

FINANCIAL REPORT

Consolidated Balance Sheets

Takuma Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
ASSETS			
Current assets:			
Cash and time deposits (Notes 3 and 6)	¥ 44,531	¥ 60,102	\$ 414,666
Marketable securities (Notes 3 and 4)	45	225	419
Notes and accounts receivable:			
Trade	33,369	27,713	310,727
Unconsolidated subsidiaries and affiliated companies	1,787	1,057	16,640
Other	396	355	3,688
Less: Allowance for doubtful accounts	(783)	(582)	(7,291)
	34,769	28,543	323,764
Inventories	7,736	8,431	72,037
Deferred tax assets (Note 13).....	4,255	2,569	39,622
Advanced money.....	755	859	7,030
Other	492	3,349	4,581
Total current assets	92,583	104,078	862,119
Investments and other assets:			
Investment securities (Note 4)	18,408	16,712	171,413
Investments in:			
Unconsolidated subsidiaries and affiliated companies	7,116	4,897	66,263
Other	2,349	2,614	21,874
Less: Allowance for doubtful accounts	(437)	(450)	(4,069)
	9,028	7,061	84,068
Deferred tax assets (Note 13).....	1,140	1,751	10,616
Other	2,563	883	23,866
	31,139	26,407	289,963
Property, plant and equipment:			
Land (Notes 6 and 7).....	3,307	3,307	30,794
Buildings and structures (Note 6)	10,130	10,215	94,329
Machinery and equipment	10,035	9,765	93,444
Construction in progress	2	18	19
	23,474	23,305	218,586
Less: Accumulated depreciation	(14,240)	(13,843)	(132,601)
	9,234	9,462	85,985
	¥132,956	¥ 139,947	\$ 1,238,067

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Current liabilities:			
Short-term bank loans (Notes 6 and 8)	¥ 2,911	¥ 6,226	\$ 27,107
Current portion of long-term debt (Notes 6 and 8)	143	233	1,332
Notes and accounts payable:			
Trade	36,066	36,283	335,841
Unconsolidated subsidiaries and affiliated companies	478	1,194	4,451
Other	930	998	8,660
	37,474	38,475	348,952
Accrued income taxes (Note 13)	956	535	8,902
Consumption tax payable	187	62	1,741
Accrued expenses	2,918	2,828	27,172
Allowance for losses on sales contracts	2,690	655	25,049
Advances received	2,652	6,813	24,695
Other	462	423	4,302
Total current liabilities	50,393	56,250	469,252
Long-term debt (Notes 6 and 8)	314	348	2,924
Allowance for employees' retirement benefits (Note 9)	6,305	6,711	58,711
Allowance for directors', executive officers' and corporate auditors' retirement benefits ..	526	555	4,898
Deferred tax liabilities (Note 13).....	356	29	3,315
Deferred tax liability for revaluation reserve for land (Notes 7 and 13) ..	279	232	2,598
Total liabilities	58,173	64,125	541,698
Minority interests in consolidated subsidiaries	3,840	3,554	35,758
Contingent liabilities (Notes 5, 10 and 15)			
Shareholders' equity:			
Common stock			
Authorized: 321,840,000 shares			
Issued: 87,799,248 shares	13,367	13,367	124,472
Capital surplus (Note 11)	12,407	12,407	115,532
Retained earnings (Note 11)	43,869	44,479	408,502
Revaluation reserve for land (Note 7)	160	197	1,490
Net unrealized holding gain on available-for-sale securities	3,761	3,288	35,022
Foreign currency translation adjustments	(25)	(47)	(233)
Less: Treasury stock	(2,596)	(1,423)	(24,174)
Total shareholders' equity	70,943	72,268	660,611
	¥ 132,956	¥ 139,947	\$ 1,238,067

