

# FINANCIAL REPORT

## Consolidated Balance Sheets

Takuma Co., Ltd. and Consolidated Subsidiaries

As of March 31, 2007 and 2006

ASSETS	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2007	2006	2007
<b>Current assets:</b>			
Cash and time deposits (Notes 4 and 7) .....	¥ 25,901	¥ 31,189	\$ 219,407
Marketable securities (Notes 4 and 5) .....	33	31	279
Notes and accounts receivable:			
Trade .....	39,481	42,360	334,443
Unconsolidated subsidiaries and affiliated companies .....	2,146	839	18,179
Other (Note 7) .....	569	564	4,820
Less: Allowance for doubtful accounts .....	(29)	(102)	(246)
	42,167	43,661	357,196
Inventories .....	9,125	10,752	77,298
Deferred tax assets (Note 14) .....	1,188	4,803	10,064
Advanced money.....	1,671	1,341	14,155
Other .....	1,369	1,066	11,597
<b>Total current assets</b> .....	<b>81,454</b>	<b>92,843</b>	<b>689,996</b>
<b>Investments and other assets:</b>			
Investment securities (Notes 5 and 7) .....	26,860	26,674	227,531
Investments in:			
Unconsolidated subsidiaries and affiliated companies (Note 7) .....	5,696	6,003	48,251
Other (Note 10) .....	2,359	2,262	19,983
Less: Allowance for doubtful accounts.....	(671)	(631)	(5,684)
	7,384	7,634	62,550
Deferred tax assets (Note 14).....	948	1,295	8,030
Other .....	2,710	2,982	22,956
	37,902	38,585	321,067
<b>Property, plant and equipment:</b>			
Land (Notes 7 and 8).....	4,095	3,394	34,689
Buildings and structures (Note 7) .....	10,182	10,219	86,252
Machinery and equipment .....	9,993	10,065	84,650
Construction in progress .....	227	-	1,923
	24,497	23,678	207,514
Less: Accumulated depreciation .....	(15,020)	(14,614)	(127,234)
	9,477	9,064	80,280
	<b>¥128,833</b>	<b>¥ 140,492</b>	<b>\$ 1,091,343</b>

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2007	2006	2007
Current liabilities:			
Short-term bank loans (Notes 7 and 9) .....	¥ 7,285	¥ 2,701	\$ 61,711
Current portion of long-term debt (Notes 7 and 9) .....	99	214	839
Notes and accounts payable:			
Trade .....	34,126	36,428	289,081
Unconsolidated subsidiaries and affiliated companies .....	852	804	7,217
Other .....	1,104	1,058	9,352
	<b>36,082</b>	38,290	<b>305,650</b>
Accrued income taxes (Note 14) .....	472	527	3,998
Consumption tax payable .....	533	170	4,515
Accrued expenses .....	3,038	2,734	25,735
Allowance for losses on sales contracts .....	528	2,334	4,473
Advances received .....	5,292	6,376	44,828
Deferred tax liabilities (Note 14) .....	1	-	8
Other .....	888	750	7,523
<b>Total current liabilities</b> .....	<b>54,218</b>	54,096	<b>459,280</b>
Long-term debt (Notes 7 and 9) .....	24	123	203
Allowance for employees' retirement benefits (Note 10) .....	5,417	5,817	45,887
Allowance for directors', executive officers', and corporate auditors' retirement benefits..	526	534	4,456
Deferred tax liabilities (Note 14) .....	5,463	3,288	46,277
Deferred tax liability for revaluation reserve for land (Notes 8 and 14) ...	279	279	2,364
Other .....	2	4	17
<b>Total liabilities</b> .....	<b>65,929</b>	64,141	<b>558,484</b>
Contingent liabilities (Notes 6, 11 and 17)			
Net assets (Note 12):			
Common stock			
Authorized: 321,840,000 shares			
Issued: 87,799,248 shares .....	13,367	13,367	113,232
Capital surplus.....	12,408	12,409	105,108
Retained earnings .....	27,796	41,320	235,460
Less: Treasury stock, at cost .....	(3,177)	(2,835)	(26,912)
Net unrealized holding gain on available-for-sale securities, net of taxes....	8,188	8,119	69,360
Unrealized gain on hedging derivatives, net of taxes.....	3	-	25
Revaluation reserve for land, net of taxes (Note 8) .....	270	270	2,287
Foreign currency translation adjustments .....	468	54	3,964
Minority interests in consolidated subsidiaries.....	3,581	3,647	30,335
<b>Total net assets</b> .....	<b>62,904</b>	76,351	<b>532,859</b>
	<b>¥ 128,833</b>	¥ 140,492	<b>\$ 1,091,343</b>

