

Consolidated Financial Statements

**Meisei Industrial Co., Ltd.
and Consolidated Subsidiaries**

*Years ended March 31, 2006 and 2005
with Report of Independent Auditors*

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

Years ended March 31, 2006 and 2005

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Meisei Industrial Co., Ltd. and Consolidated Subsidiaries
Financial Highlights

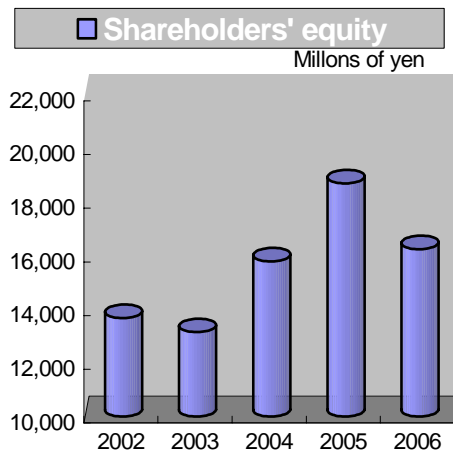
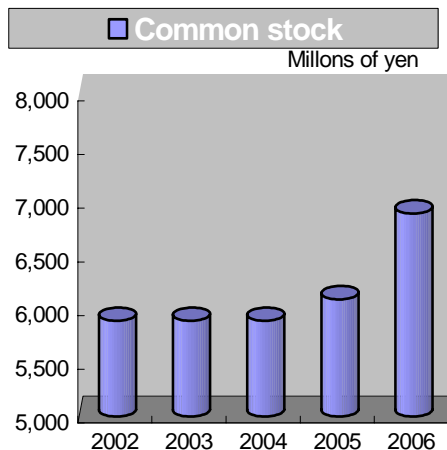
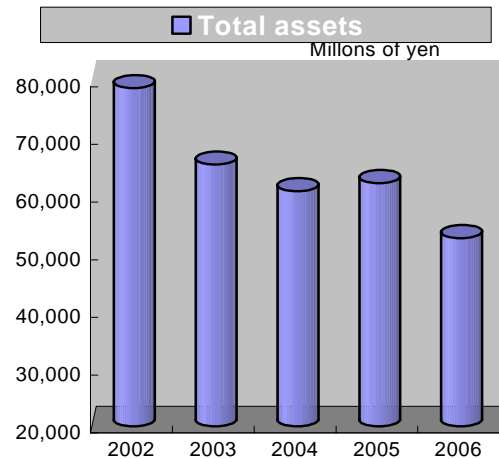
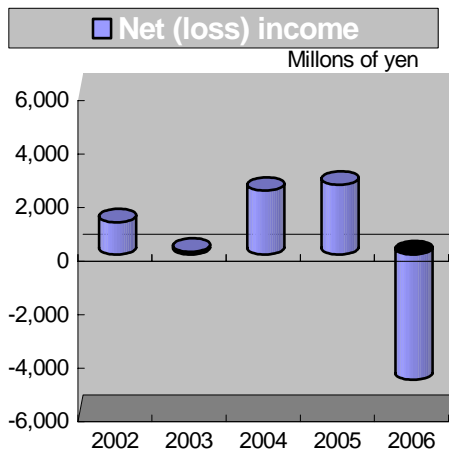
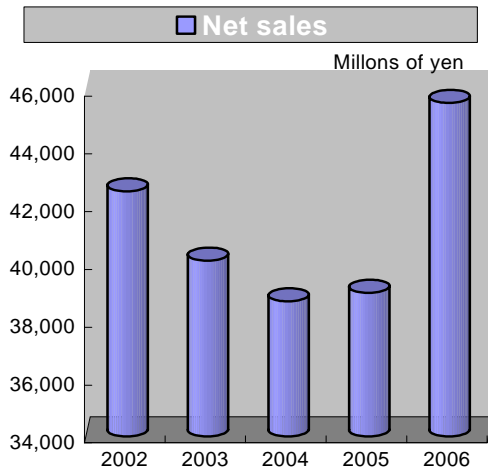
(Millions of yen, except for per share amounts)

	2006	2005	2004	2003	2002
For the Year:					
Net sales	¥45,536	¥38,970	¥ 38,671	¥ 40,083	¥ 42,484
Operating income	4,962	3,324	3,004	2,632	2,684
Net (loss) income	(4,682)	2,602	2,381	104	1,201
Per Share (Yen);					
Net (loss) income – basic	(71.92)	43.29	39.61	1.64	20.02
Net income – diluted	–	43.15	–	–	–
Cash dividends	–	–	2.50	–	2.50
At the Year End:					
Total assets	52,596	62,147	60,766	65,363	78,632
Common stock	6,889	6,089	5,889	5,889	5,889
Shareholders' equity	16,230	18,682	15,770	13,136	13,663
Shareholders' equity per share (yen)	244.95	306.83	263.17	219.19	227.80
General:					
Number of subsidiaries	9	10	12	14	14
Number of employees	623	596	642	889	897

(Thousands of U.S.dollars, except for per share amounts)

