

Tomoku Co., Ltd. and Its Subsidiaries

Consolidated Balance Sheets

	At March 31,		
	2006 (Millions of yen)	2007 (Millions of yen)	2007 (Thousands of U.S. dollars) (Note 3)
ASSETS			
Current Assets:			
Cash and time deposits(Note 6)	¥ 9,033	¥ 9,786	\$ 82,932
Notes and accounts receivable - trade:			
Affiliates	1,567	1,663	14,093
Others	17,147	19,425	164,619
Allowance for doubtful accounts	(33)	(35)	(296)
	<u>18,681</u>	<u>21,053</u>	<u>178,416</u>
Inventories (Notes 5 and 18)	15,326	17,134	145,203
Deferred tax assets (Note 11)	3,455	2,541	21,534
Other current assets			
Affiliates	465	403	3,415
Others	4,479	3,086	26,153
	<u>4,944</u>	<u>3,489</u>	<u>29,568</u>
Total current assets	<u>51,439</u>	<u>54,003</u>	<u>457,653</u>
Investments and Advances:			
Investments in securities (Notes 4 and 6)	9,812	8,654	73,339
Investments in and advances to affiliates (Note 4)	2,999	2,557	21,669
Other investments	2,728	2,656	22,508
Long-term loans receivable	776	684	5,797
Allowance for doubtful accounts	(331)	(382)	(3,237)
Total investments and advances	<u>15,984</u>	<u>14,169</u>	<u>120,076</u>
Property, Plant and Equipment, at cost:			
	(Notes 6 and 18)		
Land	16,584	16,996	144,034
Buildings and structures	37,652	39,845	337,669
Machinery and equipment	48,864	48,242	408,831
Construction in progress	992	446	3,780
Other	3,075	3,229	27,364
	<u>107,167</u>	<u>108,758</u>	<u>921,678</u>
Accumulated depreciation	(57,011)	(58,595)	(496,568)
	<u>50,156</u>	<u>50,163</u>	<u>425,110</u>
Other Assets			
Deferred tax assets (Note 11)	658	597	5,059
Others	236	389	3,297
	<u>894</u>	<u>986</u>	<u>8,356</u>
Total assets	<u>¥ 118,473</u>	<u>¥ 119,321</u>	<u>\$1,011,195</u>

The accompanying notes are an integral part of these statements.

Tomoku Co., Ltd. and Its Subsidiaries

Consolidated Balance Sheets

	At March 31,		
	2006 (Millions of yen)	2007 of yen)	2007 (Thousands of U.S. dollars) (Note 3)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities:			
Short-term debt (Note 6)	¥ 2,762	¥ 2,432	\$ 20,610
Current maturities of long-term debt (Note 6)	5,892	14,751	125,009
Notes and accounts payable – trade:			
Affiliates	361	516	4,373
Others	15,770	13,813	117,059
	<u>16,131</u>	<u>14,329</u>	<u>121,432</u>
Accrued expenses			
Affiliates	124	125	1,059
Others	4,384	3,715	31,483
	<u>4,508</u>	<u>3,840</u>	<u>32,542</u>
Accrued income taxes	154	336	2,848
Warranty reserve	410	873	7,398
Other current liabilities	7,075	7,085	60,042
Total current liabilities	<u>36,932</u>	<u>43,646</u>	<u>369,881</u>
Long-Term Liabilities:			
Long-term debt (Note 6)	31,456	29,155	247,076
Deferred tax liabilities (Note 11)	4,275	3,483	29,517
Reserve for retirement benefits (Note 7)	5,478	4,104	34,780
Other long-term liabilities	2,397	2,267	19,212
Total long-term liabilities	<u>43,606</u>	<u>39,009</u>	<u>330,585</u>
Minority Interest	2,390	–	–
Commitments and Contingent Liabilities (Note 9)			
Shareholders' Equity:			
Common stock:			
Authorized: 290,098 thousand shares			
Outstanding:			
2006– 93,668,691 shares	13,670	–	–
Additional paid-in capital	11,138	–	–
Retained earnings	7,961	–	–
Net unrealized gains on other securities, net of tax	3,326	–	–
Adjustments on foreign currency statement			
Translation	76	–	–
	<u>36,171</u>	<u>–</u>	<u>–</u>
Treasury stock, at cost	(626)	–	–
Total shareholders' equity (Note 16)	<u>35,545</u>	<u>–</u>	<u>–</u>
Total liabilities and shareholders' equity	<u>¥ 118,473</u>	<u>¥ –</u>	<u>\$ –</u>

Tomoku Co., Ltd. and Its Subsidiaries

Consolidated Balance Sheets

		At March 31,	
	2006	2007	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net Assets:			
Common stock:			
Authorized: 290,098 thousand shares			
Outstanding:			
2007– 93,633,017 shares	—	13,670	115,847
Additional paid-in capital	—	11,138	94,390
Retained earnings	—	8,077	68,449
Treasury stock, at cost	—	(637)	(5,398)
Total shareholders' equity	—	32,248	273,288
Net unrealized gains on other securities, net of tax	—	1,835	15,551
Deferred profit and loss of hedge	—	368	3,119
Adjustments on foreign currency statement			
Translation	—	161	1,364
Total valuation and translation adjustments	—	2,364	20,034
Minority interest	—	2,054	17,407
Total net assets (Note 16)	—	36,666	310,729
Total liabilities and net assets	¥ —	¥ 119,321	\$1,011,195

The accompanying notes are an integral part of these statements.