# Consolidated Statements of Operations

Takuma Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2007	2006	2007
<b>Net sales (Note 15)</b> .....	¥ 98,748	¥ 94,340	\$ 836,493
<b>Cost of sales (Notes 13 and 15)</b> .....	87,152	79,528	738,263
Gross profit .....	11,596	14,812	98,230
<b>Selling, general and administrative expenses (Notes 13 and 15)</b> .....	18,356	18,724	155,494
Operating loss (Note 15) .....	(6,760)	(3,912)	(57,264)
<b>Other income (expenses):</b>			
Interest and dividend income .....	544	427	4,608
Interest expense .....	(42)	(33)	(356)
Foreign currency exchange gain .....	212	131	1,796
Gain on sales of investment securities .....	10	265	85
Write-down of investments in unconsolidated subsidiaries and affiliated companies .....	(96)	(174)	(813)
Gain on disposal of property, plant and equipment .....	(71)	3,180	(601)
Technical assistance fee .....	550	270	4,659
Equity in earnings of affiliated companies .....	213	350	1,804
Gain on change in equity of consolidated subsidiaries .....	-	176	-
Provision for doubtful accounts .....	4	(269)	34
Provision for losses on sales contracts .....	-	(1,641)	-
Additional retirement payments (Note 10) .....	(75)	-	(635)
Loss on violation of the antimonopoly law .....	(70)	-	(593)
Other, net .....	(188)	158	(1,593)
	991	2,840	8,395
<b>Loss before income taxes and minority interests</b> .....	(5,769)	(1,072)	(48,869)
<b>Income taxes (Note 14):</b>			
Current .....	877	1,108	7,429
Deferred .....	6,116	(678)	51,809
	6,993	430	59,238
<b>Minority interests in losses of consolidated subsidiaries</b> .....	(49)	(17)	(415)
<b>Net loss</b> .....	¥ (12,713)	¥ (1,485)	\$ (107,692)
		Yen	U.S.dollars (Note 1)
<b>Per share:</b>			
Net loss .....	¥ (152.40)	¥ (17.69)	\$ (1.29)
Diluted net income .....	-	-	-
Cash dividends applicable to the year .....	10.00	10.00	0.08

See accompanying notes.

# Consolidated Statements of Changes in Net Assets

Takuma Co., Ltd. and Consolidated Subsidiaries

For the years ended March 31, 2007 and 2006

	Millions of Yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on available-for-sale securities, net of taxes	Unrealized gain on hedging derivatives, net of taxes	Revaluation reserve for land, net of taxes	Foreign currency translation adjustments	Minority interests in consolidated subsidiaries	Total net assets	
Balance as of March 31, 2005.....	¥ 13,367	¥ 12,407	¥ 43,869	¥ (2,596)	¥ 3,761	¥ -	¥ 160	¥ (25)	¥ 3,840	¥ 74,783	
Cash dividends (¥10.00 per share) ..	-	-	(831)	-	-	-	-	-	-	(831)	
Net loss .....	-	-	(1,485)	-	-	-	-	-	-	(1,485)	
Purchase of treasury stock .....	-	-	-	(239)	-	-	-	-	-	(239)	
Sales of treasury stock.....	-	2	-	-	-	-	-	-	-	2	
Net changes during the year .....	-	-	(233)	-	4,358	-	110	79	(193)	4,121	
Balance as of March 31, 2006.....	¥ 13,367	¥ 12,409	¥ 41,320	¥ (2,835)	¥ 8,119	¥ -	¥ 270	¥ 54	¥ 3,647	¥ 76,351	
Cash dividends (¥10.00 per share) ..	-	-	(809)	-	-	-	-	-	-	(809)	
Net loss .....	-	-	(12,713)	-	-	-	-	-	-	(12,713)	
Purchase of treasury stock .....	-	-	-	(365)	-	-	-	-	-	(365)	
Sales of treasury stock.....	-	(1)	(2)	23	-	-	-	-	-	20	
Net changes during the year .....	-	-	-	-	69	3	-	414	(66)	420	
Balance as of March 31, 2007.....	¥ 13,367	¥ 12,408	¥ 27,796	¥ (3,177)	¥ 8,188	¥ 3	¥ 270	¥ 468	¥ 3,581	¥ 62,904	