	2006	2005	2004	2003	2002
For the Year:					
Net sales	\$387,639	\$362,883	\$360,099	\$373,247	\$395,605
Operating income	42,241	30,953	27,973	24,509	24,993
Net (loss) income	(39,857)	24,229	22,172	968	11,184
Per Share (Dollars):					
Net (loss) income – basic	(0.61)	0.40	0.37	0.02	0.19
Net income – diluted	–	0.40	–	–	–
Cash dividends	–	–	0.02	–	0.02
At the Year End:					
Total assets	447,740	578,704	565,844	608,651	732,210
Common stock	58,645	56,700	54,838	54,838	54,838
Shareholders' equity	138,163	173,964	146,848	122,321	127,228
Shareholders' equity per share (Dollars)	2.09	2.86	2.45	2.04	2.12

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries
 Financial Highlights



Meisei Industrial Co., Ltd. and Consolidated Subsidiaries
Consolidated Balance Sheets

	March 31,		
	2006	2005	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Assets			
Current assets:			
Cash and time deposits <i>(Note 15)</i>	¥ 9,175	¥ 8,307	\$ 78,105
Notes and accounts receivable:			
Notes	1,030	2,515	8,768
Accounts	14,064	10,284	119,724
	<u>15,094</u>	<u>12,799</u>	<u>128,492</u>
Inventories <i>(Note 4)</i>	4,936	3,958	42,019
Deferred income taxes <i>(Note 7)</i>	1,091	1,072	9,288
Other current assets	715	1,027	6,087
Allowance for doubtful receivables	(56)	(161)	(477)
Total current assets	<u>30,955</u>	<u>27,002</u>	<u>263,514</u>
Property, plant and equipment:			
Land	13,094	26,995	111,466
Buildings and structures	7,053	7,370	60,041
Machinery and equipment	5,031	5,267	42,828
	<u>25,178</u>	<u>39,632</u>	<u>214,335</u>
Accumulated depreciation	(8,916)	(8,919)	(75,900)
Property, plant and equipment, net	<u>16,262</u>	<u>30,713</u>	<u>138,435</u>
Investments and other assets:			
Investments in securities <i>(Note 3)</i>	3,545	1,918	30,178
Investments in partnerships	11	39	94
Deferred income taxes <i>(Note 7)</i>	1,102	1,808	9,381
Other assets	850	808	7,236
Allowance for doubtful receivables	(129)	(141)	(1,098)
Total investments and other assets	<u>5,379</u>	<u>4,432</u>	<u>45,791</u>
Total assets	<u>¥ 52,596</u>	<u>¥ 62,147</u>	<u>\$ 447,740</u>

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

	March 31,		
	2006	2005	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Liabilities and shareholders' equity			
Current liabilities:			
Short-term bank loans <i>(Note 5)</i>	¥ 2,953	¥ 2,420	\$ 25,138
Current portion of long-term debt <i>(Note 5)</i>	3,751	6,764	31,932
Notes and accounts payable:			
Notes	3,923	2,967	33,396
Accounts	4,420	3,146	37,626
	<u>8,343</u>	<u>6,113</u>	<u>71,022</u>
Advances received on uncompleted contracts	2,085	3,071	17,749
Income taxes payable <i>(Note 7)</i>	253	193	2,154
Accrued employees' bonuses	399	350	3,397
Other current liabilities	1,943	1,754	16,540
Total current liabilities	<u>19,727</u>	<u>20,665</u>	<u>167,932</u>
Long-term liabilities:			
Long-term debt <i>(Note 5)</i>	10,200	11,000	86,831
Accrued retirement benefits for employees <i>(Note 10)</i>	1,102	1,062	9,381
Accrued retirement benefits for directors and corporate auditors	125	167	1,064
Deferred income taxes <i>(Note 7)</i>	4,217	9,465	35,898
Other	276	427	2,350
Total long-term liabilities	<u>15,920</u>	<u>22,121</u>	<u>135,524</u>
Minority interests	719	679	6,121
Contingent liabilities <i>(Note 11)</i>			
Shareholders' equity <i>(Note 6)</i> :			
Common stock:			
Authorized – 190,000,000 shares			
Issued – 66,386,718 shares in 2006 and 61,017,592 shares in 2005	6,889	6,089	58,645
Additional paid-in capital	1,000	3,634	8,513
Surplus arising from land revaluation <i>(Note 9)</i>	767	837	6,529
Retained earnings	6,257	7,454	53,265
Net unrealized holding gain on securities	1,108	440	9,432
Translation adjustments	266	263	2,264
Treasury stock, at cost – 162,971 shares in 2006 and 131,065 shares in 2005	(57)	(35)	(485)
Total shareholders' equity	<u>16,230</u>	<u>18,682</u>	<u>138,163</u>
Total liabilities and shareholders' equity	<u>¥ 52,596</u>	<u>¥ 62,147</u>	<u>\$ 447,740</u>

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Operations

	Years ended March 31,		
	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net sales (Notes 12 and 16)	¥ 45,536	¥ 38,970	\$ 387,639
Cost of sales	36,304	31,630	309,049
Gross profit	9,232	7,340	78,590
Selling, general and administrative expenses	4,270	4,016	36,349
Operating income (Note 16)	4,962	3,324	42,241
Other income (expenses):			
Interest and dividend income	41	95	349
Foreign exchange gain	36	46	306
Interest expense	(345)	(473)	(2,937)
Reversal of allowance for doubtful accounts	98	–	834
Loss on impairment of fixed assets	(14,216)	–	(121,018)
Loss on sales of property, plant and equipment	–	(112)	–
Other, net	(15)	(99)	(127)
	(14,401)	(543)	(122,593)
(Loss) income before income taxes and minority interests	(9,439)	2,781	(80,352)
Income taxes (Note 7):			
Current	274	201	2,333
Deferred	(5,082)	(114)	(43,262)
	(4,808)	87	(40,929)
(Loss) income before minority interests	(4,631)	2,694	(39,423)
Minority interests in earnings of consolidated subsidiaries	(51)	(92)	(434)
Net (loss) income (Note 14)	¥ (4,682)	¥ 2,602	\$ (39,857)