Tomoku Co., Ltd. and Its Subsidiaries

Consolidated Statements of Operations

	Year ended March 31,		
	2006	2007	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Net sales	¥ 147,737	¥ 148,602	\$ 1,259,339
Cost of sales (Note 10)	120,225	123,325	1,045,127
Gross profit	27,512	25,277	214,212
Selling, general and administrative expenses	23,028	22,675	192,161
(Note 10)			
Operating income	4,484	2,602	22,051
Other income (expenses):			
Interest and dividend income	271	328	2,780
Interest expense	(527)	(695)	(5,890)
Gain on sale of fixed assets	6,890	43	364
Loss on Impairment (Notes 8 and 13)	(4,920)	(14)	(119)
Loss on disposal of property, plant and equipment	(336)	(295)	(2,500)
Loss on write-down of inventories	(838)	(0)	(0)
Gain on sale of securities(Note 4)	282	23	195
Loss on write-down of short-term investments and investments in securities	(48)	(5)	(42)
Equity in income of affiliates	201	314	2,661
Other, net	480	(422)	(3,576)
	1,455	(723)	(6,127)
Income before income taxes	5,939	1,879	15,924
Income taxes (Note 11)			
Current	208	325	2,754
Deferred	3,197	858	7,271
Income before minority interest	2,534	696	5,899
Minority interest in consolidated subsidiaries	(210)	1	8
Net income (Note 16)	¥ 2,324	¥ 697	\$ 5,907

The accompanying notes are an integral part of these statements.

Tomoku Co., Ltd. and Its Subsidiaries
Consolidated Statements of Shareholders' Equity

	Millions of yen								
	Number of shares of common stock (in thousands)	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Net unrealized gains (losses) on other securities, net of tax	Deferred profit and loss of hedge	Adjustments on foreign currency statement translation	Minority interest
Balance as at March 31, 2005	96,708	¥ 13,670	¥ 11,138	¥ 6,173	¥ (610)	¥ 1,490	¥ -	¥ (11)	¥ -
Net income for the year	-	-	-	2,324	-	-	-	-	-
Increase due to inclusion of additional subsidiaries in the consolidation	-	-	-	47	-	-	-	-	-
Unrealized gains on securities:									
Unrealized holding gains arising during the period	-	-	-	-	-	1,852	-	-	-
Less: Reclassification adjustment for gains included in net income	-	-	-	-	-	(16)	-	-	-
Aggregate translation adjustment	-	-	-	-	-	-	-	87	-
Cash dividends	-	-	-	(562)	-	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(21)	-	-	-	-	-
Purchases of treasury stock	-	-	-	-	(16)	-	-	-	-
Balance as at March 31, 2006	<u>96,708</u>	<u>¥ 13,670</u>	<u>¥ 11,138</u>	<u>¥ 7,961</u>	<u>¥ (626)</u>	<u>¥ 3,326</u>	<u>¥ -</u>	<u>¥ 76</u>	<u>¥ 2,390</u>
Net income for the year	-	-	-	697	-	-	-	-	-
Unrealized gains on securities:									
Unrealized holding gains arising during the period	-	-	-	-	-	(1,480)	-	-	-
Less: Reclassification adjustment for gains included in net income	-	-	-	-	-	(11)	-	-	-
Aggregate translation adjustment	-	-	-	-	-	-	-	85	-
Cash dividends	-	-	-	(562)	-	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(19)	-	-	-	-	-
Purchases of treasury stock	-	-	-	-	(11)	-	-	-	-
Net change for the year others than shareholders' equity	-	-	-	-	-	-	368	-	(336)
Balance as at March 31, 2007	<u>96,708</u>	<u>¥ 13,670</u>	<u>¥ 11,138</u>	<u>¥ 8,077</u>	<u>¥ (637)</u>	<u>¥ 1,835</u>	<u>¥ 368</u>	<u>¥ 161</u>	<u>¥ 2,054</u>

The accompanying notes are an integral part of these statements.

