

**SHINSHO
CORPORATION
AND
CONSOLIDATED
SUBSIDIARIES
FINANCIAL
STATEMENTS**

(Year ended March 31, 2012)

2012

SHINSHO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| | March 31, 2012 | March 31, 2011 | 2012 Thousands of U.S. Dollars |
|---|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | (Millions of Yen) | |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents..... | 17,477 | 13,020 | 212,641 |
| Notes and accounts receivables..... | 148,751 | 151,792 | 1,809,843 |
| Inventories | 24,792 | 22,615 | 301,643 |
| Advance payments..... | 9,827 | 11,584 | 119,564 |
| Deferred tax assets (Note 6) | 705 | 746 | 8,578 |
| Other current assets..... | 2,378 | 3,917 | 28,933 |
| Allowance for doubtful receivables..... | (288) | (349) | (3,504) |
| Total current assets | 203,642 | 203,325 | 2,477,698 |
| Property and equipment: | | | |
| Land..... | 949 | 955 | 11,546 |
| Building and structures..... | 4,680 | 4,616 | 56,941 |
| Equipment and fixtures..... | 3,114 | 2,688 | 37,888 |
| Others..... | 1,065 | 843 | 12,958 |
| Accumulated depreciation..... | (5,549) | (5,227) | (67,514) |
| Total property and equipment..... | 4,259 | 3,875 | 51,819 |
| Investments and other assets: | | | |
| Goodwill | 621 | 29 | 7,556 |
| Investment securities | 19,587 | 19,362 | 238,314 |
| Long-term loans and receivables | 170 | 420 | 2,068 |
| Deferred tax assets (Note 6) | 852 | 435 | 10,366 |
| Others | 2,517 | 2,070 | 30,624 |
| Allowance for doubtful receivables..... | (242) | (398) | (2,944) |
| Total investments and other assets..... | 23,505 | 21,918 | 285,984 |
| | | | |
| Total Assets..... | 231,406 | 229,118 | 2,815,501 |

See accompanying notes to consolidated financial statements.

| | March 31, 2012 | March 31, 2011 | 2012 Thousands of U.S. Dollars |
|---|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | (Millions of Yen) | |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Notes and accounts payables..... | 130,659 | 133,497 | 1,589,719 |
| Short-term loans and current portion of long term debt (Note 3)..... | 30,226 | 32,208 | 367,758 |
| Taxes payable..... | 998 | 1,652 | 12,143 |
| Deferred tax liabilities (Note 6)..... | 8 | 12 | 97 |
| Accrued bonuses to employees..... | 780 | 687 | 9,490 |
| Other current liabilities..... | 21,137 | 18,655 | 257,173 |
| Total current liabilities..... | <u>183,808</u> | <u>186,711</u> | <u>2,236,380</u> |
| Long-term liabilities: | | | |
| Long-term debt, less current portion (Note 3)..... | 17,039 | 14,487 | 207,312 |
| Guaranteed deposits received..... | 932 | 749 | 11,340 |
| Employees' retirement benefit (Note 8)..... | 612 | 171 | 7,446 |
| Directors' retirement benefit..... | 30 | 35 | 365 |
| Deferred tax liabilities (Note 6)..... | 39 | 20 | 475 |
| Negative goodwill..... | 154 | 331 | 1,874 |
| Other long-term liabilities..... | 260 | 525 | 3,163 |
| Total long-term liabilities..... | <u>19,066</u> | <u>16,318</u> | <u>231,975</u> |
| Contingent liabilities (Note 5) | | | |
| Equity: | | | |
| Owners' Equity | | | |
| Common Stock..... | 5,650 | 5,650 | 68,743 |
| Capital surplus..... | 2,704 | 2,704 | 32,899 |
| Retained earnings..... | 21,416 | 18,966 | 260,567 |
| Treasury stock..... | (17) | (17) | (207) |
| Total owners' equity..... | <u>29,753</u> | <u>27,303</u> | <u>362,002</u> |
| Net unrealized gain and translation adjustment | | | |
| Net unrealized gain (loss) on available-for-sale securities..... | 264 | (52) | 3,212 |
| Net unrealized gain (loss) on derivative instruments..... | (11) | (27) | (134) |
| Foreign currency translation adjustments..... | (3,378) | (2,932) | (41,100) |
| Total net unrealized gain and translation adjustment..... | <u>(3,125)</u> | <u>(3,011)</u> | <u>(38,022)</u> |
| Noncontrolling interest | | | |
| | 1,904 | 1,797 | 23,166 |
| Total Equity..... | <u>28,532</u> | <u>26,089</u> | <u>347,146</u> |
| Total liabilities and equity..... | <u>231,406</u> | <u>229,118</u> | <u>2,815,501</u> |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