Consolidated Statements of Operations

Takuma Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Net sales (Note 14)	¥ 103,721	¥ 95,183	\$ 965,835
Cost of sales (Notes 12 and 14)	84,585	78,651	787,643
Gross profit	19,136	16,532	178,192
Selling, general and administrative expenses (Notes 12 and 14)	17,873	16,701	166,431
Operating income (loss) (Note 14)	1,263	(169)	11,761
Other income (expenses):			
Interest and dividend income	295	247	2,747
Interest expense	(56)	(64)	(521)
Foreign currency exchange gain (loss)	60	(88)	559
Gain on sales of investment securities	1,855	-	17,273
Write-down of investments in unconsolidated subsidiaries and affiliated companies	(11)	(51)	(102)
Gain on disposal of property, plant and equipment	53	168	493
Technical assistance fee	263	338	2,449
Equity in earnings of affiliated companies	432	227	4,023
Provision for doubtful accounts	(259)	(202)	(2,412)
Provision for losses on sales contracts	(2,580)	-	(24,025)
Write-down of Inventories	(220)	(22)	(2,049)
Additional retirement payments (Note 9)	(135)	(848)	(1,257)
Other, net	54	(17)	503
	(249)	(312)	(2,319)
Income (loss) before income taxes and minority interests	1,014	(481)	9,442
Income taxes (Note 13):			
Current	1,315	1,196	12,245
Past	-	358	-
Deferred	(935)	(1,039)	(8,707)
	380	515	3,538
Minority interests in earnings of consolidated subsidiaries	366	36	3,408
Net income (loss)	¥ 268	¥ (1,032)	\$ 2,496
		Yen	U.S.dollars (Note 1)
Per share:			
Net income (loss)	¥ 2.57	¥ (12.66)	\$ 0.02
Diluted net income	-	-	-
Cash dividends applicable to the year	10.00	10.00	0.09

See accompanying notes.

Consolidated Statements of Shareholders' Equity

Takuma Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of Yen							
	Number of shares issued	Common stock	Capital surplus	Retained earnings	Revaluation reserve for land	Net unrealized holding gain on available-for-sale securities	Foreign currency translation adjustments	Treasury stock
Balance as of March 31, 2003	87,799,248	¥ 13,367	¥ 12,407	¥ 46,426	¥ 197	¥ 189	¥ (25)	¥ (572)
Net loss	-	-	-	(1,032)	-	-	-	-
Net unrealized holding gain on available-for-sale securities	-	-	-	-	-	3,099	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	(22)	-
Increase in treasury stock	-	-	-	-	-	-	-	(851)
Increase due to increase in number of affiliates accounted for by the equity method	-	-	-	67	-	-	-	-
Cash dividends (¥10.00 per share)	-	-	-	(855)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(127)	-	-	-	-
Balance as of March 31, 2004	87,799,248	¥ 13,367	¥ 12,407	¥ 44,479	¥ 197	¥ 3,288	¥ (47)	¥ (1,423)
Net income	-	-	-	268	-	-	-	-
Revaluation reserve for land	-	-	-	-	(37)	-	-	-
Net unrealized holding gain on available-for-sale securities	-	-	-	-	-	473	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	22	-
Increase in treasury stock	-	-	-	-	-	-	-	(1,173)
Increase due to increase in number of affiliates accounted for by the equity method	-	-	-	3	-	-	-	-
Cash dividends (¥10.00 per share)	-	-	-	(842)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(39)	-	-	-	-
Balance as of March 31, 2005	87,799,248	¥ 13,367	¥ 12,407	¥ 43,869	¥ 160	¥ 3,761	¥ (25)	¥ (2,596)

	Thousands of U.S.dollars (Note 1)						
Balance as of March 31, 2004	\$ 124,472	\$ 115,532	\$ 414,182	\$ 1,834	\$ 30,617	\$ (438)	\$(13,251)
Net income	-	-	2,496	-	-	-	-
Revaluation reserve for land	-	-	-	(344)	-	-	-
Net unrealized holding gain on available-for-sale securities	-	-	-	-	4,405	-	-
Foreign currency translation adjustments	-	-	-	-	-	205	-
Increase in treasury stock	-	-	-	-	-	-	(10,923)
Increase due to increase in number of affiliates accounted for by the equity method	-	-	28	-	-	-	-
Cash dividends (\$0.09 per share)	-	-	(7,841)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	(363)	-	-	-	-
Balance as of March 31, 2005	\$ 124,472	\$ 115,532	\$ 408,502	\$ 1,490	\$ 35,022	\$ (233)	\$(24,174)

See accompanying notes.