Tomoku Co., Ltd. and Its Subsidiaries
Consolidated Statements of Shareholders' Equity

	Thousands of U.S. dollars (Note 3)								
	Number of shares of common stock (in thousands)	Common stock	Additional paid-in capital	Retained earnings	Treasury stock, at cost	Net unrealized gains (losses) on other securities, net of tax	Deferred profit and loss of hedge	Adjustments on foreign currency statement translation	Minority interest
Balance as at March 31, 2006	96,708	\$ 115,847	\$ 94,390	\$ 67,466	\$ (5,305)	\$ 28,186	\$ -	\$ 644	\$ 20,254
Net income for the year	-	-	-	5,907	-	-	-	-	-
Unrealized gains on securities:									
Unrealized holding gains arising during the period	-	-	-	-	-	(12,542)	-	-	-
Less: Reclassification adjustment for gains included in net income	-	-	-	-	-	(93)	-	-	-
Aggregate translation adjustment	-	-	-	-	-	-	-	720	-
Cash dividends	-	-	-	(4,763)	-	-	-	-	-
Bonuses to directors and statutory auditors	-	-	-	(161)	-	-	-	-	-
Purchases of treasury stock	-	-	-	-	(93)	-	-	-	-
Net change for the year others than shareholders' equity	-	-	-	-	-	-	3,119	-	(2,847)
Balance as at March 31, 2007	96,708	\$ 115,847	\$ 94,390	\$ 68,449	\$ (5,398)	\$ 15,551	\$ 3,119	\$ 1,364	\$ 17,407

The accompanying notes are an integral part of these statements.

Tomoku Co., Ltd. and Its Subsidiaries
Consolidated Statements of Cash Flows

	Year ended March 31,		
	2006	2007	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 3)
Cash Flows from Operating Activities:			
Income before income taxes	¥ 5,939	¥ 1,879	\$ 15,924
Depreciation	4,519	4,919	41,686
Decrease in provision	(225)	(770)	(6,525)
Loss on impairment	4,920	14	119
Interest and dividend income	(271)	(328)	(2,780)
Interest expense	527	695	5,890
Equity in income of affiliates	(201)	(314)	(2,661)
Gain on sale of securities	(282)	452	3,831
Loss on write-down of short-term investments and investments in securities	48	5	42
Loss (gain) on disposal of property, plant and equipment	(6,554)	251	2,127
(Increase) decrease in receivables	2,573	(2,399)	(20,331)
Decrease (increase) in inventories	(1,627)	(1,818)	(15,407)
Increase in payables	19	296	2,508
Soil amelioration cost	—	811	6,873
Other	(769)	1,148	9,729
	8,616	4,841	41,025
Interest and dividends received	286	343	2,907
Interest paid	(522)	(696)	(5,898)
Income taxes paid	(1,939)	182	1,542
Cash flows provided by operating activities	6,441	4,670	39,576
Cash Flows from Investing Activities:			
Payment for acquisition of property, plant and equipment	(8,731)	(8,462)	(71,712)
Proceeds from sale of property, plant and equipment	4,717	687	5,822
Payment for acquisition of investments in securities	(1,036)	(1,473)	(12,483)
Proceeds from sale of investments in securities	422	567	4,805
Payment for acquisition of stock of consolidated subsidiaries	—	(560)	(4,746)
Payment for loans receivable	(1,017)	(798)	(6,763)
Collection of loans receivable	1,010	345	2,924
Other	365	146	1,237
Cash flows used in investing activities	(4,270)	(9,548)	(80,916)
Cash Flows from Financing Activities:			
Borrowing of short-term debt	8,055	5,657	47,941
Repayment of short-term debt	(11,055)	(5,987)	(50,737)
Borrowing and issuance of long-term debt	4,620	13,088	110,915
Repayment and redemption of long-term debt	(5,263)	(6,541)	(55,432)
Payment for purchase of treasury stocks	(16)	(11)	(93)
Payment of cash dividends	(561)	(560)	(4,746)
Payment of cash dividends to minority shareholders	(55)	(20)	(169)
Cash flows provided by (used in) financing activities	(4,275)	5,626	47,679
Exchange difference on Cash and Cash Equivalents	11	5	42
Changes in Cash and Cash Equivalents	(2,092)	753	6,381
Cash and Cash Equivalents at beginning of year	10,700	9,018	76,424
Increase in cash and cash equivalents due to addition of consolidated subsidiaries	410	—	—
Cash and Cash Equivalents at end of year (Note 15)	¥ 9,018	¥ 9,771	\$ 82,805

The accompanying notes are an integral part of these statements.

Tomoku Co., Ltd. and Its Subsidiaries

Notes to the Consolidated Financial Statements

1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Tomoku Co., Ltd. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain items presented in the consolidated financial statements submitted to the Director of the Kanto Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

2. Summary of Significant Accounting Policies

a. Scope of Consolidation

The consolidated financial statements for the year ended March 31, 2007 included the accounts of the Company and its eight domestic and two overseas subsidiaries (collectively, the "Companies"). The consolidated subsidiaries include those of which more than one half of the voting powers are held directly and indirectly by the Company, and those which are presumed to be controlled by the Company even if the Company owns one half or less of their voting power. Unconsolidated subsidiaries have no material effect on the consolidated financial statements of the Companies and therefore are excluded from consolidation. The names, equity ownership percentage and capital stock of consolidated subsidiaries are listed below:

	As at March 31		
	Equity ownership percentage, including indirect ownership		Capital stock (Millions)
	2006	2007	2007
Sweden House Co., Ltd.	49.5%	60.8%	¥ 400
Tohunservice Co., Ltd.	47.4	48.7	¥ 574
Hokuyo Koeki Co., Ltd.	99.3	100.0	¥ 2,100
Southland Box Company	100.0	100.0	US\$ 5
Tomoku Hus AB	80.0	80.0	SEK 32
Kyoshinsha Co., Ltd.	100.0	100.0	¥ 30
Wako Co., Ltd	100.0	100.0	¥ 10
Sendaishiki Kogyo Co., Ltd.	100.0	100.0	¥ 90
Hokuyo Co., Ltd.	100.0	100.0	¥ 10
Toshin Package Co., Ltd.	100.0	100.0	¥ 80

The Company consolidated the accounts of the above subsidiaries as of March 31, except for one domestic subsidiary whose fiscal year-end was February 28. All material transactions that incurred during the lag period were adjusted in preparing the consolidated financial statements.

b. Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized gains among the consolidated Companies have been eliminated, and the portion thereof attributable to minority interest is charged to minority interest.

The cost of investments in consolidated subsidiaries is eliminated with the underlying equity in the net assets of such subsidiaries. Any material difference between the cost of investment and the amount of underlying equity in the net assets of such subsidiaries is amortized over a period of five years on a straight-line basis.

c. Investments in Affiliates

As at March 31, 2007, the investments in one (three as at March 31, 2006) major affiliates were accounted for by the equity method. Investments in affiliates not accounted for by the equity method were stated at the lower of cost or market, due to their insignificant effect on the consolidated financial statements of the Companies.

d. Financial Instruments

(i) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net gain or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (iii) Hedge Accounting below).

(ii) Securities

Securities held by the Companies are classified into two categories; Investments in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost or less because the effect of application of the equity method would be immaterial.

Other securities for which market quotations are available are stated at fair value. Net unrealized gains or losses on these securities are reported as a separate item in shareholders' equity at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of equity securities issued by unconsolidated subsidiaries and affiliates, or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net gain or loss for the period incurred.

(iii) Hedge Accounting

Gains or losses arising from changes in fair value of derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net gain or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

Derivatives designated as hedging instruments by the Company principally consist of forward exchange contracts, interest rate swaps, and commodity swaps. The underlying hedged items are trade accounts payable, long-term bank loans, and raw material.

The Company has a policy to utilize the above hedging instruments in order to reduce the Company's exposure to risk resulting from adverse fluctuations in interest rates, commodity prices and foreign exchange rates. Thus, the Company's purchases of hedging instruments are limited to, at maximum, the amount of the hedged items.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of hedge transactions.

e. Allowance for Doubtful Accounts

An allowance for doubtful accounts is provided by applying the percentage of historical bad debt loss against the balance of total receivables, plus an amount for possible losses from specifically identified uncollectable receivables based on the management's estimate.

f. Inventories

Merchandise, finished goods, raw materials and supplies are stated at the moving average cost. Land for sale is stated at the identification cost.

g. Property, Plant and Equipment

Property, plant and equipment, including significant renewals and additions, are stated at cost. Repairs and maintenance costs are charged to current operations. Depreciation, except for buildings (excluding improvements) acquired on or after April 1, 1998, is computed by the declining-balance method based on the estimated useful lives of the respective assets. Depreciation of buildings (excluding improvements) acquired on or after April 1, 1998 is computed by the straight-line method.

h. Reserve for Retirement Benefits

The reserve for retirement benefits represents the estimated present value of projected benefit obligations for defined benefit plans in excess of the fair value of the plan assets except that unrecognized prior service costs are amortized on a straight-line basis over certain terms that do not exceed the average remaining services period of employees who are expected to receive benefits under the plans(3~10years)from the year in which they arise and unrecognized actuarial differences are amortized on a straight-line basis over certain items that do not exceed the average remaining services period of employees who are expected to receive benefits under the plans(9~10years) from the year following that in which they arise.

i. Warranty Reserve

One domestic subsidiary calculates its estimated warranty costs based on historical warranty claim experience. Future costs of warranties applicable to revenue recognized in the current period are charged to income, plus an amount for possible losses from specifically identified objects based on the management's estimate.

In the year ended March 31, 2007, the company has changed its indication method of an amount for possible losses from specifically identified objects to including in "Warranty reserve" from including in "Others" under "Notes and accounts payable-trade" to do better disclosure. As a result of this change, in fiscal year ended March 31, 2007, "Warranty reserve" increased ¥413million (\$3,500thousand) and "Others" under "Notes and accounts payable-trade" decreased by the same amount.

j. Amortization

Amortization of intangible fixed assets, other than software for internal use, is computed using the straight-line method.

Amortization of software for internal use is computed using the straight-line method, at rates based on the estimated useful life of the software(5 years).

k. Appropriation of Retained Earnings

Cash dividends are recorded in the fiscal year in which the proposed appropriation of retained earnings is approved at the general meeting of shareholders.

l. Net Income Per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during the year. Cash dividends per share shown are those attributable to the relevant year.

m. Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows comprise cash in hand, bank deposits available to be withdrawn on demand, and short-term investments with an original maturity of three months or less which represent a minor risk of fluctuations in value.

n. Reclassifications

Certain reclassifications of previously reported amounts have been made to conform with the current year's classifications.

o. Accounting Standards for Presentation of Net Assets in the Balance Sheet

In the year ended March 31, 2007, the Company has adopted new accounting standards, “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).