| | March 31, 2012 | March 31, 2011 | 2012 Thousands of U.S. Dollars |
|--|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | (Millions of Yen) | |
| Net sales (Note 10) | 874,660 | 862,915 | 10,641,927 |
| Cost of sales | 852,638 | 840,993 | 10,373,987 |
| Gross profit | 22,022 | 21,922 | 267,940 |
| Selling, general and administrative expenses | 15,464 | 14,248 | 188,149 |
| Operating income | 6,558 | 7,674 | 79,791 |
| Other income | | | |
| Interest income | 47 | 44 | 572 |
| Dividends income | 456 | 448 | 5,548 |
| Purchase discount | 123 | 138 | 1,497 |
| Foreign exchange gains | 86 | — | 1,046 |
| Gain on revaluation of derivatives | — | 147 | — |
| Amortization of negative goodwill | 177 | 177 | 2,154 |
| Gain on reversal of allowance for doubtful accounts | — | 198 | — |
| Gain on sale of investment securities | 4 | — | 49 |
| Others | 293 | 195 | 3,565 |
| | 1,186 | 1,347 | 14,431 |
| Other expense | | | |
| Interest expense | 681 | 617 | 8,286 |
| Loss on sale of notes and account receivables | 869 | 1,257 | 10,573 |
| Sales discount | 322 | 321 | 3,918 |
| Foreign exchange loss | — | 264 | — |
| Loss on revaluation of derivatives | 178 | — | 2,166 |
| Loss on close of retirement benefit plan | — | 668 | — |
| Loss on write-down of investment securities | 376 | 222 | 4,575 |
| Others | 133 | 345 | 1,618 |
| | 2,559 | 3,694 | 31,136 |
| Net income before income taxes, noncontrolling interests | 5,185 | 5,327 | 63,086 |
| and equity in earnings of affiliates | | | |
| Income taxes (Note 4) | | | |
| Current | 2,026 | 1,952 | 24,650 |
| Deferred | 392 | 207 | 4,769 |
| | 2,418 | 2,159 | 29,419 |
| Noncontrolling interests | 150 | 21 | 1,825 |
| Equity in earnings of affiliates | 320 | 202 | 3,893 |
| Net income | 2,937 | 3,349 | 35,735 |
| | (yen) | (yen) | (dollars) |
| Net income per share | 33.17 | 37.81 | 0.40 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

| | March 31, 2012 | March 31, 2011 | 2012 Thousands of U.S. Dollars |
|--|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | (Millions of Yen) | |
| Common stock: | | | |
| Balance at beginning of year | 5,650 | 5,650 | 68,743 |
| Balance at end of period | <u>5,650</u> | <u>5,650</u> | <u>68,743</u> |
| Capital surplus: | | | |
| Balance at beginning of year | 2,704 | 2,704 | 32,899 |
| Balance at end of year..... | <u>2,704</u> | <u>2,704</u> | <u>32,899</u> |
| Retained earnings: | | | |
| Balance at beginning of year | 18,966 | 16,153 | 230,758 |
| Effect of changes in accounting policies applied to foreign subsidiaries..... | 0 | 40 | 0 |
| Cash dividends | (487) | (576) | (5,925) |
| Net income | 2,937 | 3,349 | 35,734 |
| Balance at end of period | <u>21,416</u> | <u>18,966</u> | <u>260,567</u> |
| Net unrealized gain (loss) on available-for-sale securities: | | | |
| Balance at beginning of year | (52) | 15 | (633) |
| Net change in unrealized gain (loss) on available-for-sale securities | 316 | (67) | 3,845 |
| Balance at end of period | <u>264</u> | <u>(52)</u> | <u>3,212</u> |
| Net unrealized gain (loss) on derivative instruments: | | | |
| Balance at beginning of year | (27) | (35) | (329) |
| Net change in unrealized gain (loss) on derivative instruments..... | 16 | 8 | 195 |
| Balance at end of period | <u>(11)</u> | <u>(27)</u> | <u>(134)</u> |
| Foreign currency transaction adjustment: | | | |
| Balance at beginning of year | (2,932) | (2,399) | (35,674) |
| Net change in foreign currency translation adjustments | (446) | (533) | (5,426) |
| Balance at end of period | <u>(3,378)</u> | <u>(2,932)</u> | <u>(41,100)</u> |
| Treasury stock: | | | |
| Balance at beginning and end of year | (17) | (17) | (207) |
| Net change in treasury stock..... | 0 | 0 | 0 |
| Balance at end of period | <u>(17)</u> | <u>(17)</u> | <u>(207)</u> |
| Noncontrolling interest: | | | |
| Balance at beginning and end of year | 1,797 | 1,620 | 21,864 |
| Net change in noncontrolling interest..... | 107 | 177 | 1,302 |
| Balance at end of period | <u>1,904</u> | <u>1,797</u> | <u>23,166</u> |
| Total shareholders' equity | 28,532 | 26,089 | 347,146 |
| | (thousands) | (thousands) | |
| Number of shares of common stock authorized..... | 270,000 | 270,000 | |
| Number of shares of common stock issued..... | 88,606 | 88,606 | |

