

FINANCIAL REPORT

Consolidated Balance Sheets

Takuma Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2006 and 2005

ASSETS	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2006	2005	2006
Current assets:			
Cash and time deposits (Notes 4 and 7)	¥ 31,189	¥ 44,531	\$ 265,506
Marketable securities (Notes 4 and 5)	31	45	264
Notes and accounts receivable:			
Trade	42,360	33,369	360,603
Unconsolidated subsidiaries and affiliated companies	839	1,787	7,142
Other	564	396	4,801
Less: Allowance for doubtful accounts	(102)	(783)	(868)
	43,661	34,769	371,678
Inventories	10,752	7,736	91,530
Deferred tax assets (Note 14).....	4,803	4,255	40,887
Advanced money.....	1,341	755	11,416
Other	1,066	492	9,074
Total current assets	92,843	92,583	790,355
Investments and other assets:			
Investment securities (Note 5)	26,674	18,408	227,071
Investments in:			
Unconsolidated subsidiaries and affiliated companies	6,003	7,116	51,102
Other	2,262	2,349	19,256
Less: Allowance for doubtful accounts	(631)	(437)	(5,371)
	7,634	9,028	64,987
Deferred tax assets (Note 14).....	1,295	1,140	11,024
Other	2,982	2,563	25,385
	38,585	31,139	328,467
Property, plant and equipment:			
Land (Notes 7 and 8).....	3,394	3,307	28,893
Buildings and structures (Note 7)	10,219	10,130	86,992
Machinery and equipment	10,065	10,035	85,681
Construction in progress	-	2	-
	23,678	23,474	201,566
Less: Accumulated depreciation	(14,614)	(14,240)	(124,406)
	9,064	9,234	77,160
	¥140,492	¥ 132,956	\$ 1,195,982

See accompanying notes.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2006	2005	2006
Current liabilities:			
Short-term bank loans (Notes 7 and 9)	¥ 2,701	¥ 2,911	\$ 22,993
Current portion of long-term debt (Notes 7 and 9)	214	143	1,822
Notes and accounts payable:			
Trade	36,428	36,066	310,105
Unconsolidated subsidiaries and affiliated companies	804	478	6,844
Other	1,058	930	9,007
	38,290	37,474	325,956
Accrued income taxes (Note 14)	527	956	4,486
Consumption tax payable	170	187	1,447
Accrued expenses	2,734	2,918	23,274
Allowance for losses on sales contracts	2,334	2,690	19,869
Advances received	6,376	2,652	54,278
Other	750	462	6,385
Total current liabilities	54,096	50,393	460,510
Long-term debt (Notes 7 and 9)	123	314	1,047
Allowance for employees' retirement benefits (Note 10)	5,817	6,305	49,519
Allowance for directors', executive officers' and corporate auditors' retirement benefits ..	534	526	4,546
Deferred tax liabilities (Note 14).....	3,288	356	27,990
Deferred tax liability for revaluation reserve for land (Notes 8 and 14) ..	279	279	2,375
Other	4	-	34
Total liabilities	64,141	58,173	546,021
Minority interests in consolidated subsidiaries	3,647	3,840	31,046
Contingent liabilities (Notes 6, 11 and 17)			
Shareholders' equity:			
Common stock			
Authorized: 321,840,000 shares			
Issued: 87,799,248 shares	13,367	13,367	113,791
Capital surplus (Note 12)	12,409	12,407	105,635
Retained earnings (Note 12)	41,320	43,869	351,749
Revaluation reserve for land (Note 8)	270	160	2,298
Net unrealized holding gain on available-for-sale securities	8,119	3,761	69,116
Foreign currency translation adjustments	54	(25)	460
Less: Treasury stock	(2,835)	(2,596)	(24,134)
Total shareholders' equity	72,704	70,943	618,915
	¥ 140,492	¥ 132,956	\$ 1,195,982