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries
Consolidated Statements of Shareholders' Equity

	Years ended March 31,		
	2006	2005	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Common stock:			
Balance at beginning of year	¥ 6,089	¥ 5,889	\$ 51,835
Issuance of new shares of common stock	800	200	6,810
Balance at end of year	<u>¥ 6,889</u>	<u>¥ 6,089</u>	<u>\$ 58,645</u>
Additional paid-in capital:			
Balance at beginning of year	¥ 3,634	¥ 3,434	\$ 30,936
Issuance of new shares of common stock	800	200	6,810
Transfer to retained earnings	(3,434)	-	(29,233)
Balance at end of year	<u>¥ 1,000</u>	<u>¥ 3,634</u>	<u>\$ 8,513</u>
Surplus arising from land revaluation:			
Balance at beginning of year	¥ 837	¥ 931	\$ 7,125
Net change during the year	(70)	(94)	(596)
Balance at end of year	<u>¥ 767</u>	<u>¥ 837</u>	<u>\$ 6,529</u>
Retained earnings:			
Balance at beginning of year	¥ 7,454	¥ 4,922	\$ 63,455
Add:			
Net income	-	2,602	-
Reversal of surplus arising from land revaluation	-	94	-
Transfer from additional paid-in capital	3,434	-	29,233
Increase in retained earnings resulting from exclusion of subsidiaries from consolidation	59	-	502
Deduct:			
Net loss	(4,682)	-	(39,857)
Cash dividends	-	(150)	-
Bonuses to directors	(8)	(8)	(68)
Decrease in retained earnings resulting from exclusion of subsidiaries from consolidation	-	(6)	-
Balance at end of year	<u>¥ 6,257</u>	<u>¥ 7,454</u>	<u>\$ 53,265</u>
Net unrealized holding gain on securities			
Balance at beginning of year	¥ 440	¥ 357	\$ 3,746
Net change during the year	668	83	5,686
Balance at end of year	<u>¥ 1,108</u>	<u>¥ 440</u>	<u>\$ 9,432</u>
Translation adjustments			
Balance at beginning of year	¥ 263	¥ 258	\$ 2,239
Net change during the year	3	5	25
Balance at end of year	<u>¥ 266</u>	<u>¥ 263</u>	<u>\$ 2,264</u>

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries
Consolidated Statements of Cash Flows

	Years ended March 31,		
	2006	2005	2006
			<i>(Thousands of U.S. dollars) (Note 2)</i>
Cash flows from operating activities:			
(Loss) income before income taxes and minority interests	¥ (9,439)	¥ 2,781	\$ (80,352)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	400	466	3,405
Amortization of excess of costs over net assets acquired	-	(0)	-
(Decrease) increase in accrued retirement benefits	(2)	28	(17)
Decrease in allowance for doubtful receivables	(118)	(93)	(1,004)
Interest and dividend income	(41)	(95)	(349)
Interest expense	345	473	2,937
Foreign exchange loss (gain)	4	(12)	34
Gain on sales of investments in securities and subsidiaries	-	(4)	-
Loss on impairment of fixed assets	14,216	-	121,018
Changes in operating assets and liabilities:			
Notes and trade accounts receivable	(2,298)	(864)	(19,562)
Inventories	(978)	(594)	(8,326)
Notes and trade accounts payable	2,367	(519)	20,150
Advances received on uncompleted contracts	(986)	648	(8,394)
Other, net	449	1,006	3,822
Subtotal	3,919	3,221	33,362
Interest and dividends received	40	95	341
Interest paid	(323)	(457)	(2,750)
Income taxes paid	(161)	(186)	(1,371)
Net cash provided by operating activities	3,475	2,673	29,582
Cash flows from investing activities:			
(Increase) decrease in time deposits	(100)	49	(851)
Increase in investments in securities	(529)	(170)	(4,503)
Proceeds from sales of investments in securities and subsidiaries	20	26	(170)
Purchases of property, plant and equipment	(295)	(215)	(2,511)
Proceeds from sales of property, plant and equipment	18	221	153
Other, net	62	(15)	528
Net cash used in investing activities	(824)	(104)	(7,014)
Cash flows from financing activities:			
Increase (decrease) in short-term bank loans, net	¥ 533	¥ (4,400)	\$ 4,537
Proceeds from long-term debt	4,600	3,850	39,159
Repayment of long-term debt	(6,612)	(3,511)	(56,287)
Proceeds from issuance of bonds	-	2,177	-
Repayment of bonds	(200)	(200)	(1,702)
Cash dividends paid to the Company's shareholders	-	(150)	-
Cash dividends paid to shareholders of minority interests	(5)	(5)	(43)
Other, net	(117)	(115)	(996)
Net cash used in financing activities	(1,801)	(2,354)	(15,332)
Effects of exchange rate changes on cash and cash equivalents	18	16	153
Increase in cash and cash equivalents	868	231	7,389
Cash and cash equivalents at beginning of year	8,199	8,213	69,797
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(9)	(245)	(77)
Cash and cash equivalents at end of year <i>(Note 15)</i>	¥ 9,058	¥ 8,199	\$ 77,109

See accompanying notes to consolidated financial statements.