See accompanying notes to consolidated financial statements.

SHINSHO CORPORATION AND CONSOLIDATED SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| | March 31, 2012 | March 31, 2011 | 2012 Thousands of U.S. Dollars |
|---|-------------------|-------------------|--------------------------------------|
| | (Millions of Yen) | (Millions of Yen) | |
| Operating activities: | | | |
| Net income before income taxes, noncontrolling interests and equity in earnings of affiliates | 5,185 | 5,327 | 63,086 |
| Adjustments to reconcile net income to net cash used in operating activities: | | | |
| Depreciation | 622 | 620 | 7,568 |
| Amortization of negative goodwill | (114) | (167) | (1,387) |
| Increase (Decrease) of reserve and provision | (195) | (385) | (2,373) |
| Interest and dividend income | (503) | (492) | (6,120) |
| Interest expense | 681 | 617 | 8,286 |
| Loss on close of retirement benefit plan | - | 668 | 0 |
| Loss on sale of property | (1) | 0 | (12) |
| Loss on sale of investment securities | (4) | - | (49) |
| Loss on write-down of investment securities | 376 | 222 | 4,575 |
| Decrease (Increase) in trade receivables | 6,672 | (18,069) | 81,178 |
| Decrease (Increase) in inventories | (1,545) | (6,273) | (18,798) |
| Increase (Decrease) in trade payables | (5,372) | 14,133 | (65,361) |
| Decrease (Increase) in other receivables | 175 | 103 | 2,129 |
| Other, net | 5,569 | 173 | 67,758 |
| Sub-total | 11,546 | (3,523) | 140,480 |
| Interest and dividend received | 694 | 554 | 8,444 |
| Interest paid | (670) | (626) | (8,152) |
| Income taxes paid | (2,660) | (594) | (32,364) |
| Net cash provided by operating activities | 8,910 | (4,189) | 108,408 |
| Investing activities: | | | |
| Purchase of property and equipment | (764) | (288) | (9,296) |
| Proceeds from sale of property and equipment | 25 | 4 | 304 |
| Purchase of investment securities | (93) | (212) | (1,132) |
| Proceeds from sale of investment securities | 382 | 1 | 4,648 |
| Purchase of shares of subsidiaries | (3,238) | (418) | (39,397) |
| Proceeds from sales of shares of subsidiaries | - | 84 | - |
| Change in short-term loans, net | (3) | (6) | (37) |
| Increase in long-term loans | - | (5) | - |
| Collection of long-term loans | 272 | 227 | 3,309 |
| Other, net | (677) | (422) | (8,237) |
| Net cash used in investing activities | (4,096) | (1,035) | (49,838) |
| Financing activities: | | | |
| Change in short-term debt, net | 920 | (777) | 11,194 |
| Proceeds from long-term debt | 9,260 | 6,890 | 112,666 |
| Repayment of long-term debt | (9,874) | (3,621) | (120,136) |
| Repayment of finance lease debt | (16) | (14) | (195) |
| Dividends paid | (487) | (576) | (5,925) |
| Dividends paid to noncontrolling interest | (10) | (13) | (122) |
| Proceeds from paid-in capital of noncontrolling interest | 27 | 90 | 329 |
| Other, net | 0 | 0 | 0 |
| Net cash used in financial activities | (180) | 1,979 | (2,189) |
| Effect of exchange on cash and cash equivalents | (163) | (160) | (1,983) |
| Net increase (decrease) in cash and cash equivalents | 4,471 | (3,405) | 54,398 |
| Cash and cash equivalents at beginning of year | 12,989 | 16,395 | 158,036 |
| Effect of changes in consolidated subsidiaries | - | (1) | - |
| Cash and cash equivalents at end of year | 17,460 | 12,989 | 212,434 |

See accompanying notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of Shinsho Corporation (the "Company") and its consolidated subsidiaries have been prepared in conformity with accounting principles and practices generally accepted in Japan.