Consolidated Statements of Cash Flows

Takuma Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2005	2004	2005
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ 1,014	¥ (481)	\$ 9,442
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash used in operating activities:			
Depreciation	990	1,101	9,219
Amortization of consolidation difference	229	-	2,132
Write-down of investments in unconsolidated subsidiaries and affiliated companies ..	11	51	102
Gain on disposal of property, plant and equipment	(53)	(168)	(493)
Gain on sales of investment securities	(1,855)	-	(17,273)
Additional retirement payments	135	848	1,257
Increase in allowance for doubtful accounts	167	237	1,555
Decrease in allowance for losses on sales contracts	2,035	(126)	18,950
Decrease in pension benefit obligation	(498)	(967)	(4,637)
Interest and dividend income	(295)	(247)	(2,747)
Interest expense	56	64	521
Equity in earnings of affiliated companies.....	(432)	(227)	(4,023)
Net decrease (increase) in notes and accounts receivable and advance received	(8,236)	15,010	(76,692)
Decrease in inventories	1,265	425	11,779
Decrease (Increase) in consumption tax receivable	1,360	(1,430)	12,664
Increase in other current assets	(93)	(16)	(866)
Net decrease in notes and accounts payable and advance money	(2,446)	(14,478)	(22,777)
Increase (Decrease) in consumption tax payable	111	(3,677)	1,034
Decrease in other current liabilities	(188)	(150)	(1,751)
Payment of bonuses to directors and corporate auditors.....	(56)	(144)	(521)
Other	24	(859)	223
Subtotal	(6,755)	(5,234)	(62,902)
Interest and dividend received	345	268	3,213
Interest paid	(55)	(64)	(512)
Income taxes paid	548	(2,415)	5,103
Additional retirement payments	(135)	(848)	(1,257)
Net cash used in operating activities	(6,052)	(8,293)	(56,355)
Cash flows from investing activities:			
Net decrease in time deposits	1,031	239	9,601
Purchase of property, plant and equipment	(482)	(400)	(4,488)
Sales of property, plant and equipment	140	454	1,304
Purchase of intangible fixed assets	(159)	(69)	(1,481)
Purchase of investment securities	(3,081)	(812)	(28,690)
Sales of investment securities	3,992	499	37,173
Investments in unconsolidated subsidiaries and affiliated companies	(1,959)	(2,136)	(18,242)
Disbursement for loans receivable	(2,479)	(660)	(23,084)
Collection of loans receivable	411	286	3,827
Other	106	54	987
Net cash used in investing activities	(2,480)	(2,545)	(23,093)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(4,315)	(444)	(40,181)
Proceeds from long-term debt	125	240	1,164
Payment of long-term debt	(249)	(308)	(2,319)
Purchase of treasury stock	(1,166)	(852)	(10,858)
Payment of cash dividends to the Company's shareholders	(842)	(855)	(7,841)
Payment of cash dividends to minority interests	(32)	(34)	(298)
Net cash used in financing activities	(6,479)	(2,253)	(60,333)
Effect of exchange rate changes on cash and cash equivalents	(58)	(83)	(540)
Net decrease in cash and cash equivalents	(15,069)	(13,174)	(140,321)
Cash and cash equivalents at beginning of year (Note 3)	56,320	69,494	524,444
Cash and cash equivalents of newly consolidated subsidiary	506	-	4,712
Cash and cash equivalents at end of year (Note 3)	¥ 41,757	¥ 56,320	\$ 388,835

See accompanying notes.

Notes to Consolidated Financial Statements

Takuma Co., Ltd. and Consolidated Subsidiaries

1. Basis of presenting financial statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In the year ended March 31, 2005, the Company did not adopt early the new accounting standard for impairment of fixed Assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted effective April 1, 2005.

The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adopting the new accounting standard, because the Company has not yet completed its analysis.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2005, which was

¥107.39 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of significant accounting policies

(a) Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 13 significant subsidiaries (the "Companies"). All significant inter-company transactions and unrealized profits among the Companies have been eliminated in consolidation. Investments in certain significant affiliates, which the Company and its subsidiaries are able to influence, in a material degree, their financial and operating decision-making, other than consolidated subsidiaries, are accounted for by the equity method after the elimination of unrealized inter-company profits. The consolidation difference between acquisition cost and net assets at the date of acquisition is amortized over 8 years with minor exception. Investments in the remaining unconsolidated subsidiaries and affiliated companies are not accounted for by the equity method because of the immaterial effect on the consolidated financial statements. Therefore, such investments are carried at cost, adjusted for any substantial and non-recoverable decline in value, and income from those unconsolidated subsidiaries and affiliated companies is recognized only when the Companies receive dividends therefrom.