	Thousands of U.S.dollars (Note 1)										
Balance as of March 31, 2006 .....	\$ 113,232	\$ 105,116	\$ 350,021	\$ (24,015)	\$ 68,776	\$ -	\$ 2,287	\$ 457	\$ 30,894	\$ 646,768	
Cash dividends (\$0.08 per share) .....	-	-	(6,853)	-	-	-	-	-	-	(6,853)	
Net loss .....	-	-	(107,692)	-	-	-	-	-	-	(107,692)	
Purchase of treasury stock.....	-	-	-	(3,092)	-	-	-	-	-	(3,092)	
Sales of treasury stock.....	-	(8)	(16)	195	-	-	-	-	-	171	
Net changes during the year .....	-	-	-	-	584	25	-	3,507	(559)	3,557	
Balance as of March 31, 2007.....	\$ 113,232	\$ 105,108	\$ 235,460	\$ (26,912)	\$ 69,360	\$ 25	\$ 2,287	\$ 3,964	\$ 30,335	\$ 532,859	

See accompanying notes.

# Consolidated Statements of Cash Flows

Takuma Co., Ltd. and Consolidated Subsidiaries  
For the years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S.dollars (Note 1)
	2007	2006	2007
<b>Cash flows from operating activities:</b>			
Loss before income taxes and minority interests .....	¥ (5,769)	¥ (1,072)	\$ (48,869)
Adjustments to reconcile loss before income taxes and minority interests to net cash used in operating activities:			
Depreciation .....	1,023	1,100	8,666
Amortization of consolidation difference .....	-	414	-
Amortization of goodwill .....	339	-	2,872
Write-down of investments in unconsolidated subsidiaries and affiliated companies ..	96	174	813
Loss (gain) on disposal of property, plant and equipment .....	71	(3,180)	601
Gain on sales of investment securities .....	(10)	(265)	(85)
Additional retirement payments .....	75	-	635
Decrease in allowance for doubtful accounts .....	(33)	(274)	(279)
Decrease in allowance for losses on sales contracts .....	(1,806)	(356)	(15,299)
Decrease in pension benefit obligation .....	(408)	(479)	(3,456)
Interest and dividend income .....	(544)	(427)	(4,608)
Interest expense .....	42	33	356
Equity in earnings of affiliated companies .....	(213)	(350)	(1,804)
Gain on change in equity of consolidated subsidiaries .....	-	(176)	-
Net decrease (increase) in notes and accounts receivable and advance received .....	1,448	(4,473)	12,266
Decrease (increase) in inventories .....	1,627	(3,016)	13,782
Decrease (increase) in consumption tax receivable .....	282	(357)	2,389
Increase in other current assets .....	(341)	(237)	(2,889)
Net increase (decrease) in notes and accounts payable and advance money .....	(2,581)	77	(21,864)
Increase (decrease) in consumption tax payable .....	364	(19)	3,083
Increase (decrease) in other current liabilities .....	250	(250)	2,118
Payment of bonuses to directors and corporate auditors .....	-	(45)	-
Loss on violation of the antimonopoly law .....	70	-	593
Other .....	304	371	2,575
Subtotal .....	(5,714)	(12,807)	(48,404)
Interest and dividend received .....	631	495	5,345
Interest paid .....	(37)	(33)	(313)
Income taxes paid .....	(1,385)	(1,727)	(11,732)
Additional retirement payments .....	(75)	-	(635)
Other .....	-	(100)	-
Net cash used in operating activities .....	(6,580)	(14,172)	(55,739)
<b>Cash flows from investing activities:</b>			
Net decrease (increase) in time deposits .....	2,202	(751)	18,653
Purchase of property, plant and equipment .....	(1,253)	(629)	(10,614)
Sales of property, plant and equipment .....	23	3,292	195
Purchase of intangible fixed assets .....	(244)	(108)	(2,067)
Purchase of investment securities .....	(289)	(1,431)	(2,448)
Sales of investment securities .....	77	820	652
Investments in unconsolidated subsidiaries and affiliated companies .....	(145)	(783)	(1,228)
Disbursement for loans receivable .....	(1,699)	(1,624)	(14,392)
Collection of loans receivable .....	1,272	861	10,775
Other .....	3	89	25
Net cash used in investing activities .....	(53)	(264)	(449)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term bank loans .....	4,584	(210)	38,831
Proceeds from long-term debt .....	-	255	-
Payment of long-term debt .....	(214)	(376)	(1,813)
Purchase of treasury stock .....	(366)	(252)	(3,100)
Sales of treasury stock .....	43	25	364
Payment of cash dividends to the Company's shareholders .....	(809)	(831)	(6,853)
Payment of cash dividends to minority interests .....	(29)	(44)	(246)
Net cash provided by (used in) financing activities .....	3,209	(1,433)	27,183
Effect of exchange rate changes on cash and cash equivalents .....	343	50	2,906
Net decrease in cash and cash equivalents .....	(3,081)	(15,819)	(26,099)
<b>Cash and cash equivalents at beginning of year (Note 4) .....</b>	<b>27,648</b>	<b>41,757</b>	<b>234,206</b>
Cash and cash equivalents of newly consolidated subsidiary .....	-	1,710	-
<b>Cash and cash equivalents at end of year (Note 4) .....</b>	<b>¥ 24,567</b>	<b>¥ 27,648</b>	<b>\$ 208,107</b>