The accounts of the Company and its subsidiaries are maintained in accordance with the provisions set forth in the Japanese Corporate Law, the Japanese Financial Instruments and Exchange Act. and in the conformity with accounting principles and practices generally accepted in Japan. Accordingly, the accompanying consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

The accompanying consolidated financial statements are stated in Japanese yen, the currency of this country in which the Company is incorporated and principally operates.

The translation of Japanese yen into U.S. dollar is included solely for the convenience of readers. As a matter of arithmetical computation only, at the rate of Japanese yen of ¥82.19 was converted into U.S. dollar \$1, the approximate exchange rate at March 31, 2012. The translation should not be construed as a presentation that yen has been, could have been, or could be in the future, converted into U.S. dollars at the above or any other rates.

2. Summary of significant accounting policies

(1) Scope of Consolidation

The Company had 29 subsidiaries (majority-owned companies) at March 31, 2012.

The accompanying consolidated financial statements include the amounts of the Company and 28 of its subsidiaries for the year ended March 31, 2012, which are listed below:

Shinsho American Corporation
Kobelco Trading Shanghai Co.,Ltd
Suzhou Shinko-shoji Material Co.,Ltd
Shinsho Non-ferrous Corporation
Shinsho Steel Products Corporation

Shinko Shoji Singapore Pte.Ltd
Shinsho Australia Pty.Ltd.
Shinsho (Philippines) Corporation
Thai Escorp Ltd.
Shinsho (Malaysia) Sdn.Bhd.
Taiwan Shinsho Corporation
Matsubo Corporation
16 other consolidated subsidiaries

(2) Elimination and Combination

For the purposes of preparing the consolidated financial statements of the Company and its consolidated subsidiaries, all significant inter-company transactions, account balances and unrealized profits among the Company and its consolidated subsidiaries have been entirely eliminated to "Noncontrolling Interests". In the elimination, any differences between the cost of investments in subsidiaries and the amount of underlying equity in net assets of the subsidiaries is treated as an asset "Goodwill" or a liability "Negative goodwill", and amortized over the period of five years on a straight-line basis.

(3) Equity method of accounting for investments in affiliates
The Company had 17 affiliates (companies owned from 20% to 50% actually) at March 31, 2012.

The equity method is applied to these 13 investments.

(4) Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments. Cash equivalents are generally at the maturity of three months or less and readily convertible to cash.

Cash equivalents near maturity indicate insignificant risk of changes in value because of changes in interest rates.

(5) Investment securities

Securities are classified into the categories based on the purpose of holding, which can result in the different measurement and can account for the changes in the fair value.

Debt securities that are intended to be held to maturity ("held-to-maturity debt securities") are measured at amortized cost in the balance sheet. Securities other than held-to-maturity debt securities and the equity investment in subsidiaries and affiliates ("other securities") are measured at the fair value.

The difference between the fair value and the historical cost is recorded in the category of shareholder's equity. The historical cost is determined by the moving average cost.

Securities that have no market price are stated at their historical cost.

(6) Inventories

Inventories are mainly stated at cost determined by the moving average method. (unless market value of inventories declines significantly and is not expected to recover to cost, in such cases costs are reduced to net realizable values).

(7) Property and equipment

Property and equipment are stated at cost. Depreciation of property and equipment is computed principally by the declining balance method. However, depreciation of buildings booked from April 1, 1998 is computed using the straight-line method.

(8) Long-lived assets

The Company reviews its long-lived assets for the impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group. Those long-lived assets may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected as a result of the continuous use and eventual disposition of the asset or asset group.

The impairment loss would be measured when the carrying amount of the asset exceeds its recoverable amount, which is higher than discounted cash flows from the continuous use and eventual disposition of the asset or the net selling price at disposition.

(9) Retirement benefits

Accrued employees' retirement benefits are provided mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The Company terminated a retirement annuity plan and a lump-sum payment plan at March 31, 2011. And effective April 1, 2011, the Company transferred its retirement annuity plan and a lump-sum payment plan to its defined contribution pension plan.