(b) Foreign currency translation

Revenue and expense are translated at the rates of exchange prevailing when transactions are made. Assets and liabilities denominated in foreign currencies are generally translated into each reporting currency at the rate of foreign exchange prevailing at the balance sheet dates and the resulting translation gains or losses are included in earnings.

Financial statements of a consolidated overseas subsidiary are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company. The resulting transla-

tion adjustments are shown as “Foreign currency translation adjustments”, a separate component of shareholders' equity.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash and cash equivalents include cash on hand, readily-available deposits and short-term investments with maturities of not exceeding three months from the date of acquisition which have high liquidity and low risk of price fluctuation.

(d) Securities

Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for using the equity method are stated at moving-average cost. Available-for-sale securities with available fair market value are stated at fair market value, and unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost. Other securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the carrying amount is recognized as loss in the period of the decline. If the fair market value of securities is not readily available, such securities should be written down to net asset value with a corresponding charge in the income statement in the event net asset value declines significantly. In these cases, such fair market value or the net asset value will be the carrying amount of the securities at the beginning of the next year.

(e) Allowance for doubtful accounts

The Company and its domestic subsidiaries adopt the policy of providing the allowance for doubtful accounts by estimating individually uncollectible amounts and by applying percentage based on collection experience to the remaining.

(f) Inventories

Work in process is stated at cost as determined by the identified cost method. Materials and supplies are stated at cost by the average method.

(g) Property, plant and equipment

Property, plant and equipment are depreciated using the declining-balance method over the estimated useful lives of the assets. However, buildings acquired after March 31, 1998, are depreciated using the straight-line method.

The range of useful lives is principally from 3 to 60 years for buildings and structures and from 2 to 20 years for machinery, equipment and other. Maintenance and repairs, including minor renewals and improvements, are charged to income as incurred.

(h) Accounting for leases

Finance lease which do not transfer ownership of the leased assets to the lessee, are accounted for in the same manner as operating leases.

(i) Allowance for losses on sales contracts

Among sales orders of the Company on hand at balance sheet date, for projects in which the estimated cost is expected to exceed the amount of the sales order by a wide margin, allowance for losses on sales contracts is recognized at the estimated aggregate amount of such losses.

(j) Allowance for employees' retirement benefits

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded non-contributory pension plans. Under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors.

The Companies provided allowance for employees' severance and retirement benefits as of March 31, 2005 and 2004 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date.

Actuarial gains or losses are recognized in expense using straight-line method over 10 years commencing with the following period. Prior service costs are recognized in expense using straight-line method over 10 years from when incurred.

(k) Allowance for directors', executive officers' and corporate auditors' retirement benefits

Directors, executive officers and corporate auditors are generally entitled to receive retirement benefits based on the Companies'

internal rules. The Companies provided allowance for directors', executive officers' and corporate auditors' retirement benefits computed on the assumption that all directors, executive officers and corporate auditors retired at the balance sheet date.

(l) Revenue recognition

Net sales from contracts are recognized at the time the contracts are completed, except that net sales for projects with construction lasting more than one year and contract amount over ¥1,000 million are recognized using the percentage-of-completion method. Net sales and gross profit recognized on the percentage-of-completion method for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Net sales	¥ 30,363	¥ 29,264	\$ 282,736
Gross profit	4,385	4,218	40,832

(m) Income taxes

The Companies are subject to corporation tax, inhabitants tax and enterprise tax, which are based on taxable income. The Companies recognize the tax effects of the temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting. The provision for income taxes is computed based on the pretax income of each of the Companies, with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences.

With the promulgation of the "Revision of the Local Tax Law" (Legislation No.9, 2003) on March 31, 2003, the tax bases for assessing enterprise taxes comprise "amount of income", "amount of added value" and "amount of capital" commencing April 1, 2004.

Enterprise taxes based on "amount of added value" and "amount of capital" are included in "Selling, general and administrative expenses" commencing this fiscal year pursuant to "Practical Solutions on Presentation for Size-Based Components of Corporate Enterprise Tax on the Income Statement" (Accounting Standards Board, Practical Solution Report No.12 issued on

February 13, 2004). As a result of this change, in the year ended March 31, 2005, selling, general and administrative expenses increased by ¥129 million (\$1,201 thousand), and operating income and income before income taxes and minority interests each decreased by the same amount.