Meisei Industrial Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2006

1. Summary of Significant Accounting Policies

(a) Basis of preparation of consolidated financial statements

Meisei Industrial Co., Ltd. (the "Company") and its domestic subsidiaries maintain their accounts and records 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. Its overseas subsidiaries maintain their accounts in conformity with the requirements of their countries of domicile. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan. In addition, certain notes included herein are not required under accounting principles generally accepted in Japan but are presented as additional information.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2005 to the 2006 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 9 and 10 majority-owned subsidiaries for the years ended March 31, 2006 and 2005, respectively. All significant intercompany items have been eliminated in consolidation.

All assets and liabilities of the subsidiaries are revalued on acquisition and the excess of cost over the underlying net assets at the dates of acquisition is amortized over a period of five years on a straight-line basis.

The overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these overseas subsidiaries and the year end of the Company.

(c) Revenue recognition and construction contracts

Revenues from and the related costs of the construction contracts of the Company and its domestic subsidiaries are recorded by the completed-contract method; however, if the construction work takes longer than one year and the contract amount exceeds ¥500 million, the percentage-of-completion method is applied. Revenues from and the related costs of the construction contracts of, the overseas consolidated subsidiaries are recognized by the percentage-of-completion method.

During the construction period, accumulated costs on uncompleted contracts are included in inventories. These costs are not offset against advances received on uncompleted contracts, but are included in current liabilities.

(d) Foreign currency translation

The financial statements of the overseas subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and have been reported under translation adjustments as a separate component of shareholders' equity and minority interests in the accompanying consolidated balance sheets.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and the resulting gain or loss is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into Japanese yen at the rates in effect at the respective transaction dates.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(f) Inventories

Construction projects in progress are stated at cost determined by the specific identification method.

Materials and supplies are stated at cost determined by the moving average method.

1. Summary of Significant Accounting Policies
(continued)

(g) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities, or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain or loss, both realized and unrealized, is charged to income. Held-to-maturity debt securities are stated at their 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, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost.

If the fair value of other securities has declined significantly and the impairment in value is not deemed temporary, these securities are written down to fair value and the resulting loss is charged to income as incurred.

(h) Property, plant and equipment

Property, plant and equipment is stated at cost. For the Company and its domestic consolidated subsidiaries, depreciation is computed at rates based on the estimated useful lives of the respective assets by the declining-balance method, except for buildings (other than structures attached to the buildings) acquired subsequent to April 1, 1998 to which the straight-line method is applied.

The estimated useful lives are as follows:

Buildings and structures	4 to 50 years (principally 31 years)
Machinery and equipment	5 to 15 years (principally 7 years)

At the overseas consolidated subsidiaries, assets are depreciated at rates based on their estimated useful lives by the straight-line method.

(i) Income taxes

Income taxes are calculated on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. The Company has recognized the tax effect of such temporary differences in the accompanying consolidated financial statements.

Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(j) Retirement benefits

The Company and its domestic consolidated subsidiaries have non-contributory, defined-benefit pension plans and retirement allowances plans. The overseas consolidated subsidiaries also have retirement benefit plans.

The employees' retirement benefit plans provide for a lump-sum payment to employees' upon retirement determined by reference to their current rate of pay, length of service and the conditions under which termination occurs.

To provide for the payment of retirement benefits and pension plan payments to their employees, the Company and certain consolidated subsidiaries record a reserve equivalent to the amount recognized as required at the end of the year under review based on the estimated retirement benefit obligation and the fair value of the pension plan assets at the fiscal year end.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

In addition, directors and corporate auditors of the Company and certain domestic consolidated subsidiaries are customarily entitled to lump-sum payments under their respective unfunded retirement allowances plans. The provision for directors and corporate auditors' retirement allowances has been made at an estimated amount.

(k) Allowance for doubtful receivables

The allowance for doubtful receivables has been provided based on the Company's and its consolidated subsidiaries' historical experience with respect to write-offs and on an estimate of the amount of specific uncollectible accounts.

(l) Accrued employees' bonuses

The Company and its domestic consolidated subsidiaries provide for accrued employees' bonuses at an estimate of the amounts to be paid.

(m) Leases

Noncancelable leases of the Company and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

1. Summary of Significant Accounting Policies
(continued)

(n) New accounting standard for impairment of fixed assets

Effective the year ended March 31, 2006, the Company and (its domestic consolidated subsidiaries have) a new accounting standard for the impairment of fixed assets which 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 statement of operations if certain indicators of asset impairment exist and the book value of an asset exceeds the undiscounted sum of its future cash flows. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs, and (2) the present value of future cash flows arising from ongoing utilization of the asset and from its disposal after its use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets.

As a result of the adoption of this new accounting standard, a loss on impairment of land and buildings in the aggregate amount of ¥14,216 million (\$121,018 thousand) was recognized and loss before income taxes and minority interests increased by the same amount for the year ended March 31, 2006.

2. 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 ¥117.47 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2006. This 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.

3. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2006 and 2005 are summarized as follows:

Marketable held-to-maturity debt securities

	2006		
	Carrying value	Estimated fair value	Unrealized gain
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their carrying value:			
Government bonds	¥ 10	¥ 10	¥ 0
Total	¥ 10	¥ 10	¥ 0

	2005		
	Carrying value	Estimated fair value	Unrealized gain
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their carrying value:			
Government bonds	¥ 10	¥ 10	¥ 0
Total	¥ 10	¥ 10	¥ 0

	2006		
	Carrying value	Estimated fair value	Unrealized gain
	<i>(Thousands of U.S. dollars)</i>		
Securities whose fair value exceeds their carrying value:			
Government bonds	\$ 85	\$ 85	\$ 0
Total	\$ 85	\$ 85	\$ 0

Marketable other securities

	2006		
	Acquisition cost	Carrying value	Unrealized gain (loss)
	<i>(Millions of yen)</i>		
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 796	¥ 2,629	¥ 1,833
Other	53	91	38
Subtotal	849	2,720	1,871
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	-	-	-
Other	430	415	(15)
Subtotal	430	415	(15)
Total	¥ 1,279	¥ 3,135	¥ 1,856

3. Investments in Securities (continued)

	2005		
	Acquisition cost	Carrying value	Unrealized gain (loss)
	(Millions of yen)		
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	¥ 584	¥ 1,325	¥ 741
Other	54	60	6
Subtotal	638	1,385	747
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	5	3	(2)
Other	127	120	(7)
Subtotal	132	123	(9)
Total	¥ 770	¥ 1,508	¥ 738

	2006		
	Acquisition cost	Carrying value	Unrealized gain (loss)
	(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 6,776	\$ 22,380	\$ 15,604
Other	451	775	324
Subtotal	7,227	23,155	15,928
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	-	-	-
Other	3,661	3,553	(128)
Subtotal	3,661	3,553	(128)
Total	\$ 10,888	\$ 26,688	\$ 15,800

The proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2006 and 2005 are summarized as follows:

	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Proceeds from sales	¥ 20	¥ 21	\$ 170
Gross realized gain	-	5	-
Gross realized loss	0	-	0

A breakdown of other securities whose market value was not determinable at March 31, 2006 and 2005 is summarized as follows:

	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
MMF	¥ 43	¥ 51	\$ 366
Other	410	410	3,490
	¥ 453	¥ 461	\$ 3,856

The redemption schedule for held-to-maturity debt securities and debt securities classified as other securities at March 31, 2006 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	Government bonds	Government bonds
Due in one year or less	¥ 10	\$ 85

4. Inventories

Inventories at March 31, 2006 and 2005 were as follows:

	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
Construction projects in progress	¥ 4,631	¥ 3,662	\$ 39,423
Materials and supplies	305	296	2,596
	¥ 4,936	¥ 3,958	\$ 42,019

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

Average interest rates on short-term bank loans outstanding at March 31, 2006 and 2005 were 0.88% and 1.92%, respectively.

Long-term debt at March 31, 2006 and 2005 consisted of the following:

	2006	2005	2006
	(Millions of yen)		(Thousands of U.S. dollars)
0.67% bonds due August 2010	¥ 1,100	¥ 1,300	\$ 9,364
1.22% bonds due September 2006	100	100	851
0.68% bonds due September 2007	200	200	1,703
Zero coupon unsecured convertible bonds due March 2007	-	1,600	-
Loans from banks payable in yen, at rates from 0.98% to 3.25%, due through March 2011	12,551	14,564	106,845
	13,951	17,764	118,763
Less current portion	(3,751)	(6,764)	(31,932)
	¥ 10,200	¥ 11,000	\$ 86,831

The zero coupon unsecured convertible bonds had been converted into shares of common stock by June 17, 2005. As a result, the Company's shares in issue increased by 5,369,126 shares of common stock.

The aggregate annual maturities of long-term debt subsequent to March 31, 2006 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 3,751	\$ 31,932
2008	2,490	21,197
2009	3,740	31,838
2010	2,270	19,324
2011 and thereafter	1,700	14,472
	¥ 13,951	\$ 118,763

At March 30, 2006, the Company had unused line-of-credit commitments for short-term financing arrangements totaling ¥4,000 million (\$34,051 thousand). These lines-of-credit have fee commitment requirements.

5. Short-Term Bank Loans and Long-Term Debt (continued)

Assets pledged as collateral for short-term bank loans of ¥4,641 million (\$39,508 thousand) and long-term debt of ¥7,824 million (\$66,604 thousand), including the current portion thereof, and for guarantees (such as guarantees for bonds) at March 31, 2006 are summarized as follows:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Cash and time deposits	¥ 100	\$ 851
Buildings and structures	73	622
Land	981	8,351
Investments in securities	960	8,172
Property, plant and equipment, at net book value, in the form of fixed mortgages	12,119	103,167
	<u>¥ 14,233</u>	<u>\$121,163</u>

6. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

Retained earnings include the legal reserve provided in accordance with the Code. The legal reserve of the Company included in retained earnings at March 31, 2006 and 2005 was nil.

The Code further provides that, in general, an amount equal to the entire amount of paid-in capital from new share issues be transferred to the common stock account. However, an amount equal to or less than 50% of the entire amount of such paid-in capital may be transferred to the additional paid-in capital account.