(10) Allowance for doubtful receivables

The allowance for doubtful receivables is provided in amounts which are sufficient to cover possible losses on collection. It consists of individually estimated uncollectible amounts and amounts calculated using the actual rate of historical bad debt.

(11) Finance leases

Effective April 1, 2008, "Accounting Standard for Lease Transactions"(ASBJ Statement No.13) and "Guidance on Accounting Standard for Lease Transactions"(ASBJ Guidance No.16) were applied.

Lease assets related to finance lease transactions that do not involve the transfer of ownership are depreciated on a straight-line basis, with the lease period used their useful lived and no residual value.

For finance lease transactions which took place before April 1, 2008, the accounting method remains same, as for ordinary operating lease transactions.

(12) Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(13) Translation of foreign currency accounts

Current and non-current monetary assets and liabilities denominated by foreign currencies are translated into Japanese yen at the exchange rates at the end of fiscal year, and the resulting exchange gains and losses are recognized in the income statement.

Balance sheets of consolidated overseas subsidiaries are translated into Japanese yen at the exchange rates at the end of fiscal year except for stockholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at the average exchange rates.

The resulting translation adjustments are reflected in the consolidated financial statements as "Foreign currency translation adjustments".

(14) Derivative financial instruments

The Company trades in derivatives based on currencies and interest rates, primarily as a way of hedging the risk of future fluctuations in exchange rates and interest rates. It also engages in limited amounts of trading with the aim of realizing short-term trading profits. The Company has taken various steps, including the establishment of internal management rules, to

ensure that transactions are implemented appropriately and that risk is managed. Gains and losses on hedge of existing assets or liabilities are included in carrying amounts of those assets or liabilities and are ultimately recognized the income as a part of those carrying amounts.

Gains and losses related to qualifying hedges of firm commitments and anticipated transactions are deferred and recognized the income, or adjustments of carrying amounts, when the hedged transaction occurs.

(15) Net income per share

The computation of net income per share is based on the weighted average number of issued shares of common stock outstanding during the relevant period.

3. Short-term debt and long-term debt

Short-term debt at March 31, 2012 and 2011 consisted of the following:

| | (¥ millions) | | (\$ thousands) |
|--|--------------|--------|----------------|
| | 2012 | 2011 | 2012 |
| Short-term loans principally from banks at March 31, 2012 and 2011 represent short-term notes with the interest on the principal at the average rate of 1.077% and 0.971%, respectively. | 23,516 | 22,332 | 286,118 |

Long-term debt at March 31, 2012 and 2011 consisted of the following:

| | (¥ millions) | | (\$ thousands) |
|---|--------------|---------|----------------|
| | 2012 | 2011 | 2012 |
| Long-term loans from banks, insurance companies and other financial institutions due through 2021, at the averaged rate of 1.014% | 23,749 | 24,363 | 288,952 |
| Less current portion | (6,710) | (9,876) | (81,640) |
| | 17,039 | 14,487 | 207,312 |

The aggregate annual maturity of long-term debt at March 31,

2012 were as follows:

| Year ending March 31 | (¥ millions) | (\$ thousands) |
|----------------------|--------------|----------------|
| 2014 | 4,582 | 55,749 |
| 2015 | 1,140 | 13,870 |
| 2016 | 3,600 | 43,801 |
| 2017 and thereafter | 7,717 | 93,892 |

4. Income taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise of the corporation tax, inhabitants' taxes and the enterprise tax, which in the aggregate resulted in the normal statutory tax rate of approximately 41% for both 2012 and 2011.

The effective tax rates reflected in the statements of operations differ from the statutory tax rates. The difference is due primarily to the timing difference in the recognition of certain income and expenses for tax and financial reporting purposes, and the effect of permanent non-deductible expenses.

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 41% to 38% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 36% afterwards. The effect of this change was to decrease deferred tax assets in the consolidated balance sheet as of March 31, 2012 by ¥114 million (\$ 1,387 thousand) and to increase income taxes-deferred in the consolidated statement of income for the year then ended by ¥151 million (\$ 1,837 thousand).