(n) Net income and cash dividends per share

Net income per share is computed based on the weighted average number of common stock outstanding during each period. Diluted net income per share is computed by the assumption that all convertible bonds were converted into common stock at the beginning of each period.

Cash dividends per share represent interim dividends declared by the Board of Directors in each year and year-end dividends approved by the shareholders at the annual meeting held subsequent to the end of the fiscal year.

(o) Derivatives and hedge accounting

The Companies generally state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies generally defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on the hedged items are recognized.

The Company uses currency forward contract to hedge its accounts receivable and accounts payable denominated in foreign currencies against foreign exchange risk that comes from foreign currency transactions (mainly U.S.dollars).

(p) Valuation of assets and liabilities of consolidated subsidiaries

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

(q) Reclassifications

Certain prior year amounts have been reclassified to conform to 2005 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Amounts of cash and cash equivalents

Amounts of cash and cash equivalents as of March 31, 2005 and 2004 were reconciled with cash and time deposits as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Cash and time deposits.....	¥ 44,531	¥ 60,102	\$ 414,666
Time deposits with maturities exceeding three months from the date of acquisition.....	(2,805)	(3,812)	(26,120)
Short-term highly liquid investments with maturities not exceeding three months.....	31	30	289
Total : Cash and cash equivalents.....	¥ 41,757	¥ 56,320	\$ 388,835

4. Securities

(a) Acquisition costs, book values of available-for-sale securities with available fair values as of March 31, 2005 and 2004 were as follows:

As of March 31, 2005	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 7,689	¥ 14,025	¥ 6,336
Debt securities	38	41	3
Others	800	850	50
Subtotal	8,527	14,916	6,389
Others:			
Equity securities	1,244	1,230	(14)
Others	61	50	(11)
Subtotal	1,305	1,280	(25)
Total	¥ 9,832	¥ 16,196	¥ 6,364

As of March 31, 2004	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 7,676	¥ 13,235	¥ 5,559
Debt securities	57	64	7
Others	905	963	58
Subtotal	8,638	14,262	5,624
Others:			
Equity securities	257	243	(14)
Others	122	106	(16)
Subtotal	379	349	(30)
Total	¥ 9,017	¥ 14,611	¥ 5,594

As of March 31, 2005	Thousands of U.S.dollars		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 71,599	\$ 130,599	\$ 59,000
Debt securities	354	382	28
Others	7,449	7,915	466
Subtotal	79,402	138,896	59,494
Others:			
Equity securities	11,584	11,453	(131)
Others	568	466	(102)
Subtotal	12,152	11,919	(233)
Total	\$ 91,554	\$ 150,815	\$ 59,261

(b) Book values of available-for-sale securities with no fair values as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Non-listed equity securities	¥ 2,226	¥ 2,296	\$ 20,728
Debt security investment trust which equivalent to cash	31	30	289

(c) Available-for-sale securities sold for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Total sales amount	¥ 3,992	¥ 499	\$ 37,173
Gains	1,855	3	17,273
Losses	1	2	9

(d) Maturities of available-for-sale securities as of March 31, 2005 and 2004 were as follows:

As of March 31, 2005	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Debt securities	¥ 13	¥ -	¥ 27	¥ -
Others	-	-	-	-
Total	¥ 13	¥ -	¥ 27	¥ -

As of March 31, 2004	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Debt securities	¥ 23	¥ 13	¥ 27	¥ -
Others	188	-	-	-
Total	¥ 211	¥ 13	¥ 27	¥ -

As of March 31, 2005	Thousands of U.S.dollars			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Debt securities	\$ 121	\$ -	\$ 251	\$ -
Others	-	-	-	-
Total	\$ 121	\$ -	\$ 251	\$ -

5. Lease

(a) Finance lease

The Companies are obligated under several non-cancelable finance leases without transfer of ownership. Total expenses for non-capitalized finance leases, which are accounted for in the same manner as operating leases, for the years ended March 31, 2005 and 2004 were ¥185 million (\$1,723 thousand) and ¥175 million, respectively.

If such finance leases were capitalized including interest as of March 31, 2005 and 2004, they would be recorded in the consolidated balance sheets as follows:

	Millions of Yen					
	2005			2004		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment	¥ 871	¥ 361	¥ 510	¥ 681	¥ 354	¥ 327
Other assets	132	45	87	85	39	46
Total.....	¥ 1,003	¥ 406	¥ 597	¥ 766	¥ 393	¥ 373

	Thousands of U.S.dollars		
	2005		
	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment	\$ 8,111	\$ 3,362	\$ 4,749
Other assets	1,229	419	810
Total.....	\$ 9,340	\$ 3,781	\$ 5,559

If depreciation expense on such finance leases was incurred for the years ended March 31, 2005 and 2004, the amounts would be ¥185 million (\$1,723 thousand) and ¥175 million, respectively.