Consolidated Statements of Operations

Takuma Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2006	2005	2006
Net sales (Note 15)	¥ 94,340	¥ 103,721	\$ 803,099
Cost of sales (Notes 13 and 15)	79,528	84,585	677,007
Gross profit	14,812	19,136	126,092
Selling, general and administrative expenses (Notes 13 and 15)	18,724	17,873	159,394
Operating income (loss) (Note 15)	(3,912)	1,263	(33,302)
Other income (expenses):			
Interest and dividend income	427	295	3,635
Interest expense	(33)	(56)	(281)
Foreign currency exchange gain	131	60	1,115
Gain on sales of investment securities	265	1,855	2,256
Write-down of investments in unconsolidated subsidiaries and affiliated companies	(174)	(11)	(1,481)
Gain on disposal of property, plant and equipment	3,180	53	27,071
Technical assistance fee	270	263	2,298
Equity in earnings of affiliated companies	350	432	2,979
Gain on change in equity of consolidated subsidiaries	176	-	1,498
Provision for doubtful accounts	(269)	(259)	(2,290)
Provision for losses on sales contracts	(1,641)	(2,580)	(13,969)
Write-down of inventories	-	(220)	-
Additional retirement payments	-	(135)	-
Other, net	158	54	1,345
	2,840	(249)	24,176
Income (loss) before income taxes and minority interests	(1,072)	1,014	(9,126)
Income taxes (Note 14):			
Current	1,108	1,315	9,432
Deferred	(678)	(935)	(5,771)
	430	380	3,661
Minority interests in earnings (losses) of consolidated subsidiaries	(17)	366	(145)
Net income (loss)	¥ (1,485)	¥ 268	\$ (12,642)
		Yen	U.S.dollars (Note 1)
Per share:			
Net income (loss)	¥ (17.69)	¥ 2.57	\$ (0.15)
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, 2006 and 2005

	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, 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)
Net loss	-	-	-	(1,485)	-	-	-	-
Sales of treasury stock	-	-	2	-	-	-	-	-
Revaluation reserve for land	-	-	-	-	110	-	-	-
Net unrealized holding gain on available-for-sale securities	-	-	-	-	-	4,358	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	79	-
Increase in treasury stock	-	-	-	-	-	-	-	(239)
Decrease due to increase in number of consolidated subsidiaries	-	-	-	(202)	-	-	-	-
Cash dividends (¥10.00 per share)	-	-	-	(831)	-	-	-	-
Bonuses to directors and corporate auditors	-	-	-	(31)	-	-	-	-
Balance as of March 31, 2006	87,799,248	¥ 13,367	¥ 12,409	¥ 41,320	¥ 270	¥ 8,119	¥ 54	¥ (2,835)

	Thousands of U.S.dollars (Note 1)							
Balance as of March 31, 2005	\$ 113,791	\$ 105,618	\$ 373,449	\$ 1,362	\$ 32,017	\$ (213)	\$ (22,099)	
Net loss	-	-	(12,642)	-	-	-	-	
Sales of treasury stock	-	17	-	-	-	-	-	
Revaluation reserve for land	-	-	-	936	-	-	-	
Net unrealized holding gain on available-for-sale securities	-	-	-	-	37,099	-	-	
Foreign currency translation adjustments	-	-	-	-	-	673	-	
Increase in treasury stock	-	-	-	-	-	-	-	(2,035)
Decrease due to increase in number of consolidated subsidiaries	-	-	(1,720)	-	-	-	-	
Cash dividends (\$0.09 per share)	-	-	(7,074)	-	-	-	-	
Bonuses to directors and corporate auditors	-	-	(264)	-	-	-	-	
Balance as of March 31, 2006	\$ 113,791	\$ 105,635	\$ 351,749	\$ 2,298	\$ 69,116	\$ 460	\$ (24,134)	

See accompanying notes.

