposed of. The effect of this adoption of the new standard was to decrease income before income taxes and minority interests by ¥1,043 million because of recognition of the impairment loss on land of the same amount due to a significant decline in their market value for the year ended March 31, 2006.

2) Effective the year ended March 31, 2007, the Company adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, preparation of a consolidated statement of changes in net asset has been required instead of a consolidated statement of stockholders' equity effective the year ended March 31, 2007. In this connection, the consolidated balance sheet as of March 31, 2006 and the consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

3) Effective the year ended March 31, 2007, certain domestic consolidated subsidiaries adopted a new accounting standard for directors' bonuses. This standard requires that directors' bonuses be accounted for as an expense on an accrual basis. The effect of the adoption of this standard was to decrease operating income, and income before income taxes and minority interests by ¥116 million ($983 thousand) from the corresponding amounts which would have been recorded under the previous method.

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 ¥118.05 = U.S.$1.00, the rate of exchange on March 31, 2007. 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, 2007 and 2006 consisted of the following:

	2007	2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars)*
Construction contracts in progress	¥22,742	¥25,495	$192,647
Materials and supplies	5,950	3,435	50,403
Total	¥28,692	¥28,930	$243,050

5. Depreciation

Depreciation of property and equipment for the years ended March 31, 2007 and 2006 was as follows:

2007	2006	2007
(Millions of yen)		*(Thousands of U.S. dollars)*
¥9,310	¥10,440	$78,865

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 0.882 % and 0.446 % at March 31, 2007 and 2006, respectively.

Long-term debt at March 31, 2007 and 2006 consisted of the following:

	2007	2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars)*
Loans from banks due through 2016 at interest rates ranging from 0.79% to 6.23%	¥18,716	¥10,109	$158,543
Less current portion	(5,563)	(2,021)	(47,124)
	¥13,153	¥ 8,088	$111,419

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2008	¥ 5,563	$ 47,124
2009	3,967	33,604
2010	3,237	27,421
2011	3,883	32,893
2012	1,901	16,103
2013	165	1,398
	¥18,716	$158,543

The Company has entered into loan commitment agreements amounting to ¥20,000 million ($169,420 thousand) with banks. Loans payable outstanding at March 31, 2007 under those loan commitment agreements amounted to ¥7,000 million ($59,297 thousand).

7. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the common stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

The following distribution of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, was approved at a meeting of the Board of Directors held on May 29, 2007:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends (¥5 = $0.04 per share)	¥372	$3,151

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 40.44% for 2007 and 2006.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007 and 2006 differ from the statutory tax rate for the following reasons:

	2007	**2006**
Statutory tax rate	40.44%	40.44%
Effect of:		
Expenses permanently not deductible for income tax purposes	27.10	12.92
Dividend income deductible for income tax purposes	(2.86)	(1.78)
Inhabitants' per capita taxes	6.44	3.18
Equity in earnings of affiliates and other consolidation adjustments	(1.74)	(2.33)
Valuation allowance	138.35	11.52
Other, net	(2.24)	0.67
Effective tax rate	205.49%	64.62%

8. Income Taxes (continued)

The significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued bonuses	¥ 1,914	¥ 1,703	$ 16,213
Accrued retirement benefits	12,115	12,877	102,626
Payables relating to defined contribution plans	2,727	3,338	23,100
Depreciation of fixed assets	1,030	1,109	8,725
Allowance for doubtful receivables	1,961	2,046	16,612
Other	4,298	2,927	36,409
Gross deferred tax assets	24,045	24,000	203,685
Valuation allowance	(4,934)	(1,600)	(41,796)
Total deferred tax assets	19,111	22,400	161,889
Deferred tax liabilities:			
Reserve under Special Taxation Measures Law	(1,659)	(1,670)	(14,053)
Other	(1,354)	(1,133)	(11,470)
Total deferred tax liabilities	(3,013)	(2,803)	(25,523)
Net deferred tax assets	¥16,098	¥19,597	$136,366

9. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined contribution plans as well as defined benefit plans, i.e., corporate pension plans, 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, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2007	2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation	¥(53,293)	¥(53,953)	$(451,444)
Plan assets at fair value	26,413	24,794	223,744
Unfunded retirement benefit obligation	(26,880)	(29,159)	(227,700)
Unrecognized actuarial loss	9,026	10,131	76,459
Unrecognized prior service cost	(11,867)	(12,895)	(100,526)
Net retirement benefit obligation	(29,721)	(31,923)	(251,767)
Prepaid pension expense	(302)	–	(2,558)
Accrued retirement benefits	¥(30,023)	¥(31,923)	$(254,325)

9. Retirement Benefit Plans (continued)

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	2007	2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars)*
Service cost	¥ 1,152	¥ 1,884	$ 9,759
Interest cost	1,234	1,231	10,453
Expected return on plan assets	(756)	(658)	(6,404)
Amortization of actuarial loss	1,159	1,247	9,818
Amortization of prior service cost	(1,029)	(1,029)	(8,717)
Subtotal	1,760	2,675	14,909
Contributions made to defined contribution plans	350	344	2,965
Total	¥ 2,110	¥ 3,019	$17,874

In addition to the above retirement benefit expenses, additional retirement allowances of ¥443 million ($3,753 thousand) and ¥500 million were paid for the years ended March 31, 2007 and 2006, respectively.

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

	2007	2006
Discount rate	2.50%	2.50%
Expected rate of return on plan assets	3.50%	3.50%

10. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2007 and 2006 amounted to ¥249 million ($2,109 thousand) and ¥242 million, respectively.

11. Amounts per Share

	2007	2006	2007
	(Yen)		*(U.S. dollars)*
Net (loss) income	¥ (34.54)	¥ 20.01	$(0.29)
Cash dividends	10.00	10.00	0.08
Net assets	1,129.34	1,171.39	9.57

Net (loss) income per share is computed based on the net (loss) 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 the net assets excluding minority interests 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. Supplementary Cash Flow Information

The following is a summary of the assets and liabilities of a subsidiary which was included in consolidation upon acquisition of its stock and reconciliation of the related acquisition cost and net cash outflows for the year ended March 31, 2006:

	2006
	(Millions of yen)
Current assets	¥ 10
Non-current assets	339
Excess of cost over net assets acquired	98
Current liabilities	(15)
Non-current liabilities	(377)
Acquisition cost of investments in a subsidiary	55
Cash and cash equivalents held by subsidiary	(7)
Net cash outflows	¥ (48)

13. Leases

(Lessors' accounting)

a) Finance leases

The following amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets relating to finance leases accounted for as operating leases at March 31, 2007 and 2006:

	2007	2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars)*
Acquisition costs:			
Machinery and equipment	¥32,415	¥37,394	$274,587
Accumulated depreciation:			
Machinery and equipment	¥19,630	¥20,832	$166,285
Net book value:			
Machinery and equipment	¥12,785	¥16,562	$108,302

Lease income relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥5,835 million ($49,428 thousand) and ¥7,301 million for the years ended March 31, 2007 and 2006, respectively. Depreciation of the assets leased under finance leases accounted for as operating leases and the interest portion included in lease income amounted to ¥5,209 million ($44,125 thousand) and ¥458 million ($3,880 thousand), respectively, for the year ended March 31, 2007, and ¥6,506 million and ¥698 million, respectively, for the year ended March 31, 2006.

13. Leases (continued)

(Lessors' accounting) (continued)

Future minimum lease income subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2008	¥ 4,275	$ 36,213
2009 and thereafter	7,743	65,591
Total	¥12,018	$101,804

b) Operating leases

Future minimum operating lease income subsequent to March 31, 2007 from non-cancelable operating leases are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2007	¥ 193	$ 1,635
2008 and thereafter	1,091	9,242
Total	¥1,284	$10,877

(Lessees' accounting)

a) Finance leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets as of March 31, 2007, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2007	**2007**
	(Millions of yen)	*(Thousands of U.S. dollars)*
Acquisition costs:		
Machinery and equipment	¥617	$5,227
Accumulated depreciation:		
Machinery and equipment	¥329	$2,787
Net book value:		
Machinery and equipment	¥288	$2,440

Lease payment relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements amounted to ¥131 million ($1,110 thousand) for the year ended March 31, 2007. Depreciation of the leased assets computed by the straight-line method over the respective lease terms and the interest portion included in lease payment amounted to ¥126 million ($1,067 thousand) and ¥4 million ($34 thousand), respectively, for the year ended March 31, 2007.