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 stipulates similar requirements on distribution of earnings to those of the Code. Under the Law, however, such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

7. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the year ended March 31, 2006 was, in the aggregate, approximately 40.6%.

A reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2005 is presented as follows:

	2005
Statutory tax rate	40.6 %
Effect of:	
Expenses not deductible from taxable income	1.9
Per capita portion of inhabitants' taxes	1.9
Valuation allowance	(42.3)
Other	1.0
Effective tax rate	<u>3.1 %</u>

A reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2006 has been omitted as a consolidated net loss was recorded.

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes. Significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2006 and 2005 are summarized as follows:

	2006	2005	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Tax loss carryforwards	¥ 4,687	¥ 6,646	\$ 39,900
Allowance for doubtful receivables	46	45	392
Accrued bonuses	151	142	1,285
Retirement allowances for employees	422	396	3,592
Retirement allowances for directors	51	68	434
Other	876	273	7,457
Gross deferred tax assets	6,233	7,570	53,060
Less valuation allowance	(3,293)	(4,392)	(28,032)
Total deferred tax assets	2,940	3,178	25,028
Deferred tax liabilities:			
Difference on revaluation of land	(3,448)	(8,767)	(29,352)
Surplus arising from land revaluation	(642)	(572)	(5,465)
Deferred capital gains on property	(125)	(126)	(1,064)
Net unrealized holding gain on securities	(749)	(298)	(6,351)
Total deferred tax liabilities	(4,964)	(9,763)	(42,232)
Net deferred tax liabilities	<u>¥(2,024)</u>	<u>¥(6,585)</u>	<u>\$ (17,204)</u>

8. Leases

The following *pro forma* amounts represent the acquisition costs (including the interest portion thereon), accumulated depreciation and net book value of the leased assets as of March 31, 2006 and 2005, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2006		
	Acquisition costs	Accumulated depreciation	Net book value
	<i>(Millions of yen)</i>		
Machinery and vehicles	¥ 7	¥ 4	¥ 3
Tools, furniture and fixtures	176	134	42
	<u>¥ 183</u>	<u>¥ 138</u>	<u>¥ 45</u>

	2005		
	Acquisition costs	Accumulated depreciation	Net book value
	<i>(Millions of yen)</i>		
Machinery and vehicles	¥ 7	¥ 3	¥ 4
Tools, furniture and fixtures	252	204	48
	<u>¥ 259</u>	<u>¥ 207</u>	<u>¥ 52</u>

	2006		
	Acquisition costs	Accumulated depreciation	Net book value
	<i>(Thousands of U.S. dollars)</i>		
Machinery and vehicles	\$ 60	\$ 34	\$ 26
Tools, furniture and fixtures	1,498	1,141	357
	<u>\$ 1,558</u>	<u>\$ 1,175</u>	<u>\$ 383</u>

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements are summarized as follows:

	2006	2005	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Lease payments	¥ 26	¥ 44	\$ 221
Depreciation equivalents	26	44	221

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2006 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2007	¥ 19	\$ 162
2008 and thereafter	26	221
	<u>¥ 45</u>	<u>\$ 383</u>

9. Land Revaluation

Effective March 31, 2002, the Company revalued its land held for business use in accordance with the "Land Revaluation Law" and the "Amended Land Revaluation Law." As a result, the Company recognized a gain on land revaluation and recorded deferred income tax liabilities related to this gain. The resulting gain, net of the tax effect, has been accounted for under shareholders' equity as surplus arising from land revaluation. The method followed for this land revaluation was determined in accordance with the "Land Valuation Tax Law" as stipulated in the "Enforcement Act Concerning Land Revaluation" and other regulations. The fair value of the revalued land at March 31, 2006 was less than its corresponding carrying value by ¥862 million (\$7,338 thousand).

10. Accrued Retirement Benefits

The following table sets forth the funded and accrued status, and the amounts recognized in the consolidated balance sheets at March 31, 2006 and 2005 for the Company's and its consolidated subsidiaries' retirement benefit plans:

	2006	2005	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Retirement benefit obligation at end of year	¥(2,754)	¥(2,729)	\$ (23,444)
Fair value of plan assets at end of year	1,477	1,323	12,573
Unfunded retirement benefit obligation	(1,277)	(1,406)	(10,871)
Unrecognized actuarial loss	89	246	758
Unrecognized prior service cost	86	98	732
Accrued retirement benefits	<u>¥(1,102)</u>	<u>¥(1,062)</u>	<u>\$ (9,381)</u>

The components of retirement benefit expenses for the years ended March 31, 2006 and 2005 are outlined as follows:

	2006	2005	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 206	¥ 190	\$ 1,754
Interest cost	42	49	357
Expected return on plan assets	(24)	(23)	(204)
Amortization of actuarial loss	34	27	289
Amortization of prior service cost	12	12	102
Total retirement benefit expenses	<u>¥ 270</u>	<u>¥ 255</u>	<u>\$ 2,298</u>

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2006 and 2005 were as follows:

	2006	2005
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.5%	2.5%

11. Contingent Liabilities

At March 31, 2006, the Company and its consolidated subsidiaries were contingently liable for guarantees to PT. TERAS TEKNIK PERDANA in the aggregate amount of ¥37 million (\$315 thousand).