If the new accounting standards had not been adopted and previous presentation method for the shareholders’ equity had been applied, the shareholders’ equity as of March 31, 2007 would have been ¥34,244million (\$290,203thousand).

p. Accounting Standards for Bonuses to Directors and Statutory Auditors

In the year ended March 31, 2007, the Company has adopted new accounting standards for the bonuses to directors and corporate auditors in accordance with “Accounting Standards for the Bonuses to Directors” (Corporate Accounting Standard No.4 regarding the bonuses to directors and corporate auditors issued on November 29, 2005).

As a result of adopting the accounting standard, income before income taxes and minority interests was decreased by ¥27 million (\$229 thousand) compared to what would have been reported under the previous accounting standards.

3. U.S. Dollar Amounts

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥118=U.S. \$1, the approximate rate of exchange prevailing at March 31, 2007 has been used in translation. The inclusion of such amounts is not intended to imply that the Japanese yen amounts have been or could be readily converted, realized or settled in U.S. dollars at this or any other rate.

	Thousands of U.S. dollars		
	2007		
	Carrying Amount	Cost	Unrealized gain (loss)
Investments in securities:			
Market value available:			
Equity securities	\$ 70,458	\$ 46,127	\$ 24,331
	70,458	46,127	24,331
Market value not available	2,881		
Total	\$ 73,339		
Investments in and advances to affiliates:			
Market value not available	21,669		
Total	\$ 21,669		

Proceeds and gross realized gains from the sale of other securities were ¥422 million and ¥282 million respectively for the year ended March 31, 2006. Proceeds, gross realized gains, and gross realized losses from the sale of other securities were ¥567 million (\$4,805 thousand), ¥22 million (\$186 thousand) and ¥475 million (\$4,025 thousand) respectively for the year ended March 31, 2007.

5. Inventories

At March 31, 2006 and 2007 inventories consisted of the following:

	At March 31,		
	2006 (Millions of yen)	2007 (Millions of yen)	2007 (Thousands of U.S. dollars)
Merchandise and finished goods	¥ 1,041	¥ 786	\$ 6,661
Raw materials and supplies	4,607	4,974	42,152
Land for sale	8,387	9,634	81,644
Work-in-process in the housing Business	1,291	1,740	14,746
	¥ 15,326	¥ 17,134	\$ 145,203

6. Short-Term Debt and Long-Term Debt

Short-term debt principally comprised unsecured bank overdrafts due within one year, bearing interest at 0.72 per cent to 2.375 per cent at March 31, 2006 and 2007, respectively.

At March 31, 2006 and 2007, Long-term debt consisted of the following:

	At March 31,		
	2006 (Millions of yen)	2007 (Millions of yen)	2007 (Thousands of U.S. dollars)
1.35 per cent 3 rd series bonds due 2007	¥ 5,000	¥ 5,000	\$ 42,373
Loans principally from banks, due 2006 to 2015 with interest rates of 0.40 per cent to 5.785 per cent at March 31, 2006, and due 2007 to 2016 with interest rates of 0.40 per cent to 6.385 per cent at March 31, 2007			
Collateralized	5,212	5,719	48,466
Unsecured	27,136	33,187	281,246
	<u>37,348</u>	<u>43,906</u>	<u>372,085</u>
Less: due within one year	5,892	14,751	125,009
Long-term debt due after one year	<u>¥ 31,456</u>	<u>¥ 29,155</u>	<u>\$ 247,076</u>

At March 31, 2007, the following assets were pledged as collateral for short-term and long-term debt:

	Carrying Value	
	(Millions of yen)	(Thousands of U.S. dollars)
Property, plant and equipment, less accumulated depreciation	¥ 18,264	\$ 154,780
Investments in securities	154	1,305
Cash and time deposits	15	127
	<u>¥ 18,433</u>	<u>\$ 156,212</u>

The aggregate annual maturities of long-term debt outstanding at March 31, 2007 were as follows:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2008	¥ 14,751	\$ 125,009
2009	10,430	88,390
2010	9,375	79,449
2011	6,636	56,237
2012 and thereafter	2,714	23,000
	<u>¥ 43,906</u>	<u>\$ 372,085</u>

7. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have tax qualified pension plans and unfunded benefit plans on a lump-sum payment basis, as defined benefit retirement plans. One of the domestic subsidiaries has a contributory funded multi-employer defined benefit pension plan, pursuant to the Japanese Welfare Pension Insurance Law, which covers a portion of the governmental welfare pension program. Southland Box Company has defined contribution plan.