The scheduled future payments of such lease obligations, including interest, as of March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
	Due within one year	¥ 170	¥ 128
Due after one year	427	245	3,976
Total	¥ 597	¥ 373	\$ 5,559

(b) Operating lease

The scheduled future payments of operating lease, including interest, as of March 31, 2005 and 2004, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Due within one year	¥ 5	¥ 6	\$ 47
Due after one year	-	6	-
Total	¥ 5	¥ 12	\$ 47

6. Pledged assets

The following assets were pledged to secure short-term bank loans, long-term debt, notes discounted and fulfillment of a contract as of March 31, 2005 and 2004:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Land	¥ 1,087	¥ 1,087	\$ 10,122
Buildings and structures	408	435	3,799
Time deposits	182	73	1,695
Total	¥ 1,677	¥ 1,595	\$ 15,616

7. Revaluation reserve for land

Pursuant to “Law concerning Revaluation Reserve for Land” (the Law), enacted March 31, 1998, and partial revision to the Law on March 31, 2001, land held by one of the consolidated subsidiaries has been revalued. As the result, the applicable income tax portion of related unrealized gain was reported “Deferred tax liability for revaluation reserve for land” in liabilities section, and the related unrealized gain (net of applicable income tax) was recognized in minority interests in consolidated subsidiaries section and “Revaluation reserve for land” in shareholders' equity section.

	Millions of Yen
Book value of land before revaluation	¥ 259
Book value of land after revaluation	826
Date of revaluation March 31, 2002	

As of March 31, 2005, the fair market value of land was below the book value of land after revaluation by ¥76 million (\$708 thousand).

8. Short-term bank loans and long-term debt

Short-term bank loans outstanding were generally represented by bank over drafts bearing interest at average rates of 0.9% and 1.0% per annum as of March 31, 2005 and 2004, respectively.

Long-term debt as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Loans from banks and other financial institutions due 2005 to 2009 interest at rates of 1.7% to 5.2% per annum in 2005 and 2004:			
Secured	¥ 437	¥ 552	\$ 4,070
Unsecured	20	29	186
	457	581	4,256
Less: Current portion.....	(143)	(233)	(1,332)
	¥ 314	¥ 348	\$ 2,924

The aggregate annual maturities of long-term debt as of March 31, 2005 were summarized below:

Years ending March 31,	Millions of Yen	Thousands of U.S.dollars
2006	¥ 143	\$ 1,332
2007	214	1,993
2008	82	763
2009	18	168
2010	-	-
2011 and thereafter	-	-

9. Allowance for employees' retirement benefits

The liabilities for severance and retirement benefits included in the liabilities section of the consolidated balance sheets as of March 31, 2005 and 2004 consist of the following:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Projected benefit obligation.....	¥ 13,739	¥ 14,707	\$ 127,935
Fair value of plan assets	(7,293)	(6,939)	(67,911)
Unfunded projected benefit obligation	6,446	7,768	60,024
Unrecognized prior service cost	1,250	398	11,640
Less: unrecognized actuarial differences	(1,391)	(1,455)	(12,953)
Allowance for employees' retirement benefits	¥ 6,305	¥ 6,711	\$ 58,711

Included in the consolidated statement of income for the years ended March 31, 2005 and 2004 were severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Service costs – benefits earned during the year.....	¥ 790	¥ 785	\$ 7,356
Interest cost on projected benefit obligation	243	260	2,263
Expected return on plan assets	(60)	(53)	(559)
Amortization of actuarial differences	195	268	1,816
Amortization of prior service cost	(50)	(53)	(465)
Additional retirement payments and others	-	985	-
Employees' retirement benefit expenses	¥ 1,118	¥ 2,192	\$ 10,411

Additional retirement payments and others for the year ended March 31, 2004 consisted of premium severance payments of the Company of ¥848 million and a charge for the amount of unrecognized prior service cost and actuarial differences of the Company of ¥137 million relating to the voluntary retirement plans.