12. Sales Calculated by the Percentage-of-Completion Method

Estimated earnings recognized with respect to construction contracts accounted for by the percentage-of-completion method for the years ended March 31, 2006 and 2005 were as follows:

	2006 <i>(Millions of yen)</i>	2005	2006 <i>(Thousands of U.S. dollars)</i>
Estimated earnings	¥ 10,154	¥ 7,732	\$ 86,439

13. Derivative Financial Instruments

Derivative financial instruments are utilized by the Company and its consolidated subsidiaries principally to reduce the risk of fluctuation in interest rates and foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivatives. The Company and its consolidated subsidiaries do not hold or issue derivatives for speculative trading purposes.

The Company and its consolidated subsidiaries are exposed to certain market risk arising from their open forward foreign exchange contracts and swap positions. The Company and its consolidated subsidiaries are also exposed to the risk of credit loss in the event of non-performance by the counterparties to their foreign currency and interest-rate swap contracts; however, nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings, is not anticipated.

Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

At March 31, 2006, the Company and its consolidated subsidiaries had no outstanding derivatives positions.

14. Amounts per Share

	2006	2005	2006
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Net (loss) income:			
Basic	¥ (71.92)	¥43.29	\$(0.61)
Diluted	–	43.15	–
Net assets	244.95	306.83	2.09

Diluted net income per share for the year ended March 31, 2006 is not presented as a consolidated net loss was recorded.

Basic net income per share has been computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the conversion of convertible bonds. The amount per share of net assets has been computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

The financial data utilized in the computation of net income (loss) per share for the years ended March 31, 2006 and 2005 are summarized as follows:

	2006	2005	2006
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Information on net income – basic:			
Net (loss) income	¥ (4,682)	¥ 2,602	\$ (39,857)
Deductions from net (loss) income:			
Bonuses to directors and corporate auditors	(9)	(8)	(77)
Adjusted net (loss) income allocated to common stock	¥ (4,691)	¥ 2,594	\$ (39,934)
Weighted-average number of shares of common stock outstanding during the year	65,222 thousand shares	59,920 thousand shares	65,222 thousand shares

15. Supplemental Information on Statements of Cash Flows

- (a) Reconciliation of cash and cash equivalents to cash and time deposits

A reconciliation between cash and cash equivalents in the consolidated statements of cash flows and cash and time deposits in the consolidated balance sheets as of and for the years ended March 31, 2006 and 2005 is presented as follows:

	<u>2006</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and time deposits	¥ 9,175	¥ 8,307	\$ 78,105
Other current assets (securities)	52	61	443
Time deposits with original maturities in excess of three months	(159)	(159)	(1,354)
Investments with original maturities in excess of three months	(10)	(10)	(85)
Cash and cash equivalents	<u>¥ 9,058</u>	<u>¥ 8,199</u>	<u>\$ 77,109</u>

- (b) Noncash financing activities for the years ended March 31, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>	<u>2006</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Conversion of bonds with acquisition rights to common stock and additional paid-in capital	¥ 1,600	¥ 400	\$ 13,620

- (c) In September 2004, as a result of the sale of KPC Meisei Corporation, its assets and liabilities were excluded from consolidation. The following summarizes the assets and liabilities excluded from consolidation for the year ended March 31, 2005:

	<i>Millions of yen</i>	<i>Thousands of U.S. dollars</i>
Current assets	¥ 118	\$ 1,099
Non-current assets	5	46
Total assets	<u>¥ 123</u>	<u>\$ 1,145</u>
Current liabilities	¥ 103	\$ 959
Non-current liabilities	-	-
Total liabilities	<u>¥ 103</u>	<u>\$ 959</u>

16. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the construction of integrated thermal insulation systems, in engineering projects for industrial plants ("construction"), and in the design, engineering and construction of industrial boilers ("manufacturing machinery and fixtures") as well as other businesses in Japan and overseas.

Business Segments

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2006 and 2005 is outlined as follows:

Year ended March 31, 2006						
	Construction	Manufacturing machinery and fixtures	Other	Total	Eliminations/ corporate assets	Consolidated
<i>(Millions of yen)</i>						
I. Sales to third parties	¥ 38,453	¥ 6,967	¥ 116	¥ 45,536	¥ -	¥ 45,536
Intergroup sales and transfers	47	877	300	1,224	(1,224)	-
	38,500	7,844	416	46,760	(1,224)	45,536
Operating expenses	33,861	7,687	254	41,802	(1,228)	40,574
Operating income	¥ 4,639	¥ 157	¥ 162	¥ 4,958	¥ 4	¥ 4,962
II. Total assets, depreciation and capital expenditures:						
Total assets	¥ 28,639	¥ 5,286	¥ 10,858	¥ 44,783	¥ 7,813	¥ 52,596
Depreciation	280	12	108	400	-	400
Capital expenditures	198	3	6	207	-	207
Loss on impairment of fixed assets	-	4,815	9,401	14,216	-	14,216

Year ended March 31, 2005						
	Construction	Manufacturing machinery and fixtures	Other	Total	Eliminations/ corporate assets	Consolidated
<i>(Millions of yen)</i>						
I. Sales to third parties	¥ 34,016	¥ 4,832	¥ 122	¥ 38,970	¥ -	¥ 38,970
Intergroup sales and transfers	47	198	297	542	(542)	-
	34,063	5,030	419	39,512	(542)	38,970
Operating expenses	30,989	4,945	257	36,191	(545)	35,646
Operating income	¥ 3,074	¥ 85	¥ 162	¥ 3,321	¥ 3	¥ 3,324
II. Total assets, depreciation and capital expenditures:						
Total assets	¥ 25,938	¥ 9,425	¥ 20,383	¥ 55,746	¥ 6,401	¥ 62,147
Depreciation	338	14	114	466	-	466
Capital expenditures	350	5	4	359	-	359