The reserve for retirement benefits as of March 31, 2006 and 2007 is analyzed as follows:

	At March 31,		
	2006	2007	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Projected benefit obligations	¥ (7,449)	¥ (7,319)	\$ (62,026)
Plan assets	2,581	3,915	33,178
	(4,868)	(3,404)	(28,848)
Unrecognized actuarial differences	(598)	(691)	(5,856)
Unrecognized prior service cost	(12)	(9)	(76)
	¥ (5,478)	¥ (4,104)	\$ (34,780)

The net pension expense for the years ended March 31, 2006 and 2007 were as follows:

	Year ended March 31,		
	2006	2007	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 620	¥ 578	\$ 4,898
Interest cost	143	136	1,153
Expected return on plan assets	-	(34)	(288)
Amortization of unrecognized actuarial Differences	44	(20)	(169)
Amortization of prior service cost	(2)	(2)	(17)
Other	75	43	364
Net pension expense	¥ 880	¥ 701	\$ 5,941

Assumptions used in calculation of the above information were as follows:

	At March 31,	
	2006	2007
Discount rate	1.8 to 2.0%	1.8 to 2.0%
Expected rate of return on plan assets	0.0 %	0.0 to 4.0%
Method of attributing the projected benefits to periods of service	Straight-line basis	Straight-line basis
Amortization of unrecognized actuarial differences	10 to 12 years	9 to 10 years
Amortization of prior service cost	3 to 12 years	3 to 10 years

8. Lease Transactions

At the Company's option, capital leases do not have to be recorded as an asset and an obligation in the accompanying balance sheet under Japanese GAAP provided that ownership of the leased property is not transferred to the lessee at the end of the lease term. Such leases are, however, subject to footnote disclosure. The following summarizes the capital lease assets as at March 31, 2006 and 2007 that are not recorded in the accompanying consolidated financial statements.

(A) As a lessee

	At March 31,		
	2006	2007	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Leased assets:			
Acquisition cost	¥ 5,791	¥ 4,535	\$ 38,432
Accumulated depreciation	(3,402)	(2,169)	(18,381)
Accumulated loss on impairment reserved	(12)	-	-
	<u>¥ 2,377</u>	<u>¥ 2,366</u>	<u>\$ 20,051</u>

Depreciation of leased assets not reflected in the accompanying Consolidated Statements of Operations and calculated on the straight-line method over the term of the lease were ¥1,101 million and ¥922 million (\$7,814 thousand) for the years ended March 31, 2006 and 2007, respectively.

Lease payments for impaired capital lease assets in the year ended March 31, 2007 were ¥1 million (\$8 thousand).

Future lease payments as of March 31, 2007, including the interest portion thereon, are summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Future lease payments:		
Within one year	¥ 853	\$ 7,229
After one year	1,513	12,822
	<u>¥ 2,366</u>	<u>\$ 20,051</u>

(B) As a lessor

Future lease receivables as of March 31, 2007, including the interest portion thereon, are summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Future lease receivables:		
Within one year	¥ 46	\$ 390
After one year	60	508
	<u>¥ 106</u>	<u>\$ 898</u>

All the above lease receivables were derived from the subleasing business. As every subleased property was leased to third parties through the Company's consolidated subsidiary on approximately the same terms, approximately the same amount of future lease receivables as those presented above are included in (a) as the amount of the future sublease payments.

At March, 31, 2007, non-cancelable operating lease commitments are as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Future lease payments:		
Within one year	¥ 291	\$ 2,466
After one year	2,723	23,076
	<u>¥ 3,014</u>	<u>\$ 25,542</u>

9. Commitments and Contingent Liabilities

At March 31, 2007, the Company was contingently liable for notes discounted with banks in the ordinary course of business in the amount of ¥110 million (\$932 thousand), and also repurchase of notes receivable amounting to ¥258 million (\$2,186 thousand). And the Companies were contingently liable as guarantors of borrowings, incurred principally by affiliates and employees, in the amount of ¥8,024 million (\$68,000 thousand).

10. Additional Information on Statement of Operations

For the years ended March 31, 2006 and 2007 the following item was included in "Cost of sales" and "Selling, general and administrative expenses" in the accompanying Consolidated Statements of Operations:

	Year ended March 31,		
	2006	2007	2007
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Research and development costs	¥ 196	¥ 179	\$ 1,517

11. Income Taxes

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries for the years ended March 31, 2006 and 2007 consisted of corporate income tax (national), enterprise tax (local) and inhabitant taxes (local) at the approximate rates indicated below:

	<u>2006</u>	<u>2007</u>
Corporate income tax	30.0%	30.0%
Enterprise tax	7.2	7.2
Inhabitant taxes	<u>20.7</u>	<u>20.7</u>
Statutory tax rate (reflecting the deductibility of enterprise tax when paid)	<u>40.5%</u>	<u>40.5%</u>

Reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2006 and 2007 is shown below:

	<u>Year ended March 31,</u>	
	<u>2006</u>	<u>2007</u>
• Statutory tax rate	40.5 %	40.5 %
• Reconciliation:		
Entertainment expenses and other non-deductibles	2.2	6.8
Dividend income and other non-taxables	(0.6)	(1.5)
Per capita levy of inhabitant taxes	1.3	4.0
Net operating loss carryforwards	(0.4)	-
Change in valuation allowance	15.1	12.7
Other factors	<u>(0.8)</u>	<u>0.5</u>
• Effective tax rate	<u>57.3%</u>	<u>63.0%</u>