# 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 changes in net assets for 2006) from the consolidated financial statements of Takuma Co., Ltd. (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, 2007, which was ¥118.05 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 net assets 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 net assets.

#### (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 net assets. 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 Companies 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, 2007 and 2006 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet dates.

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 mil-

lion 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, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of
	2007	2006	U.S.dollars
Net sales	¥ 24,874	¥ 20,376	\$ 210,707
Gross profit (loss)	(518)	520	(4,388)

(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 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.

(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 2007 presentation. Also, as described in Note 3, the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007. Also, in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statement of changes in net assets for 2006 as well as for 2007. These changes had no impact on previously reported results of operations.

### 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.

#### Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Companies adopted the new accounting standard, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005), and the implementation guidance for the accounting standard for presentation of net assets in the balance sheet (the Financial Accounting Standard Implementation Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005), (collectively, "the New Accounting Standards").

The consolidated balance sheet as of March 31, 2007 prepared in accordance with the New Accounting Standards comprises three sections, which are the assets, liabilities, and net assets sections. Previously, the balance sheet comprised the assets, liabilities, minority interests, as applicable, and the shareholders' equity sections.

Under the New Accounting Standards, the following items are presented differently at March 31, 2007 compared to previous presentation. The net assets section includes unrealized gains/losses on hedging derivatives, net of taxes. Under the previous presentation rules, unrealized gains/losses on hedging derivatives were included in the assets or liabilities section without considering the related income tax effects. Minority interests are included in the net assets section at March 31, 2007. Under the previous presentation rules, companies were required to present minority interests in the liabilities section and between the non-current liabilities and the shareholders' equity sections.

The consolidated balance sheet as of March 31, 2006 has been restated to conform to the 2007 presentation.

The adoption of the New Accounting Standards had no impacts on the consolidated statement of income for the year ended March 31, 2007. Also, if the New Accounting Standards had not been adopted at March 31, 2007, the shareholders' equity amounting to ¥59,320 million (\$502,499 thousand) would have been presented.

#### Accounting standard for statement of changes in net assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard, "Accounting Standard for Statement of Changes in Net Assets" (Statement No. 6 issued by the Accounting Standards Board of Japan on December 27, 2005), and the implementation guidance for the accounting standard for statement of changes in net assets (the Financial Accounting Standard Implementation Guidance No. 9 issued by the Accounting Standards Board of Japan on December 27, 2005), (collectively, "the Additional New Accounting Standards").

Accordingly, the Company prepared the statements of changes in net assets for the year ended March 31, 2007 in accordance with the Additional New Accounting Standards. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the Additional New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

#### Change in the accounting policy concerning the rental income from real estate

The rental income from real estate was accounted for amount of sales previously. Effective from the fiscal year ended March 31, 2007, however, the Companies changed its accounting policy so that such income should be included in the other income and that the cost incurred for such income that was included in the cost of sales should be included in the other expenses.

The reason for this change is that our real estate business has become no profit-oriented business anymore because a part of our fixed assets concerned was sold out in the fiscal year ended March 31, 2006 and because of other smaller matters.

Due to this change, the sales amount, cost of sales and gross profit on sales have decreased by ¥61 million (\$517 thousand), ¥30 million (\$254 thousand) and ¥31 million (\$263 thousand) respectively, and other income has increased by ¥31 million (\$263 thousand) respectively, from those comparable figures accounted in accordance with the conventional accounting policy. But this change does not affect the loss before income taxes and minority interests. The effect on business segment information of this change is disclosed in Note 15.