Consolidated Statements of Cash Flows

Takuma Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income (loss) before income taxes and minority interests	¥ (1,072)	¥ 1,014	\$ (9,126)
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash used in operating activities:			
Depreciation	1,100	990	9,364
Amortization of consolidation difference	414	229	3,524
Write-down of investments in unconsolidated subsidiaries and affiliated companies ..	174	11	1,481
Gain on disposal of property, plant and equipment	(3,180)	(53)	(27,071)
Gain on sales of investment securities	(265)	(1,855)	(2,256)
Additional retirement payments	-	135	-
Increase (decrease) in allowance for doubtful accounts	(274)	167	(2,332)
Increase (decrease) in allowance for losses on sales contracts	(356)	2,035	(3,030)
Decrease in pension benefit obligation	(479)	(498)	(4,078)
Interest and dividend income	(427)	(295)	(3,635)
Interest expense	33	56	281
Equity in earnings of affiliated companies.....	(350)	(432)	(2,979)
Gain on change in equity of consolidated subsidiaries	(176)	-	(1,498)
Net increase in notes and accounts receivable and advance received.....	(4,473)	(8,236)	(38,078)
Decrease (increase) in inventories	(3,016)	1,265	(25,675)
Decrease (increase) in consumption tax receivable	(357)	1,360	(3,039)
Increase in other current assets	(237)	(93)	(2,017)
Net increase (decrease) in notes and accounts payable and advance money	77	(2,446)	655
Increase (decrease) in consumption tax payable	(19)	111	(162)
Decrease in other current liabilities	(250)	(188)	(2,128)
Payment of bonuses to directors and corporate auditors.....	(45)	(56)	(383)
Other	371	24	3,158
Subtotal	(12,807)	(6,755)	(109,024)
Interest and dividend received	495	345	4,214
Interest paid	(33)	(55)	(281)
Income taxes paid	(1,727)	548	(14,702)
Additional retirement payments	-	(135)	-
Other	(100)	-	(851)
Net cash used in operating activities	(14,172)	(6,052)	(120,644)
Cash flows from investing activities:			
Net decrease (increase) in time deposits	(751)	1,031	(6,393)
Purchase of property, plant and equipment	(629)	(482)	(5,355)
Sales of property, plant and equipment	3,292	140	28,024
Purchase of intangible fixed assets	(108)	(159)	(919)
Purchase of investment securities	(1,431)	(3,081)	(12,182)
Sales of investment securities	820	3,992	6,981
Investments in unconsolidated subsidiaries and affiliated companies	(783)	(1,959)	(6,666)
Disbursement for loans receivable	(1,624)	(2,479)	(13,825)
Collection of loans receivable	861	411	7,330
Other	89	106	758
Net cash used in investing activities	(264)	(2,480)	(2,247)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(210)	(4,315)	(1,788)
Proceeds from long-term debt	255	125	2,171
Payment of long-term debt	(376)	(249)	(3,201)
Purchase of treasury stock	(252)	(1,166)	(2,145)
Sales of treasury stock	25	-	213
Payment of cash dividends to the Company's shareholders	(831)	(842)	(7,074)
Payment of cash dividends to minority interests	(44)	(32)	(375)
Net cash used in financing activities	(1,433)	(6,479)	(12,199)
Effect of exchange rate changes on cash and cash equivalents	50	(58)	426
Net decrease in cash and cash equivalents	(15,819)	(15,069)	(134,664)
Cash and cash equivalents at beginning of year (Note 4)	41,757	56,320	355,469
Cash and cash equivalents of newly consolidated subsidiary	1,710	506	14,557
Cash and cash equivalents at end of year (Note 4)	¥ 27,648	¥ 41,757	\$ 235,362

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.

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, 2006, which was ¥117.47 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 15 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 translation 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 secu-

curities 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, 2006 and 2005 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, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Net sales	¥ 20,376	¥ 30,363	\$ 173,457
Gross profit	520	4,385	4,427

(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).

(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 2006 presentation. These changes had no impact on previously reported results of operations or shareholders' equity.

3. Changes in accounting policies

Accounting standard for impairment of fixed assets

Effective April 1, 2005, the Companies adopted 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).

There is no effect on net income of adopting of the new standard and guidance.