5. Contingent Liabilities

Contingent liabilities at March 31, 2012 and 2011 were as follows:

| | (¥ millions) | | (\$ thousands) |
|-------------------------------|--------------|-------|----------------|
| | 2012 | 2011 | 2012 |
| As endorser of notes endorsed | 2,289 | 1,974 | 27,850 |
| As guarantor of loans | 349 | 405 | 4,246 |

6. Deferred income taxes

Significant components of deferred tax assets and liabilities at March 31, 2012 and 2011, were as follows:

| | (¥ millions) | | (\$ thousands) | |
|--|--------------|-------|----------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Deferred tax assets: | | | | |
| Allowance for doubtful receivables | 34 | 37 | 414 | |
| Accrued bonus | 323 | 305 | 3,930 | |
| Loss on devaluation of inventories | 45 | 52 | 548 | |
| Loss on devaluation of fixed assets | 316 | 366 | 3,845 | |
| Loss on devaluation of investment securities | 485 | 356 | 5,901 | |
| Loss on devaluation of membership right | 111 | 136 | 1,351 | |
| Accrued for severance benefit for employee | 210 | 62 | 2,555 | |
| Operating loss carry forwards | 785 | 163 | 9,551 | |
| Others | 596 | 624 | 7,251 | |
| Valuation allowance | (1,070) | (727) | (13,019) | |
| Gross deferred tax assets | 1,835 | 1,373 | 22,327 | |
| Deferred tax liabilities: | | | | |
| Unrealized gain on available-for-sale securities | (273) | (193) | (3,322) | |
| Others | (52) | (32) | (633) | |
| Gross deferred tax liabilities | (325) | (225) | (3,955) | |
| Net deferred tax assets | 1,510 | 1,148 | 18,372 | |

7. Lease transactions

- Finance leases other than those which transfer the ownership
Lease expenses on finance lease contracts without the ownership transfer for the year ended March 31, 2012 and 2011, were as follows:

| | (¥ millions) | | (\$ thousands) | |
|-----------------------|--------------|------|----------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Lease rental expenses | 37 | 43 | 450 | |

The amount of outstanding future lease payments due at March 31, 2012 and 2011, which included the portion of interest thereon, were as follows:

| | (¥ millions) | | (\$ thousands) | |
|-----------------------|--------------|------|----------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Future lease payments | | | | |
| Within one year | 23 | 37 | 280 | |
| Over one year | 5 | 29 | 61 | |

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets, at March 31, 2012 and 2011 which included the portion of interest thereon, were as follows:

| | (¥ millions) | | (\$ thousands) | |
|--------------------------|--------------|-------|----------------|------|
| | 2012 | 2011 | 2012 | 2011 |
| Acquisition cost | 235 | 244 | 2,859 | |
| Accumulated depreciation | (206) | (177) | (2,506) | |
| Net book value | 29 | 67 | 353 | |
| Depreciation | 37 | 43 | 450 | |

Depreciation is based on the straight-line method over the leased term of the leased assets, assuming no residual value.

- Operating lease

Under non-cancelable operating leases, future minimum lease payments at March 31, 2012 were ¥27million (\$328 thousand) of which ¥12million (\$146 thousand) is due within one year.

8. Retirement and severance benefits plans

The Company and certain of its consolidated subsidiaries have the defined contribution plan and various defined benefit plans, which are the welfare pension fund plan and the lump-sum retirement benefit plan.

The Company terminated a retirement annuity plan and a lump-sum payment plan at March 31, 2011. And effective April 1, 2011, the Company transferred its retirement annuity plan and a lump-sum payment plan to its defined contribution pension plan. Additional retirement benefits which may be paid to employees upon retirement have not been included in the actuarial calculation of the projected benefit obligation.

The liabilities for retirement and severance benefits included in the liability section of the consolidated balance sheet at March 31, 2012 and 2011 consisted of the following:

| | (¥ millions) | | (\$ thousands) |
|---|--------------|-------|----------------|
| | 2012 | 2011 | 2012 |
| Projected benefit obligation | 1,039 | 339 | 12,641 |
| Fair value of plan assets | (427) | (168) | (5,195) |
| Allowance for severance and retirement benefits | 612 | 171 | 7,446 |

Components of net periodical severance and retirement cost for the year ended March 31, 2012 and 2011 were as follows:

| | (¥ millions) | | (\$ thousands) |
|---|--------------|------|----------------|
| | 2012 | 2011 | 2012 |
| Service cost-benefits earned during the year | 46 | 100 | 560 |
| Interest cost on projected benefit obligation | — | 42 | — |
| Expected return on plan assets | — | (35) | — |
| Amortization of transitional obligation | 2 | 1 | 24 |
| Amortization of actuarial differences | — | (51) | — |
| Amortization of prior service cost | — | (41) | — |
| Contribution payment to the defined contribution pension plan | 236 | 143 | 2,871 |
| Others | 100 | 83 | 1,217 |
| Net periodical severance and retirement cost | 384 | 242 | 4,672 |