#### 4. Amounts of cash and cash equivalents

Amounts of cash and cash equivalents as of March 31, 2007 and 2006 were reconciled with cash and time deposits as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Cash and time deposits.....	¥ 25,901	¥ 31,189	\$ 219,407
Time deposits with maturities exceeding three months from the date of acquisition.....	(1,364)	(3,571)	(11,554)
Short-term highly liquid investments with maturities not exceeding three months.....	30	30	254
Total : Cash and cash equivalents.....	¥ 24,567	¥ 27,648	\$ 208,107

#### 5. Securities

(a) Acquisition costs, book values of available-for-sale securities with available fair values as of March 31, 2007 and 2006 were as follows:

As of March 31, 2007	Millions of Yen		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities .....	¥ 9,193	¥ 23,048	¥ 13,855
Debt securities .....	26	27	1
Others .....	712	845	133
Subtotal .....	9,931	23,920	13,989
Securities with book values not exceeding			
Equity securities .....	698	601	(97)
Others .....	151	142	(9)
Subtotal .....	849	743	(106)
Total .....	¥ 10,780	¥ 24,663	¥ 13,883

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
Securities with book values not exceeding			
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, 2007	Thousands of U.S.dollars		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities .....	\$ 77,874	\$ 195,239	\$ 117,365
Debt securities .....	220	229	9
Others .....	6,032	7,158	1,126
Subtotal .....	84,126	202,626	118,500
Securities with book values not exceeding			
Equity securities .....	5,913	5,091	(822)
Others .....	1,279	1,203	(76)
Subtotal .....	7,192	6,294	(898)
Total .....	\$ 91,318	\$ 208,920	\$ 117,602

(b) Book values of available-for-sale securities with no fair values as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Non-listed equity securities .....	¥ 2,200	¥ 2,252	\$ 18,636
Debt security investment trust which equivalent to cash .....	30	30	254

(c) Available-for-sale securities sold for the years ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Total sales amount .....	¥ 77	¥ 820	\$ 652
Gains .....	16	276	136
Losses .....	6	11	51

(d) Maturities of available-for-sale securities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
<u>As of March 31, 2007</u>				
Debt securities .....	¥ -	¥ 27	¥ -	¥ -
Others .....	-	-	-	-
Total .....	¥ -	¥ 27	¥ -	¥ -
	Millions of Yen			
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
<u>As of March 31, 2006</u>				
Debt securities .....	¥ -	¥ 27	¥ -	¥ -
Others .....	-	-	-	-
Total .....	¥ -	¥ 27	¥ -	¥ -
	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
<u>As of March 31, 2007</u>				
Debt securities .....	\$ -	\$ 229	\$ -	\$ -
Others .....	-	-	-	-
Total .....	\$ -	\$ 229	\$ -	\$ -

## 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, 2007 and 2006 were ¥188 million (\$1,593 thousand) and ¥193 million, respectively.

If such finance leases were capitalized including interest as of March 31, 2007 and 2006, they would be recorded in the consolidated balance sheets as follows:

	Millions of Yen					
	2007			2006		
	Acquisition cost	Accumulated depreciation	Book value	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment .....	¥ 808	¥ 402	¥ 406	¥ 799	¥ 366	¥ 433
Other assets .....	112	69	43	124	55	69
Total.....	¥ 920	¥ 471	¥ 449	¥ 923	¥ 421	¥ 502

	Thousands of U.S.dollars		
	2007		
	Acquisition cost	Accumulated depreciation	Book value
Machinery and equipment .....	\$ 6,844	\$ 3,405	\$ 3,439
Other assets .....	949	585	364
Total.....	\$ 7,793	\$ 3,990	\$ 3,803

If depreciation expense on such finance leases was incurred for the years ended March 31, 2007 and 2006, the amounts would be ¥188 million (\$1,593 thousand) and ¥193 million, respectively.

The scheduled future payments of such lease obligations, including interest, as of March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
	Due within one year .....	¥ 166	¥ 170
Due after one year .....	283	332	2,397
Total .....	¥ 449	¥ 502	\$ 3,803

### (b) Operating lease

The scheduled future payments of operating lease, including interest, as of March 31, 2007 and 2006, were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
	Due within one year .....	¥ -	¥ 1
Due after one year .....	-	-	-
Total .....	¥ -	¥ 1	\$ -

## 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, 2007 and 2006:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Land .....	¥ 1,087	¥ 1,087	\$ 9,208
Buildings and structures .....	342	383	2,897
Long-term loans receivable .....	160	-	1,355
Securities .....	69	-	585
Time deposits .....	60	139	508
Others .....	2	-	17
Total .....	¥ 1,720	¥ 1,609	\$ 14,570

## 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” and “Revaluation reserve for land” in Net assets 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, 2007, the fair market value of land was below the book value of land after revaluation by ¥80 million (\$678 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 1.1% and 0.8% per annum as of March 31, 2007 and 2006, respectively.