4. Amounts of cash and cash equivalents

Amounts of cash and cash equivalents as of March 31, 2006 and 2005 were reconciled with cash and time deposits as follows:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Cash and time deposits.....	¥ 31,189	¥ 44,531	\$ 265,506
Time deposits with maturities exceeding three months from the date of acquisition.....	(3,571)	(2,805)	(30,399)
Short-term highly liquid investments with maturities not exceeding three months.....	30	31	255
Total : Cash and cash equivalents.....	¥ 27,648	¥ 41,757	\$ 235,362

5. Securities

(a) Acquisition costs, book values of available-for-sale securities with available fair values as of March 31, 2006 and 2005 were as follows:

As of March 31, 2006	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	¥ 9,552	¥ 23,191	¥ 13,639
Others	581	744	163
Subtotal	10,133	23,935	13,802
Others:			
Equity securities	200	187	(13)
Debt securities	27	27	-
Others	281	272	(9)
Subtotal	508	486	(22)
Total	¥ 10,641	¥ 24,421	¥ 13,780

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, 2006	Thousands of U.S.dollars		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	\$ 81,314	\$ 197,421	\$ 116,107
Others	4,946	6,333	1,387
Subtotal	86,260	203,754	117,494
Others:			
Equity securities	1,703	1,592	(111)
Debt securities	230	230	-
Others	2,392	2,315	(77)
Subtotal	4,325	4,137	(188)
Total	\$ 90,585	\$ 207,891	\$ 117,306

(b) Book values of available-for-sale securities with no fair values as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Non-listed equity securities	¥ 2,252	¥ 2,226	\$ 19,171
Debt security investment trust which equivalent to cash	30	31	255

(c) Available-for-sale securities sold for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Total sales amount	¥ 820	¥ 3,992	\$ 6,981
Gains	276	1,855	2,350
Losses	11	1	94

(d) Maturities of available-for-sale securities as of March 31, 2006 and 2005 were as follows:

As of March 31, 2006	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	¥ -	¥ 27	¥ -	¥ -
Others	-	-	-	-
Total	¥ -	¥ 27	¥ -	¥ -

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, 2006	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	\$ -	\$ 230	\$ -	\$ -
Others	-	-	-	-
Total	\$ -	\$ 230	\$ -	\$ -

6. 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, 2006 and 2005 were ¥193 million (\$1,643 thousand) and ¥185 million, respectively.

If such finance leases were capitalized including interest as of March 31, 2006 and 2005, they would be recorded in the consolidated balance sheets as follows:

	Millions of Yen					
	2006			2005		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment	¥ 799	¥ 366	¥ 433	¥ 871	¥ 361	¥ 510
Other assets	124	55	69	132	45	87
Total.....	¥ 923	¥ 421	¥ 502	¥ 1,003	¥ 406	¥ 597

	Thousands of U.S.dollars		
	2006		
	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment	\$ 6,802	\$ 3,116	\$ 3,686
Other assets	1,055	468	587
Total.....	\$ 7,857	\$ 3,584	\$ 4,273

If depreciation expense on such finance leases was incurred for the years ended March 31, 2006 and 2005, the amounts would be ¥193 million (\$1,643 thousand) and ¥185 million, respectively.

The scheduled future payments of such lease obligations, including interest, as of March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
	Due within one year	¥ 170	¥ 170
Due after one year	332	427	2,826
Total	¥ 502	¥ 597	\$ 4,273

(b) Operating lease

The scheduled future payments of operating lease, including interest, as of March 31, 2006 and 2005, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Due within one year	¥ 1	¥ 5	\$ 9
Due after one year	-	-	-
Total	¥ 1	¥ 5	\$ 9

7. 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, 2006 and 2005:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Land	¥ 1,087	¥ 1,087	\$ 9,254
Buildings and structures	383	408	3,260
Time deposits	139	182	1,183
Total	¥ 1,609	¥ 1,677	\$ 13,697

8. 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, 2006, the fair market value of land was below the book value of land after revaluation by ¥87 million (\$741 thousand).

9. 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 0.8% and 0.9% per annum as of March 31, 2006 and 2005, respectively.