Deferred tax assets and liabilities (both current and non-current) as at March 31, 2006 and 2007 consisted of the following elements:

	At March 31,		
	2006 (Millions of yen)	2007	2007 (Thousands of U.S. dollars)
Deferred tax assets:			
Allowance for doubtful accounts	¥ 134	¥ 137	\$ 1,161
Accrued bonuses to employees	642	673	5,703
Reserve for retirement benefits	2,142	2,073	17,568
Warranty Reserve	167	355	3,008
Loss on impairment	1,594	1,560	13,220
Inventory-intercompany gains and write-down	884	702	5,949
Write-down of short-term investments and investments in securities	331	332	2,814
Net operating loss carryforwards	1,473	648	5,492
Other	697	668	5,661
	<u>8,064</u>	<u>7,148</u>	<u>60,576</u>
Valuation allowance	<u>(2,309)</u>	<u>(2,321)</u>	<u>(19,669)</u>
	<u>¥ 5,755</u>	<u>¥ 4,827</u>	<u>\$40,907</u>
Deferred tax liabilities:			
Special tax-purpose reserve	2,795	2,416	20,475
Remeasurement of assets and liabilities of subsidiaries	1,093	1,093	9,263
Unrealized gains on other securities	2,029	1,088	9,220
Other	-	575	4,873
	<u>¥ 5,917</u>	<u>¥ 5,172</u>	<u>\$43,831</u>
Net deferred tax assets (liabilities)	<u>¥ (162)</u>	<u>¥ (345)</u>	<u>\$(2,924)</u>

In assessing the realizability of deferred tax assets, management of the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is entirely dependent upon the generation of future taxable income in specific tax jurisdictions during the periods in which those temporary differences become deductible. Although realization is not assured, the management considered the projected future taxable income in making this assessment. Based on these factors, the management believes it is more likely than not the Company will realize the benefits of these deductible differences, net of the existing valuation allowance.

12. Derivatives and Hedging Activities

Derivative financial instruments, specifically forward exchange contracts, are utilized by the Company and its domestic consolidated subsidiaries principally to reduce the foreign exchange rate risk on trade payables denominated in foreign currencies, relating to imported merchandise. The Company also uses interest rate swaps to reduce the interest rate risk on long-term bank loans and commodity swaps to reduce the commodity price fluctuation risk on purchased raw material (heavy oil). The Company and its domestic consolidated subsidiaries do not hold or issue derivative financial instruments for trading purposes.

The Company and its domestic consolidated subsidiaries have established control procedures, which include procedures for risk assessment and for the approval, reporting and monitoring by management of transactions involving derivative financial instruments.

The Company and domestic consolidated subsidiaries are exposed to the risk of credit loss in the event of non-performance by counterparties. However, management does not anticipate non-performance by any of these counterparties, all of which are financial institutions with high credit ratings.

At March 31, 2006 and 2007, there were no outstanding derivative financial instruments that were not designated as “hedging instruments” .

13. Loss on Impairment

The Companies have recognized loss on impairment of ¥14 million (\$119 thousand), for the following group of assets as of March 31, 2007.

Location	Use	Category
Tomakomai-shi Hokkaido	Idle assets	Land
Sendai-shi Miyagi	Branch	Buildings and structures

The Companies assessed impairment of each group of assets, which are grouped on the basis of managerial accounting and investment decision-making purposes.

Due to the decline in real estate value and poor performance of assets, operating profitability has worsened substantially. Therefore, the Companies have decided to mark the assets down to the recoverable value, and accrued loss on impairment of ¥14 million (\$119 thousand), which comprises of land ¥8 million (\$68 thousand), buildings and structures ¥6 million (\$51 thousand), and others ¥0 million (\$0 thousand).

The recoverable value is determined as the net selling value. The net selling value is based on appraisal provided by professional real estate assessors.

14. Segment Information

Industry Segment Information

The Company and its subsidiaries operate principally in the following five industrial segments:

- Corrugated fiberboard /
Paper vessel.....Corrugated fiberboard seats, corrugated
fiberboard cases, printing paper vessel
products
- HousingHousing
- Transportation / WarehouseTransportation, storage
- Commercecorrugated fiberboard material, Housing,
Insurance fee
- Other.....Amusement services

Segment information classified by industry segment for the years ended March 31, 2006 and 2007 is as follows:

2006							
(Millions of yen)							
	Corrugated fiberboard/ Paper vessel	Housing	Transportation/ Warehouse	Commerce	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 63,160	¥ 56,524	¥ 20,765	¥ 6,921	¥ 367	¥ —	¥ 147,737
Intersegment	1	3,932	3,295	28,928	3	(36,159)	—
Total sales	63,161	60,456	24,060	35,849	370	(36,159)	147,737
Operating expenses	60,638	57,949	23,987	35,402	383	(35,106)	143,253
Operating income	¥ 2,523	¥ 2,507	¥ 73	¥ 447	¥ (13)	¥ (1,053)	¥ 4,484