Long-term debt as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Loans from banks and other financial institutions due 2008 interest at rates of 2.2% to 4.5% per annum in 2007 and 2006:			
Secured .....	¥ 122	¥ 327	\$ 1,033
Unsecured .....	1	10	9
	123	337	1,042
Less: Current portion.....	(99)	(214)	(839)
	¥ 24	¥ 123	\$ 203

The aggregate annual maturities of long-term debt as of March 31, 2007 were summarized below:

Years ending March 31,	Millions of Yen	Thousands of U.S.dollars
2008 .....	¥ 99	\$ 839
2009 .....	24	203
2010 .....	-	-
2011 .....	-	-
2012 .....	-	-
2013 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, 2007 and 2006 consist of the following:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Projected benefit obligation.....	¥ 12,867	¥ 13,182	\$ 108,996
Fair value of plan assets .....	(8,108)	(7,729)	(68,683)
Unfunded projected benefit obligation .....	4,759	5,453	40,313
Unrecognized prior service cost .....	970	1,111	8,217
Less: unrecognized actuarial differences .....	(332)	(747)	(2,812)
Prepaid pension expenses .....	20	-	169
Allowance for employees' retirement benefits .....	¥ 5,417	¥ 5,817	\$ 45,887

Included in the consolidated statements of operations for the years ended March 31, 2007 and 2006 were severance and retirement benefit expenses comprised of the following:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Service costs – benefits earned during the year.....	¥ 704	¥ 702	\$ 5,964
Interest cost on projected benefit obligation .....	209	222	1,770
Expected return on plan assets .....	(259)	(63)	(2,194)
Amortization of actuarial differences .....	125	208	1,059
Amortization of prior service cost .....	(140)	(140)	(1,186)
Additional retirement payments and others .....	75	-	635
Employees' retirement benefit expenses .....	¥ 714	¥ 929	\$ 6,048

The discount rates used by the Companies are mainly 2.0% for the years ended December 31, 2007 and 2006, respectively. The rates of expected return on plan assets used by the Companies are mainly 4.0% for the year ended December 31, 2007 and mainly 1.0% for the year ended December 31, 2006, 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, 2007 and 2006 amounting to ¥2,319 million (\$19,644 thousand) and ¥3,032 million, respectively.

Also, the Companies were contingently liable for notes discounted as of March 31, 2007 and 2006 amounting to ¥482 million (\$4,083 thousand) and ¥235 million, respectively.

On August 13, 1999 the Japan Fair Trade Commission (JFTC) issued a cease and desist order to the Company and four other companies for activities related to the construction of waste incineration plants that were determined by the JFTC to be in violation of the Japanese Antimonopoly Act.

Although the Company objected to the cease and desist order and motioned for its withdrawal during subsequent JFTC hearings, the JFTC ruled on June 27, 2006 that the order stood. The Company objected to this ruling and filed an appeal for its reversal with the Tokyo High Court on July 27, 2006, a decision on which is currently pending.

Further to the above ruling and in accordance with Section 48-2 (1) of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (before amendment), the JFTC ordered surcharge payments be made by the Company and four other companies on March 23, 2007, with the amount attributable to the Company amounting to ¥4,703 million (\$39,839 thousand).

The Company objected to the surcharge payment order and filed a request with the JFTC on April 17, 2007 for a hearing to be arranged. Pursuant to Section 49-3 of the Act on Prohibition of Private Monopolization and Maintenance of Fair Trade (before amendment), the surcharge payment order has lost its binding power because the arrangements commenced.

On March 20, 2007 the Company was ordered by the Tokyo District Court to pay damages of ¥4,410 million (\$37,357 thousand) to the Tokyo Metropolitan Government in a lawsuit filed by the residents of Tokyo on July 14, 2000 in which the company was accused of violating the Japanese Antimonopoly Act during the bidding stage of a tender awarded to the company in 1994 by the Tokyo Metropolitan Government to build a waste incineration plant.

Additional damages will also be applied to the above payment at a rate of 5% per annum for the period dating back to July 14, 1994 and continuing until payment is received.