The discount rate and the rate of expected return on plan assets used by the Companies for the years ended March 31, 2005 and 2004 are mainly 2.0% and 1.0%, respectively. The estimated amount of all retirement benefits to be paid at the future retirement date is allocated equally to each service year using the estimated number of total service years. Prior service costs are recognized in expense using the straight-line method over 10 years from when incurred. Actuarial gains or losses are recognized in expense using the straight-line method over 10 years commencing with the succeeding period.

10. Contingent liabilities

The Companies were contingently liable under guarantees for bank loans of affiliated companies and other companies as of March 31, 2005 and 2004 amounting to ¥4,309 million (\$40,125 thousand) and ¥5,439 million, respectively.

Also, the Companies were contingently liable for notes discounted and endorsed as of March 31, 2005 and 2004 amounting to ¥621 million (\$5,783 thousand) and ¥827 million, respectively.

11. Shareholders' equity

Under the Japanese Commercial Code (the "Code"), the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

Effective October 1, 2001, the Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal earnings reserve until the total amount of legal earnings reserve and additional paid-in capital equals 25% of common stock. (The total amount of legal earnings reserve and additional paid-in capital of the Company has been reached to 25% of common stock, and therefore the Company is not required to provide legal earnings reserve any more.) The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal earnings reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for distribution by the resolution of shareholders' meeting. Legal earnings reserve is included in retained earnings in the accompanying financial statements.

Under the Code, The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company. The appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations. See Note 16.

12. Research and development expenses

Research and development expense is charged to income as incurred. Such amount included in cost of sales, and selling, general and administrative expenses for the years ended March 31, 2005 and 2004 were ¥1,297 million (\$12,077 thousand) and ¥1,263 million, respectively.

13. Income taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicate statutory rates in Japan of approximately 40.6% and 42.0% for the years ended March 31, 2005 and 2004, respectively.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2005.

	2005
Statutory tax rate	40.6%
(Adjustment)	
Non-deductible item	39.3
Non-taxable item	(12.1)
Per capita inhabitants taxes	6.4
Undistributed earnings of consolidated subsidiaries	(10.4)
Effect of elimination of intercompany dividends received.....	9.3
Amortization of consolidation difference.....	9.2
Decrease in valuation allowance.....	(25.9)
Equity in earnings of affiliated companies.....	(15.0)
Other	(3.9)
Effective tax rate	<u>37.5%</u>

The above information is not provided for the year ended March 31, 2004 because of the net loss for the year.

Components of the Companies' deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Deferred tax assets:			
Allowance for employees' retirement benefits	¥ 2,386	¥ 2,457	\$ 22,218
Allowance for losses on sales contracts	1,093	266	10,178
Accrued cost of sales	1,052	1,182	9,796
Unrealized profits	747	507	6,956
Accrued bonuses to employees	740	739	6,891
Loss recognized on a percentage-of-completion method	713	-	6,639
Operating loss carryforward for tax purposes	500	1,662	4,656
Other	1,925	1,847	17,925
Total deferred tax assets	<u>9,156</u>	8,660	<u>85,259</u>
Valuation allowance	(806)	(1,152)	(7,505)
Net deferred tax assets	<u>¥ 8,350</u>	<u>¥ 7,508</u>	<u>\$ 77,754</u>
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(2,670)	(2,317)	(24,862)
Valuation difference in land of consolidated subsidiary	(160)	(161)	(1,490)
Net unrealized gains on revaluated land.....	(279)	(232)	(2,598)
Other	(481)	(739)	(4,479)
Total deferred tax liabilities	<u>(3,590)</u>	<u>(3,449)</u>	<u>(33,429)</u>
Net deferred tax assets	<u>¥ 4,760</u>	<u>¥ 4,059</u>	<u>\$ 44,325</u>

The aggregate statutory income tax rate was reduced for the year commencing on April 1, 2004.

At March 31, 2004, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 40.6% for calculating all deferred tax assets and liabilities. As a result, deferred tax assets decreased by ¥75 million and provision for deferred income taxes increased by ¥75 million compared with what would have been reported under the way of the prior fiscal year, respectively.