16. Segment Information (continued)

	Year ended March 31, 2006					Consolidated
	Construction	Manufacturing machinery and fixtures	Other	Total	Eliminations/ corporate assets	
	(Thousands of U.S. dollars)					
I. Sales to third parties	\$ 327,343	\$ 59,309	\$ 987	\$ 387,639	\$ -	\$ 387,639
Intergroup sales and transfers	400	7,466	2,554	10,420	(10,420)	-
	327,743	66,775	3,541	398,059	(10,420)	387,639
Operating expenses	288,252	65,438	2,162	355,852	(10,454)	345,398
Operating income	\$ 39,491	\$ 1,337	\$ 1,379	\$ 42,207	\$ 34	\$ 42,241
II. Total assets, depreciation and capital expenditures:						
Total assets	\$ 243,798	\$ 44,999	\$ 92,432	\$ 381,229	\$ 66,511	\$ 447,740
Depreciation	2,384	102	919	3,405	-	3,405
Capital expenditures	1,685	26	51	1,762	-	1,762
Loss on impairment of fixed assets	-	40,989	80,029	121,018	-	121,018

Geographical Segments

The geographical segment information of the Company and consolidated subsidiaries for the years ended March 31, 2006 and 2005 is outlined as follows:

	Year ended March 31, 2006				
	Japan	Asia and Africa	Total	Eliminations/ corporate assets	Consolidated
	(Millions of yen)				
I. Sales and operating income (loss)					
Sales to third parties	¥ 43,720	¥ 1,816	¥ 45,536	¥ -	¥ 45,536
Intergroup sales and transfers	40	43	83	(83)	-
Total sales	43,760	1,859	45,619	(83)	45,536
Operating expenses	38,900	2,181	41,081	(507)	40,574
Operating income (loss)	¥ 4,860	¥ (322)	¥ 4,538	¥ 424	¥ 4,962
II. Total assets	¥ 42,987	¥ 751	¥ 43,738	¥ 8,858	¥ 52,596

	Year ended March 31, 2005				
	Japan	Asia and Africa	Total	Eliminations/ corporate assets	Consolidated
	(Millions of yen)				
I. Sales and operating income (loss)					
Sales to third parties	¥ 38,452	¥ 518	¥ 38,970	¥ -	¥ 38,970
Intergroup sales and transfers	58	330	388	(388)	-
Total sales	38,510	848	39,358	(388)	38,970
Operating expenses	35,179	855	36,034	(388)	35,646
Operating income (loss)	¥ 3,331	¥ (7)	¥ 3,324	¥ -	¥ 3,324
II. Total assets	¥ 54,114	¥ 780	¥ 54,894	¥ 7,253	¥ 62,147

	Year ended March 31, 2006				
	Japan	Asia and Africa	Total	Eliminations/ Corporate assets	Consolidated
	(Thousands of U.S. dollars)				
I. Sales and operating income (loss)					
Sales to third parties	\$ 372,180	\$ 15,459	\$ 387,639	\$ -	\$ 387,639
Intergroup sales and transfers	341	366	707	(707)	-
Total sales	372,521	15,825	388,346	(707)	387,639
Operating expenses	331,149	18,566	349,715	(4,317)	345,398
Operating income (loss)	\$ 41,372	\$ (2,741)	\$ 38,631	\$ 3,610	\$ 42,241
II. Total assets	\$ 365,940	\$ 6,393	\$ 372,333	\$ 75,407	\$ 447,740

16. Segment Information (continued)

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic subsidiaries and sales (other than exports to Japan) of the overseas subsidiaries, for the years ended March 31, 2006 and 2005, are summarized as follows:

	Year ended March 31, 2006			
	Asia	Africa	Other	Total
	<i>(Millions of yen)</i>			
Overseas sales	¥ 3,651	¥ 3,468	¥ 48	¥ 7,167
Overseas sales as percentage of consolidated net sales	8.0%	7.6%	0.0%	15.7%

	Year ended March 31, 2005				
	Asia	Africa	Oceania	Other	Total
	<i>(Millions of yen)</i>				
Overseas sales	¥ 536	¥ 2,553	¥ 2,084	¥ 11	¥ 5,184
Overseas sales as percentage of consolidated net sales	1.4%	6.6%	5.3%	0.0%	13.3%

	Year ended March 31, 2006			
	Asia	Africa	Other	Total
	<i>(Thousands of U.S. dollars)</i>			
Overseas sales	\$ 31,080	\$ 29,522	\$ 409	\$ 61,011

Effective the year ended March 31, 2006, "Oceania" has been included in "Other," a region which has had less impact on overseas sales.

Report of Independent Auditors

The Board of Directors
Meisei Industrial Co., Ltd.

We have audited the accompanying consolidated balance sheets of Meisei Industrial Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of operations, 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 Meisei Industrial Co., Ltd. and consolidated subsidiaries at March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 1(n), effective April 1, 2005, the Company and its domestic consolidated subsidiaries have 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, 2006 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 2.

Ernst & Young Shin Nihon

June 29, 2006