The Company objected to the ruling and filed an appeal for its reversal on April 4, 2007, a decision on which is currently pending.

## 12. Net assets

As described in Note 3, net assets section includes shareholders' equity, accumulated gains (losses) from valuation and translation adjustments, and minority interests.

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and other retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

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, 2007 and 2006 were ¥1,127 million (\$9,547 thousand) and ¥1,224 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, 2007 and 2006.

The information of the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement is not provided for the years ended March 31, 2007 and 2006 because of the loss before income taxes and minority interests for the years.

Components of the Companies' deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Deferred tax assets:			
Allowance for employees' retirement benefits .....	¥ 2,158	¥ 2,313	\$ 18,280
Allowance for losses on sales contracts .....	202	949	1,711
Accrued cost of sales .....	1,011	607	8,564
Unrealized profits .....	1,199	1,202	10,157
Accrued bonuses to employees .....	750	741	6,353
Loss recognized on a percentage-of-completion method .....	-	1,747	-
Operating loss carryforward for tax purposes .....	6,393	1,109	54,155
Other .....	1,459	1,537	12,359
Total deferred tax assets .....	13,172	10,205	111,579
Valuation allowance .....	(10,225)	(1,079)	(86,616)
Net deferred tax assets .....	¥ 2,947	¥ 9,126	\$ 24,963
Deferred tax liabilities:			
Net unrealized holding gains on available-for-sale securities .....	(5,679)	(5,720)	(48,106)
Valuation difference in land of consolidated subsidiary .....	(160)	(160)	(1,355)
Net unrealized gains on revaluated land .....	(279)	(279)	(2,364)
Other .....	(436)	(436)	(3,693)
Total deferred tax liabilities .....	(6,554)	(6,595)	(55,518)
Net deferred tax assets .....	¥ (3,607)	¥ 2,531	\$ (30,555)

### 15. Segment information

#### (a) Business segment information

Business segment information for the years ended March 31, 2007 and 2006 were as follows:

Year ended March 31, 2007	Millions of Yen						
	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
Sales:							
Outside customers .....	¥ 51,851	¥ 12,531	¥ 20,325	¥ 14,041	¥ 98,748	¥ -	¥ 98,748
Intersegment .....	43	96	704	80	923	(923)	-
Total .....	51,894	12,627	21,029	14,121	99,671	(923)	98,748
Operating expenses .....	52,971	15,844	21,900	13,765	104,480	1,028	105,508
Operating income (loss) .....	¥ (1,077)	¥ (3,217)	¥ (871)	¥ 356	¥ (4,809)	¥ (1,951)	¥ (6,760)
Identifiable assets, depreciation expense and capital expenditure:							
Assets .....	¥ 47,159	¥ 10,185	¥ 18,197	¥ 11,648	¥ 87,189	¥ 41,644	¥ 128,833
Depreciation .....	740	169	378	78	1,365	(3)	1,362
Capital expenditure .....	325	141	1,031	23	1,520	-	1,520

Millions of Yen

Year ended March 31, 2006	Machinery	Environmental Control plants	Operation and Maintenance	Real Estate	Total	Elimination and 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) .....	¥ (1,647)	¥ (1,104)	¥ 834	¥ 158	¥ (1,759)	¥ (2,153)	¥ (3,912)
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

Thousands of U.S.dollars

Year ended March 31, 2007	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
Sales:							
Outside customers .....	\$ 439,229	\$ 106,150	\$ 172,173	\$ 118,941	\$ 836,493	\$ -	\$ 836,493
Intersegment .....	364	813	5,964	678	7,819	(7,819)	-
Total .....	439,593	106,963	178,137	119,619	844,312	(7,819)	836,493
Operating expenses .....	448,717	134,214	185,515	116,603	885,049	8,708	893,757
Operating income (loss) .....	\$ (9,124)	\$ (27,251)	\$ (7,378)	\$ 3,016	\$ (40,737)	\$ (16,527)	\$ (57,264)
Identifiable assets, depreciation expense and capital expenditure:							
Assets .....	\$ 399,483	\$ 86,277	\$ 154,147	\$ 98,670	\$ 738,577	\$ 352,766	\$ 1,091,343
Depreciation .....	6,268	1,432	3,202	661	11,563	(25)	11,538
Capital expenditure .....	2,753	1,194	8,734	195	12,876	-	12,876

Corporate expenses included in operating expenses and not allocated to segment in 2007 and 2006 were general affairs department expenses of the Company amounting to ¥2,167 million (\$18,357 thousand) and ¥2,324 million, respectively.