14. Segment information

Business segment information for the years ended March 31, 2005 and 2004 were as follows:

Millions of Yen							
Year ended March 31, 2005	Machinery division	Environmental control plants division	Operation and maintenance division	Real estate division	Total	Elimination or corporate	Consolidated
Sales:							
Outside customers	¥ 48,591	¥ 45,807	¥ 9,240	¥ 83	¥ 103,721	¥ -	¥ 103,721
Intersegment	316	273	150	283	1,022	(1,022)	-
Total	48,907	46,080	9,390	366	104,743	(1,022)	103,721
Operating expenses	48,831	43,689	8,527	186	101,233	1,225	102,458
Operating income (loss)	¥ 76	¥ 2,391	¥ 863	¥ 180	¥ 3,510	¥ (2,247)	¥ 1,263
Identifiable assets, depreciation expense and capital expenditure:							
Assets	¥ 34,697	¥ 33,545	¥ 8,703	¥ 289	¥ 77,234	¥ 55,722	¥ 132,956
Depreciation	346	606	18	22	992	(2)	990
Capital expenditure	260	400	10	-	670	(1)	669

Millions of Yen							
Year ended March 31, 2004	Machinery division	Environmental control plants division	Operation and maintenance division	Real estate division	Total	Elimination or corporate	Consolidated
Sales:							
Outside customers	¥ 38,005	¥ 48,058	¥ 9,037	¥ 83	¥ 95,183	¥ -	¥ 95,183
Intersegment	310	219	98	278	905	(905)	-
Total	38,315	48,277	9,135	361	96,088	(905)	95,183
Operating expenses	39,418	46,118	8,243	171	93,950	1,402	95,352
Operating income (loss)	¥ (1,103)	¥ 2,159	¥ 892	¥ 190	¥ 2,138	¥ (2,307)	¥ (169)
Identifiable assets, depreciation expense and capital expenditure:							
Assets	¥ 30,408	¥ 30,091	¥ 8,390	¥ 301	¥ 69,190	¥ 70,757	¥ 139,947
Depreciation	375	677	27	24	1,103	(2)	1,101
Capital expenditure	149	176	4	-	329	(5)	324

Thousands of U.S.Dollars

Year ended March 31, 2005	Machinery division	Environmental control plants division	Operation and maintenance division	Real estate division	Total	Elimination or corporate	Consolidated
Sales:							
Outside customers	\$ 452,472	\$ 426,548	\$ 86,042	\$ 773	\$ 965,835	\$ -	\$ 965,835
Intersegment	2,943	2,542	1,397	2,635	9,517	(9,517)	-
Total	455,415	429,090	87,439	3,408	975,352	(9,517)	965,835
Operating expenses	454,707	406,826	79,402	1,732	942,667	11,407	954,074
Operating income (loss)	\$ 708	\$ 22,264	\$ 8,037	\$ 1,676	\$ 32,685	\$(20,924)	\$ 11,761
Identifiable assets, depreciation expense and capital expenditure:							
Assets	\$ 323,094	\$ 312,366	\$ 81,041	\$ 2,691	\$ 719,192	\$518,875	\$1,238,067
Depreciation	3,222	5,643	168	205	9,238	(19)	9,219
Capital expenditure	2,421	3,725	93	-	6,239	(9)	6,230

Corporate expenses included in operating expenses and not allocated to segment in 2005 and 2004 were general affairs department expenses of the Company amounting to ¥2,473 million (\$23,028 thousand) and ¥2,731 million, respectively.

Assets under the elimination or corporate in 2005 and 2004 were ¥60,863 million (\$566,747 thousand) and ¥74,291 million, include principally cash and time deposits, marketable securities (current) and investment securities (non-current) of the Company.

Geographic segment information is not shown, due to net sales by overseas consolidated subsidiaries being not material compared to consolidated sales.

Information for overseas sales is not disclosed due to overseas sales being not material compared to consolidated sales.

15. Related party transactions

The Company owns 50 per cent of voting rights of Campo Recycle Plaza Co., Ltd. The Company guarantees for bank loans of Campo Recycle Plaza Co., Ltd.

The transactions amounts were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2005	2004	2005
Guarantee of bank loans	¥ 1,617	¥ 1,884	\$ 15,057

Terms of transactions are determined under general market condition.

16. Subsequent event

On June 29, 2005, the shareholders of the Company approved the following appropriations:

	Millions of Yen	Thousands of U.S.dollars
Cash dividends	¥ 423	\$ 3,939

Independent Auditors' Report

To the Shareholders and Board of Directors of Takuma Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Takuma Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Takuma Co., Ltd. and its consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2005 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 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2005