Assumptions used for the years March 31, 2012 and 2011, were principally as follows:

| | 2012 | 2011 |
|--|------|----------------------|
| • Discount rate | — | 2.0% |
| • Expected rate of return on plan assets | — | 1.1% |
| • Allocation method of severance and retirement costs | — | Straight-line method |
| • Term of amortization of prior service cost | — | 10 years |
| • Term of amortization of unrecognized net actuarial differences | — | 10 years |
| • Term of amortization of transitional obligation | — | 10 years |

9. Business combination

MATSUBO Corporation

On November 25, 2011, the Company entered into an agreement to acquire all the outstanding shares of MATSUBO Corporation. This acquisition for ¥3,249 million in cash was closed on December 27, 2011.

MATSUBO Corporation purchases and sells equipment, raw material and chemical products.

In addition, its business is to provide total support including engineering services for installation and modifications after introduction.

The Company acquired the share of MATSUBO Corporation, in order to strengthen its machinery business by utilizing MATSUBO's know-how and sharing product information.

The details of acquisition cost of MATSUBO Corporation were as follows:

| | (¥ millions) | | (\$ thousands) |
|------------------------|--------------|------|----------------|
| | 2012 | 2011 | 2012 |
| Cash | 3,249 | | 39,530 |
| Advisory expense | 95 | | 1,156 |
| Total acquisition cost | 3,345 | | 40,686 |

The amount of the fair values of assets acquired and liabilities at the finalized acquisition-date were as follows:

| | (¥ millions) | | (\$ thousands) |
|-----------------------|--------------|------|----------------|
| | 2012 | 2011 | 2012 |
| Current assets | 6,178 | | 75,167 |
| Long-term assets | 1,229 | | 14,953 |
| Total assets acquired | 7,407 | | 90,120 |

| | (¥ millions) | | (\$ thousands) |
|----------------------------|--------------|------|----------------|
| | 2012 | 2011 | 2012 |
| Current liabilities | 4,290 | | 52,196 |
| Long-term liabilities | 425 | | 5,171 |
| Total liabilities acquired | 4,715 | | 57,367 |

The goodwill of ¥653 million which is classified as Long-term assets was recognized.

It consists primarily of future economic benefits and synergies with the future business running.

10. Segment Information

For the year ended March 31, 2011

| | Iron & Steel | Raw Materials | Nonferrous Metals | Machinery & Electronics |
|---|--------------|---------------|-------------------|-------------------------|
| Net sales | | | | |
| Outside customers | 265,711 | 336,609 | 209,628 | 47,038 |
| Inter - segment | - | - | 1 | - |
| Total | 265,711 | 336,609 | 209,629 | 47,038 |
| Segment profit or loss | 2,804 | 1,014 | 1,167 | 184 |
| Segment assets | 87,153 | 43,413 | 52,915 | 18,274 |
| Other items | | | | |
| Depreciation | 204 | 66 | 165 | 120 |
| Interest income | 24 | 2 | 15 | 7 |
| Interest expense | 174 | 110 | 138 | 152 |
| Increase from tangible fixed assets and intangible assets | 222 | 53 | 161 | 164 |

For the year ended March 31, 2012

| | Iron & Steel | Raw Materials | Nonferrous Metals | Machinery & Electronics |
|---|--------------|---------------|-------------------|-------------------------|
| Net sales | | | | |
| Outside customers | 273,485 | 363,149 | 182,165 | 53,603 |
| Inter - segment | - | - | 0 | - |
| Total | 273,485 | 363,149 | 182,165 | 53,603 |
| Segment profit or loss | 2,964 | 859 | 687 | 261 |
| Segment assets | 88,592 | 38,986 | 52,862 | 33,681 |
| Other items | | | | |
| Depreciation | 175 | 55 | 180 | 148 |
| Interest received | 16 | 4 | 18 | 6 |
| Interest expense | 174 | 129 | 138 | 173 |
| Increase from tangible fixed assets and intangible assets | 401 | 120 | 536 | 323 |