Assets under the elimination and corporate in 2007 and 2006 were ¥51,809 million (\$438,873 thousand) and ¥58,739 million, respectively, 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.

Change in segmentation of business segment and changes in accounting policy

Although the Companies formerly classified its business into the four segments of Machinery, Environmental Control Plants, Operation and Maintenance, and Real Estate, the Companies classified its business into the four segments of Domestic Environment and Energy, Overseas Environment and Energy, Package Boiler, and Other from the year ended March 31, 2007.

In consideration of the expansion of overseas business operations, the Companies reviewed the segmentation of business segment in order to more properly report the business segment information.

As stated in Note3, the rental income from real estate was accounted for amount of sales previously. Effective from the fiscal year ended March 31, 2007, however, the Companies changed its accounting policy so that such income should be included in the other income and that the cost incurred for such income that was included in the cost of sales should be included in the other expenses.

Classification of the previous fiscal year's segment information using the new accounting policy and the new segmentation of business segment would be as follows:

Millions of Yen

Year ended March 31, 2006	Domestic Environment and Energy	Overseas Environment and Energy	Package Boiler	Other	Total	Elimination and Corporate	Consolidated
<b>Sales:</b>							
Outside customers .....	¥ 54,965	¥ 6,254	¥ 20,375	¥ 12,671	¥ 94,265	¥ -	¥ 94,265
Intersegment .....	46	90	562	25	723	(723)	-
Total .....	55,011	6,344	20,937	12,696	94,988	(723)	94,265
Operating expenses .....	55,629	7,020	21,215	12,917	96,781	1,438	98,219
Operating loss .....	¥ (618)	¥ (676)	¥ (278)	¥ (221)	¥ (1,793)	¥ (2,161)	¥ (3,954)
<b>Identifiable assets, depreciation expense and capital expenditure:</b>							
Assets .....	¥ 51,863	¥ 11,235	¥ 16,910	¥ 11,098	¥ 91,106	¥ 49,386	¥ 140,492
Depreciation .....	759	176	65	87	1,087	(2)	1,085
Capital expenditure .....	707	50	101	75	933	-	933

(b) Overseas sales

Overseas sales for the years ended March 31, 2007 was as follows :

Year ended March 31, 2007	Millions of Yen			
	Asia	Europe	Other areas	Total
Overseas sales .....	¥ 7,366	¥ 6,414	¥ 4	¥ 13,784
Net sales .....				98,748
Ratio of overseas sales to net sales .....	7.5%	6.5%	0.0%	14.0%

Year ended March 31, 2007	Thousands of U.S.dollars			
	Asia	Europe	Other areas	Total
Overseas sales .....	\$ 62,397	\$ 54,333	\$ 34	\$ 116,764
Net sales .....				836,493

Information for overseas sales for the years ended March 31, 2006 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. The Company lends Energy Mate Co., Ltd. the capital.

The transactions amounts were as follows:

	Millions of Yen		Thousands of U.S.dollars
	2007	2006	2007
Lending of the capital .....	¥ 319	¥ 1,030	\$ 2,702
Loans receivable .....	1,511	1,830	12,800

Terms of transactions are determined under general market condition.

**17. Subsequent event**

On June 28, 2007, the shareholders of the Company approved the following appropriations:

	Millions of Yen	Thousands of U.S.dollars
Cash dividends .....	¥ 419	\$ 3,549

## 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 consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, 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 consolidated subsidiaries as of March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following:

- (1) As discussed in Note 3 to the consolidated financial statements, effective April 1, 2006, the Companies changed the accounting policy concerning the rental income from real estate.
- (2) As discussed in Note 15 to the consolidated financial statements, effective April 1, 2006, the Companies changed the segmentation of business segment.
- (3) As discussed in Note 11 to the consolidated financial statements, the Company objected to the cease and desist order issued by Japan Fair Trade Commission to be in violation of the Japanese Antimonopoly Act, and filed an appeal for its reversal with Tokyo High Court, a decision on which is currently pending.
- (4) As discussed in Note 11 to the consolidated financial statements, the Company objected to the ruling ordered by Tokyo District Court to pay damages to Tokyo Metropolitan Government due to violation of the Japanese Antimonopoly Act, and filed an appeal for its reversal, a decision on which is currently pending.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

*KPMG AZSA & Co.*

Tokyo, Japan  
June 28, 2007