2007							
(Millions of yen)							
	Corrugated fiberboard/ Paper vessel	Housing	Transportation/ Warehouse	Commerce	Other	Eliminations/ Corporate	Consolidated
Sales to customers	¥ 65,626	¥ 58,061	¥ 20,524	¥ 4,057	¥ 334	¥ —	¥ 148,602
Intersegment	3	5,199	3,347	29,721	2	(38,272)	—
Total sales	65,629	63,260	23,871	33,778	336	(38,272)	148,602
Operating expenses	63,686	61,813	23,847	33,350	375	(37,071)	146,000
Operating income	¥ 1,943	¥ 1,447	¥ 24	¥ 428	¥ (39)	¥ (1,201)	¥ 2,602

2007							
(Thousands of U.S. dollars)							
	Corrugated fiberboard/ Paper vessel	Housing	Transportation/ Warehouse	Commerce	Other	Eliminations/ Corporate	Consolidated
Sales to customers	\$ 556,153	\$ 492,042	\$ 173,932	\$ 34,381	\$ 2,831	\$ —	\$ 1,259,339
Intersegment	25	44,059	28,365	251,873	17	(324,339)	—
Total sales	556,178	536,101	202,297	286,254	2,848	(324,339)	1,259,339
Operating expenses	539,712	523,839	202,093	282,627	3,178	(314,161)	1,237,288
Operating income	\$ 16,466	\$ 12,262	\$ 204	\$ 3,627	\$ (330)	\$ (10,178)	\$ 22,051

2006							
(Millions of yen)							
	Corrugated fiberboard/ Paper vessel	Housing	Transportation/ Warehouse	Commerce	Other	Eliminations/ Corporate	Consolidated
Total assets	¥ 60,541	¥ 26,455	¥ 16,723	¥ 6,527	¥ 565	¥ 7,662	¥ 118,473
Depreciation	3,118	900	451	3	4	43	4,519
Loss on impairment	-	15	41	41	3,560	1,263	4,920
Capital expenditure	10,017	570	1,461	10	26	130	12,214

2007							
(Millions of yen)							
	Corrugated fiberboard/ Paper vessel	Housing	Transportation/ Warehouse	Commerce	Other	Eliminations/ Corporate	Consolidated
Total assets	¥ 62,415	¥ 29,697	¥ 17,200	¥ 4,798	¥ 571	¥ 4,640	¥ 119,321
Depreciation	3,566	819	490	3	6	35	4,919
Loss on impairment	-	6	-	8	-	-	14
Capital expenditure	3,735	743	1,203	0	25	7	5,713

2007							
(Thousands of U.S. dollars)							
	Corrugated fiberboard/ Paper vessel	Housing	Transportation/ Warehouse	Commerce	Other	Eliminations/ Corporate	Consolidated
Total assets	\$ 528,941	\$ 251,669	\$ 145,763	\$ 40,661	\$ 4,839	\$ 39,322	\$ 1,011,195
Depreciation	30,220	6,940	4,153	25	51	297	41,686
Loss on impairment	-	51	-	68	-	-	119
Capital expenditure	31,652	6,297	10,195	0	212	59	48,415

15. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following:

	At March 31,		
	2006 (Millions of yen)	2007	2007 (Thousands of U.S. dollars)
Cash and bank deposits	¥ 9,033	¥ 9,786	\$ 82,932
Time deposits with deposit term of over three months	(15)	(15)	(127)
Cash and cash equivalents	<u>¥ 9,018</u>	<u>¥ 9,771</u>	<u>\$ 82,805</u>

16. Per Share Data

	Year ended March 31,		
	2006	2007	2007
Number of Outstanding Shares-weighted (in thousands)	93,696	93,651	-
	(Yen)		(U.S. dollars)
Per Share:			
Net income			
Basic	¥ 24.60	¥ 7.44	\$ 0.063
Shareholders' equity	¥ 379.27	¥ 369.65	\$ 3.133
Cash dividends	6.00	6.00	0.05

The reconciliation between the reported net income and net income available to the common stockholders, which was used to calculate the net income per share, is as follows:

	Year ended March 31,		
	2006 (Millions of yen)	2007	2007 (Thousands of U.S. dollars)
Reported net income	¥ 2,324	¥ 697	\$ 5,907
The amount unavailable to the common stockholders			
— Directors' and statutory auditors' bonuses accounted for as an appropriation of retained earnings	(19)	-	-
Net income available to the common stockholders	<u>¥ 2,305</u>	<u>¥ 697</u>	<u>\$ 5,907</u>

17. Subsequent Events

The appropriations of retained earnings of the Company in respect of the year ended March 31, 2007, proposed by the Board of Directors and approved by the shareholders at the general shareholders' meeting held on June 28, 2007, were as follows:

Appropriations	(Millions of Yen)	(Thousands of U.S. dollars)
Cash dividends	¥ 281	\$ 2,381
	¥ 281	\$ 2,381

TOMOKU CO., LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
MARCH 31, 2006and 2007