Long-term debt as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Loans from banks and other financial institutions due 2006 to 2008 interest at rates of 1.9% to 4.5% per annum in 2006 and 2005:			
Secured	¥ 327	¥ 437	\$ 2,784
Unsecured	10	20	85
	<u>337</u>	<u>457</u>	<u>2,869</u>
Less: Current portion.....	(214)	(143)	(1,822)
	<u>¥ 123</u>	<u>¥ 314</u>	<u>\$ 1,047</u>

The aggregate annual maturities of long-term debt as of March 31, 2006 were summarized below:

Years ending March 31,	Millions of Yen	Thousands of U.S.dollars
2007	¥ 214	\$ 1,822
2008	99	843
2009	24	204
2010	-	-
2011	-	-
2012 and thereafter	-	-

10. 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, 2006 and 2005 consist of the following:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Projected benefit obligation.....	¥ 13,182	¥ 13,739	\$ 112,216
Fair value of plan assets	(7,729)	(7,293)	(65,796)
Unfunded projected benefit obligation	<u>5,453</u>	<u>6,446</u>	<u>46,420</u>
Unrecognized prior service cost	1,111	1,250	9,458
Less: unrecognized actuarial differences	(747)	(1,391)	(6,359)
Allowance for employees' retirement benefits	<u>¥ 5,817</u>	<u>¥ 6,305</u>	<u>\$ 49,519</u>

Included in the consolidated statement of income for the years ended March 31, 2006 and 2005 were severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Service costs – benefits earned during the year.....	¥ 702	¥ 790	\$ 5,976
Interest cost on projected benefit obligation	222	243	1,890
Expected return on plan assets	(63)	(60)	(536)
Amortization of actuarial differences	208	195	1,771
Amortization of prior service cost	(140)	(50)	(1,192)
Others	-	-	-
Employees' retirement benefit expenses	¥ 929	¥ 1,118	\$ 7,909

The discount rate and the rate of expected return on plan assets used by the Companies for the years ended March 31, 2006 and 2005 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.

11. Contingent liabilities

The Companies were contingently liable under guarantees for bank loans of affiliated companies and other companies as of March 31, 2006 and 2005 amounting to ¥3,032million (\$25,811 thousand) and ¥4,309 million, respectively.

Also, the Companies were contingently liable for notes discounted and endorsed as of March 31, 2006 and 2005 amounting to ¥235 million (\$2,001 thousand) and ¥621 million, respectively.

12. 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 17.

13. 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, 2006 and 2005 were ¥1,224 million (\$10,420 thousand) and ¥1,297 million, respectively.

14. 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% for the years ended March 31, 2006 and 2005.

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, 2006 because of the loss before income taxes and minority interests for the year.

Components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2006	2005	2006
Deferred tax assets:			
Allowance for employees' retirement benefits	¥ 2,313	¥ 2,386	\$ 19,690
Allowance for losses on sales contracts	949	1,093	8,079
Accrued cost of sales	607	1,052	5,167
Unrealized profits	1,202	747	10,232
Accrued bonuses to employees	741	740	6,308
Loss recognized on a percentage-of-completion method	1,747	713	14,872
Operating loss carryforward for tax purposes	1,109	500	9,441
Other	1,537	1,925	13,084
Total deferred tax assets	10,205	9,156	86,873
Valuation allowance	(1,079)	(806)	(9,185)
Net deferred tax assets	¥ 9,126	¥ 8,350	\$ 77,688
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities	(5,720)	(2,670)	(48,693)
Valuation difference in land of consolidated subsidiary	(160)	(160)	(1,362)
Net unrealized gains on revaluated land	(279)	(279)	(2,375)
Other	(436)	(481)	(3,712)
Total deferred tax liabilities	(6,595)	(3,590)	(56,142)
Net deferred tax assets	¥ 2,531	¥ 4,760	\$ 21,546

15. Segment information

Business segment information for the years ended March 31, 2006 and 2005 were as follows:

Millions of Yen							
Year ended March 31, 2006	Machinery division	Environmental control plants division	Operation and maintenance division	Real estate division	Total	Elimination or corporate	Consolidated
Sales:							
Outside customers	¥ 46,320	¥ 38,577	¥ 9,368	¥ 75	¥ 94,340	¥ -	¥ 94,340
Intersegment	269	214	83	259	825	(825)	-
Total	46,589	38,791	9,451	334	95,165	(825)	94,340
Operating expenses	48,236	39,895	8,617	176	96,924	1,328	98,252
Operating income (loss)	<u>¥ (1,647)</u>	<u>¥ (1,104)</u>	<u>¥ 834</u>	<u>¥ 158</u>	<u>¥ (1,759)</u>	<u>¥ (2,153)</u>	<u>¥ (3,912)</u>
Identifiable assets, depreciation expense and capital expenditure:							
Assets	¥ 41,519	¥ 40,837	¥ 8,418	¥ 268	¥ 91,042	¥ 49,450	¥ 140,492
Depreciation	426	663	13	-	1,102	(2)	1,100
Capital expenditure	343	574	16	-	933	-	933

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)	<u>¥ 76</u>	<u>¥ 2,391</u>	<u>¥ 863</u>	<u>¥ 180</u>	<u>¥ 3,510</u>	<u>¥ (2,247)</u>	<u>¥ 1,263</u>
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

Thousands of U.S.dollars							
Year ended March 31, 2006	Machinery division	Environmental control plants division	Operation and maintenance division	Real estate division	Total	Elimination or corporate	Consolidated
Sales:							
Outside customers	\$ 394,313	\$ 328,399	\$ 79,748	\$ 639	\$ 803,099	\$ -	\$ 803,099
Intersegment	2,290	1,822	707	2,204	7,023	(7,023)	-
Total	396,603	330,221	80,455	2,843	810,112	(7,023)	803,099
Operating expenses	410,624	339,619	73,355	1,498	825,096	11,305	836,401
Operating income (loss)	<u>\$ (14,021)</u>	<u>\$ (9,398)</u>	<u>\$ 7,100</u>	<u>\$ 1,345</u>	<u>\$ (14,974)</u>	<u>\$ (18,328)</u>	<u>\$ (33,302)</u>
Identifiable assets, depreciation expense and capital expenditure:							
Assets	\$ 353,443	\$ 347,638	\$ 71,661	\$ 2,281	\$ 775,023	\$ 420,959	\$ 1,195,982
Depreciation	3,626	5,644	111	-	9,381	(17)	9,364
Capital expenditure	2,920	4,886	136	-	7,942	-	7,942

Corporate expenses included in operating expenses and not allocated to segment in 2006 and 2005 were general affairs department expenses of the Company amounting to ¥2,324 million (\$19,784 thousand) and ¥2,473 million, respectively.

Assets under the elimination or corporate in 2006 and 2005 were ¥58,739 million (\$500,034 thousand) and ¥60,863 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.

16. Related party transactions

The Company owns 51 per cent of voting rights of Energy Mate Co., Ltd., and 50 per cent of voting rights of Campo Recycle Plaza Co., Ltd. The Company lends Energy Mate Co., Ltd. the capital, and guarantees for bank loans of Campo Recycle Plaza Co., Ltd.

The transactions amounts were as follows:

	Millions of Yen		Thousands of U.S.dollars	
	2006	2005	2006	
Campo Recycle Plaza Co., Ltd.				
Guarantee of bank loans	¥ -	¥ 1,617	\$ -	
	Millions of Yen		Thousands of U.S.dollars	
	2006	2005	2006	
Energy Mate Co., Ltd.				
Lending of the capital	¥ 1,030	¥ -	\$ 8,768	
Loans receivable	1,830	-	15,578	

Terms of transactions are determined under general market condition.

17. Subsequent event

On June 29, 2006, the shareholders of the Company approved the following appropriations:

	Millions of Yen	Thousands of U.S.dollars
Cash dividends	¥ 421	\$ 3,584

The Company was prosecuted for violation of the Antimonopoly Law in Japan with respect to its construction of water treatment plants on June 12, 2006.

It is difficult to reasonably estimate the impact of the accusation, or the negative influence on business performance of next fiscal year and the years to follow are uncertain.

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, 2006 and 2005, 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, 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.

Without qualifying our opinion, we draw attention to Note 17 to the consolidated financial statements.

As discussed in Note 17 to the consolidated financial statements as a subsequent event, the company was prosecuted for violation of the Antimonopoly Law in Japan with respect to its construction of water treatment plants on June 12, 2006.

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 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006