13. Leases (continued)

(Lessees' accounting) (continued)

Future minimum lease payments subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2008	¥106	$ 898
2009 and thereafter	185	1,567
Total	¥291	$2,465

14. Contingent Liabilities

The Company and its consolidated subsidiaries had the following contingent liabilities at March 31, 2007:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Trade notes receivable endorsed and discounted with banks	¥ 107	$ 906
Guarantees of indebtedness	2,438	20,652

15. Securities

a) Trading securities as of March 31, 2007 and 2006 amounted to ¥0 million ($0 thousand) and ¥15,651 million, respectively, and the related unrealized gain (loss) included in the operating results for the years ended March 31, 2007 and 2006 amounted to ¥(1,599) million ($(13,545) thousand) and ¥3,635 million, respectively.

(Change in cash management policy)

In accordance with a resolution approved at a meeting of the Executive Board Committee of the Company held on March 19, 2007 to change its cash management policy, the Company discontinued security trading transactions and abolished the related section effective March 31, 2007. In this connection, trading securities at March 31, 2007 previously included in short-term investment were reclassified to other securities at fair value on that day and included in investments securities.

As a result, short-term investments at March 31, 2007 decreased by ¥11,488 million ($97,315 thousand) and investment securities increased by the same amount as compared with the corresponding amounts which would have been recorded under the previous cash management policy. The valuation loss arising from this reclassification was charged to operations for the year ended March 31, 2007.

15. Securities (continued)

b) Information regarding marketable securities classified as other securities as of March 31, 2007 and 2006 is as follows:

	March 31, 2007					
	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 acquisition cost						
Equity securities	¥ 1,041	¥ 3,170	¥2,129	$ 8,818	$ 26,853	$18,035
Debt securities	1,358	1,449	91	11,504	12,274	770
Others	276	389	113	2,338	3,295	957
Subtotal	¥ 2,675	¥ 5,008	¥2,333	$ 22,660	$ 42,422	$19,762
Securities whose acquisition cost exceeds their fair value						
Equity securities	¥10,698	¥10,693	¥ (5)	$ 90,623	$ 90,580	$ (43)
Debt securities	2,025	1,945	(80)	17,154	16,476	(678)
Others	845	815	(30)	7,158	6,904	(254)
Subtotal	¥13,568	¥13,453	¥ (115)	$114,935	$113,960	$ (975)
Total	¥16,243	¥18,461	¥2,218	$137,595	$156,382	$18,787

	March 31, 2006		
	Acquisition cost	Carrying value	Gross unrealized gains (losses)
	(Millions of yen)		
Securities whose fair value exceeds their acquisition cost			
Equity securities	¥ 451	¥2,018	¥1,567
Debt securities	450	478	28
Others	665	1,042	377
Subtotal	¥1,566	¥3,538	¥1,972
Securities whose acquisition cost exceeds their fair value			
Equity securities	¥ 47	¥ 45	¥ (2)
Debt securities	–	–	–
Others	170	148	(22)
Subtotal	¥ 217	¥ 193	¥ (24)
Total	¥1,783	¥3,731	¥1,948

15. Securities (continued)

c) Information regarding sales of securities classified as other securities for the years ended March 31, 2007 and 2006 is as follows:

	2007	2006	2007
	(Millions of yen)		*(Thousands of U.S. dollars)*
Proceeds from sales	¥ 528	¥1,093	$4,473
Gains on sales	192	181	1,626
Losses on sales	1	18	8

d) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities as of March 31, 2007 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	¥ –	¥ 19	¥ –	$ –	$ 161	$ –
Corporate bonds	220	–	96	1,864	–	813
Other debt securities	41	1,311	442	347	11,105	3,744
Other	285	1,383	196	2,414	11,716	1,661
Total	¥546	¥2,713	¥734	$4,625	$22,982	$6,218

16. 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 ¥57,138 million ($484,015 thousand) and ¥54,349 million for the years ended March 31, 2007 and 2006, respectively, and the related receivables at March 31, 2007 and 2006 amounted to ¥8,049 million ($68,183 thousand) and ¥7,742 million, respectively.

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

17. 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, 2007 and 2006 is as follows:

	Year ended March 31, 2007					
	Equipment construction work	Leasing	Other	Total	Eliminations	Consolidated
			(Millions of yen)			
I. Sales and operating income						
Sales to third parties	¥237,778	¥ 8,993	¥ 4,980	¥251,751	¥ –	¥251,751
Intersegment sales and transfers	1,314	2,645	15,551	19,510	(19,510)	–
Total sales	239,092	11,638	20,531	271,261	(19,510)	251,751
Operating expenses	233,328	14,765	20,367	268,460	(19,657)	248,803
Operating income (loss)	¥ 5,764	¥ (3,127)	¥ 164	¥ 2,801	¥ 147	¥ 2,948
II. Assets, depreciation and capital expenditures						
Total assets	¥218,487	¥39,952	¥18,212	¥276,651	¥(14,832)	¥261,819
Depreciation and amortization	1,890	7,288	163	9,341	(31)	9,310
Capital expenditures	2,752	6,028	2,051	10,831	(58)	10,773

	Year ended March 31, 2007					
	Equipment construction work	Leasing	Other	Total	Eliminations	Consolidated
			(Thousands of U.S. dollars)			
I. Sales and operating income						
Sales to third parties	$2,014,213	$ 76,180	$ 42,186	$2,132,579	$ –	$2,132,579
Intersegment sales and transfers	11,131	22,406	131,732	165,269	(165,269)	–
Total sales	2,025,344	98,586	173,918	2,297,848	(165,269)	2,132,579
Operating expenses	1,976,518	125,074	172,529	2,274,121	(166,514)	2,107,607
Operating income (loss)	$ 48,826	$ (26,488)	$ 1,389	$ 23,727	$ 1,245	$ 24,972
II. Assets, depreciation and capital expenditures						
Total assets	$1,850,800	$338,433	$154,274	$2,343,507	$(125,642)	$2,217,865
Depreciation and amortization	16,010	61,737	1,381	79,128	(263)	78,865
Capital expenditures	23,312	51,063	17,374	91,749	(491)	91,258

17. Segment Information (continued)

	Year ended March 31, 2006					
	Equipment construction work	Leasing	Other	Total	Eliminations	Consolidated
	(Millions of yen)					
I. Sales and operating income						
Sales to third parties	¥220,324	¥ 9,551	¥ 3,685	¥233,560	¥ –	¥233,560
Intersegment sales and transfers	922	2,568	11,582	15,072	(15,072)	–
Total sales	221,246	12,119	15,267	248,632	(15,072)	233,560
Operating expenses	220,184	14,135	14,975	249,294	(14,865)	234,429
Operating income (loss)	¥ 1,062	¥ (2,016)	¥ 292	¥ (662)	¥ (207)	¥ (869)
II. Assets, depreciation and capital expenditures						
Total assets	¥208,373	¥42,315	¥11,333	¥262,021	¥ (9,671)	¥252,350
Depreciation and amortization	1,802	8,578	93	10,473	(33)	10,440
Loss on impairment of fixed assets	1,043	–	–	1,043	–	1,043
Capital expenditures	2,393	8,932	480	11,805	(195)	11,610

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, 2007 and 2006.

Overseas sales of the Company and its consolidated subsidiaries constituted less than 10% of the consolidated net sales for both years ended March 31, 2007 and 2006.