For the year ended March 31, 2012

| | Iron & Steel | Raw Materials | Nonferrous Metals | Machinery & Electronics |
|---|--------------|---------------|-------------------|-------------------------|
| Net sales | | | | |
| Outside customers | 3,327,473 | 4,418,409 | 2,216,389 | 652,184 |
| Inter - segment | - | - | 0 | - |
| Total | 3,327,473 | 4,418,409 | 2,216,389 | 652,184 |
| Segment profit or loss | 36,063 | 10,451 | 8,359 | 3,176 |
| Segment assets | 1,077,893 | 474,340 | 643,168 | 409,794 |
| Other items | | | | |
| Depreciation | 2,129 | 669 | 2,190 | 1,801 |
| Interest received | 195 | 49 | 219 | 73 |
| Interest expense | 2,117 | 1,570 | 1,679 | 2,105 |
| Increase from tangible fixed assets and intangible assets | 4,879 | 1,460 | 6,521 | 3,930 |

Notes: The segment is classified with the kind of inventories and the common sales route based on the sales department of the Company.

(Millions of yen)

| Welding | Others | Total | Corporate / Elimination | Consolidated |
|---------|--------|---------|-------------------------|--------------|
| 53,381 | 356 | 912,723 | (49,809) | 862,914 |
| - | - | 1 | - | 1 |
| 53,381 | 356 | 912,724 | (49,809) | 862,915 |
| 870 | (963) | 5,076 | 251 | 5,327 |
| 17,371 | 9,992 | 229,118 | - | 229,118 |
| 35 | 30 | 620 | - | 620 |
| 8 | - | 56 | (12) | 44 |
| 56 | - | 630 | (13) | 617 |
| 53 | - | 653 | - | 653 |

(Millions of yen)

| Welding | Others | Total | Corporate / Elimination | Consolidated |
|---------|--------|---------|-------------------------|--------------|
| 51,010 | 375 | 923,787 | (49,127) | 874,660 |
| - | - | 0 | (0) | - |
| 51,010 | 375 | 923,787 | (49,127) | 874,660 |
| 784 | (678) | 4,877 | 308 | 5,185 |
| 18,766 | 381 | 233,268 | (1,862) | 231,406 |
| 37 | 27 | 622 | - | 622 |
| 12 | 0 | 56 | (9) | 47 |
| 78 | - | 692 | (11) | 681 |
| 34 | - | 1,414 | - | 1,414 |

(Thousands of US\$)

| Welding | Others | Total | Corporate / Elimination | Consolidated |
|---------|---------|------------|-------------------------|--------------|
| 620,635 | 4,563 | 11,239,653 | (597,726) | 10,641,927 |
| - | - | 0 | (0) | - |
| 620,635 | 4,563 | 11,239,653 | (597,726) | 10,641,927 |
| 9,539 | (8,249) | 59,339 | 3,747 | 63,086 |
| 228,325 | 4,636 | 2,838,156 | (22,655) | 2,815,501 |
| 450 | 329 | 7,568 | - | 7,568 |
| 146 | 0 | 682 | (110) | 572 |
| 949 | - | 8,420 | (134) | 8,286 |
| 414 | - | 17,204 | - | 17,204 |

Investor Information (As of March 31, 2012)

Founded.....November. 12 1946
 Number of Employees..... 516 (Consolidated 1,190)
 Fiscal Year.....April 1 – March 31

Ordinary General Meeting of Shareholders.....June of each year
 Authorised Share Capital.....270,000,000
 Number of Shares Issued.....88,605,625
 Number of Shareholders.....5,195

Principal Shareholders

At March 31, 2012, the ten largest Shareholders of the Company's Shareholders were as follows:

| | Thousands of shares | Investment Ratio |
|--|---------------------|------------------|
| Mizuho Trust&Banking Co., Ltd. (Kobe Steel,Ltd. Retirement Benefit Trust Account) | 19,062 | 21.52% |
| Kobe Steel, Ltd. | 11,791 | 13.31 |
| Client Stock Ownership | 5,644 | 6.37 |
| Sumitomo Mitsui Banking Corporation | 2,068 | 2.34 |
| Sinfonia Technology Co., Ltd. | 1,500 | 1.69 |
| Bank of Tokyo-Mitsubishi UFJ, Ltd. | 1,436 | 1.62 |
| Japan Trustee Services Bank, Ltd. (Trust Account) | 1,297 | 1.46 |
| Employee Stock Ownership | 1,166 | 1.32 |
| Nippon Life Insurance Company | 1,067 | 1.20 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 980 | 1.11 |

Note: The Investment ratio is computed excluding 33,800 shares of treasury stock held by Shinsho Corporation.

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